

***Letter of Intent
between
the Palestinian Authority and the European Commission***

A Comprehensive Programme for recovery and resilience

The Palestinian Authority and the European Commission express their mutual intent to cooperate on developing a Programme for recovery and resilience contingent upon ambitious reforms.

The Palestinian Authority and the European Commission recognize the critical budgetary situation faced by the Palestinian Authority and the associated financial sector challenges. The impact of the ongoing military conflict in Gaza and its ramifications in West Bank, as well as the implications for the fiscal situation of the Palestinian authority, have significantly destabilized the Palestinian Authority and the Palestinian economy, necessitating an urgent and substantial response to prevent further deterioration and destabilization of the West Bank. These challenges come in addition to longstanding reform needs and vulnerabilities.

The Palestinian Authority and the European Commission acknowledge that budgetary stabilization will require: (i) substantial and comprehensive reforms of the Palestinian Authority; (ii) private sector led growth; (iii) an improvement of the relations between Israel and the Palestinian Authority including regular payments of the tax revenues due to the Palestinian authority and removing access restrictions on Palestinian workers; (iv) accompanying financial support from the international community and (v) effective implementation, confirmed through monitoring and leading to a robust track record. These elements are needed in order for the programme to succeed.

The European Commission, with the assistance of its partners is committed to setting up a comprehensive and substantial support Programme to address the Palestinian Authority's budgetary needs, to be underpinned by a robust and credible reform package. The package will provide financial support, including through International Financial Institutions as appropriate, and should be complemented by contributions from other donors. The resources required for reconstruction of Gaza should come in addition and are not covered as such by this initiative.

The Palestinian Authority commits to undertake the necessary substantial and credible reforms, with support from the international community. These reforms aim at establishing a democratic, transparent, efficient, and sustainable governance system by the Palestinian Authority. It also aims to ensure budgetary sustainability and transparency; strengthen financial sector stability; promote economic resilience and improve public sector efficiency and accountability, including through modernizing institutions, strengthening the rule of law, reforming the social security system, based on objective and needs related parameters, the education curriculum as well as the wage bill reform and fight against corruption. The Palestinian Authority is developing, in coordination with the EU and Development Partners, a Joint Matrix of Reforms. Parties will draw on this, including with regards to the sequencing of clear benchmarks, as the basis for disbursements under the Programme.

This Programme will serve the implementation of those reform commitment by the Palestinian Authority in order to modernize its administration and governance, fight corruption and advance the rule of law and transparency, improve the business environment while strengthening the foundations of a market-based economy as well as ensuring budgetary sustainability. The Programme will aim at stabilizing the financial sector, promoting a rapid recovery while raising the structural growth rate and building resilience. It will also promote the participation of youth and women in the economy and

governance, ensuring adequate, fair and needs-based social protection as well as ensuring the full payment of salaries due to the Palestinian Authority's employees and address the financial arrears to private sector and other PA obligations. The Programme will run until December 2026.

The Programme will be designed and developed so as to allow it to be agreed by September 2024. The following steps are envisaged:

- Following the signature of this LOI, the transfer of an initial payment will be made.
- By the end of August, the Palestinian Authority commits to demonstrate concrete progress with respect to actions set out in the Annex.
- Parties aim to agree reforms under the Programme, setting the milestones over the next two and half years by end August. This will lead to the second emergency payment.
- Parties aim to agree the Programme in September. This will subsequently allow the disbursement of a third emergency payment.
- Periodic tranches under the Programme will subsequently be paid based on progress made reaching reform milestones agreed in the Programme.

In the framework of the Union's restrictive measures, adopted on the basis of Article 29 of the Treaty on European Union (TEU) and 215(2) of the Treaty on the Functioning of the European Union (TFEU), no funds or economic resources may be made available, directly or indirectly, to or for the benefit of designated legal persons, entities or bodies. Such designated entities, and entities owned or controlled by them, therefore cannot be supported by the Programme. The conditions formulated by the European Commission for its support relating to the avoidance of hate speech and incitation to violence also apply.

Decisions under the Programme will be taken in full respect of the EU's Legislative and Budgetary procedures. The European Commission will keep the European Parliament and the Council duly informed about the implementation of the Programme.

The Palestinian Authority and the European Commission agree to create a Palestine Donor Coordination Platform to ensure the coordination of donor support in the context of the Programme with key International partners making a significant contribution.

This LOI is a statement of intent and does not create legally binding obligations on either the Palestinian Authority or the European Commission.

For the European Commission

For the Palestinian Authority

Olivér Várhelyi
Commissioner for Neighbourhood
and Enlargement

Wael Zakout
Minister for Planning
and International Cooperation

Annex: List of agreed prior actions – to be achieved by the end of August

1. Rationalization of government expenditures

⇒ KPI : *Reduction of recurrent expenditures by at least 5% in 2024 budget compared to 2023 budget*

2. Limit medical transfers outside of West Bank.

⇒ KPI : *Adoption of the action plan*

3. Enforcement of retirement age for civil and military personnel

Strict enforcement of maximum age at 60, Ambassadors at 65 and Judges at 70 with no exception.

⇒ KPI : *Cabinet decision/president decree enforcing the retirement age.*

4. Reforming all pre-existing social protection systems

⇒ KPI : *Publication of a new Social Protection law*

5. Preparation of a plan for an education reform including modernization of the curriculum

⇒ KPI : *Adoption of the action plan.*

6. Publication of the National Budget in the format of Citizen Budget.

⇒ KPI : *2024 Simplified Citizen Budget in Arabic published by 15 August.*

7. Approval by Cabinet of the E-payment draft law

⇒ KPI : *Approval by the Cabinet of the law*

8. Activation of citizens' complaints mechanisms by all government entities and prepare regular reports to Cabinet on reported complaints.

⇒ KPI : *Enhance system functionality and effectiveness by actively following up on all received complaints.*