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ANNEX

European Joint Strategy in support of Palestine ¹

2021-2024

*Towards a democratic, accountable and sustainable
Palestinian state*

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

1. Joint Programming basis

The Palestinian context, a territory under more than 50 years of occupation - is unique in many ways. The socio-economic environment is constrained by a range of serious issues linked to the continuing occupation, including the lack of control over land, water, physical boundaries and revenues; the regularly flaring up of violent hostilities contributing to de-development in Gaza Strip; the administrative, legal and political fragmentation; deficiencies in the fiscal system; the persistent violations of human rights and international humanitarian law by the occupying power – all factors being compounded by the shortcomings in Palestinian governance. Taken together, these prevent the Palestinian society and economy from realising their potential. In addition, not many contexts give rise to such a diverse set of strongly held positions among European and other international stakeholders.

Since 2008 the EU, EU Member States, Norway and Switzerland have disbursed around **USD 1 billion (EUR 1.24 billion) annually**² in official development assistance to Palestine and the Palestinians. Together, European Development Partners (EDPs) are the largest contributors of assistance to the Palestinians. This support has covered all areas (West Bank, including East Jerusalem and Area C, and the Gaza Strip) and all Palestinians (including Palestine refugees). The nature and volume of European development cooperation in Palestine is inextricably linked to the political context and the EU's objectives with regards to the Middle East Peace Process.

European-funded interventions have had mixed success yet, they have not added up to any transformative change so far, as interventions have largely been influenced by the limitations and obstacles imposed by the occupation, evidenced most recently by the May 2021 Gaza Strip hostilities. There have been encouraging results in some areas, including enabling the Palestinian Authority (PA) to sustain the welfare of Palestinians, building the capacities of institutions, preventing fiscal collapse and stabilising the economy. In spring 2011, the Ad Hoc Liaison Committee (AHLC) meeting concluded that Palestinian institutions were ready for statehood.³ However, since then, Palestine has experienced de-development, increased fragmentation, an erosion of democratic space and a growing perception that the prospects of a viable statehood have diminished. This negative trajectory has been accompanied by disappointment, fatigue and diminishing hope.

EDPs acknowledge – as also evidenced by numerous external reviews - that **sustainable development in Palestine hinges on achieving a two-state solution** based on the agreed international parameters, as set out in multiple EU positions and Council Conclusions, such as the Council Conclusions of July 2014⁴, that meets Israeli and Palestinian security needs and Palestinian aspirations for statehood and sovereignty, ends the occupation that began in 1967, and resolves all final status issues in order to end the conflict.

In 2017, EU foreign ministers requested an internal **review of the modalities of EU engagement on the ground in support of a two-state solution**.⁵ The review identified

² See Stats.OECD.org/qwids for DAC disbursement data

³ UNSCO's 2011 report to the AHLC concludes that "...in the limited territory under its control and within the constraints on the ground imposed by unresolved political issues, the PA has accelerated progress in improving its governmental functions. In six areas where the UN is most engaged, governmental functions are now sufficient for a functioning government of a state."

⁴ <https://data.consilium.europa.eu/doc/document/ST-11954-2014-INIT/en/pdf>

⁵ https://eeas.europa.eu/headquarters/headquarters-homepage/31909/eu-foreign-ministers-renewed-impulsetowards-two-state-solution-middle-east_km

priority areas where enhanced EU engagement could better facilitate European policy goals, including on Gaza, Area C, trade facilitation, water, energy and the Paris Protocol. The review concluded that the current disruptive and uncertain environment requires a strong signal of enhanced EU engagement for the two-state solution. EU support should not be taken for granted, but must act as an investment for the future. The review suggested that the EU should use its full potential to leverage transformative political progress, preserve the prospects for a viable two-state solution on the basis of internationally agreed parameters, and eventually chart a path back to meaningful direct negotiations.

A particular emphasis in the period 2021-2024 will be put into **framing the transformative recovery efforts in Gaza within a political and governance reform framework**, which would also apply to the overall European development cooperation efforts. The May 2021 ceasefire agreement⁶ represents a steppingstone for the EU's renewed engagement towards the relief and recovery of Gaza, in the context of a political horizon that restores the democratic legitimacy and credibility of the PA, allowing it to extend its governance responsibility towards Gaza, and encouraging all parties to relaunch the stalled peace process. In addition to that extra efforts will be devoted to cope with the economic spill-over effect of Russia's war of aggression against Ukraine.

This new European Joint Strategy offers the **opportunity for European development partners⁷ to be more coherent and to reinforce core principles** - democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law, while addressing more effectively the limits of efficiency improvements that stem from the contextual constraints. It is essential to have a holistic approach to how the prerequisites for a two-state solution could be strengthened, in particular through a more intense trilateral cooperation on key confidence building measures, where the parties can make progress with EU support, as well as a strengthened coherence between humanitarian, development and peace efforts.

The European Joint Strategy in support of Palestine 2021-2024 (EJS 2021-2024) assumes that the context will be challenging, with the continuing impact of the COVID-19 pandemic, the precarious situation in Gaza, following the May 2021 hostilities, the exposure to rising food and commodity prices as a consequence of Russia's war of aggression against Ukraine, and with Palestine most likely remaining under occupation in the immediate foreseeable future.

Consequently, **the overall objective for EDPs in the coming four years remains to promote the prospect for Palestinian statehood**, to contribute to sustainable Palestinian economic and social development, promote human rights, democratisation, and reinforce effective and accountable governance and institutions in support of a Palestinian state that can assume the obligations foreseen in the two-state solution. In this view, the EU commits to assisting Palestinians towards achieving their Sustainable Development Goals, in particular SDG 16 on peace, justice and strong institutions, and leaving no one behind, and their National Determined Contribution (NDC).

⁶ A ceasefire agreement between Israel and the Palestinian militant group Hamas in the Gaza Strip came into effect on 21 May 2021, after 11 days of fighting.

⁷ The EU is also represented by two civilian missions mandated by the Council (the EU Police and Rule of Law Mission in the Palestinian Territories and the EU Border Assistance Mission at the Rafah Crossing Point) as well as by a EU Special Representative for the Middle East Peace Process. The EU is also part of the Middle East Quartet.

The EJS 2021-2024, is based on the following political framework:

- i. A joint partnership, founded upon the **Interim Association Agreement on Trade and Cooperation**⁸ that was signed in 1997 between the EU and the Palestine Liberation Organisation (PLO);
- ii. The **EU-Palestine Action Plan** approved in May 2013⁹ setting the agenda for economic, social, sectorial and political cooperation with the EU, which the EU extended up to the end of 2024;
- iii. The **Middle East Peace Process EU Council Conclusions** of 14 May 2012¹⁰, 12 May 2014¹¹ and 22 July 2014¹², 20 July 2015¹³ and 20 June 2016¹⁴.
- iv. The **Joint Communication on a renewed partnership with the Southern Neighbourhood** adopted on 9 February 2021¹⁵, and its annexed Economic and Investment Plan, which puts forward a new Agenda for the Mediterranean and seeks to strengthen and relaunch cooperation around key priority sectors in order to realise the untapped potential of the region;
- v. The **European Commission geopolitical priorities** as presented in late 2019¹⁶, including in particular climate change and the external dimension of **the European Green Deal**,¹⁷ **digitalisation** and an **economy that works for the people**, as well as the **2017 European Consensus on Development**¹⁸;
- vi. The commitments undertaken under the umbrella of the Union for the Mediterranean (UfM) under relevant Ministerial declarations such as the ones on sustainable blue economy and the environment.

The EJS 2021-2024 continues to be fully aligned with **Palestinian Authority development priorities**, taking into account in particular the Palestinian National Development Plan¹⁹ and the related sector strategies endorsed in March 2021, which reflect the policy priorities of the 18th Palestinian government. EU-led consultations with the civil society and the private sector in both West Bank and Gaza Strip as well as European Development Banks and the UN organisations present in Palestine have confirmed the validity of the priority areas.

Status of joint programming

The EJS 2021-2024 should serve as a **strategic umbrella** to the participating EDPs' bilateral programming and implementation plans²⁰. In line with the Council Conclusions on Stepping-up Joint Programming of 12 May 2016, a progressive alignment is envisaged. The

⁸ Official Journal of the European Communities, No L 187/135 from 16.7.97

⁹ https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/eu-palestine_action_plan_2013.pdf

¹⁰ <https://data.consilium.europa.eu/doc/document/ST-9909-2012-INIT/en/pdf>

¹¹ <https://data.consilium.europa.eu/doc/document/ST-9694-2014-INIT/en/pdf>

¹² <https://data.consilium.europa.eu/doc/document/ST-11954-2014-INIT/en/pdf>

¹³ <https://data.consilium.europa.eu/doc/document/ST-11075-2015-INIT/en/pdf>

¹⁴ <https://data.consilium.europa.eu/doc/document/ST-10348-2016-INIT/en/pdf>

¹⁵ Renewed partnership with the Southern Neighbourhood, A new Agenda for the Mediterranean JOIN(2021) 2 final, SWD(2021) 23 final

¹⁶ https://ec.europa.eu/info/sites/default/files/political-guidelines-next-commission_en_0.pdf https://ec.europa.eu/info/sites/default/files/president-elect-speech-original_1.pdf

¹⁷ COM/2019/640 final from 11.12.2019

¹⁸ https://ec.europa.eu/international-partnerships/system/files/european-consensus-on-development-final-20170626_en.pdf

¹⁹ The Palestinian National Development Plan was approved in March 2021 covering the 2021-2023 period.

²⁰ The EJS serves as a framework for Austria, Belgium, the Czech Republic, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, Lithuania, Malta, Netherlands, Norway, Spain, Sweden and Switzerland.

EU, Austria and Italy substitute their bilateral programmes with the EJS, for the period 2021-2024. The EJS will also allow a more structured use of the **Team Europe approach**, starting with the Initiatives described in section 5 and taking also the Team Europe COVID-19 response package of May 2020 as a successful reference.

A review of this Strategy might be necessary, in case of a substantially changed political context that would make it impossible to pursue the overall objective, namely to protect the viability of, and promote, the prospect for Palestinian statehood in the context of a viable two-state solution. The EJS 2021-2024 is expected to be flexible enough to accommodate the outcome of the Rapid Damage and Needs Assessment launched by the World Bank, European Union and UN following the escalation in May 2021. In this perspective joint responses will be further developed within the political, reform and transformative recovery framework for Gaza through the Building Back Better (BBB) approach.

In addition to bilateral cooperation a dedicated programming document will cover issues of regional cooperation. The regional Multiannual Indicative Programme (MIP)²¹ will align to the priorities identified in the new Agenda for the Mediterranean and its Economic and Investment Plan, building on previous cooperation and complementing bilateral actions; it proposes measures to mitigate the long-term impact of the pandemic and tap into opportunities for regional cooperation and integration.

Regional cooperation also allows to address overarching themes where there is a comparative advantage to tackle them through a cross-border perspective (e.g. environmental issues and climate change); working in sensitive areas where regional cooperation constitutes the only possible or most efficient action (e.g. support to civil society and human rights); and testing innovative approaches prior to implementation at the country level.

Themes for the regional MIP include: i) Human development, good governance, and rule of law; ii) Strengthening resilience, building prosperity and seizing the digital transformation; iii) Peace and Security; iv) the Green Transition; and v) Support to the main drivers of regional integration. On security cooperation, actions under the regional MIP will be defined in complementarity and close coordination with actions covered under the thematic programme on Peace, Stability and Conflict Prevention, which would cover actions with notably a global or trans-regional dimension.

A separate programming document for a multi-country Migration Programme for the Southern Neighbourhood will cover relevant bilateral and regional cooperation actions, namely 1) Providing protection to forcibly displaced persons, including asylum seekers, refugees, Internally Displaced Persons (IDPs); 2) Strengthening the cooperation regarding asylum-seekers as well as preventing irregular migration; 3) Fostering return, readmission and sustainable reintegration, as well as 4) Supporting a comprehensive approach to legal migration and mobility.

²¹https://neighbourhood-enlargement.ec.europa.eu/system/files/2021-12/C_2021_9735_F1_COMMISSION_IMPLEMENTING_DECISION_EN_V3_P1_1690149.PDF

2. Joint Analysis

2.1. The political context

Palestine has been marked by the **ongoing and asymmetrical Palestinian-Israeli conflict**, by the disruption of over **fifty years of occupation**, the progressive fragmentation of its territory through illegal settlement activity, governance challenges on the Palestinian side, ongoing divisions between factions and between the West Bank and Gaza, as well as movement and access restrictions imposed by Israel on the **Gaza Strip** since the early 1990s, and intensified in June 2007, with the **imposition of the land, air and sea closure** and **four Israeli military operations** in the Gaza Strip as of 2008/2009, 2012, 2014 and 2021. Settlement activity in East Jerusalem seriously jeopardizes the possibility of Jerusalem serving as the future capital of both states.

The **Oslo Accords**, under which the PA was created in 1994, were intended to lead to a final negotiated settlement between the parties. These Accords led to **several administrative and security arrangements** for different parts of the West Bank (divided into Areas A, B and C) for a provisional period of five years and pending a final negotiated settlement.²² Permanent status negotiations between the Government of Israel and the Palestinian people's representatives²³ should have been started by the third year of that interim period.

More than twenty-five years after the Oslo Accords, the PA, which has operated as a transitional authority with limited jurisdiction since its creation, has only fragmented authority in the West Bank and is de facto absent for many aspects in the Gaza Strip. Moreover, the PA, suffers from severe fiscal viability challenges, not least because of Palestine's economic dependence on Israel, tax evasion and poor tax collection, lack of access and control over land and resources, the partial implementation of the outdated Paris Protocol and the absence of some key policy functions and instruments of a sovereign state.

That situation deteriorated further following the military escalation between Israel and Gaza-based militant factions in May 2021. Regrettably, there have been no direct negotiations with Israel since 2014. Trust between the two sides remains very low and prospects for an early return to meaningful negotiations are therefore limited.

There have been somewhat improved relations between the US and the Palestinians but the opportunity to revitalise the Quartet was impacted by the sanction policy against Russia since the start of its war of aggression against Ukraine. First steps to renew US-Palestine relations have been taken in 2021, including the announcement to reopen the US Consulate in East Jerusalem, though the implementation has not yet advanced.

In the same direction, the EU has welcomed the announcement on the normalisation of relations between the United Arab Emirates, Bahrain, Morocco and Sudan with Israel. In this respect, the EU has long promoted the development of relations between Israel and the

²² East Jerusalem and Hebron's H2 zone are however excluded from this, as there is no legal document clarifying the legal status of the first one while the second one, covering around one fifth of the municipal territory of Hebron and under the military control of Israel, was established by the 1997 Hebron Protocol.

²³ Covering issues such as Jerusalem, Palestine refugees, settlements, security arrangements, borders, relations and cooperation with other Neighbours and other issues of common interest. Article 5 of the Declaration of Principles on Interim Self-Government Arrangements of 13 September 1993.

countries of the region and believes that a comprehensive settlement of the Arab-Israeli conflict requires a regional and inclusive approach and engagement with both parties.

On the ground however, prospects for a two-state solution are increasingly under threat due to the continued **expansion of Israeli settlements and access restrictions for Palestinians in Area C**, which constitutes 61% of the West Bank territory and comprises crucial natural resources and much needed land for the future demographic and economic growth of a viable Palestinian State. 2020 marked another **record year in terms of advancement of 12,159 settlement units** (the highest number since 2012) and as reported, this trend has accelerated in 2021. Though formal annexation has been put on hold since mid-2020 against the background of the normalisation agreements, settlement activities, demolition, and evictions in West Bank territory including East Jerusalem continue unhampered.

The situation in **East Jerusalem** continues to deteriorate with the acceleration of Israeli settlement construction in and around the city, an increase in demolitions, persistently high poverty rates (76%; 83% for children), limited employment opportunities, a depleted education system, and a lack of urban and economic infrastructure and planning for Palestinian residents. 2021 represented the highest record of advanced housing units in outline plans in East Jerusalem since a decade with 14,601 units advanced mainly as a consequence of the new settlement in Atarot. The status quo on the Temple mount / al-Haram al- Sharif is regularly violated.

The Israeli Land Authority (ILA) awarded the winning contracts for the new settlement of Givat Hamatos on 20 January 2021, **the first new settlement in East Jerusalem in 20 years**. In January 2022 the Israeli District Planning Committee approved for depositing “the lower Aqueduct Plan” for the construction of a new neighbourhood of 1,465 housing units which would lay in between Givat Hamatos and Har Homa.

Furthermore, the institutional and leadership vacuum in East Jerusalem, including the absence of real political representation, remains a key concern. All above mentioned factors are leading to an increasing isolation, including from the West Bank, of Palestinians living in East Jerusalem. There are approximately 208,000 Israelis living in East Jerusalem whereas about 120,000 Palestinian Jerusalemites are separated from the rest of the city by the separation barrier.

The situation in Gaza remains dire. The absence of intra-Palestinian reconciliation, the closure of Gaza, the impact of the COVID-19 pandemic, the consequences of the May 2021 hostilities and the rising food prices following the start of Russia’s war of aggression against Ukraine, all contribute to increase the scale of the existing humanitarian crisis. Given the high level of tension with Israel, and in the absence of a real peace process or a tangible intra-Palestinian reconciliation, an unintended, or isolated, incident could reignite a full-scale conflict, as the May 2021 round of violence demonstrated.

Moreover Palestine is facing **growing governance challenges**. The last general elections, held in January 2006, preceded the intra-Palestinian split between the Fatah-controlled PA in the West Bank and the Hamas-administered Gaza Strip. **After a violent confrontation in the summer of 2007, the Gaza Strip came under the de facto control of Hamas**. The Quartet adopted a no-contact policy towards Hamas, a practice that the EU has maintained

ever since. As a consequence of this split, the work of the Palestinian Legislative Council (PLC)²⁴ was suspended.

No new legislative measures have been adopted by the PLC since then, with legal acts being promulgated instead by presidential decrees, applied only in the West Bank. In the Gaza Strip, Hamas has enacted laws by convening a PLC through a proxy system. Enforcement of post 2007 West Bank presidential decrees in the Gaza Strip is rare.

Since 2006, **national presidential and Legislative Council elections have not taken place**, undermining the legitimacy of the Palestinian leadership. Local elections last took place in 2017 and were limited to the West Bank after the planned local elections (to cover both West Bank and Gaza Strip) due to be held in October 2016 failed in the midst of the intra-Palestinian feud. Though President Abbas issued a decree on 15 January 2021 calling for legislative elections on 22 May and Presidential elections on 31 July, with 93% of Palestinians having registered to vote, in April 2021, he announced the postponement of the elections *sine die*. Most recently, local elections took place in the West Bank in a two-step approach, with the first phase in December 2021 and the second phase in March 2022.

In recent years there has been a further **negative trend as regards the rule of law and human rights**, with blurring of the principle of separation of powers, additional concentration of powers in the executive and violation of fundamental rights. The most recent development concerns the 2019 overnight presidential dismissal of the whole judiciary and the establishment of a transitional Judicial Council, which was then made permanent, in January 2021. The unregulated and ad hoc legislative process had detrimental effects on the drafting (content and process) of important decree laws such as the Cybercrime law, the family protection law, the NGO law and the social security bill. Allegations of torture and ill-treatment by PA security services which Human Rights Watch denounced in October 2018 continued and ultimately culminated in the recent killing of a human rights and electoral candidate activist.

Civil society²⁵ also saw a further concerning sign of democratic institutions' decline in the dissolution of the non-functioning Palestinian Legislative Council in December 2018. The EU has repeatedly expressed concerns about the increasing threats on freedom of the press, freedom of expression and freedom of association, including the closure of critical media outlets in the West Bank and arrests of individuals for social media posts.

Democratic space is being challenged, in particular for **Civil Society Organisations (CSOs) operating in Palestine** from different angles: through financial, political and cultural pressure but also by means of violence and intimidation by the PA in West Bank, as well as the *de facto* authority in the Gaza Strip, and Israel. Early in 2021, a new Presidential Decree-Law amending Law No. 1 of 2000 on Charitable Associations and Civil Society Organisations, was adopted restricting the freedom to act for Palestinian civil society. This act was consequently suspended in May 2021 by the President as result of pressure from CSOs and the international community. Unluckily the crackdown on lesbian, gay, bisexual, transgender, queer and intersex (LGBTQI) individuals follows this worrying trend.

²⁴ The Palestinian Legislative Council (PLC) was formed as a result of the Oslo Peace Accords. It is an elected council that is meant to function as parliament of the PA.

²⁵<https://www.pchrgaza.org/en/position-paper-by-human-rights-organisations-on-the-independence-of-the-palestinian-judicial-system/>

As a result of the political stalemate within Palestine, as well as an increasing curtailment of rights, the Economist Intelligence Unit recently downgraded Palestine's democratic status from 'hybrid regime' to 'authoritarian'.²⁶ In addition, Israel is putting pressure especially on the CSOs present in East Jerusalem and on the Israeli Human Rights NGOs. The Israeli government has repeatedly accused EDPs of funding NGOs linked to terrorist activities or incitement to violence and hatred. Some CSOs are also questioning the effective implementation by the PA of the international human rights treaties and conventions as concrete steps to address much needed legislative amendments have yet to materialise.

2.2. The social and economic context

Palestine is home to around **five million Palestinians**, about three million of whom live in the West Bank and East Jerusalem and the remaining two million in the Gaza Strip.²⁷ In addition, over 640,000 Israeli settlers live illegally in the West Bank and East Jerusalem, meaning that 20% of West Bank inhabitants are Israeli.²⁸ There are around 332,000 Palestinian residents in East Jerusalem, constituting approximately 38% of the population of the whole of the Israeli Jerusalem Municipality. The Palestinian population in Area C is estimated at 180,000-300,000 compared to at least 325,000 Israeli settlers.²⁹ More than **two out of five Palestinians living in Palestine are refugees**.³⁰ 39% of the population is under 14 years old, while around 3% is over 65 years old.³¹ Half of the Palestinians living in the Gaza Strip are children.³²

The society is characterised by a stark and risky generation gap, which is exacerbated by the lack of proportional participation and representation of youth and women in governance, policy-making and employment. In view of the demographic trends, the United Nations Population Fund (UNFPA) considers that **the population of Palestine might increase to 6.9 million in 2030 and would almost double to 9.5 million in 2050**,³³ about 45% of which will be refugees. Population growth will increase pressure for the delivery of basic services (notably health and education), to be delivered by the PA and UNRWA, the Agency responsible for dealing with Palestine refugees, but also access to employment opportunities and social safety nets for those in need. The demographic trend puts extra pressure on the Gaza Strip where the current two million population will double by 2040, and, on UNRWA.

It becomes obvious that Palestine is on a de-development trajectory. **The worsening conditions and increased vulnerability of Palestinians have led to a high level of frustration**, a lack of social cohesion, recurrent high-level waves of violence and a strong sense of despair, in particular amongst youth. The level of control that Israel exercises on Palestine makes any significant improvements in the Palestinian economy and competitiveness very unlikely. As recalled in the EU Foreign Affairs Council Conclusions on the Middle East Peace Process of 18 January 2016: "*a fundamental change of policy by Israel with regard to the occupied Palestinian territory, particularly in Area C, will significantly*

²⁶ <https://www.eiu.com/topic/democracy-index>

²⁷ Total population is 4,976,684. PCSB, 2019, http://www.pcbs.gov.ps/site/lang_en/881/default.aspx#Population

²⁸ <https://fmep.org/resource/settlement-report-october-11-2019/>

²⁹ https://www.btselem.org/topic/area_c

³⁰ According to UNRWA, there are 828,000 registered Palestine refugees in the West Bank and 1.386 million in the Gaza Strip: <https://www.unrwa.org/where-we-work>

³¹ Ibid.

³² <https://gisha.org/updates/10845>

³³ The launch conference for the study "Palestine 2030 – Demographic Change: Opportunities for Development" took place in Ramallah on 5 December 2016. The full report can be retrieved from: <http://palestine.unfpa.org/publications/palestine-2030>

increase economic opportunities, empower Palestinian institutions and enhance stability and security for both Israelis and Palestinians".³⁴

The Palestinian economy is operating under occupation. Palestinian economic development and political relations with Israel are by all means linked. The 1994 Paris Protocol makes the Palestinian economy dependent on the Israeli economy and establishes customs and monetary arrangements with Israel. The PA has no control over its own borders, it does not collect its own border taxes and suffers from restrictions and controls on the movement of its people, goods and resources (land, water, etc.). It has therefore limited control over the majority of its revenues, it bears substantial losses under the current revenue sharing arrangements outlined in the Paris Protocol and other subsequent agreements, and in addition is subject to arbitrary, non-transparent deductions imposed by Israel. Some of the arrangements are outdated, while others have not been implemented as envisaged, resulting in fiscal losses for the PA.

In addition, due to the military confrontations, Gaza's economy is frequently exposed to extensive damage and losses. As indicated earlier, in May 2021, 256 people, including 66 children, were killed in Gaza, while more than 100,000 fled their houses in fear of bombardments, mostly hosted in UNRWA schools. In addition, vital civil infrastructure such as schools, hospitals and clinics was damaged as well as water and waste water pipelines. Electricity supply was also heavily impacted, as was fishing and industrial activity, also related to the ban of fishing and the limited access of imports through the crossing point. At least 14 private companies were damaged in the Gaza Industrial Zone. .

Numerous and complex procedures in the business and trade environment constrain and frustrate investment initiatives and promotional efforts for local products and exports. These include Israeli obstacles and diversions to the transportation network, which fragment the occupied Palestinian territory and separate regional markets from each other. This fragmentation increases the difficulty of achieving economies of scale in investment decisions and business planning and creates distortions in market indices and price levels for goods and services between regions. Uncontrolled trade borders with Israel further aggravate the constitution of coherent domestic markets, as smuggled or low-cost goods are marketed from and through Israel to the detriment of local producers, and, sometimes, in violation of consumer safety and health standards. Finally, when it comes to starting a business, Palestine scored lowest on the scale of selected Middle East and North Africa (MENA) based economies according to World Bank Doing Business Indicators³⁵.

Nevertheless, the Palestinian economy can rely on a **dynamic and inventive private sector, with a few big companies but very resilient micro and medium-sized enterprises**. The workforce is generally skilled, although the overall match with market needs remains to be improved. The banking sector is robust, properly capitalised, provisioned and supervised. It is among the stabilizers of the Palestinian economy and loans are usually established at an average interest rate just under 6%. Yet, the banking sector is heavily exposed to the PA, and there have been concerns that the continued substantial lending to the government crowds out lending to the private sector. The main drivers of economic growth in 2021 were investment, government consumption and household consumption in the West Bank, though temporarily impacted by COVID-19. , remain active. Growth is observed in the sectors of renewable energies, health, tourism and

³⁴ Paragraph 3 of the Council Conclusions on the Middle East Peace Process of 18 January 2016.

³⁵ <https://www.doingbusiness.org/en/data/doing-business-score>

new technologies with skilled human capital but highly constrained movement of goods and people.

Palestinians are increasingly exposed to significant **climate change risks** that will compound current and future development challenges. Both West Bank and Gaza Strip are characterized by high bio-physical and socioeconomic vulnerabilities to climate change with limited capacity to respond to the projected effects of climate change. Palestine lies in a hot, arid and relatively water-scarce region. Climate projections indicate that by 2050, the temperature will increase by between 1.2°C and 2.6°C, and monthly precipitation might decrease by up to 10mm by the end of the century, leading to greater aridity. Climate related hazards such as heatwaves, drought, floods and dust storms are projected to become more frequent and severe. This could result in increased water shortages, flooding and subsequent challenges in food security and biodiversity³⁶.

The **closure of the Gaza Strip** continues to hinder any chances of sustainable development and increases investment costs. Within the West Bank, the restrictions on movement and access, the non-contiguous control of land by the PA and the lack of access to Area C have led to the development of insular economies and increased poverty. **Restrictions on economic activity in Area C**, where the majority of the West Bank's natural resources is, have been particularly detrimental to the Palestinian economy.³⁷ The closure of the Gaza Strip has also affected its once vibrant export sector. **Economic ties between the West Bank and the Gaza Strip have today virtually disappeared**, reinforcing Palestinian economic dependence on Israel. In addition, this context hampered progress on potentially transformative issues such as solar power development and grid connectivity in Area C, or control over the telecommunication spectrum.

East Jerusalem, as mentioned above, is not only **isolated from the rest of the West Bank and Gaza Strip**, but it is estimated that one quarter of the Palestinian East Jerusalem residents are cut off from each other by the separation barrier³⁸, in addition to settlements and other barriers. The increase in house demolitions and forced evictions, as well as the continued pressure on Palestinian educational and cultural organisations has a negative impact on the political, economic and social situation in East Jerusalem.³⁹

Political and security uncertainties as well as the socio-economic impact of the COVID-19 pandemic weigh heavily on the sustainable growth prospects of Palestine. One in four Palestinians lives in poverty. Poverty rates are higher in the Gaza Strip, East Jerusalem and Area C, and refugees tend to be poorer, in particular those living in refugee camps. According to the poverty survey carried out by the Palestinian Central Bureau of Statistics (PCBS) in 2017 – the last one carried out - the poverty rates worsened in Gaza to 53% compared to 38.9% in 2011, but improved in the West Bank reaching 13.9% in 2017⁴⁰ compared to 17.6% in 2011. In consequence of the COVID-19 pandemic poverty rates are estimated to have increased up to 30% in West Bank and 64% in Gaza in 2020.

³⁶ <https://www.un.org/unispal/document/state-of-environment-and-outlook-report-for-the-opt-2020-unenvironmental-program-report/>

³⁷ The alleviation of today's restrictions on Palestinian investment, movement and access in Area C could bring about significant expansion of many sectors of the Palestinian economy. Relatively conservative estimates show that the direct gains, in terms of potential value added in these sectors, would amount to at least USD 2.2 billion, equivalent to some 23% of 2011 Palestinian gross domestic product. World Bank, 2014: 17

³⁸ ACRI, 2015.

³⁹ Al Haq, East Jerusalem Exploiting Instability to Deepen the Occupation, 2015.

⁴⁰ The 2019 fiscal crisis as well as the COVID-19 crisis, in 2020, will most likely result in an increase of poverty also in West Bank.

Palestine was ranked 115th out of 189 countries in the 2020 Human Development Index. Based on the 2020 Humanitarian Response Plan, 75% of the Gaza Strip's population is in need of assistance. According to the Association for Civil Rights in Israel (ACRI), 72% of all Palestinian families in Jerusalem live under the poverty line, and 81% of Palestinian children.⁴¹

Unemployment, especially among youth and recent graduates, is persistently high, standing at 64% among females and 33% among males in 2021 (67% in the Gaza Strip compared with 24% in the West Bank).^[2] Unemployment among young graduates reaches a staggering 54% (39% male and 69% females).

The Gaza Strip is facing a severe humanitarian crisis, which is affecting the access to essential services and livelihoods of most residents, 80% (1.68 million) of which were in need of humanitarian assistance in 2021.⁴² In 2021, 64.4% of the Gaza population was reported as severe or moderate food insecure,⁴³ and 47% were unemployed.⁴⁴ The situation has been further exacerbated since February 2022 with wheat flour prices increasing by 41% in Gaza Strip. While the stocks reserves remain at their normal level of 2-3 months, this is a growing concern in light of the ongoing global supply chain constraints, recalling that Palestine is dependent on imports.⁴⁵

Since the onset of the closure *and* restrictions, the **Palestinian people in Gaza have experienced 15 years of de-development,** suppressed human potential and denial of basic human rights⁴⁶. Gazan residents' access to basic rights like water and energy services continues to be severely curtailed both in quantity and quality. Currently, 97% of the water drawn from the aquifer is unfit for human consumption according to WHO standards. Approximately two thirds of Gaza's population has no running water and there is insufficient electricity to treat or pump out sewage. For most of 2018, electricity was available only for up to four hours a day, increasing during 2019-20 to 8-12 hours. The provision of funds from Qatar for fuel alleviated the situation in the short term, allowing households now receiving 8 hours of electricity a day; a sustainable solution to the electricity crisis remains a priority.

Since the start of the so-called 'Great March of Return', in March 2018, and until its end in December 2019, 33,141 people were injured and 322 were killed in Gaza⁴⁷. The decline of social and economic conditions along with a chronic instability and exposure to violence is leading to a mental and emotional distress of the population, with Palestinian adolescents having one of the highest burdens of mental disorders in the Eastern Mediterranean Region.⁴⁸ The May 2021 military escalation in Gaza has increased the need for mental

⁴¹ ACRI, 2019, <https://www.english.acri.org.il/east-jerusalem-2019>

^[2] State of Palestine Palestinian Central Bureau of Statistics, Labour Force Survey (January-March 2021)

⁴² World Food Program, https://docs.wfp.org/api/documents/WFP-0000140045/download/?_ga=2.268329165.2120456569.1655973158-302400795.1655973158

⁴³ World Food Program, https://docs.wfp.org/api/documents/WFP-0000140045/download/?_ga=2.268329165.2120456569.1655973158-302400795.1655973158

⁴⁴ PCBS, Labour Force Survey 2021, <https://pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=4177>

⁴⁵ WFP Palestine, Monthly Market Dashboard April 2021, https://docs.wfp.org/api/documents/WFP-0000140045/download/?_ga=2.268329165.2120456569.1655973158-302400795.1655973158

⁴⁶ https://unctad.org/system/files/official-document/gdsapp2020d1_en.pdf

⁴⁷ Health Cluster Bulletin, November – December 2019

⁴⁸ Health conditions in the occupied Palestinian territory, including east Jerusalem, and in the occupied Syrian Golan, Report by the Director-General WHO, November 2020

health and psychosocial support for adults and youth including structured psychosocial care for families.

The situation of refugees remains an unresolved final status issue. European support to refugees is provided primarily via UNRWA. With more than 30,000 staff, UNRWA is the largest UN operation in the Near East and a major employer in the region. The EU and the EU Member States remain UNRWA's largest financial and political supporters. **Created as a temporary Agency, seventy years later, the Agency continues to provide essential services for the well-being, human development and protection of Palestine refugees, pending a just solution.** The Agency played a significant role in providing shelter to the civilian population during the May 2021 hostilities by hosting the majority of displaced people in its schools, - some of which got also damaged by the airstrikes, and by offering some basic services.

UNRWA operates one of the largest school systems in the Middle East, teaching nearly half a million children in more than 600 schools. Among other services, the Agency also provides around 9 million health consultations in its 143 primary health centers across the region every year. Overall, UNRWA's operations provide a critical lifeline for millions of Palestine refugees and the Agency remains a **key pillar of stability** in the region. The decision of the US in 2018 to cut its funding to UNRWA came on the top of an already unsustainable financial model and contributed to an unprecedented financial crisis for the Agency to which it is still struggling to adjust. A series of services provided by UNRWA were cut in the Gaza Strip, worsening the already very fragile situation. The financial crisis of the Agency continues, despite restoration of some US funding, with increased urgency to step up the discussion on a sound financial model, prioritise and undertake reforms.

3. Joint Response – Joint Priority areas

The EU aims to **protect the viability of the two-state solution** with an independent, democratic, contiguous and viable Palestinian State, living side by side in peace and security with the State of Israel. In order to support this vision, for more than twenty years, the EU has supported Palestinian state building and development. Development funds cannot substitute the lack of political progress; this will be particularly relevant in the context of the upcoming transformative recovery efforts in Gaza but will also apply to the development work in Area C and East Jerusalem.

Nevertheless, even in the absence of tangible progress in the Middle East Peace Process, EU medium term development efforts will become more strategic in the period 2021-2024, building on the EU-Palestinian Authority Action Plan and on the review of modalities of EU engagement on the ground in support of a two-state solution that emphasizes the need to leverage EU support and incentivise reform with **strategic focus on:**

- I. Promoting greater Palestinian control, autonomy and capacity to exercise responsibility (“**agency**”) to prepare for future statehood;
- II. Supporting and leveraging reforms that reinforce the Palestinian Authority's transparency, sustainability and **accountability**;
- III. Ensuring that EU cooperation leads to sustainable development, and to greater self-reliance and does not merely maintain a status quo of aid and economic dependence.

The EJS 2021-2024 also allows to align fully with key European priorities as being part of the new European Commission's Strategic Agenda, the February 2021 Joint

Communication on a renewed partnership with the Southern Neighbourhood, and its annexed Economic and Investment Plan. Furthermore the EJS allows also to support the implementation of joint commitments by the two parties and encouraging cooperation at broader regional level under the umbrella of the Union for the Mediterranean. This is the case for instance with the Ministerial Declaration on Sustainable Blue Economy⁴⁹ adopted in February 2021, by which the UfM countries reconfirmed their commitments for a sustainable blue economy in the Mediterranean sea basin.

In this view, the strategy addresses several cross-cutting priorities such as:

- i. Supporting resilient, inclusive, sustainable and connected **economies that create opportunities for all**, especially women and youth.
- ii. Supporting **climate-neutral, climate-resilient, green and blue economies** and promote principles underpinning the green and blue recovery agenda as well as climate change adaptation. Investing in green initiatives - including research, innovation and technology transfer actions - that improve waste management, air, water and sea quality, promote sustainable agriculture, sustainable urban planning, and preserve environmental systems and terrestrial and marine biodiversity. It includes also a faster transition to renewables and energy efficiency.
- iii. Assisting our partners to become fit for the **digital age**. Embracing the digital transformation by investing in businesses, research and innovation and green and blue economy sectors, empowering people with the skills necessary for a new generation of technologies and designing rules to match. This includes a faster transition to circular business models based on digital solutions.
- iv. Assisting partners to mobilise significant financial resources in an innovative way that maximises the impact of public funds and “crowds in” private investment, notably with an accelerated roll out of the **European External Investment Plan** and the related blending instruments.
- v. Ensuring that investments are climate change proof and that their climate and environmental impacts are properly assessed and mitigated. Preference will be given to nature-based solutions.
- vi. Offering flexibility to align with the political, reform, and transformative recovery framework for Gaza that is expected to take shape.

Based on the above and following the experience of working together under the first EJS, European development partners will focus their programming on the following five **Pillars that best represent the confluence of European and Palestinian priorities**. These Pillars are **closely interrelated**:

1. Democracy, Rule of Law and Human Rights
2. Governance Reform, Fiscal Consolidation and Policy
3. Sustainable Service Delivery
4. Climate Change, Access to Self-Sufficient Water and Energy Services
5. Sustainable Economic Development

⁴⁹ [UfM Ministerial Declaration on the Sustainable Blue Economy](#)

Justification and context:

The first two Pillars focus on building the capacity and credibility of state institutions for a viable Palestinian State. Pillar 3 focuses on protection and service delivery to citizens, particularly the most vulnerable and those most affected by the occupation. Pillars 4 and 5 focus on addressing the key climate change related water and energy security bottlenecks, and on investing in economic opportunities and agriculture, with clear attention to give ownership, enable control and create opportunities for Palestinians, and particularly its burgeoning young population.

As mentioned above, in May 2021, the World Bank, the United Nations and the European Union launched a Rapid Damage Needs Assessment (RDNA) to inform stakeholders on the overall physical damages, indirect economic losses as well as priority recovery and reconstruction needs in the Gaza Strip. In that respect, the five Pillar framework of the EJS 2021-2024 will remain flexible enough to allow adjusting the EDPs' joint response to the respective political, reform and transformative recovery framework through the Building Back Better approach.

Human rights, gender equality, women's empowerment, youth empowerment, youth engagement, culture, environment, climate change and civil society empowerment are mainstreamed within all five pillars. As such, the Pillars improve **democratic governance** *inter alia* through strengthened and inclusive European and Palestinian partnerships with civil society and the private sector, thus improving transparency and accountability of state institutions. The approach also takes account of the EU's Gender Action Plan III 2021-2025⁵⁰ and the Country Level Implementation Plan for West Bank and Gaza (2021-2025)⁵¹, the Joint European Roadmap for engagement with Civil Society 2018-2020 in Palestine⁵², and the EU Action Plan for Human Rights and Democracy 2020-2024⁵³.

European development partners acknowledge that the PA only has limited control within Palestine. As such, the five Pillar and five mainstreamed cross-cutting themes will be supplemented by three additional principles:

(i) One authority: the Pillars also cater for concrete interventions across the West Bank, Gaza Strip and East Jerusalem. European development partners commit to address the challenges posed by the fragmentation of the territory between Area A, B, C and East Jerusalem in the West Bank, and between the West Bank and the Gaza Strip and its authority.

(ii) Support to Palestine refugees: European development partners will continue to provide extensive support to Palestine refugees primarily through funding allocated to UNRWA and its operations across the Agency's five fields of operations (West Bank, Gaza Strip, Jordan, Syria, and Lebanon) while enhancing the Agency's reforms and, where appropriate, **will include refugees as beneficiaries in bilateral programmes.**

(iii) Emphasis on the **humanitarian-development and security/peace nexus**⁵⁴ by building on programme evaluation findings as well as applying a human rights based approach.

⁵⁰ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020JC0017&from=EN>

⁵¹ https://www.eeas.europa.eu/sites/default/files/overview_-_clip-gap_iii_wbg.pdf

⁵² https://www.eeas.europa.eu/sites/default/files/roadmap_en.pdf

⁵³

https://www.eeas.europa.eu/sites/default/files/eu_action_plan_on_human_rights_and_democracy_2020-2024.pdf

⁵⁴ The H-D-P nexus refers to more systematic and up-front coordination between humanitarian, development and peace actors at headquarters and on the ground, among EU institutions, Member States and other relevant actors, in full compliance with their respective mandates, roles and sensitivities

Finally, participation of Palestine to selected EU Programmes will complement other forms of support and a maximum NDICI contribution of up to 50% of the entry fee per EU Programme will be made available.

Duration of the EJS and option for synchronisation:

As mentioned above the EJS 2021-2024 continues to be fully aligned with **Palestinian Authority development priorities**, taking into account in particular the Palestinian National Development Plan⁵⁵ and the related sector strategies endorsed in March 2021, which reflect the policy priorities of the 18th Palestinian government.

European Partners' support per priority area and proposals of Team Europe Initiatives

Pillar 1: Democracy, Rule of Law and Human Rights

Contributing to SDGs: 5 (Gender Equality); 10 (Reduced Inequalities); 16 (Peace, Justice and Strong Institutions).

Main DAC codes: 15150 - Democratic participation and civil society,

The **lack of national elections** in Palestine over the past 15 years has contributed to widespread political apathy among the general population. More than 1 million Palestinians or approximately 40% of registered voters have yet to participate in the election of their leaders, while barriers to the participation of women, youth and persons with disabilities persist. **A regular, free, fair and inclusive electoral process**, is at the base of any democracy, thus democratic renewal, including the holding of elections in the West Bank, including East Jerusalem and Gaza Strip, remains a crucial step towards renewing legitimacy of national institutions and reuniting Palestinians under a single, legitimate and democratic state, based on the vital separation of powers.

The rule of law is a fundamental pillar of any state. Viable, capable and accountable Palestinian security and justice sectors are key elements of a future Palestinian State ensuring that its citizens are safe and secure while living in peace alongside Israel. Moreover, a growing body of evidence has demonstrated that the lack of safety, security and justice directly leads to poverty and underdevelopment. Safety, security and justice are fundamental to ensure economic development and the legitimacy of a state and to foster societal trust. The occupation of Palestine and Palestinian internal political divisions contribute to a situation where the PA's security and justice sectors face unparalleled complex arrangements and responsibilities, both in terms of access and movement restrictions, as well as the multiplicity of legislative frameworks and jurisdictions applicable to Palestinians and thus the fragmentation of avenues to access justice.

This Pillar prioritises the re-integration of legal frameworks and of judicial institutions as soon as the political environment (reconciliation) enables this. In Gaza, priority is given to improve access to justice, including combating gender-based violence, and gender equality.

The Pillar is divided into three areas for cooperation: (i) democracy and electoral support (ii) support to the Rule of Law (Justice and Security) and (iii) support to human rights. In these areas, EDPs will focus on supporting the PA in the following reforms:

(1) European Development Partners will support the Central Election Commission of Palestine (CEC) and other electoral stakeholders in conducting inclusive electoral processes through enhancing transparency, strengthening institutional capacities, promoting the role of media in elections and ensuring an active and engaged civil society. The overall aim is to support

⁵⁵ The Palestinian National Development Plan was approved in March 2021 covering the 2021-2023 period.

the Palestinian electoral authorities in promoting a democratic environment conducive to a participatory election and an engaged and expanded electorate. In particular, EDPs will work with the CEC and CSOs on the political participation of marginalised and vulnerable groups through continuous trainings and awareness campaigns. Increasing the civic trust in electoral processes and space for effective participation remains a priority for a democratic and inclusive environment in Palestine.

Furthermore, EDPs will work with the electoral authorities to engage civil society actors, the media and national electoral observers in the various stages of electoral processes, as well as enhance the capacities of the CEC and the Palestinian Legislative Council (PLC) with a view to increasing the transparency, effectiveness and sustainability of political processes. European engagement is also to enable the CEC to work together with all stakeholders in order to enhance electoral processes, including by promoting the participation of women, youth and marginalised communities in line with Palestine's obligations under international human rights treaties and conventions.

(2) Clarifying the legislative and institutional framework to ensure separation of powers, checks-and-balances, independence and accountability of the judiciary and sustainability of the justice and security sectors. There is still a need to design a comprehensive reform approach related to the sectors as well as to clarify and define further justice and security sector governance including provisions on cooperation and coordination between different justice and security authorities. Structural organisational reforms are needed, in particular for the Ministry of Justice and institutions of the judiciary to be able to fulfil the full spectrum of their roles and functions in order to improve governance, oversight and accountability in the sector and meet international standards set for service provision, and access to fair justice. It is also pressing to empower the Ministry of Interior to function as the sole central authority for domestic governance and maintaining public order and allow for unified decision making.

(3) Institutionalising a consistent policy and law-making process for government initiated legislation. Steps should be taken to establish and implement an effective, transparent and participatory legislative process, i.e. through a consistent policy and law making process, including a yearly legislative programme and systematic assessment of the legal, social and economic impact of draft laws and legal initiatives, and consultations with relevant stakeholders and civil society institutions. Laws also need to be checked on their compatibility with the international human rights treaties to which Palestine has acceded and arrangements have to be made to make the system work in line with international requirements. Support in this area of work might be extended to the Parliament once elections take place and a new Palestinian Legislative Council is formed.

(4) Strengthening the independence and competence of the High Constitutional Court (HCC). With the goal to ensure that decisions are duly reasoned, enforceable and issued in accordance with established rules and procedures and that access to constitutional justice is clarified, support to the Constitutional Court should contribute to strengthening its independence, functioning and organisation, aligning its law to international standards to clarify jurisdiction, rules of procedure, means of accessing the Court, including individuals' right for direct application, and effects of the Court's decisions, and building the capacity of the HCC judges.

(5) Enhancing accountability and transparency of the security and justice sectors. The PA security forces are large and consume almost one third of the PA's budget. There is still a need to apply a comprehensive Security Sector Reform and delineate a clear civilian police primacy. Addressing the sustainability of the PA security apparatus will take time and will require steps to improve the financial accountability of the PA security sector and sector-wide human resources management. At the same time, there is a need for increased skilled personnel, in particular

women, in both the civilian police and judicial police. With regard to oversight and accountability, as well as from the point of view of increased transparency in the governance of both sectors, the ability to investigate and prosecute cases of corruption with full transparency is key.

There is also a need to build an enhanced capacity to investigate and prosecute security-related crimes while adhering to international standards of due process and the rule of law. Administrative justice should be strengthened, including by establishing a two-tier judicial system for administrative cases. Finally, transparency of the sector should be enhanced through mechanisms for consultation and engagement with civil society and public access to information. Assessment, evaluation and analysis tools should be used throughout the sectors on accountability enabling continuous learning of administrative staff and personnel. Analysis will thus help the strategic planning of accountability in PA.

(6) Strengthening the protection and promotion of human rights of all Palestinians⁵⁶, including the most vulnerable groups. While meeting the reporting obligations is still critical, Palestine also needs to step up the implementation of the obligations deriving from the human rights treaty accession. This will help to overcome current human rights concerns, such as the right to a fair trial and accountability and transparency of the security services. Since security, justice and human rights are closely interlinked, there is a need for better cooperation and coordination between the security and justice sector, leading to increased human-rights-compliant service delivery in both sectors.

Programmatically, this means prioritising the enhancement of mechanisms to access justice and improve the availability and quality of justice services. In particular, attention will be maintained to supporting legal aid, both in terms of building a national mechanism and in terms of contributing to service provision, as well as initiatives to improve the effectiveness of judicial processes in line with fair trial standards, including access to lawyers. Support is also envisaged to initiatives focusing on alternative modes of adjudication as long as they are in line with international human rights law and standards.

Finally, the EDPs will aim to ensure continued access to justice, including e-justice initiatives, in the context of humanitarian and other crises, such as the COVID-19 pandemic.

This Pillar addresses several **cross-cutting issues**, including:

- i. **Public oversight of justice and security systems.** CSOs play a key role in holding duty bearers in the justice and security sector accountable and need to be supported in their efforts to increase transparency, combat corruption and ensure the respect of Palestinian Basic Law and the independence of the judiciary as the foundations of good governance.
- ii. **Gender and juvenile justice.** The laws and regulations on women and family rights still need alignment with acceded international treaties institutionalising gender mainstreaming in policy-making. Gender responsive planning and budgeting in line with the PA national priorities for an effective government is also key. Moreover, women, families and juveniles' access to justice and fair trial still needs enhancement. By applying a rights based approach, emphasis should be placed on enhancing the human rights of those most at risk, such as women and children. Notwithstanding the PA's will and few steps taken to strengthen gender equality and women's rights, women and girls continue to experience violence at home and within the society. Finally, all security and justice institutions should better include women in all aspects, such as at the frontline of service delivery as police officers, prosecutors and judges.

⁵⁶ Political advocacy towards Israel to respect international human rights obligation towards all Palestinian people is complementary to the efforts mentioned in this document.

- iii. **Culture.** Creativity and freedom of expression are vital elements in keeping hope alive and providing opportunity-especially for the young - to express themselves and to have a positive image of their culture and identity. The EU will continue supporting and encouraging wide participation in cultural activities as part of a greater civic engagement and by promoting values such as tolerance, respect for diversity and respect for human rights and fundamental freedoms.

Pillar 2: Governance Reform, Fiscal Consolidation and Policy (Macroeconomic Support and Public Finance Management, Public Administration Reform and Local Government Reform)

Contributing towards SDGs: 1 (Zero Poverty); 5 (Gender Equality); 10 (Reduced Inequalities); 11 (Sustainable Cities and Communities); 16 (Peace, Justice and Strong Institutions).

Main DAC codes: 15110 – Public sector policy and administrative, 15185-Local government administration

European development partners will support the PA's priority to **build effective, capable, accountable, and responsive institutions, which are as fiscally sustainable as possible within the current parameters.** This will strengthen the ability of the PA to **continue to deliver improved public services in an equitable manner** and to **fulfil its obligations in line with international human rights law**, ultimately preserving the viability of the two-state solution with Jerusalem serving as the future capital of the two states.

The Pillar is divided into three sectors: (i) **Macroeconomic Support and Public Financial Management;** (ii) **Public Administration Reform;** and (iii) **Local Government Reform.**

(i) Macroeconomic Support and Public Financial Management (PFM)

The Palestinian National Development Plan 2021-2023 provides the PA with a framework for reforms contributing to enhanced fiscal discipline, improved allocative function of the government and provision of essential public services. It is also expected to support achieving the PA's fiscal objectives through improved and consequently applied budgetary principles, policies and processes. The policy dialogue and financial cooperation focus from EDPs, including the incentive based approach to EU funding, and in coordination with other relevant partners, will address the following topics: macroeconomic framework, overall resource allocation, Direct Financial Support, part of which conditional upon implementation of reforms; the activation of the relevant PFM working group; the setting of a PEGASE Steering Committee; the entrustment of a Palestinian NGO for the external oversight of the reform process; a political economy and budgetary analysis led by the Office of the European Union Representative (EUREP).

The focus would be on:

- i. Budget management - by reviewing the legal framework governing public debt and by designing and implementing a medium-term public debt plan.
- ii. Domestic Revenue Mobilisation – by broadening the tax base and improving collection mechanisms and tax compliance in line with the PFM Strategy 2021-2023.
- iii. Expenditure Management and Controls – with further improvements to budget expenditure management, financial control and cash management, management of public sector wage bill and amelioration of intergovernmental fiscal transfers.

- iv. Public procurement – by strengthening the procurement of institutions, developing, and applying modern e-procurement tools, integrating ‘green’ and climate-friendly criteria and capacity building in the area of public procurement, also in the perspective to prevent corruption, consistent with the PFM strategy.
- v. Transparency, oversight of the budget and accountability – by aligning public sector accounting and reporting to international standards (GFS 2014), eliminating the backlog of financial statements and furthering inclusive and qualitative disclosure of fiscal information to the public.
- vi. Internal and external audit – by improving financial management and control framework and managerial accountability in line ministries, departments and agencies and strengthening the external audit function of the State Audit and Administrative Control Bureau.
- vii. Programme-based Gender Responsive Planning Budgeting and financing of national/sector policies – by gradually developing sector expenditure plans for the sectorial strategies in place.

Further work will be conducted on dialogue/ triangulation on fiscal leakages issues such as the electronic “e-VAT” system, implementation and upgrading of the economic part of the Oslo Agreements enshrined in the Paris Economic Protocol, including the transfer of customs authority from Israel to the PA, and impediments to proper transfer / transparency of clearance revenues into the PA’s budget.

(ii) Public Administration Reform (PAR)

Since the inauguration of the 18th government in April 2019, administrative planning and public policy development have come under the responsibility of the Prime Minister’s Office (PMO). This was one of the measures undertaken by the government to bridge the gap between the PA and its constituencies.

The split between the West Bank and the Gaza Strip and the existence of two separate legal and administrative setups continue to hamper the efforts for a comprehensive public administration reform. The PA lacks a comprehensive public administration strategic framework for coherently developing the different public administration areas and, so far, there has been no active public body fully responsible for planning and administrative development. Specific issues are related to the limited resources and institutional governance to deliver on public policies, the limited inclusiveness, effectiveness and efficiency in public policy making and the limited transparency and accountability.

The focus, in perspective, will be put on:

- i. Developing a strategic framework, which will guide the PA’s policy and PAR support for the coming years, implementing a wider reform, beyond civil service reform, to build effective, capable, accountable, and responsive institutions that are fiscally sustainable, in line with the national priorities.
- ii. Administrative capacity development at the centre-of-government to strengthen policy making, strategic planning functions as well as environmental governance, for ensuring well-planned, coordinated and budgeted public policies, which will require a long-term training of civil servants at the local and the central levels.
- iii. Re-organisation and restructuring of public institutions for reforming the civil service to ensure it is modern, efficient, result oriented, merit-based and gender sensitive. Working with the General Personnel Council to enhance its main functions related to PA human

resource competence based management and staff development, and the Civil Service law and by-laws.

- iv. Improved service delivery through the simplification of administrative procedures, promotion of best anti-corruption practices and systematic integration of digitalised services that prompt enhanced e-governance to strengthen on-line services, information sharing and communication aiming at greater transparency between citizens and government

(iii) **Local Government Reform**

Local Government Units (LGUs) form the backbone of public administration. They play a crucial role in facilitating local development, delivery of services and supporting Palestinian state-building. Legally mandated to provide 27 essential services, they are often the level of government citizens interact with most frequently, impacting local living standards and influencing public perceptions of the PA. Challenges have been further exasperated within the local government sector with the May 2021 hostilities as this resulted in the destruction of essential infrastructure and obstruction of basic service delivery in the Gaza Strip.

While the sector has benefitted from a number of initiatives and programmes, it continues to face considerable challenges: lack of fiscal resources, public-private partnership frameworks, territorial and jurisdictional fragmentation, inadequate planning frameworks and lack of clarity with regards to roles, responsibilities and relationship between central and local government. However, work on the reform process is progressing, including the completion of the Local Government Sector Strategy 2021-2023, in the first semester of 2021.

EDP actions will focus on:

- i Utility bill collections rates, to be addressed in connection with interventions under Pillar IV of this strategy.
- ii Strengthening inter-governmental transfers to ensure LGUs capacity to plan and budget for their needs. This is essential, as the former point, for LGU sustainability.
- iii Efforts to ensure predictability of the financial transfers to LGUs, consolidation of the tax base of LGUs through improved tax collection and revenues management.
- iv Efforts to foster inter-municipal cooperation (functional and institutional) and to merge smaller LGUs are yet to be seen as more successful.
- v Meeting basic infrastructure needs acknowledging that the establishment of distinct authorities in West Bank and Gaza Strip hampers sector cohesion and performance.
- vi Policy formulation, sector oversight and donor coordination beyond the EDPs group. Policy dialogue to promote fiscal, legal and administrative reforms towards a greater degree of decentralisation.
- vii Prioritising needs for Gaza Strip from the 2021 Rapid Damage and Needs Assessment to ensure that national level allocated budgets to local governments are utilised effectively for the recovery.

In the context of the nexus approach, EDPs' local governance support will reinforce the institutional structure and will foster the shock responsiveness of Local Authorities and communities by mainstreaming disaster preparedness and risk reduction. Work on climate resilience and adaptation, should be enhanced, building on the Sendai framework and regional EU funded programmes such as PPRD (Prevention, Preparedness and Response to Disasters).

Pillar 2 addresses several **crosscutting issues**. These include oversight of public policies, also looking at the way gender and climate change (renewable energy, recycling and greening of municipal services) are addressed; client orientation of the PA, ensuring quality of public services and support to the systematic integration of digitised services; Inclusive approach in policy making, at central and local government level, access to information, decision-making processes based on reliable, timely and comparable statistical data to monitor progress made, participation, accountability, awareness raising and transparency and support to civil society.

Pillar 3: Sustainable Service Delivery (Education, Health and Social Protection)

Contributing to SDGs: 1 (No Poverty); 2 (Zero Hunger); 3 (Good Health and Well-Being); 4 (Quality Education); 5 (Gender Equality); 10 (Reduced Inequalities).

Main DAC codes: 16050 - Multisector aid for basic social services, 11220-Primary education, 11320-Secondary education, 11420-Higher education, 43081-Multisector education/training, 16010 - Social protection, 12191 - Medical services,

The **right to social protection**, adequate standard of living along the lifecycle and **human dignity** are at the core of the Palestinian National Development Plan (PNDP) National Priorities, as well as **social justice, inclusive and quality education, and inclusive healthcare coverage for all**. However, the provision of and access to quality services is limited by the PA's fiscal difficulties and geographical fragmentation, **affecting particularly services in Area C, East Jerusalem and Gaza**. This was further exacerbated by the COVID-19 pandemic that had dramatic consequences on vulnerable households losing income and having even more reduced access to services.

Better EDP coordinated response along the humanitarian-development-peace nexus would help ensuring sufficient fiscal space for social sectors spending in Palestine, as an immediate crisis response but also during the recovery period (post crisis) and for the long term. At current growth levels, the Palestinian population is expected to increase to 6.7 million by 2030,⁵⁷ which will in turn increase pressure on social services. Therefore, supporting the PA to **ensure equitable and inclusive access for all Palestinians, including Palestine refugees, to quality social services remains a priority**.

The Pillar is divided into three sectors: (i) support to the **education Sector**; (ii) support to the **health Sector**; (iii) support to **social protection**.

(i) **Education sector**: European development partners support the right to education by working together with the Ministry of Education and UNRWA in order to provide safe, gender responsive, inclusive and equitable access to quality education for all boys and girls without discrimination or exclusion, throughout the West Bank, including East Jerusalem, and the Gaza Strip. European development partners' support is channelled through the Joint Financing Arrangement and other modalities to the sector-wide development and reforms, enhancing accountable and results-based management and governance, and aligning with the national policies towards safe, inclusive and equitable access at all levels. This includes supporting the development of early childhood education, enhancing a student centred teaching and learning pedagogy and environment, to all children including those with special needs, including through

⁵⁷ <https://worldpopulationreview.com/countries/palestine-population/>

digitalisation and distance education, and improving the quality and relevance of vocational and higher education, including their relevance to labour market needs and in line with UNESCO standards. The Education Sector Strategic Plan (ESSP) 2017-2022 was revised in August 2020 and extended until 2023. The Plan aims at developing the Palestinian education system into a modern, dynamic, student-centred learning environment based on sound educational assessment systems, skills and competencies transfer, diversified methods of learning and teaching and a results-based educational management. The European Commission has funded a study of Palestinian textbooks that reveals a complex picture. It will step up its engagement with the PA with the aim to ensure curriculum reform is addressed in the shortest possible timeframe; and has agreed with the PA to set out a specific roadmap for this work, which must include a commitment on a comprehensive policy dialogue on curriculum development and textbook review. The roadmap, to be agreed with the PA, will also establish an objective and credible process of screening and monitoring of educational material of which the PA will be fully responsible, to ensure full adherence to UNESCO standards. Support to the education sector is complementary with Palestine's participation in the Erasmus+ programme, which includes mobility and capacity-building projects in the sectors of higher education and youth (non-formal education).

(ii) **Health sector:** European development partners will support the PA and UNRWA to strengthen the health system, to reinforce the healthcare service provision and to improve citizens' health and well-being. The achievement of universal health coverage requires reforming the government insurance scheme with financial risk protection for people who need to use the services, improving efficiency in strategic purchasing, and rationalising referrals made to the Israeli health system. The primary healthcare system should adopt the Family Medicine approach with integration of vertical services to ensure the continuity of care and reinforce prevention programmes to better tackle non-communicable and chronic diseases and multi-morbidity. In particular, gaps in service provision to people with disabilities, senior citizens and gaps in psychosocial health and mental health provisions should be addressed. In the next few years, interventions would increase support to mental health in light of the consequences of the May 2021 Israel-Gaza Strip hostilities. In the short term EDPs will support Palestine to cover partially the financial costs of the COVID-19 vaccination roll out, either bilaterally or through the COVAX facility, and to deal with the pandemic.

Special attention will be given to ensure human resources development, real cornerstone of the health system. Moreover, enhanced quality of local health services focusing on sexual and reproductive health, especially for youth, comprehensive women and child healthcare, improved equitable access to services for all, including marginalised groups, better emergency services and a better control of environmental and social risk factors are envisaged as a way to promote health as a fundamental human right. The health system will need to increase resilience to shocks and stresses. Special attention will be dedicated to strengthening the health system of the Gaza Strip as well as to an adequate PA support to Gaza in all of the above-mentioned aspects, including through the implementation of the nexus approach. East Jerusalem Hospitals will continue to receive support as they account for the main referral hospitals for the Palestinian population and as they are exposed to particular challenges due to the geographical and political situation.

(iii) **Social protection:** Human rights principles and standards provide a framework for the design and implementation of social protection programmes, services and policies. Supporting PA reforms to enhance social protection floors and systems remains a priority for EDPs. In line with the Social Development Sector Strategy 2021-2023, interventions will assist the PA to reduce poverty and eliminate marginalisation, violence and social exclusion. This includes regular and predictable financial contributions to the budget of the national cash transfer programme for

payment of social allowances, as well as supporting structural and policy reforms implemented by the Ministry of Social Development to progress in the social protection floors, taking into consideration intersectional gender inequalities and prioritising persons with disabilities and the elderly. In line with the nexus approach, the future support will be built on greater collaboration, coherence and complementarity between humanitarian cash assistance and social protection programmes.

Cross-cutting issues: Gender equality and women's empowerment, youth, climate change adaptation and mitigation, research and innovation will be mainstreamed to promote sustainable and rights-based service delivery. The fulfilment of the rights of women and girls, children, youth, persons with disabilities and the elderly will be subject to particular attention in addition to advancing the adoption and implementation of the family protection law. Gender-Based Violence prevention and response will be a main focus. Gender-sensitive results measurement against specific gender-relevant milestones with evidence-based targeting will be included in the Result Oriented Framework.

Most of those cross-cutting issues are particularly acute in East Jerusalem and deserve specific, tailor-made interventions. Poverty is intrinsically linked to environment degradation and can be exacerbated by climate change. Addressing poverty and vulnerability has a direct positive effect on people's resilience to shocks and adaptation to climate change. Innovative and transformative programmes that address more than one of these cross sectoral issues should be given a priority in EDP support. Finally, in the framework of EU Digital for Development policy, mainstreaming of digital technologies and services in social sectors will be promoted.

Pillar 4: Climate Change, access to Self-Sufficient Water and Energy Contributing to SDGs: 3 (Good Health and Well-Being); 5 (Gender Equality); 6 (Clean Water and Sanitation); 7 (Affordable and Clean energy); 10 (Reduced Inequalities); 13 (Climate Action); 14 (Life Below Water); 15 (Life on Land).

Main DAC codes: 14010 - Water sector policy and administrative management, 14020- Water supply and sanitation - large systems, 14030-Basic drinking water supply and basic sanitation, 23110-Energy policy and administrative management, 23210 - Energy generation, renewable sources - multiple technologies, 32167-Energy manufacturing, 41010 - Environmental policy and administrative management.

Under the Interim Agreement (Oslo II), signed in 1995, Israel kept control of over 80% of the water resources in the West Bank. The agreement is still in effect although it was supposed to be only an interim five-year arrangement. Given the population growth, limited access to water and sanitation in the West Bank and the Gaza Strip is a growing concern, with the management of transboundary waters a key unresolved issue. With regard to energy, Palestine is fundamentally dependent on Israeli imports in a context of limited generation capacity and constrained control over its land and borders.

In this context, EDPs will support **climate change action**, prioritising the **provision of self-sufficient, equitable, affordable and sustainable access to clean energy, safe water, clean sea and sanitation services for all** with the explicit target of improving access to water, clean energy and wastewater services through a twin-track approach focusing on both sector reform and infrastructure investments. There will be a particular emphasis on vulnerable and marginalised populations, as well as the Water-Energy-Agriculture nexus and the Humanitarian Development-Peace nexus, with due consideration paid to the PA's cluster approach.

European development partners will support Palestinian institutions and service providers to identify and implement key infrastructure investments with fair and transparent procurement processes, to improve the operation and maintenance of clean energy, water and wastewater infrastructure, to carry out institutional development and reform to ensure sustainability, to adopt and apply quality standards, to put in place an affordable and cost-covering tariff system, and to improve collection rates as well as to increase eligibility to access climate funds directly.

The PA will also be supported to improve energy security and increase energy independence, amongst others through developing renewable energy, enhancing energy efficiency, and diversifying energy sources, for example through import from Jordan and Egypt. Additionally, EDPs will support improved and expanded access to electricity through better energy supply predictability and improved use of renewable electricity generation and energy efficiency.

The European Investment Bank (EIB) will aim to finance access to clean energy and water through support to infrastructure projects as well as via climate funds. Addressing **climate change** aspects, EIB aims to increasingly finance resilient infrastructure projects to promote climate change adaptation, also through the provision of equity and quasi-equity instruments to Micro, Small and Medium-sized Enterprises (MSMEs) by investment funds.

This Pillar is divided into two sectors: (i) support to the **Water Sector** and (ii) support to the **Energy Sector** and comprises both **climate change**, adaptation and mitigation measures. For all sectors the EU will strive to make **strongly use of the EFSD+ Guarantee Instrument** next to traditional blending and standard TA instruments.

Complementary efforts will be made regarding solid waste management (including hazardous and e-waste), recycling, waste to energy and circular economy.

(i) **Water sector:** In response to policy priorities of the PNDP as well as the NDC and National Adaptation Plan and on the basis of the Palestinian Water law, EDPs will continue to support national institutions, local government units and service providers to improve the sustainable operation of water and wastewater infrastructure (also via reform leveraged funding/incentive based approach) and the sustainable management of water resources, including for agriculture. European development partners will also support Palestinian counterparts to improve sustainable access to water supply and wastewater systems by strengthening the institutional capacity of key water institutions to operationalise the Water law, notably establishing the National Water Company for bulk water management in West Bank and Gaza Strip, consolidate regional water utilities for water distribution and set Water Users associations for treated wastewater reuse.

Together, they will identify and implement key infrastructure investments such as the **Gaza Central Desalination Plant Programme**, mainly contributing, but not limited to bulk supply systems, the rehabilitation and construction of water wells and distribution/collection systems, sewerage networks, desalination and wastewater treatment plants. The use of renewable energy sources for the operation of the facilities, in particular desalination plants, will be supported to the extent possible.

(ii) **Energy sector:** In response to policy priorities of the PNDP, EDPs will focus on providing access to clean, affordable, reliable and resilient energy services to end consumers – including mainstreaming cleaner and more sustainable energy practices, such as **Gas 4 Gaza (G4G)**; improving the financial sustainability and regulation of the energy sector especially by consolidating the institutional set-up and capacities within the electricity sector; adopt the necessary reforms of the hydrocarbon sector (leveraged by EU funding); putting forward specific policies and innovative actions to promote the green economy; and enable access to energy services for marginalised groups and participation in the decision-making process.

This Pillar addresses several **cross-cutting issues**. By connecting peripheral communities in the West Bank to water networks and centralised wastewater treatment plants, as well as focusing on the Gaza Strip, European development cooperation is giving priority to marginalised localities and low-income areas. The PA sets the adaptation to climate change as a priority in the PNDP to achieve sustainable economic development, which underscores the need to continue focusing on the expansion of wastewater management and treatment meant for reuse. EDPs also aim at promoting gender participation equality and equity at the policy level, the institutional level, and in project planning processes at the local level. EDPs also support the PA to implement recommendations related to public health, water and sanitation, in particular in relation to the International Covenant on Economic, Social and Cultural Rights and the Convention on the Rights of the Child.

Pillar 5: Sustainable Economic Development (Private Sector Development and Trade, Agriculture, Labour)

Contributing to SDGs: 1 (No Poverty); 2 (Zero Hunger); 5 (Gender Equality); 8 (Decent Work and Economic Growth); 9 (Industry, Innovation and Infrastructure); 10 (Reduced Inequalities); 12 (Responsible Consumption and Production); 15 (Life on Land). 14 (Life below water).

Main DAC codes: 25030 - Business development services, 33110 - Trade policy and administrative management, 33120 - Trade facilitation, 24010 - Financial policy and administrative management, 24030 - Formal sector financial intermediaries, 24040 - Informal/semi-formal financial intermediaries, 31193 - Agricultural financial services, 16020-Employment creation, 33210 - Tourism policy and administrative management,

The **Palestinian economy has been severely affected by the occupation and the uneven implementation of the Paris Protocol**, as well as by the COVID-19 pandemic and the consequences of Russia's war of aggression against Ukraine of rising food and commodity prices. Consequently, it has experienced major structural distortions. It is heavily dependent on donor support, the public sector, private consumption and trade with Israel. In addition, access to natural resources and property is limited and exposed to **gender-based discrimination**. EDPs will address these issues in accordance with the objectives set out in the Palestinian National Development Plan.

The cluster approach⁵⁸, developed by the Palestinian Authority to enhance economic development and independence, will serve as a reference. Five pilot clusters have been selected and will be supported along with other potential clusters to strengthen their competitiveness in order to increase their market share on local and export market. EDPs will **promote sustainable, social and gender-inclusive private-sector-led development, as well as equitable and sustainable access to natural resources. Economic, social and environmental sustainability will play an important role in promoting a responsible private sector.**

This Pillar is divided into three sectors: (i) **Private Sector Development and Trade**; (ii) **Agriculture**, and, (iii) **Labour** and for all sectors the EU will strive to **make strongly use of the EFSD+ Guarantee Instrument** next to traditional blending and standard TA instruments.

(i) Private Sector Development and Trade: The private sector is the fundamental driving force behind the Palestinian economy, bringing in a sustainable contribution to economic growth and job creation. Yet, the Palestinian private sector is characterised by a small number of large holding companies and many small sized firms with limited productivity, low investment and scarce

⁵⁸ Clusters are geographic concentrations of are groups of companies sharing local resources, using similar technologies and are forming linkages and alliances and so creating a supportive environment of "coopetition".

competition. Nevertheless, local entrepreneurs demonstrate remarkable capacity to adapt to the wide-ranging political and economic constraints and uncertainties.

The Palestinian private sector faces many challenges and a multi-layered system of physical, institutional and administrative restrictions deployed by the Government of Israel. It includes restrictions on access and movement of goods, services and persons, the non-contiguous control of land by the PA, limited access to Area C, as well as an environment that is generally un conducive to business. Regarding trade, an internationally competitive private sector is key to the success of the Palestinian economy but for now access to export markets remains limited.

The share in the economy of manufacturing and agriculture, the two core sectors producing tradable goods, has shrunk considerably over the last decades. The percentage value of exports to GDP is the lowest in the world. According to the World Bank, “the trade and movement restrictions have created a high risk of disruption in projects or trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth.”⁵⁹ In general, unpredictability of the political situation represents a structural destabilising factor. Access to capital, land, labour and entrepreneurial opportunities, are still characterised by widespread gender bias.

Acknowledging the boundaries within which the PA operates as a policy maker and regulator, EDPs will focus on: creating an enabling business environment; building a path towards an innovative and **digital economy** with an emphasis on both digital infrastructure including mega projects like fiber to home as well as regulatory changes with digitalization as driver for investments in circular business models; favouring the transition from the informal to the formal sector; improving private sector competitiveness; supporting access to finance; diversifying Palestinian trade and supporting access to local and international markets, particularly European; promoting innovative approaches such as supporting research and technology transfer, linking universities to the private sector; improving the participation of women and youth in the economy; promotion of a green economy; exploring the potential of a safe, sustainable and resilient mobility (in line with the Regional Transport Action Plan in the framework of the UfM). Supporting the digital economy could also be driven through establishing linkages with European counterparts in the outsourcing domain.

Specific attention will be given to the role of the private sector within the framework of the Nationally Determined Contributions to **climate change mitigation and adaptation**. To this end, sectors and businesses aligned with the green transition will be favoured and promoted through this pillar, but also to integrate circularity principles in their business models.

A particular focus will be placed on trilateral cooperation in trade related areas such as transfer of customs authority and bonded warehouses. A continuing trilateral cooperation has recently been endorsed by the plurilateral Union for the Mediterranean in the November 2021 meeting of UfM trade ministers.⁶⁰

The experiences being piloted in Gaza Strip through economic resilience interventions, are expected to provide a better understanding of the dynamics and processes affecting the humanitarian-development-peace nexus of vulnerable communities, setting the ground for larger, better targeted and more effective economic measures.

Recognising MSMEs as the backbone of the Palestinian economy, the European development banks’ operations in the financial sector e.g. loans/guarantees to banks and microfinance

⁵⁹ World Bank Report to the AHLC, September 2019

⁶⁰ Joint Statement of the 11th Union for the Mediterranean Trade Ministers Conference of 10 November 2020, Paragraph 14.

institutions, coupled with technical assistance support, will play a key role in promoting and supporting access to finance especially to micro enterprises - representing 88% of total enterprises in Palestine - in order to improve livelihoods and sustain jobs. In addition, private equity funds will be an important instrument that will provide the necessary risk capital to support and accelerate MSMEs' sustainable growth in line with the Palestinian priorities. The private sector will benefit from the partnership between European Donors and European Development Banks in the context of the roll-out of the External Investment Plan.

(ii) **Agriculture:** preserving the land from annexation and generating employment and income are the political and economic reasons to support the agriculture sector. In addition, its contribution to steadfastness, food security, livelihood resilience, sustainable economic growth, and social stability is essential to the future of Palestine.

European support will combine three approaches. First, EDPs will facilitate the conditions for equal and fair participation of small farmers in a competitive market-oriented system, through reform of production groups and cooperatives and provision of investment incentives, in particular those aimed at enhancing the resilience of the sector. Second, EDPs will support improving the capacity of the public sector and private businesses to produce and process agricultural products according to international standards and circularity principles. Finally, EDPs will also facilitate the sustainable use of natural resources in line with policies and plans included in the NDCs, such as the adoption of environmentally friendly agricultural practices and climate-smart production practices, as well as more resource-efficient post-harvest processing practices in agricultural value chains. This includes also the need for water-use efficiency improvement and usage of alternative water resources. EDPs seek to contribute to two of the main goals of the PNDP by supporting a value chain approach as the basis for economic growth and improving sustainable access to natural resources. Finally, part of the EIB microfinance operations may support the agricultural sector, particularly smaller farmers.

Improvements in the area of strategy and planning such as the review of the National Strategy, of the Food and Nutrition Security and Sustainable Agriculture National Investment Plan, as the product of the National Committee for follow up on SDG 2 ("Zero Hunger"), are useful tools for prioritisation and joint programming.

(iii) **Labour:** The Labour Sector in Palestine is facing a variety of challenges. An unstable macroeconomic framework, due to the Israeli occupation and restrictions as mentioned earlier, a private sector unable to create enough job opportunities, movement restrictions for workers, weak labour policies and laws, a mismatch between the skills demanded by the market and those provided by educational and training institutions are all factors contributing to a persistently high unemployment rate (28% for Q1 2021), especially affecting young people, women and university graduates.

The overall objective of European support is to support the policies of the PA aiming to create decent jobs, especially for young people and women, by strengthening technical and vocational education and training (TVET), matching labour market demand and supply, promoting social and environmental sustainability, improving the quality of employment services, improving framework conditions for entrepreneurship and a supporting and enabling economic environment.

The strengthening of TVET is a national policy priority in Palestine that still faces some challenges. So far, the TVET system has not been able to adequately prepare young people for the labour market. This is largely due to the fact that training courses offered do not meet the demands of employers, a lack of capacities of the teaching personnel, institutional fragmentation of the TVET system, as well as poor coordination. A closer cooperation and regular exchanges with the private

sector are paramount. TVET personnel should be further qualified, especially in light of creating the skills necessary for the transition to green and circular economy. The newly established TVET commission is mandated to provide a coherent Palestinian TVET governance. EDPs active in TVET will support this process and contribute to the strengthening of the system.

European development partners will be contributing to labour sector policy advice, practice oriented TVET, employment promotion measures and specific support to the employment potentials of the cooperative sector. Lifelong learning opportunities would be also explored. Erasmus+ will also support capacity-building projects in the field of TVET.

Monitoring and Evaluation

The EJS 2021-2024 includes a Result Oriented Framework (ROF) to monitor its implementation against agreed results and related indicators, which are aligned to the Palestinian National Development Plan (PNDP) and its Sectoral Strategies. For this reason, European development partners contribute to the monitoring and evaluation of the PNDP. An annual ROF report is prepared under the coordination of EUREP and with the contribution of EDPs sector Leads. It includes a narrative report and sector tables with updated data from various relevant sources of verification. Existing bilateral review mechanisms of European partners will complement this joint monitoring and evaluation mechanism.

4. Team Europe Initiatives

Team Europe in Palestine consists of the EU, its Member States and their diplomatic network, European like-minded partners such as Norway and Switzerland, finance institutions and implementing organisations, the EIB and the EBRD. Team Europe Initiatives (TEIs) are flagships of the Team Europe approach. The progressive alignment achieved through the first European Joint Strategy 2017-20, is being brought to a whole new level with the development of Team Europe Initiatives (TEIs), the flagships of the Team Europe approach.

Based on the European Joint Strategy for Palestine, reflecting a joint analysis with the European Development Partners, consultations with local authorities, development finance institutions and private sector, Team Europe Initiatives were identified for **Sustainable Growth, Jobs and Resilience** and for **Water Resources Management**. These Initiatives address sectors in which European Development Partners can have a substantial impact by joining, programming and policy dialogue efforts.

The proposed approach for **Sustainable Growth, Jobs and Resilience** is in line with the key policy areas proposed by the *New Agenda for the Mediterranean*, namely priority #2 (Strengthen resilience, build prosperity and seize the digital transition) and #5 (Green transition: climate resilience, energy and environment); and develops further the programmatic area identified for Palestine as part of Flagship 5 – Connected economies.

The Initiative intends to contribute to Palestinian sustainable and inclusive economic development, based on the opportunities jointly identified, while providing a comprehensive socio-economic response to the impact of COVID-19 and to the recovery needs generated by the May 2021 Israel-Gaza hostilities.

The EU's indicative contribution to this Team Europe Initiative is subject to the confirmation of the Team Europe partners' indicative meaningful contribution as early as possible. In the absence thereof, the EU's indicative contribution may be redirected in accordance with the priority areas of the Joint Strategy and their allocations. The obligation of the Union and the Member States to coordinate their development policies following initiatives by the Commission to this effect, as per article 210 TFEU, always applies.

Context

- Palestine is a **lower middle-income country** operating under occupation that has been severely impacted by the COVID-19 pandemic. 2018 income per capita reached USD 3,562, with a growing difference between West Bank (USD 5,044) and Gaza Strip (USD 1,541).
- The **COVID-19 pandemic** is having a severe negative impact on the Palestinian economy. Measures to contain the pandemic have been efficient but contributed to sharp declines in economic activity. According to estimates, Real GDP decreased by 11.6% in 2020 and grew by 7.2% in 2021.
- Palestine's economy suffers from the **Israeli occupation**, with risks and uncertainties resulting from restrictions to movement of people and goods, physical destruction, restrictions to access to land, natural resources, lack of control of borders and unstable and complicated institutional environment determined by the Paris Protocol and Military Orders.

- The recurrent **conflicts in Gaza** threatens to further impact negatively the economic situation in Gaza Strip and accelerate the de-development process.
- **Constraints to investment and trade** generate a low-income and low-growth economy, resulting in high rates of unemployment (26%, of which 15% in WB, 49% in Gaza) and poverty (24% living below poverty line overall; 9% in WB, 46% in Gaza).
- A fragmented and complex **business legal and regulatory environment** (117th out of 190 economies in the 2020 Doing Business report) compels firms to navigate through different frameworks, posing important barriers to foreign investors.
- **Access to finance**, notably for MSMEs, is considered as one of the key constraints for private sector development: risk aversion of the banking sector, lack of adequate financial products, services are the main bottlenecks.
- The renewed PA's **National Development Plan**, contains three pillars describing the strategic direction of the government: path to independence; government reform; and sustainable development. The economic dimension of the “sustainable development” pillar is firmly grounded into a policy of “economic independence” that is expected to be achieved through a sectoral strategy built around the concept of economic clusters, industrial development, focus on SMEs, digital, job creation for youth and improved business environment.
- The **European Joint Strategy (EJS) 2021-2024** provides a framework through which European support is coordinated with Palestinian partners in line with the Palestinian National Development Plan. Pillar 5 of the Joint Response Strategy aims to support Sustainable Economic Development (Private Sector Development and Trade, Agriculture, Labour).
- In order to accelerate the roll-out of the EU External Investment Plan, the **EU-Palestine Investment Platform** has been established in 2020, with the objective of promoting inclusive growth, job creation and sustainable development, leveraging finance and fostering policy dialogue on investment-climate reforms.
- The translation of the external dimension of the ‘**European Green Deal**’ and the principles underpinning the green economic recovery agenda in Palestine is considered as a priority for all EDPs, notably by supporting the development of a Green economy, supplying clean, affordable and secure energy, while developing a more sustainable, inclusive, and resilient growth model.

TEI Sustainable Growth, Jobs and Resilience

The proposed TEI *Sustainable Growth, Jobs and Resilience* translates the joint analysis and programming put forward by European Development Partners within the framework of the EJS, into a set of consolidated interventions. The package of interventions is mirrored in the structure of the Result Oriented Framework of the EJS, reinforcing the added value of joint programming, through better defined efforts of joint implementation, monitoring and communication. It will provide a critical benefit in terms of synergies and visibility of EDP interventions.

TEI builds on the following key objectives: improving the business environment thanks to a more solid policy dialogue framework; mobilising financial instruments in synergy with EDPs’ own programming; ensuring a policy-first approach to sectoral and/or thematic support; promoting resilience along the humanitarian/development nexus, seeking for complementarities with opportunities made available by EDPs working in the Labour/TVET sector.

The TEI will be implemented through six main components, namely:

1. **Policy dialogue** on business environment providing targeted support to foster reforms, develop strategies and implement them (EU in the lead, with Sweden, Netherlands, Germany, Austria). The process has been launched in line with the Result Oriented Framework, Pillar 5 definition, and monitoring with Ministry of National Economy. It encompasses structured dialogue with the PA, the private sector and triangulation with Israel in relevant areas.
2. **Mobilisation of finance and investments** through the EU-Palestine Investment Platform, coordinating European Financial Institutions (EFIs), PA and Palestinian financial sector for enhanced support to private sector. The four main active EFIs (EIB, EBRD, AFD/Proparco, KfW) are already active in Palestine and have expressed their interest to better coordinate and expand their interventions with EU support. An acceleration of the roll-out of the EU External Investment Plan, with a strong focus on MSMEs support (notably for COVID-19 recovery) and Green Economy is ongoing with the mobilisation of Netherlands, Sweden, Italy and Belgium.
3. **Trade programme** (EU, Netherlands, Germany, France) with enhanced coordination amongst respective interventions on issues related to policy, standards, quality infrastructure, export, competitiveness, physical infrastructures. It also includes reinforcement of trilateral dialogue to facilitate Palestinian trade and the implementation of Confidence Building Measures between Israel and Palestine.
4. **Green economy** programme led by Germany (through GIZ) in partnership with EU, supporting the development of a Green Hub, promoting competitiveness through green investments, matching supply with demand for green finance, implementing targeted policy interventions, serving as facilitating and coordinating platform with Belgium, Italy, France.
5. **Digital economy** programme complementing and enhancing current sectoral interventions of EU, Netherlands and Sweden, open for scale up. It comprises the design and implementation of a joint Digital Response Strategy, with private sector-focused responses, along the five key areas of: digital infrastructures, digital platforms, digital finance, digital entrepreneurship and digital skills.
6. **Entrepreneurship and economic resilience**, coordination and scale up of current interventions of Belgium, Austria, Finland and EU, promoting humanitarian/development nexus, sustainable livelihood, poverty graduation, and youth entrepreneurship (Belgium, Denmark, Italy).

Coordination and synergies will be sought under the EJS Pillar V, between Labour and Private Sector interventions, notably with Labour/TVET programmes by Germany, Belgium, Austria and France.

TEI Water Resources Management – Waste Water and Reuse

The proposed TEI was identified for the EU and European Development Partners to engage together with the PA to combat the effects of Climate Change and support biodiversity through enhanced action on Water Resources Management.

At the very core of the Initiative's focus on wastewater and reuse is the **green transition** (priority #5 of the key policy areas proposed by the *New Agenda for the Mediterranean*),

hence, the shift towards climate change resilience and the protection of the environment and biodiversity. The suggested initiative is in line with National strategies and the National Policy Agenda, and the main line agencies (PWA, Environment Quality Authority (EQA) and Ministry of Agriculture (MoA) are supporting the initiative.

This TEI will allow European Development Partners to contribute substantially to the implementation of the Palestinian Nationally Determined Contribution (NDC) by joining financial and technical cooperation efforts as well as policy dialogue.

The TEI will contribute to developing sustainable infrastructure for waste water treatment and re-use. A *twin track approach focusing on both sector reform and infrastructure investments*, the *transboundary dimension of the waste water treatment* should be leveraged through policy dialogue, allowing a transformative dimension to this TEI. This transformation is expected to reach agricultural production cycles and the food system as a whole as it will reflect the principles of the plan for “Climate-smart agriculture” (CSA) as part of the State of Palestine’s Nationally Determined Contribution (NDC) implementation plans.

Joint Support Measures – CSO support

Building on the *Joint European Roadmap for Engagement with Civil Society in Palestine 2018-2020*, the European Union and its Member States, together with Norway and Switzerland, will develop a common approach for support to CSOs. This common approach emphasises the importance that the European Development Partners attach to the role of civil society in policy development and in monitoring the implementation of policies and laws. This is all the more important in the absence of functioning democratic governance structures and adequate representation for Palestinians. Efforts to enhance the integrity, transparency and accountability of public institutions are vital, and civil society has a crucial role to play in this context.

The role of civil society in ensuring transparency and accountability has also to be seen in light of the territorial, legal and political fragmentation affecting Palestine. In this fragmented context, CSOs in Palestine are increasingly marginalised by all three duty bearers: The Government of Israel, the Palestinian Authority and the *de facto* authority in the Gaza Strip. Their space to operate in Palestine is being challenged from new and different angles, including financial, political and cultural pressures as well as violence and intimidation.

The objective of European support is therefore to help creating an environment where CSOs are able to fully play their legitimate role in Palestinian society not only as service providers, but also as advocates and watchdogs. This objective illustrates the importance of European engagement in contributing to an enabling environment for civil society and strong, inclusive and democratic Palestinian institutions, based on the Rule of Law and respect for Human Rights.

The common approach aims to address the multiple challenges faced by CSOs and includes the following priorities for engagement:

1. Shrinking space for civil society and citizens

- i. Promote and strengthen the enabling environment and space for CSOs;
- ii. Reinforce the representation of citizens' rights and voices in the state-building agenda and inclusive development plans;
- iii. Foster a common, coherent approach among EDPs and adopt and promote a policy against public defamation.

2. Participation of CSOs in policy-making

- i. Strengthen the role of CSOs in policy-shaping at national and local level;
- ii. Support civil society efforts to enhance their internal governance, transparency and accountability as well as to counter incitement to hatred or violence.

3. Political environment

- i. Enhance connectivity, joint analysis and actions between the representations of the EU and its Member States, together with Norway and Switzerland in Ramallah, Jerusalem and Tel Aviv;
- ii. Counteract incitement to violence.

In addition, EDP's will support civil society organisations in the identification of sustainable funding models and in increasing engagement in environmental and climate justice. European Development Partners commit to ensure continuous engagement with civil society in Palestine through a structured dialogue.

5. Financial overview for the EU and European Development Partners ⁶¹

Although the duration of the EU multi-annual financial framework is seven years, the indicative allocations for the EJS and for each of the priority areas and support measures laid down in the table below are provided for the 2021-2024 period only. The indicative allocations for 2025-2027 of the European Commission, as well as the possible modification of other substantial elements of the programming document, will be subject to a decision by the EU. This decision should be preceded by a review of the implementation, which should include a dialogue with the authorities and other stakeholders of Palestine.

	Democracy, Rule of Law and Human Rights	Governance	Reform. Sustainable Service Climate Change, access to	Sustainable Economic Development	Refugees / UNRWA	East Jerusalem	Total	4 Years estimate	
1. EU	25	222.5	248	147	133.5	353	48	1177	1177
Member States									
2. Austria				4	5.4	7.6	0.2	17.2	17.2
3. Belgium	15.35		15.79	21.3	11.2	46		115	115
4. Czech Republic	0.15		0.15	0.05		0.15		0.5	2
5. Denmark⁶²	15.3	23			22.1	56.5		116.9	116.9
6. Finland⁶³			22			24	6	52	52
7. France			102	25	30	88	25	270	270
8. Germany⁶⁴		46.7	10	16	37.3			110	220
9. Ireland⁶⁵								26.8	53.6
10. Italy⁶⁶	12.9	6.4	16	1.5	18.1	26		80.9	323.6
11. Lithuania								0.1	0.4
12. Malta						0.23		0.23	0.92
13. Netherlands⁶⁷	23.2			44	8		0.6	75.8	75.8

⁶¹ In EUR million in general or as specified.

⁶² The figures are subject to parliamentary approval and the Government's prioritisation in the forthcoming Danish finance bills

⁶³ Subject to Parliamentary approval and formal funding decisions

⁶⁴ The amounts indicated under each pillar refer only to bilateral development cooperation commitments for 2021/22. Other forms of support i.e. through civil society actors and international organisations like UNRWA (which alone totaled EUR 150 million in 2021) are not reflected.

⁶⁵ Ireland is actively engaged in joint programming but has not yet provided allocations

⁶⁶ The amounts indicated under each pillar refer to commitments for bilateral development cooperation for 2021/22. Other forms of support like through civil society actors and international organisations like UNRWA are not reflected.

⁶⁷ UNRWA contribution EUR 36 million for 2021/22

14. Spain⁶⁸								100	100
15. Sweden						176			296
Development Partners									
16. Norway⁶⁹	20.6	3.8	9	5	4.4	26.5	6.8	76.1	304.4
17. Switzerland⁷⁰								99.4	99.4
Grand Total⁷¹									3224.22

6. Division of labour among the European Development Partners for 2021- 2024

National Development Plan priorities	EJS pillars	Sectors	EDP Lead	LACS working group chair
2, 4, 5 and 7	I	Democracy and Electoral Support	EUREP	EUREP
		Rule of Law and Human Rights	EUREP	EUREP
4 and 5	II	Macroeconomic Support and Public Financial Management	EUREP	<i>dormant</i>
		Public Administration Reform - Central Government	EUREP	<i>No working group</i>
		Public Administration Reform - Local Government	DK	Denmark
8	III	Education	FI	Ireland
9		Health	IT	Italy
4 and 7		Social Protection	EUREP	EUREP
10	IV	Water	NL	The Netherlands
		Energy	NO	Norway
6 and 7	V	Private Sector Development	EUREP	World Bank
10		Agriculture	ES	Spain
6 and 7		Labour	DE	Germany

⁶⁸ Info not available as depending on yearly planning of State and Regional Governments Aid. The indicative allocation covers the period 2020-2024.

⁶⁹ Breakdown per pillar not available.

⁷⁰ Approximately CHF 97 million on development aid and support to UNRWA

⁷¹ The indicative grand total is calculated on the assumption that CZ, DE, IE, IT, LT, MT, and NO will maintain similar level of financing to 2021/22.

	Cross-cutting/mainstreaming	Environment, Green Deal	SE	Sweden
10				
2,4,5 and 7		Gender	IT	Italy
7		Youth	DK	Denmark

7. Official Development Assistance (ODA) flows to West Bank and Gaza Strip 2019-2020, average USD million

Recipient country

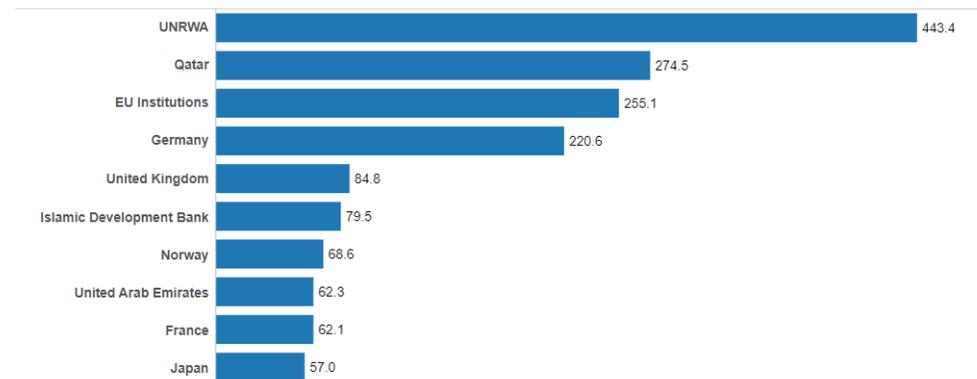
Receipts for West Bank and Gaza Strip

	2018	2019	2020
Net ODA (USD million)	2,294.1	2,293.7	2,030.0
Net ODA/GNI (%)	12.0	11.4	11.2
Gross ODA (USD million)	2,303.2	2,302.4	2,040.0
Bilateral share (gross ODA) (%)	66.4	65.1	58.3
Total net receipts (USD million)	2,290.4	2,295.4	2,093.2

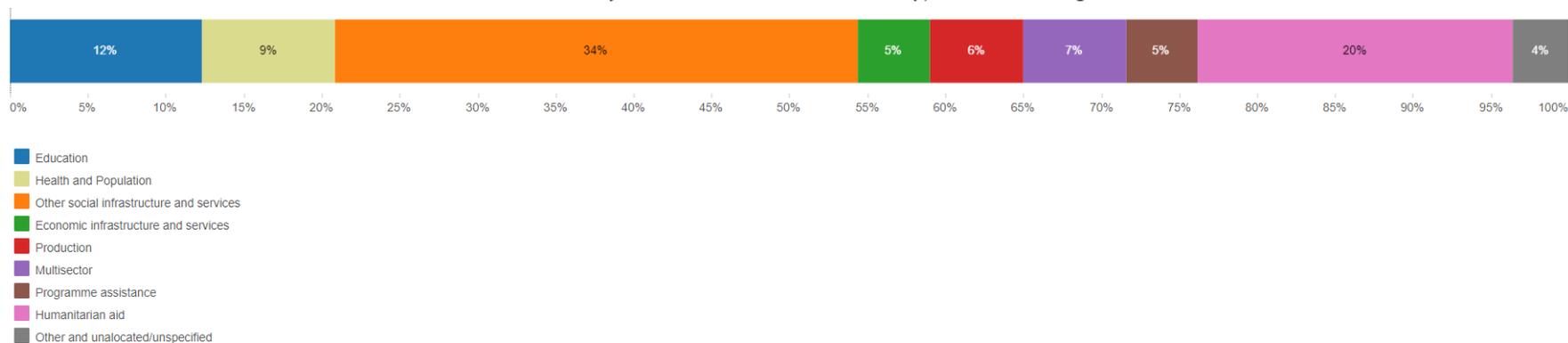
For reference

	2018	2019	2020
Population (million)	5	5	5
GNI per capita (Atlas USD)	4,190	4,270	3,710

Top Ten Donors of Gross ODA for West Bank and Gaza Strip, 2019-2020 average, USD million



Bilateral ODA by Sector for West Bank and Gaza Strip, 2019-2020 average



Source: OECD - DAC: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm>

8. Acronyms and abbreviations

ACRI	Association for Civil Rights in Israel
AFD	Agence Française de Développement
AHLC	Ad Hoc Liaison Committee
ATCA	Anti-Terrorism Clarification Act
CEC	Central Elections Commission
CSO	Civil Society Organisation
DFI	Development Finance Institution
EDPs	European Development Partners
EJS	European Joint Strategy
EIB	European Investment Bank
EIP	External Investment Plan
EU	European Union
EU MS	European Union Member States
EUREP	Office of the European Union Representative
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HCC	High Constitutional Court
ILA	Israeli Land Authority
LGU	Local Government Units
MENA	Middle East and North Africa
MEPP	Middle East Peace Process
M&E	Monitoring and Evaluation
MS	Member States
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organisation
NPA	National Policy Agenda
oPt	occupied Palestinian territory
PA	Palestinian Authority
PAR	Public Administration Reform
PEGASE	Palestino - Européen de Gestion et d'Aide Socio-Economique
PFM	Public Financial Management
PHC	Primary Health Care
PLO	Palestine Liberation Organisation
PLC	Palestinian Legislative Council
PMO	Prime Minister's Office
PSD	Private Sector Development
ROF	Results-Oriented Framework
SDG	Sustainable Development Goals
SME	Small and medium-sized enterprises
SUNREF	Sustainable Use of Natural Resources and Energy Finance initiative
TAIEX	Technical Assistance Information Exchange programme
TVET	Technical Vocational Education and Training
UN	United Nations
US	United States
USD	United States Dollar
UNESCO	United Nations Educational, Scientific and Cultural Organisation.
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East

VAT Value-Added Tax
WB World Bank
WHO World Health Organisation

