

# Review of Norwegian Budget Support to the Palestinian Authority 2010-2017

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## Norad Collected Reviews **04/2017**

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# Review of Norwegian Budget Support to the Palestinian Authority 2010-2017

Case No. 1600273

Final Report



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**Project:** Review of Norwegian Budget Support to the Palestinian Authority 2010-2017 – case 1600273

**Client:** Norad – Section for Development Strategy and Economic Governance

**Period:** May – December 2017

This report is the product of its authors, and responsibility for the accuracy of the information and data included rests with them. Likewise, the findings, conclusions and recommendations are those of the authors, and do not necessarily reflect the views of Norad, Norway's Ministry of Foreign Affairs, or any other entity spoken with or referred to in this report.

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## Acronyms and Abbreviations

AAA	Analytical and Advisory Activities
AHLC	Ad Hoc Liaison Committee
CP	Complementary Programs (part of PEGASE)
CSO	Civil Society Organization
CSP	Civil Service and Pensioners (part of PEGASE)
DFID	Department for International Development (UK)
DPG	Development Policy Grant (World Bank)
EC	European Commission
EJH	East Jerusalem Hospitals (part of PEGASE)
EU	European Union
ICRR	Implementation Completion and Results Report (World Bank)
GoI	Government of Israel
HCPP	Higher Council on Public Procurement
LAC/S	Local Aid Coordination (Secretariat)
LDP	Letter of Development Policy
LGU	Local Government Unit
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
NMFA	Norway's Ministry of Foreign Affairs
NIS	New Israeli <i>Shekel</i>
NOK	Norwegian <i>Krone</i>
Norad	Norwegian Agency for Development Cooperation
NPA	National Policy Agenda
NRO	Norwegian Representative Office (Al Ram)
PAD	Project Appraisal Document (World Bank)
P(N)A	Palestinian (National) Authority
PCBS	Palestinian Central Bureau of Statistics
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PEGASE	EC's funding mechanism for support to Palestine ( <i>Mécanisme Palestino-Européen de Gestion de l' Aide Socio-Economique</i> )
PFM	Public Finance Management
PLC	Palestinian Legislative Council
PMA	Palestine Monetary Authority

PNDP	Palestinian National Development Plan
PRDP	Palestinian Reconstruction and Development Plan
RAP	Results and Action Plan (part of NPA)
ROF	Results Oriented Framework (part of PEGASE)
SDG	Sustainable Development Goal
SSDG	State-building and Service Delivery Grant (DFID)
STA	Single Treasury Account
TF	Trust Fund
TOR	Terms of Reference
USD	United States Dollar
VFP	Vulnerable Palestinian Families (part of PEGASE)
WB	World Bank

## 1 Executive Summary

Norad contracted Scanteam to carry out a review of the Norwegian budget support to the Palestinian Authority (PA) during the period 2010-2017, with focus on the last three years 2014-2016. The funding has been provided through the World Bank-administered Palestinian Reform and Development Plan Trust Fund (PRDP TF), which was established in 2008. Norway has provided a total of NOK 2.5 billion, of which NOK 660 million during these last three years.

The main reason for this financing is Norway's support for the two-state solution to the Israeli-Palestinian conflict, and thus a future independent and sovereign Palestinian state. While this is a *political* issue that is to be addressed through a negotiation process, the budget support ensures that the PA is able to continue as an operational executive of an emergent state, developing policies, practices, structures and capacities consistent with those required by such a state. TF budget support is thus *strategic* and *critical* for the two-state solution to remain a viable option.

### Trust Fund Context and Performance

Disbursements from the TF are based on the PA delivering on key policy reforms, largely related to public financial management (PFM). These are based on Palestinian National Development Plans, PNDPs, where the key ones for this review are the ones for 2011-2013 and 2014-2016.

The PNDPs are now followed by the National Policy Agenda (NPA) 2017-2022. This is a strategy structured around three pillars, with 10 national priorities and 30 policies. It foresees Strategic Results Framework to be developed around sector strategies, where one is on PFM, and with an ambition of closely tracking results according to Results and Action Plans in each sector.

Based on the policy documents, the PA prepares Letters of Development Policy for the World Bank. These form the basis for the Bank's Development Policy Grants (DPGs). These normally are annual allocations, typically of USD 40 mill from Bank funds, supplemented by donor contributions to the PRDP TF. The DPGs are policy-based vehicles relying on a combination of *prior actions* to be in place and *development objectives* that need to be delivered in order to release the funds. This review reports the intended and actual results for the three most recent DPGs.

The real restrictions on PA performance are the external and internal constraints to political and economic development, however. The Israeli occupation and settlements with their consistent and comprehensive control and intervention in Palestinian life at all levels and all areas is a crippling restriction on Palestinian decision-making. This is compounded by the serious split between the Fatah-led PA on the West Bank, and Hamas in Gaza (which lately may be finding a solution through Egyptian-brokered talks). An old PA leadership that is perceived to be out of touch with its young population, and whose electoral mandate expired many years ago, further weakens the legitimacy and thus the political decision-making space for the PA.

Given these constraints, the PA and the Bank have identified a number of reform areas that can and should be addressed, and which form the basis for the PRDP-TFs DPGs. While the program has by and large run smoothly, there have been periods where reform processes have stalled and where the Bank has therefore actively used the TF as leverage for ensuring that agreed actions are undertaken.



## Relevance

The Trust Fund objectives of providing budget and development support remain *relevant*, as noted in the introduction. The benchmarks and indicators in the DPGs' Operation Policy Matrixes were aligned with strategic objectives in the PNDPs, and were reasonable in light of the external environment for Palestinian decisions.

The PRDP TF provides funding flexibility to the PA, both as critically needed supplementary funding to the budget, but also because there are few constraints on the application of the funds, but rather policy reform conditionalities.

The major challenge has been the declining size of the fund, and to some extent the lack of predictability of disbursements.

## Effectiveness

The prior actions and development objectives of the DPGs have largely been achieved, where short-falls are mostly due to design weaknesses: since the DPGs are annual, the timeline is too short for delivering some of the higher-level results.

The overarching objectives for the fund - budget support, funds pooling, and alleviation of fiscal pressures – have largely been achieved, though degree of success is limited due to the few donors and falling contributions. Concerning the attainment of policy and reform objectives, while the TF has been important as leverage, the critical factor has been the array of instruments and technical expertise that the Bank brings to bear on PFM issues in general.

Concerning support to revenue mobilisation, changes to revenue levels are primarily a function of overall performance of the economy (see DPG VII Program Document, among others). TF supported reforms are seen as important, but civil society actors raise issues regarding tax incidence and burden sharing, claiming that the distributional effect of reforms hits lower income households and smaller firms disproportionately.

Given that the TF congregates a falling number of donors and has no mandate to coordinate or harmonize beyond the TF's own contributors, the fund's effect on coordination and harmonization among the donors and their alignment to national priorities is negligible.

The TF also shows weaknesses regarding regularity and predictability, particularly regarding funding size. This, however, is not a TF design failure but a function of the donors' actions, where Norway could also be more consistent regarding size and timing for funds.

Overall, the TF is *effective* for issues it can be held directly accountable for, though its limited size and scope constraints its more overarching contributions, where non-state actors would like it to address distributional/political economy effects of PFM reforms.

## Impact

The PRDP TF impact on long-term objectives are necessarily limited since each DPG is of such short duration that only short-term interventions are supported. While they are linked to the PNDP, they vary over time, so lack of consistency is an issue.

Regarding geographic balance, the PA funds salaries of staff in Gaza, some operating costs of basic services, and two-thirds of welfare payments go to Gaza. For most observers, the real challenge is lack of PA funding in East Jerusalem and ability to invest in and develop Area C.

The PRDP-TF cannot claim to contribute to PA policies, strategies and spending decisions, since these are all matters discussed with the Bank as a PFM partner. The PRDP TF gives the Bank

greater “voice” in these conversations, however, as the Bank is able to provide additional funding for the reforms, so the PRDP TF is thus an important “enabler”.

Regarding unintended effects, three stand out: (i) aid is funding many of the obligations Israel as an occupying force is supposed to assume, so from this perspective it can be claimed that budget support is *de facto* enabling Israeli occupation to continue, (ii) because of Israeli control of Palestine, most aid ends up in the Israeli economy and has positive multiplier effects there, (iii) since public sector jobs in Palestine are attractive, given a weak private sector, aid is funding Palestine’s largest patronage system, providing the PA elite additional political leverage.

## Risk Management

The trust fund manages its direct risk by only providing annual allocations with tight oversight that provide the ability to quickly adjust policy agreements and disbursement flows. On the other hand, since DPGs are annual, lessons learned are quickly adapted into new agreements.

Human rights broadly speaking are under increasing pressure – from continued Israeli occupation, more authoritarian rule by the PA, less consultative approach by the Ministry of Finance, and the growth of conservative Islam. Corruption remains important, is seen as more prevalent on the West Bank, but with some positive trends regarding formal oversight and control bodies.

The main internal risk factors have to do with lack of commitment by the PA to overall transparency and accountability when it comes to public finances. Over time, closer consultations with non-state actors, encouraging the PA to engage its civic sector more, is likely to contain risks more effectively.

## Efficiency

The additional funding that donors provide to the DPGs through the TF allow the Bank to invest more resources in quality assurance and reporting, to the benefit of all parties, but particularly to the donors.

The major TF inefficiency is the short budget and results cycle, which forces the Bank to use a disproportionate share of its management resources on mandatory steps in the project cycle. The other inefficiency is caused by the lack of predictability of donor contributions – the size and periodicity of transfers to the TF.

## Looking Ahead

The main constraint to sustainability in Palestinian finances remains the Israeli occupation. While this is mostly a political challenge that the trust fund cannot address, it could support and encourage the funding partners to see these two dimensions as a joint challenge: as long as the occupation continues, the efficiency and effectiveness of any aid will remain limited.

The six-year National Policy Agenda provides a foundation for more long-term donor support, and should be used actively also by the trust fund.

## Recommendations

Based on the above, the mission would like to make the following *Recommendations* regarding Norway's support to the PRDP trust fund, and the trust fund itself:

- Norway should continue its budget support through the PRDP TF, as this provides low-cost access to high-quality project preparation, supervision and reporting as well as policy-level discussions on the application and results of the funding. Norway should in particular:
  - Provide a predictable disbursement plan regarding timing and size of contributions, preferably on a rolling three-year basis, for indicative planning by the World Bank;
  - Use its policy and political instruments to support relaxation of Israeli restrictions on Palestinian activities, including investments and settlements in Area "C";
  - Contribute to making the PRDP trust fund a vehicle for greater public budget transparency and increased inclusion of non-state actors in PFM reviews.
- The DPG cycles should become pluri-annual, where one option is continuous three-year rolling programmes with budgets and work plans updated on an annual basis but with a more consistent set of objectives throughout the NPA period. The results frameworks should thus be derived from the NPA Strategic Results Framework, as well as SDGs where appropriate, to ensure full alignment with the NPA, coherence and consistency over time, and monitorable indicators at the operational level.
- If the Prime Minister's office follows through on its NPA reporting intentions, the TF should attempt to align reporting cycles, applying the same indicators as much as possible, relying on PA data where reliable and valid, such as those from the Palestinian Central Bureau of Statistics. Particular attention should be paid to indicators and targets regarding budget transparency and accountability, in addition to standard PFM efficiency and effectiveness concerns.
- Furthermore, coordinate, as far as possible, cycles and results frameworks with EU/PEGASE, thus further contributing to reducing the PA's transactions costs with these vehicles.
- When programming and monitoring the funding, use the LACS sector working group actively, and include civil society and the private sector for information dissemination and consultation.
- Consider financing additional Bank studies in collaboration with Palestinian actors – civic actors, private sector, public offices – on issues of particular concern to key stakeholders. This could be done through a separate mechanism ("window") within the trust fund that would allow the Bank to administer and allocate small grants or incentive funds for collaborative undertakings.

## 2 Introduction and Objectives for Review

Norad, through its Section for Development Strategy and Economic Governance, has contracted Scanteam to carry out a review of the Norwegian budget support to the Palestinian Authority (PA) during the period 2010-2017, with focus on the last three years 2014-2016. This Final Report is in compliance with this contract.

### 2.1 Introduction

The objective for Norway's support to Palestine is the development of a viable institutional and economic basis for a future independent and sovereign Palestinian state, based on the two-state solution of Israel and a Palestinian state living safely side by side within mutually recognized borders. Norwegian aid has therefore been maintained at a high level for many years, is comprehensive in scope, and with a strategic focus on state-building.

Norway channels budget support to the Palestinian Authority (PA) through the *Palestinian Reform and Development Plan Trust Fund (PRDP-TF)*, "...established by the World Bank in March 2008 at the request of the PA and several donors who wanted an independent supervised mechanism for channelling budget support funds to the West Bank and Gaza. A Trust Fund Legal Agreement governing the arrangements for the transfer of the funds from the Trust Fund to the PA was processed in Washington on April 11, 2008 ...." (<http://www.worldbank.org/en/programs/palestinian-recovery-and-development-program-trust-fund#2>).

Table 2.2 shows all contributions to the PRDP during the period 2008-2017 (as of end July), with a total contribution of nearly USD 1.5 billion. Of this, Norway has contributed about USD 418 million – 28% of the total – while the UK has provided USD 430 million, or 29%. But in terms of the total budget support over the period, the shares are considerably smaller, as seen in table 2.1. Norway's 2008 contribution was nearly 25% of PRDP-TF disbursements but only 3.4% of total budget support. Since then, Norway's budget support funding has fallen by 55%, while the PA's overall external budget support has fallen even more, by over 65%.

**Table 2.1: Disbursements to PA, in USD million**

	2008	2015	2016
Norway, through PRDP-TF	60	26.5	28
PRDP-TF	248	126	60
Total budget support to Palestine	1 763	710	607
Norway's share of PRDP-TF funding	24.2%	21.0%	46.9%
Norway's share of budget support funding	3.4%	3.7%	4.6%

Source: ToR; World Bank web-site <http://www.worldbank.org/en/programs/palestinian-recovery-and-development-program-trust-fund>

The Bank disburses funds from the PRDP-TF based on annual Development Policy Grants (DPGs) agreed between the Bank and the PA. The DPGs are based on multi-annual Palestinian National Development Plans (PNDP) that are to contain baselines, indicators and goals that PA reform progress is measured against (see 3.3.1-3.3.3), but with more specific issues provided in a Letter of Development Policy (LDP) to the World Bank regarding the specific DPG. PRDP-TF funding is thus contingent on progress on the agreed reform agenda.

In the original agreement between the Bank and Norway, the objectives of the trust fund are understood to be "to provide budget and development support for the Palestinian Authority's policy

agenda ... and include but are not limited to ... (a) pooling different funds into one administrative mechanism that will reduce the transaction costs for the [PA]; and (b) helping to alleviate the [PA's] fiscal pressure by providing reliable disbursements on a regular basis" (NRO 2008),

Each DPG, however, defines a specific set of public financial management (PFM) and fiscal reforms that are to be achieved. These vary slightly over time, but are to remain within the remit of the overarching objectives for the fund (see sections 3.3.1-3.3.3).

## 2.2 Objectives of the Review

The **purpose** of the review is to assess the performance of the PRDP-TF and the DPGs against their stated reform agenda and the objectives of the PNDP. This should be done in terms of *relevance, effectiveness, efficiency, impact, and risk management*.

Based on this, the review is then asked to make recommendations on how to improve the performance of the budget support mechanism.

The task thus contains the two classic dimensions of (i) a results assessment based on OECD-DAC evaluation criteria, and (ii) based on the lessons learned from this, look ahead and see if there are improvements that can be made to the mechanism itself.

## 2.3 Deliverables

The deliverables for this review are:

- *An Inception Report* that contained (i) the main findings of the document review, (ii) modifications to the understanding of the task (the intervention logic), (iii) a more detailed work plan for the field phase, (iv) draft annexes for the final report.
- A *Debriefing Note* at the end of the fieldwork that summarized findings and conclusions.
- A complete *Draft Report*, with annexes, according to Norad's guidelines for reports.
- Once comments were received, Scanteam prepared a *Comments Response Sheet* (CRS), and based on that this Final Report was prepared.
- This *Final Report* is prepared in copy-edited format for publication.

## 2.4 Structure of Report

The Final Report is structured as follows:

- Chapter 3 presents the TF objectives and achievements, the Norwegian support, and the context for the interventions.
- Chapters 4-8 assess performance against the stated criteria of Relevance, Effectiveness, Impact, Risk Management, and Efficiency.
- Chapter 9 presents an overall summary of results and recommendations for the future.

Attached are also a set of annexes:

- Annex A: Terms of Reference.
- Annex B: List of persons interviewed.
- Annex C: Documents consulted.
- Annex D: Methodology.
- Annex E: Conversation Guide.
- Annex F: Palestinian Policy Documents.

**Table 2.2: Contributions to the PRDP TF, 2008-2017 (in US dollars)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*	Total
Australia	18 856 000	22 487 250	9 107 000	30 972 500	23 023 758	21 919 500	18 006 000	7 548 000	11 820 400	6 840 900	<b>170 581 308</b>
Canada	14 231 135	0	14 870 626	0	0	0	0	0	0	0	<b>29 101 761</b>
Finland	3 889 500	0	0	0	0	0	0	0	0	0	<b>3 889 500</b>
France	1 500 000	3 993 000	12 856 000	12 035 700	30 880	0	10 332 800	8 978 175	0	0	<b>49 726 555</b>
Japan	0	0	0	0	0	10 000 000	30 000 000	30 000 000	20 000 000	8 000 000	<b>98 000 000</b>
Kuwait	80 000 000	0	50 000 000	50 000 000	50 218 778	50 000 000	0	15 000 000	0	0	<b>295 218 778</b>
Norway	59 784 885	47 885 983	50 494 651	55 628 073	52 774 878	53 173 024	43 362 797	26 547 910	28 110 733	0	<b>417 762 934</b>
Poland	500 000	0	0	0	0	0	0	0	0	0	<b>500 000</b>
United Kingdom	68 806 500	28 581 000	64 950 250	74 464 200	35 834 492	64 810 910	55 276 011	37 707 510	0	0	<b>430 430 873</b>
<b>Totals</b>	<b>247 568 020</b>	<b>102 947 233</b>	<b>202 278 527</b>	<b>223 100 473</b>	<b>161 882 786</b>	<b>199 903 434</b>	<b>156 977 608</b>	<b>125 781 595</b>	<b>59 931 133</b>	<b>14 840 900</b>	<b>1 495 211 709</b>

Source: <http://www.worldbank.org/en/programs/palestinian-recovery-and-development-program-trust-fund#3>

\*: Figures for 2017 are up to end July 2017.



### 3 Trust Fund Context and Performance

The World Bank and Norway have collaborated on several pooled funding mechanisms since multi-donor trust funds (MDTFs) were introduced in Gaza and the West Bank by the World Bank in 1993. The PRDP TF is thus the latest in a series of such arrangements.

The PRDP TF Administration Agreements with the PA and the donors, signed in 2008, present the principles for management and administration. The TF is to be managed by the Bank's West Bank and Gaza country office, and it is to call regular briefing and consultation meetings among the donors, the PA and the IMF, and ensure coordination with other donors providing recurrent expenditure funding. This is formalized in the Grant Agreement signed between the World Bank and the Palestine Liberation Organization, and in the agreements between the Bank and the donors to the PRDP TF.

Disbursements are based on the PA delivering on agreed-upon reform steps as presented in the PA's Letters of Development Policy to the Bank. These, in turn, are based on the PNDPs. Much of the focus is on public financial management (PFM) improvements, as core to building an independent, transparent and accountable state. As reforms are achieved or modified as circumstances change, the objectives for the support also adjust, as discussed below.

#### 3.1 The Palestinian National Development Plans

The two Palestinian National Development Plans (PNDPs) relevant for this review period are the PNDP 2011-2013 (PA 2014), *Establishing the State, Building our Future*, and PDNP 2014-2016 (PA 2011), *State building to Sovereignty*. While the period under review includes 2017, the National Policy Agenda (NPA) 2017-2022 has not led to any operational agreements under the TF as yet, and is therefore treated separately (see section 3.2).

##### 3.1.1 The PNDP 2011-2013

**PNDP 2011-13** presented an ambitious program of state building and institutional development, to enable the PA to manage and sustain a sovereign Palestinian state. It is divided into four major sections: (a) the national policy agenda, (b) macroeconomic and fiscal framework, (c) national development expenditure plan, and (d) public accountability. That is, the PNDP essentially is structured along two dimensions: general national development agenda, and economic and public financial management (PFM). Regarding the national development agenda, this built on the PNDP 2008-2010, and focused on four areas: (i) *governance*, (ii) *social services*, (iii) *the economy*, (iv) *infrastructure*. It contained some basic cost estimates and requirements for external financial assistance (Annex F presents the PNDPs in more detail).

The fiscal framework for the PNDP projected 16% annualized growth in revenues 2011-2013, increases in tax and non-tax revenues driven by economic growth, continued efforts to recover arrears due from large taxpayers, increased collection rates, broadening of the tax base, and a hoped-for progressive lifting of movement and access restrictions.

The expenditure plan then is meant to provide the funding for the policy priorities, while the public accountability structures were to deepen the democratic participation, control and oversight of public spending and institutions. Actual achievements fell far short of the plans, primarily because the lifting of Israeli restrictions that the PNDP document had assumed, did in fact not occur. This meant that GDP growth targets, revenues etc. were not reached, with knock-on effects for all economic variables.

### 3.1.2 The PNDP 2014-2016

PNDP 2014-2016 had a similar structure to the previous one, outlining first the context and challenges that the PA faced. It then presented the National Policy Agenda for the period, followed by the macroeconomic and fiscal framework. The PFM issues were not addressed as extensively as in the previous one, and instead the public expenditure plan was provided, again according to the National Policy Agenda. This PNDP included a major monitoring and evaluation section, however, laying out both the monitoring framework and the process that was to be followed for assessing and reporting progress.

Like the previous one, this PNDP focused on four strategic sectors quite similar to the ones in the previous period: (i) *economic development and employment*, (ii) *good governance and institution building*, (iii) *social protection and development*, (iv) *infrastructure*. That is, the four fields are in general terms the same, but with some adjustments of focus.

This PNDP has a very different assessment of the challenges and issues facing Palestinian development, however. Contrary to the PNDP 2011-2013, the PA did not assume an ease in the political environment. It recognized that the optimistic sector-wide structural reforms had not been possible to deliver due to “*complex dynamics of international and domestic politics and the deleterious consequences of these on our economic situation and the living conditions of our citizens*” (PNDP 2014-2016, p. 9). The challenges were classified as: (i) the Israeli occupation, (ii) internal political and administrative divide [Gaza vs. West Bank], (iii) deteriorating economic situation and fiscal crisis, (iv) poverty and unemployment, particularly affecting women and youth.

As with the previous PNDP, each objective was broken down into a series of more specific sub-objectives. The last 30 pages of the 160-page document is in fact the detailed monitoring and evaluation framework that provides the baseline year and value for tracking progress, shows the expected data sources, and the targets for each of the three years 2014-2016. Compared with the previous PNDP it is thus a lot more concrete and monitorable.

The only monitoring report produced for the period was for the first year of the period, however. During 2015, the Ministry of Planning was merged into the Ministry of Finance and Planning, but with the monitoring and evaluation (M&E) unit moving to the Prime Minister’s office (PMO), which caused a disruption in the PNDP monitoring and reporting.

## 3.2 The National Policy Agenda

The National Policy Agenda (NPA – see PA 2016) for the six-year period 2017-2022, sets out the strategic directions that are intended to prepare for the end of occupation and development of strong, citizen-centred public institutions. The NPA notes that this will require participation of central and local authorities, civil society, the private sector, academic institutions and the international development partners.

While the NPA is a pragmatic and hopeful path for the future, it notes the problems that the annexation practices of the Government of Israel (GoI) poses: (i) continuation of expanding settlements, (ii) besieging Gaza and worsening the humanitarian conditions there, (iii) preventing access to Area C (61% of the West Bank), (iv) intensifying the confiscation of national resources, (v) continuous violence against Palestinians, and (vi) demolition of Palestinian properties and infrastructure (NPA, p. 12).

The NPA is structured along three pillars: (i) path to independence, (ii) government reform, and (iii) sustainable development. The three pillars encompass 10 national priorities that in turn build on a total of 30 national policies (see Annex F).



The NPA foresees *sector* strategies, including one on PFM. The PMO M&E unit is to compile a *Strategic Results Framework* that will include the sector strategies' SMART (Specific, Measurable, Achievable, Realistic, Time-bound) objectives, define Results and Action Plans (RAPs) for achieving the objectives, and set annual monitorable targets. The intention is to provide quarterly reports as against the RAPs and annual reports on results and target achievements.

### 3.3 World Bank DPG Documents

The three most recent Development Policy Grants (DPGs) reflect the evolution of the dialogue between the PA and the World Bank regarding how the budget support is to operate and what it is intended to achieve. For each DPG, a Program Document (ProgDoc) identified the Program Development Objectives (PDO) to be achieved, and at the end of the period, an Implementation Completion and Results Report (ICRR) provided an analysis of results produced.

#### 3.3.1 DPG V

The ProgDoc for DPG V for USD 40 million (World Bank 2013c), was released on 25 April 2013 and was to focus on two policy areas: (a) strengthening the PA's fiscal position by undertaking reforms to (i) increase government revenues and (ii) improve the efficiency of public expenditures; and (b) enhancing governance and transparency in the public sector.

The PNDP's success was seen to depend on parallel actions by the PA, the Government of Israel (GoI) and the donor community. The key risks were seen to be:

- A highly volatile and uncertain political situation, primarily due to the lack of progress in peace negotiations and the political split between the West Bank and Gaza.
- Dependence on large levels of donor aid, not only to finance recurrent budget expenditures but also as a driver of growth.
- Lower than expected economic growth due to external and internal stressors.
- Substantial fiduciary risks.

The DPG V was designed to minimize the likelihood and the potential impact of some of the abovementioned risks. Most importantly, DPG V mobilized USD 200 million through the TF, which was to mitigate the risk of declining levels of donor assistance to the PA's finances.

The Key Outcome Indicators for the PDO are shown in table 3.1 below. The 2012 values were used as baseline, while the results were presented in the ICRR:

**Table 3.1: DPG V Objectives and Results**

Objectives/ Targets	Actual Results
1. Domestic revenues from VAT, customs, income tax combined increased by at least 10% in nominal terms and higher as % of GDP compared to 2012.	<b>Target achieved:</b> this target was fully met.
2. 2013 central government nominal wage bill growth did not exceed 4.25% in Shekel terms, and was lower as a percent of GDP than the 2012 wage bill.	<b>Target achieved:</b> this was also attained despite the sharp reduction in growth that took place over that period.
3. The number of households in the "vulnerable category" did not exceed 19,200.	<b>Target achieved:</b> the actual number recorded was 18,906, so under the ceiling figure.
4. Share of outside referral costs to public healthcare spending decreased by at least two percentage points in 2013 compared to the 2012 figure of 31%.	<b>Target NOT achieved</b> as the rate turned out to be 6 percentage points higher than the baseline figure.

5. The conduct of public procurement was based on new implementing regulations to the Public Procurement Law and the National Standard Bidding Documents for Goods, Works and Consultants Services, and Procurement Manual.	<b>Target NOT achieved</b> but meaningful progress was made as the foreseen Higher Council on Public Procurement (HCPP) was fully operational and procurement under the new regulations was expected to be operational as of 2014.
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Sources: DPG V Program Document (World Bank 2013c), DPG V ICRR (World Bank 2014a)

The ICRR walked through the nine *prior actions* that the PA was to put in place for the release of funds and which make up an important part of the DPG *Operation Policy Matrix*. It noted that all were met. It later comments that while all actions were met, the intended results were not always achieved because the actions were not sufficient to reach the intended objectives, something that was in part attributed to the design of the operation. It discussed the difficult circumstances under which reforms were being undertaken, and notes that “*the progress made by the PA in advancing the reforms during 2013 ... is certainly commendable* (p. 11).

It goes on to note that the operation was realistic in its design, aligned to both the PA program and the Bank’s own Interim Strategy, and that the M&E framework and results were applied and thus useful. The ICRR gives the PDO a **Moderately Satisfactory** rating, Bank performance rated **Satisfactory**, PA performance was rated **Moderately Satisfactory**.

### 3.3.2 DPG VI

DPG VI was again for USD 40 million and signed in April 2014 (World Bank 2014b). The development objectives were somewhat different: (i) reduce the PA’s recurrent fiscal deficit; (ii) improve effectiveness and transparency of public finances; and (iii) improve the business climate. The indicators and actual achievements are shown in table 3.2 below:

**Table 3.2: DPG VI Objectives and Results**

Objectives/ Targets	Actual Results
1. Gross domestic tax revenues to increase in nominal NIS terms by 8% and by at least 0.1% of GDP between 2013 and 2014.	<b>Target achieved:</b> this was fully met.
2. 2014 PA nominal wage bill growth was not to exceed 4.9% in NIS terms and was to be at least 0.2% of GDP lower in 2014 compared with 2013.	<b>Target partially achieved:</b> the changes in the ratio to GDP was attained though the target in terms of absolute values in NIS was not.
3. Use of National Standard Bidding Documents in public procurement begun, with procurement plans, notices, awards posted by all procuring entities on a single portal procurement website	<b>Target NOT achieved</b> as the SBDs were not in use as of early 2016, in part because the HCPP – contrary to what had been expected in the previous ICRR (see table 3.1) – was still not fully functional.
4. PEFA scores on (i) cash flow planning and monitoring and (ii) access to reliable information on arrears improved in 2014 as compared to “D” in the 2013 PEFA.	<b>Target achieved</b> as the 2013 PEFA ratings showed the requisite improvements.
5. Total real value of leasing contracts is higher at the end of 2014 compared to end 2013, where the baseline value was USD 7,674,000 for 198 contracts.	<b>Target achieved</b> with quite exceptional results: 2014: USD 24.3 million for 446 contracts, and in the first quarter of 2015 over 300 contracts for a total of over USD 16.6 million had been signed.

Sources: DPG VI Program Document (World Bank 2014b), DPG VI ICRR (World Bank 2016e).

The ICRR discussed the increasingly difficult environment facing Palestine. The closing of tunnels to Gaza by the new government in Egypt in 2013 hit the Gazan economy hard, leading to a sharp drop in GDP growth, there was increased political uncertainty across the region, and a hoped-for relaxation of some of the Israeli restrictions did not occur. The conflict with Gaza in 2014 and the Israeli invasion with large-scale destruction further contributed to the crisis. The

prior actions covered three areas – reducing the current deficit, improving effectiveness and transparency of public finances, improving the business climate – where 6 of the 8 actions were completed, but two of them under the first area were not.

In the face of the changes to the environment, the PA's commitment to reforms were judged by the Bank to be "intermittent" (p. 9). The project itself, as with the previous ones, was seen to contain simplicity and continuity, which was seen as appropriate, though the ICRR felt that the project had underestimated the risk of lack of political will to implement reforms.

The rating of the PDO fell to *Moderately Satisfactory*, as did the Bank's performance, the PA performance fell to *Moderately Unsatisfactory* due to what was seen as a lack of effort to push the agreed-upon reforms.

### 3.3.3 DPG VII

DPG VII was signed almost two years after DPG VI, on 14 January 2016 (World Bank 2016c), but was still for USD 40 million. The objectives contained some minor changes, being to: (i) improve public revenue performance and improve sustainability of public expenditures; (ii) improve transparency of public finances; and (iii) facilitate the land registration process. The result indicators were grouped by objectives, and with actual results are shown in table 3.3.

**Table 3.3: DPG VII Objectives and Results**

Objectives/ Targets	Actual Results
<b>Objective 1: Improve public revenue performance and sustainability of public expenditures</b>	
1. Stock of income tax debt estimated were reduced by 15% compared with the 2015 baseline value of NIS 100 million.	<b>Target achieved:</b> stock of income tax debt was reduced to NIS 55 million, a 45% decline from Oct 2015 baseline.
2. The ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by the five distribution companies from their customers in the West Bank increased from 65% in 2014 to 80% in 2016.	<b>Target achieved:</b> 2016 ratio was 90%, which is 12.5% higher than the original target.
3. The cost of health referrals to providers outside the PA healthcare system below 1.2% of GDP in 2016, compared with 1.2% in 2014.	<b>Target achieved:</b> baseline for 2014 was revised upwards from 1.2% to 1.88% of GDP while 2016 referrals were only 1.48% of GDP.
<b>Objective 2: Improving transparency of public finances</b>	
4. Annual info available online on transportation tax collected by MoF on behalf of each LGU; service fees charged; deductions/ intercepts for each LGU specifically; transportation tax paid to each LGU in the first quarter of 2016.	<b>Target achieved</b> as data are now online.
5. Access to information on commitments in the pipeline is provided by Min Health, Min Trsp, Min Interior, Min Public Works, Min Local Gov't in Integrated Financial Management Information System at the time of commitment.	<b>Target only 80% achieved</b> as Min Health has not implemented the commitment recording system because of technical problems relating to data entry of medical referrals that had not yet been resolved.
<b>Objective 3: Facilitating the land registration process</b>	
6. Number of land titles in pilot area picked up in 2016 should double the 188 of 5,000 in 2015.	<b>Achievement way over target</b> as 2,950 land titles picked up as against target value of 376.

Sources: DPG VII Program Document (World Bank 2016c), DPG VII ICRR (World Bank 2017b).

As with DPG VI, while all 8 *prior actions* were met, the intended higher-level results were not fully achieved, as the expected consequences of some of the prior actions did not materialize. The ICRR again attributes this to lack of realism in the design of the project, while pointing to the complex environment in which the project was undertaken: (i) while revenues increased, external aid fell from USD 1.3 billion/2013 to USD 761 mill/2016 – a 41% drop in three years; (ii) the lack of political agreement between Hamas and Fatah meant Gaza remains an unresolved matter for the PA; (iii) GoI's continued restrictions and expansions of settlements and control of Palestinian land and other resources limits the space for policy initiatives; (iv) the volatility in donor support and a perceived drop in commitment to reform in some policy areas further contributed to some higher-level results not being attained.

The rating of the PDO remained at *Moderately Satisfactory*, as did the Bank's performance, while the PA performance also remained constant, at *Moderately Unsatisfactory*, due to the same assessment of a lack of effort to push agreed-upon reforms. The ICRR noted the quality of supervision as *Satisfactory* due to *"using the strong presence of economic and sector staff in the resident mission that covered all the areas of the operation. Bank staff were continuously in touch with the authorities to monitor progress ... and provide suggestions to resolve experienced delays. Highly qualified staff supported by quality AAA engaged in a continuous dialogue with a range of partners to provide support to the PA* (World Bank 2017b, p. 30).

While the TF program has run without major disruptions, there have been points where the Bank has felt that the PA has not shown "good faith" commitment to reforms agreed to. Disbursements have been held back for some time till the agreed steps have been complied with. The Bank has therefore at times used trust fund financing as direct leverage for ensuring that reforms move ahead as discussed and agreed to, thus being an active manager in ways that a bilateral donor would have problems doing.

### 3.4 Norwegian Agreements and Related Documents

Since Norway signed the PRDP TF Agreement in 2008, the only modifications have been to some of the administrative arrangements (addenda 1 and 7). The other addenda have been to document contributions to the fund, since each contribution requires a formal agreement with the Bank. Table 3.4 shows that after the original contribution, there have been a further 20 contributions, for a total of almost NOK 2.5 billion.

The internal decision documents that are prepared by the Norwegian Representative Office (NRO) in preparation for the signature of the addendum include a description of the background to the funding request and the objectives that the funding is to contribute to, an assessment of results achieved, a risk assessment of the current situation and likelihood of attainment of trust fund goals. The justification for the funding is always aligned to the DPG objectives that the TF will finance, so there is no discrepancy between these two levels of the funding arrangements.

**Table 3.4: Norwegian Contributions to the PRDP TF**

Addendum number	Date signed	Amount/NOK
Original Agreement	19.03.2008	228 000 000
Addendum 2	26.09.2008	85 380 000
Addendum 3	16.01.2009	233 310 000
Addendum 4	10.12.2009	86 300 000
Addendum 5	09.02.2010	240 000 000

Addendum 6	10.12.2012	60 000 000
Addendum 8	01.04.2011	240 000 000
Addendum 9	09.12.2011	68 100 000
Addendum 10	2012	240 000 000
Addendum 11	2012	58 000 000
Addendum 12	08.11.2013	240 000 000
Addendum 13	29.10.2013	60 000 000
Addendum 14	17.02.2014	60 000 000
Addendum 15	02.05.2014	60 000 000
Addendum 16	28.08.2014	60 000 000
Addendum 17	31.10.2014	29 000 000
Addendum 18	03.2015	80 000 000
Addendum 19	08.2015	120 000 000
Addendum 20	16.11.2015	15 349 000
Addendum 21	25.04.2016	185 000 000
Addendum 22	14.11.2016	50 000 000
		2 498 439 000

Sources: Addenda signed during the period 2008-2016 as reported in NRO decision documents

### 3.5 Economic and Political Framework Conditions

The budget support must be viewed in light of the overarching framework conditions for this support: the continued Israeli occupation and increased settlement in the West Bank, and the split between the PA-administered West Bank and Hamas-controlled Gaza.

In the EU's evaluation of its support to the Palestinian territory, it notes that *"the goals [of the two-state solution] of the EU have been seriously hampered by "binding constraints," the most significant being the Israeli restrictions in relation to occupation and allocation of resources for settlements, but also including Palestinian political divisions and an absence of democratic process* (European Commission 2014a, p. viii). These two factors are discussed in more detail, noting that *"the two factors are weighted differently in regards to how they affect achievement of the Two-State solution. The occupation restrictions over twenty years combined with the blockade of Gaza are the primary causes of Palestinian economic decline, lack of viability and contiguity and increased donor dependency. The absence of reconciliation and elections contribute to diminishing Palestinian political process, legitimacy and democratic good governance"* (op.cit., p. xiii).

#### 3.5.1 Israeli Policies and Practices

The National Policy Agenda (NPA) for the six-year period 2017-2022 (PA 2016), sets out the strategic directions that are to prepare for the end of Israeli occupation of Palestinian territory, and the intended development of strong, citizen-centred public institutions.

While the NPA is a pragmatic document that strikes a hopeful tone regarding a path to the future, it notes the problems that the annexation practices of the Government of Israel (GoI) pose. There is continued expansion of Israeli settlements. Israel maintains its siege of Gaza, where there is an unceasing worsening of humanitarian, economic and infrastructure conditions. Israel



continues to prevent the access to and Palestinian development in Area “C”, which makes up 61% of the West Bank area. Israel is seen to intensify its confiscation of national resources, including the control and use of scarce water. There is a continuation of the violence against the Palestinians by Israeli security forces, including the intrusive controls throughout the West Bank, that severely affects the quality of life for Palestinians. There is continued demolition of Palestinian properties and infrastructure (PA 2016, p. 12).

In addition, come the rebuilding costs after the Israeli incursions into Gaza, including the most recent one in 2014, with the massive destruction of physical infrastructure, public as well as private. The most recent damage assessment seen shows that 11,000 homes were totally destroyed, 12,500 suffered major and 147,500 minor damages. Public sector damage is assessed at USD 58 mill in the energy sector, USD 34.5 mill in the water sector, USD 24 mill in the health sector, and over 500 education facilities – public, private and UNRWA – damaged to varying degrees. Damages to local government infrastructure is assessed at USD 88 mill, and in the agricultural and general economic sectors at over USD 500 mill (PA, National Office for Reconstruction of Gaza 2017).

The overall damaging impact of the Israeli occupation is noted in all aid assessments. The evaluation of Danish aid notes that: *“the continued Israeli occupation, expanding settlements and the blockade of Gaza since 2007 have severely diminished the feasibility of a two-state solution and have also seriously affected the Palestinian economy and the lives of Palestinians. The blockade and permit regime have halted economic development and have led to structural economic distortions”* with the conclusion that *“the international community continues to pay for the effects of the Israeli occupation”* (Danida 2015, pp. 9, 10). The Netherlands evaluation is not quite as damning in its wording, but raises the same concerns (Netherlands MFA 2016). The summary of the various studies done on the matter, presented in the Norad Evaluation Brief for Palestine, state that *“Continued Israeli military occupation in the West Bank and Gaza Strip remains the primary reason for the failure of international aid to achieve goals related to peace, human development and economic prosperity”*, pointing out that *“the annual losses to the Palestine economy due to the occupation are greater than current ODA aid volumes”* (Norad 2017, p. 3).

A study of DFID’s support additionally points out that the *“the PA is heavily reliant on the remittance by Israel of revenues that it collects on their behalf, meaning the amount of genuine ‘own resources’ under PA control is very small”* (ODI 2015, p. vi).

Detailed studies of the consequences of the various dimensions of the Israeli occupation, particularly by various UN bodies and the World Bank, all point in the same direction. A recent study looking at the Palestinian territory in general finds that *“microeconomic risks in the form of high transaction costs for doing business represent the most binding constraint to economic growth. In particular, the analysis finds that restrictions to movement, access, and trade represent the largest bottleneck to growth. Movement and access issues include Israeli control of crossings in and out of the West Bank and Gaza, the absence of airports and seaports, deficiencies in the import and export logistics chain, and numerous checkpoints within the West Bank”* (USAID 2017, p. xi).

The most damning analysis is probably the recent World Bank report presented to the Ad Hoc Liaison Committee at its meeting on 4 May 2017 in Brussels: *“The Palestinian people face an increasingly uncertain political environment, and an economy that is failing to generate the jobs and incomes that are needed to improve living standards. Restrictions on trade and the access to resources, along with a decade long blockade of Gaza have led to a continuing decline in the productive base of the economy - with the share of GDP in manufacturing halved in the last twenty-five years. Unemployment is now approaching 30% on average, with youth unemployment in Gaza twice as high ... The GoI can*

*improve the situation of the Palestinian people ... by fully implementing existing agreements to facilitate movement and access to resources, and addressing the PA's claims on losses on revenues.... Opening up access to Gaza and removing the obstacles to trade, and allowing access to the resources in Area C would help improve the competitiveness of Palestinian businesses and encourage the jobs and investments that are needed. Much can be done to improve the performance of the economy within the existing Paris Protocol agreement and without putting at risk Israel's security. In addition, progress has stalled in addressing the fiscal losses under the Paris Protocol that were identified in our April 2016 report and which could make an important contribution to the PA's fiscal position" (World Bank 2017a, pp. 4-5)<sup>1</sup>.*

### **Box 3.1: Preventing Palestine from Developing Area "C"**

A key issue concerns Israeli control of Area "C", where a World Bank study notes that *"the potential contribution of Area C to the Palestinian economy is large. Area C is richly endowed with natural resources and it is contiguous, whereas Areas A and B are smaller territorial islands. The manner in which Area C is currently administered virtually precludes Palestinian businesses from investing there"*. It goes on to state that *"Since Area C is where the majority of the West Bank's natural resources lie, the impact of these restrictions on the Palestinian economy has been considerable. Thus, the key to Palestinian prosperity continues to lie in the removal of these restrictions with due regard for Israel's security. As this report shows, rolling back the restrictions would bring substantial benefits to the Palestinian economy and could usher in a new period of increasing Palestinian GDP and substantially improved prospects for sustained growth"* (World Bank 2013a, pp. vii-viii).

The report examines the potential direct and sector-specific benefits, but also indirect benefits related to improvements in physical and institutional infrastructure, as well as spill-over effects to other sectors of the Palestinian economy. The sectors examined are agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications, and cosmetics. Neglecting indirect positive effects, the report estimates the potential additional output would amount to at least USD 2.2 billion/year, equivalent to 23% of the 2011 GDP. The bulk of this would come from agriculture and Dead Sea minerals exploitation. *"It is understood that realizing the full potential of such investments requires other changes as well – first, the rolling back of the movement and access restrictions in force outside Area C, which prevent the easy export of Palestinian products and inhibit tourists and investors from accessing Area C; and second, further reforms by the Palestinian Authority to better enable potential investors to register businesses, enforce contracts, and acquire finance"*. It then concludes that *"The impact on Palestinian livelihoods would be impressive. An increase in GDP equivalent to 35 percent would be expected to create substantial employment, sufficient to put a significant dent in the currently high rate of unemployment. If an earlier estimated one-to-one relationship between growth and employment was to hold, this increase in GDP would lead to a 35 percent increase in employment. This level of growth in employment would also put a large dent in poverty, as recent estimates show that unemployed Palestinians are twice as likely to be poor as their employed counterparts.... Access to Area C will not cure all Palestinian economic problems – but the alternative is bleak. Without the ability to conduct purposeful economic activity in Area C, the economic space of the West Bank will remain crowded and stunted, inhabited by people whose daily interactions with the State of Israel are characterized by inconvenience, expense and frustration"* (World Bank 2013a, pp. xi-xii).

<sup>1</sup> The Paris Protocol from 1994 is the underlying agreement that regulates the Israeli fiscal transfers to the PA. It was part of what was supposed to be a five-year transition arrangement, and provides very detailed descriptions of how the Palestinian economy – during this transition period! – was linked with and subservient to the Israeli economy. Since the peace process never moved, the 1994 protocol still applies. There are a number of studies that document how Israel has used its control of all export routes to push down prices of Palestinian products that are then re-packaged and sold on the international markets with a substantial mark-up, an issue that the Hever study (see section 7.2) does not include or estimate. If and when a peace agreement is reached and Palestine can control its own economy, these various rents and leakages will supposedly cease. It should also be noted that handing over of Area "C" to the PA was meant to be part of the peace agreement, so the constraints noted in text box 3.1 would then also have been addressed.

### 3.5.2 Palestinian Politics and Practices

The Palestinian Authority is facing several challenges to its political authority. The most important is the split between the two parts of Palestine, Gaza and the West Bank, with Hamas-controlled Gaza and PA-controlled West Bank not being able to find common political ground, including with respect to their relations with Israel.

In the PNDP 2014-2016, the PA provides a comprehensive list of the challenges it faces (box 3.2).

#### **Box 3.2: Palestinian Internal Challenges**

Internal political and administrative divide:

- Distraction from the effort to realize national independence and statehood
- Rendered the Legislative Council dysfunctional .... obstructing democratic accountability
- Entrenched unbalanced and inequitable development across the homeland; undermining alleviation of poverty and delivery of quality social services
- Disrupts national policy and planning, creating fiscal imbalances ....

Deteriorating economic situation and financial crisis:

- Declining economic growth rates, moving towards stagnation; growth driven by unsustainable, externally-financed spending and expansion in non-productive sectors
- Israeli restrictions on movement and access; denial of access to resources-rich area that hold the most potential for propelling economic growth
- Ballooning trade deficit and plummeting private investment
- Economic decline exacerbating fiscal crisis, placing downward pressure on revenues
- Shortfalls in pledged donor support, resulting in inability to meet fiscal liabilities

Poverty and unemployment, particularly affecting women and youth:

- Poverty among individuals is 25.8% - substantial discrepancy between West Bank and Gaza ...
- 12.9% suffer from extreme poverty ...
- Unemployment rate of 23.7% .... 43% unemployment of young people 20-24, 35% among males and 75% among females
- Disenfranchisement and marginalisation – high proportion of youth are contemplating emigration; female participation in the labour force is low.

Source: PNDP 2014-2016, pp. 9-10.

When it comes to managing the economy and public finances, the list of reform needs and challenges presented is quite daunting and highly ambitious, but in line with what the reports on the previous PNDPs have delivered and World Bank studies have pointed to, including in the ICRRs for the various DPGs:

- Need to control and/or reduce the government wage bill.
- Ensure the sustainability of the public pension plan by introducing policy reforms, resuming full transfers and repaying arrears.
- Eliminate non-payment of utility charges by Local Government Units (net lending).
- Ensure fair, reliable fiscal transfers to Local Government Units.
- Reduce or eliminate fuel subsidies.
- Secure confiscated revenue from Israel.
- Restore foreign aid levels.
- Expand domestic revenue sources and collection.
- Reduce the level of arrears.
- Establish sustainable debt payments to and borrowing from Palestine's banking sector.



- Address the troubling Palestinian political landscape with the West Bank-Gaza split and no elections since 2006, which undermine leadership claims to representative legitimacy.
- Palestine continues to produce highly trained and capable entrants to the labour market – which is positive – but absorption rates are falling, exacerbating the youth employment crisis, as noted in text box 3.2 above.

### 3.6 Findings and Conclusions

Disbursements from the TF are based on the PA delivering on key policy reforms, largely related to public financial management (PFM). These are based on Palestinian National Development Plans, PNDPs, where the key ones for this review are the ones for 2011-2013 and 2014-2016.

The PNDPs are now followed by the National Policy Agenda (NPA) 2017-2022. This is a strategy structured around three pillars, with 10 national priorities and 30 policies. It foresees Strategic Results Framework to be developed around sector strategies, where one is on PFM, and with an ambition of closely tracking results according to Results and Action Plans in each sector.

Based on the policy documents, the PA prepares Letters of Development Policy for the World Bank. These form the basis for the Bank's Development Policy Grants (DPGs). These normally are annual allocations, typically of USD 40 mill from Bank funds, supplemented by donor contributions to the PRDP TF. The DPGs are policy-based vehicles relying on a combination of *prior actions* to be in place and *development objectives* that need to be delivered in order to release the funds. This review reports the intended and actual results for the three most recent DPGs.

The real restrictions on PA performance are the external and internal constraints to political and economic development, however. The Israeli occupation and settlements with their consistent and comprehensive control and intervention in Palestinian life at all levels and all areas is a crippling restriction on Palestinian decision-making. This is compounded by the serious split between the Fatah-led PA on the West Bank, and Hamas in Gaza (which lately may be finding a solution through Egyptian-brokered talks). An old PA leadership that is perceived to be out of touch with its young population, and whose electoral mandate expired many years ago, further weakens the legitimacy and thus the political decision-making space for the PA.

Given these constraints, the PA and the Bank have identified a number of reform areas that can and should be addressed, and which form the basis for the PRDP-TFs DPGs. While the program has by and large run smoothly, there have been periods where reform processes have stalled and where the Bank has therefore actively used the TF as leverage for ensuring that agreed actions are undertaken.

## 4 Relevance

The ToR ask that the review “*assess the relevance of the PRDP-TF and its objectives to the priorities and policies of the PA*”, and then poses two specific questions referenced below.

### 4.1 DPG Benchmarks and Indicators vis-à-vis PNDPs

- *Have the benchmarks and indicators in the DPGs’ Operation Policy Matrix been reasonable and aligned with the Palestinian national development plans during the period under consideration?*

There are thus two questions to answer: whether the benchmarks and indicators were reasonable, and the extent to which they have been aligned with the relevant PNDPs.

Regarding alignment, all DPGs have had the relevant PNDPs as the starting point for the design of the specific interventions. For the Bank, it clearly is necessary to justify the financing as being based on national reform plans. For the PA staff who are involved in developing the agreements, they must be able to show that the projects answer to the policy concerns of the Palestinian Authority as laid out in the respective PNDPs.

More specifically, for the most recent period, the PNDP 2014-2016 has *Good Governance and Institution Building* as its second sector (PA 2014 section 3.2.2). The first strategic objective here is “*more effective, efficient and transparent management and allocation of public finances*”. As shown in tables 3.1-3.3, the specific objectives for the three DPGs are almost all focusing on PFM reforms and improvements, as were the prior actions that were specified in each of the DPGs. These were all based on a joint understanding between the parties regarding what the reform objectives to be achieved under the specific DPG would be, as formalized in the Program Documents, laid out in the PA’s Letters of Policy Development to the Bank, and as verified in the Implementation Completion and Results Reports (ICRRs) at the end.

As discussed in sections 3.3.1-3.3.3, the prior actions were almost all attained, while the level of achievement for the specific objectives/ targets for each DPG varied. But in all cases, there was seen to be meaningful movement in the right direction.

What the ICRRs note (World Bank 2014a, 2016e, 2017b) is that while almost all prior actions were delivered, the intended effects of this was often not achieved. Part of this is due to somewhat faulty theories of change (assumptions) underlying the delivery chain of results, but much of it is also due to the short timeline for delivering the results, since most of the DPGs were valid for only one year. This is often not sufficient time for meaningful reforms, particularly in a situation where changes to the external environment were often caused by Israeli decisions and not by choices made by the PA.

An argument has been made that one cannot assess PA’s priorities based on the PNDPs because these do not necessarily reflect strong local buy-in (ODI 2015, p. 24). While this may to some extent be true – ODI bases its finding on interviews – there are no alternatives proposed regarding how one should identify the “true” priorities of the PA. – Funding agreements must be based on formal policy positions for which actors can be held accountable. While the PNDPs to some extent may have been designed as “aid mobilization vehicles”, they clearly also have been the foundations for the reforms agreed to and actually implemented. Since the PNDPs and the resultant DPGs appear to be the main bases for actual reforms observed, it becomes difficult to see what the practical implications of the ODI observation might be.

## 4.2 PRDP-TF Role in providing Budget Support

- *What has the role of the PRDP-TF's been, as one of several channels for providing budget support?*

As seen in table 2.1, the PRDP TF is not the major source of budget support in Palestine. This is instead the European Union's PEGASE trust fund (*Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique*). While PEGASE is a budget support mechanism, it has largely been used for the EU's own financial support, though it is open also to EU member states if they wish to channel their funds through it. The set-up is therefore somewhat different in that it was not designed so much to be a multi-donor trust fund, but rather a funding vehicle for the EU as a major donor, but one that is accountable to its full membership of 28 states.

PEGASE is also structured differently in terms of its disbursements. The most recent evaluation of PEGASE (International Consulting Expertise 2016) notes that EUR 390 mill (equivalent to about USD 460 mill) was disbursed during the two years of 2014 and 2015 through its so-called Direct Financial Support (DFS), which makes up the major part of the PEGASE payments. The DFS consists of:

- (i) **CSP:** Civil Service and Pensioners payments, which is largely salaries and pensions to eligible recipients,
- (ii) **VFP:** social security benefits to Vulnerable Palestinian Families,
- (iii) **EJH:** payment of referral costs to East Jerusalem Hospitals.

In addition to the DFS, there are two smaller components within PEGASE: a pilot Results Oriented Framework (ROF), and a more generic Complementary Programs (CP).

The **ROF** was set up to provide a results framework for the PEGASE that was based on the PNDP 2014-2016, as a way to begin making the budget support more aligned and policy-based in its approach.

The **CP** is a funding mechanism for flexible funding to support the development of the capacities of key institutions, including for the design and implementation of fiscal and administrative reforms. While funding is limited – total disbursements during the period November 2012 to February 2018 are expected to be EUR 6.5 mill (about USD 7.6 mill) – the ones addressing PFM issues are typically linked up with World Bank PFM support.

The evaluation notes that the DFS is a response to the EU's support for the two-state solution, and thus is political in nature rather than part of a development agenda. As such, improvement of service delivery is not directly targeted. For example, the evaluation noted the well-known issue of the PA paying the PA-hired civil servants in Gaza even when they do not work – in fact during the early days of PA-Hamas conflict were told *not* to – and where this situation requires a political solution since it is not about maintaining service delivery.

In line with this, none of the EU member states that fund PEGASE considered a move to conditionality for the DFS to be appropriate, although some wanted more demonstrable results as a result of funding – hence the pilot ROF. A transition to a development agenda based on the need to improve service delivery to Palestinians is a cornerstone principle and which the evaluation thus believes should be explored regarding future EU and member state support. This could take the form of sustainable financing, institutional strengthening and capacity development, as well as budget support.

The EU does have strict vetting criteria when it comes to who the recipients of the various disbursement streams can be, however. In particular, members of groupings defined as terrorist

organizations by the EU – which includes Hamas – cannot be the beneficiaries of PEGASE payments. This means that lists of each individual beneficiary (or household, in the case of the VFP), is vetted against lists that are held by the EU and its member states. Once the original lists have been vetted, it is of course largely the new entrants to the beneficiary lists that need to be checked. This remains a fairly laborious process, the costs of which the EU absorbs as part of its internal administrative costs of the PEGASE.

The costs of channelling funds through PEGASE by EU member states is free, while the World Bank charges an administrative fee. This fee is based on new World Bank guidelines, where fees start at 5% but can fall to 2%, depending on the size of the total fund. The rate for the PRDP TF is to be 4% (see [https://policies.worldbank.org/sites/ppf3/PPFDocuments/3885\\_Bank%20Directive%20Cost%20Recovery%20Framework%20for%20Trust%20Funds.pdf](https://policies.worldbank.org/sites/ppf3/PPFDocuments/3885_Bank%20Directive%20Cost%20Recovery%20Framework%20for%20Trust%20Funds.pdf)).

The PRDP TF, on the other hand, provides the PA with what in principle are free fiscal resources, thus providing operational freedom. However, DFID provided its funding to the PRDP as part of its *State-building and Service Delivery Grant* (SSDG). DFID added bilateral policy conditions to its funding outside the PRDP/DPG framework, that earmark DFID funds for paying the salary of certain approved public-sector workers, and withholding DFID funds from paying the salaries of Palestinian prisoners in Israeli jails. The PA did not welcome this move, as it reduces the flexibility of the budget support instrument. From the point of view of the PA, while DFID's SSDG funding via the PRDP is regular, it was somewhat volatile and less predictable, in part due to these side-conditionalities, despite DFID's intentions of ensuring a smoother funding path. In 2016, however, the UK decided to end its SSDG funding through the PRDP TF, and instead was going to channel it through PEGASE, because of the beneficiary vetting procedure of PEGASE.

PEGASE disbursements, because most of the funding is from the EU itself, are according to an agreed schedule, and thus predictable. PRDP disbursements are not always predictable, yet for the PA the larger issue has been the *size* of disposable funds. The Bank is dependent on the bilateral donors to decide *how much* will be made available, and *when*, so while the funding partners have tried to make annual pledges as early in their financial cycles as possible, decisions at head offices may change both size and timing of funds availability.

PEGASE provides funding based on strict *ex ante* eligibility criteria, and in fact targets individual beneficiaries. Since PEGASE funding for pensions and salaries is less than total needs, this “lock-in” of funding has no practical consequences for PA budget flexibility. The PRDP TF provides budget support based only on policy reform conditionalities, so the transaction costs involved are lower, and the MoF expressed a preference for the PRDP-TF exactly because it provides somewhat greater allocative flexibility.

In interviews, MoFP officials pointed out that they would prefer to receive the budget support funds directly to the budget and not via mechanisms like the PRDP trust fund or PEGASE, since this would maximize their flexibility, would reduce transaction costs including the overhead charges that the Bank takes from the donors and the administrative costs that the PEGASE disbursement conditions imply. It was clear from the discussions with officials from the Bank and the EU that this option is not acceptable to the donor community under the current conditions.

**Table 4.1: Some comparative features of the PRDP and PEGASE budget support funds**

Feature	PRDP TF	PEGASE
Size of fund	Medium-scale, with variations but generally declining	Large-scale with generally minor fluctuations in scale
Predictability of disbursement timing	Medium, variable	High
Ex ante conditions	Policy-related reforms. At some point DFID provided side-conditionalities for its SSDG funding	Beneficiary vetting
Flexibility of funds use	High – only some ineligibility criteria based on general Bank policies	Medium – beneficiaries, uses pre-defined but within priority areas
Policy and reform focus	Key concern for prior actions and DPG objectives	Limited focus – suggested more central in future PEGASE designs
Results monitoring	Close tracking of both prior actions and DPG defined objectives	Little – coming into place now
Admin costs	General Bank MDTF fee scale, currently 4% with potential for lower	Currently zero – considering fee for member state channelled funds

### 4.3 Findings and Conclusions

The Trust Fund objectives of providing budget and development support remain *relevant*, as noted in the introduction. The benchmarks and indicators in the DPGs' Operation Policy Matrixes were aligned with strategic objectives in the PNDPs, and were reasonable in light of the external environment for Palestinian decisions.

The PRDP TF provides funding flexibility to the PA, both as critically needed supplementary funding to the budget, but also because there are few constraints on the application of the funds, but rather policy reform conditionalities.

The major challenge has been the declining size of the fund, and to some extent the lack of predictability of disbursements.

## 5 Effectiveness

When discussing Effectiveness, the ToR break the issue down into the five dimensions below.

### 5.1 Achievement of DPG Objectives

- *To what extent have the stated development objectives of the DPGs and PRDP-TF been achieved?*

As noted in section 2.1, the objectives of the PRDP TF are (i) to provide budget and development support for the Palestinian Authority's policy agenda, (ii) pool different funds into one administrative mechanism to reduce the PA's transaction costs; and (iii) help to alleviate the PA's fiscal pressure by providing reliable disbursements on a regular basis.

Regarding the first point, the discussion in section 4.2 noted the alignment of the DPGs to the PA's development agenda, with the conclusion that the trust fund is Relevant.

The trust fund clearly is able to pool different funds via one mechanism, though the relative importance of the PRDP TF as a budget support vehicle is less than in many other states where the Bank is the trust fund administrator. However, the alternative for most of the donors if the PRDP TF was not available would have been to provide project funding. The amounts from most of the PRDP TF donors is so limited that setting up own control and oversight mechanisms for direct budget support would not have been realistic. The option of channelling through the PEGASE if you are not a EU member state has only recently been discussed. While the relative importance of the fund to the PA may be less than was hoped for, to most of the donors it probably provides the only viable option as long as they wish to provide budget support.

With regards to reducing the fiscal pressures, this is clearly achieved, in two ways. One is the simple additionality that the TF provides, in a situation of extreme budget constraints. The other is that the PRDP TF provides very few constraints on how the funds can be applied, so the authorities have budget allocation flexibility.

While PEGASE targets its contributions to specific beneficiary groups, the funds are going to three areas that are core PA expenditures. Since PEGASE does not provide more funds than these areas require, in practice PEGASE is providing a similar budget flexibility for the PA, since the PA's own budget is now released for other funding areas (budget fungibility). The advantage of the PEGASE, however is that it is both more reliable and provides larger amounts (see 4.2).

Regarding the achievements of the DPGs, the discussion in sections 3.3.1-3.3.3 and 4.1 document that performance has overall been quite good. Where targets are not met, there has been meaningful progress and documentable reason for short-fall. When for DPG VII the second target under objective 2, the access to information commitments, was only 80% achieved, the reason the Ministry of Health had not yet become part of the system was because it had not been able to develop a system that would include medical referrals without breaching rules regarding patient information, for example. But as documented in tables 3.1-3.3, of 16 specific objectives defined, 3 were not achieved, one was 80% achieved, and the remainder fully achieved, some with results way above target values.



## 5.2 PRDP-TF Contributions to Identified Development

- *To what extent has the PRDP-TF contributed to the identified development?*

There are essentially two sets of results that can be looked at. The first concerns what the trust fund as such was to do, which is the triple objective of (i) budget support, (ii) funds pooling, and (iii) alleviation of fiscal pressures. As noted in 5.1, the fund has contributed in all three areas, though not as much as hoped for. This has been a function of the funds available, however. Looking at what has in fact been done, this can of course be attributed directly to the fund as such.

Regarding the second set of results, the attainment of prior actions and objectives by the DPGs, the changes to policies, practices and results are due to a host of factors. The trust fund has been important, however, in large part exactly because it has been administered by the World Bank, which has a number of other complementary instruments that have supported DPG objectives:

- The DPG prior actions and agreed-upon objectives are anchored in the PA's stated objectives and priorities, and thus are fundamentally owned by the PA. The PRDP TF is providing additional support to attain locally defined targets – the fundamental ownership is local, and results should thus primarily be attributed to this.
- The World Bank has continuous and intensive policy discussions with the national authorities, however, where the PRDP TF objectives are part of the larger policy engagement, and benefit from that.
- The TF is subject to intensive monitoring by Bank staff, who are largely on the ground. The monitoring and reporting is well-documented, most of it is publicly available (see i.a. World Bank 2017b, p. 30).
- The Bank has complementary PFM activities on the ground, including technical assistance projects; produces public finance reports such as public expenditure reviews (World Bank 2016a), public expenditure and financial accountability studies (World Bank 2013b), economic studies and reports to the AHLC (see <http://www.worldbank.org/en/programs/palestinian-recovery-and-development-program-trust-fund>), and stand-alone studies such as the one on Area "C" (World Bank 2013a). The Bank carries out smaller stand-alone studies through its analytical and advisory assistance (AAA) program. These provide data and insights that inform identification of important prior actions and realistic DPG objectives (local interviews).
- The Bank also ensures close coordination of its own PFM advice and activities with the other key actors in the field, primarily the IMF, the EU and its PEGASE, and DFID – partly through Local Aid Coordination (LAC) sector working group meetings, but also with donor-only meetings (local interviews).

Contribution analysis is always a challenge, and in this case establishing a counter-factual depends on which set of results one wants to challenge. If it is the TF's stated objectives, no real counter-factual exists since the objectives in fact are derived from the fact that this is an MDTF: this is what an MDTF is set up to deliver! Regarding the policy and reform achievements, the TF is only one of several contributing factors, so one could argue for a counter-factual of *no* TF that would not entail identifiable differences. This, however, would disregard the obvious multiplier effect that donor funds have for the Bank's own resources, and the "greater voice" that such an MDTF provides the Bank when it discusses with the PA. This strategic dimension of the PRDP-TF thus should be borne in mind: the funds are not just money, but also policy leverage.

### 5.3 PRDP-TF Effects on Revenue Generation

- *What has been the effect of the PRDP-TF on the PA's effort to increase revenue generation?*

Several of the DPG prior actions and program objectives address revenue generation (see table 3.1 objective 1, table 3.2 objective 1, and more indirectly table 3.3 objectives 1, 2 and 4). The DPG objectives targets were all met. What is more difficult to ascertain is the degree to which this can be attributed to the trust fund.

Revenue generation is a major concern to the donor community, since the PA remains highly dependent on continued donor support, and the state building achievements thus are vulnerable to the trend of a drop in donor funding.

The general targets of revenue increases in nominal NIS terms for 2013 and in 2014 were therefore primarily dependent on what happened to the overall economy. But also on the revenue side, Palestine is dependent on Israel: in 2016, local tax collection mobilized by Palestinian authorities, including local/ municipal, was expected to generate just under 30% of total revenue, while most of the remainder consisted of clearance revenues transmitted from Israel, after it had deducted its 3% administration fee<sup>2</sup>. These clearance taxes cover six categories: customs, VAT, purchase tax, hydrocarbon tax, income tax, other taxes. As is well known, Israel has on several occasions withheld some of these revenue streams.

2016 revenues were in fact well above the amounts budgeted, which Palestinian CSOs attribute to a combination of better tax collection and some improved clearance procedures with the Israelis, but also due to some once-off revenues: refunding of health insurance payments by Palestinian workers in Israel, and extra-ordinary income from license fees for the Palestinian Communication and *Jawwal* companies (CST-EPBT 2017b, p. 8)<sup>3</sup>.

Civil society actors are concerned about a number of issues surrounding the tax system, however. In a study prepared by MIFTAH, reviewing Palestine's 2011 Income Tax Law, it uses the IMF's Code of Good Practices on Fiscal Transparency (1998, updated 2007) as the basis for its comments on what it sees as a lack of integrity, transparency and accountability. The law gives wide powers of discretion to modify tax rates and exemptions to the Council of Ministers; wide powers to the Director General of the Tax Department regarding tax assessments and collection; little guidance to tax payers regarding laws and how to interpret them; while oversight and control bodies are weak, have limited capacity (such as the Financial and Administrative Control Bureau) or not functioning (the Legislative Council) (MIFTAH 2015, pp. 61-62). Overall, the MIFTAH study is concerned that too much discretionary authority is provided to the Executive, with non-state actors provided very limited voice and insight.

It also notes a complaint heard in several occasions, that the tax authorities go after traditional tax payers – some of the well-known firms, employees in the formal sector – while self-employed (professionals) largely escape. Furthermore, it is noted that a number of large companies are

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<sup>2</sup> An additional source was tax refunds, estimated at somewhat under 4% of total revenues. See Trust Fund quarterly reports October-December 2016, and CST-EPBT 2017b.

<sup>3</sup> In conversations with CSOs, it was claimed that the contracts for these semi-monopoly licenses were not transparent, that there were concerns of favoritism in the allocation of licenses, and that fees were well below what a market auction could have generated.



provided generous expense deductions, lowering their tax obligations (op. cit., p. 66). In private conversations, other stakeholders attribute this to the larger problem of “connections” (*wasta*).

The fact that most tax revenue comes from indirect (consumption) taxes means that they fall disproportionately on consumers, thus supposedly having a regressive effect on income distribution. Since the tax burden overall is seen as higher than in neighbouring countries, the question of burden-sharing and total burden is raised (MIFTAH 2015, p. 67).

## 5.4 Donor Coordination, Harmonization and Alignment

- *What has been the effect of the PRDP-TF on donor coordination, harmonization and alignment?*

The short answer here is that this has been marginal, since the more formal aid coordination bodies – the Ad Hoc Liaison Committee (AHLC) and the permanent Local Aid Coordination Secretariat (LACS) – are mandated to address these issues. The PRDP TF has no such role, whether formal or informal.

More pragmatically it can be seen from table 2.2 that while the PRDP TF had eight contributing donors in 2008, mobilizing USD 248 million, five years later there were five donors contributing USD 200 million, while last year there were only three donors left, providing USD 60 million, so the ability of the TF to contribute in these areas has clearly been reduced<sup>4</sup>.

The World Bank co-chairs the public finance sector group, and through that ensures that the main actors providing budget support and PFM technical advice are coordinated and largely harmonized, as these actors are known to each other and interested in collaborating.

On the other hand, the preparation process for the DPGs ensure that the funding from the donors to the PRDP TF is aligned to PA policies and priorities.

## 5.5 Regularity and Predictability of PRDP-TF Funding

- *What has been the regularity and predictability of budget support from the PRDP-TF?*

Regarding this issue, as noted above, the Ministry of Finance and Planning noted that the PRDP TF was less regular and less predictable both in terms of timing and size of funding that was going to be made available than PEGASE was. Of these two issues, the lack of certainty regarding the amounts available was the most disconcerting, since it meant that their own planning might be based on incorrect financing assumptions.

This issue is largely due to the donors. Several ICRRs by the World Bank point to this as a management challenge for the Bank. The ODI evaluation of DFID’s *Statebuilding and Service Delivery Grant* funding pointed to this issue, and Norway has undoubtedly also contributed to this dilemma: Over the eight years that Norway has contributed, it has issued 20 financing addenda to the original agreement, meaning that there has been a total of 21 formal financial agreements over the period – an average of 2.6 agreements a year (table 3.4). The amounts involved have varied greatly, from NOK 15.3 million to NOK 240 million, and where the funding policy itself changed: while in many years there was a “foundational” funding of around NOK

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<sup>4</sup> It should be noted that Norway and the Bank, in the Ad Hoc Liaison Committee, try to maintain overall funding levels to Palestine, including through the PRDP-TF, since this is seen as a preferred channel by the PA.

240 million at the beginning of the year with supplementary funding towards the end, in 2014 Norway went to quarterly equal-size tranching.

While Norway has been a generous and consistent contributor, it would undoubtedly be appreciated that funding levels and disbursement policies become predictable and remain fairly consistent over time.

## 5.6 Findings and Conclusions

The prior actions and development objectives of the DPGs have largely been achieved, where short-falls are mostly due to design weaknesses: since the DPGs are annual, the timeline is too short for delivering some of the higher-level results.

The overarching objectives for the fund - budget support, funds pooling, and alleviation of fiscal pressures – have largely been achieved, though degree of success is limited due to the few donors and falling contributions. Concerning the attainment of policy and reform objectives, while the TF has been important as leverage, the critical factor has been the array of instruments and technical expertise that the Bank brings to bear on PFM issues in general.

Concerning support to revenue mobilisation, changes to revenue levels are primarily a function of overall performance of the economy (see DPG VII Program Document, among others). TF supported reforms are seen as important, but civil society actors raise issues regarding tax incidence and burden sharing, claiming that the distributional effect of reforms hits lower households and smaller firms disproportionately.

Given that the TF congregates a falling number of donors and has no mandate to coordinate or harmonize beyond the TF's own contributors, the fund's effect on coordination and harmonization among the donors and their alignment to national priorities is negligible.

The TF also shows weaknesses regarding regularity and predictability, particularly regarding funding size. This, however, is not a TF design failure but a function of the donors' actions, where Norway could also be more consistent regarding size and timing for funds.

Overall, the TF is *effective* for issues it can be held directly accountable for, though its limited size and scope constraints its more overarching contributions, where non-state actors would like it to address distributional/political economy effects of PFM reforms.

## 6 Impact

The impact dimensions are at the more overarching level, where attribution remains a challenge.

### 6.1 PRDP-TF Impact on Long-term Objectives

- *What is overall impact of the PA's actions with regards to the long-term objectives stated in the DPGs, and what are the main contributing factors to the identified development?*

The ToR refer to the last DPG, which claims that *“This operation has been designed to support the first two objectives of the NDP. The first objective (focused on growth, competitiveness, and job creation) will be supported through the actions taken to facilitate the land registration process, currently deemed an obstacle to private investment. The second objective related to better governance in public institutions will be supported through the actions aimed at improving public revenue performance and improving sustainability of public expenditures, as well as the actions aimed at improving transparency of public finances”* (World Bank 2016c, p. 17).

The first thing to note is that while the long-term objectives of the TF remain constant, they are of the generic kind (better coordination etc). These are not very helpful when identifying the short-term objectives for the individual DPGs. Secondly, what a short-term DPG can contribute to longer-term objectives of the PDNP is necessarily limited. While land titling is undoubtedly important for making the land market more efficient, and ensuring that land can be used as collateral for investment loans, this will still be a rather minor component of any process that is to produce *“growth, competitiveness, and job creation”*. While the actual achievement was impressive compared to what was planned – to double land registrations from 188, but in fact achieved nearly 3,000 – even 3,000 land registrations as against the universe of land ownership is limited. The challenge of attributing results at impact (society-wide) level is typically three-fold: (i) the *funding* is very limited compared with total financing applied, so it becomes difficult to claim any particular role for the DPG financing, (ii) the *timeline* is much too short to be able to trace through the effects of the actual outputs produced: what are the results of 3,000 land titles registered over a 3-5 year period (it may act as an incentive to other land-holders to register their titles so it may in fact have a significant impact in terms of volume – and then it remains to be seen what the consequences of holding a land title actually means in terms of growth and job creation), (iii) the *political will* to pursue the wider agenda of which the DPG contribution is just a component, may either not be strong enough or may wither over time, as new priorities, problems and opportunities emerge.

What the Bank's own assessments point to are that in periods of socio-economic growth, which means increased revenues for the PA, the commitment to reforms is greater, and it is easier to point to results. This presumably has to do with additional funding generating some extra degrees of freedom in decision making, and thus reforms are less painful and can be pursued. The ICRRs nonetheless claim that the external funding, and the Bank's policy dialogue, technical studies and continuous monitoring and reporting on results also act as incentives, and should be seen as positive contributors.

It is perhaps symptomatic, given the lack of a longer-term coherent and consistent results frameworks, that the ToR refer to the most recent DPG when defining *“impact”*. To the extent that any longer-term results can be expected, they should be from the early funding – yet that is not in the priority time period for this task.

## 6.2 Geographic Balance of PRDP-TF Expenditures

- *What has the geographical balance of the impact of PRDP-TF been, in the West Bank, including East-Jerusalem, and Gaza?*

Since the trust fund contributions are co-mingled with the PA's own financing, the only way to address the distributional issue is to look at the general disbursement profile of the PA's budget expenditures.

On the West Bank, East Jerusalem is not singled out as a separate geographic area, except when it comes to the funding of East Jerusalem hospitals through the health referral payments, while area "C" is excluded by Israel from Palestinian public investments.

The only distinctions are thus between Gaza and the West Bank. But expenditure and budget data do not provide the full story, because when it comes to procurement of items such as school materials used in both parts of Palestine, there is no differentiation between the expenditures that are for schools in Gaza versus those that are for West Bank schools.

The budget data of course do not include the Hamas expenditures, so it is difficult to compare expenditures per capita across various expenditure categories.

Another issue concerns how the revenue structure has changed. Hamas generated a lot of its revenue through taxing the goods being smuggled in through the tunnels from Sinai. Once Egypt closed these, a greater share of total imports had to come over the border from Israel. The customs duties and other possible revenues from this trade accrued to the PA in Ramallah, however, while Hamas revenues fell. This was one reason Hamas payments for the electricity from the Israel electricity corporation to Gaza dropped – Hamas claimed it was adjusting the payment as against the customs revenue on Gaza trade that the PA received but which Hamas considered should be part of its revenue (Interviews, NY Times 27 April 2017).

The funding of Palestinian refugees through UNRWA further complicates the picture.

The bottom line is that untangling net transfers and payments within Palestine is complex.

Table 6.1 shows the recurrent expenditures on the PA budget where it is possible to distinguish payment streams to Gaza as distinct from West Bank beneficiaries. Regarding the share of the various expenditure categories, it is known that almost two-thirds of social welfare payments go to Gaza, due to the much higher poverty incidence there. The other payment categories are more difficult to analyse<sup>5</sup>.

In terms of total recurrent expenditures, the data indicate that about one-third of the PA budget goes to Gaza beneficiaries. This is a significant share, and of course an important contribution to the general economy in Gaza.

When speaking with stakeholders (limited to the West Bank, as noted before), the general concern, also among those critical of both the PA and Hamas, was that the under-served areas were not so much Gaza – though everybody agreed that rebuilding Gaza is a national priority – but that the PA needed to invest more in East Jerusalem, and mobilize the international community to ensure that it is also possible to invest and develop Area "C".

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<sup>5</sup> It was not possible for the team to get expenditure data for the West Bank according to the same categories provided for the Gaza disbursements, and some aggregate figures also do not seem to be fully correct.

**Table 6.1: Palestinian Authority expenditures, Gaza, 2013-2016 – current Israeli shekels (ILS)<sup>6</sup>**

	2013	2014	2015	2016
<b>Wages</b>				
Civil	1 406 563 668	1 283 947 945	1 341 724 258	1 358 421 850
Security	1 582 526 404	1 672 238 242	1 653 613 906	1 753 030 940
Legislative Council	7 608 475	7 582 075	7 562 720	7 560 960
<b>Sub-totals</b>	<b>2 996 698 547</b>	<b>2 963 768 262</b>	<b>3 002 900 884</b>	<b>3 119 013 750</b>
<b>Goods and services</b>				
Health				
Internal Referrals	113 736 564	136 358 123	140 032 024	228 000 000
Outside referrals	108 000 000	156 600 000	107 775 000	92 000 000
Health supplies	100 000 000	100 000 000	100 000 000	100 000 000
<b>Sub-totals</b>	<b>321 736 564</b>	<b>392 958 123</b>	<b>347 807 024</b>	<b>420 000 000</b>
<b>Social transfers</b>				
Emergency	1 211 500	1 471 900	418 000	418 000
Money transfers	286 771 242	341 636 361	401 435 768	387 333 207
Martyrs families	116 791 824	136 753 776	139 797 235	150 690 843
Wounded transfers	71 409 900	75 774 480	78 872 759	78 840 431
Unemployment	178 401 156	186 254 878	200 868 499	201 773 355
<b>Sub-totals</b>	<b>654 585 622</b>	<b>741 891 395</b>	<b>821 392 261</b>	<b>819 055 836</b>
Prisoners	19 055 313	17 506 282	18 041 712	20 592 000
Ex-prisoners			23 832 096	58 200 000
<b>Sub-totals</b>	<b>19 055 313</b>	<b>17 506 282</b>	<b>41 873 808</b>	<b>78 792 000</b>
<b>Development projects</b>				
Water, Energy, Nat'l resources	240 000 000	240 000 000	240 000 000	240 000 000
Infrastructure	36 000 000	36 000 000	36 000 000	36 000 000
<b>Sub-totals</b>	<b>276 000 000</b>	<b>276 000 000</b>	<b>276 000 000</b>	<b>276 000 000</b>
<b>Net Lending</b>				
Electricity, Water (Net lending )	744 000 000	744 000 000	570 797 307	590 000 000
Petroleum support	8 232 327	116 084 529	203 589 143	135 337 906
<b>Sub-totals</b>	<b>752 232 327</b>	<b>860 084 529</b>	<b>774 386 450</b>	<b>725 337 906</b>
<b>Total, Gaza</b>	<b>5 020 308 373</b>	<b>5 252 208 591</b>	<b>5 264 360 427</b>	<b>5 438 199 492</b>
<b>Total recurrent PA Expenditures</b>	<b>13 335 600 000</b>	<b>14 556 000 000</b>	<b>15 672 600 000</b>	<b>16 456 900 000</b>
<b>Gaza expenditures as %</b>	<b>36%</b>	<b>34%</b>	<b>32%</b>	<b>32%</b>

Source: Data provided to the mission.

<sup>6</sup> There are some discrepancies in how certain expenditure categories are defined, so the figures for “Total Gaza” are too high for calculating percentage share on the last line. The percentage figures are therefore the ones provided directly to the mission.

## 6.3 PRDP-TF and PA Policies, Strategies and Expenditures

- *What is the PRDP-TF's contribution to government's policies, strategies and spending actions?*

The basic external actors addressing PA strategies and expenditures are the IMF and World Bank. The instruments they have at their disposal are the analytical studies and technical competencies they can bring to bear on the PFM issues they discuss with the PA, and subsequently the funding they can provide for implementing agreed policies and reforms.

In this connection, the Bank notes that the PRDP TF amplifies what the Bank can do, and thus provides the Bank with “greater voice” when encouraging the authorities to implement new or accelerate agreed strategies and policies.

The way the DPGs are structured, the Bank usually puts USD 40 mill of its own resources into the fund – and this is in fact the largest single funding program the Bank has in Gaza and the West Bank – and the trust fund is then linked to the DPG by providing additional funding. While the trust fund in the early years mobilized an additional USD 200 mill based on the Bank-developed DPGs, this complementary funding has dropped dramatically the last couple of years, reaching less than USD 60 mill in 2016, of which Norway provided almost half.

While funding levels in themselves do not determine the success rate of policy and reform proposals, they act as powerful incentives, according to the Bank staff involved, and thus are important for keeping the PA interested and involved in the reform dialogue.

## 6.4 Intended and Unintended Effects

- *Which intended or unintended results have been achieved through the PRDP-TF and the DPG?*

One question that comes up regarding donor funding to the PA, is to what extent the donors are in effect subsidizing Israeli occupation of the West Bank. That is, Israel as an occupying power has an obligation to ensure the well-being of the population under its control. This is not what is happening: the funding of basic social services, infrastructure etc. is largely funded by the local economy, and supplemented by donor funding.

This issue is made more acute given the fact that main end-beneficiary of donor largesse is in fact the Israeli economy. Due to the fact that Israel controls all entry and exit points of the Palestinian economy and thus its trade, its money and financial system, Israel is in a position to extract whatever rent appears there. One study that is normally referred to when discussing this issue claims that “at least 72% of international aid ends up in the Israeli economy” (Hever 2015, p. 1).

This may not be true for all the aid, and in particular humanitarian aid provided in kind may not be included. But when one knows that the total value of multilateral and bilateral aid to Palestine over the years 2014-2016 has averaged somewhat over USD 3 billion, it is clear that the sums involved are substantial (World Bank and United Nations 2017, p. 1). These figures are all the more important as the funds that accrue to Israel is largely through private sector actors, so that this additional revenue has important multiplier effects in the Israeli economy, and thus is an important boost to their macro-economy. This funding in turn pays for a significant share of the costs of the Israeli occupation (Hever 2015, p. 11).

One important issue is that the foreign aid does not have this dynamic multiplier effect on the Palestinian economy, since this is heavily public-sector consumption driven – the ability to build a dynamic private-sector led economy is largely strangled by the Israeli policies.



But this dependence on public sector expenditures to drive the economy points to another possible unintended effect of aid in general and the PRDP TF, as untied budget support, in particular. The World Bank's recent public expenditure review notes that *"In relative terms, the Palestinian public sector wage bill is among the highest in the world"*, as central government wage bill is 55% of recurrent expenditures and has reached 83% of public revenues: *"The main contributor to the high wage bill/GDP ratio is the high level of wages paid to central government staff...contrary to what has often been claimed, the size of the Palestinian civil service is not excessive ... [but] average PA wages amount to 3.5 times GDP per capita, significantly higher than in any other region except Africa"* (World Bank 2016a, pp. xv-xvi).

In this context, the security sector stands out. In a study done by civil society in connection with the PA's talk of an austerity budget in 2015, the report notes that *"spending on the security sector still takes the largest share of the PA's budget, with salaries and wages taking the biggest part of it, noting the high rate of the average military wage in comparison with its counterpart in the civil sector"* (CST-EPBT 2015, p. 45).

In an economy with limited private sector growth and prospects, landing a public-sector job is thus something worth fighting for. In its corruption study from 2016, the local Transparency International body notes that the public service with the greatest opportunity for corruption is seen to be the process of appointments and promotion. This issue is seen as more than twice as important as the second category, which is distribution of humanitarian and social assistance, and particularly severe in the West Bank, as seen in table 6.2.

**Table 6.2: Public services with more opportunities for corruption**

Service	West Bank	Gaza
Process of appointments and promotions	39.0%	24.2%
Distribution of humanitarian and social assistance	17.2%	12.4%
Health services	14.4%	14.4%
Electricity, water and communication services	8.8%	18.4%

Source: Aman 2016, table 4 (segment), p. 19

In a number of interviews with civil society stakeholders, the claim that connections and influence were important for landing jobs in the public sector were common, and that this was being used systematically by the political parties in power. The funding of civil service salaries was therefore seen as financing a powerful local patronage system, which was undermining the legitimacy of the authorities and the credibility of the reform processes.

The problem that the PRDP TF is thus essentially financing a classic clientelist political system is not unique to this trust fund, however. PEGASE may in fact be seen as a greater "sinner" in this regard since it directs its funding specifically to civil servants and thus ought to be in a better position to identify and address this set of challenges.

This set of issues was addressed in the recently released study on integrity and the combating of corruption (Aman 2017). The report notes that the problems above continue, but that some relevant steps have been taken to begin addressing them. The State Audit and Administrative Control Bureau is seen to perform according to its mandate. The increased use of social media is bringing issues to the attention of the public and incentivizing more oversight and control. And appointments and promotions in the public sector are becoming more transparent and based on merit rather than simply connections.



## 6.5 Findings and Conclusions

The PRDP TF impact on long-term objectives are necessarily limited since each DPG is of such short duration that only short-term interventions are supported. While they are linked to the PNDP, they vary over time, so lack of consistency is an issue.

Regarding geographic balance, the PA funds salaries of staff in Gaza, some operating costs of basic services, and two-thirds of welfare payments go to Gaza. For most observers, the real challenge is lack of PA funding in East Jerusalem and ability to invest and develop Area C.

The PRDP-TF cannot claim to contribute to PA policies, strategies and spending decisions, since these are all matters discussed with the Bank as a PFM partner. The PRDP TF gives the Bank greater “voice” in these conversations, however, as the Bank is able to provide additional funding for the reforms, so the PRDP TF is thus an important “enabler”.

Regarding unintended effects, three stand out: (i) aid is funding many of the obligations Israel as an occupying force is supposed to assume, so from this perspective it can be claimed that budget support is *de facto* enabling Israeli occupation to continue, (ii) because of Israeli control of Palestine, most aid ends up in the Israeli economy and has positive multiplier effects there, (iii) since public sector jobs in Palestine are attractive, given a weak private sector, aid is funding Palestine’s largest patronage system, providing the PA elite additional political leverage.

## 7 Risk Management

The PRDP-TF operates within the conflictual situation in part presented in section 3.5 above. This puts a series of constraints, external and internal, on what the PA is able or feels it is able to do. The ToR raises some concerns with respect to how the trust fund handles such risk factors.

### 7.1 Risk and Palestinian Political Fragility

- *How does the PRDP-TF take into consideration dimensions of fragility in Palestine?*

The basic approach has been to (i) provide short-term funding that allow for quick adjustments to changes in the environment or performance, (ii) agree very concrete and short-term deliverables – some up-front as prior actions, the others as development objectives operationalized to documentable deliverables, (iii) coupled with close monitoring of implementation with what is considered well qualified staff on the ground carrying out the oversight and reform discussions. This gives the Bank considerable insight and information about what is happening, and the flexibility to adjust quickly as circumstances require.

Unlike actors like the EU – and Norway! – the Bank is not in a position to address the *political* constraints that Israel imposes. The Bank has no lending operations in Israel, so it has not financial leverage, and it has no mandate to engage the Israeli authorities on issues like the occupation and the deleterious policies Israel is pursuing in the occupied territories.

### 7.2 The PRDP-TF and Cross-cutting Dimensions in Norwegian Aid

- *Which material risk factors may have a negative impact on the cross-cutting issues in Norwegian development cooperation?*<sup>7</sup>

The context issues noted in section 3.5 also largely determine what is happening to the attainment of cross-cutting issues in Norway's development cooperation. The TF, since it provides budget support and thus cannot really take credit for positive nor be held accountable for negative consequences of budget decisions, nonetheless has provided the additional fiscal space that has allowed the PA to maintain its basic social services, which contain a largely female-friendly profile as far as health services and educational opportunities are concerned.

*The human rights* situation is first and foremost hostage to Israel's occupation policies. The most important violations of human rights are the ones put in place by the state of Israel and implemented by its security forces across Palestine. In addition, comes the illegal occupation by Israeli settlers that appropriate Palestinian land, productive assets such as olive groves and water resources, and carry out wanton acts of discrimination, violence, abuse, and other acts that under formal law are illegal but where the settlers by and large can count on total impunity as long as the aggrieved party is Palestinian (see annual reports by Human Rights Watch/HRW, B'Tselem).

Within the Palestinian community, however, there are also serious violations of human rights, particularly carried out by the various security services, limiting the space for civic action and access to information, and arresting political opponents (HRW, B'Tselem). While these actions are

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<sup>7</sup> These are (i) human rights, with a particular focus on participation, accountability and non-discrimination, (ii) women's rights and gender equality, (iii) climate change and environment, and (iv) anti-corruption

justified with reference to security concerns, observers claim a pattern that the violence and abuse of formal authority is often tied to the defence of particularistic interests, economic and political. This is linked to the falling popularity and legitimacy of the current PA leadership, as no national elections have been held since 2005. The clinging to power of an old guard in a society where 70% of the population is 30 years or younger, is an increasing source of social tensions, and one that several observers believe explains the increasing resort to the security services for restricting the space for civil society, where the repression, for various reasons, is seen to be greater in Gaza than on the West Bank (HRW, interviews).

#### **Box 7.1: Human Rights Watch, Summary Presentation of Israel-Palestine Situation**

Israel enforces severe and discriminatory restrictions on Palestinians' human rights, and it builds and supports unlawful settlements in the occupied West Bank. Its security forces appear to use excessive force against Palestinian demonstrators and suspected attackers, raising the spectre of extra-judicial killings. It has renewed the practice of punitive home demolitions. The Palestinian Authority has arrested students and activists allegedly for their political affiliation or because they expressed criticism. Hamas security forces also engage in torture and ill-treatment of people, including journalists. Israel's closure of Gaza, supported by Egypt, amounts to collective punishment and has impeded reconstruction. *Source: <https://www.hrw.org/middle-east/n-africa/israel/palestine>.*

The formal oversight and control that is to be exercised by the Palestinian Legislative Council (PLC) is not taking place since it has not met in plenary for a decade. While the legislators meet as working parties – more often in Gaza than on the West Bank – they cannot formally make decisions, though they can provide opinions. Some of the partial committees – the bodies in Gaza meet separately from the ones on the West Bank – have in fact met, such as the one on the budget. A number of observers believe they ought to be more active, particularly as they are receiving their very generous pay and benefits, yet deliver very little in terms of public service. The complex party politics behind the dysfunctionality of the PLC are known to the Palestinians, but there is a view that the PLC could still play a more meaningful political role.

#### **Box 7.2: Recent Stories by B'Tselem**

This morning, 19 October 2017, at 10:30 AM, Civil Administration officials together with a military detail, arrived at the community of Khirbet al-Halawah, in the Masafer Yatta region in the south Hebron Hills. The forces demolished the homes of two families, leaving 18 people, including eight minors, homeless..... Residents in the area have been victims of repeated harassment by the Israeli authorities, who declared a large part of the area as a firing zone in the late 70s, and have been working to expel residents ever since.

On 22 July 2017, three residents of Khirbet Izbizq in the northern Jordan Valley were grazing their flocks on nearby pastureland when a dud - unexploded munitions - went off, killing 'Udai Nawaj'ah, 16. At least two other Palestinians have been killed in the Jordan Valley in similar circumstances since 2014. The military trains close to Palestinian communities as part of a policy aimed at taking over the area, and does not make sure to remove unexploded ammunition.

This morning [16 October 2017]... Civil Administration officials, together with security forces and four bulldozers arrived at the Badu al-Baba community near 'Eizariyah, northeast of Jerusalem. The forces destroyed three pre-fab homes that housed four families, leaving 27 people, including 18 children and youths, homeless. The forces also demolished two bathroom stalls donated by a humanitarian aid organization. The most recent abuse the community was subjected to by the authorities was on 11 September 2017 when forces confiscated equipment used to repair the community's access road.

For 40 days, as of 11 August 2017, the military closed off the main entrance by car to Kafr a-Dik, a village west of Salfit, on the grounds that local youths had thrown suspect objects and Molotov cocktails at Route 446, which is used by settlers. For over a month, the military casually disrupted the lives of some 6,500 Palestinians who were not suspected of any wrongdoing.

*Source: <https://www.btselem.org>*

*Gender equality and female empowerment* is under pressure, according to the (secular) women's organisations spoken with. This is attributed mostly to the growing influence of conservative Islamic movements, not least Hamas. While the PA remains secular in principle, and in areas like women's health remains progressive, educated women feel their space for action and self-realization is being narrowed down, and with few positive signs on the horizon (interviews).

*Minority rights* – religious (Christian) and those based on sexual orientation – are also under pressure due to the same rise in conservative Islam. Many Palestinian Christians have left, as they do not feel safe, protected or wanted, and sexual minorities suffer from the same trends (HRW annual reports; Ha'aretz 07.10.2010; The Guardian 23.12.2012; Providence 01.03.2016).

*Corruption and abuse of power* have been discussed above. The lack of transparency in major trade and licensing deals, largely with Israeli counterparts, involve local firms owned/controlled by members of Fatah. The worry about corruption is greater on the West Bank than in Gaza, and while levels of concern are considerable, they do not seem to be changing much. To a number of observers, concerns of elite capture of the state is growing, with *wasta* in some area overriding corruption issues. On the positive side is the assessment that some of the control and oversight bodies are beginning to perform better, pointing to some progress over time. But the concern is that cronyism is increasing, and that this is linked to increasing economic interests among some of the national elite. This is also reflected in the local opinion polls on the matter (Aman 2016, 2017).

*Climate change* is recognized as an issue by many on the West Bank, though this is not addressed by the PRDP TF, as the fund focuses on PFM efficiency and effectiveness.

### 7.3 Learning in the PRDP-TF

- *How are lessons learned incorporated back into the operations of the PRDP-TF?*

The trust fund, as noted above, is only part of the larger set of instruments the Bank is applying in its PFM cooperation with the PA. The technical assistance, the structured dialogue with the PA with the IMF, the AAA studies, and the results reporting on the DPG performance all are used to advance the reform processes and quality of the Palestinian PFM institutions, policies and performance.

There is therefore a continuous dialogue and learning regarding the Palestinian economy and its public finances taking place. This is managed by the fairly small PFM team on the ground, which is responsible for discussing the LDPs when the Ministry presents these, and then develops the DPGs in response.

### 7.4 Mitigation Steps

- *What are recommended mitigating measures to the above risk factors?*

Most of the risk factors noted above that can be addressed inside Palestine, have to do with the PA's overall commitment (or lack thereof) to transparency and accountability, the management of the economy, and the dialogue with its civil society.

Palestine has an impressive civil society that is active, informed, addresses a number of different issues and represents various interests and stakeholder groups. The larger ones have considerable analytical and research capacity, which is revealed in well-researched comments on policy and budget matters, as noted above. This valuable resource for improved financial management is today not being exploited as much as it could and should, however.

Non-state actors point to the quite intensive and structured consultations that took place during the period Mr. Salam Fayyad was Prime Minister, both on general policies but perhaps particularly with respect to the economy, public budgets and public financial management. The current government is seen as much less interested in any dialogue with non-state actors, with one senior official stating at a meeting with a number of CSOs that *“he answered only to the Legislative Council, not to a bunch of NGOs”*. The fact that the PLC is not functioning in its oversight and control role and that there hence is no real body to which the minister could be held accountable, did not seem to worry him, according to some of those present.

On the donor side, the LACS structure is being revised and streamlined, where less active sector working groups may be merged with others. The one on PFM, however, will remain, and includes the “heavy hitters”- the World Bank, the IMF, the EU and DFID.

Several CSOs mentioned that they would appreciate more interaction with major donor actors such as the World Bank, so that they could become involved at an earlier stage in some of the policy and implementation discussions, and pointed to this having been more common also on the donor side during Mr. Fayyad’s tenure.

## 7.5 Findings and Conclusions

The trust fund manages its direct risk by only providing annual allocations with tight oversight that provide the ability to quickly adjust policy agreements and disbursement flows. On the other hand, since DPGs are annual, lessons learned are quickly adapted into new agreements.

Human rights broadly speaking are under increasing pressure – from continued Israeli occupation, more authoritarian rule by the PA, less consultative approach by the Ministry of Finance, and the growth of conservative Islam. Corruption remains important, is seen as more prevalent on the West Bank, but with some positive trends regarding formal oversight and control bodies.

The main internal risk factors have to do with lack of commitment by the PA to overall transparency and accountability when it comes to public finances. Over time, closer consultations with non-state actors, encouraging the PA to engage its civic sector more, is likely to contain risks more effectively.

## 8 Efficiency

There are essentially two concerns when it comes to the trust fund's efficiency: are the results worth the efforts, and are there particular activities that have been efficient or unusually inefficient?

### 8.1 Benefits versus Resources Expended

- *Are impact and benefits from PRDP-TF commensurate with the level of effort and resources expended?*

The Bank is seen to provide good oversight and supervision of the trust fund with its continuous and fairly broad-based monitoring and dialogue with the authorities. This, however, is fairly costly, and much of this is borne by the Bank's own resources.

The overhead that the Bank charges the trust fund donors is to cover the direct costs of the trust fund operations, while the trust fund operations benefit from all the supplementary activities noted previously.

For the Bank itself, however, the trust fund also generates benefits, since if the DPG was only to benefit from the Bank's own USD 40 million contribution, the relative costs of managing it would be quite high, and some of the oversight activities would undoubtedly have to be curtailed.

The economies of scale that the donor contributions to the trust fund provide are thus important for all parties. But the major beneficiaries are undoubtedly the donors, since with only their own funds they would not have the human/technical or financial resources to ensure the kinds of quality assurance that the Bank is now providing. Individually they would also not have the same access to decision makers, and at the same time would strain the resources of the Palestinian authorities by requesting individual meetings.

The Ministry of Finance claims that disbursements and financial reporting are simple and do not require much own effort. The PEGASE is more transaction cost intensive due to the vetting procedures and the need for continuous updating and verification of the various beneficiary lists.

The decline in donor assistance to Palestine through the trust fund threatens the ability of the Bank to maintain the quality and periodicity of its PFM activities, which is a concern that is being shared with the donors and the authorities.

### 8.2 Areas of Efficiency and Inefficiency

- *Are there areas of PRDP-TF activities that have been particularly efficient or inefficient? In particular, how efficiently does the PRDP-TF support the PA's budget?*

The major inefficiency in the trust fund would seem to be the short time horizon for the various lending operations. Having annual DPGs, with separate project appraisals, Program Documents, Implementation Status and Results Reports and then finally an in-depth Implementation Completion and Results Report is clearly a waste of resources.



It also becomes dysfunctional to have only annual planning and results horizons. One thing is that the prior actions that are identified have to be such that they can be put in place within a brief period of time, but the follow-up period is so short as to make the longer-term desired results less likely – an issue several of the ICRRs have pointed to.

The same goes for the DPG development objectives. With only a one-year time period available for implementation, the kinds of issues that can be tackled will necessarily be rather simple and possible to address within a twelve-month time horizon. While the individual reforms or PFM steps are selected based on a more strategic view of what needs to be done, it still means that a number of more strategic and complex changes are less likely to be included in the results frameworks, so the trust fund runs the risk of being conditional on addressing second-order concerns rather than more important structural issues. Building more consistent consultation processes during the annual budget cycle, for example, requires pursuing this across several cycles, and with this being agreed as a multi-year concern for it to be realized.

Donor predictability is another area that is of concern. This is particularly important to the national authorities, since availability and quantity of financing varies from one year to the next, making the uncertainty costs to the Ministry quite high. This is of course a perennial problem, and raising it again is obviously not going to solve it – donor predictability has been an issue across the board for the last 20 years at least. But more open consultation and bringing the donors closer to the Ministry thinking might be of assistance in strengthening the commitment by the donors as their confidence that promised reforms will in fact be undertaken is important. Several of the Bank reports note the swings in the PA efforts to carry through agreed-upon changes.

### 8.3 Findings and Conclusions

The additional funding that donors provide to the DPGs through the TF allow the Bank to invest more resources in quality assurance and reporting, to the benefit of all parties, but particularly to the donors.

The major TF inefficiency is the short budget and results cycle, which forces the Bank to use a disproportionate share of its management resources on mandatory steps in the project cycle. The other inefficiency is caused by the lack of predictability of donor contributions – the size and periodicity of transfers to the TF.



## 9 Summing Up and Looking Ahead

The PRDP trust fund has been in existence since 2008, and is therefore approaching its tenth anniversary. This would seem an appropriate time for reviewing options for the future.

### 9.1 Key Issues

It is clear from the documentation produced by the UN, the World Bank, donor evaluations and general political analyses that the main constraint facing Palestine's development, is the Israeli occupation and the ramifications of this and its implementation: Israeli policy is a consistent, persistent, insistent strategy of "*death of a thousand cuts*" to the concept of an independent Palestinian state. Budget support *per se* does little to address, discourage, or change this.

The fact that donor aid may be funding part of Israeli occupation costs raises troubling questions. The solution is not to reduce aid – which is badly needed – but to reduce and over time eliminate the constraints imposed on Palestine by Israeli policies and practices. This, however, is a *political* agenda that the PRDP TF is ill placed to contribute to, but something that the donors to the trust fund – including Norway – should address.

Budget support does, however, ensure that the PA is able to continue as an operational executive of an emergent state, developing policies, practices, structures and capacities consistent with those required by such a state. TF budget support thus remains strategic and appropriate for this kind and level of support to an independent Palestinian state.

### 9.2 Looking to the Future

The National Policy Agenda and its six-year sector strategies provide the foundations for all future support, whether direct budget support or particular projects. But the Palestinians need to step up their implementation, quality assurance, and reporting performance considerably

The Prime Minister's Office's M&E unit is responsible for compiling the Strategic Results Framework with the foreseen Results Action Plans, based on SMART objectives for the 10 National Priorities broken down into the 30 National Policies. The six- and twelve-monthly reporting cycles announced should be encouraged, supported and required, preferably with structured involvement of relevant non-state actors. To the extent that this will contribute to strengthening overall transparency and accountability, the Bank and its partners might consider PRDP TF resources for improving quality, coverage and periodicity.

Regarding aligning future PRDP TF support, this could be to those parts of the National Policy Agenda 2017-2022 that appear most appropriate. This would ensure that performance benchmarks would have a clearer yet medium-term time perspective, and be fully driven by PA priorities. The most relevant aspects for budget support would be National Priority 5, Effective Government, with its National Policy 9, "*Strengthening Accountability and Transparency*", and National Policy 10, "*Effective, Efficient Public Financial Management*". It should also be noted that the NPA links up to some of the Sustainable Development Goals, SDGs, and the Palestinian Central Bureau of Statistics is compiling data on SDG attainment.

When it comes to the two national policies notes above, these in turn are broken down into a series of measures that may allow for better tracking of results:

- National Policy 9, *Strengthening Accountability and Transparency*:
  - Combat corruption in all its forms.
  - Implement the code of conduct for civil servants.
  - Strengthen transparency in government, including the approval and implementation of access to information legislation.
  - Strengthen the role of financial and administrative audit institutions.
  - Strengthen results-based management and integrated planning and budgeting.
  - Promote effective human resources management and development.
  - Institutionalize gender mainstreaming in policy-making, planning and budgeting.
- National Policy 10, *Effective, Efficient Public Financial Management*
  - Ensure fiscal sustainability and improve public financial management, with a particular focus on strengthening macroeconomic/fiscal policy, public debt management and procurement.
  - Mobilize revenue by expanding the tax base; enhancing tax collection, restoring foreign aid levels and rationalising expenditures.
  - Reform the public sector pension system.
  - Reform and restructure Palestine's public institutions to increase efficiency and improve service quality.
  - Establish Palestine's utilities, prioritizing the electricity and water sectors.

### 9.3 Recommendations

Based on the above, the mission would like to make the following *Recommendations* regarding Norway's support to the PRDP trust fund, and the trust fund itself:

- Norway should continue its budget support through the PRDP TF, as this provides low-cost access to high-quality project preparation, supervision and reporting as well as policy-level discussions on the application and results of the funding. Norway should in particular:
  - Provide a predictable disbursement plan regarding timing and size of contributions, preferably on a rolling three-year basis, for indicative planning by the World Bank;
  - Use its policy and political instruments to support relaxation of Israeli restrictions on Palestinian activities, including investments and settlements in Area "C";
  - Contribute to making the PRDP trust fund a vehicle for greater public budget transparency and increased inclusion of non-state actors in PFM reviews.
- The DPG cycles should become pluri-annual, where one option is continuous three-year rolling programmes with budgets and work plans updated on an annual basis but with a more consistent set of objectives throughout the NPA period. The results frameworks should thus be derived from the NPA Strategic Results Framework, as well as SDGs where appropriate, to ensure full alignment with the NPA, coherence and consistency over time, and monitorable indicators at the operational level.
- If the Prime Minister's office follows through on its NPA reporting intentions, the TF should attempt to align reporting cycles, applying the same indicators as much as possible, relying on PA data where reliable and valid, such as those from the Palestinian Central Bureau of

Statistics. Particular attention should be paid to indicators and targets regarding budget transparency and accountability, in addition to standard PFM efficiency and effectiveness concerns.

- Furthermore, coordinate, as far as possible, cycles and results frameworks with EU/PEGASE, thus further contributing to reducing the PA's transactions costs with these vehicles.
- When programming and monitoring the funding, use the LACS sector working group actively, and include civil society and the private sector for information dissemination and consultation.
- Consider financing additional Bank studies in collaboration with Palestinian actors – civic actors, private sector, public offices – on issues of particular concern to key stakeholders. This could be done through a separate mechanism (“window”) within the trust fund that would allow the Bank to administer and allocate small grants or incentive funds for collaborative undertakings.

## Annex A: Terms of Reference

### 1 Background

Since 2008, Norway has channelled budget support to the PA through a multi-donor trust fund established by the World Bank the same year, the Palestinian Reform and Development Plan Trust Fund (PRDP-TF).

The World Bank has entered into yearly agreements with Palestinian authorities on Development policy grants (DPG). The current agreement is the DPG VII, approved 11 Feb 2016. The DPGs are based on the current Palestinian national development plan and contain the baseline, indicators and goals that the PA reform progress is measured against. Disbursements of funds from the PRDP-TF to the PA is contingent on progress on this reform agenda.

The three main channels for budget support to the PA are direct transfers, PEGASE (the main mechanism for the EC and EU member states) and the World Bank PRDP TF. In 2008 the total amount of budget support received by the PA was USD 1 763 million, in 2010 USD 1 237 mill. In 2015, the amount was USD 710 million. The PA budgeted with USD 600 million in budget support for 2016, and received USD 607 million.

The total amount of budget support channelled through the PRDP-TF in 2008 was USD 248 million (Norway: USD 60 million) and in 2015 the total amount was USD 126 million (Norway: USD 26,5 million). In 2016 disbursements to the fund from Norway were USD 28 mill. (NOK 235 million). The Representative Office of Norway to the Palestinian Authority (NRO) administers the Norwegian support.

The political rationale for Norway's budget support to the PA through the PRDP-TF is to enable and develop a viable institutional and economic basis for a future independent and sovereign Palestinian state. As stated in Norway's National Budget (presented to the Storting as Report no. 1 (2016-2017)), the strategic goal is to contribute to a two-state solution where Israel and a Palestinian state live side by side in peace and security within mutually recognised borders. Norwegian aid to Palestine has been maintained at a high level for many years and is comprehensive in scope with a strategic focus on state-building.

Development policy grants from the World Bank aim to help achieve sustainable reductions in poverty. As part of each Development policy grant, the PA has defined a set of public finance management and fiscal reforms in a Letter of Development Policy (LDP) to the World Bank. Each DPG has included explicit development objectives. These have changed slightly over the years. The current DPG VII states that it is entirely based on the PA's reform program. Three development objectives are identified:

- Improve public revenue performance and improve sustainability of public expenditures
- Improve transparency of public finances
- Facilitate the land registration process

The first Palestinian Reform and Development Plan (PRDP) was presented by the PA to the December 2007 Paris Donor Conference. The third tri-annual national plan, the National Development Plan (NDP) 2014-16, just expired. The plan presents a national policy agenda with a vision of a state of Palestine and a few broad strategic objectives. The process to develop a new National Policy Agenda has started, and it was expected to be finalized by the end of 2016, new tentative finalization expected towards the end of the first quarter of 2017 (a draft was shared with donors primo December).

The objectives of the PRDP-TF are to provide budget and development support for the Palestinian Authority's policy agenda as expressed in the current national development plan of the Palestinian Authorities, and include, but are not limited to, the following aims:

- pooling different donor funds into one administrative mechanism that will reduce the transaction costs for the Palestinian Authority; and
- helping to alleviate the Palestinian Authority's fiscal pressure by providing reliable disbursements on a regular basis.

## **2 Purpose**

Norway is a major contributor to the PRDP-TF, and its latest review of the budget support was in December 2010. There is now need for an updated review.

The purpose of the review is to assess the performance of the budget support mechanism (PRDP-TF) and the Development Policy Grant against their stated objectives. The review should also consider relevant recommendations on how to improve the performance of the budget support mechanism. This process will involve an assessment of the performance in terms of relevance, effectiveness, impact, and risk management as well as efficiency.

## **3 Scope of Work and Questions to be addressed**

### **Time period covered**

The review should cover the period from 2010 until now. The starting point relates to the last Norwegian review of the budget support from December 2010. The review should put most emphasis on the development during the past three years. A cut-off-date for how recent events and documents to include may be defined, but this date must be no earlier than three months prior to finalizing the report.

### **Relevance**

The review should assess the relevance of the PRDP-TF and its objectives to the priorities and policies of the PA.

Questions to be looked into:

- The review should assess whether the benchmarks and indicators in the DPGs' Operation Policy Matrix have been reasonable and aligned with the Palestinian tri-annual national development plans covering the period under consideration in the review.
- What has been the PRDP-TF's role as one of several channels for providing budget support?

### **Effectiveness**

The review should survey to what extent the stated development objectives of the DPGs and PRDP-TF have been achieved and to what extent the budget support mechanism (PRDP-TF) has contributed to the identified development. What has been the effect on the PA's effort to increase revenue generation? Key points to focus on include the effectiveness and transparency of the PA's budget process, prioritization and ownership. The effect that the PRDP-TF has had on both donor coordination, harmonization and alignment should be addressed.

Regularity and predictability of budget support from the PRDP-TF is beneficial for the PA. The review should assess the predictability and regularity of the support.

## **Impact**

The DPGs indicate long term objectives for the operation<sup>8</sup>. The review should consider the overall impact of the PA's actions with regards to these objectives. What are the main contributing factors to the identified development?

The review should seek to assess the geographical balance of the impact of PRDP-TF in the West Bank, including East-Jerusalem, and Gaza.

The review should explore the contribution of the budget support mechanism to the government's policies, strategies and spending actions, which have produced and/or contributed to the identified impact. Which intended or unintended results have been achieved through the PRDP-TF and the DPG?

## **Risk management**

The review should consider the ongoing risk management of the budget support mechanism. How does the mechanism take into consideration dimensions of fragility<sup>9</sup> in Palestine? The review should consider material (i.e. of a certain importance) risk factors that may also have a negative impact on the four cross-cutting issues in Norwegian development cooperation: i) human rights, with a particular focus on participation, accountability and non-discrimination, ii) women's rights and gender equality, iii) climate change and environment and iv) anti-corruption. How are lessons learned incorporated back into the operations of the budget support mechanism? What are recommended mitigating measures?

## **Efficiency**

The review should consider the extent to which impact and benefits arising from activities have been commensurate with the level of effort and resources expended. The review should to the extent possible include quantitative evidence, but also take a broad view of the efficiency of the overall PRDP-TF management relative to the result. It will be interesting to understand whether certain areas of PRDP-TF activities emerge as particularly efficient or particularly inefficient. The team should review how efficiently the PRDP-TF supports the PA's budget.

## **Recommendations for the Future**

The review will provide recommendations across all areas outlined above. In particular, it should aim to make recommendations, based on findings, to address a core concern looking ahead:

- How can the PRDP-TF mechanism be better utilized to strengthen Palestinian institutions?

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<sup>8</sup> See e.g. DPG VII, para. 39: "This operation has been designed to support the first two objectives of the NDP. The first objective (focused on growth, competitiveness, and job creation) will be supported through the actions taken to facilitate the land registration process, currently deemed an obstacle to private investment. The second objective related to better governance in public institutions will be supported through the actions aimed at improving public revenue performance and improving sustainability of public expenditures, as well as the actions aimed at improving transparency of public finances."

<sup>9</sup> See OECD (2015) States of fragility 2015.



## 4 General approach and methodology

An external consultant will conduct the review (The Consultant). The Norwegian Agency for Development Cooperation (Norad) will manage the review process, including the relation with the Consultant. The consultant will keep Norad and the Representative Office in close consultation during the implementation of the assignment. For learning purposes, Norad may join some of the interview meetings during the field visit.

The Consultant will be responsible for collection of relevant documentation and existing knowledge on the topics covered by the ToR and for making appointments for interviews. Logistical support will be provided to the consultant by NRO at request, including provision of documentation and scheduling of interviews.

The Consultant will sign a declaration of confidentiality. Confidential documents and reports made available may, if relevant, serve as input to the work of the team. Quotations from substantial contents of the confidential documents and reports should not be in the final review report, unless otherwise agreed.

The review covers a broad field. Part of the task will be to survey and summarize existing knowledge addressing the issues raised under the section “Scope of Work and Questions to be Addressed”, taking into account the consultant’s assessment of the quality of documents consulted, and to identify which topics need further investigation and analysis to be properly assessed. The result from the initial desk study will result in an inception report (see “Deliverables” below), which will form the basis for the final report and the methodology applied. In particular, documentation from the World Bank, who administers the PRDP-TF and from DFID, historically the biggest donor to the PRDP-TF, are key sources along with Norway’s own project documentation. To supplement the written documentation, a field visit with interviews of key stakeholders is to be conducted. The NRO and the Ministry of Foreign Affairs in Oslo can also contribute to the identification of relevant stakeholders to be consulted.

The approach chosen needs to reflect the distinctive features of budget support as an aid channel. The OECD (2012) guide on “Evaluating Budget Support – Methodological Approach” is a useful background document. The guide recommends evaluating budget support in three steps:

- Assess the inputs, direct outputs and induced outputs of budget support including the causal relations between these three levels,
- Assess the outcomes and impacts of the government’s policies, strategies and spending actions, which donors supported and promoted with budget support, and identification of the main determining factors of those outcomes and impacts, and
- Explore the contribution of budget support to the government’s policies, strategies and spending actions, which have produced the outcomes and impacts identified in step 2) by combining and comparing results from step 1) and 2).

The current review of Norwegian budget support to Palestine is of a more limited scope than what the OECD guide discusses, and the recommendations from the guide need to be used selectively. In this ToR, the elements from step 1) are mainly dealt with under “Effectiveness” and the elements from step 2) and 3) mainly under “Impact”.

Other donors to PRDP-TF and the World Bank have been informed about the review process.



## 5 Implementation of the review and deliverables

The study will be done in three phases:

- Phase 1 is a desk study, which will collect and assess key documentation, and include an inception report.
- Phase 2 will consist of key stakeholder interviews and a field visit to Palestine ending with an informal feedback session /debrief with the NRO to discuss the preliminary findings and possible recommendations. The team is responsible for getting access to the relevant locations and persons. A contingency plan if obstacles in this regard should occur should be included in the tender document.
- Phase 3 will be the compilation of the final report, based on outputs of previous phases. The draft report will be commented on by Norad and the Norwegian Ministry of Foreign Affairs. The final report will be submitted to NRO from Norad and presented by the consultant in Al Ram or another suitable location in Palestine.

## 6 Deliverables

An inception report, no longer than 8 pages, shall be submitted to Norad ahead of the field visit. The inception report should summarize the main findings from Phase 1 and specify the methodology for the review. The report should include information on the data collected, identify the information gap needed to be filled, description of the planned field visit including list of key stakeholders to be consulted and a detailed work plan for the team. The Consultant is expected to clarify their understanding of the Terms of Reference in the inception report. The consultant may also address issues that need to be clarified with Norad ahead of the field visit and compilation of the final report, including, if relevant, issues of evaluability of the items identified in the section “Scope of Work and Questions to be Addressed“. The consultant may choose to conduct certain parts of the review as a pure desk study, if a prioritization of the topics dealt with at the field visit are expected to improve the final overall result. Suggestion for such prioritization should be put forward in the inception report. Norad will respond to any questions raised in the inception report ahead of the field visit, in writing and possibly through a meeting in Oslo.

The consultant will provide a draft report covering all aspects of the TOR. Norad will provide written comments to the draft.

The consultant will finalize the report by the deadline stated in the time schedule.

## 7 Time schedule

- 16 May – Signing of contract (tentative)
- 3 weeks after signing of contract - Inception report.
- 2 weeks after reception of inception report - Written response from Norad to issues raised in inception report.
- End June/Beg July – Estimated one week field visit in Palestine.
- 21 Aug – Submission of draft final report covering all aspects of the ToR.
- 11 Sep – Written comments on the draft final report provided by Norad.
- 02 Oct – Final report submitted to Norad.
- By end of 2017 in agreement with Norad – Presentation of report in Palestine

Any deviations from the time schedule must be reported and explained by consultant in advance and approved by Norad. Norad has the responsibility, and right to reject irrelevant explanations and require deliveries due to time schedule above.

## **8 The composition of the review team**

The review team will be headed by the Consultant. The Consultant may choose to include other persons in his/her firm or subcontracted within the offered budget (the Team). The Consultant will be responsible for the production of the deliverables. The proposed Team will be evaluated with reference to the selection criteria in tender document pt. 8.

## **9 Reporting**

The report will be prepared by the Consultant containing an executive summary with main conclusions and recommendations, a concise main body of the review, including main findings and policy recommendations, with thematic notes as annexes, and a list of acronyms, tables and figures.

The report should be written in English and not exceed 50 pages, excluding executive summary and annexes. The report shall be submitted in Microsoft Office Word format and Adobe Acrobat Reader PDF-format.

The review report should be professionally proofread, and presented in accordance with internationally accepted quality criteria, and in a way, enabling publication without further editing.

The report will be the property of Norad. The review will initially be an internal review. Subject to decision by the Representative Office the report may be distributed as a publication

## **10 Documents to be consulted**

As stated in point 4 above, the Consultant will be responsible for collection of relevant documentation and existing knowledge on the topics covered by the ToR. Below follows a list of some relevant documents:

- Project documents for Norwegian support.
- The 2010 Norwegian review conducted by Scanteam.
- Project documents, reviews and occasional thematic reports from the World Bank related to the Development Policy Grants. This includes a 2016 Public Expenditure Review.
- Palestinian tri-annual national development plans for the period covered in the review.
- Reports from the PA to the World Bank under the agreement.
- Key DFID project documents:
  - ODI's 2015 Evaluative review of the Statebuilding Grant and the Palestinian Governance Facility - DFID Palestinian programme.
  - DFID 2016 Project completion review 2011-2016. Statebuilding and Service Delivery Grant to the Palestinian Authority in the Occupied Palestinian Territories.
  - DFID 2016 review on "Fiduciary Risk Assessment for National Systems of Occupied Palestinian Territories".
  - DFID 2011 business case for Statebuilding and Service Delivery Grant to the Palestinian Authority (PA).

- A 2013 report on “West Bank and Gaza, Public Expenditure & Financial Accountability (PEFA)”.
- A 2016 evaluation report of PEGASE Direct Financial Support and Results-Oriented Framework 2014-2015.
- Norad 2016 Assessment of Norwegian Support to Democratization and Strengthened Political Legitimacy in Palestine.

Other relevant documents may be:

- A 2014 World Bank report on “Area C and the Future of the Palestinian Economy”.
- Relevant official statistics and documents from the Palestinian Authority.
- Selected reports to the semi-annual AHLC meetings.

## Annex B: Persons Interviewed

### Palestine – Palestinian officials

#### Prime Minister's Office

Mr. Estephan Salameh, Policy Adviser

Mr. Bader Abuzahra, Head, Monitoring and Evaluation unit

#### Ministry of Finance

Mr. Ahmad Sabbah, Accountant General

Ms. Laila Sbaih Eghreib, Director General, International Relations and Projects Department

#### Ministry of Public Works – Gaza

Mr. Ribhi Al Sheikh, manager, reconstruction project, Gaza

#### Palestinian Central Bureau of Statistics

Ms. Ola Awad, President

Ms. Samar Awaad, Acting Director General, International Relations Department

Mr. Mohammed Qalalwa, Technical Adviser, President's office

Ms. Fida Twam, Head, Living Standards Department

Mr. Faed Rayyan, Director, Government and Finance Statistics Department

### Palestine – Donor officials

#### Australia

Mr. Paul Roche, Head of Cooperation

#### European Union

Mr. Michael Voegele, Head of Operations Section

#### Norwegian Representative Office

Ms. Hilde Haraldstad, Representative

Mr. Tor Erik Gjerde, Head of Cooperation

Ms. Margrete Laland, Second Secretary

#### World Bank

Mr. Mark Ahern, Program Leader

Mr. Pierre Missali, Senior Public Sector Specialist

## Palestine – Other stakeholders

### Aman - Transparency Palestine

Mr. Majdi Abu Zaid, Executive Director

Ms. Hama Zeidan, Advocacy and Social Accountability Manager

Mr. Isam Haj Hussein, Operations Manager

Ms. Iamtes Farraj, Social Audit Coordinator

### MA'AN Development Center

Mr. Sami Khader, Director General

### MAS - Palestine Economic Policy Research Institute

Mr. Samir Abdullah Ali, Senior Researcher

### Masarat – The Palestinian Center for Policy Research and Strategic Studies

Mr. Hani Al Masri, General Director.

### MIFTAH – Global Dialogue and Democracy

Ms. Lily Feidy, Chief Executive Officer

Ms. Riham Faqih, Director, Development, Communication and Outreach

### Muwatin – Palestine Centre for Study of Democracy and Human Rights

Prof. George Giacaman, Director – Professor, Birzeit University

Ms. Hada Aleryan, Lecturer, Birzeit University

## Norway

### Ministry of Foreign Affairs

Mr. Thor Wennesland, Special Adviser to the Minister, Middle East Affairs

### Norad

Mr. Petter Skjaeveland, Senior Adviser, Section for Human Rights, Governance and Fragility; Department for Economic Development, Gender and Governance.

Mr. Vegard Hole Hirsch, Senior Adviser; Section for Development Strategy and Economic Governance; Department for Economic Development, Gender and Governance.

## Annex C: Documents Consulted

### Palestinian Authority Policy Documents

- Palestinian Authority [PA] (2016), “**National Policy Agenda 2017-2022, Putting Citizens First**”. Ramallah, December.
- PA (2014), “**Palestinian National Development Plan 2014-2016, State building to Sovereignty**”, Ramallah.
- PA (2011), “**Palestinian National Development Plan 2011-2013, Establishing the State, Building our Future**”, Ramallah, April.
- Prime Minister’s Office (2017), “**Summary Report: Reconstruction of the Southern Governorates**”. **National Office the Reconstruction of Gaza/NORG**. Ramallah, 9 May.
- Ministry of Social Development (2017), “**Citizen Budget 2017: Priority Target Marginalized Areas and Groups**”. With MIFTAH. Ramallah.

### World Bank General Documents

- World Bank (2017a), “**West Bank and Gaza – AHLC Report: Economic Monitoring Report**”, Ramallah, 4 May.
- World Bank (2016a), “**Public Expenditure Review of the Palestinian Authority: Towards Enhanced PFM and Improved Fiscal Sustainability**”. Washington, September.
- World Bank (2016b): “**Reforming Aid Management in the West Bank and Gaza**”, Commissioned by co-chairs of the Local Aid Coordination Secretariat, Al Ram, 1 March.
- World Bank (2013a): “**West Bank and Gaza, Area C and the Future of the Palestinian Economy**”, Washington, 02 October.
- World Bank (2013b): “**West Bank and Gaza, Public Expenditure & Financial Accountability (PEFA), Public Financial Management Performance Report**”, Washington, 17 June.
- World Bank and United Nations (2017): “**Aid Flow Study**”, April.

### World Bank DPG Documents

- World Bank (2017b): “**DPG VII: Implementation Completion and Results Report**”. May.
- World Bank (2016c): “**Program Document, PNDP DPG Grant VII**”, 14 January
- World Bank (2016d): “**DPG VI - Implementation Status Report**”, July.
- World Bank (2016e): “**DPG VI - Implementation Completion and Results Report**”, 14 July
- World Bank (2016f): “**DPG VI - Implementation Completion Report - IEG**”, December.
- World Bank (2015a): “**DPG VI – Implementation Status and Results Report**”, 30 July
- World Bank (2014a): “**DPG V - Implementation Completion and Results Report**”, 30 March.
- World Bank (2014b): “**Program Document, PNDP DPG Grant VI**”, 23 April
- World Bank (2014c), “**DPG V – ICR Review**”, Independent Evaluation Group, 30 September
- World Bank (2013c): “**Program Document, PNDP DPG Grant V**”, 25 April
- World Bank 2015-2016: Quarterly Reviews, PRDP-TF – every quarter both years.

## Palestinian Authority Quarterly Progress Reports

Palestinian National Authority (PNA) Ministry of Finance (MoF) Macro Fiscal Unit (MFU) (2015): Fiscal Developments: 3rd Quarter Report 2015.

PNA MoF MFU (2014): Fiscal Developments: 4th Quarter and Full year 2014, 01 March.

PNA MoF MFU (2014): Fiscal Developments 2nd Quarter and Mid-year Report 2014, 22 July.

PNA MoF MFU (2014): Fiscal Developments 1st Quarter, 07 April.

PNA MoF MFU (2014): Fiscal Developments, 4th Quarter/ Full year 2013 Report, February.

## Norwegian Representative Office (NRO) Documents

NRO (2016), *Decision Document (DD), addenda 21, 22*, Project and Programme Support PAL-3018, 10 November

NRO (2015a), *DD, Addendum 20*, Project and Programme Support PAL-3018, November

NRO (2015b), *DD, Addenda 18, 19*, Project and Programme Support PAL-3018, February

NRO (2014a), *DD, Addendum 17*, Project and Programme Support PAL-3018, November

NRO (2014b), *DD, Addendum 16*, Project and Programme Support PAL-3018, August

NRO (2014c), *DD, Addendum 15*, Project and Programme Support PAL-3018, May

NRO (2014d), *DD, Addendum 14*, Project and Programme Support PAL-3018, February

NRO (2013a), *DD, Addendum 13*, Project and Programme Support PAL-3018, October

NRO (2013b), *DD, Addendum 12*, Project and Programme Support PAL-3018, November

NRO (2008), "Trust Fund Administration Agreement – PRDP-TF", 19 March

## DFID Support-Related Documents

DFID (2016): "Statebuilding and Service Delivery Grant to the Palestinian Authority in the Occupied Palestinian Territories" Project Completion Review - Top Sheet, June.

DFID (2015): Amendment Letter to the Memorandum of Understanding with the Palestinian Government for Financial Assistance, Statebuilding and Service Delivery Grant.

DFID (2015): "Statebuilding and Service Delivery Grant to the Palestinian Authority in the Occupied Palestinian Territories" Annual Review - Summary Sheet, February.

DFID (2014): "Statebuilding and Service Delivery Grant to the Palestinian Authority" Annual Review - Summary Sheet, February.

DFID (2013?): "Statebuilding and Service Delivery Grant to the Palestinian Authority" Annual Review - Summary Sheet, 2013?

DFID: Intervention Summary, Statebuilding and Service Delivery Grant to the Palestinian Authority.

DFID: DFID Management Response: Evaluative review of the Statebuilding Grant and the Palestinian Governance Facility – DFID Palestinian programme.



## Other Documents

- Aman (2017), "Integrity and Combating Corruption. Palestine 2016 – Ninth Annual Report". Ramallah.
- Aman (2016), "Public Opinion Poll on Corruption in Palestine 2016", Ramallah, December.
- Amodio, Francesco et al (2016): "Security, Trade, and Political Violence", 11 October.
- CST-EPBT (Civil Society Team for Enhancing Public Budget Transparency) (2017a), "Draft Public Budget 2017". Position Paper, Ramallah, January.
- CST-EPBT (2017b), "The Palestinian 2016 Public Budget: Actual versus Planned." Analytical Paper, Ramallah, February.
- CST-EPBT (2015), "Rationalization and Austerity in Government Spending Report". Ramallah, December.
- Danida/Ministry of Foreign Affairs of Denmark (2015), "Evaluation of the Danish Engagement in Palestine". Ecorys, Evaluation Report 2015.2, Copenhagen, May.
- Department of Foreign Affairs and Trade (2015), "Aid Investment Plan: Palestinian Territories 2015-2019". East Jerusalem.
- European Commission (2016): "Evaluation of the PEGASE Programmes of Direct Financial Support to the Palestinian Authority and Results Oriented Framework in the Period 2014-2015", Saad, Roz and Mahieddine Saidi. Brussels, December.
- European Commission (2014a): "Evaluation of the European Union's Cooperation with the occupied Palestinian territory and support to the Palestinian people", Particip. Main Report Final, Vol 1, July.
- European Commission (2014b): "Evaluation of the European Union's Cooperation with the occupied Palestinian territory and support to the Palestinian people", Annexes Final, Vol 2, July.
- Hever, Shir (2015), "How Much International Aid to Palestinians Ends Up in the Israeli Economy?" Aid Watch, September.
- International Consulting Expertise (2016), "Evaluation of the PEGASE Programmes of Direct Financial Support to the Palestinian Authority and Results Oriented Framework in the period 2014-2015", Brussels, December.
- MIFTAH [The Palestinian Initiative for the Promotion of Global Dialogue and Democracy] (2017), "Proposed Reforms to the 2011 Income Tax Law". Evidence-based Research. Ramallah, March.
- MIFTAH (2015), "Evaluation of the Income Tax Law of 2011 and its Amendments from a Socio-economic Justice Perspective". Ramallah, December.
- Netherlands Ministry of Foreign Affairs (2016), "How to break the vicious cycle. Evaluation of the Dutch Development Cooperation in the Palestinian Territories 2008-2014". Amsterdam, April.
- Norad (2017), "Country Evaluation Brief: Palestine". CMI. Evaluation Report 5/2017. Oslo, June.
- Norad (2016), "Assessment of Norwegian Support to Democratization and Strengthened Political Legitimacy in Palestine". Petter Skjaeveland and Petter Bauck. Norad Discussion report 1/2016. Norad, Oslo, November.

OECD (2010), "Evaluating Budget Support. Methodological Approach". DAC Network on Development Evaluation. Paris.

Overseas Development Institute (2015): Evaluative review of the Statebuilding Grant and the Palestinian Governance Facility – DFID Palestinian programme, Final Report.

Scanteam (2010), "Review of Norwegian Budget Support to the Palestinian Authority". Oslo, November.

USAID (2017), "West Bank and Gaza Inclusive Growth Diagnostic". With State Department. May.

## Annex D: Methodology

The fundamental approach for this task has been the OECD-DAC's *Evaluating Budget Support: Methodological Approach*: ([https://www.oecd.org/dac/evaluation/dcdndep/Methodological%20approach%20BS%20evaluations%20Sept%202012%20\\_with%20cover%20Thi.pdf](https://www.oecd.org/dac/evaluation/dcdndep/Methodological%20approach%20BS%20evaluations%20Sept%202012%20_with%20cover%20Thi.pdf), Paris 2012). This consists essentially of a two-part framework. The first one is the *Comprehensive Evaluation Framework* (CEF), that lays out the causal logic of budget support, using a classic delivery chain of Inputs ⇒ Outputs ⇒ Induced Outputs ⇒ Outcome ⇒ Impact. This can be visualised in the form of an intervention logic (see figure D.1)<sup>10</sup>. The “fixed factors” or “stock variables” or foundations for the budget support are the various formal agreements that need to be in place for funding to be viable. The “flow variables” are then the funds from Norway and other donors into the PRDP-TF, while the basic activities concern the administration and disbursement carried out by the Bank on behalf of the PRDP-TF. For each step in the delivery chain, there are normally some assumptions that need to be in place, indicated by placeholders in the graph (“A1”, “A2” etc.).

Once the funds are transferred to the PA Treasury, they enter into the PA's existing PFM process, where the funds are expected also to act as incentive for the continuous PFM reforms that have been agreed between the parties and as laid out in the Letter of Development Policy (LDP) and operationalised in the DPG documents.

The direct results of this support, the Outputs, are seen to be the successful pooling of funds for the PA and the alleviation of fiscal pressures due to the reliable transfers. Along with the reforms in the PFM system, one might expect an Intermediate Outcome of improved PFM performance, contributing towards the objective stated in the LDP. This is in turn reflected in the three Outcomes that are the desired results of the DPG. This is then to contribute to the overarching goal of the Norwegian support, which is the establishment of a two-state solution where Israel and Palestine have established peaceful relations and are safe within mutually recognised borders, and with Palestine having established functioning and sustainable state structures.

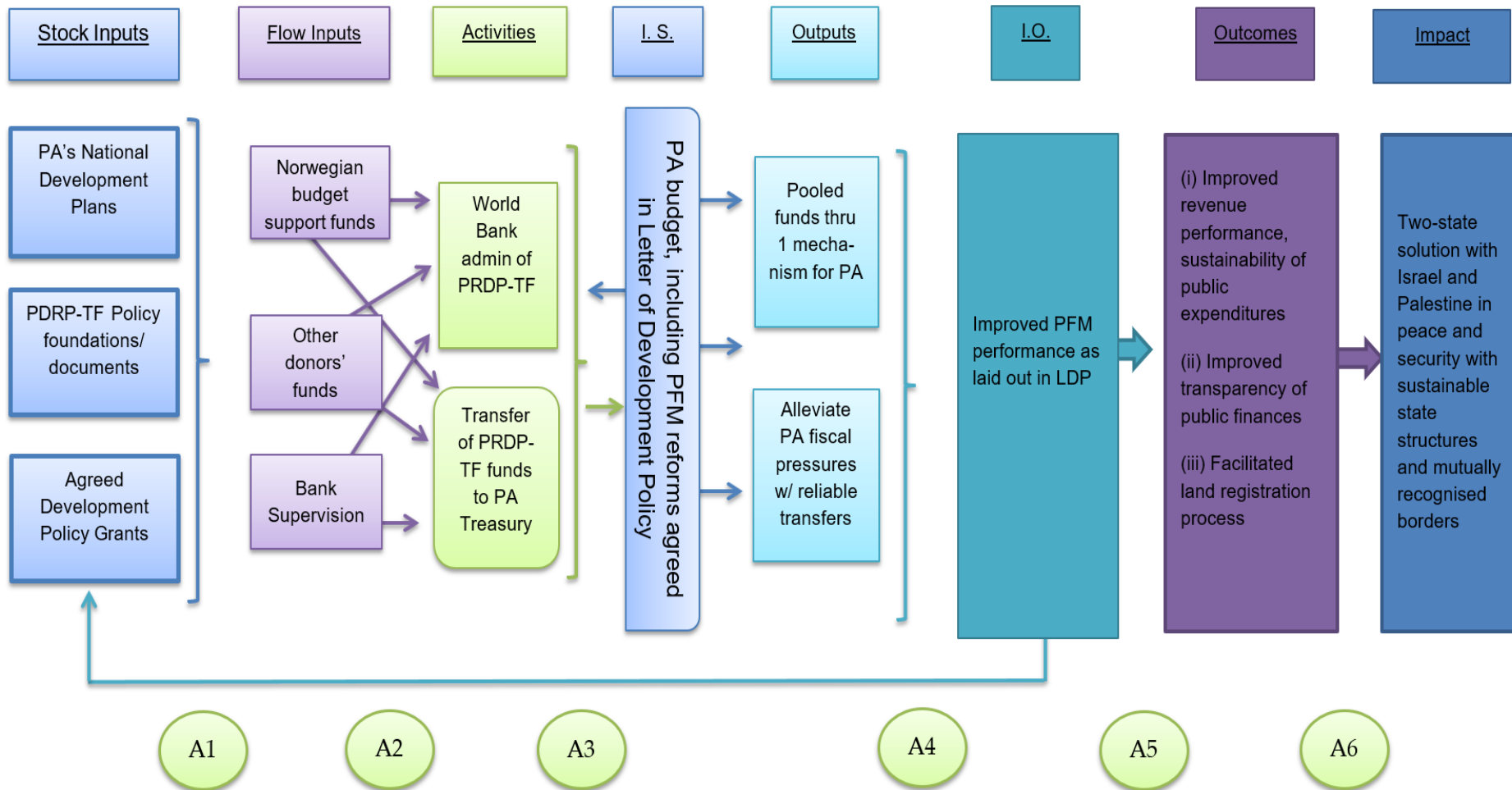
The second part of the budget support evaluation framework is the so-called *Three Step Approach*. This essentially de-composes the CEF into three results areas, largely as a function of degree of attribution and actors that are primary contributors to the various results areas. The first step looks at the support provided by the funding actors, looking up to the level of the Intermediate Outcomes. Step 2 looks at the areas that are more the responsibility of the host government, going from Intermediate Outcomes through Outcomes to Impact. The third step then looks at the degree to which the results from step 1 – attributed to the budget support – can explain the results identified in step 2 – a contribution/ attribution analysis.

The OECD manual makes a point of the methodological differences between steps 1 and 2, with the step 1 seen as a classic aid effectiveness study, while step 2 is a policy impact study. Aid effectiveness analyses, with their fairly linear causal chains, allow for some form of attribution analysis, but assume that important factors do not intervene in the delivery chain, something

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<sup>10</sup> In some Results Frameworks used by the World Bank, “Induced Outputs” are instead referred to as “Intermediate Outcomes”. This is perhaps a better term, since it comes across as a more clearly intended result, and a necessary step in the delivery chain to get to the Outcomes. For that reason, Intermediate Outcome is the term used in the proposed intervention logic shown below

**Figure D.1: Intervention Logic, Budget Support to the Palestinian Authority**



I.S.: Intermediate Step  
 I.O.: Intermediate Outcome

that in a situation like Palestine's of course is not true. But as a way of trying to get analytical clarity on how various causal linkages in the total delivery chain can be looked at, it is helpful and will be applied as appropriate.

## Data Sources and Data Collection

While this is a budget support review, the task is to be a critical review of the two PFM vehicles in play: the PRDP-TF on the donor side, and the Palestinian Authority's PFM process and its robustness and governance aspects, on the other. A key issue is the inter-play between the two – the extent to which the funding through the PRDP-TF and the policy dialogue with it not only provides necessary financing but also contributes to the reform processes seen as required for the PA's PFM system to evolve into a transparent and sustainable system. The review was thus based on a mixed methods approach, where there were essentially two sets of data:

- The information contained in the available documentation, which ranges from the general policy documents to the specific agreements and results reports;
- The views and experiences of the key stakeholders on both the donor and PA sides:

The task was thus based on (i) a document review, (ii) a set of early interviews with staff in the MFA and Norad in Oslo who have been involved in the PRDP-TF during this period, and (iii) field work visiting Palestine and interviewing relevant stakeholders there, both on the PA side and on the donor and PRDP-TF administration/management side.

### Document Review

While the review is to cover the six-year period 2011-2016, focus is to be on the last three years. However, to get a good understanding of how the PRDP-TF has evolved and why perhaps the objectives for the trust fund and the DPGs have changed, the historical dimension is particularly important for understanding changes to the *relevance* and *risk management* of the TF and perhaps also to changes in *efficiency*.

The document universe consisted of three major sets: (i) the formal documents regarding the PRDP-TF and its functioning as a budget support vehicle, (ii) other documents that review the trust fund and the results, and (iii) other documents that otherwise shed light on the performance of the PRDP-TF or the PA's PFM system, as relevant to this review.

In the first group can be found (i) the basic PA policy documents, and in particular the PNDP 2011-2013 (*Establishing the State, Building our Future*) PNDP 2014-2016 (*State Building to Sovereignty*), NPA 2017-2022 (*Putting Citizens First*); (ii) the basic PRDP-TF programme documents produced by the Bank, (iii) the agreements between the Bank and the PA regarding budget support, and in particular the DPGs and Letters of Development Policy, (iv) the agreements between the Bank and Norway regarding Norway's contributions to the PRDP-TF, (v) Norwegian documentation regarding its contributions and commitments, (vi) the relevant reporting as against these agreements – from the PA to the Bank, and from the Bank to Norway and the other donors.

The second group of documents include external reviews and documentation of relevance to understanding the trust fund, as provided in the ToR, section 10, while the third group contains a number of the studies done by Palestinian bodies such as NGOs (seen Annex C).

### Stakeholder Interviews

While the documents are important, the issues to be addressed required that the team spoke with relevant stakeholders. To ensure that the information was collected and recorded in a structured way, the team prepared a *Conversation Guide* that was based on the questions in the ToR and thus include all the issues to be covered (see Annex E). The Conversation Guide was modified (shortened, tailored) for each informant group, to focus on the most relevant issues to each.

The first set of interviews was with relevant staff in Norad and the Norwegian MFA, and was conducted as part of the inception phase.

The face-to-face interviews with stakeholders in Palestine focused on the World Bank and the donors to the trust fund. On the Palestinian side, the team spoke with staff in the Prime Minister's office and the Ministry of Finance, for the overarching policy and PFM issues.

The team then also spoke with a number of non-state actors who are closely involved in budget and public expenditure issues, either at national or sectoral or thematic levels.

While the ToR asked that the team looked at results of the trust fund support throughout Palestine, including East Jerusalem and Gaza, the team was not able to identify expenditures related to Jerusalem, but got a detailed overview of expenditures by the PA in Gaza, which are quite substantial – see table 6.1.

### Field Visit

The team visited East Jerusalem and Ramallah during the period 27 June – 7 July. The first period, from 28 June through 1 July, was spent speaking with staff at the Norwegian Representative Office (NRO), the World Bank, and donors to the PRDP Trust Fund. During 1 through 5 July the team was in Ramallah, speaking with representatives of the Palestinian Authority and non-state actors, while on 6 July the team returned to East Jerusalem for final debriefing with the NRO.

While there had been some discussions about a possible visit to Gaza, this was dropped as there were no direct interlocutors to speak with there. The team did carry out one phone interview with one of the staff responsible for rebuilding infrastructure in Gaza, but formally this person was on a project and not a PA staff member, and the project was funded under a UN grant and not directly from the PA budget.

## The Intervention Logic: Testing of Assumptions

The intervention logic that has been applied (see figure D.1), builds on a series of assumptions that are worthwhile noting, using the “assumptions placeholders” in D.1:

- **A1:** The basic assumption is that the foundational “stocks” of policies and programs (Palestinian, World Bank, Norwegian) are internally consistent and mutually reinforcing, so that what exists as basic premises for the “flow” inputs will facilitate the attainment of the agreed-upon objectives for the funding. This assumption is what in particular chapter 3 is all about: the degree to which the formal agreements between the Bank and the PA in the form of the DPGs can be seen to derive from PA policy positions; the extent to which these policy positions are consistent and credible; and to what extent the overarching objectives of the trust fund as such support and underpin the more operational DPGs. – The general answer is that these linkages and consistencies exist, though uncertainties of course remain, given that the policy space open to the PA is constrained, and that the legitimacy of the current PA leadership is getting a little worn, but not to the extent that the assumption is questioned.



- **A2:** The draft intervention logic assumed two kinds of variable or flow inputs: Norwegian funding, and funding from other donors, including the World Bank itself. From the document review, however, it is clear that a third type of input is important, namely the quality assurance inputs from World Bank staff (the comments in the ICRRs), as well as the important contributions from other external quality assurance actors (ODI review of the UK support, ICE evaluation of PEGASE support). The assumption implicit in the intervention logic that all that was needed on top of the agreed policies was the funding, is therefore not sufficient: continuous supervision and dialogue has been critical and will be important also in the future and must be included. Since one of the things Norway is essentially getting by joining a Bank-administered trust fund is exactly is fiduciary as well as its policy oversight services, accepting that this assumption requires also this technical supervisory dimension becomes an important argument for Norway to continue using this instrument, since Norway alone would have neither the financial nor the technical resources to exercise this level of oversight and control. The Intervention Logic in Figure D.1 therefore has a third “flow input” labelled “Bank supervision” added to the graph compared with the draft Intervention Logic presented in the Inception Report, and with that addition the underlying assumption is fine.
- **A3:** The assumption underlying the transfer of funds to the PA budget is that the World Bank administration of the trust fund, and the reporting back, is of sufficient quality and periodicity that reporting and quality assurance standards are adhered to. The document review and the field work concludes that this is the case, with annual trust fund meetings, DPG negotiations, World Bank Project Appraisal Documents (PADs) for each DPG, production of DPG Project Documents containing the PA’s Letter of Development Policy and a complete Results Matrix and Risk Assessment, the Bank Implementation and Completion Results Reports (ICRRs) that finally are reviewed by the Bank’s internal Independent Evaluation Group (IEG) for completeness, consistency, ratings and follow-up points.
- **A4:** The issue that has come up most often in the ICRRs is whether the PA is sincere about the reforms agreed to, and that in particular some PFM reforms seem to be lagging. This issue is also raised in the ODI report, which notes that a number of informants do not believe that the PNDP truly reflects PA priorities. This issue is discussed at the end of section 4.1 in the report above, basically with the conclusion that there may not necessarily be strong political conviction among members of the PA, but in practice most of the reforms have been implemented – though some higher-level results that were expected to follow have not in fact been produced. – The intervention logic in figure D.1 is in fact a simplification of what is actually stated in various DPGs, where there are more specific results that are to be produced. The challenge for this visual presentation is that these desired results change somewhat from one DPG to another, so that there is not a sufficient consistency to capture “the” intervention logic: there is not one but several interventions logics, as the DPGs change over time. – Another issue is that at it is especially at this point in the delivery chain that the external risk factors come into play. In the first years of this period there was fairly healthy macro-economic growth, then came the dire consequences of the 2014 Gaza war, and following that the drop in external aid, increases in the constraints imposed by the Israeli government, etc. Moving from the discrete Outputs to the reforms foreseen labelled Intermediate Outcomes therefore is a much greater challenge and is not well captured in the graph. A more complete intervention logic should include a visual presentation of key risk factors, but this is something a simplified intervention graph simply is not well-placed to capture. But the basic assumption – that the PA is committed (strongly or with some pressuring) to deliver reform processes as presented in its Letters of Development Policy – remains a valid assumption, and has largely been borne out by the facts on the ground.



- **A5:** The Outcomes included here are from DPG VII, since these are the most recent ones. The logic of moving from enhanced PFM performance to the first two Outcomes is reasonable, and the assumptions required is simply that the PA is committed to achieving these Outcomes. While the first one, of enhanced revenue performance and thus improved sustainability of public expenditures, is unproblematic: no matter what their political agenda, any political leadership would like to move towards a more solid fiscal situation. The improved financial transparency is more problematic, since during the field work civil society actors pointed to a lack of commitment to transparency under the current leadership that requires more engagement on the side of the donors. This is behind the Recommendation that the TF therefore work towards a more inclusive PFM process and system, so that non-state actors can verify and contribute to greater transparency. The third Outcome listed, improved land registration, is linked to higher-level objectives of private sector development and growth, where land titles are important for issues like access to credit. The actual link from PFM performance to improved land titling is not obvious, and the assumption required is also not clear, since the land titling decision does not really hinge on PFM improvements as much as simply addressing this issue directly. The original set of assumptions are therefore faulty when it comes to the second Outcome, and to address this a specific Recommendation has therefore been made.
- **A6:** Moving from Outcome to the two-state solution is a major step, and not something the TF or individual DPGs can be held accountable for. Maintaining this as the overarching goal still is correct, since the overall justification for Norway to continue its budget support is exactly that the two-state solution needs to be a viable option, and this is only possible if the PA is able to continue as an operational executive of an emergent state, developing policies, practices, structures and capacities consistent with those required by such a state, as noted in the Executive Summary. – While the leap from the Outcomes to the desired Impact therefore is great, and many critical assumptions particularly regarding the peace process and political discussions between Israel and Palestine are required, it is clear that this goal is much more realistic if the PA and Palestine have a vibrant and inclusive economy with a strong PFM system in place and political and technical capacities to manage it.

## Annex E: Conversation Guide

*Dear colleague,*

*Scanteam has been asked by Norway's Agency for Development Cooperation to review Norway's budget support to the PA over the period 2010-2017, with focus on 2014-2016. The funding is channelled through the World Bank-administered Palestinian Reform and Development Plan Trust Fund (PRDP-TF), and the review is to look at **relevance, effectiveness, efficiency, impact, and risk management** of the support and the TF. We look forward to hearing your views. All interviews will be confidential.*

### Relevance:

- How relevant is the PRDP-TF, as one of several channels, for budget support to the PA?

### Effectiveness:

- To what extent have the stated development objectives of the DPGs and PRDP-TF been achieved
- To what extent has the PRDP-TF contributed to the identified development
- What has been the effect of the PRDP-TF on the PA's effort to increase revenue generation? What have been the results as far as effectiveness and transparency of the PA's budget process, prioritization and ownership go?
- What has been the effect of the PRDP-TF on donor coordination, harmonization and alignment?
- What have been the PRDP-TF's contributions to PA policies, strategies and spending actions that have produced and/or contributed to the identified impact?
- Which intended or unintended results have been achieved through the PRDP-TF and the DPGs?

### Impact:

- What is the main Impact achieved to date? What are the main contributing factors to the identified development?
- What has been the geographical balance of the impact of PRDP-TF in the West Bank, including East-Jerusalem, and Gaza?
- What has been the PRDP-TF's contribution to the government's policies, strategies and spending actions that have produced and/or contributed to the identified impact?
- Which intended or unintended results have been achieved through the PRDP-TF and the DPGs?

### Risk Management:

- How does the PRDP-TF take into consideration dimensions of fragility in Palestine?
- Which material risk factors may have a negative impact on the cross-cutting dimensions in Norwegian development cooperation: i) human rights, with a focus on participation, accountability and non-discrimination, ii) women's rights and gender equality, iii) climate change and environment and iv) anti-corruption?
- How are lessons learned incorporated back into the operations of the PRDP-TF?
- What would you recommend as measures to improve risk management?

Efficiency:

- Have impact and benefits from PRDP-TF been commensurate with the level of effort and resources expended? This should, to the extent possible, include quantitative evidence, but also take a broad view of the efficiency of the overall PRDP-TF management relative to the result.
- Have certain areas of PRDP-TF activities been particularly efficient or inefficient? In particular, how efficiently does the PRDP-TF support the PA's budget?

Overall Issues:

- How helpful is the PRDP Trust Fund set-up – i.e., how appropriate do you believe such a budget-support mechanism is under the current circumstances?
- Are the other models of technical and financial support that you believe would (i) ensure better public finance management results, (ii) better state-building results, (iii) better poverty reduction results?
- If you look at the PRDP Trust Fund versus the EU PEGASE, what do you see as important differences, and what are possible consequences of these differences? Are they competing funds or complementary, and in which ways?
- [*Largely for Palestinian civil society stakeholders*]: Are financial pooling mechanisms such as the PRDP Trust Fund a good mechanism for supporting Palestinian development (does it reduce costs? Uncertainty? Does it constrain diversity, possibilities for innovation??)

*Thank You very much for your time and assistance!*

## Annex F: Palestinian Policy Documents

The relevant Palestinian policy documents over this period are the *Palestinian National Development Plan 2011-2013* (PNDP 2011-2013), “Establishing the State, Building our Future”; the *Palestinian National Development Plan 2014-2016* (PNDP 2014-2016), “State building to Sovereignty”; and the *National Policy Agenda 2017-2022* (NPA 2017-2022), “Putting Citizens First”. An overview of these documents are presented below, providing a more complete picture than was possible in chapter 3, but thus also containing some of the same material.

### **Palestinian National Development Plan 2011-2013**

The **PNDP 2011-13** was the product of the second comprehensive tri-annual national planning process, summarizing the PA’s policy agenda, macroeconomic and fiscal plan, and accountability framework for the three years. It introduced targeted work in four sectors, building on PNDP 2008-2010: governance, social services, the economy, and infrastructure.

#### **Governance**

The objectives in the Governance sector were to (i) provide national security and public safety throughout the country, (ii) deliver justice and the rule of law for all citizens, (iii) modernize and streamline public administration, (iv) empower local government and bring public services closer to citizens, (v) attain financial independence and economic stability, and (vi) promote Palestine’s sovereign presence in the international community.

#### **Social Services**

The objectives here were stated to be to (i) support and empower the poor and other vulnerable citizens and their families, (ii) prepare children and youth for a fulfilling life and productive work in Palestine, (iii) restore Palestine as a centre of excellence in higher education and academic research, (iv) promote and sustain a healthy society, (v) safeguard and renew Palestine’s heritage and culture, (vi) promote the full participation and empowerment of women in society, and (vii) invest in youth to enable them to reach their full potential in their homeland.

#### **Economic sector**

The strategic objectives were to (i) ensure a positive investment environment in Palestine, (ii) enhance the competitiveness of Palestinian products and services, (iii) promote economic integration and access to external markets, (iv) ensure a vibrant labour market and combat unemployment, (v) strengthen consumer protection institutions.

#### **Infrastructure**

Here, PNDP wanted to (i) develop integrated and sustainable national infrastructure networks, (ii) secure Palestine’s supply of energy and natural resources, (iii) protect the environment in Palestine, (iv) maintain the long-term quality, affordability and safety of infrastructure systems, and (v) ensure adequate, safe and affordable housing.

### **Macroeconomic and Fiscal Framework 2011-2013**

The PNDP reflected on the positive achievements during PRDP 2008-2010, and continued to target fiscal sustainability and reduce reliance on external aid to stabilize the Government’s financial situation. The 2011-13 macroeconomic and fiscal framework was predicated on a baseline scenario that assumed progress in removing the externally-imposed constraints on

Palestine's economy. It adopted a mid-term Macro Economic and Fiscal Framework, MEFF, where GDP growth was projected to increase steadily from 9.3% in 2010 to 12.0% in 2013, unemployment was to decline, prudent fiscal policies and broader institutional reforms would reduce the recurrent deficit while development expenditures would rise (table 2.1).

The fiscal framework projected 16% annualized growth in revenues 2011-2013, increases in tax and non-tax revenues driven by economic growth, continued efforts to recover arrears due from large taxpayers, increased collection rates, broadening of the tax base, and a hoped-for progressive lifting of movement and access restrictions to Gaza.

Recurrent expenditures, including net lending, had risen to 51.8% of GDP in 2009, driven by emergency spending in the Gaza Strip, but the downward trend then resumed, with a decline to 41.6% of GDP projected for 2010. Further reforms were to yield a further reduction to 31.8% of GDP by 2013.

**Table F.1: Macroeconomic Indicators 2011-2013 (baseline scenario)**

	2008	2009	2010	2011	2012	2013
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Output and prices	(Annual % change)					
Real GDP (2004 market prices)	7.1	7.4	9.3	9.0	10.0	12.0
Public finance (commitment basis)	(% of GDP)					
Revenues	25.7	25.9	26.1	25.4	26.5	27.3
Recurrent expenditure and net lending	47.2	51.8	46.6	38.3	35.2	31.8
Wage expenditures	23.8	23.8	21.8	20.2	18.7	17.1
Non-Wage expenditures	16.1	21.9	16.6	16.1	14.9	13.6
Net lending	7.3	6.1	3.2	1.9	1.5	1.1
Recurrent balance - before ext'l support	-21.6	-25.9	-15.5	-12.8	-8.7	-4.1
Development expenditure	3.5	6.5	3.7	5.9	9.1	9.9
Overall Balance – before ext'l support	-25.1	-32.4	-19.3	-18.7	-17.8	-14.0
External support, recurrent+ capital exp.	32.4	28.5	17.3	17.4	18.3	14.5

Source: PNDP 2011-2013, table 3.3, p. 64

### The outcomes of PNDP 2011-2013

Actual achievements fell far short of plans, primarily because the external environment did not evolve as had been hoped for. This meant that GDP growth targets, revenues etc. were not reached, which meant that the containment of public sector expenditures as a share of GDP became more difficult. While the PA managed to control wage bill growth, and while net lending – a particularly troubling category for the PA – showed an improvement in 2011, in the two following years net lending as a share of GDP became higher again (table F.2).

**Table F.2: Macroeconomic Indicators 2011-2013 Actual**

	2011	2012	2013
	Actual	Actual	Actual
Output and prices	(Annual % change)		
Real GDP (2004 market prices)	12.2	5.9	1.5
Public finance (commitment basis)	(% of GDP)		
Revenues	20.9	20.2	20.5
Recurrent expenditure and net lending	34.0	34.4	32.7
Wage expenditures	18.2	17.3	17.0
Non-Wage expenditures	14.3	14.5	13.9
Net lending	1.4	2.7	1.9
Recurrent balance - before external support	-13.1	-14.2	-12.2
Development expenditure	5.8	2.4	1.7
Overall Balance – before external support	-18.9	-16.6	-13.9
External support for recurrent and capital exp.	8.3	7.6	11.1

Source: PNDP 2014-2016, table 9, pp. 85-86,

### **Palestinian National Development Plan 2014-2016**

The PNDP 2014-2016 was based on a very different assessment of the challenges and issues facing Palestinian development. Contrary to the PNDP 2011-2013, the PA did not assume an ease in the political environment, either external or domestic. It recognized that the optimistic sector-wide structural reforms had not been possible to deliver due to “*complex dynamics of international and domestic politics and the deleterious consequences of these on our economic situation and the living conditions of our citizens*” (PNDP 2014-2016, p. 9). The challenges were classified into four areas: (i) the Israeli occupation, (ii) internal political and administrative divide, (iii) deteriorating economic situation and financial crisis, (iv) poverty and unemployment, particularly affecting women and youth.

This PNDP, like the previous one, focused on four strategic sectors: (i) economic development and employment, (ii) good governance and institution building, (iii) social protection and development, and (iv) infrastructure.

As with the previous PNDP, each objective was broken down into a series of more specific sub-objectives. The last 30 pages of the 160-page document is a detailed monitoring and evaluation framework that provides the baseline year and value for tracking progress, the data source, and the targets for each of the three years 2014-2016. Compared with the previous PNDP, it is thus more operational and monitorable.

This PNDP discusses different scenarios for deriving the midterm Macroeconomic and fiscal framework. The baseline assumed continuity of constraints over the Palestinian economy and no progress in relations between the West Bank and Gaza, while the optimistic scenario assumes ease of constraints. However, the modest baseline scenario was adopted.

This scenario still promoted effective and efficient PFM, making a concerted effort to attain fiscal stability and reduce dependence on external aid through an expanded tax base and improved tax collection mechanisms, to increase public revenues. The ratio of net public revenues to overall

expenditure and net lending was to increase from 63% in 2013 to 71% in 2016. Also, recurrent expenditure and net lending is projected to drop over the coming four years, declining to 32.1% of GDP in 2016 from 34.4% in 2012. The PA was to streamline expenditures and reduce net lending, constraining the wage bill, limiting its growth to cost of living increases (estimated at 3% on average only) through implementation of binding agreements with unions, in 2014-16 public sector employment will continue to be restricted to replacements of retired civil servants. Projected public investment expenditures are to rise from USD 400 million in 2014 to USD 500 million in 2015, and reach USD 600 million in 2016. Expectations regarding donor support is that this will decline, but aid remains vital for the PA financing over the three-year period.

**Table F.3: Select Macroeconomic indicators (baseline)**

	2011	2012	2013	2014	2015	2016
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Output and prices	(Annual % change)					
Real GDP (2004 market prices)	12.2	5.9	1.5	2.0	1.5	1.0
Public finance (commitment basis)	(% of GDP)					
Revenues	20.9	20.2	20.5	22.0	22.2	22.7
Recurrent expenditure and net lending	34.0	34.4	32.7	32.8	32.3	32.1
Recurrent balance, before ext'l support	-13.1	-14.2	-12.2	-10.9	-10.1	-9.4
External aid for current expenditures	8.3	7.6	11.7	11.3	12.2	11.8
External financing, dev't expenditures	1.7	1.5	0.3	2.5	0.8	0.4
Total external financing	10.1	9.1	12.1	13.8	13.0	12.2
Financing gap	-6.8	-7.5	-1.8	0.0	0.0	0.0

Source: PNDP 2014-2016, table 9, pp. 85-86

## NPA 2017-2022

The National Policy Agenda (NPA) for the six-year period 2017-2022, sets out the strategic directions that are intended to prepare for the end of occupation and development of strong, citizen-centred public institutions. The NPA notes that this will require participation of central and local authorities, civil society, the private sector, academic institutions and the international development partners.

While the NPA is a pragmatic and hopeful path for the future, it notes the problems that the annexation practices of the Government of Israel poses: (i) continuation of expanding settlements, (ii) besieging Gaza and worsening the humanitarian conditions there, (iii) preventing access to Area C (64% of West Bank), (iv) intensifying the confiscation of national resources, (v) continuous violence against Palestinians, and (vii) demolition of Palestinian properties and infrastructure (NPA, p. 12).

### Pillars of National Priorities and Policies

The NPA is structured along three pillars: (i) path to independence, (ii) government reform, and (iii) sustainable development. The three pillars encompass 10 national priorities that in turn build on a total of 30 national policies, as shown in table F.4 below:



**Table F.4: NPA Priorities and Policies**

<b>Pillars</b>	<b>National Priorities</b>	<b>National policies</b>
(i) Path to Independence	<ul style="list-style-type: none"> <li>Ending Occupation; Achieving Independence</li> <li>National Unity</li> <li>Strengthening Palestine's International Status</li> </ul>	<ol style="list-style-type: none"> <li>Mobilizing National and International Support</li> <li>Holding Israel to Account</li> <li>One Land; One People.</li> <li>Upholding Democratic Principles</li> <li>Broadening Palestine's International Participation</li> <li>Expanding Palestine's Bilateral Relations</li> </ol>
(ii) Government Reform	<ul style="list-style-type: none"> <li>Citizen-Centred Government</li> <li>Effective Government</li> </ul>	<ol style="list-style-type: none"> <li>Responsive Local Government</li> <li>Improving Services to Citizens</li> <li>Strengthening accountability and Transparency</li> <li>Effective, Efficient Public Financial Management</li> </ol>
(iii) Sustainable Development	<ul style="list-style-type: none"> <li>Economic Independence</li> <li>Social Justice and Rule of Law</li> <li>Quality Education for All</li> <li>Quality Health Care for All</li> <li>Macroeconomic</li> <li>Resilient Communities</li> </ul>	<ol style="list-style-type: none"> <li>Building Palestine's Future Economy</li> <li>Creating Job Opportunities.</li> <li>Improving Palestine's Business Environment.</li> <li>Promoting Palestinian Industry.</li> <li>Escaping Poverty.</li> <li>Strengthening Social Protection.</li> <li>Improving Access to Justice</li> <li>Gender Equality and Women's Empowerment.</li> <li>Our Youth; Our Future.</li> <li>Improving Early Childhood and Pre-School Education.</li> <li>Improving Student Enrolment and Retention.</li> <li>Improving Primary and Secondary Education.</li> <li>From Education to Employment.</li> <li>Better Health Care Services.</li> <li>Improve Citizens' Health &amp; Well-Being.</li> <li>Ensuring Community and National Security, Public Safety and Rule of Law.</li> <li>Meeting the Basic Needs of Our Communities.</li> <li>Ensuring a Sustainable Environment and Adapting to Climate Change.</li> <li>Revitalizing Agriculture and Strengthening Our Rural Communities.</li> <li>Preserving Our National Identity and Cultural Heritage.</li> </ol>

Source: NPA, tables throughout document

### Challenges and Fiscal Sustainability

The continued occupation means that the PA faces major constraints and uncertainties regarding the Palestinian economy. Along with the decline in donor support, this limits the ability to carry out reforms and improve services. Achieving fiscal sustainability, which is an important objective within national policy 10 (NPA, p. 47), requires that the PA increases revenues while cutting expenditures. While some of these measures represent good policy choices that should be pursued in any case, many will exact hardships, so the PA is trying to protect vulnerable and the poor. The interventions aiming at fiscal sustainability are to tackle a host of issues, while continuing the PNDP reforms:

- Controlling and/or reducing the government wage bill.
- Ensuring sustainability of the public pension plan by introducing policy reforms, resuming full transfers and repaying arrears.
- Eliminating non-payment of utility charges by Local Government Units (net lending).
- Fair, reliable fiscal transfers to Local Government Units (LGUs).
- Reducing or eliminating fuel subsidies.
- Securing confiscated revenue from Israel.
- Restoring foreign aid levels.
- Expanding domestic revenue sources and collection.
- Reducing the level of arrears.
- Cutting administrative costs within government.
- Sustainable debt payments to and borrowing from Palestine's banking sector.
- Assessing the sustainability of donor-supported projects that would require additional staffing to implement.

#### The Commitment to the NPA 2017-2022

With the NPA, the PA assures and promises better plan implementation by focusing on being realistic politically, fiscally, operationally, and being citizen-centred. The NPA thus introduced *Strategic Results Frameworks* with an integrated planning and budgeting approach based on two mutually reinforcing principles: planning for results, and focus on implementation, applying a new performance-focused planning and budgeting system.

This system builds on *Results and Action Plans* (RAPs) in the PA's work plan that will enable the Government to track progress on a regular basis. The NPA monitoring and reporting builds on annual reports on international benchmark and NPA Strategic Objectives, and quarterly activity reports against the RAPs and annual *results* reports.