



Strasbourg, 21.11.2023
C(2023) 8300 final

COMMUNICATION TO THE COMMISSION
Review of ongoing financial assistance for Palestine

Review of ongoing financial assistance for Palestine¹

Following the terrorist attacks carried out by Hamas against Israel on 7 October 2023, the Commission announced a review of its ongoing financial assistance for Palestine. Without prejudice to the existing safeguards, the objective of the review was to ensure that no EU funding indirectly enables any terrorist organisation to carry out attacks against Israel. It also aimed to ensure the full respect for EU legislation and policy as well as prevent the possible abuse of EU funding to incite hatred and violence. The review covered the entire development portfolio, including support programmes to the Palestinian population, the Palestinian Authority and the United Nations Relief and Works Agency for the Palestinians (UNRWA). It did not concern the humanitarian assistance for the Palestinian people.

The review was carried out using a two-step approach. First, an operational screening was done first, to assess the feasibility of projects in the changed circumstances. The criteria used included the geographical location of actions (Gaza, West Bank or East Jerusalem), the capacity of the implementing partners to deliver in the current circumstances, the level of priority of the needs following the new situation, the interest of the EU to remain engaged with a certain partner or on a certain topic, and the flexibility in the design of the project and possibility to easily change the scope of the programme. Second, a risk assessment on both aid diversion and incitement to hatred and violence was performed. The criteria used included a screening of the tools and mechanisms used by implementing partners, the level of control of individual direct and indirect beneficiaries, as well as the geographical location of beneficiaries. This will also contribute to assess the political and reputational risks for the EU.

The analysis was followed by the identification of mitigating measures, such as the inclusion of the relevant anti-incitement contractual clauses in all contracts, monitoring their strict application and enlarging the scope of the monitoring of beneficiaries, including through third-party monitoring. Furthermore, the programmes will be subject to further evaluation, if needed, adjustment in light of the information requested from the different beneficiaries (pillar assessed organisations, civil society organisations, UNRWA).

The review and its annexes are attached as annex to this communication.

¹This 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.

ANNEX

Review of ongoing EU financial assistance for Palestine²

1. INTRODUCTION

On 7 October 2023, Hamas carried out an unprecedented attack against Israel, killing 1,200 Israelis, wounding at least 3,000 and taking soldiers and civilians as hostages into the Gaza Strip. Following the attack, Israel has started military action against Hamas in the Gaza strip, which is still ongoing.

All European Institutions stand united in condemning Hamas in the strongest possible terms for its brutal and indiscriminate terrorist attacks across Israel and in underscoring the importance of ensuring the protection of all civilians and provision of humanitarian aid at all times, in line with international humanitarian law.³

In light of the change in circumstances on the ground, the European Commission announced on 9 October 2023 its decision to carefully review its ongoing financial assistance for Palestine.

The European Parliament referred to the review of the EU financial assistance to Palestine in its resolution of 19 October 2023⁴, as part of which it urged the Commission ‘to initiate a thorough review of all EU financial assistance to Palestine and the region in order to ensure that no EU funds directly or indirectly finance any terrorist organisation’, and underlined that ‘the EU budget must continue to provide support for building peace and stability in the region, combating hate and fundamentalism and promoting human rights’.

The review is framed by Article 74, paragraph 2 of the Financial Regulation⁵ setting the duties of the authorising officer who is responsible for implementing revenue and expenditure in accordance with the principle of sound financial management, and who, having due regard to the risks associated with the management environment and the nature of the actions financed, puts in place the requisite internal control systems.

This is also further developed in Annex 15 to the Commission Decision on the internal rules for the implementation of the Commission section of the general budget of the European Union⁶ which details the tasks and responsibilities of the authorising officer by delegation (AOD). According to these rules this must be done in accordance with Article 36 of the

² This designation shall not be construed as a recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

³ EUCO 14/23 [20241027-european-council-conclusions.pdf \(europa.eu\)](#)

⁴ European Parliament resolution of 19 October 2023 on the despicable terrorist attacks by Hamas against Israel, Israel’s right to defend itself in line with humanitarian and international law and the humanitarian situation in Gaza (2023/2899(RSP)), [TA MEF \(europa.eu\)](#).

⁵ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.

⁶ Charter of tasks and responsibilities of authorising officers by Delegation.

Financial Regulation, the Commission's Internal Control Framework⁷ and having due regard to the risks associated with the management environment and the nature of the measures financed. In the present context, particular care should be taken that funds can continue to be used for the stated purpose in accordance with the contractual provisions, that diversion is avoided and that no funds are used in circumvention of the EU restrictive measures, or to incite hatred and violence.

The European Union is the biggest provider of external assistance to the Palestinians through the European Joint Strategy (EJS) 2021-2024⁸, which amounts to indicatively EUR 1.177 billion. This includes direct contributions to the Palestinian Authority through the PEGASE mechanism⁹, support to civil society organisations (CSOs), projects through International financial institutions (IFIs) and contributions to the United Nations Relief and Works Agency for the Palestinians (UNRWA) (see table in Annex 1).

The European Commission already has a system of safeguards in place in the area of external assistance, which includes additional measures tailored to the specific context of cooperation with Palestine.

In 2020 and 2021, as a result of the introduction of the restrictive measures clause¹⁰, a number of Palestinian organisations refused to sign contracts with the European Commission, the contracting process was discontinued and 13 projects were subsequently not signed for about EUR 14.3 million.

In 2022, the Commission proposed to include education in the incentive-based approach through the annual financial assistance package to Palestine that aimed to support the EU's engagement with the Palestinian Authority on curriculum reform. The proposal of the Commission did not pass in the Council.

In view of the situation on the ground, an additional comprehensive review was required in light of the responsibility of the authorising officer to take necessary actions concerning expenditure items under its authority, when further to the reassessment with regard to unforeseen important developments, the reinforcement of its oversight activities is necessary. Such a review is in line with Article 74 (5) and (6) of the Financial Regulation which requires the authorising officer to determine and adapt the frequency and intensity of the ex-ante controls based on its own risk analysis and authorises the authorising officer to put in place the relevant ex post controls to detect any irregularities of operations. In that context, the authorising officer responsible for validating the relevant operations shall request complementary information or perform on-the-spot control in order to obtain reasonable assurance¹¹.

⁷ Communication to the Commission on the Revision of the Internal Control Framework, C(2017)2373 final.

⁸ [European Joint Strategy 2021-2024.pdf \(europa.eu\)](#)

⁹ PEGASE - Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Économique.

¹⁰ Under the General Conditions applicable to grant contracts, Article 1.5 bis states that '*Grant beneficiaries and contractors must ensure that there is no detection of subcontractors, natural persons, including participants to workshops and/or trainings and recipients of financial support to third parties, in the lists of EU restrictive measures*'.

¹¹ Under the Financial Regulation, Article 74.5 states that '*In case of doubt, the authorising officer responsible for validating the relevant operations shall, as part of the ex-ante control, request complementary information or perform an on-the-spot control in order to obtain reasonable assurance*'.

The review was conducted applying a similar procedure as the one used for the internal approval of agreements and payments, involving at least two operational and two finance and contracts validators within the Commission.

2. TERMS OF THE REVIEW

2.1 Methodology

The review was carried out according to three objectives:

- a) Ensuring that no EU funding is used in circumvention of the EU restrictive measures;
- b) Ensuring full compliance with EU legislation and policy, as well as preventing possible abuse of EU funding to incite hatred and violence;
- c) Assessing whether the ongoing financial assistance to Palestine needs to be adjusted or modified because of a change in priorities and due to non-feasibility of planned projects.

The review covered the entire portfolio of open projects benefitting Palestine managed by the Commission, mainly through the ‘Neighbourhood, Development and International Cooperation Instrument’ (NDICI)¹². To cover all areas of activity of the Commission, the review included EU assistance funded through other instruments, such as Erasmus+, Horizon Europe, cross border cooperation programmes, crisis response projects and thematic funding lines. All Commission concerned departments have carried out an analysis of their respective projects and programmes with the same methodology and timeline to ensure robustness of the review.

It should be noted that Humanitarian aid assistance to the Palestinian people, has not been covered by the review.

The review was carried out in a two-step approach. First - operational/feasibility screening, and second - a risk assessment. The risk assessment was carried out against parameters such as risk of aid diversion and incitement to hatred and violence. This will contribute to assess the political and reputational risks for the EU.

The Commission has been in contact with the Member States carrying out similar exercises. The Commission and these Member States have exchanged on the objectives of the reviews and on the methodology and have agreed to discuss the conclusions of the respective exercises.

2.2 Baseline

The EU already has a system of safeguards in place to ensure that EU funds are protected against misuse or deviation for unintended purposes, including terrorism. In the West Bank and Gaza Strip, these safeguards are reinforced by tailor-made measures due to the specific context of cooperation with Palestine. Specific clauses have been introduced in grant contracts to prevent incitement to hatred and violence.

¹² Regulation (EU) 2021/947 of 9 June 2021, OJ L 209/1, 14.6.2021.

This section describes the existing safeguards for all key categories of contracts, namely PEGASE, the UN and Member State Agencies, as well as grant agreements and service, supply and work contracts.

2.2.1 PEGASE direct transfers

PEGASE (Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique) is the programme through which the EU supports part of the recurrent expenditures of the Palestinian Authority, thus contributing to ensuring service delivery to the Palestinian population. The PEGASE allocation includes several components:

- Civil Servants and Pensioners (CSP) window: contribution to the payment of salaries and pensions of civil servants and pensioners (mainly working in the health and education sectors). Only beneficiaries in the West Bank are eligible; beneficiaries in Gaza are not eligible since 2017.
- Cash Transfer Programme (CTP) window: contribution to the national Cash Transfer Programme managed by the Ministry of Social Development (MoSD) providing social allowances to poor and vulnerable families in the West Bank and the Gaza Strip¹³.
- East Jerusalem Hospitals (EJH) window: contribution to the payment of invoices of six East Jerusalem hospitals to which the Ministry of Health refers medical cases for the provision of specialised health care services not available in all parts of the West Bank and Gaza.

PEGASE has been the main financial tool for EU assistance in Palestine since 2008. Under this tool every individual recipient of EU funds (eligible civil servants, pensioners and heads of vulnerable families) is screened through available tools, that can scan more than 1500 sanction lists published by dozens of countries, and international organisations, including EU institutions, the International Criminal Court and Interpol. Screening processes based on the available tools have been deemed robust by the European Court of Auditors in 2013¹⁴. A comprehensive description of the checks carried out ex-ante and ex-post under PEGASE is annexed to the review (Annex 2).

In Gaza, the PEGASE programme is limited to cash transfers to vulnerable families. In that context, all individual beneficiaries are screened through the above-mentioned tool. In addition, field visits are carried out ex-ante by an independent external auditor on a sample basis, allowing for more in-depth verification. Following each PEGASE payment, auditors carry out an ex-post audit on 100% sample to confirm that all PEGASE eligible beneficiaries and the East Jerusalem Hospital have received the authorised amount.

¹³ Considering for instance the April 2023 disbursement, social allowances overall were paid to a total of 106,596 families, out of which PEGASE contributed to 70,108. In line with the poverty rates, the higher proportion (73%) of benefitting families were in Gaza. According to the MoSD database, 91,261 families were extreme poor, 41,266 were female-headed, 16,395 were headed by a Person with Disability and 42,130 by an elderly person.

¹⁴ European Court of Auditors, Special Report No 14 (2013): European Union Direct Financial Assistance to the Palestinian Authority.

2.2.2 Contribution Agreements with pillar assessed organisations¹⁵, including UNRWA

The Commission ensures the adequate protection of the financial interests of the Union when entrusting entities with the implementation of Union funds by verifying that the systems, rules and procedures of these entities respect the principles of sound financial management and are equivalent to the Commission's own controls when implementing the budget directly via a process referred to as 'Pillar Assessment'.

The Financial and Administrative Framework Agreement (FAFA) with the UN and the Financial Framework Partnership Agreement with Member State agencies provides the legal basis and includes provisions for verifications and controls to ensure compliance with EU restrictive measures.

2.2.3 Support to civil society through grant agreements and service, supply and works contracts

Grant agreements and service, supply and works contracts include the requirement to adhere to EU legislation on EU restrictive measures¹⁶, and monitoring and audit systems. Furthermore, the exclusion criteria are strictly applied before entering into contractual relations and during the implementation of contracts. Before the contract signature, this is implemented through a "Declaration of Honour" certifying that members of the administrative, management or supervisory body of a contracted entity, or with powers of representation, decision or control over it, do not fall under any of the exclusion criteria under Article 136 of the Financial Regulation, including money laundering or terrorist financing within the meaning of Article 1(3), (4) and (5) of Directive (EU) 2015/849 of the European Parliament and of the Council and terrorist offences or offences linked to terrorist activities, as defined in Articles 1 and 3 of Council Framework Decision 2002/475/JHA, respectively, or inciting, aiding, abetting or attempting to commit such offences, as referred to in Article 4 of that Decision.

In addition, in line with EU guidelines on preventing incitement to hatred and violence by EU-funded Organisations¹⁷, specific clauses have been introduced in grant contracts¹⁸. In that context, a specific procedure has been put in place to follow up on allegations of breach committed by one or more beneficiaries¹⁹. In 2019, the screening through available tools, was extended to grants, in addition to the disbursements for PEGASE.

¹⁵ Organisations which could demonstrate through a specific ex-ante assessment, a level of financial management and protection of the EU financial interests equivalent to that of the Commission.

¹⁶ See Article 1.5. bis of the general conditions to grant contracts: "Grant beneficiaries and contractors must ensure that the subcontractors and all natural persons linked to the contract, including participants to workshops and/or trainings and recipients of financial support to third parties, do not include entities/persons included in the lists of EU restrictive measures."

¹⁷ Note Ares(2018)4299337 of 27 July 2018 on "Preventing incitement to hatred and violence by EU-funded Organisations".

¹⁸ Note Ares(2019)4746842 of 22/07/2019 on "Special conditions to grant contracts have been supplemented with the following clause": "The Beneficiary(ies) and the recipients of financial support to third parties shall not engage in activities as defined in Article 1.1 a) to d) and Article 1.3 of the EU Framework Decision 2008/913/JHA of 28 November 2008 on "combating certain forms and expressions of racism and xenophobia by means of criminal law". This shall be without prejudice to the respect of fundamental rights as enshrined in Article 6 of Treaty on the European Union including the right of freedom of expression and information and the right of freedom of assembly and association as contained and the European Convention for the Protection of Human Rights and Fundamental Freedoms."

¹⁹ Note Ares(2019)4746842.

2.2.4 *Support to International Financing Institutions*

Similarly to other pillar assessed organisations, the agreements with International financial institutions (IFIs) include specific provisions to comply with EU restrictive measures. IFIs have strong systems to monitor compliance with restrictive measures and they carry out thorough processes of due diligence. This includes screening of the Local Financial Institutions (LFIs) and vetting process of clients against sanctions lists (including the EU sanction list) throughout the duration of the client relationship. The LFIs have to comply with the strict operational guidelines set forth by the Palestine Monetary Authority (PMA) in its Anti-money laundering and combating financing of terrorism (AML/CFT) Law n. 20/20215. The stringent provisions of the legal framework have been assessed by the World Bank as adequate²⁰.

2.3 Caseload of development assistance programmes

The review screened the portfolio of ongoing operations under the NDICI and its predecessor ENI, comprising 119 contracts from different budget lines.

The review assessed:

- 53 contracts (signed or expected to be signed) funded through the NDICI and ENI bilateral envelopes which are implemented through different implementation modalities and partners: Direct Financial Transfers to the Palestinian Authority (PA) (for PEGASE), International Organisations (IOs) or Member States Agencies and NGOs, semi-governmental bodies and service providers.
- 25 open contracts have been screened under the thematic programmes in support of Civil Society Organisations, Local Authorities and Human rights (falling both under the former Development Cooperation Instrument 2014-2020 and the NDICI). A specific initiative in the region called the European peacebuilding initiative (EUPI) is included in this review.
- 19 ENI open contracts implemented by CSOs.
- Six ongoing operations under the Neighbourhood Investment Facility (funded under ENI or NDICI), of which two have already been contracted and another four are in the pipeline. The activities of 4 of the programmes are extended or mention the possibility to operate in Gaza.
- 16 projects have been identified under the regional envelope for the neighbourhood South as having Palestinian entities among their participants (either as co-applicant or subgrantees).

²⁰ See World Bank Economic Monitoring Report to the Ad-Hoc Liaison Committee of April 2023.

3. FEASIBILITY ASSESSMENT

The portfolio has been screened, operation by operation, to assess the feasibility of the projects based on considerations such as the place of activity and the type of project, capacity of the implementing partners to deliver in the current circumstances, level of priority of the needs, flexibility to adapt the project to the changing situation and interest for the EU to remain engaged.

At this stage, and in the current circumstances, the review has identified a list of non-feasible projects for an amount of EUR 75.6 million.

This concerns large infrastructural projects in Gaza whose implementation has not yet started and PEGASE complementary support to local authorities in Gaza. In addition, it includes an amount related to unmet indicators under the incentive-based approach of PEGASE (unrelated to Gaza). The breakdown is as follows:

Budget Year	Title	Amount
2020	Access to self-sufficient water services* (Gaza)	25,600,000
2021	PEGASE – Civil Servants and Pensioners (CSP)**	1,500,000
2021	Gaza Desalination Plant	5,000,000
2021	Gas for Gaza (G4G)	5,000,000
2022	PEGASE – Support to local authority in Gaza **	3,500,000
2022	Access to self-sufficient water services	30,000,000
2023	Gas for Gaza (G4G)***	5,000,000
Total		75,600,000

* Final date for contracting in February 2024

** The total includes amounts to be decommitted from the PEGASE allocation: EUR 1.5 million corresponding to part of the Incentive-Based Approach indicators not met in 2021 (still to be decommitted) and EUR 3.5 million in support to the decentralisation process, with focus on Gaza whose implementation will not be feasible in the current context.

*** The amount is part of the 2023 allocation for Palestine not yet adopted.

Two flagship infrastructural programmes under the Economic and Investment Plan, notably Gas for Gaza and Gaza Central Desalination Plant, have been assessed as non-feasible in the short term, as the current circumstances will bring additional complexities and difficulties to the construction of big infrastructure projects. It is expected that activities will be substantially delayed and their feasibility will need to be reassessed when the situation stabilises.

4. RISK ASSESSMENT

Following the analysis of operational feasibility, projects were screened for risks linked to diversion of funds for terrorist purposes and incitement to hatred and violence²¹. The results are grouped according to the implementation modalities and implementing partners.

4.1 Grants to civil society organisations (CSOs)

The review analysed contracts implemented by civil society organisations under bilateral programmes, thematic programmes and regional programmes, including the EU Peacebuilding Initiative.

At this stage, the analysis of contracts implemented by CSOs has not identified violations of the safeguards currently in place.

However, since the new circumstances in the Middle East imply additional risks, in particular in relation to the implementation of the ‘anti-incitement clause’ and in relation to the diversion of funds, the Commission deemed it appropriate to identify additional measures to be applied to grants to civil society organisations.

First, in light of the new circumstances, the Commission availed itself of its right to pro-actively request more information on the measures put in place by the beneficiaries to guarantee that no EU funding is used in circumvention of EU restrictive measures, ensuring full respect for EU legislation and policy, including provisions related to the incitement to hatred and violence, glorification of terror or antisemitism. Commission services have therefore sent letters to all of the CSOs with a request to provide an overview of the measures they have put in place to ensure respect of EU restrictive measures and anti-incitement clauses and to provide an assessment of their ability to continue implementing contracts despite the changed situation on the ground.

Second, in addition to the above, in cases where allegations of incitement to hatred and violence were made available, and verified, Commission services are sending separate letters to the concerned organisations requesting clarifications on specific public statements. Allegations made available to the Commission will continue to be monitored on a case-by-case basis, in line with the procedure for cases of complaint and the four-eyes principle.

Third, the review identified several contracts which did not include the ‘anti-incitement clause’ or the ‘restrictive measure clause’. This is the case for contracts which were signed before the introduction of this standard clause in the general conditions and for some contracts which are financed from regional and thematic budget lines that are not specific for Palestine.

Fourth, the review concluded that while it is common practice to encourage the use of third-party financing to ensure participation of smaller or community-based organisations (under the thematic budget lines), the contractual provisions, guidelines for call for proposal and reporting requirements should detail the requirements for third parties more specifically.

²¹ As defined in Article 1.1 a) to d) and Article 1.3 of the EU Framework Decision 2008/913/JHA of 28 November 2008 on "combating certain forms and expressions of racism and xenophobia by means of criminal law."

At this stage, under the general conditions applicable to grant contracts, it is up to the implementing partners to ensure compliance with the ‘anti-incitement clause’ and the ‘restrictive measure clause’ by the third parties supported by the projects.

Action 1

- A. Incorporate the ‘anti-incitement clause’ and the ‘restrictive measure clause’ in all new contracts with CSOs in Palestine, including in centrally administered operations of the European Commission.*
- B. All CSOs benefitting from EU funding have been requested to supply further information on the procedures and tools used to enforce the contractual obligations stemming from the restrictive measures and anti-incitement clauses.*
- C. CSOs subject of allegations after the 7 October 2023 events have been requested to comment on the allegations brought against them. Payments will be processed once satisfactory clarifications have been provided in line with the provisions of the Financial Regulation.*
- D. The correct implementation of the anti-incitement clause will be monitored by the European Commission through third-party monitoring of beneficiaries’ public communication and activities. Such monitoring shall be carried out in line with fundamental rights, namely be proportionate, not exceed the scope of the funded activities, respect beneficiaries’ freedom of expression and right to privacy. The beneficiary should be informed about the possibility of such monitoring when the contract is signed and when it takes place. A specific contract will be concluded with an international company to carry out third-party monitoring.*
- E. For grants including third-party financing, the beneficiary will have to inform the contracting authority of the name of the organisation and composition of the board of all sub-grantees. Sub-grantees will be required to sign the anti-incitement clause and restrictive measures clause. Where call for proposals guidelines refer to a third-party financing modality, the guidelines will state that the applicant has the obligation to provide the list of beneficiaries of third-party financing or the criteria to identify them in its application. Reporting obligations regarding beneficiaries of third-party financing shall be clearly detailed in the contracts (such as information in the inception and interim reports, in the workplan for the following year(s)), thus allowing for ex-post or ex ante checks. The above actions can be supported in the future through dedicated third-party monitoring..*
- F. Introduce ad-hoc eligibility criteria for participation in calls for proposals or direct awards that effectively prevent entities that have been involved in acts of incitement to hatred and violence from being awarded a contract.*
- G. Establish targeted risk mitigation strategies as a standard procedure.*

4.2. Direct financial support through PEGASE

Based on the existing safeguards for PEGASE, every individual recipient of EU funds and every invoice to reimburse medical expenditures is screened through available tools. In order to avoid errors and ensure that the system is robust ex-ante and ex-post screening is carried out by an independent audit company. Any errors detected lead to corrective actions, so as to ensure that there is no misallocation of funds.

For example, as regards the PEGASE Cash Transfer Programme (CTP), the October 2022 payment for over 90.000 beneficiaries was subject to ex-ante controls through the dedicated IT system of sanctions lists and through manual checks. The error rate stemming from the ex-ante check was 0,03%. Alerts related to 29 beneficiaries were found and the beneficiaries were therefore excluded from the list of potentially eligible beneficiaries.

As regards the PEGASE Civil Servants and Pensioners (CSO), the latest ex-ante audit report of June 2023 found that 57,258 beneficiaries out of 106,163 are eligible to receive PEGASE allowances. Following the screening, 18 were excluded, which represented an error rate of 0.03%.

PEGASE also includes some additional checks of indirect beneficiaries of CTP and Civil Servants and Pensioners (CSP). The vetting system of beneficiaries also takes into consideration the lists of detainees, families of perpetrators of terrorist attacks and security staff when conducting the eligibility assessment (see Annex 2). Payments are checked against matching names in these lists and bank accounts are verified against payments from the Prisoners Fund to ensure exclusion of such beneficiaries.

At this stage, first-degree relatives of beneficiaries are not directly screened. In view of the new circumstances, the Commission could consider more extensive screening, including first degree relatives of beneficiaries, to reinforce existing safeguards. At the same time, additional assessment would also need to be considered in relation to the costs and feasibility of such additional controls.

Action 2

Extend the screening of PEGASE Civil Servants and Pensioners (CSP) and Cash Transfer Programme (CTP) to 1st degree relative of beneficiaries, excluding minors, to be agreed with the Palestinian Authority.

4.3. Contribution Agreements with pillar assessed organisations²² including UNRWA

Pillar assessment ensures that the protection of the EU's financial interests is equivalent to that provided by the EU. In that context, the Financial and Administrative Framework Agreement (FAFA)²³ with the UN and the Financial Framework Partnership Agreement with Member

²² Organisations which could demonstrate through a specific ex-ante assessment, a level of financial management and protection of the EU financial interests equivalent to that of the Commission.

²³ Umbrella ruling document governing the cooperation between the UN and the European Commission.

States Organisations, which constitute the relevant legal basis, include provisions for verifications and controls to ensure compliance with EU Restrictive Measures.

International financial institutions in charge of implementing blending programmes control the flow of funds (loans and guarantees) and have put in place strong systems to monitor compliance with restrictive measures and due diligence processes to reflect contractual obligations. Credits are vetted by the IFIs. The system of safeguards in place includes Know-Your-Customer practices and integrity compliance, contractual requirements imposed to financial intermediaries, the due diligence of banks and contractual undertaking in loan agreements. The technical assistance part of funding for IFIs can be used for further vetting purposes.

The pillar assessment has already demonstrated a level of financial management and protection of EU financial interests equivalent to that of the Commission. However, given the evolving situation on the ground and in line with contractual provisions, on 3 November 2023 the Commission has asked for further information regarding how partner organisations are addressing the current situation.

The Commission has received replies from all the EU Member States Agencies and International Financial Institutions. These organizations have confirmed their willingness to continue the operations (including in Gaza) with some flexibility. These organizations have provided reassurances on the safeguards in place tailored to the specific Palestinian macro-environment.

UNRWA, as all other UN agencies, is pillar assessed and has been subject to a complementary pillar assessment by an independent external auditor in 2022. This complementary assessment covered UNRWA's exclusion system for access to funding.²⁴ The contribution agreements which are signed with the agency state, under the general conditions, that 'the Organisation shall not support activities that contribute to money laundering, terrorism financing, tax avoidance, tax fraud or tax evasion'.²⁵

Beyond these legal guarantees, UNRWA has developed a specific framework to ensure the neutrality and independence of its operations in line with the UN standards (including, inter alia, quarterly inspections of installations, review of educational material, internal investigations and disciplinary procedures, screening of all vendors against UN sanction lists). However, given the evolving situation on the ground and in line with the contractual provisions, the Commission is entitled to ask for further information regarding how partner organisations are addressing the current situation.

Action 3

- A. On the basis of the reassurances received, the Commission resumes operations with the organisations which have provided the clarifications requested.*
- B. Follow up on any adjustment of activities suggested by the Pillar Assessed organisations.*

²⁴ Ares(2022)4200426.

²⁵ General conditions for Contribution Agreement, art. 2.9.

C. A letter has been sent to UNRWA on 6 November 2023 asking the Agency to provide further information on additional ad-hoc measures it is planning to introduce in the current circumstances (in Gaza or in any other areas of operation).

4.4. Erasmus+ and Horizon Europe

Regarding education and culture, the Commission identified 31 open projects including 20 projects under the 2021-2027 Multi annual Financial Framework (MFF), 8 ongoing projects under the previous MFF as well as 3 projects where implementation has ended.

Despite the relatively high number of projects assessed, the analysis did not reveal aid diversion, in so far as Palestinian organisations only get a share of the overall grants of projects which are always multilateral and involve other countries, in particular EU Member States. Following the analysis carried out based on the agreed methodology, one project was considered as involving possible reputational risks. This project will be monitored and further scrutiny will be carried out.

As per existing safeguards, systematic checks are applied before transactions are carried out in order to ensure that neither the persons mentioned as directly involved in the projects, nor Board Members of the participating organisations, are included in the EU's consolidated sanctions list.

However, in light of the new circumstances, accrued vigilance will be applied before the contract stage of projects or before making any payments involving Palestine, in particular when organisations from Gaza are involved.

Regarding Horizon Europe, the Commission identified two relevant projects. The first project, which is coordinated by an EU-based foundation, focuses on Democratic processes in the EU's neighbourhood and involves, as one of the participants, a Palestinian entity based in Gaza. The second project, which is coordinated by a UK-based foundation, focuses on COVID 19 research in the West Bank.

Preliminary screening of the projects referenced above concluded that there is no evident risk of direct or indirect funding to Hamas, or incitement to hate, violence or terrorism.

Action 5

A. For grants including partners, the beneficiary will have to inform the contracting authority of the name of the organisations and composition of the board. Partners will be required to sign the anti-incitement clause and restrictive measures clause.

B. Regarding the project involving potential reputational risks, the Commission has initiated appropriate action. Payment will be processed only once satisfactory clarifications have been provided in line with the Financial Regulation.

4.5 Foreign Policy Instrument

The Commission currently manages four crisis-response projects with a focus on Palestine and three regional projects with a limited number of activities and/or beneficiaries in Palestine/Gaza.

Preliminary screening of the projects referenced above concluded that possible risks are low that these four projects might enable terrorist organisations to carry out attacks against Israel (risk of diversion of funds), incitement to violence and hatred. This assessment has been made given that the partner organisations are a UN agency and well-established European or international NGOs, which have all proven sound financial management and have put in place the necessary mechanisms to ensure due diligence checks and full compliance with EU legislation.

However, in light of the new circumstances, further analysis will be conducted in relation to the Palestinian co-applicants of one project and the beneficiaries of a regional one. In close cooperation with the EU Special Representative, ways are being explored to use ongoing dialogue projects to help recalibrate and upgrade the EUSR Peace Day initiative.

4.6 Global thematic programmes

Commission services identified one global thematic programme implemented by an international organisation, with the participation of the corresponding Palestinian branch.

The project, which targets public budget transparency, is assessed as having low risk due to the objectives and the long-standing cooperation with the selected partners.

4.7 Cross-borders programmes

Commission services identified two shared management programmes involving Palestine, namely the 2014-2020 ENI Cross-border Cooperation Mediterranean Programme and the 2021-2027 Interreg NEXT MED Programme. The latter is the continuation of the former in the ongoing 2021-2027 MFF period. The programmes focus on SMEs and business development, technology transfer and innovation, social inclusion and the fight against poverty, environment and climate change. All projects have multiple partners from different participating countries, always including both EU and non-EU partners. Palestinian project partners are involved in the activities but are rarely lead partners²⁶. Only 12 projects are ongoing and have to be completed by 31 December 2023.

Preliminary screening concluded that there are no specific risks related to the two programmes, due to the involvement of EU Member States, the participation of Israel and the fact that all Palestinian partners, except for one, are based in the West Bank.

²⁶ Three of the Palestinian project partners are the lead partners in their project.

5. CONCLUSIONS

The events on 7 October 2023 have changed the context in which the EU's support to Palestine is being provided, both in terms of operational feasibility of certain operations (mainly in Gaza) as well as a potentially increased risk of aid diversion and the risk of EU funding going to entities that are contributing to incitement to hatred and violence.

Through the review the Commission has preliminary screened a large portfolio of over 100 open projects benefitting Palestine, conducting a feasibility and risk assessment analysis. This analysis has not identified breaches of contractual obligations.

In this context, the Commission has an obligation to pursue extra vigilance in the implementation of the EU external funding, also with a view to due diligence, precautionary principles, political and reputational risks.

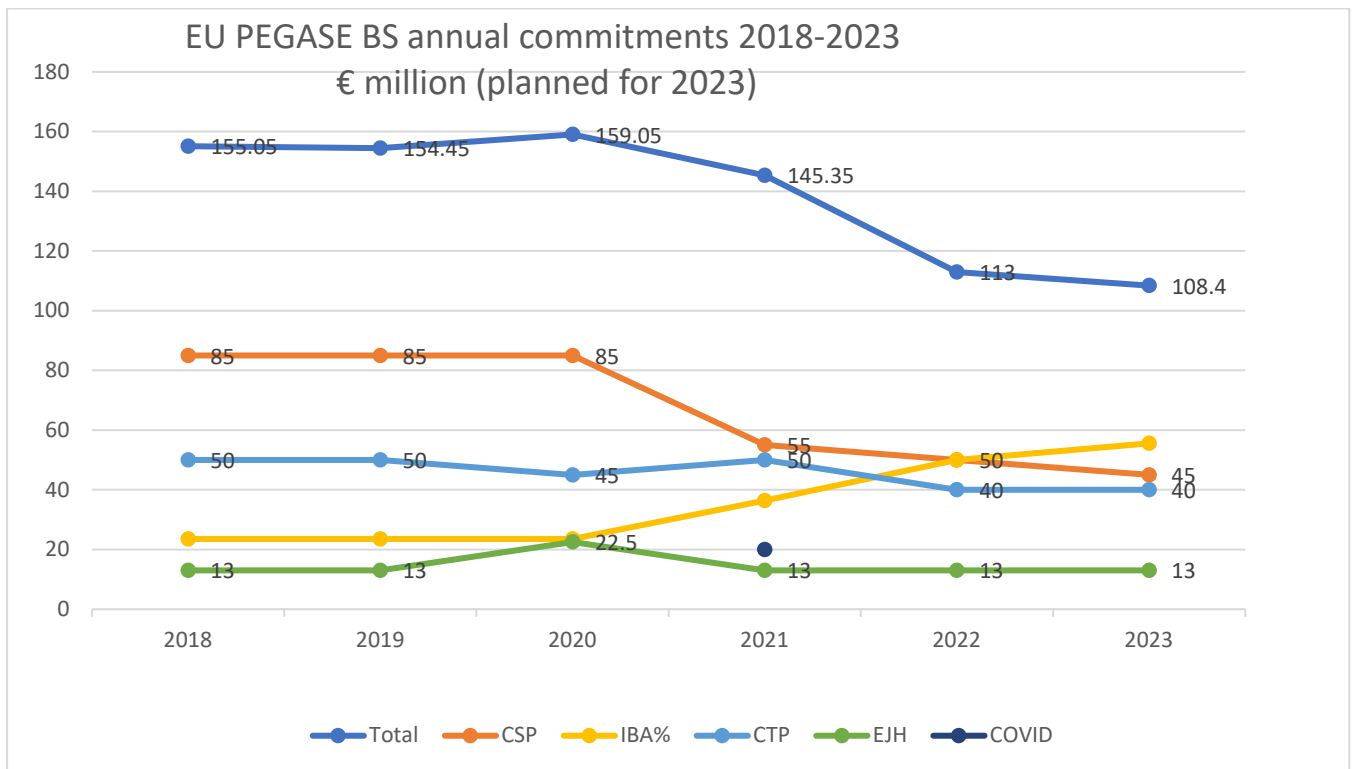
The Commission has a system of safeguards already in place, however, considering the changed situation on the ground, it carried out a review of its development assistance to Palestine.

In light of the current circumstances, and following the information requested from the different beneficiaries, the programmes will be subject to further evaluation, and if needed, adjustments, in line of the Commission's obligation to monitor the implementation of the EU budget.

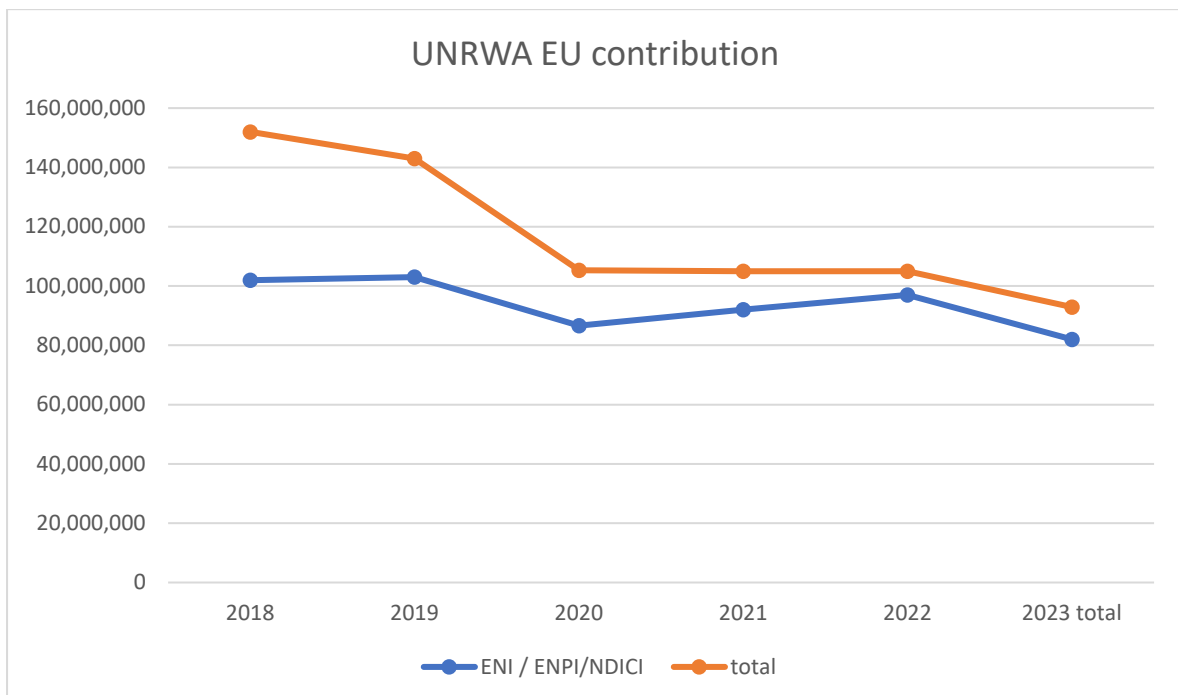
Moreover, given the current context, the Commission has identified further mitigating measures to strengthen the application of those safeguard measures currently in place such as the inclusion of the relevant anti-incitement contractual clauses in all new contracts, monitoring their strict application and enlarging the scope of the monitoring of beneficiaries, including through third-party monitoring.

Annex 1:

PEGASE trends



Support to UNRWA



Annex 2 – PEGASE control mechanisms:

The PEGASE mechanism was designed in order to ensure that funds can be transferred directly from a sub-account of the PA's single treasury account to the individual beneficiaries. The overall PEGASE payment system includes ex-ante, real time and ex-post verifications, annual financial verifications and programme evaluations. The verification and control system is then further tailored to adapt to the implementation modalities of each programme.

Disbursement process:

- Both for the Civil Servants and Pensioners (CSP) and Cash Transfer Programmes (CTP) components, the ex-ante auditors carry out a global verification of the controls and procedures put in place by the Ministry of Finance (MoF), assessing respectively the soundness of the MoF payroll lists and the reliability of the CTP database.
- Prior to each payment, the ex-ante auditors verify the eligibility of the PA request of payment and the corresponding databases/payrolls/ East Jerusalem Hospitals (EJH) pending invoices based on the EU eligibility criteria (see next paragraph). Both for the CTP and CSP, following a formal request to proceed with a payment by MoF, the ex-ante auditors together with the European Commission carry out the verification of the eligibility of each beneficiary to verify that each beneficiary included in the reference population is still eligible based on the information available in the CSP payroll/ CTP database to which PEGASE will contribute.
- The European Commission and ex ante auditor carry out the screening of beneficiaries against sanction lists.
- The European Commission and ex ante auditor carry out the calculation of the amount paid per beneficiary.
- For CSP and CTP, the ex-ante-auditor confirms that the MoF final lists of beneficiaries and the MoF files to banks include PEGASE eligible beneficiaries and they will receive at least the PEGASE contribution as per PEGASE list of beneficiaries.
- For EJH, the ex-ante auditors assess and verify for each payment the list of outstanding invoices to identify the eligible invoices and prepare payment scenario based on the actual available funds.
- Based on the final ex-ante verification results the European Commission transmits the list of the eligible beneficiaries to the MoF and authorises MoF to execute the payment from the relevant PEGASE bank accounts.
- Following each PEGASE payment, the ex-post auditors carry out an ex-post audit on 100% sample to confirm that all PEGASE eligible beneficiaries and EJH have received the amount authorised by the PEGASE contribution as specified in the European Commission authorisation letter to MoF. They provide reports regarding inter alia eligible and ineligible beneficiaries/invoices, bank rejections, and discrepancies noted.
- Any discrepancy results in a request from the European Commission to the MoF to return the corresponding amounts to the relevant PEGASE accounts. Due to robust ex-ante verification procedures, the findings of the ex-post audit report are mainly related rejected transactions due to the death of the beneficiary or bank account information inconsistencies.

Field visits:

The ex-ante auditors perform field visits to CSP workplaces and to CTP families to verify the accuracy of the PA CSP payroll and CTP databases and the eligibility of the beneficiary.

Eligibility criteria – Assurances for direct and indirect beneficiaries:

As part of the ex-ante audit before each payment, the full identity of beneficiaries of CSP and CSP schemes (and the owners and representatives of East Jerusalem hospitals) are systematically screened and checked against international and ad hoc sanctions lists before the payment execution. In case there is any indication that the beneficiary is or was detained, the beneficiary is excluded. PEGASE has zero tolerance, if there is any doubt the beneficiary is excluded.

Table: eligibility criteria

CSP	CTP	EJH
<ul style="list-style-type: none"> • Beneficiaries should appear in the PA payrolls of the month in question and be included in a reference population screened by independent auditors. • Beneficiaries from Gaza are not eligible. • The basic salary/pension of the eligible civil servants and pensioners is at least ILS 600. • Eligible civil servants should not be classed as 'daily paid' or 'substitute'. • The job title or managerial position of the civil servants should not be Minister, Deputy Minister, or their assistants or their legal advisors. • Employees of the security forces and civil police are ineligible. • Employees listed in the PA payrolls who work at the Ministry of Religious Affairs, Supreme Religious 	<ul style="list-style-type: none"> • People eligible to receive cash assistance at the cut-off date of the "reference CTP database". • Beneficiaries mapped in the West Bank have a bank account. • They have been ranked under the deep poverty line as per the application of proxy-means testing; • They are entitled to receive a monthly benefit of minimum ILS 250 and maximum ILS 600. • They do not receive direct payments under other PEGASE programmes (i.e. CSP or CPD). • Any other criteria communicated to the Contractor by EUREP. • CTP beneficiaries cannot appear in the Detainees database. • Beneficiaries and agents should not appear in any of 	<ul style="list-style-type: none"> • An original invoice must exist for each patient. • The invoice should be issued and unpaid. Priority is given to the longest outstanding invoices. • Duplicated invoices are to be considered ineligible. • The invoices must be supported by an original referral letter from the MoH. • The prices charged should be according to the price lists agreed-upon between the hospitals and the MoH. • The amounts billed by the hospitals should be within the maximum coverage amount and/or coverage percentage specified in the referral letter. • The PA request of payment covers unpaid invoices as per the EJH and the PA accounting systems. • The owners and representatives of the hospitals should not appear

<p>Judge Council, Palestinian News Agency (Wafa), Palestinian Broadcast Corporation, non-governmental organisations, labour and trade unions and also in political parties are ineligible.</p> <ul style="list-style-type: none"> • Beneficiaries and agents should not appear in any of the international sanctions lists and other ad-hoc lists. 	<p>the international sanctions lists and other ad-hoc lists.</p>	<p>in any of the international sanctions lists and other ad-hoc lists.</p>
---	--	--

The software sources comprise over 1,500 lists published by dozens of different countries and international organisations, including EU institutions, EU Member States, the International Criminal Court, Interpol, etc..

PEGASE includes some checks of indirect beneficiaries of CTP and CSP. In fact, the global assessment of the payments also takes into consideration the lists of detainees, families of perpetrators of terrorist attacks and military staff, and in case of match by name, or ID number or Bank account information, the CTP /CSP beneficiary is excluded from PEGASE payment; PEGASE excludes not only the detainees, military staff and families of perpetrators of terrorist attacks but also their agents who receives these allowances on their behalf. In addition, the screening software provides some information about family members of Politically Exposed Person such as the Palestinian Legislative Council members and main figures in the Palestinians Factions and in case there is any match the beneficiary is excluded.