Evaluative review of the Statebuilding Grant and the Palestinian Governance Facility – DFID Palestinian programme

Final Report

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Acknowledgements

The authors would like to thank the many people in Jerusalem, Ramallah, London and elsewhere who generously gave up their time to be interviewed and provide documents for this evaluative review.

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Abbreviations

Abbreviation	Description
ASI	Adam Smith International
DARP	Development Assistance and Reform Platform
DFID	Department for International Development (UK)
DPG	Development Policy Grant
EAP	Efficiency Action Plan
ECA	European Court of Auditors
EU	European Union
FRA	Fiduciary Risk Assessment
GBP	British Pound
GDB	General Directorate of Budget
GDP	Gross Domestic Product
HDI	Human Development Index
HMG	Her Majesty's Government
IDC	International Development Committee
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
KII	Key Informant Interviews
LACS	Local Aid Coordination Secretariat
M&E	Monitoring and evaluation
MoU	Memorandum of Understanding
MFU	Macro Fiscal Unit
MoE	Ministry of Education
MoH	Ministry of Health
MoF	Ministry of Finance
MoPAD	Ministry of Planning and Administrative Development
MTEF	Medium Term Expenditure Framework
NPV	Net Present Value
OPTs	Occupied Palestinian Territories
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee
OPM	Oxford Policy Management
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PEFA	Public Expenditure and Financial Accountability
PEGASE	Palestinian–European Socio-Economic Management Assistance Mechanism/ Mécanisme Palestino-Européen de Gestion de l'Aide Socio-économique
PFM	Public Financial Management
PGF	Palestinian Governance Facility
PLO	Palestinian Liberation Organisation
PM	Prime Minister
PMO	Prime Minister's Office
PRDP	Palestinian Reform and Development Plan
ROF	Results Orientated Framework
SEDSec	Socio-Economic and Food Security Survey
SSDG	Statebuilding and Service Delivery Grant
TA	Technical Assistance

USAID	United States Agency for International Development
UNRWA	United Nations Relief and Works Agency for Palestinian Refugees in the near East
USD	United States Dollar
VFM	Value for Money
WGI	Worldwide Governance Indicators
WDI	World Development Indicators

Executive summary

1.1 Overview

This evaluative review attempts to answer three main questions:

- To what extent have the Statebuilding and Service Delivery Grant (SSDG) and the Palestinian Governance Facility (PGF) achieved their objectives, including in relation to value for money?
- Do the programmes illustrate coherence: internally, between each other and with other interventions?
- How appropriate are the programmes to Her Majesty's Government (HMG) policy, the Palestinian Authority's needs and in relation to addressing fiduciary risk?

The evaluative review has used a modified and combined results framework for both programmes in order to answer these questions and assess achievements across the results chain.

1.2 Summary of the two programmes and their context

1.2.1 The two programmes

The SSDG and the PGF are two separate programmes that both began in 2011 and have recently been extended until 2016. The SSDG provides financial aid to the Palestinian Authority (PA) to support its overall fiscal position. Transfers are conditional on delivery of reforms aimed predominantly at improving fiscal and public financial management. The planned transfer to the Palestinian Authority will be £156.4 million over the five-year period, including a small results-based tranche.

The PGF is a technical advisory programme that aims to improve public administration and public financial management in the Occupied Palestinian Territories (OPTs). It targets improvements predominantly in 'upstream' planning and budgeting. Components of the programme cover support to revenue administration, macroeconomic and fiscal management, performance-based budgeting, aid management and, more recently, capacity development within the Prime Minister's Office. The expected overall cost of the PGF is £7.5 million.

1.2.2 The context

The DFID Palestinian programme operates these programmes in a uniquely challenging environment. The West Bank and Gaza are recognised internationally as being under military occupation by Israel. Most territory in the West Bank is outside the authority of the PA and is directly controlled by Israel. Ongoing political divisions mean that Gaza and the West Bank are currently governed through effectively separate public administration structures. Israeli regulations result in significant restrictions on the general ability of Palestinians and the PA to administer their territory and engage with the outside world. Notably, 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. Taken together, these constraints mean that any DFID programme aimed at supporting the ability of the PA to deliver better governance faces structural constraints in the degree to which the PA can ever act as an effective 'state' under the current circumstances.

The OPTs are vulnerable to internally and externally generated political, military and economic shocks. In the period of the two programmes, the PA and the OPTs have experienced military conflicts in Gaza, recurrent fiscal crises due to Israeli withholding of customs and other revenue, and a political impasse in terms of both an overarching peace agreement with Israel, and in terms of splits within the Palestinian political leadership between moderate and more extreme factions. Among other impacts, this has led to the long-term suspension of democratic elections.

The willingness of the PA to undertake difficult public administration reforms to deliver long-term improvements in government effectiveness is seen to have diminished over the period of the two programmes. In 2011, the PA was declared 'ready for statehood' by representatives of the international community. Prior to this declaration, a reformist Prime Minister (Salam Fayyad – previously the Finance Minister) had personally driven a number of key public administration reforms with the support of the international community. American-led peace talks between Israel and the Palestinian leadership aimed at delivering a final two-state solution began in 2013. However, a number of events have since reduced the prospects for an independent Palestinian state, and the appetite for public administration reforms that would support it. The American-led peace talks did not yield significant progress and ended in 2014. In the same year a military conflict occurred between Israel and the Hamas-led administration in Gaza. In 2013 the reformist Prime Minister resigned. In addition, overall public support for the Fatah-led PA has weakened. As a result, the incentives and drive for challenging long-term public administration reform within the PA have weakened over the period of the programmes, making delivery of DFID objectives more difficult to achieve.

1.3 Performance of the two programmes

DFID's two programmes have delivered the *inputs* expected of this kind of intervention. On the SSDG side, substantial financial resources have been transferred to the PA according to clear conditionalities focused on fiscal and PFM issues, and this has allowed for structured policy dialogue. Regarding PGF, interventions focused on upstream budgeting and planning have been provided to appropriate parts of government.

The two programmes have delivered a number of *direct outputs*. The SSDG has increased the share of external assistance available to the PA through national systems – an impact that most other aid modalities would not have achieved. DFID's annual financing is roughly equivalent to the salary costs of around 5,000 civil servants. However, DFID's support has not led to a clear increase in 'discretionary' spending (defined here as non-wage recurrent and development expenditure) over the period, and wage spending has continued to grow. Policy dialogue is well coordinated among Palestinian Reform and Development Plan (PRDP) donors around the conditionality framework of the Development Policy Grant (DPG) system. There is some evidence that this conditionality system has leveraged policy reform within the PA in some areas; although there are also questions about the 'stretch' of some of the reform conditions. Funds have been withheld once, in early 2015, for non-achievement of policy conditions, resulting in rapid action by the PA to put in place the required changes to access the money. This instance suggests the system can have the power to refocus government efforts on reform – although only limited conclusions can be drawn from this one case. There is little evidence of value added by DFID's performance tranche. Its size relative to PA spending and donor support means it provides very limited additional incentive to the PA, and whatever incentivising effect there might be is likely outweighed by wider aid volatility and unpredictability.

The positive direct outputs have been achieved at a larger than anticipated cost. In particular, substantial exchange rate costs have been identified in the course of the programme. In addition, DFID has 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 has not welcomed this move, and it reduced 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 is also very volatile and unpredictable – despite DFID's intentions.

The absence of a genuinely government-owned strategy for reform in the upstream areas of planning, budgeting and revenue management makes it impossible for the PGF to fully align with government ambitions. Nevertheless, PGF interventions have demonstrated flexibility and adaptability in responding to changing needs in many instances. The PGF provides inputs in many areas where other donors are not active, and in doing so it is not duplicating the actions of others. Different elements of the PGF programme have made different degrees of progress; all can point to positive changes that can reasonably be attributed to PGF inputs, although all face risks to sustainability in different ways.

In terms of *induced outputs*, the SSDG programme has certainly supported the stability of the macroeconomy, primarily through public spending's role as the main driver of growth. Spending on social sectors (health, education, social protection) has increased in nominal terms alongside overall government spending, and increased slightly as a percentage of government expenditure; although it is difficult to identify any action taken by DFID or PRDP/DPG donors that has supported this. Certain DPG conditionalities have encouraged better fiscal management and, as noted, in general policy conditionalities set by the PRDP/PDG systems have been met, suggesting that the trust fund approach has had some success in pushing for reform. The macro fiscal unit (MFU) intervention in particular has created the conditions for better fiscal management. There have been identifiable, if fragile, improvements in budget planning systems over the period as a result of PGF inputs.

In terms of *outcomes*, the SSDG has clearly and directly reduced the gap between overall PA revenue and expenditure and therefore supported fiscal stability in the short term. The value of DFID's support in this regard is arguably of increasing importance in the context of falling development assistance overall and the sporadic withholding of clearance revenues by Israel as a political tool. Nevertheless, the volatility and unpredictability of PRDP, and therefore DFID, support to the PA has made cash management and fiscal policy in general more difficult to deliver, alongside successive external economic, political and fiscal shocks. Furthermore, large questions remain about whether the current approach of donor support being used to pay for primarily recurrent costs of the PA will do enough to foster the economic improvements necessary for long-term fiscal sustainability. There is limited data on the use and appreciation of public services in the OPTs. There is some positive evidence on actual public service outcomes, but data from elsewhere suggests that citizen views of the PA are heavily influenced by political issues, and not by issues related to public service delivery.

At the *impact* level, the evaluative review has undertaken original econometric research to explore the relationship between public spending and public employment (which the SSDG directly supports) and incidences of conflict. Acknowledging the caveats of this work, it supports previous conclusions in this area. Overall, reducing unemployment in general is significantly associated with reduced conflict. However, there are other effects operating below this headline. Increased private sector employment is thought to raise the opportunity cost of engaging in conflict and in the study it results in weakly decreased Palestinian participation in the violence in Gaza, but not the West Bank. However, this effect was not consistently seen with public employment; and in the West Bank a weak associational link was found between increased public sector employment and increased conflict. Other non-employment-related variables were also found to be important drivers of conflict. The research tentatively suggests that while donor support to the PA is vital in supporting the Palestinian economy and government, it does not seem to promote peace or peaceful public attitudes in itself. To the extent that collapse of the PA or the Palestinian economy would massively increase unemployment, this would raise the chances of a violent escalation. Therefore, donor – and DFID – support to the PA is instrumental in avoiding that outcome. This suggests that donors' financial support to the PA and its public spending 'buys time' while at the same time does not materially change the Palestinian attitude towards conflict.

1.4 Value for money

The evaluative review has re-run the cost-benefit analyses undertaken in the original business cases for the two programmes using actual outturn data where possible, and added new costs and benefits where these have been identified. The analyses are run with discount rates at 3.5% (around the usual HMG rate) and 10% (a rate used by the World Bank and by the PGF business case).

The revised cost-benefit analyses suggest that the two programmes continue to represent a positive return on investment. The re-calculated net present value (NPV) for the SSDG at a 10% discount rate suggests positive monetised benefits of £17.35 million. This means that the SSDG may be a better investment than thought at the time of the original business case, although this positive return is highly dependent on assumptions made about the SSDG's contribution to avoiding conflict. If this benefit is excluded, or the PA's ability to maintain peace and security is significantly reduced, the NPV becomes negative and larger than anticipated in the original business case. The PGF programme is found to offer an NPV of £62.2 million at a 10% discount rate. This is slightly lower than expected in the original business case, but still offers a clear positive return.

1.5 Coherence

The evaluative review finds that there is no fundamental conflict between the two programmes, and clear elements of complementarity in many areas. The SSDG's stated focus on public services is the most obvious area of internal incoherence in the two programmes, since not the SSDG, the PGF nor DFID's wider policy dialogue has particularly focused on public services delivery. While the PGF programme does not really address areas of fiduciary risk, as is usually expected in a public financial management (PFM) programme working alongside a budget support instrument, other DFID interventions and actions are active in this area.

There is an informal division of labour among donors in PFM reform, and coordination among donors in the area of budget support. However, in practice both programmes appear to have been operated by DFID as very separate interventions. This has lowered the chance of bringing out synergies between the two programmes, and potentially led to reduced opportunities for achieving influence and impact with government.

1.6 Appropriateness

The evaluative review has considered the appropriateness issue against three different criteria: (i) appropriateness of the programmes with regard to wider HMG policy in the region; (ii) appropriateness of the programmes in relation to the PA's needs; and (iii) appropriateness in terms of DFID's specific PFM and fiduciary concerns regarding the PA.

The review suggests that a budget support package containing financial transfers, policy dialogue and conditionality alongside technical assistance is, in principle, an appropriate way for supporting UK government policy in the region – subject to DFID's acceptance of the prevailing level of fiduciary and political risk. The SSDG is clearly responding appropriately to the pressing fiscal need for donor financing of the PA budget – although whether that need for financing in its present form remains a legitimate and/or ultimately developmental one is open to question. It is questionable, however, whether the performance tranche is an effective, and therefore appropriate, element in the programme design.

In the area of institutional and PFM reform, in the absence of a strongly government-owned and clearly articulated national development and/or PFM reform plan, it is difficult to fully determine the degree to which the two programmes are addressing the PA's need. However, the PA's current systems for upstream budgeting and planning have clear room for improvement, and therefore PGF interventions in these areas are justified in principle. The PGF programme is not – by itself – an appropriate response to DFID's fiduciary concerns. However, wider DFID engagement on PFM reform through World Bank-led systems (both support to technical assistance (TA) provision and DPG/PRDP conditionality) provide a more appropriate range of inputs to downstream PFM areas traditionally concerned with reducing fiduciary risk.

1.7 Lessons learned and recommendations

There are a number of areas where DFID could consider improving and refining its current interventions, being mindful of the unique constraint that the Palestinian context offers.

The overall approach

- The SSDG and the PGF remain, in principle, an appropriate response to the PA's needs, and to HMG's goals. There is no immediate reason why some combination of the traditional budget support package of financial aid, policy dialogue and technical assistance could not continue, provided DFID is comfortable with the prevailing levels of fiduciary and political risk.

Direct financial aid and budget support

- DFID should more rigorously define and prioritise its real political and policy objectives for budget support to the PA, and design the programme modality for financial transfers and conditionality accordingly.

- DFID could consider whether the current structure of PA fiscal policy and associated financial support is sustainable in the long term, and what influence DFID could bring to bear to support a more sustainable situation, for example by increasing the share of development expenditure in the PA budget.

- If DFID remains in the PRDP system, it should begin a dialogue with the World Bank and the PA regarding how to increase the predictability of the instrument, including carefully considering the added value of the performance tranche of the SSDG.

Support to PFM reform

- Continued support to upstream planning and budgeting reform is a reasonable course of action to follow, provided there is government buy-in. Long-term support to these kinds of reform programmes will be necessary to fully embed change.

- DFID should carefully consider whether its support to the Development Assistance and Reform Platform (DARP) system, and to the Ministry of Planning and Administrative Development (MoPAD) in general is yielding useful outputs. Consideration should also be given to what can usefully be achieved in the area of revenue administration reform, where PGF inputs have struggled to sustain traction on big issues in the absence of commitment to a comprehensive reform plan, but have worked instead to deliver smaller 'opportunistic' reforms.

- Across the whole programme there is clear scope for DFID to build better relationships with government officials and TA providers involved in delivery of PGF inputs, and to manage the various components of its PFM interventions more holistically.

- Ahead of deciding a new round of programme design, DFID could usefully review its current full range of PFM interventions to assure itself that they adequately deal with existing fiduciary risks, and potentially to refresh its understanding of fiduciary risk in the PA for the future.

Links between the programmes

- DFID should more actively manage its budget support and PFM reform programmes so as to bring out synergies between the two. This need not necessarily mean a single programme for both interventions in the future. This would depend on the complementarity of the prioritised objectives for the two programmes going forward.

- DFID should more actively engage in dialogue with government and use both programmes as a vehicle for building stronger relations with key government officials. Alongside this dialogue, additional analytical or research work could be useful to more fully and systematically uncover the PA's PFM reform ambitions.

2 Introduction and methodology

2.1 Overview of the research questions

This report presents the main findings of an evaluative review of two DFID programmes: the Statebuilding and Service Delivery Grant (SSDG) – a budget support programme for the Palestinian Authority (PA) – and the Palestinian Governance Facility (PGF) – a public financial management (PFM) and institutional capacity-building programme. Both started in 2011 and are expected to end in March 2016, having been extended for a year from their original end points.

This evaluative review attempts to answer three main questions:

- To what extent have the SSDG and the PGF achieved their objectives, including in relation to value for money?
- Do the programmes illustrate coherence: internally, between each other and with other interventions?
- How appropriate are the programmes to Her Majesty's Government (HMG) policy, the PA's needs and in relation to addressing fiduciary risk?

The first question makes up the largest part of the report. It is divided into two parts; the first examines the performance of the two programmes over a modified budget support results chain (inputs-outputs-outcomes-impact) and the second estimates the value for money (VFM) of the individual programmes. These issues are covered at a summary level in the main report, and in more detail in the annexes. The assessment of coherence and appropriateness illustrate whether the programmes have been able to effectively leverage synergies to maximise their joint impact, and the degree to which they are aligned to broader HMG goals in the region. A final section then draws together conclusions and lessons learned from the evaluation, summarising the implications for future programming.

2.2 Overview of the research methodology

2.2.1 The research framework

To answer the research questions, a mixture of quantitative and qualitative data sources have been used for different parts of the research questions. The table below sets out the research methods used for different elements of the research questions.

Table 1: Research methods used to answer the research questions

Key question	Supporting questions	Specific area of focus	Research methods
Performance of the SSDG and the PGF	*Results* of the two programmes	Effect of the programmes on: *inputs; direct outputs; induced outputs* elements of the results chain.	Mixed quantitative and qualitative research: a) Qualitative desk-based review of key documents b) Qualitative face-to-face interviews of key informants c) Quantitative review of certain financial information from existing programme documents and financial information gathered directly from the PA/other sources
		Effect of the programmes on the *impact* level of the results chain	Quantitative econometric exercise to determine if there is any association between quantity of public spending and conflict and/or attitudes towards the peace process
	Value for money of the two programmes	Cost-benefit analysis of the SSDG	Qualitative judgement; based on a combination of quantitative analysis that re-runs the existing business case cost-benefit data supported by qualitative judgements derived from document review and key informant interviews
		Cost-benefit analysis of the PGF programme	Qualitative judgement; based on a combination of quantitative analysis that re-runs the existing business case cost-benefit data supported by qualitative judgements derived from document review and key informant interviews
Coherence of the two programmes	The degree of *complementarity* and relationship between the two programmes	The coherence of the *original objectives* of the SSDG financial aid and PGF technical assistance	Qualitative judgement based on review of documentation and key informant interviews
		The complementarity of the *actual outcomes* of the two programmes	Qualitative judgement based on review of documentation and key informant interviews
Appropriate-ness of the two programmes	The *appropriateness* of the SSDG and PGF programmes in relation to broader UK/DFID policy in the OPTs and wider region		Qualitative judgement based on review of documentation, key informant interviews and discussion with DFID and FCO staff.

The research approach set out above has been followed in the actual field research, with the mix of qualitative and quantitative methods across the various sub-questions respected. The fieldwork has not piloted or tested any particularly new or novel research methods. The predominant method for answering a research sub-question has been desk review of available documentation from as many sources as possible to identify key hypotheses, as well as any contradictions or tensions. These hypotheses have then been tested in qualitative interviews with key informants, and any contradictions and tensions raised taken forward for further clarification.

The comprehensiveness and robustness of the data collected vary across different parts of the research questions. Given that the SSDG programme is far larger by value than the PGF programme, and also carries more of a fiduciary and reputational risk for DFID, the team focused their time on the research questions relevant to this budget support operation, including substantial effort in gathering fiscal and budget data. The PGF programme contains a number of sub-components of relatively modest financial value that cover a wide range of activities, including revenue administration, macroeconomic and fiscal forecasting, budget preparation reform, aid coordination, national development planning and capacity development in the Prime Minister's Office. Some of these interventions, for example reforms to budget preparation, involve dozens of institutions and potentially hundreds of individuals. It has therefore not been possible within the scope of this project to exhaustively research all aspects of each PGF intervention to deliver conclusive answers. The research team have instead prioritised their time to focus on the most significant sub-components of the programme, notably the operation of support to macro-fiscal forecasting within the PA, and reforms to the budget preparation process.

In general, conclusions are considered well evidenced where the findings from the desk review of documentation from at least two different sources concur, and these findings are then subsequently confirmed by at least two key informants from different backgrounds. Where there are particular issues about the strength of data being used to support a conclusion, this is highlighted in the text. Conclusions are generally considered less well evidenced where documentation for desk review is limited to a single source or set of sources, and/or where hypotheses from the desk review can only be confirmed by a single respondent, who has a direct interest in the conclusions that the study will draw.

As with any research technique, there is a risk of informant bias. The research team for this project are experienced interviewers and have undertaken many short and extended interviews with key informants in a number of settings on very similar issues. The Overseas Development Institute (ODI) uses a number of interview techniques to assure the quality of the evidence gathered from qualitative research. These include careful preparation of a series of linked questions designed to progressively test the most important hypotheses under consideration. Other techniques used are designed to: rapidly build rapport with key informants to encourage openness, to test the robustness of key statements through various methods through triangulation, and use of questions designed to actively explore bias. In determining the robustness of qualitatively gathered evidence, ODI takes into account the personal interests and organisational affiliation of any informant.

2.2.2 An 'evaluative review'

As noted in the Inception Report, this study is an 'evaluative review'. It aims to combine features of DFID's approach to (i) evaluations and to (ii) reviews (DFID, 2013). It is not a full evaluation of both programmes according to the DFID and Organisation for Economic Co-operation and Development (OECD) methodology for such exercises, which, as noted, is beyond the resources available to this project. Nevertheless within these constraints, this evaluative review does respond to most of the OECD-DAC criteria for a full 'evaluation' (OECD, 1991). The specific evaluation criteria of *relevance* (the appropriateness section), *sustainability* (through the performance section) and *effectiveness* (also through the performance section) are well covered through the framework set out above. The issue of *impact* is less comprehensively dealt with although the review does include a consideration of the SSDG's impact on one driver of conflict (public spending and employment). In part this is because the effort required to undertake the necessary data-gathering and analysis that could confidently attribute impact level results to DFID's specific inputs is simply too great for this piece of work. Similarly, the *efficiency* discussion re-calculates the cost-benefit analyses for each programme, but it is beyond the scope of the study to expand the discussion to cover the relative efficiency of other ways of delivering the programmes' objectives.

Importantly, a full evaluation requires a clear baseline from which progress can be measured and an assumption of a counterfactual as to what would have happened in the absence of the intervention. No evaluation framework with a clear baseline and assumed counterfactual was established at the beginning of the two programmes. This research work therefore has had to make assumptions as to what the baseline and counterfactuals would have been. Typically, and unless stated otherwise in the text, the assumed counterfactual to the SSDG and PGF programmes is that DFID would have made no intervention at all, rather than a different type of intervention.

2.3 The context of DFID support

2.3.1 DFID's two programmes

The SSDG and the PGF provide financial and technical assistance to the PA. The SSDG provides direct financial aid to help support the fiscal position of the PA, while at the same time linking the transfer to reforms to help improve future fiscal sustainability. The programme started in 2011 – following on from a similar previous programme – and has been extended until March 2016. The SSDG is DFID largest financial instrument, equal to £156.4 million, with approximately 10% of this in the form of the results tranche. The PGF is a technical advisory programme to improve public administration in the OPTs. It targets improvements in revenue and macro fiscal management, performance-based budgeting, aid management and more recently the Prime Minister's Office. The PGF started in 2011 and has been extended until the middle of 2016. The expected cost of the PGF is £7.5 million.

DFID is one of the largest contributors of direct financial aid to the PA. Between 2001 and 2015, DFID was the fourth biggest provider of donor assistance to the PA (after the EU, Saudi Arabia and the United States).[1] The majority of traditional donors provide their support through two large pooled funds – the World Bank's Palestinian Reform and Development Plan (PRDP) and the EU PEGASE (Palestinian–European Socio-Economic Management Assistance Mechanism) programme. The SSDG is part of the World Bank's PRDP. The remaining financiers – predominantly other Arab donors, the United States and a small number of non-traditional donors – provide their aid bilaterally.

From 2000 to 2009 total aid disbursements to the West Bank and Gaza increased five-fold, making the OPTs one of the highest beneficiaries of per capita aid in the world. Since then however aid levels have been falling, creating a sizable challenge for the PA given its heavy dependence on external assistance. In 2009, 42% of total public expenditure was financed by development assistance – equivalent to 77% of the wage bill – but this has broadly fallen since then.[2] This challenge is further compounded by the fact that the PA receives the majority of its revenues directly

[1] This is calculated using IMF data.
[2] A small reversal in this trend was noted in 2013.

from the Israeli government, who gather the funds on its behalf. In practice, this source of revenue has also not always been reliable and has been withheld by Israel as part of a broader political dispute.[3]

2.3.2 The broader political and economic landscape over the course of the two programmes

Over recent years, the macroeconomic and political context in the OPTs has deteriorated providing a more challenging environment for delivery of planned results. At the turn of the decade the OPT economy was going through a strong recovery. Real GDP growth was 9% and the PA was pursuing a tight fiscal stance: reducing the recurrent deficit and undertaking structural reforms related to pensions, social safety nets and electricity. In Gaza the easing of Israeli restrictions on imports of consumer goods and inputs for public investments in the mid-2010s was boosting growth (IMF, 2011a). Three years of improved economic performance facilitated the re-establishment of direct political negotiations in 2010. In 2011, representatives of the international community recognised that the PA was making important strides towards taking on the responsibilities of formal statehood.

However, political negotiations broke down in late 2010 and ushered in almost three years of economic decline and political stalemate (IMF, 2013). Aid volumes began to decline, fiscal deficits increased and tensions began to rise, culminating in the first Gaza conflict in 2012. This was followed by heightened economic restrictions on Palestinian territories, a further reduction in remittance of clearance revenues from the Israeli government and a large increase in unemployment. This period also saw a reduction in other external flows such as workers' remittances (Nashashibi, 2015). Together this resulted in a reduction of real GDP in both the West Bank and Gaza, but was more severely felt in Gaza. In this context, popular support for the fiscal adjustment measures waned in the West Bank and the business community raised concerns about the high costs of doing business (IMF, 2013).

The resumption of direct negotiations in July 2013 under an American-led peace effort provided a short-lived sense of optimism. These were accompanied by an ambitious plan to jumpstart the Palestinian economy while many donors made higher aid commitments (IMF, 2013). Yet these political negotiations also ended without success. Since this time, the lack of political horizon and the departure of a reformist administration in the PA has been widely associated with the slow-down in the PA's reform effort, which has undermined institutional capacity-building efforts. Lastly, the second Gaza conflict in the summer of 2014 had further detrimental effects on the PA's economic and fiscal position.

[3] The withholding of clearance revenues in response to the PA's application for membership of the International Criminal Court in 2014 is one such example.

3 Performance and value for money of the two programmes

3.1 The approach taken to considering performance, results and value for money

This section presents an overview of the performance of the two programmes. The concept of performance is broken down into two areas for consideration. The first section relates to a discussion of the *results* of the two programmes, according to an evaluation framework that incorporates both budget support and public finance reform objectives; and the second section relates to a consideration of the *value for money* of the two programmes. The discussion in this section is a summary of the key conclusions drawn from a more detailed review of results and value for money that can be found in annexes of this report.

3.1.1 Nature of the results framework for the two programmes

The results framework used to assess the performance of the two programmes is summarised in the table below. As set out in the Inception Report, the results chain is derived from a combination of the results chains of typical budget support and PFM interventions. The evaluation framework has been drawn from the following sources: 'Evaluating Budget Support Methodological Approach' (OECD, 2012); 'Evaluating Public Financial Management Reforms' framework (Lawson, 2012); DFID's terms of reference for this report and theories of change and results frameworks from the business cases of the two programmes themselves (DFID, 2010a, 2010b, 2015a).

Not all steps in the results chain from the 'standard' OECD guidance for budget support evaluations have been included, and in some cases separate steps in the two DFID programmes' results chains have been merged. Naturally, in an exercise that is trying to include a budget support and a technical assistance capability-building programme within the same framework, there are some tensions and discontinuities in the progression along the results chains from inputs to induced outputs. However, given that this work has a specific focus on the programmes' coherence and complementarity, using a single framework to consider results – even with these challenges – brings particular benefits.

The results framework presented here takes the programmes through from the input stage to the outcome stage. The final step – the 'impact' stage – is examined separately and relates to the degree to which changes in public spending affect incidents of conflict and/or attitudes towards the peace process.

Table 2: Results framework for the SSDG and the PGF

Government policy and spending actions			
Budget support and PFM TA inputs	Direct outputs: *Improvements in the relationships between the external assistance and the national budget and policy processes*	Induced outputs: *Improved public policies, public sector institutions, public spending and public service delivery*	Outcomes: *Positive responses by beneficiaries – service users and economic actors – to government policy management and service delivery*
Transfer of funds to the national Treasury based on previously agreed conditionalities Policy dialogue and incentivised performance indicators Capacity-building activities focused on improved PFM and strengthening of selected institutions	Increased size and share of external assistance funds made available through national budget systems Increased size and share of budget available for discretionary spending Increased predictability of the disbursement of external funds Policy dialogue and conditionalities better coordinated among donors TA/capacity-building activities better coordinated and more conducive for implementation of government strategies Reduced transaction costs of providing aid Capacity in targeted PFM areas improved	Improved macroeconomic and budget management leading to fiscal savings, with a focus on poverty-reducing sectors Increased quantity and quality of goods and services provided by the public sector Better sector budget planning and strengthened PFM systems (particularly: revenue, MTEF, programme-based budgeting, planning, M&E), with a focus on fiduciary risk Selected economic and financial institutions strengthened and capable of better public policy formulation and execution processes	Improved fiscal sustainability Increased use and appreciation of public services

Source: Inception Report

3.2 Key conclusions on results of the two programmes

3.2.1 Inputs – transfer of funds, existence of conditionality, operation of policy dialogue and delivery of capacity-building interventions

DFID's SSDG and PGF programmes have delivered the kind of inputs expected of a budget support programme. The SSDG has successfully transferred resources to the PA, and is due to disburse more than £150 million by the end of the programme. DFID operates four different conditionality frameworks for the SSDG, each providing different levels and types of conditionality. In practice, most of

DFID's focus within the SSDG conditionality frameworks appears to be on the PRDP/DPG conditionality system. This conditionality framework is clear and understandable, with some degree of joint ownership between government and donors in determining specific reform conditions. The focus of PRDP/DPG conditionality has been on fiscal policy, spending efficiency and PFM reform – areas that are most directly linked to the opportunities and risks of the SSDG programme. DFID has also successfully provided TA interventions through the PGF programme, focused almost exclusively on upstream planning and budgeting, with some work on revenue policy and administration.

3.2.2 Direct outputs – increased external assistance through national systems, increased discretionary spending, predictability of support, coordinated policy dialogue and TA inputs, reduced transaction costs

The SSDG programme has increased the share of external assistance available to the PA through national systems. This is unlikely to have been achieved through other aid modalities. As a point of interest, DFID's annual SSDG funding is roughly equivalent to the wage costs of an additional 5,000 civil servants. Budget support operations generally aim to improve discretionary spending, yet in this case it is unclear if DFID's support has helped achieve this. This is because the volatility of aid to the OPTs and PA makes it hard to establish a clear relationship between aid and discretionary expenditure – here defined as non-wage expenditure and net lending. Discretionary spending has fallen substantially as the wage costs of the PA have increased, declining from 62.7% in 1996 to 38% of total spending in 2015. Even though the decline has been more moderate over the SSDG period, the continuation of the downward trajectory suggests that SSDG financial aid has not improved discretionary spending.

From the point of view of the PA, aid predictability of the PRDP is poor. While DFID appears to prioritise this as an objective and has received praise from the PA for its attempts in this regard, the use of an intermediary body (the PRDP) complicates the achievement of this goal. Specifically, DFID disburses funds in a timely and predictable way to the PRDP, according to a schedule agreed with the PA. The PRDP then transfers funds in a *regular* way (almost every quarter) to the PA, for which there has only been one significant delay in response to a performance condition not being met recently. Yet the PRDP's transfers to the PA are very *volatile* (the amount transferred has varied significantly each quarter) because other donor contributors substantially vary their quarterly allocations. Furthermore, the PRDP is considered by the PA to be highly *unpredictable* because they do not know how much they will receive each quarter until the World Bank notifies them of an imminent transfer. This suggests that DFID's successful performance in terms of its own predictability is being undermined by an instrument that is failing to deliver in this regard.

Formal policy dialogue is well coordinated among the donors using the PRDP system. This is particularly important in the Palestinian context, given the conventional wisdom that conditionality frameworks are often less appropriate in fragile environments. Coordination among all donors using formal systems to disburse to the PA has increased as the new PEGASE 'results-oriented framework' aims to consciously align with PRDP conditionalities. PRDP and PEGASE donors represent around half of all support to the PA, so improved harmonisation should also improve the impact of policy reform conditionalities.

There is some evidence that coordinated policy dialogue through PRDP has leveraged reform in many instances, particularly as all bar one policy conditionality has been met. However, the process by which PRDP and DPG conditions are selected may limit the 'stretch' they require of the PA. Conditions and attached performance indicators relating closely to fiscal policy and PFM issues – more directly controlled by the Ministry of Finance – have been more successfully delivered than new actions that aim for change outside the direct mandate of the ministry. Many well-placed informants do see a link between reform conditions included in the PRDP and the extra effort devoted by the PA to these areas. For the first time in 2014, the World Bank withheld PRDP funding because of poor reform progress. This has stimulated a rapid response by the PA to deliver the missing reforms, suggesting the existence (in this admittedly single example) of an incentive effect.

What appears to be more evident is the limited attention given to DFID's performance tranche from the well-placed stakeholders. Unlike the PRDP, the performance tranche has a broader results framework, drawing on indicators related to the national development plan and performance in the social sectors. It aims to act as a lever for DFID to maintain PA attention on these additional desirable outcomes. However its size appears to prohibit such an incentive effect – at its largest in 2013, the annual contribution is less than 0.4% of financial assistance that the PA receives from donors on an annual basis. Several key informants were simply not aware that DFID operated a performance tranche through the PRDP system. Annual changes to the performance tranche conditionalities also arguably undermine their incentive effect.

During the process of SSDG implementation, new transaction costs relating to exchange rate transactions have emerged. DFID has also added new conditionalities outside the PRDP framework regarding the SSDG, notably the requirement to only pay against the PEGASE-approved list of 'approved' civil servants and not to pay the salaries of detained Palestinian prisoners. These conditionalities have increased administration burdens for the PA and DFID. They have also reduced the conceptual clarity of DFID's overall programme approach: if DFID funds are now paying for some the recurrent costs of 'approved' necessary public sector works then the rationale for conditionality (i.e. discretionary resources in return for delivery of agreed reforms) and any subsequent withholding of aid is less clear.

The absence of a clearly articulated government-owned PFM reform strategy undermines the efforts of the PGF, and other programmes, to support government-led reform strategies. Despite this lack of government leadership, there appears to be no obvious duplication of overlap of donor PFM interventions. In the face of changing circumstances, PGF interventions have demonstrated adaptability and flexibility in how they have delivered advice and support.

The PGF has a number of separate sub-components, and there has been varying success in their attempts to improve capacity in their selected institutions. The PGF's contribution to creation and operation of the macro fiscal unit (MFU) has been fundamental to the success of the unit – however the sustainability of its funding model once the PGF grant finishes is widely questioned. The programme-based budgeting inputs have led to new and improved systems and structures being introduced within the General Directorate of Budget, and have led to some buy-in from line ministries. Staff training and mentoring on these systems have been well received by Ministry of Finance (MoF) staff. It is simply too early to judge the impact of these reforms on budget policy and spending effectiveness, and it should be noted that improvements have come from a very low base. Sustainability of the systems are uncertain given that they have only been used in two full budget rounds, and there are questions over the current capability of the relevant parts of the ministry to manage these systems unaided in the long term. The review's focus on revenue work is more limited, but there appears to be little evidence of comprehensive and systemic improvements in revenue policy or administration taking place during the PGF programme, although this is widely attributed to higher-level lack of enthusiasm for reform rather than PGF actions. The PGF appears to have supported a number of smaller scale revenue interventions that have worked on an 'opportunistic' basis in identifying areas for reform as administrative support for certain reforms has changed over time. While DFID's support to the Development Assistance and Reform Platform (DARP) system has increased its coverage, the value of the system as a whole is not clear, and neither is its sustainability. This mirrors wider questions as to the continuing role and function of the Ministry of Planning and Administrative Development (MoPAD). Support to the Prime Minister's Office (PMO) – an expanding part of the PGF intervention – appears to be positively received by government, but it is too soon to judge its impact.

Through the PGF, DFID has delivered a wide range of TA modalities to the PA. The PA has received assistance in several forms: direct funding to pay the salaries of locally hired contracted staff under the day-to-day management of PA institutions (e.g. MFU, DARP); resident long-term advisers working on a daily basis in the relevant ministry but not under line-management control of the PA (e.g. support to revenue); short-term inputs to support specific technical skills of local staff (e.g. MFU fiscal forecasts) as well as short-term inputs from non-resident consultants attached to the project over a longer period (e.g. support to budget preparation and the PMO). It is not clear from the documentation available to this review why particular modalities of TA delivery have been chosen in certain circumstances, but not in others.

Many parts of the current suite of PGF TA interventions align with elements of the new approach to supporting public sector reform (e.g. Andrews, 2013) but others do not appear to. The 'new orthodoxy' on institutional change in developing countries puts a strong emphasis on external assistance supporting reformers to tackle specific problems; avoiding 'off-the-shelf' solutions based on global best practice; being sensitive to local context; accepting the need for trying new things, learning and failing in successive rounds of reform; and investing time in building good working relationships over the long term. This approach therefore puts less emphasis on some aspects of TA delivery (national vs. international consultants) but more on other issues (e.g. ability to focus TA support on specific 'problems' the government is trying to solve; the ability of TA to build long-term relationships; the ability of TA to adapt and be flexible as problems and solutions evolve). Some parts of the PGF modalities of interventions have aligned with key parts of this orthodoxy, notably the use of the same consultants over a long period to allow for strong relationships to be built (e.g. budget preparation, revenue administration, support to the PMO), the focus of TA on solving a clear problem (e.g. MFU providing fiscal forecasts that previously didn't exist and dealing with other ad hoc tasks), and the ability of TA to adapt to new circumstances and demands (e.g. in re-designing budget preparation, some evidence in revenue administration, support to the PMO). Positive stories of change are evident in these areas. However, not all PGF TA appears to align with this best practice. It is unclear what 'problem' is being solved by the DARP work supported by PGF funding, given the apparent lack of use of the aid data it collects. Support to the MFU has fulfilled a key role in the Ministry of Finance, but issues remain about its sustainability and the degree to which its fiscal forecasts are used to set policy, and therefore solve a clear problem. Overall, the absence of a clearly articulated and strongly 'government-owned' PFM reform programme means identification of the 'problems' that government wishes to solve is difficult.

3.2.3 Induced outputs – improved macroeconomic and budget management, increased quantity and quality of public services, better sector budgeting and planning, strengthened economic and financial institutions

It is difficult to isolate the influence of external aid, and therefore the PRDP, on government macroeconomic policy over the course of the programme, given successive external political, economic and fiscal shocks to the Palestinian economy. Aid has certainly provided a continuing stimulus to the economy by financing public sector consumption – a key driver of growth in the OPTs. The volatile and gradually reducing sums of aid in the context of the PA broadly maintaining its spending levels have led to both cash management challenges and ultimately increased government borrowing and arrears. It appears that through DPG conditionality the PRDP has encouraged fiscal consolidation and improvements in some areas of fiscal management.

There have been identifiable – although fragile – improvements in fiscal and budget planning systems over the period, facilitated by the PGF programme. The MFU provides a level of analytical capacity to track and forecast the PA's fiscal position that did not exist prior to the PGF. Programme budgeting has started a process of encouraging more active management of public expenditure allocations, although this is still work in progress. PGF inputs to the PMO is supporting the start of a discussion on how to use government processes to better link political priorities to national plans, and national plans to the budget. Improvements in the DARP system coverage have been noted, but these cannot be easily linked to any real impact on budget planning.

The PRDP and PGF have facilitated specific instances of improved fiscal forecasting, efficiency of spending and revenue mobilisation. Specific PRDP conditions regarding the wage bill, and specific PGF pieces of work on health spending efficiency, have led to small identifiable savings. Over the long term, a better planned and delivered budget process that links allocations to outputs has the potential to deliver more effective spending overall. However, a clear sense emerged from both PA officials and technical assistants that the overall high-level appetite for public sector reform, improved public financial management and concerted fiscal consolidation has waned significantly in recent years.

Spending on poverty-related sectors (health, education, social protection) has increased slightly as a percentage of expenditure, alongside a general increase in total volumes of expenditure. Growth has been erratic however, with considerable variation in budget to these sectors from year to year over the programme. Social sector performance, as measured in DFID reviews of the SSDG programme, has improved over the period. DFID funding to the PA through the PRDP will have been responsible, to some degree, for financing these improvements. However, despite the focus in the SSDG business case on the social sectors, these policy areas have not been prioritised by DFID as part of its policy dialogue with government.

3.2.4 Outcomes – improved fiscal sustainability, increased use and appreciation of public services

Overall, the SSDG and the PGF have made some contribution to fiscal sustainability. In the short term, the SSDG has helped close the PA's significant fiscal gap, while the PGF has made available resources to support the parts of government responsible for fiscal, revenue and expenditure management. On the negative side, the unpredictable and volatile nature of SSDG disbursement through the PRDP system has made fiscal and cash management more challenging for the PA. Furthermore, according to the International Monetary Fund (IMF), much more is required to improve fiscal sustainability and opportunities to advance revenue mobilisation and capital expenditure should be exploited; both areas which are currently under-supported by donors. Investments in the MFU in particular have the chance of providing the PA with greater capability to manage its fiscal affairs more sustainably if the future of the unit can be assured.

There is limited data on the use and appreciation of public services over the period of the two programmes. DFID reviews of the SSDG social sector results frameworks suggest a positive picture on actual public service outcomes, and the OPTs more generally experience relatively positive social sector outcomes for a country of its income level. Data series on public attitudes towards public services are not consistent over the period and clear conclusions cannot be drawn. Time series data on public attitudes towards the PA do not appear to relate strongly to public services delivery. In fact, public attitudes to the PA are much more affected by political issues, rather than tied to questions of public services delivery.

3.3 Key conclusions on the value for money of the two programmes

3.3.1 Approach taken to value for money

The approach of this evaluative review has been to re-run the original cost-benefit analysis of both programmes using updated (and in some cases, actual outturn) data, and to include additional costs and benefits in the calculation where these can be identified. In both cases these have yielded different overall net present values for the programmes. A summary is presented below, and the appendices contain details of the original and updated calculations.

The SSDG programme

For the SSDG, the original cost-benefit analysis found the monetised net present value (NPV) to be negative at -£68.6 million. However, it determined that including the substantial non-monetised benefits would still make it a valuable investment. Re-running the analysis with new data and assumptions reveals a much more strongly positive NPV of £38.69 million (with a 3.5% discount rate, as used in the original analysis) and £17.35 million (with a 10% discount rate used in the PGF programme and more widely used in World Bank calculations of this kind). The net present value of monetised costs and benefits alone are now positive, even before accounting for non-monetised benefits.

Total costs for the programme have been higher than originally anticipated. Donor financing overall has increased over the period, and the calculation now covers five years rather than four. The calculation now also includes additional transaction costs that were not identified in the original business case. The re-estimated costs now cover seven cost areas, whereas the original business case assumed only two. As with the original calculation, not all costs can be fully monetised.

Total benefits from the SSDG are larger than originally anticipated in the business case. A larger programme covering a longer period generates commensurately larger direct benefits in terms of fiscal stimulus and other identified macroeconomic benefits. The benefits of fiscal savings delivered during the programme are also included. Importantly, the calculation now includes an assumption of a large benefit from conflict averted as a result of the PA being able to engage in the peace process, supported by donor (and therefore DFID) financing. On the basis of various assumptions, this yields a large annual benefit. However if this benefit is excluded from the analysis or the PA's ability to maintain peace and security is significantly reduced, the NPV becomes negative and larger than anticipated in the original business case. The relevant annex puts forward the results of a sensitivity analysis showing how different assumptions of the conflict-avoided benefit impacts on the overall NPV calculation.

The PGF programme

Regarding the PGF programme, the original NPV of the programme was estimated in the business case at £113 million, calculated over an 11-year time horizon. Following implementation, the NPV is now estimated at £62.2 million using a 10% discount rate: a smaller, although still positive figure. Using a 3.5% discount rate, the NPV is estimated to be higher at £98.8 million.

The total costs of the PGF programme are slightly higher than originally estimated due to planned programme extension. Total benefits post-implementation are considered to be significantly lower, although still positive. The major reason for this difference is the reduction in expected benefits from revenue administration, which have fallen from $177 million to just $59.99 million. The original figures were based on ambitious forecasts for increases in revenue that have not materialised. In addition, an unsupported assumption that public funds will be spent 10% more effectively has been discarded, as are benefits from reduced dependency on donor funding, as in practice donor funding did not vary from the assumed counterfactual. The estimates of the benefits from improved allocative efficiency that were originally taken from a preliminary World Bank study are updated to reflect the study's final conclusions.

4 Coherence of the two programmes

4.1 Approaching the issue of coherence in the two programmes

The section examines three aspects of coherence of DFID's programming. The first explores the degree of coherence *within* each programme, examining whether the individual component parts support and build on each other. The second examines the level of coherence *between the two programmes*, exploring whether they effectively exploit their combined synergies and reinforce their individual objectives. The third section examines the coherence *between the two programmes and other donor activities*, with particular attention given to DFID's activities. The table below summaries the main positive and negative points related to these three areas. Each is examined more fully in turn below.

Table 3: Coherence of the two programmes; internally, between each other and with other interventions

Type	Positive/other points	Negative points
Internal coherence of each programme	• Refer to the results section, which notes the progress of the two programmes against a logical chain of inputs/outputs/outcomes	• SSDG's results related to public service outcomes and aid predictability are not managed or pursued as part of the DPG/PRDP policy dialogue/conditions • Requirement for SSDG to pay against the PEGASE list of 'approved' public sector workers combines PRDP conditionality with PEGASE strong earmarking • PGF is not managed as a single suite of 'strategic planning and budgeting' interventions meaning potential synergies are not maximised
Coherence between the two programmes	• Fundamental compatibility in terms of offering the typical key components of a budget support intervention • Prior actions in PRDP cover two of the components of the PGF (e.g. revenue and the establishment of the MFU)	• They appear to be run as two separate programmes without active coordination from DFID • The PGF programme does not particularly address the main findings of the FRA that underpins the SSDG intervention
Coherence between programmes and other donor activities, especially DFID	• PRDP and EU-PEGASE are seen as complementary • Informal division of labour has emerged among PFM donors avoiding duplication • The World Bank PFM adviser funded by DFID plays a complementary role to the PGF programme	• Synergies across PFM programmes may not be fully maximised because of the limited effectiveness of coordination groups • A coherent approach to providing financial support to the PA for both recurrent and development expenditures is absent

4.1.1 Internal coherence

The two programmes can be seen as internally coherent within themselves. The SSDG business case sets out a modified chain of intervention logic for typical budget support interventions. It explains the expected results from the input level through to impact level and explains in some detail how the various features of the programme will deliver against these in the Palestinian context. The PGF provides an 'across the waterfront' set of interventions that aim to improve upstream strategic national planning and budgeting overall, and these relate to and build upon each other.

Challenges to the internal coherence of the SSDG programme

Within the SSDG programme design and its subsequent operation, there is a lack of clarity about exactly what DFID is trying to achieve. There is a degree of disconnect between: (i) the stated political objectives of the SSDG; (ii) the results framework for the SSDG; and (iii) the content of the DPG policy conditionality framework used by the World Bank to disburse SSDG funds.

Regarding political objectives, the SSDG is justified on the basis of HMG's political aim to support the institutions and social conditions necessary to deliver an effective two-state solution. In this way, the SSDG is a mechanism to support the existence and viability of the PA and its ability to execute the core functions of a state, while also preventing the recurrence of conflict. On the other hand, the DFID results framework for the grant specifies key results related to (i) improvements in social services (health, education and social protection); (ii) policy leverage to improve fiscal discipline and spending efficiency; and (iii) more predictable and results-focused aid.[4] Meanwhile the PRDP conditionality framework that triggers payments to the PA, operated by the World Bank with some wider donor input, has an even narrower focus and targets actions related to fiscal sustainability, PFM and the business climate.

This has resulted in some stated objectives of the SSDG not being clearly advanced in the DPG policy framework. As noted, the SSDG is justified by its contribution to public service outcomes and this emphasis has increased over time.[5] However, this is not managed or pursued as part of the DPG policy dialogue/conditions or through separate DFID policy dialogue channels. For instance, only three out of the 37 actions in the DPG III–VI are associated with the social sectors that DFID identifies in its results framework. Furthermore, DFID does not participate in any of the relevant sector working groups to follow and support sector activities, despite the commitment to do so in the initial business plan. In addition, while DFID itself performs well according to certain measures of predictability, there has been little attention given to overall aid predictability of the PRDP instrument. Aid predictability is a key results measure for DFID and regularly raised as a challenge associated with both the PRDP and aid flows more generally in the OPTs (IMF, 2013, 2014; Nashashibi, 2015). Policy leverage, restricted to the PRDP's relatively a narrow range of PFM and fiscal management issues, seems to be the only area of DFID's result framework that is closely aligned to the DPG conditionality framework.

This complication has been further exacerbated by subsequent DFID earmarking of funds. DFID now insists its grant only be used to pay for salaries from the approved PEGASE list (IDC, 2014). This brings a number of coherence issues. The PRDP programme justifies budget support on the grounds of *conditionality* (flexible funds are provided in exchange for positive policy reform) whereas PEGASE justifies its salary support on the basis that it is clearly *earmarked* (funds are heavily tied and scrutinised, but predictable and with little conditionality). DFID's support risks having 'the worst of both worlds' by providing funding that is neither flexible nor predictable, but instead is both earmarked *and* conditional. Building on this, it is not clear what DFID's rationale for withholding financial aid is under the current system: since its funding is earmarked to support 'approved' key workers delivering vital public services, the failure of the PA to achieve policy conditionalities in other sectors is not relevant to DFID funding of these workers; and since the PEGASE salary list is audited *ex ante* and *ex post* it means fiduciary concerns elsewhere in the PA are not relevant. It also brings further tensions with the initial results framework used to justify the grant and the planned 'results bought' (for example, the number of children in school and children being immunised). DFID funds are now only intended for salary costs, not the other recurrent or development funding needed to deliver these objectives.

As an added complication to this issue, the manner in which DFID's funds are demonstrated to have only paid the salaries of PEGASE-approved employees is of

[4] Receiving 50%, 35% and 15% weighting respectively.
[5] Initially it was given a 50% weighting in DFID's results framework for the grant, which increased to 60%.

questionable efficacy. DFID does not pay into the separate PEGASE account, from which funds are transferred into approved PA employee bank accounts. DFID funds continue to be paid into the general treasury fund, and an accounting exercise is undertaken *ex post* to show that DFID funds are less than the outstanding amount needed to fund salaries of PEGASE-approved PA employees. This is of questionable robustness, as this kind of notional earmarking provides few fiduciary assurances.

DFID has taken steps to tackle the increasing complication of the programme. The SSDG logframe has been recognised as too ambitious, with recommendations made in annual reviews to modify targets and indicators because either they were too demanding or because the PA did not monitor them. According to the latest annual review, the logframe should more adequately reflect the challenges that sector ministries are grappling with (DFID, 2015b). Changes over the years have created a somewhat confusing framework and a master copy of completed results across the years does not seem to exist.

PGF

While the PGF programme is funding a series of almost comprehensive inputs into the upstream planning and budgeting arena (the PMO, MoPAD, MFU macro fiscal forecasting, planning and budgeting in the General Directorate of Budget), opportunities for encouraging synergies across these interventions may have been missed. Several informants noted that DFID had not seized the chance to more actively bring the elements of the PGF together to maximise their cross-component synergies. In not doing so, it also (crucially) missed the chance to facilitate senior-level policy dialogue with government on these issues. Indeed, government officials in certain areas expressed disappointment at a lack of substantive technical input from DFID on individual PGF components, noting that they 'only ever see DFID if they want something'. This suggests that there is scope to join up the programme more clearly within its range of interventions, and to include government officials more clearly in this effort. The decision to establish a PGF Steering Committee was positively viewed by relevant informants, but also seen as coming relatively late in the day.

4.1.2 Coherence between the SSDG and the PGF

The two programmes provide important complementary inputs to strengthen the PA's institutions. The SSDG and the PGF both aim to advance a broad state-building agenda by (i) supporting the fiscal sustainability of the PA (SSDG) and (ii) improving the effectiveness of public spending management (PGF). Budget support to developing country governments is almost always accompanied by technical assistance and policy dialogue, and the complementarity of this 'package' is one of the strongest arguments in favour of budget support (OECD, 2012; IDD/OECD, 2006; World Bank, 2010). The combination of the SSDG and the PGF can be seen as effectively replicating this traditional range of mutually supportive budget support inputs and in this sense there is a fundamental coherence, and therefore no fundamental conflict, between the two programmes.

SSDG systems have also been used to advance the objectives of the PGF. In particular, prior actions in the PRDP have covered two of the components of the PGF: revenue mobilisation and the establishment of the MFU. There have been eight prior actions related to revenue management in the four DPGs that cover the period of both the SSDG and the PGF. Six out of eight of these relate to the work of the PGF and the DFID-funded consultant, who also advised on their content. In addition, there has been a prior action that requires the establishment of the MFU; a key component of the PGF programme. In this regard there has been some degree of synergy between the programmes. However, this synergy is not complete in that

PRDP conditionality does not map entirely onto the PGF, and informants have suggested that examples of the PRDP featuring PGF-relevant actions were in large part a consequence of the PA and PGF-funded consultants, rather than DFID, identifying these links.

However, while SSDG systems have been used to promote some of the work of the PGF, the coherence between the programmes in the other direction is less clear. Typically in budget support operations, the supporting TA inputs seek to address areas of identified PFM weaknesses, particularly those concerned with fiduciary risk. However, the PGF programme does not particularly tackle those areas of fiduciary risk identified in available diagnostic work. Comparing the 2010 and 2014 fiduciary risk assessments (FRAs) to the PGF suggests two key conclusions regarding coherence:

- Relatively few of the fiduciary risks identified in the 2010 and 2014 FRAs relate to the upstream strategic planning and budgeting focus of the PGF programme.[6] The 2010 FRA, presumably available at the time of the PGF programme design, identified eight key areas: financial oversight; weaknesses in revenue collection; poor cash forecasting; non-compliance with procurement regulatory frameworks; salary payments to staff unable to work in Gaza; civil servant capacity challenges to manage the PFM reform process and uncertainty about long-term ownership of such agendas (DFID, 2010c). The priority areas of the PGF programme only address one of the eight areas – improving revenue collection.
- More broadly, interventions in the upstream budgeting areas are not usually associated with a reduction in fiduciary risk, which usually involve a focus on 'downstream' areas of execution control, reporting, accounting and audit where fiduciary concern is focused.

DFID is indeed supporting interventions that focus on the downstream execution and control areas of PFM more associated with fiduciary risk. DFID is funding a World Bank adviser through a separate mechanism to work on these issues, and large parts of the PRDP/DPG conditionality framework support reform in these areas. However, this useful work does not appear to be particularly well integrated in the PGF and SSDG programme, either formally through programme design and management, or informally through DFID's policy dialogue and influencing work. The issue remains that DFID's most high-profile PFM reform programme is not either particularly addressing the fiduciary risks that have been already identified, or addressing those areas where fiduciary risks are typically concentrated.

Finally, the SSDG and the PGF appear to have been run as two separate programmes without active coordination from DFID to exploit synergies and possible links between them in policy dialogue with government. Staff working on both the government and consultant side of the PGF programme were generally unaware of DFID's SSDG-related work. For example the PGF has provided the Ministry of Health (MoH) with TA to support efficiency savings in the health sector. Addressing the costly health referrals systems is a large component of this work and actions have been identified to reduce these costs. DPG V included a prior action and indicator on addressing high referral costs, but the PGF team were

[6] As an aside, the 2014 FRA identified a number of issues that are not normally considered a direct risk to use of funds (e.g. lack of legislative oversight of the budget). This calls into question the effectiveness of the report's conclusions, although this is a matter beyond the scope of this report.

not made aware or consulted on such focus. In discussion, many informants recognised the capacity constraints that the DFID Palestinian programme faces, which has resulted in it often being less visible and engaged in the PGF and SSDG sectors than recipient officials and technical advisers would like. Nevertheless, there is a risk that DFID is losing some of the added value in terms of policy dialogue and influence with government that funding both programmes offers.

4.1.3 Coherence between the SSDG/PGF and other donor activities, particularly other DFID activities

SSDG

In terms of coherence with other programmes, those interviewed suggested the two biggest multi-donor budget support programmes – the PRDP/DPG and PEGASE – are fairly good complements. While one offers regular, unconditional tied support for the payment of civil servant salaries (PEGASE), the other is designed to provide more conditional (and therefore unpredictable) but untied support (PRDP/DPG). When asked directly which instrument would be better for DFID to support, one well-placed senior government official suggested they are both as good as each other – ‘they have their own costs and benefits’.

DFID is reported to be a relatively vocal – and valued – participant in donor coordination forums relating to the PRDP, which tentatively suggests a good record in engaging in policy coordination activity related to budget support. DFID’s role is relatively important: between 2011 and 2015, 32 bilateral and multilateral donors provided financial aid to the PA, of which the UK was the fourth biggest contributor after Saudi Arabia, the European Union and USAID respectively. The PA also views DFID as a relatively influential donor, with other bilaterals tending to follow its lead on policy decisions affecting budget support (for example, over PA salary payments to detainees).

One area of potential incoherence among donors as a whole relates to the pattern of PA spending and the balance between recurrent and development spending. Currently virtually all financial aid supports recurrent expenditure, rather than development/capital; and external observers have noted the near end of development spending by the PA (Nashashibi, 2015). The IMF has recommended that over time donors should increasingly shift their financial aid to development spending in response to this so as to support longer-term economic growth and development. It does not appear that PRDP donors (or PEGASE donors) are collectively considering how to respond to the IMF recommendation and approach this issue in their policy dialogue with the PA.

PGF

There appears to be a division of labour – and therefore a degree of coherence – among donors active in the PFM field. According to one key informant this has been achieved through an informal understanding, rather than a formal arrangement. There appears to be little real duplication of effort among donors, with one or two donors covering each of the main PFM reform areas and being seemingly aware of the actions of others. Broadly, DFID focuses on upstream areas of strategic planning and budgeting with some support to revenue; the World Bank supports downstream execution functions (with a World Bank adviser supported by DFID funds); USAID (until recently) have been involved in revenue reform, with a small amount of macro fiscal support; and the EU has focused on decentralisation, internal and external audit and revenue control.

While existing donor coordination in the broad PFM area appears to avoid obvious duplication of effort, this positive result is not immediately attributable to formal aid coordination systems. Key informants did not particularly highlight the role of formal aid coordination processes (either led directly by the Ministry of Finance or by the Local Aid Coordination Secretariat (LACS) system) in ensuring that donor support was complementary rather than competitive. Indeed, some informants expressed scepticism both about whether the Ministry of Finance is either willing or able to actively coordinate its PFM donors to meet its needs, and whether the LACS system provides a venue for genuine management of donor and government relations in this area.

This may explain the mismatch between the PGF and the findings of the DFID FRA noted above. At the time of the 2010 FRA the risks identified may already have been well covered by the programmes of other donors. In addition, and as noted, the World Bank technical adviser on PFM supported in part by DFID focuses on downstream PFM activities more related to fiduciary risk reduction that complement the PGF's upstream focus.

Summary

There is no fundamental conflict between the two programmes, and clear elements of complementarity in certain areas. The SSDG's stated focus on public services is the most obvious area of internal incoherence in the two programmes. While the PGF programme does not address areas of fiduciary risk, other DFID interventions and actions are active in this area. There is division of labour among donors in PFM reform, and coordination among donors in the area of budget support. However, in practice both programmes appear to have been operated by DFID as very separate interventions. This has lowered the chance to bring out synergies between the two programmes, which potentially could have led to increased influence and impact with government.

5 Appropriateness of the two programmes

5.1 Approaching the issue of 'appropriateness'

The question regarding whether the SSDG and PGF programmes are 'appropriate' can be interpreted in a number of ways. Following discussion with DFID, the review team considered the issue against three different criteria:

- Appropriateness with regard to wider HMG policy in the region. This question will consider the degree to which the SSDG and PGF programmes support the broader agenda of the UK in the OPTs, Israel and the Middle East.
- Appropriateness to the PA's needs. The review will attempt to determine what the 'needs' of the PA are at present, from different standpoints, and then determine the degree to which the two programmes respond to these.
- Appropriate in terms of DFID's specific PFM and fiduciary concerns regarding the PA. This will consider the degree to which the SSDG and PGF programmes responded, and continue to respond, to DFID's understanding of fiduciary and other financial risks.

As can be seen from this discussion, certain parts of the appropriateness question (e.g. the PA's needs; wider UK policy) require, to some degree, a piecing together of various sources of evidence in order to construct a proposition against which the appropriateness of the two programmes can be tested.

5.1.1 Appropriateness of the two programmes to broader UK policy in the region

The review team have considered a number of different sources of evidence (public FCO documents, public and internal DFID documents, interviews with HMG staff) in order to summarise the overall priorities of UK government policy towards the Palestine/Israel region. It suggests three broad goals:

- sustained political progress towards a two-state solution
- development of strong Palestinian institutions capable of effective and inclusive government
- poverty reduction and welfare enhancement of the Palestinian people.

These objectives were then compared against the SSDG and the PGF as an example of the typical budget support 'package' of policies (i.e. (i) financial transfer; (ii) policy dialogue, conditions and a shared understanding of the direction of institution-building; and (iii) technical assistance). The analysis asked to what degree the traditional budget support package can be seen – in principle – as a sensible response to these priorities. Consideration of the principles of a budget support package against UK government objectives, as set out above, suggests the following.

Table 4: Appropriateness of the budget support 'package' to UK government objectives

	Sustained two state solution	Strong institutions	Poverty/welfare
Financial transfers	Yes – flow of funds to the PA supports the continuation of Palestinian government as a partner for peace, and provision of direct financial aid by DFID will increase – to a degree – HMG's wider influence over broader PA political decisions	Yes – flow of funds allows Palestinian institutions to strengthen their capacity to manage funds and to deliver their outputs as an example of 'use of country systems'	Probably – if PA services are poverty-focused and capable of effective delivery, boosting their spending power will likely increase their effectiveness, and the existence of the large public sector payroll acts as a mechanism for reducing poverty
Policy dialogue and conditions	Perhaps – some policy dialogue can be focused on political/peace-building issues, and conditions/dialogue that result in improved state service delivery may increase process and output legitimacy of the PA	Perhaps – policy dialogue can be focused on delivering capacity-building reforms in public institutions	Perhaps – if dialogue and conditions are clearly focused on poverty-reducing public services delivery
Technical assistance	No	Yes – well-delivered TA can help support development of stronger state institutions	Perhaps – if TA is specifically focused on poverty-reducing public services delivery

Overall, this analysis suggests that in principle the traditional budget support package is a broadly appropriate intervention to help support UK government objectives. Naturally, this comes with certain caveats. This analysis is undertaken by considering the appropriateness of a budget support package 'in principle'. Firstly, it would, of course, be possible for a very well designed and highly appropriate budget support package to be poorly implemented, and therefore fail to achieve its ambitions in practice. Secondly, regarding policy dialogue and conditions, there is more uncertainty over impact – and hence more 'perhaps' ratings in the table – since the level of appropriateness will depend on what specific areas the policy dialogue and conditions prioritise. If policy dialogue and conditions are not focused on building strong institutions and/or poverty reduction issues, the impact will naturally be less effective in these areas. There is also some evidence (Williamson et al., 2014) that budget support-related conditionality is less likely to be effective the more it attempts to lever broader national *political governance* change, rather than focus on *technical* public financial and institutional management reform. Thirdly, regarding technical assistance, the degree to which it can help deliver stronger institutions and/or help reduce poverty and enhance welfare will depend on which institutions and sectors are targeted to receive TA inputs. Considerations of appropriateness should bear in mind, however, the ongoing risk that strong conditionality imposed by donors can risk inappropriately undermining accountability of the PA downwards to its own people.

It is beyond the scope of the study to exhaustively compare a typical budget support package to other aid modalities to determine the relative appropriateness to UK government policy. Broadly, *project-based approaches* working outside government may deliver some of the benefits of technical assistance listed above, but will be much less effective in delivering financial transfers (by definition) and, given the focused scope of individual projects, will offer a reduced range of areas in which donors can engage in policy dialogue and associated conditions. There could be some advantages to *sector budget support* in terms of being able to notionally focus flow of funds and policy dialogue on poverty-reducing and welfare-enhancing sectors while also being able to more clearly focus technical assistance in these areas. However, the more focused nature of sector-specific interventions reduces the ability of donors to engage in 'across the board' policy dialogue with government, and reduces the ability to focus institutional capacity-building outside those areas directly relevant to the sector being supported. Using *humanitarian channels* (e.g. funding to humanitarian NGOs and cash transfers to identified beneficiaries) would similarly not yield a state-building impact and again reduce DFID's legitimacy and influence in pursuing across-the-board policy dialogue. At the broadest level of UK engagement with the Palestinian political leadership in general, the fact that DFID is a relatively large financial supporter of the PA will also increase, to a degree, UK diplomatic influence within the PA leadership; although opinions as to the size of the 'budget support effect' on UK influence were mixed.

There are additional questions regarding the appropriateness of the performance tranche of the SSDG programme. The performance tranche aims to lever reform by offering additional funding. From our research it appears that the performance tranche is having limited incentivising effect. Key informants showed almost no understanding or recognition of the DFID performance tranche component and what it might mean for them. For instance, the Ministry of Education officials interviewed during the course of the research made no reference to the performance tranche when discussing one of the key activities in its results framework (i.e. the efficiency action plans). Furthermore, the uncertainty and volatility of the PRDP mechanism means that the incentivising effect of DFID's 'bonus' payment in linking effort to reward would likely be cancelled out by the actions of other donors in practice. In the context where improving donor coordination and the coherence of conditionality frameworks are desirable, it seems less suitable to create a small parallel framework.

5.1.2 Appropriateness of the two programmes to the PA's needs

The degree to which the two programmes respond to the PA's needs is more challenging to answer, since determining the PA's needs is a more difficult judgement. Interpreting the concept of 'need' in different ways delivers different answers.

5.1.3 Appropriateness of the programmes to published national plans

The needs of the PA could be determined by considering their published plans in relevant policy areas. In this way, the successive official PA 'national development plans' might provide some guide to what the PA determines it requires from donors. However, key informant interviews (both inside and outside government) gave the clear verdict that these plans are a poor guide to actual PA priorities. Several suggested that instead, and in common with experience elsewhere, these plans mostly provide a donor revenue mobilisation function and do not command strong cross-government support. On the specifics of PFM reform needs, while there is a formal government 'PFM Agenda' supported by the IMF (IMF, 2014b), this is simply not seen as a reform programme setting out government's genuine areas for reform. Informant feedback suggested it represents more a summary of what the PA is doing in any case in this area, and again does not command strong government buy-in. Overall, determining PA need by reference to published official plans is challenging.

The needs of the PA can also be determined with reference to its fiscal position. In this way, the SSDG programme is definitely responding to a clear need for additional financing for the PA. As noted elsewhere in this report, and repeatedly raised by informants both inside and outside government, the PA's current level of expenditure is unsustainable without continued donor funding. The fact that the SSDG continues to provide regular (if somewhat volatile and unpredictable) funding to the PA through the PRDP trust fund mechanism shows an appropriate response to a clear need. While this suggests a clear example of an appropriate aid response, others have raised questions about the degree to which this need for continued (and potentially indefinite) donor financing is politically legitimate (e.g. Le More, 2005), and the degree to which the current donor funding of predominantly recurrent expenditure is effective for long-term economic development (e.g. Nashshibi, 2015).

There are examples of PGF programme assistance that are relatively well placed to deliver against changing PA needs. Recent discussions about institutional change in developing countries (e.g. Andrews, 2013; Booth and Unsworth, 2014) have highlighted the importance of external assistance being adaptive and flexible, since the concept of 'need' in the situation of institutional reform can shift rapidly. Such an approach warns against the usefulness of donor-determined comprehensive long-term plans for reform, in favour of identifying specific areas for which reforming governments genuinely seek support. PGF support to revenue reform, to reforms in strategic budgeting and planning and in support to the PMO offer clear examples of this kind of adaptive, flexible and iterative approach to providing external assistance in the absence of a clearly articulated set of government priorities. This suggests that while the needs of the PA in these areas continue to evolve and remain to a degree unclear, the PGF has some elements of the appropriate kind of response. There may be merit in DFID investing in greater analytical work to uncover more clearly what the PA's real objectives are in this area of PFM reform.

5.1.4 Appropriateness of the programmes to the specific PFM and fiduciary concerns that DFID raises in relation to the PA

The PGF programme does not particularly respond to areas commonly associated with reducing fiduciary risks. DFID defines fiduciary risk as a risk that funds are not used for the intended purposes, do not achieve value for money, and/or are not properly accounted for (DFID, 2011). On the expenditure side, the PGF programme focuses heavily on the upstream planning and budgeting aspect of public financial management in the PA. While these are valid areas for external intervention, they are not usually the areas of PFM reform considered most likely to reduce fiduciary risk. It is therefore more likely that actions in the *downstream* end of the PFM cycle

– execution control, procurement control, in-year monitoring, reporting and auditing – are most likely to reduce this kind of risk.

However, the relative lack of focus on downstream PFM areas within the PGF programme may be appropriate given the wider PFM reform arena. Outside the PGF programme, DFID part-funds the work of a World Bank PFM adviser who has focused much more clearly on these downstream PFM reform areas. The PRDP and DPG conditionality process ties disbursement of budget support funds to improving elements of certain downstream control systems. In this way, the SSDG programme (rather than the PGF) is providing leverage through its conditional disbursement to deliver appropriate downstream PFM reform. In this context, DFID's wider engagement on PFM reform, outside the PGF programme, can be seen as appropriately responding to fiduciary concerns. Further, it is likely that a formal DFID-funded PFM programme focusing solely on downstream areas may, in fact, risk overlap and duplication with the actions of others.

The PGF programme does not particularly respond to the risks outlined in the latest DFID FRA from 2014, although the document itself lacks a clear focus. The 2014 FRA represents the latest full statement of DFID's understanding of fiduciary risk in the PA. The document notes many areas where PA PFM performance falls short of a good standard across the PFM cycle, based in large part on analysis undertaken as part of the 2013 Public Expenditure and Financial Accountability (PEFA) assessment of the PA. The PGF programme areas relate to a few of the areas of weakness identified in the FRA, but not all. At first glance, this might suggest that the PGF is not well-aligned with the DFID Palestinian programme's understanding of fiduciary risk in the PA. However, there are some questions about the focus of the FRA itself. There is a general lack of prioritisation of identified fiduciary weaknesses, and therefore possible responses, in the document. Furthermore, some items – such as lack of legislative engagement in the budget formulation process – are highlighted as key weaknesses, but this would not normally be considered a *fiduciary* risk (although it may be a political legitimacy risk). This raises some question as to the manner in which the report has interpreted the concept of 'fiduciary risk', and arguably makes the report a weak guide as to whether the PGF is adequately responding to fiduciary risk concerns.

5.1.5 Summary of appropriateness considerations

The analysis above suggests that a budget support package containing financial transfers, policy dialogue and some form of conditionality alongside technical assistance is, in principle, an appropriate way to support UK government policy in the region. In the absence of any other overriding concerns, this combination of inputs offers some advantages to other commonly used aid modalities such as project or sector budget support. However, the appropriateness of the budget support package will also depend on the effectiveness with which it is implemented, and whether policy dialogue, conditions and technical assistance are focused on those areas that will do most to support UK government policy objectives.

The SSDG is clearly responding appropriately to the pressing fiscal need for donor financing of the PA budget – although whether that need for financing in its present form remains a legitimate and/or ultimately developmental one is open to question. It is questionable, however, whether the performance tranche element is delivering its desired impact. In the area of institutional and PFM reform, in the absence of a strongly government-owned and clearly articulated national development and/or PFM reform plan, it is difficult to fully determine the degree to which the two programmes are addressing the PA's genuine requirements. The PGF programme is not – by itself – an appropriate response to DFID's fiduciary concerns. However, wider DFID engagement on PFM reform through World Bank-led systems (both support to TA provision and DPG/PRDP conditionality) provide an appropriate range of inputs to downstream PFM areas traditionally concerned with reducing fiduciary risk. DFID’s current understanding of fiduciary risk, derived from the 2014 FRA report, could be usefully reviewed.

6 Lessons learned and recommendations

6.1 Approaching lessons learned and recommendations

The above discussion has considered the SSDG and PGF programmes against a number of criteria, including their results, value for money appropriateness and coherence. This section considers the key lessons learned from this discussion and puts forward a number of suggested recommendations for DFID's consideration.

6.1.1 The constraints on DFID's policy options

In the course of the fieldwork, many interlocutors noted two key factors shaping the context in which the DFID Palestinian programme operates. Firstly, the impact of the occupation puts significant structural restrictions on what the PA and its partners can ever hope to achieve with the policy levers available. Secondly, it was recognised that DFID's aid interventions are more highly politicised and scrutinised in the Palestinian context than in other environments in which it operates very similar development programmes. This serves to highlight the difficulties that DFID faces in genuinely contributing to Palestinian development while operating within its own domestic and international constraints. The policy options and issues highlighted below seek to offer recommendations that take into account these two issues.

The overall approach

The SSDG and the PGF remain, in principle, an appropriate response to both the PA's needs and HMG's goals. There is no immediate reason why this kind of 'budget support package' of financial transfers, policy conditionality and TA should not continue, subject to HMG's overall political judgement regarding the nature and actions of the PA, and the level of fiduciary risk. In line with the various parts of the findings, particularly the 'impact' econometric analysis, while continued financial transfers to the PA and its public spending and employment does not necessarily 'buy peace', it continues to make peace possible by supporting the PA's continued existence. Support for the better functioning of Palestinian institutions through TA and financial aid also allows for potentially greater output and process legitimacy in managing public money, paying salaries and delivering services.

DFID should reflect carefully on its most important policy objectives for its budget support intervention and select a delivery modality accordingly. The SSDG is currently justified (explicitly and implicitly) on a number of grounds: as a demonstration of HMG's support to the OPTs through direct funding of the PA; as a mechanism to support the general operations and continued existence of the PA through unrestricted budget support; as a mechanism to support public service delivery; and as a way of leveraging policy reform via DPG conditions. However, the current set-up of the SSDG arguably offers 'the worst of all worlds' by paying through a *conditional* and *unpredictable* mechanism (the PRDP) while also now being (in theory) *earmarked* to approved civil servants, via the PEGASE list, and requesting additional 'assurances' as to what UK funds are paying for. DFID could usefully reflect on its main objectives for engagement with the PA, and design the method of budget support delivery accordingly. For example, if the UK primarily sees its funding as a sign of political support and wishes to simply sustain a partner for (eventual) peace, the PEGASE system might offer a more predictable and straightforward way of transferring money. If, on the other hand, DFID wishes to continue an 'investment in return for reform' approach, the PRDP approach would be more suitable. The justification of budget support as a public service delivery vehicle makes limited sense in the PRDP model, which in practice has little to do with service delivery issues, but makes more sense in the PEGASE system which focuses on funding 'approved' civil servants working in the social sectors, as well as social transfers and selected hospitals. DFID could apply a more rigorous analysis to better prioritise its objectives in relation to financial support to the PA and design and/or select a delivery method accordingly.

DFID should consider the impact of its budget support on fiscal policy, and its long-term sustainability. The SSDG responds directly to the need of the PA regarding its sizeable and immediate fiscal gap. It is not clear, however, that donor support is facilitating a *sustainable* development agenda. With approximately 90% of donor aid financing recurrent expenditure, there are few opportunities to use aid to fund the longer-term capital investments that might support more sustainable growth. The constraining effects of Israeli restrictions and concerns about short-term recurrent fiscal deficits provide cautions against an immediate and significant restructuring of aid towards development spending. However, there could be scope for a progressive shift in this direction to support a more sustainable improvement in the OPT economy over the longer term. As noted, the econometric analysis has suggested that growth in private sector employment is not associated with increased incidents of conflict; but that this pattern is not clearly seen with growth in public sector employment.

If DFID remains in the PRDP system, it should explore options for making the instrument more predictable for the PA. As noted in the analysis above, DFID's disbursements to the PRDP are relatively regular, but the effect of the conditional pooling mechanism is to make the instrument volatile and unpredictable for the PA. As one of the most vocal and influential donors in the PRDP group, DFID could consider requesting that the World Bank explore options for making the mechanism more predictable for the PA. This would support more responsible PA-led fiscal policy-making and be consistent with DFID's support to the MFU.

Continued support to upstream planning and budgeting reform is reasonable if there is sufficient government buy-in; and long-term support will be necessary to fully embed changes. DFID's support to upstream planning and budgeting represents a relatively comprehensive set of interventions in this area, and there are positive examples of change in each of the sub-components of the PGF programme, albeit from a very low base in some cases. However, implementation of reform is at an early stage in some key areas, and the gains are fragile. Providing there is sufficient government buy-in to successful delivery of the reforms, continued support in these areas is reasonable. Examples from elsewhere suggest that institutional reform is a long-term process, and some of the largest change programmes being supported by the PGF (e.g. programme budgeting reform) have only run through two complete budget cycles to date. All aspects of the PGF programme face sustainability challenges in different ways. Continued support to the programme will allow time to both bed down existing reforms, and begin a more detailed discussion about sustainability options for each different component with the PA.

DFID should consider carefully its continued support to the DARP and national planning systems in MoPAD. The review had only limited access to MoPAD and the DARP system currently funded through the PGF. However, there was clear feedback from well-placed stakeholders that two main outputs from MoPAD that are supported (directly or indirectly) by the PGF – the DARP system and the 'national development plans' – are of limited quality and impact. As an example, neither the MFU nor budget officers in the MoF take DARP data on off-budget aid spending into account when carrying out their duties. This raises questions as to who is using the system that DFID is funding, particularly as DFID's own reviews suggest the system only captures 60% of donor activity.

DFID should more actively manage the implementation of its budget support and various PFM reform interventions to bring out synergies and complementarities. It was noted by well-placed informants that DFID does not systematically join up its PFM reform interventions with the policy dialogue opportunities available through the SSDG/PRDP processes. Some DPG conditionalities that relate to, and support delivery of, PGF-supported changes were reported to have been included in the relevant reform matrix, but this was said to have been done on an ad hoc rather than a systematic basis. Given the influence and access that DFID enjoys as a relatively large donor to the PA and as a vocal donor in the PRDP process, there is scope for more actively using this leverage and access to focus policy dialogue on PGF issues and other interventions that DFID is also supporting.

DFID should invest more time in building relationships with key government officials involved in their targeted reform areas, and in building relationships with TA providers on the ground. In a similar vein to the above recommendation, there was clear disappointment among government officials and DFID-funded TA staff regarding their currently relatively fleeting engagement with DFID staff – except 'when they want something'. This reduces the flow of formal and informal knowledge from 'the front line' back to DFID staff, and reduces the possibility for DFID staff to use their policy dialogue channels to support reform efforts in the PA. DFID is already moving on this issue: for example, the imminent establishment of a PGF 'Steering Committee' to bring together DFID, the PA and TA providers was welcomed; although it was also seen as coming rather late in the day. DFID could do more to strengthen these kinds of collaboration, dialogue and management structures in future programming. There could be benefit in undertaking specific research to more systematically uncover the genuine aims of the PA with regard to PFM and fiscal management reform.

The decision over whether to operate a single programme in the future will depend on the degree of complementarity of the objectives of the two programmes. A single budget support and PFM reform programme would make most sense where the two programmes are directly related. This would mean a situation where (i) the leveraging effect of the budget support conditionality framework directly relates to the specific reform areas of the PFM technical assistance component; (ii) the PFM reform programme systematically addresses DFID's fiduciary concerns; and (iii) (ideally) the PFM reform programme supports a clear government-owned reform strategy that acts in these areas. At present, the two programmes don't reflect these conditions. The PRDP's reform conditions are not particularly related to the PGF's focus on upstream budgeting and planning, and neither focus systematically on DFID's areas of fiduciary concern. The SSDG itself has evolved to feature conditionality (through the PRDP) but not flexibility (through its notional earmarking to the PEGASE salary list), and with a results framework that puts an emphasis on social sector outcomes, even though DFID does not specifically manage the programme to deliver these outcomes. Decisions on whether to have a single programme in the future can only be taken when the objectives of both interventions are fully determined.

DFID should more systematically review its entire suite of PFM-related interventions across all programmes to assure itself that fiduciary risks are indeed being sufficiently addressed, either by itself or by other donors. As noted, the PGF programme by itself is not a complete response to DFID's concerns regarding fiduciary risk in the PA, given its almost exclusive focus on upstream budgeting and planning. However, DFID support to a World Bank adviser working on downstream execution and reporting issues, and the fact that the DPG conditionality framework has contained conditions more directly relevant to these areas, suggests some fiduciary risks are being addressed through these means. Nevertheless, it is not clear that DFID has undertaken systematic consideration of whether the entirety of donor PFM inputs to the PA is sufficient to address remaining fiduciary concerns. Reviewing the conclusions of the 2014 FRA (PWC, 2014) raises some questions as to whether the document is of adequate depth to advise DFID on the most significant risk to its funds. Ahead of the next programme planning round, DFID could systematically and rigorously refresh its understanding of fiduciary risk within the PA, and ensure that its entire range of interventions (both within the PGF programme and beyond) are adequately addressing these risks.

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Annex 1 – Results of the two programmes

7.1 Assessing the results of the two programmes

As discussed above, the 'performance' of the two programmes is considered against two sub-issues of *results* and *value for money*. The main report has outlined the headline conclusions of both these areas. This annex provides more detail on the results of the two programmes in relation to the individual steps set out in the evaluative review framework. This section goes through the results framework and provides summary conclusions for each element.

7.2 Direct inputs to government actions

7.2.1 Transfer of funds to the national Treasury based on previously agreed conditionalities

SSDG

The SSDG has provided substantial financial transfers to the PA. By the end of the programme, it is likely that the SSDG will transfer £156.4 million to the Palestinian national Treasury, an amount larger than initially anticipated. The SSDG started in 2011 and was initially planned for four years at a total amount of £122.2 million. This included £110 million of core grant, £12 million for a results compact and £0.2 million for its evaluation. The programme was extended in 2014 and will now run until March 2016. As a result the budget has increased to £156.52 million. At the time of writing this review, 88% of the funds had been disbursed. A detailed breakdown of the annual allocations across the two components is given in the table below. For the period 2011/12 to 2014/15 actual spending has been very similar to that set out in the revised budget. The only significant discrepancy between planned and actual expenditure was in 2013/14, where additional funding was allocated to address the effects of the ongoing crisis[7] (DFID, 2014).

[7] The specifics of which were not mentioned in DFID's annual assessments of the grant.

Table A1: Planned and actual spending of the State-building and Service Delivery Grant, 2011/12 – 2015/16 (£ millions)

Year	Budget in the Business Case		Revised budget	Actual*
	Core Grant	Results Compact	Total	Total
2011/12	30	0	30	30
2012/13	30	5	35.4	34.1
2013/14	30	5	42.5	41.6
2014/15	20	2	23	22
2015/16	N/A	N/A	25.5	10
Total	**110**	**12**	**156.4**	**137.7**

*Source: DFID website; Notes: i) * As of 1/07/2015 – therefore full disbursement for the 2015/16 financial year is not yet available; ii) information on actual spending divided between the core grant and results compact is not available.*

The SSDG operates on the basis of conditionality as a result of it being channelled through a World Bank trust fund that disburses money on the basis of achieving agreed policy actions. The SSDG is managed via the World Bank's Palestinian Reform and Development Plan (PRPD) programme. Both financial components of the SSDG are transferred to a World Bank Multi-Donor Trust Fund and allocated to the PRPD programme. DFID is the biggest contributor to the PRDP, which is also financed by Australia, Canada, France, Kuwait, Norway and Japan. The World Bank provides financial aid to the PA through a separate programme called the Development Policy Grant (DPG). The PRDP provides un-earmarked finance for recurrent expenditure in support of the priorities of the PA's national development plan, subject to fulfilment of various conditions, discussed in more details below.

The PGF

The PGF is a technical assistance programme and as such does not provide un-earmarked transfers to the Treasury. The PGF project does however provide a small financial transfer to government, but these are used to pay for agreed specific costs, rather than general support to the budget. The majority of the grant going to government is used to fund contractor salaries. The PGF started in 2011 for four years at a cost of £5.5 million and was extended in February 2015 by 15 months and an extra £2 million was added to the budget. Of the total PGF funds, 14% has been transferred to the national Treasury to fund these grants.

7.2.2 Policy dialogue and incentivised performance indicators

DFID's budget support comes with four conditionality frameworks, which have clear policy dialogue systems and incentivised performance indicators. The four conditionality frameworks that apply to the SSDG are: a Memorandum of Understanding (MoU) between DFID and the PA; DFID's Partnership Principles; the World Bank's DPG policy-based conditionality framework; and the results compact conditionality framework.

The MoU is the guiding framework for the UK's budget support in the OPTs and has been used to assess the PA's positive adherence to the Partnership Principles. The UK government established a MoU with the PA outlining their joint commitments to development progress and cooperation. The MoU sets benchmarks to monitor the PA's progress on its Partnership Principle commitments, which relate to advancing poverty reduction, improving PFM, strengthening domestic accountability and respecting human rights. Additional commitments on peace and respecting international law are also included. To ensure harmonisation and alignment and to reduce transactions costs, the MoU benchmarks reference either the World Bank DPG matrix or the relevant Palestinian national development plan, as these already reflect agreed objectives of the PA and have existing monitoring processes. On issues not covered by these processes, such as human rights and elections, DFID seeks to coordinate with other donors, especially the EU. Progress on commitment to the Partnership Principles has been assessed before every quarterly disbursement to the PRDP, as well as annually through a formal meeting between DFID and the PA, chaired by the Minister of Planning. The assessments suggest performance has been positive and have not led to any changes in spending commitments.

The DPG policy framework provides clear policy actions and indicators to strengthen fiscal performance. The DPG contains prior actions and performance indicators that focus on: i) strengthening the PA's fiscal operations; ii) increasing government transparency and accountability through improved PFM; and iii) improving the business climate. To receive the PRDP, donors must be satisfied that the PA is making progress against the DPG prior actions. If satisfactory performance is achieved, the PRDP transfers funding to the PA at the end of each quarter. The performance indicators inform the World Bank's commentary on overall performance in their quarterly reports, but this commentary does not determine disbursements. The DPG policy framework is developed annually between the Ministry of Finance (MoF) and the World Bank. The DPGs relevant for the SSDG period are DPG III, DPG IV, DPG V and DPG VI, which have run from September 2010 to 2015.

Across all DPGs, prior actions have tended increasingly to focus on strengthening the PA's fiscal operations, such as revenue mobilisation and expenditure consolidation, rather than the mechanisms of fiscal policy implementation. Within this, there has been a shift away from prior conditions focused on improving the efficiency of spending, and an increased focus on improving revenue collection, as shown in the table below.

Table A2: Prior actions for World Bank Development Policy Grants between May 2008 and 2015

Prior conditions	DPG I	DPG II	DPG III	DPG IV	DPG V	DPG VI
Strengthening the PA's fiscal operations	*4*	*4*	*6*	*7*	*6*	*4*
I.1 Control public sector wage bill	1	1	3	3	2	2
I.2 Reduce net lending and improve targeting of social safety net	3	3	2	1	2	0
I.3 Improve domestic revenue collection	0	0	1	3	2	2
Increasing government transparency and accountability through improved PFM	*4*	*5*	*4*	*3*	*3*	*3*
II.1 Improve efficiency and transparency of the budget preparation process	1	1	1	1	1	0
II.2 Establish upgraded institutional and regulatory procedures to support PFM reforms	2	1	1	1	1	1
II.3 Strengthen PFM infrastructure and improve auditing functions	0	1	2	1	0	2
II.4 Increase financial accountability through improved and more transparent municipal accounts	1	2	0	0	1	0
Improving the business climate	*0*	*0*	*0*	*0*	*0*	*1*
Total	8	9	10	10	9	8

Source: World Bank DPG documentation

The results compact is the fourth and final conditionality framework for the SSDG. The results compact is approximately 10% of the overall value of the grant and disburses against selected additional criteria. The indicators were agreed with the PA and have been drawn from the DPG framework, efficiency action plan objectives and the national development plan, and the criteria have changed over time.[8] Many of the SSDG performance tranche indicators are drawn from other conditionality frameworks.

7.2.3 Capacity-building activities focused on improved PFM and strengthening of selected institutions

One of the strongest arguments in favour of budget support relates to the strengthening of public administration to make it more effective and accountable. This is driven by what are defined as *systemic* effects (the effects of a flow of funds that strengthens the system through its use) and *direct* effects (the effect of technical assistance in addition to the funds). Combined, these effects are expected to support government reform processes, particularly on public expenditure

[8] The framework to determine the 2012 Results Compact tranche included 11 indicators: 7 DPG performance indicators, 2 indicators related to sector efficiency action plans and 1 about the national development plan. In 2013 this changed to 6 indicators: 5 DPG performance indicators and 1 about the national development plan. The assessment for the 2014 tranche was not available at the time of drafting the evaluation.

management, civil service reforms and result-based management (Naschold and Booth, 2002; Nilsson, 2004). In the context of DFID programmes, the systemic effects are provided via the SSDG and the direct effects are achieved through the PGF. The systemic effects are difficult to isolate and quantify given that budget support funds, by their nature, affect the whole of government operations. For the purpose of this evaluative review, capacity-building will therefore focus on achievements delivered via the PGF, as these are more directly measureable and attributable to DFID interventions

As a result of the PGF, DFID has indeed funded capacity-building activities that focus on improving PFM and strengthening selected institutions focused on upstream budget reform. The PGF finances technical assistance to improve PFM across four components: i) strengthening revenue administration; ii) introducing a medium-term fiscal framework and financing the establishment of the macro fiscal unit (MFU); iii) improving budget planning by introducing programme budgeting; and iv) improving aid management. The business case laid out two additional outputs concerned with strengthening strategic planning and monitoring and evaluation, but following the design phase these were removed. In addition, and slightly beyond the programme's main PFM focus, last year DFID scaled up support to the Prime Minister's Office (PMO) to advise on centre-of-government reform and to strengthen its ability to coordinate and manage senior-level policy. These represent a coherent attempt at capacity-building focused on upstream budgeting and planning systems.

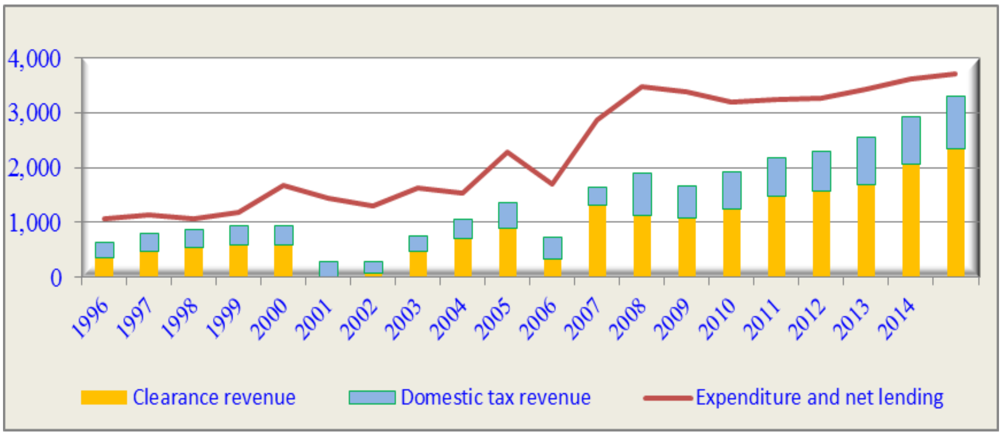
7.3 Direct outputs: improvements in the relationships between the external assistance and the national budget and policy processes

7.3.1 Increased size and share of external assistance funds made available through national budget systems

DFID's SSDG has increased the share of external assistance managed through national systems. Overall, DFID has provided around £137.7 million for the PRDP, which has regularly disbursed to the PA. This effect would not have been achieved in the same straightforward way through other aid modalities. In doing this, DFID has helped to close the large financing gap that the PA faces. Over the past 20 years there has been a large divergence between public spending and revenues, as illustrated in the figure below. Grant financing has been necessary to plug this gap. This gap has primarily been financed by aid, and data available for the SSDG period (between 2010 and 2014) shows that external grants financed on average 34% of total expenditure and net lending, thereby providing a crucial source of finance for the PA. During this time, 23% of this aid was from the PRPD and DPG and 6% of this aid was from DFID.[9] Aid dependency (in terms of aid as a proportion of total expenditure) has started to fall in recent years meaning that DFID, along with other donors, is providing an important, but decreasing share of expenditure.

[9] IMF data from the Palestine IMF office.

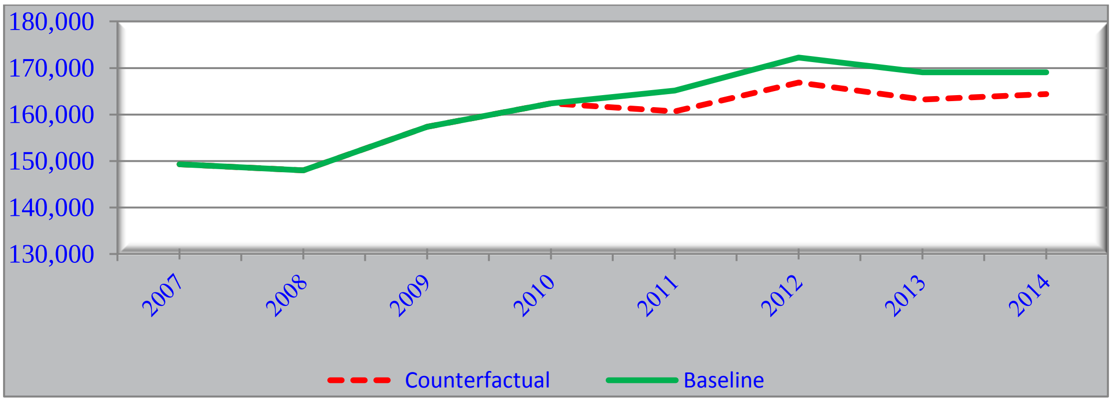
Figure A1: Revenue and expenditure for the PA, 1996 and 2014 ($ millions)



Source: MoF data; Notes: Data on 2015 is based on a projected five-year average of the annual growth per year.

DFID's support to the PA is roughly equivalent to the salary costs of around 5,000 additional civil servants. The SSDG is approximately 1.5% of public expenditure, equivalent to 3% of the wage bill. Based on average civil servant salaries, this funds just over 5,000 civil servant salaries per year; specifically, 4,468; 5,429; 5,886; and 4,728 over the years 2010 to 2014 respectively. Over the course of the last five years wage expenditures have gradually increased reflecting a rise in both wages and the number of public sector employees.[10] The figure below shows estimated recent growth in public employees, where the baseline represents actual performance, while the counterfactual illustrates a hypothecated scenario where DFID does not provide budget support that can support wage costs. In this case, the number of public employees would fall by approximately 5,000 per year, delivering a more modest growth of civil servants between 2010 and 2014.

Figure A2: Number of PA public employees (civilian and security), 2007 to 2014



Source: MoF data and authors' calculations. Notes: i) the baseline number of PA employees is the total PA wage bill divided by the average wage from the PA payroll. The average nominal wage for 2014 was $12,389 per annum; ii) the counterfactual assumes DFID's contribution to the PRDP is not used to pay salaries and is subtracted from the total PA wage bill. The counterfactual number of PA employees is the total PA wage bill minus DFID's contribution to the PRDP, divided by the average wage from the PA payroll.

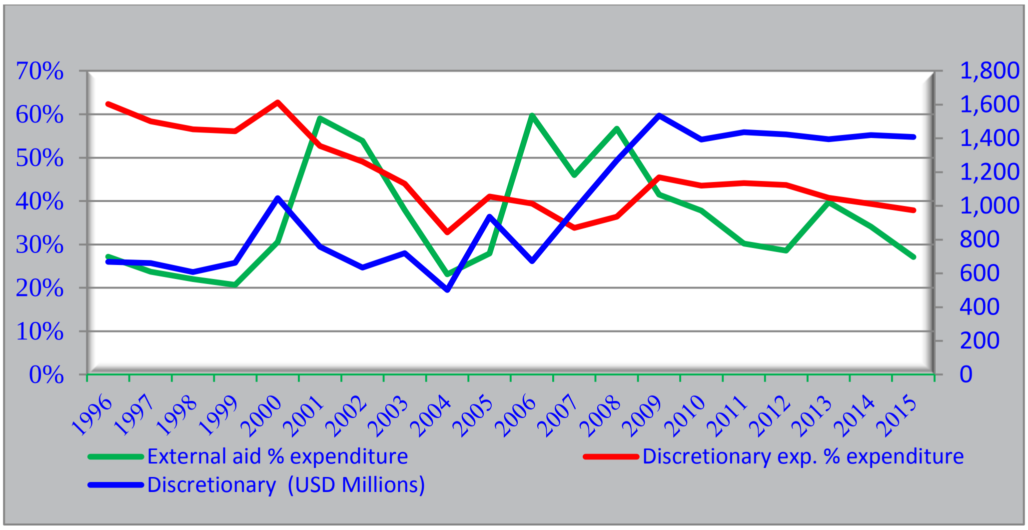
10 Wage expenditures have increased from $1,593 million in 2010 to $1,885 million in 2014.

7.3.2 Increased size and share of budget available for discretionary spending

One of the assumed benefits of financial aid to governments is the expectation that it creates the space for financing priority expenditures, measured by a rise in discretionary spending. DFID's business case for the SSDG notes that an increase in discretionary resource is expected to be one of the direct outputs of the intervention. Discretionary spending was not clearly defined in the original business case, but the wider discussion suggested it refers to non-wage spending. In this discussion, it is defined as non-wage expenditure and net lending. The assumption is that wage costs are relatively 'fixed' and cannot be easily re-prioritised or shifted between years, while the PA has more flexibility to determine the pattern of non-wage recurrent and development spending.

The volatility of aid to the OPTs over the past 20 years makes it difficult to establish a clear relationship between aid and discretionary expenditure**.** Aid as a proportion of total expenditure has been variable over the past 15 years.

Figure A3: Discretionary spending as percentage of total expenditure and net lending, 1996 – 2015, ($ millions)



Source: MoF data; Notes: i) discretionary spending defined as total spending minus spending on wages/salaries/related allowances; ii) data on 2015 for PA spending is based on a five-year average of the annual growth per year, and external aid data is adapted from the IMF's estimation.

Over the same time, discretionary spending as proportion of total spending has fallen from 62.7% in 2001 to an expected 38% in 2015. Beyond the sustained rise of discretionary spending between 2006 and 2009, which coincided with an increase in aid to government, a clear relationship between changes in financial aid and changes in discretionary spending has not emerged.

Over the past five years, DFID's finance has not been associated with higher discretionary spending. Since 2011 discretionary spending has remained constant in absolute terms, despite the fall and rise of absolute volumes of aid. As a proportion of expenditure, discretionary spending over this time has continued to fall, while at the same time there has been an increase in the number of government employees. This suggests that non-discretionary wage spending has absorbed any additional aid during this time.

7.3.3 Increased predictability of the disbursement of external funds

Delivering predictable and regular aid is of particular importance in the OPTs and has been a priority for DFID. The detrimental effects of unpredictable aid flows on economic growth, debt, sectoral allocations and service delivery are well evidenced (Hedger et al., 2010; Lensink and Morrissey, 2000; Knoll, 2008). Budget support is expected to improve aid predictability, as it provides long-term commitments delivered in a fixed pattern of instalments. Delivering predictable and regular aid is of particular importance in the OPTs. This is not only because the PA is heavily dependent on aid flows, but also because clearance revenues – the PA's primary source of finance[11] – are also unpredictable and have been sporadically withheld by the Israeli government. The importance of predictability is recognised in the SSDG results framework.

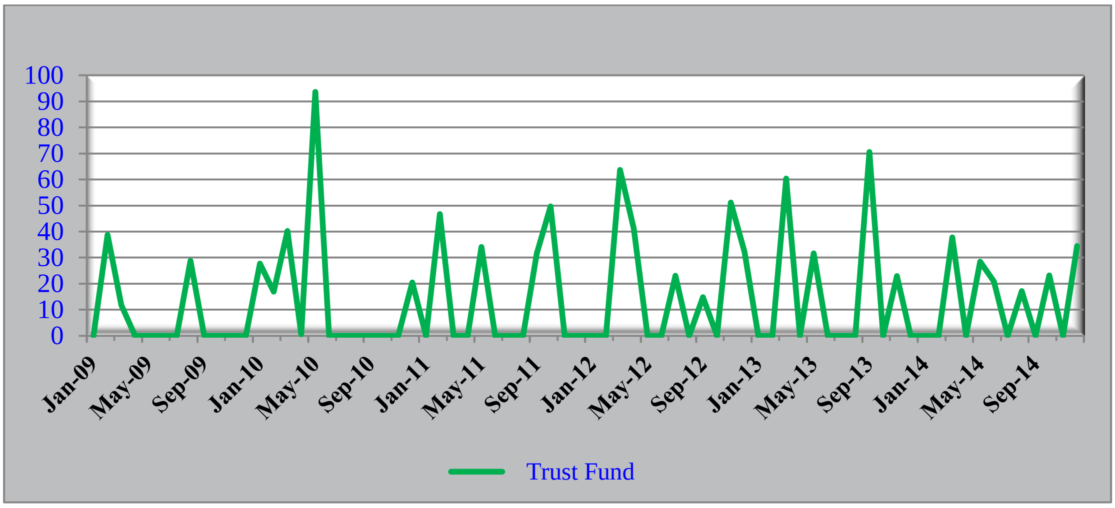
Overall, for the PA, the SSDG's aid predictability through the PRDP is relatively poor. Despite DFID's prioritisation of this objective, the nature of providing finance through an intermediary body (the PRDP) makes predictability hard to achieve. This is because both DFID *and* the World Bank are required to deliver funds in a regular and predictable way for this to be accomplished. The following discussion considers different aspects of 'predictability':

- The SSDG regularly scores well in terms of predictability according to its own annual assessment. DFID disburses to the PRDP according to a schedule it has agreed with the PA. The MoF has often praised DFID for elements of its aid predictability and appreciates the forward commitments provided in the SSDG business plan (DFID, 2012, 2013, 2014).
- The PRDP disburses funds in a *regular* way to the PA. The PRDP disburses to the PA at the end of each quarter, assuming all conditions are met and the PA has submitted an acceptable quarterly financial report to the World Bank (late submission of the PA report will lead to delays in disbursement). Only once, at the end of 2014, was there a substantive delay because one prior action was not met.
- The PRDP disburses funds to the PA in a very *volatile* way. While DFID has disbursed relatively regular sums of money, amounts from other donors are very variable and unpredictable. As a result the quarterly amount received by the PA varies substantially. In one quarter the fund disbursed $14 million to the PA and in the following $82 million (one of the largest discrepancies). Rather than attempting to smooth the disbursements the World Bank empties the account each quarter.
- The PRDP is not a *predictable* instrument for the PA. From each quarter to the next the amounts the PA receives are very variable as discussed, and according to the MoF they do not know how much they will receive. The PA is notified of financial transfers as they happen, but the World Bank acknowledges that it cannot give accurate annual commitments in advance of the financial year to the MoF.

DFID is therefore generally displaying effective donor behaviour in providing forewarning and predictability in its disbursement to the trust fund, but the impact of the behaviour of other donors using the PRDP outweighs this positive effect.

[11] Between 2011 and 2015, clearance revenues were equivalent to 50% of all revenues and grants, while external aid made up 34%. This leaves only 12% of all revenues and grants coming from 'own sources' that could be considered very predictable.

Figure A4: Regularity and volatility of funding from the PRDP to the PA, 2009 to 2014 ($ millions)



Source: MoF data

7.3.4 Policy dialogue and conditionalities better coordinated among donors

Given the challenges of promoting policy reforms through conditionalities in fragile contexts, it is particularly important for such conditions to be coordinated and comprehensively supported by donors. Indeed, many donors recognise the particular conditions of fragile states in this area. For instance, the World Bank policy on Development Policy loans/credits/grants (OP/BP 8.60) specifically allows for post-conflict situations to be treated differently regarding conditionality.

In this regard, performance has been good, where formal policy conditionality is more coordinated as a result of the PRDP. Seven donors excluding the World Bank contribute to the PRDP and it represents approximately a quarter of financial aid to the PA. Therefore by pooling funds and conditionality with other donors DFID has facilitated a more harmonised approach to policy dialogue. In addition, the new Results Orientated Framework (ROF) for PEGASE is expected to strengthen this further through consciously aligning with the PRDP/DPG system. At an operational level, the World Bank and the EU are working more closely together, for instance the EU now attends the PRDP meetings. Collectively the EU PEGASE and PRDP represent half of all donor aid to government, so improved harmonisation should have a better chance of leveraging reforms through policy dialogue.

There is evidence to suggest that the coordinated policy dialogue of the PRDP has helped facilitate the successful implementation of the policy conditionality framework. The DPG policy conditions have largely been achieved. Only one of the 37 prior actions (from DPGs III–VI) was not met and only two were reversed. There has been slightly less success with achieving the indicators tied to the prior actions but unlike the actions themselves, they do not determine PRDP disbursement. DFID however relies on them to assess the SSDG's performance and they form the majority of the indicators for the small results compact that DFID supports.[12] According to several informants, activities that were prior actions received particular attention in ministries' work plans; suggesting that the PRDP does encourage the PA to prioritise such activities. As noted, greater harmonisation between the PEGASE and the PRDP should increase this impact.

[12] They are used by the World Bank to assess the PA's progress each quarter.

The process of selecting the prior actions may have limited the ‘stretch’ of the actions, potentially facilitating easy success. Many informants praised the process of determining the prior actions, for which the PA develops the first proposal in consultation with sector officials and TA providers to select realistic and achievable actions. Despite the desirability of such a government-led approach, it may have weakened ambitions. Evidence suggests that PFM reform commitments in the DPG are ad hoc rather than strategically planned. They do not necessarily reflect multi-plans or (according to one informant) the most strategically important thing to do.

Successful implementation of the DPG conditionality framework may also be attributed to its focus on PFM and fiscal issues. A recent budget support evaluation in Uganda illustrates that the prior actions most closely linked to MoF effort were the most successful (Williamson et al., 2014). This experience is certainly relevant in the Palestinian context, where the three unsuccessful actions related to activities outside the mandate of the MoF – i.e. zero net hiring; reforms in the Public Pensions Agency; and a new payroll system in MoF and the Ministry of Prisoner Affairs.

It is too early to decisively determine the effects of withholding PRDP funds at the beginning of 2015. The World Bank, with support from the contributing donors, withheld their quarterly disbursement because the PA had not met the policy condition about maintaining zero net hiring. The funds were later released following rapid action from the PA, as clearance revenues were being withheld at the same time. One key informant suggested the Minister of Finance is now giving more attention to the policy conditions framework and has reprioritised revenue mobilisation efforts. This provides some evidence to suggest that the conditionality lever works. Yet this response might simply be aimed at ensuring financial self-sufficiency in the face of dramatic funding shortfalls. Furthermore, funds have only been withheld once and were eventually paid, suggesting the incentive mechanism around the conditionality framework is still embryonic. Nevertheless both the World Bank and the MoF have acknowledged that government-wide policy conditions require a greater level of visibility and support across government, and a Cabinet directive is being sought for the employment-related conditions. The World Bank’s next assessment on the PA’s performance in the second quarter of this financial year should shed greater light on the effects of withholding PRDP funds.

DFID’s performance tranches appears to have achieved limited incentivising effects. Key informants demonstrated limited knowledge of the performance tranche. Unlike the PRDP, it has a broader results framework, drawing on indicators related to the national development plan and performance in the social sectors. It aims to act as a lever for DFID to maintain PA attention on these additional desirable outcomes. However its size appears to prohibit such an incentive effect – at its largest, the annual contribution is less than 0.4% of the financial assistance the PA receives from donors on an annual basis (2013) – a sentiment also supported by well-placed informants. Furthermore, opportunities to use DFID technical assistance to promote interventions in the results framework (such as the efficiency action plan) have not been fully exploited. For instance, the Ministry of Education officials we met made no reference to the performance tranche when discussing one of the key activities in its results framework (i.e. the efficiency action plans). Furthermore, annual alterations to the results conditions and its measurements have weakened any incentive effect. Finally, and perhaps most importantly, the unpredictability and volatility of the PRDP mechanism means that the incentivising effect of DFID’s ‘bonus’ payment in linking effort to reward would likely be cancelled out by the actions of other donors in practice.

Conditions requested and agreed outside planned structures, primarily as a result of political pressure within the UK, have proved to be the most unwelcome element of policy dialogue. DFID has been applying pressure on the PA to provide assurances that PRDP resources are not being used to fund detainees, and, with support from other donors, appears to be achieving its objective. However, this additional specific conditionality is not welcomed by the PA and may come at a cost of limiting DFID's latitude for broader policy influence.

7.3.5 TA/capacity-building activities better coordinated and more conducive for implementation of government strategies

The absence of a genuinely government-owned, medium to long-term strategy for PFM reform undermines efforts to help implement government objectives. Additionally, there are several other constraints with the current 'PFM Reform Agenda' that are not conducive to full alignment with government plans. First, it does not comprehensively cover all current PFM reforms. For instance, the focus is on legal and regulatory reform; budget preparation; and budget execution, but reforms are ongoing elsewhere in the PFM policy arena (e.g. revenue action plan; financial statements auditing). Second, the current plan only covers two years (2014–16) rather than providing a longer-term strategic vision, and alignment to the national plan is weak. Third, there is questionable support for the reform strategy within certain pockets in the MoF and beyond.[13] Together, this suggests a less than comprehensive plan against which the PGF can align.

Despite this constraint, as well as weaknesses with formal coordination in the PFM sphere, there appears to be limited duplication of reform activities. There are two formal coordination structures for PFM: the LACS group on PFM and the IMF-led group on revenue reform. The LACS group aims to provide a platform for comprehensive discussion on PFM. It meets fairly infrequently and meetings often have limited government attendance, with seemingly more focus on information-sharing rather than coordinating behaviour. Nevertheless there has been no suggestion of obvious duplication and overlap of PGF activities with other donor programmes. In the PFM reform area, the PGF has been noted as supporting upstream planning and budgeting, while other donors (e.g. the World Bank, IMF) focus on downstream budget execution, reporting and auditing. This was suggested as a sensible division of labour between donors. Furthermore, certain PGF-funded inputs have actively facilitated better coordination among donors, for instance TA provider attendance at PFM donor coordination meetings; revenue adviser support to quarterly IMF-led donor revenue reform forums; and the MFU providing a liaison function with other donors.

PGF inputs have demonstrated adaptability as the appetite for reform has changed. For example, on the revenue side, one informant noted that the Revenue Action Plan/Mobilisation Strategy remains a formal commitment, but there is little drive to implement it under the current minister. Limited informant and documentary evidence suggests that PGF input has flexibly shifted to align to those parts of the plan that can be moved forward in the absence of strong senior-level support for comprehensive reform.

7.3.6 Reduced transaction costs of providing aid

The SSDG was initially presented as a transaction-light programme. The business case only cited costs for administering the multi-donor fund (borne by the implementing donor) and the costs faced by other donors for monitoring implementation. It suggested the transaction costs for PRDP would be

[13] Neither the Minister nor the Council of Ministers have endorsed the PFM strategy and certain aspects of the reform programme (such as revenue administration) may no longer command strong high-level support.

approximately the same as for the PEGASE, but much less than for a sector budget support programme that would require greater DFID management responsibility.

During the process of PRDP implementation, new costs related to exchange rate transactions and informal conditionalities have emerged, suggesting that the costs initially identified were underestimated. The new costs are associated with exchange rate fees and a suite of financial and non-monetised costs associated with managing the political risk that donors face when providing financial aid to the PA. In terms of the exchange rate costs, DFID's internal audit report identified a succession of exchange rate losses from transferring grant money from UK pounds to US dollars and then to New Israeli Shekels, 'some of which were substantive' (DFID, 2015c). In terms of political risk, over the course of implementation, DFID has faced increased scrutiny from domestic constituencies regarding the use of its grant funding to the PA. In response, DFID demanded assurances from the PA that its money was not being used to pay for prisoners' salaries; a request then followed by other PRDP donors. This unanticipated scrutiny has generated additional costs for donors related to more staff time for implementation, greater public scrutiny and reputational risk. This is a particular challenge for DFID, as it is considered the most vocal donor in this regard and the PA's frustration with these additional informal conditionalities may well have weakened DFID's negotiating ability across broader development policy.

The actions associated with these informal conditionalities have created an extra set of costs for the PA. In response to DFID's request, the MoF initially set up a process to notionally apply the PEGASE salary list to PRDP funds. Following further pressure from DFID and the PRDP donors, it then closed the Ministry of Prisoner Affairs and established a separate Committee for Prisoner Affairs reporting to the Palestinian Liberation Organisation (PLO). Salaries for prisoners in Israeli jails would come from the PLO rather than the PA. Further action has been required by DFID on this issue, suggesting that costs will increase further.

It is difficult to quantify transaction costs, however estimates for some of the more easily quantifiable costs are presented below. The table suggests that the costs to DFID were much higher than anticipated, a finding common with other budget support programmes (Tavakoli, 2013).

Table A3: Estimated transaction costs for PRDP and EU-PEGASE programme

	Original business case PRDP	PRDP following implementation	EU-PEGASE following implementation
Costs for administering the multi-donor fund	1.55% of donor funds	1%[14]	1% (not known, but estimated as this[15])
Exchange rate costs	Not included	7% of DFID's contribution	Assume a 7% figure, in line with DFID's current costs
Donor staff time for implementation	£255,000	£319,000 (assume it has increased by 25% to follow up fiduciary concerns)	£255,000 (assume it is the same as the business case)
Reputation risk to DFID	Not included	Exists but non-monetised	Arguably low as only paying for 'approved' public servants
Loss of DFID's political capital	Not included	Exists but non-monetised	Not known
Costs borne by the PA	Not included	c. £250,000	c. £500,000[16]

Source: SSDG business case, DFID internal audit report, informant interviews; PEGASE evaluation

In monetary terms the transaction costs of providing support via the PRDP are slightly lower than for PEGASE, but for PRDP, DFID also have to bear the costs associated with reputational risk. DFID bears the policy risk of the PRDP matrix being 'successful'. DFID also bears the reputational risk for potentially all PA spending given that budget support is intended to be unrestricted, whereas PEGASE is tightly earmarked to a clear list of 'approved' beneficiaries.

7.3.7 Capacity in targeted PFM areas improved

The PGF programme contains numerous components, and they appear to have had differing success in (i) delivering improved capacity; and (ii) making the capacity sustainable. Each component is examined in turn.

The MFU

The MFU contribution to MoF's capability appears substantial and genuine compared to what existed before. Numerous stakeholders noted in interviews that the MFU provides a significant boost to capability in fiscal forecasting and fiscal management compared to what existed before – where they suggested there was essentially no in-house capability and forecasting was de facto done by the IMF. Capability in the macroeconomic forecasting area compared to fiscal area is less advanced, but emerging. The capability on display is not unqualified, however. Unrelated informants suggested that the MFU does not yet have the influence

[14] Estimate from latest SSDG annual review.

[15] Estimate from EU PEGASE evaluation. The ECA auditor of PEGASE noted that the verification system used is expensive (ECA, 2013).

[16] The PA is required to carry *ex ante* and *ex post* audit checks of payments made to individuals, as well as manage the payment system so that PEGASE pays half the salary of designated beneficiaries while the PA pays the rest.

within MoF to 'set' the fiscal aggregates for the rest of government, and in practice, expenditure ceilings are subject to bargaining between different departments. Well-placed commentators noted that the MFU maintains a separate 'shadow' estimate of what it considers the 'real' fiscal totals, which may not match what is published in the budget. Other informants suggested that the MFU was effective at fiscal monitoring and short-term fiscal forecasts, but less effective in setting a Palestinian-owned 'fiscal policy' that actively shapes government financial aggregates over the medium term.

This can be strongly attributed to PGF inputs. There was universal agreement that the hiring of capable and well-educated professionals in this sphere on higher salaries, paid for by the PGF, was the driver of this success. Well-placed informants noted also that supplementation of their skills with OPM-led interventions (on a declining basis over time) played a supporting role in this story, although the MFU has also received technical advice from non-PGF actors also.

The MFU's sustainability was repeatedly raised as an unresolved issue. There was universal recognition that the higher salaries provided by the PGF grant was the key element keeping more capable staff working in the MFU. The end of higher salaries for staff is expected by all commentators to prompt the current staff to leave. There appeared to be limited progress on actions to ensure sustainability, with an uncertain response by stakeholders to questions about how sustainability would be ensured. A new director of the unit (a permanent civil servant) has been appointed, but he does not appear to have substantively taken up his role despite nominally being in post for several months. The MFU as a unit does not appear strongly 'embedded' in MoF structures, and some informants criticised the MFU for acting as an 'independent' unit outside the formal structures of the MoF. This may improve with a formal decision to co-locate the unit in both the Budget and International Relations departments. There appears (although this could not be fully confirmed) that there has been little effort to actively train and develop permanent staff in the ministry to take on the skills of the current MFU staff. One well-placed senior MoF official stated that government intended to continue paying higher salaries to MFU staff even if/when donors end funding, although other key stakeholders did not mention this.

Programme-based budgeting

Improvements in basic budget planning systems appear evident in the General Directorate of Budget (GDB) – albeit from a low base. There is evidence that basic systems and practices common to all budget departments have developed and/or improved (a revised budget calendar; a revised manual of budget procedures; a revised Budget Circular setting out roles and responsibilities; greater awareness of the role of the budget office in managing public spending). It was not possible in the scope of the review to judge effectively the degree of compliance with these new systems, but the fact they have been developed from a previous point where they didn't exist is a positive step in itself.

Training and development of staff in new systems appears to have had some success. Budget staff interviewed consistently reported that they valued the training and development they had received from Oxford Policy Management (OPM) consultants (often delivered on a one-to-one mentoring/coaching basis). Stories of positive change (e.g. progressively handing over responsibility for negotiating compliance with new systems from OPM consultants to GDB staff) were prevalent and consistent. Interviews with officials in one line ministry confirmed that budget staff were increasingly comfortable with the new system. However, OPM consultants have been clear that improvement in staff capability has occurred from a low base.

‘Programme-budgeting’ capability across government appears to be emerging. While there is disagreement among observers as to whether the OPM-led reforms really constitute ‘programme budgeting’ or not, there is some evidence that reforms that aim to more closely link priorities and plans to budgets are being implemented. Ministries are now asked to explain what they aim to achieve in their activities, and to link this more clearly to their budget plans. Objectives are now published in the budget. They have been required to formally constitute budget-planning teams, and subject their budget proposals to ministerial approval. A system has been put in place to more rigorously assess capital investment projects across government. It is beyond the scope of this review to judge these individual reforms in terms of their actual impact and effectiveness (i.e. it is possible to have a well-designed system that is ignored) but the direction of travel of the reforms appears sensible and realistic for the context.

The sustainability of these gains is uncertain given their relative newness. Budgeting is an annual process, and currently the PGF programme has supported two budget cycles, and is midway through a third. Even with flawless technical input to budget-planning reform, it would be too early to ensure sustainability given that new systems have only been used twice, and have themselves evolved between budget cycles (as would be expected in a new and emerging system).

The largest threat to sustainability identified by OPM is not the technical difficulty of the emerging system, but the effectiveness of GBD management. It was repeatedly raised by OPM TA that the most significant challenge to effective implementation of reforms is not their intrinsic difficulty, but instead the ability of managers, and the wider PA bureaucratic culture, to support and sustain this kind of reform. This is something beyond the focus of the current PGF programme.

Revenue policy and administration reform

There is little evidence of comprehensive improvement in revenue capability across government. It was noted by informants (with limited evidence) that despite the adoption of the ‘Revenue Action Plan’ and the subsequent ‘Revenue Mobilisation Strategy’ by ministers there has been, in reality, very limited movement in implementing key parts of it. As a result, it is unlikely that there has been comprehensive improvement in the operation of the revenue system as a result of PGF-funded inputs. Recent rises in revenue collected were attributed to factors other than improved government tax policy and administration.

Nevertheless, positive examples of effective advice being given by PGF staff to the ministry were outlined (with limited evidence), but it appears that the advice has rarely been implemented. Evidence suggests that PGF inputs have provided effective recommendations for reform and change based on experience in other countries, and that this advice is aligned with the actions of other donors in the field. However, informants suggested that in practice much of the advice has been formally accepted but not implemented.

Positive stories of change were identified in specific operational areas. In the absence of a drive for comprehensive reform, PGF inputs have been described as ‘seizing opportunities’ where they arise to deliver capacity-building inputs. Some encouraging examples could be provided (with limited evidence) in this area. These tended to be on the operational side (e.g. training delivered to auditors) rather than on the policy or institutional reform side.

Sustainability in this area is not assured, and perhaps unlikely, in the absence of a high-level drive for comprehensive reform. Informants (with limited evidence) suggested that some ‘quick wins’ have been possible, and may continue to be possible, but sustained drive for comprehensive reform, that would sustain these gains, is uncertain.

Support to aid coordination in MoPAD

The DARP system appears to have increased its coverage, suggesting some capability improvement. DFID reports an increase in the proportion of donor aid captured through the system. Given the reported need (with limited evidence) for DARP staff to actively manage and chase donors to comply with the system, an increase in coverage could be considered an increase in capability of the DARP system.

The sustainability of DFID's support is questionable. Evidence here is limited, but evidence suggests that DARP staff on contract are in a similar situation to MFU staff, in that their relatively high salary paid by the DFID grant is a (or the) major incentive to work on the system, and the ending of the grant will end their involvement in the system. Evidence was not gathered as to the degree to which DFID-funded DARP staff have transferred skills to regular MoPAD staff.

Sustainability in this area may be a broader question for the continuation of MoPAD as an entity. Numerous informants noted the fact that the Minister of Finance is also the Minister of Planning. It was suggested by several people that MoPAD is an 'empty' ministry, with very few staff and an uncertain role – at least until the process for the next national development plan begins. Well-placed stakeholders suggested that DARP data makes no substantive input to MoF macro fiscal or budgetary decisions. This raises questions as to the usefulness of the current system and about who is using the data that the PGF is paying to collect.

Support to the PMO

Relevant staff within the PMO have positively welcomed support that institution has received (with limited evidence). From this evidence, the reform story outlined by the PMO of where input is needed, and the rationale for it, appears coherent and sensible. This therefore suggests a positive reform environment; however, well-placed informants suggested that substantive work to build capacity is only beginning and it is a little early to judge impact and sustainability of PGF inputs to the PMO. It should also be noted that the impact of capacity development provided to this kind of apex policy development and coordination institution is particularly hard to measure, given that PMO outputs and resulting outcomes are rarely quantitatively measurable.

7.4 Induced outputs: improved public policies, public sector institutions, public spending and public services delivery

7.4.1 Improved macroeconomic and budget management leading to fiscal savings, with a focus on poverty-reducing sectors

Improving the macroeconomy

It is difficult to isolate the influence of external aid and the PRDP in particular on the government's macroeconomic position over the past five years. The OPT's heavily aid-dependent economy suggests that aid should have had a considerable impact. At the same time, there have been several political shocks that may have offset or exaggerated any positive influence of the financial aid on economic growth. Nevertheless the PRDP appears to have facilitated improvements in the macroeconomy in a number of ways.

Through the DPG conditions, the PRDP has encouraged fiscal consolidation, while at the same time the unpredictable and falling nature of aid has directly led to higher levels of government arrears. The reduction of financial aid put fiscal pressure on the PA and is associated with an increase in arrears at the beginning of the 2010s (IMF, 2014). Furthermore, the unpredictable nature of aid, both between and within years, exasperated the PA's cash management challenges (IMF, 2013). DFID and PRDP's allocations mirror these broader trends in aid, so a loose contribution is inferred. Nonetheless DFID, through the DPG conditions and the PGF, supported the PA's successful efforts to consolidate expenditure and improve revenue mobilisation, facilitating a more sustainable financial situation in the OPTs.

Aid has provided a strong fiscal stimulus for the economy by financing public investments and employment. The OPTs are a consumption-based economy. Total consumption has made up more than 100% of nominal GDP over the past 20 years. In this context the economy will fare better if the consumption of goods and services grows. The public sector is an important contributor to overall consumption, as economic restrictions imposed by the Israeli government have constrained private sector development. As a consequence, government consumption is correlated to GDP growth through PA's role as an employer – a third of Palestinians rely on wages from the PA (DFID, 2010a) – as well as an investor in local infrastructure. The SSDG funds recurrent expenditures and, as previously shown, potentially supported the employment of approximately 5,000 civil servants by the PA over the past five years. Beyond the peace-building impacts of lower unemployment, generating jobs in the OPTs also provides a crucial source of income for consumption that is necessary to stimulate economic growth there. This is crucial in the context of falling employment since 2011, which has been particularly acute in Gaza. Furthermore, given the importance of public sector consumption in the economy and its relatively constant nature, it serves as an anti-cyclical tool; maintaining fiscal discipline in times of growth and boosting the economy in times of crisis. Therefore, despite the economic crises experienced by both the West Bank and Gaza over the past five years, DFID's financial aid provides direct support for fiscal balance and economic growth in the OPTs.

Improving budget planning

Overall, there have been identifiable improvements in budget planning management over this period, facilitated by DFID's interventions. The PGF's largest component by spend is support for the implementation of programme budgeting in the PA. Following the introduction of this programme, the budget planning process appears to be more actively planned and managed and changes have been welcomed by MoF and Ministry of Education (MoE) staff. The existence of a new budget calendar, a revised budget procedures manual and an improved Budget Circular system suggest the existence of a system that is better managed. Furthermore, there are now clearer expectations as to what line ministries should produce to engage in the budget process and the MoF provides more and better guidance. These activities have been directly supported by PGF TA in the MoF and the Ministry of Health (MoH).

As processes bed down, some remaining gaps will need to be addressed. The adherence to these procedures is improving according to DFID reviews that look at the percentage of compliance across ministries, and the quality of the submissions returned from line ministries has improved from one year to the next, according to informants. Yet, gaps remain in the entire upstream budget planning process. In particular, the planning and expenditure financial management systems are not compatible, limiting integration; further capacity is required to ensure aggregate expenditure ceilings set by the MFU determine the overall fiscal framework; current expenditure allocations are made without reference to the national development plan; off-budget aid information in DARP does not appear to meaningfully inform any central budget planning at either the aggregate or ministerial level; full compliance with the new system is not universal; and it is unclear if compliance is resulting in higher-quality budget planning outputs. These weaknesses are understood by those in the process, and are not uncommon in reform programmes of this kind.

Questions have also been raised about the sustainability of the programme budgeting system. The budget planning and preparation reforms are in an early stage, having only been comprehensively run through two annual cycles. Responding to this issue, some informants emphasised the importance of not prematurely stopping the PGF support. According to some informants, the more substantive risk however concerns the lack of effective management of the process, rather than the difficulty of the reforms themselves.

Facilitating fiscal savings

The PRDP and the PGF have facilitated some improvements in revenue mobilisation and fiscal forecasting. The reduction of overall aid between 2011 and 2015 undoubtedly undermined efforts to achieve improved fiscal savings, as arrears expanded to accommodate this shift in the early 2010s. However both the SSDG and the PGF supported some efforts to improve revenues and consolidate expenditure. The increase in revenue experienced between 2007 and 2014 was primarily driven by the improvements in tax collection and a rise in fuel VAT. Both PGF activities and SSDG prior actions provided some incentives for these improvements. In 2013, revenues rose by 25% in dollar terms, significantly surpassing the relevant target in the DPG IV. Furthermore, it is likely that the more effective fiscal forecasting from the MFU may have contributed to reducing the need for short-term borrowing from commercial banks to cover cash shortages, although this is difficult to assess.

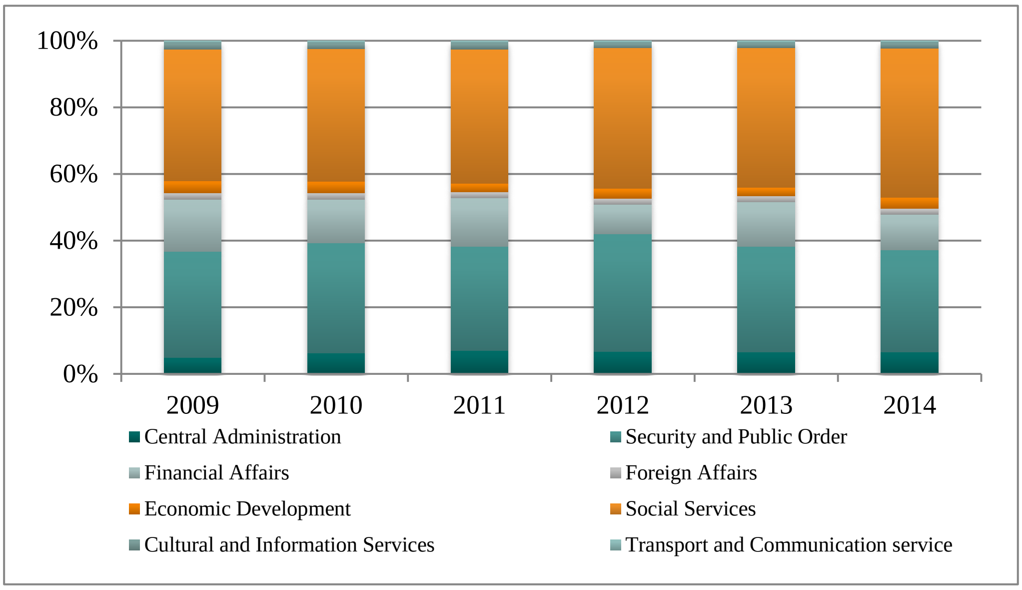
The PRDP also provided incentives for fiscal consolidation by targeting wage restraint and encouraging efficiency savings. The PRDP has provided strong incentives for controlling wage expenditure. DPG prior actions have focused on controlling the public sector wage bill, including hiring freezes, controlling hiring and promotions in line with the budget, and reforms to the pensions system. Hiring freezes or control have been carried out over multiple years and all DPGs have had targets on reducing the cost of the public sector wage bill over the course of the programme. This has gradually been lowered from 24.6% in 2008 (DPG I) to 16.5% of GDP in 2014 (DPG VI). Even though the zero net hiring policy action was not met in 2014, since 2008 there appears to be some progress on a desired outcome of reducing the cost of the wage bill. The PGF has also supported the MoH in clearly identifying approximately £3 million of savings, but this is well below the £100 million they planned in the initial business case. Finally, a better planned budget as a result of PGF reforms may have created allocative efficiency gains, whereby the budget more accurately reflects the political priorities of the government, although this is hard to quantify.

7.4.2 Expenditure trends on poverty-reducing sectors (assume health and education) over the period

The level of public spending on key social services (health, education and social protection) has increased over the past five years, alongside a general increase in spending. The growth in social spending was positive and fairly considerable in all but one year between 2010 and 2014, rising by 18% in the last year. Deciphering any overall pattern in public spending is complex given the volatility in the growth of sector spending. Most sectors have seen large increases, followed by falls in spending, but not necessarily in similar years.

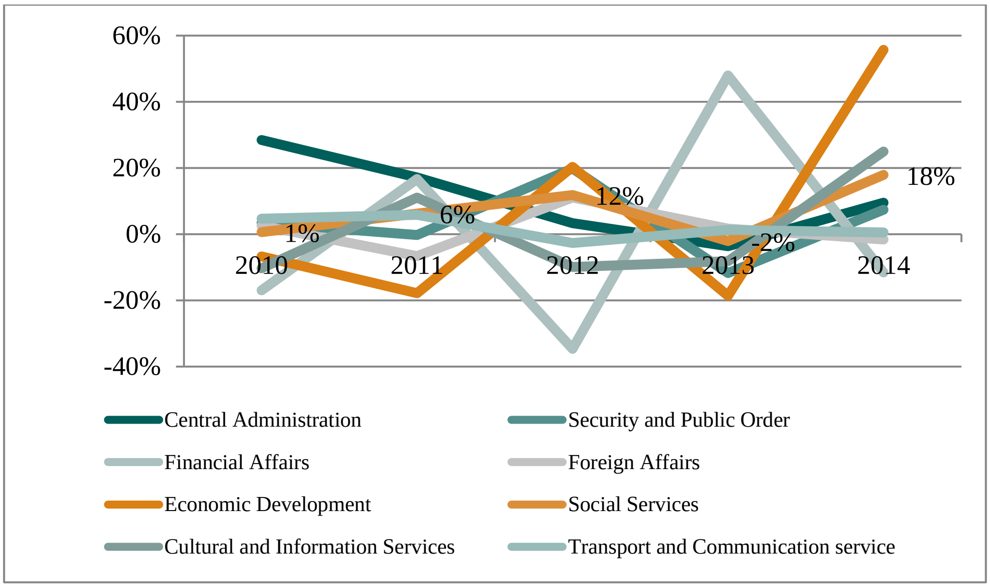
DFID's Partnership Principles call for the prioritisation of poverty-reducing spending, and the SSDG is justified on advancements in health, education and social protection. However, there were no specific policy conditions both within the formal and informal conditionality frameworks calling for a greater financial prioritisation of these sectors. There is therefore no clear indication, however, that PRDP financial aid and its associated policy dialogue contributed to improved prioritisation.

Figure A5: PA expenditure on specific sectors (as percentage of total spending)



Source: MoF data

Figure A6: Growth in public sector spending



Source: MoF data

Increased quantity and quality of goods and services provided by the public sector

The OPTs display a rare combination of high levels of poverty and relatively successful social sector outcomes. In the OPTs 25.8% of the population are considered poor according to a national poverty line, a third of all households are food insecure and 80% of Gazan households rely on social transfers. (WDI website, 2014; SEFSec, 2013). Recently, the Human Development Index (HDI) results place performance in these sectors above the regional counterparts of the OPT, despite having a much lower GDP per capita (UNDP, 2015).

Over the past five years social sector performance has improved and surpassed DFID's expectations, supported by strong improvements in government effectiveness. Annual data from the Palestinian Central Bureau of Statistics (PCBS) illustrate performance improvements in the SSDG priority sectors since 2011 (PCBS, 2015). Thus, according to DFID's logframe for the SSDG, the PA has exceeded the majority of the milestone targets related to health, education and social protection; with outputs performing better than outcome (DFID, 2012, 2014, 2015b). This performance has been accompanied by significant improvements in overall government effectiveness between 2008 and 2014 (WGI, 2015).

Beyond providing the necessary financing, DFID's contribution to these improvements appears limited. Social sector performance has received limited attention in either the formal or informal conditionalities related to the SSDG. For instance, there were no DPG prior actions on education, only one on health and two on social protection for the period of the SSDG (although improving the targeting of social safety net transfers has been a sub-component of the DPG framework since its initiation). DFID does not participate in any of the relevant sector working groups to follow and support sector activities, despite the commitment to do so in the initial SSDG business plan.

Box A1: Addressing rising health referral costs in the OPTs

In response to the rising proportion of the health budget being spent on external referrals to hospitals in Israel a prior condition was introduced in DPG V to reform the medical referral committees, centralise audit and compel ministerial approval for referrals. The associated performance target was to reduce referral costs as a proportion of the health budget by at least two percentage points from 2012 to 2013. This target was not met as referral costs increased from 37% to 43% of health spending. According to one key informant, this was because the prior action activities had failed to address the real causes of high spending. This target was not carried over to DPG VI. At the time DFID was also supporting the health efficiency action plan, (an activity recognised in the performance tranche results framework), which primarily focused on health referrals. However, the processes weren't clearly linked, so DFID arguably missed an opportunity to leverage policy reform through the two programmes.

Source: ODI fieldwork

Where DFID has engaged at the sector level to improve public spending it has been partially successful. DFID has supported efforts to improve fiscal performance in education and health through the introduction of efficiency action plans (EAP). DFID has supported the implementation of EAP in the ministries of health and education. In education, according to informants, there was considerable criticism of the initial analysis that underpinned the EAP so there was limited appetite to pursue the recommendations. Nevertheless the Education National Sector Plan 2014–2016 includes an efficiency component and, according to informants, was informed by this work. In the MoH, the EAP gained more traction because it was complemented by PGF TA in supporting the ministry to carry out some of the recommendations. According to DFID reporting, this generated efficiency savings of £3 million due to lower referral costs. However, progress has been slow and implementation lower than anticipated, resulting in the recent SSDG annual review concluding that the vision for the EAPs was too ambitious given the context (DFID, 2015b). There have also been efforts to improve sector budget planning through the PGF, which should have facilitated improvements in policy planning in the relevant sectors. Full examination of this and the influence of such support on outcomes are beyond the scope of this evaluation.

Selected institutions strengthened and capable of better public policy formulation and execution processes

The most ambitious reforms aimed at improving better policy formulation relate to multi-year fiscal planning, programme budgeting and central policy formulation. There has been significant improvement in capability of macro fiscal planning, as a result of PGF inputs (from a very low base). Yet there are also significant and unresolved questions regarding its sustainability and the degree to which it is able to set or advise on fiscal policy, rather than deliver fiscal reporting and forecasts. There has been a clear improvement in the capability of the General Directorate of Budget with regard to designing better budget planning management processes, and well-received investments in the capability of individual officers in the directorate. However, the ability of the institution to deliver and implement these revised processes is less clear, partly as they are still evolving and bedding down. Even though it is too early to tell what impact PGF inputs may have on changes in the PMO's capability, the interventions look set to provide useful inputs to strengthening the central policy and 'whole of government' systems. The technical inputs that the PGF are providing appear welcome, and initial products for the PMO produced by PGF-funded TA have been well received. The extent to which the MoPAD DARP Unit or the revenue-focused TA have strengthened public policy is less clear. For the former, the strategic value and future viability of DARP and MoPAD appear to be questioned by several key informants. While for revenue support, following a very successful period there appears to be stagnation in the interest to advance the capability of the revenue sections of the ministry, with no clear narrative of general improvement as a result of the Revenue Action Plan/Mobilisation Strategy. However, there have been positive stories of change regarding lower-level revenue administration reform efforts supported by the PGF.

Most significantly, numerous sources point to a broader lethargy for technical reform within the PA that is undermining policy and institutional capacity-building in the round. The lack of an immediate political breakthrough is affecting the pace and durability of reforms, which are becoming increasingly fragile. Numerous sources note the slow-down in reform effort following the departure of Salam Fayyad from the role of Prime Minister, and prior to that of Minister of Finance. In the context of a stagnating economy, increasing unemployment, volatile donor contributions, and the repercussions of the Gaza/Israel conflict in 2014, informants suggested that the PA's state-building achievements will become increasingly fragile in the absence of clear breakthroughs on the political front.

7.5 Outcomes: positive responses by beneficiaries – service users and economic actors – to government policy management and service delivery

Improved fiscal sustainability

Within the confines of what they can influence, the SSDG and the PGF are supporting action to reduce the PA's dependency on aid and improve fiscal sustainability. When the SSDG was introduced, aid dependency (as a proportion of total expenditure) had started to fall. The SSDG complemented short-term support to the PA with efforts to advance revenue reforms and improve spending efficiency. DFID through both the PGF and the DPG has facilitated improved revenue mobilisation. DFID (with the IMF and, until recently, USAID) has supported revenue reform efforts and the DPGs have over time paid increasing attention to revenue prior actions. DFID has also supported efforts to improve spending efficiency, most notably through the DPG wage control policy conditionalities as well as through support to sector efficiency action plans.

Yet more could be done to improve fiscal sustainability, and opportunities exist for the PA to pursue progress in three key areas according to the IMF: better revenue mobilisation, increases in capital expenditure and better aid predictability (IMF, 2015a). Regarding revenue, despite the increase of clearance revenues in recent years, revenues as a proportion of GDP has been falling and remains low compared to other countries. The performance of the OPTs is equivalent to a low- rather than a middle-income country (IMF, 2015a). According to the IMF, there are opportunities to improve mobilisation of domestic tax and non-tax revenue, by addressing tax compliance and policy reform. Furthermore, the fact that Gaza receives 40% of the PA's budget but doesn't pay domestic tax to the PA adds further challenges to sustainability (IMF, 2015b). The recent withholding of PRDP and clearance revenues may have forced attention on this once again, but until recently there has been a sluggish approach to reforms in this area.

Policy discussion among donors, notably the IMF, suggests a need to increasingly support development expenditure, thereby raising the very low levels of public investment**.** Over the past three years, development spending has sharply fallen by around 25%. Moreover, most of this spending has focused on capacity-building, enhancing security and public buildings. Despite the PA articulating ambitious developing expenditure plans in their national development plans, little of this has been achieved (Nashashibi, 2015). The long-term economic benefits of expanding developing spending are well understood by informants, and there appeared to be a general consensus among the PA and donors that this should be encouraged. Even though such investment could offset the negative impact of any recurrent fiscal consolidation in the medium term, the reluctance from both constituencies to put a short-term limit on the recurrent budget deficit by shifting away from this type of spending was noted by several informants.

Finally, some effort has been made to improve the predictability of aid but more action is necessary given its negative impact on the PA's financial situation. Efforts have been made to improve this both from the donor and PA perspective (PEFA, 2013). The heavily aid-dependent nature of the budget means delivering predictability is even more important for fiscal sustainability than in other countries with which DFID engages. Significantly, the MFU – a PGF-supported institution – has created the scope for a more PA-led approach to managing and tracking aid flows, and their impact on the PA's fiscal position.

Increased use and appreciation of public services[17]

Evidence from opinion polls suggests that the overall perception of the PA's effectiveness is closely tied to *political* issues rather than questions of public service delivery. Public dissatisfaction with Fatah and President Mahmoud Abbas appeared to reach its peak in 2012. By 2013, less than a third of those surveyed thought the existence of the PA was an accomplishment and 80% described their leadership as a failed one (PCBS, 2015). Political division between Fatah and Hamas, problematic Israeli relations and economic challenges that have beset both the West Bank and Gaza in recent years are considered to be key contributing factors. Even though the Gazan economy has been declining at a faster pace than the West Bank, Gazans rated their conditions more positively than those in the West Bank, and Hamas and other extremist parties were experiencing an increase in popularity (PCPS, 2012). At this time, public perceptions of corruption were higher in the West Bank; 77% of those surveyed felt the PA institutions in the West Bank were corrupt (PCPS, 2013). Only in 2015 has the popularity of Abbas increased, now receiving equal support to Haniyeh in the West Bank, in response to public support for joining the International Criminal Court (PCPS, 2015).

It is unclear therefore, how – if at all – public satisfaction with the PA has been influenced by public attitudes towards public services, and whether aid has had much of a role to play in this regard. Service delivery outcome data as recorded by successive DFID reviews of the SSDG illustrates improvements in services, particularly in the West Bank. Yet at the same time this has coincided with high levels of political dissatisfaction with Fatah and the PA. Furthermore, the fact that Hamas's popularity was growing in the mid-2010s despite the sharp decline in economic conditions and the negative impact of the Gaza war on public services there suggests public popularity of administrations is driven by factors beyond the management of services and the economy. Overall it therefore appears that political and/or other concerns affect public perceptions of government effectiveness in the OPTs, rather than use of public services. As a result, aid programmes aimed at supporting more and better public services delivery by the PA (for example, the SSDG and the PGF programme) appear to have a weak link to Palestinians' satisfaction with their governing authorities.

[17] The original intention of this evaluative review was to use time series data on public attitudes towards public services delivery to track changes over the course of the programmes. However, changes in the methodology used to ask these questions by the Palestinian Centre for Policy and Surveys over the time period means that data sets on this question are no longer comparable over the period in question.

7.6 Impact: reduced incidents of conflict and/or attitudes towards the peace process

The annex below contains the detailed results of the econometric work undertaken to explore the links between public spending, public employment and incidents of, and attitudes towards, conflict.

Annex 2 – Value for money of the two programmes

7.7 Approaching value for money

This section assesses the value for money of the two programmes. It is based on a re-estimation of the cost-benefit analysis set out in the business cases for the two interventions. In carrying out this analysis, the evaluative review examines whether the projected costs and benefits estimated at the time of the original business case were actually realised. Efforts have been made to update the initial assumptions if they have changed and to add new data where it is available. Sensitivity analysis has also been carried out to illustrate what would need to take place for DFID's investment in the SSDG to break even against different assumptions.

The analysis is undertaken for both projects at both at 3.5% discount rate and the 10% discount rate. The former is around the usual HMG discount rate for calculating present values, and the latter is the discount rate typically used by the World Bank in estimating the return on a marginal project in this kind of environment. Both rates have been used in the preparation of the two original business cases. Estimates of net present value (NPV) are done taking into account global costs and benefits to all parties, rather than estimating specific costs and benefits for HMG and the PA/OPTs separately.

7.7.1 The Statebuilding and Service Delivery Grant

The original cost-benefit analysis

The original business case for the SSDG provides the estimated NPV for the *entire* PDRP. This was justified on the grounds that measuring only DFID's direct contribution excludes the positive influence of DFID on other donor behaviour and it is assumed that the influence of the PRDP is greater if more donors use it. The business case does not estimate the exact return on DFID's resources invested in PRDP policy engagement, but assumes that DFID takes a higher share of the benefits since it is effectively a lead donor when it comes to influencing the World Bank and the PA. This is approach is followed again below. The original NPV for the SSDG in the business case is negative on a monetised basis; however substantial non-monetised benefits were recognised and these were assumed to be sufficient to assure the value for money (VFM) of the programme.

The NPV calculation for the PRDP post-implementation is now positive. At the discount rate used in the original business case (3.5%), the monetised NPV is £38.69 million. At a higher discount rate of 10%, the NPV is slightly lower but remains positive at £17.35 million. Even though the costs in the original business case were underestimated, the newly estimated benefit of contributing to maintained peace and security and the avoidance of conflict in the OPTs far outweighs the additional costs. Together this creates a headline positive NPV for the PRDP even before additional non-monetised benefits are included, suggesting the instrument potentially provides greater value for DFID than originally anticipated.

If, however, the financial benefit of maintaining peace and avoiding conflict is entirely excluded from the analysis, the NPV remains negative (-£268.23 million at a 3.5% discount rate and -£240.01 million at a 10% discount rate) and the loss is larger than initially anticipated in the original business case because of higher DFID investment and transaction costs. For the SSDG to break even on a monetised basis, some financial benefits from preventing a violent uprising would have to be included in this analysis.

Re-running the costs

The total costs of the PRDP following implementation are higher than originally anticipated. The table below compares the costs for the PRDP in the original business case and those post-implementation. The re-estimated PRDP costs are higher primarily because donor financing has been much greater than originally anticipated; donors have provided more money and the grant period now covers five rather than four years. The re-estimated costs also include additional transaction costs that were not identified at the time of designing the grant. The re-estimated NPV includes seven types of costs, whereas the original business case only included two. As can be seen below, the monetised value of the costs in the original business case is -£85.26 million per annum while the monetised value of the re-estimated costs is -£145.37 million per annum.

Not all the costs identified form part of the cost calculation in the NPV estimation. This is because some costs cannot be meaningfully monetised – such as the reputation costs that donors face when providing financial aid to the PA and the costs of engaging in politically challenging dialogue. Furthermore, in line with the original business case, it is assumed that costs for administering the fund and exchange rate costs are absorbed by donor contributions. As a result, they are not additionally applied to either donors or the PA, but they are subtracted from the financial transfer received by the PA. As such they are included in the calculation of the benefit stream.

Table A4: Costs of the PRDP, comparing the business case and post-implementation (£ millions)

Description	Quantification	Monetary value in the original business case	Monetary value post-implementation
1. Donor financing: total amount of funds provided by all donors to the PRDP instrument	The updated costs are higher because more funds were transferred to the PRDP mechanism than initially anticipated and DPG financing is now included as it is part of the PRDP package	£340m over four years (£85m each year)	£723m over five years (£145m each year)
2. Costs for administering the PRDP: this cost is borne by the World Bank for managing the fund	The rate was 1.55% in the initial business case and the updated estimate is 1%	£5m	£7m
3. Exchange rate costs: costs to transfer money from GBP (or other local currency) to USD to NIS	This was not included in the initial business case but a DFID internal audit found costs were equivalent to 7% of DFID's contribution. It is assumed this rate applies to all donor funds	Not included	£51m
4. Donor staff time for implementation: technical and administrative staff time (UK and other donors)	Given the unanticipated dialogue concerning informal conditionalities, the cost is assumed to be 25% higher than in the original business case	£0.255m p.a.	£0.319m p.a.
5. Reputation risk to donors: the reputation costs DFID and other donors face by providing financial aid to the PA	This is considered to be high for the UK given vocal domestic concerns on this issue	Not included	Not possible to monetise
6. Loss of donor political capital: loss of broader donor influence as a consequence of engaging in challenging policy dialogue	The business case did not anticipate DFID would face such a high level of national criticism for funding the PA. As with cost (5) this is difficult to quantify but of notable size for DFID in the OPTs	Not included	Not possible to monetise
7. Costs borne by the PA: for managing the implementation mechanisms and responding to formal and informal conditionalities	The PA has had to close the Ministry of Pension Affairs and set up a new commission reporting to the PLO in response to PRDP donor pressures. This has undoubtedly come at a high logistical cost. This is generously estimated at £50,000	Not included	c. £0.05m

Table A5: Costs for the PRDP from the original business case (£ millions)

Cost	2011	2012	2013	2014
Donor financial contributions	-85	-85	-85	-85
Donor staff costs	-0.255	-0.255	-0.255	-0.255
Total costs	-85.255	-85.255	-85.255	-85.255

Table A6: Updated costs for the PRDP following implementation (£ millions)

Cost	2011	2012	2013	2014	2015
Donor financial contributions	-145	-145	-145	-145	-145
Donor staff costs	-0.319	-0.319	-0.319	-0.319	-0.319
Costs borne by PA	-0.05	-0.05	-0.05	-0.05	-0.05
Total costs	-145.369	-145.369	-145.369	-145.369	-145.369

Re-running the benefits

Like the costs, the benefits of the PRDP since implementation are much higher than in the original business case. In the original business case the monetised benefits for the PRDP were calculated to be £46.5 million per annum, as compared to a revised estimate of £141.6 million per annum for the first three years. The table below outlines in detail the benefits that are included in the original and revised estimates.

Higher benefits result from a larger than anticipated PRDP finance, the identification of new fiscal savings and – crucially – the monetised benefit of maintaining peace and security. This is explained as follows: first, greater PRDP finance has meant the total fiscal stimulus effect is larger than initially anticipated, which increases the estimated size of these benefits. Second, the implementation of the MoH's efficiency action plan identified efficiency savings equivalent to £3 million, which has led to a financial benefit of £0.8 million. This analysis – based on assumptions from the original PGF business case – assumes that only a proportion of the total efficiency savings would result in an increase in expenditure.

Importantly, it would be helpful to estimate the efficiency savings achieved from all the successive World Bank's DPG-encouraged reforms, for example, savings achieved from streamlining the social safety net programme and improving its targeting. However, while this would be useful, it would also require detailed and systematic analysis of the impact of all the numerous DPG conditions and such work is beyond the scope of this assessment. For the future, DFID could consider engaging with the World Bank to judge the value of trying to estimate the scale of the fiscal savings emerging from the DPG/PRDP policy reforms.

Third, including an estimate of the financial benefits achieved by maintaining peace and security in the OPTs has led to the largest change in estimated benefits. The financial benefits of maintaining peace are assumed to be the inverse of the costs identified in the RAND Corporation report (Anthony et al., 2015) on this topic. The report suggests $46 billion would be lost from Palestinian GDP over the next 10 years if violent conflict returned. Therefore, it is assumed that by providing financial and technical support to the PA, DFID and the PRDP is providing the Palestinian state with the capabilities to maintain peace and security, either directly through upholding justice and security systems or indirectly through its support to livelihoods.

To calculate the PRDP's contribution we assume the PA is only partly in control of delivering peace (50%) while the Israeli government exerts equal influence (50%). Furthermore, we assume that public spending is the main vehicle for the PA to maintain peace, so it contributes to 70% of the potential benefits materialised. Since the PRDP is equivalent to 7% of PA public spending, it accounts for approximately 2.5% of the benefits achieved from maintaining peace and security.

If this benefit stream is either excluded from the analysis, or included with the assumption that the PA has very limited influence on preventing violent uprising, the benefits of the SSDG are much lower and a negative NPV results, as in the original business case. Sensitivity analysis on this result is demonstrated in the table below. In short, for DFID to break even on the SSDG investment in monetary terms, the PA needs to have considerable ability to prevent the return to conflict. Specifically, this means attributing around 45% of an outcome of a peaceful and stable state to the PA.[18]

Box A2: The economic costs of conflict

The World Bank World Development Report 2011 (WDR 2011) on conflict, security and development (World Bank, 2011) and the RAND report (2015) on the economic consequences of the Israeli-Palestinian conflict provide financial estimates of the effects of ongoing conflict on economic prosperity. The WDR 2011 highlights the considerable negative effects of ongoing conflict on human capacity, poverty levels, the attainments of the Millennium Development Goals and human rights. This is measured directly, in terms of the immediate destruction of livelihoods as a consequence of armed conflict, as well as indirectly as government funding is diverted away from growth and poverty-enhancing expenditures to military expenditure, fostering a continued cycle of deprivation. It also states that a conservative estimate of the costs of lost production range from 2% to 3% of GDP for high levels of crime and violence. This estimate does not include the loss of assets that can also have a large impact on future production levels. For the average country affected by violence, collectively these effects are compounded over time and are equivalent to more than 30 years of lost GDP growth. Furthermore countries in protracted crisis can fall more than 20 percentage points behind in poverty levels.

The RAND report complements this analysis by providing specific estimates of the economic costs related to the Israeli-Palestinian conflict. The main findings from the report are that a two-state solution provides by far the best economic outcomes for both Israelis and Palestinians. In absolute terms, Israel benefits the most, but the proportional rise in per capita income levels is higher for Palestinians. Under a two-state scenario, Palestinians gain $50 billion over 10 years. Second, a return to violence would have profoundly negative economic consequences for both Palestinians and Israelis; it is estimated that per capita GDP would fall by 46% in the West Bank and Gaza. This is equivalent to approximately $46 billion lost from GDP over a 10-year period.

[18] The exact attribution percentages are 44% at a 3.5% discount rate and 47% at a 10% discount rate.

Table A7: Benefits of the PRDP, comparing the original business case and post-implementation (£ millions)

Description	Quantification	Monetary value in the original business case	Monetary value post-implement ation
1. Macroeconomic:			
a) Short-term fiscal stimulus: Palestinians benefit from higher incomes, employment and lower poverty in the short term	GDP increases in the first year by 50% of any increase in public spending resulting from financial assistance to the PA. The updated benefit stream is higher because PRDP was more than anticipated	£41.8m each year for four years	£66.7m each year for four years
b) Economic growth: Palestinians potentially benefit from higher incomes, employment and lower poverty in the medium term	Judged to not be significant enough to try to quantify	Not applicable	Assumed to be captured by 1a)
2. Delivering government functions:			
a) Education: Palestinian children have better access to education.	5,796 non-refugee children supported by DFID in primary education in 2014. The updated benefit estimate is based on the social rate of return in the original business case, but education spending as a percentage of total government spending is updated to 18% from 18.2%	£4.6m per year 2011–2025	£7.4m per year 2011–2025
b) Health: Palestinians have better access to health care	1,991 non-refugee children under five years old immunised for measles in 2014	Not possible to monetise in a way that incorporates the full range of health outputs	Remains difficult to monetise
c) Poverty and social exclusion: Palestinians have better access to social protection and policies to address the root causes of social inequalities	8,052 extremely poor individuals covered by DFID-supported cash transfers in 2014	Not monetised to avoid double-counting with the short-term fiscal stimulus benefit	Not monetised to avoid double-counting with the short-term fiscal stimulus benefit
d) Security and justice: Palestinians are more secure and have better access to justice	Contribute to raising the proportion of citizens who are satisfied with the performance and services of the security establishment from 42% to 57%	Not possible to monetise	Not possible to monetise

e) Economic development and infrastructure: Palestinians benefit from a more vibrant economy and better public utilities	Not to be monitored as part of the intervention	Not applicable	Not possible to monetise
f) Environment: Palestinians benefit from better environmental standards	Not to be monitored as part of the intervention	Not applicable	Not possible to monetise
3. Strengthening government systems:			
a) Public financial management and accountability: the PA makes better use of its resources to meet the needs of its citizens	Contribute to DFID's Fiduciary Risk Rating of the PA's systems improving from High in 2010 to Substantial by 2014	Not possible to monetise	Not possible to monetise
b) Improved fiscal sustainability: PA able to reduce its dependence on foreign aid and its vulnerability to fiscal crises	World Bank: NPV of $100m in money saved for the PA from reforms in DPG Matrices 2011–2014 and in Results Compact. The updated benefit estimate includes savings on referral costs identified in the MoH's efficiency action plan	Not possible to monetise	£0.8 million per year – starts in 2014, and continues to 2025
4. Conflict prevention and progress towards a negotiated peace settlement:			
a) Progress towards two-state solution: Palestinian people are more likely to achieve their objective of a viable state at peace with Israel	Contribute to increased public satisfaction with the PA from 53% in 2011 to 70% in 2015	Not possible to monetise	Not possible to monetise
b) Conflict prevention: lower probability of another outbreak of violence in the West Bank	The updated benefit stream includes the financial benefits of preventing the return to violent conflict based on the RAND estimate. The benefits are estimated to be $10bn over 10 years for the OPTs. To determine PRDP's contribution, it is assumed peace is partly determined by the PA (50%), of which is it primarily influenced by government spending (70%) and within that by PRDP's contribution (7% of total of government spending)	Not possible to monetise	£67.5m a year between 2011–2025

Table A8: Benefits for the PRDP from the original business case (£ millions)

Benefits	2011	2012	2013	2014
Fiscal stimulus	41.8	41.8	41.8	41.8
Education returns	4.7	4.7	4.7	4.7
Total benefits	46.5	46.5	46.5	46.5

Table A9: Updated benefits for the PRDP following implementation (£ millions)

Benefits	2011	2012	2013	2014	2015
Fiscal stimulus	66.7	66.7	66.7	66.7	66.7
Education returns	7.4	7.4	7.4	7.4	7.4
Improved fiscal sustainability (fiscal savings)	0	0	0	0.8	0.8
Conflict prevention	67.5	67.5	67.5	67.5	67.5
Total benefits	141.6	141.6	141.6	142.3	142.3

Table A10: A summary of the scenarios, assumptions and NPV for the sensitivity analysis

Version	Discount rate (%)	NVP (m)	Additional assumptions
No peace dividend	3.50	-£277.62	The financial benefit of preventing a return to violent uprising is entirely excluded
	10	-£264.01	
Reduced peace dividend	3.50	-£214.56	Attributing 10% of the possible economic benefit of peace to the existence of a PA which DFID funds, rather than 50%
	10	-£207.74	
Break-even point	3.50	£0.00	Attributing c.44% of the possible economic benefit to the existence of a PA. This is equivalent to 1.88% of the total economic benefit from preventing a violent uprising (as compared to 2.28% in the original analysis)
	10	£0.00	Attributing c.47% of the possible economic benefit to the existence of a PA. This is equivalent to 2.05% of the total economic benefit from preventing a violent uprising (as compared to 2.28% in the original analysis)

7.7.2 The PGF programme

The original cost-benefit analysis

The NPV for the PGF presented in the original business case was £113 million. The PGF business case calculated NPV from a cost-benefit analysis over 11 years (2011 to 2021). The business case provided a sophisticated cost-benefit analysis for the PGF, monetising benefits in the following areas: improved fiscal discipline, improved allocative efficiency and more efficient revenue administration.

Under re-examination, they are found to be less than originally estimated. Some additional benefits from improved technical efficiency are added. However, these are found to be small when using the same method to calculate the benefits of saving as for the benefits of additional revenues. The costs are also re-examined in light of the project's extension. In the business case, the project was to run to March 2015. This has now been extended to June 2016, and the additional costs of the project should thus be taken into account.

7.7.3 Re-running the cost-benefit analysis

The NPV calculation for the PGF post-implementation is now £62.2 million at a 10% discount rate. Using the lower discount rate of 3.5%, the NPV would be £98.8 million. A detailed breakdown of the change in the costs and benefits between the original business case and post-implementation are discussed below. The costs and benefits are calculated in dollars, in line with the original business case.

Re-running the costs

The total costs of the PGF are slightly higher than originally anticipated. The table below compares the costs for the PRDP in the original business case and post-implementation. The re-estimated PGF costs are higher because of the project extension for two years and the associated £2 million additional budget. DFID staff time for the additional years is also added, however at 20% of the time of two staff, this remains small.

Other donor costs are assumed to have stayed constant. The IMF adviser funded by DFID received a no-cost extension so these costs are simply spread over the four years. No information is available on the cost of other donors, so these are assumed to remain as originally estimated.

Table A11: Costs of the PGF, comparing the business case and post-implementation ($ millions)

Description of cost	Quantification	Monetary value in the original business case	Monetary value post-implement ation
1. DFID project costs	The updated costs are higher as the project has been extended to end June 2016. Costs are less than budgeted because of underspends in 2014/15. For 2015/16 the budget is assumed as cost	$8.8m over three years	$10.6 over five years
2. DFID staff time	The business case assumed 20% of a project officer and 20% of a governance adviser's time. This is maintained. The cost increase is due to the additional years	$0.06m over three years	$0.10m over five years
3. Other donor costs	Costs of DFID-funded IMF adviser, and cost of EU and USAID projects contributing to revenue modernisation. These are assumed to have stayed the same	$10.1m	$10.1m
4. PA staff costs	The PA needed to hire new staff, especially for revenue administration to support the new processes developed. This was based on estimated from the MoF and MoPAD at 113 staff.	$12.1 to 2021	$12.1m to 2021

Table A12: Costs for the PGF from the original business case ($ millions)

Cost	2011	2012	2013	2014–21	Total
DFID project costs	-2.4	-3.2	-3.2	0	-8.80
DFID staff time	-0.02	-0.02	-0.02	0	-0.06
Other donor funding	-2.47	-4.22	-3.42	0	-10.10
Additional PA staff	-0.00	-0.19	-0.62	-1.42 p.a.	-12.14
Total costs	**-4.89**	**-7.63**	**-7.26**	**-1.42 p.a.**	**-31.10**

Table A13: Updated costs for the PGF following implementation ($ millions)

Cost	2011	2012	2013	2014	2015	2014–21	Total
DFID project costs	-0.40	-1.52	-2.22	-3.29	-3.15	0	-10.58
DFID staff time	-0.02	-0.02	-0.02	-0.02	-0.02	0	-0.10
Other donor funding	-2.07	-3.82	-3.82	-0.40	0	0	-10.10
Additional PA staff	0	-0.19	-0.62	-1.42	-1.42	-1.42 p.a.	-17.81
Total costs	**-2.49**	**-5.55**	**-6.68**	**-5.13**	**-4.59**	**-1.42 p.a.**	**-32.92**

Re-running the benefits

Whereas the estimated costs of the PGF have changed little, the estimated benefits are much lower. However, they are still significantly positive. The undiscounted benefits are now $234 million, as opposed to $394 million in the original business case. The tables below show a comparison of the differences.

The major reason behind this fall is the reduction in the expected benefits of revenue administration. This has fallen from $177 million to $60 million. The reasons for this are that these estimates were based on ambitious year-on-year increases in tax collection, which have not been realised. For example, the estimated tax collection for 2014 was $1.2 billion as opposed to actual collections of $575 million (IMF, 2015c: 21).

The estimated benefits are reduced as follows. First, there was an estimated benefit of public funds being spent 10% more beneficially than private funds. This assumption was not adequately defended, so should be discounted. Secondly, the gains from reduced dependence on unpredictable donor revenues are no longer included as revenues were not appreciably above the counterfactual assumed with no revenue programme. Thirdly, the benefits of reduced compliance are calculated as a percentage of tax revenues, so lower revenues reduce the estimate of this benefit.

The benefits of improved allocative efficiency have been slightly decreased. The research on the impact of the introduction of medium-term expenditure frameworks used to inform estimates of the benefits of fiscal discipline and allocative efficiency was at an initial stage and has now been published (World Bank, 2013). The published research estimates a slightly lower impact than presented in the preliminary results utilised.

Table A14: Benefits of the PRDP, comparing the business case and post-implementation ($ millions)

Description	Quantification	Monetary value in the original business case	Monetary value post-implement ation
Improved fiscal discipline	The benefits of improved fiscal discipline are calculated by taking the estimated improvement in the fiscal balance from introducing better medium term fiscal management equivalent to 2% of GDP, and as this would lead to less dependence on unpredictable donor financing, measuring the reduction in interest payments on arrears to the private sector (with the figure for this coming from the 2010 Fiduciary Risk Assessment)	$4.63m	$4.63m
Improved allocative efficiency	The benefit of reduced volatility in spending associated with the introduction of an MTEF as estimated from World Bank research. The benefit from the reduction in the volatility of health spending is calculated and applied to total PA spending The estimated benefit is reduced following implementation as the published World Bank research showed a lower benefit than the preliminary research used in the original analysis	$212.8m	$163.65m
Improved technical efficiency	Improved budgeting in the MoH has resulted in $3m p.a. savings from referral costs. The benefits from these savings is calculated in the same way as the benefits from additional revenues – it is assumed that 25% of these savings are used to increase public spending, and that 75% of these savings are used to reduce dependence on donor revenues and the benefit of the reduced dependence on unpredictable donor revenues is monetised	Not monetised as performance budgeting is not a priority in the project, so potential benefits are not estimated	$6.06m
Benefits of efficient revenue	Three sets of benefits are quantified from more efficient revenue administration:	$176.6m	$59.99m

administration	• benefit of additional revenues in reducing dependence on predictable donor financing (calculated in same way as for improved fiscal discipline, assuming 75% of revenues are used for this purpose) • Assume public spending is 10% more beneficial than private spending • Lower tax compliance costs, which uses a World Bank estimate of tax administration projects reducing compliance costs by 2% of domestic tax revenue, but reduces this to 1% to be conservative The monetary value following implementation is lower as the assumption that public spending is 10% more effective than private spending is not clearly sourced or justified. Furthermore, the counterfactual estimate of revenue growth was not met. Thus the benefits of revenues reducing donor spending is not realised. Reduced revenues also reduce the benefits of reduced compliance costs as these are calculated as a percentage of revenues collected		
Improved accountability	Improved PRDP implementation performance can be expected as a result of quarterly monitoring reports to Cabinet and public annual monitoring reports but is not quantified	Not monetised	Not monetised
Improved public services	Benefits in the following areas are not quantified: fragility and conflict – improved performance of the PA is expected to strengthen its legitimacy and increase public support for non-violence and peace negotiations. Lack of progress would have the opposite effect and thus risk heightened Israeli-Palestinian violence; progress on the MDGs from improved service delivery; meeting PRDP targets on the environment and gender	Not monetised	Not monetised

Table A15: Benefits for the PRDP from the original business case ($ millions)

Benefits	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Improved fiscal discipline	0.00	0.05	0.11	0.18	0.27	0.36	0.46	0.58	0.71	0.87	1.04	**4.63**
Improved allocative efficiency	0.00	2.46	5.32	8.58	12.29	16.50	21.28	26.68	32.76	39.60	47.27	**212.75**
Efficient revenue administration	0.00	1.28	6.30	13.14	17.47	18.87	20.38	22.01	23.77	25.67	27.72	**176.60**
Total	**0.00**	**3.79**	**11.74**	**21.90**	**30.02**	**35.73**	**42.12**	**49.26**	**57.24**	**66.13**	**76.03**	**393.97**

Table A16: Updated benefits for the PRDP post-implementation ($ millions)

Benefits	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Improved fiscal discipline	0.00	0.05	0.11	0.18	0.27	0.36	0.46	0.58	0.71	0.87	1.04	**4.63**
Improved allocative efficiency	0.00	1.89	4.09	6.60	9.45	12.70	16.37	20.52	25.20	30.46	36.37	**163.65**
Improved technical efficiency	0.00	0.00	0.00	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76	**6.06**
Efficient revenue administration	0.00	0.00	2.99	5.75	5.92	6.33	6.77	7.26	7.77	8.31	8.89	**59.99**
Total	**0.00**	**1.95**	**7.19**	**13.29**	**16.40**	**20.14**	**24.36**	**29.12**	**34.44**	**40.39**	**47.05**	**234.33**

Annex 3 – Detail of impact analysis work

7.8 Impact analysis on conflict and public spending

Introduction to the study

This section provides more detail on the econometric work undertaken to consider in more detail one of the 'impact' level effects of the results framework used in this evaluative review. DFID's expectation is that increased public spending (supported by the SSDG) and improved effectiveness of public expenditure (supported by the PGF) will help support the conditions for peace. This is set out most clearly in the SSDG business case, which suggests one of the high-level impacts from the intervention is 'building a peaceful Palestinian state and society'. This study uses statistical methods to explore more fully the links between public spending and conflict.

7.8.1 Background to the research question

Since the creation of the PA in 1994, the public sector has expanded swiftly to provide public services to the Palestinian population. As the resources for the creation and the expansion of the PA came chiefly from abroad, this period marked the beginning of aid dependence for the Palestinian economy. Labour migration to Israel (and to the Gulf countries) had historically been the channel through which the Palestinian economy financed its large trade deficit. However, as labour exports declined in the 1990s, foreign assistance started to replace them to keep the Palestinian economy in balance (Calì, 2012).

Due to the chronic fiscal deficit of the PA, the growth in public sector employment was (and still is) to a large extent funded by foreign aid. As in other conflict contexts, the foreign aid to the PA and to the Palestinian economy in general has been partly motivated by the international community's longstanding assumption that economic development is crucial to the peace process and to prevent backsliding into conflict (Calì et al., 2012). For example, the World Bank (2002) noted that without donor assistance to cushion the economic shocks to the Palestinian economy in 1996 and in 2000, 'the disappointments emerging from a failure to reap peace dividends might well have resulted in more violence…The relative calm and limited progress toward more permanent peace during the seven years between 1993 and 2000 can be attributed in some part to the effective efforts of the donor community'.

7.8.2 The approach of this study

Using information regarding incidents of conflict between Palestinians and Israelis in the West Bank and Gaza Strip, at district level, this study aims to undertake two analyses:

- A comparison of changes in the total number of conflict-related fatalities with changes in the total size of public spending in each district in the

West Bank and Gaza, measured by proxy using the size of public sector employment.

- A comparison between changes in the total size of public spending in the West Bank and Gaza and changes in people's attitudes towards the peace process, as drawn from a data series that tracks the Palestinian public's attitudes towards issues of public policy.

This kind of analysis may allow for a tentative associational conclusion at the impact level regarding DFID's contribution to public spending and employment, conflict and public attitudes to peace. Naturally such a conclusion will come with significant caveats.

Data sources

The data was taken from various Palestinian and Israeli sources that include information on the Palestinian labour market, economic and socio-demographic characteristics of Palestinian localities, Palestinian and Israeli fatalities from the conflict, Israeli settlements, Palestinian prisoners and Palestinian public opinion. This information was aggregated to the level of the district. The analysis covers the period between 1998 and 2011 due to the lack of the availability of some data before and after the period. It is important to note, therefore, that the majority of the period under consideration falls *outside* the operation of the current SSDG programme. However, given the longstanding nature of DFID and other donor financial aid to the PA, the findings will still be of relevance for future policy consideration.

Data on the Palestinian labour market and socio-demographic characteristics of Palestinian districts is obtained from the Palestinian Labour Force Survey (PLFS), collected by the Palestinian Central Bureau of Statistics for the years 1998 to 2011. The PLFS was first collected in 1995 following the creation of the PA, and since then it has been administered every quarter to a nationally representative sample of households. The sample from the PLFS to individuals in the labour force is restricted to those aged 15 and above.

Data on the number of Palestinian and Israeli fatalities in each district since 1998 is taken from B'Tselem-The Israeli Information Center for Human Rights in the Occupied Territories.[19] B'Tselem publishes detailed records of every fatality on both sides of the Israeli–Palestinian conflict during the Second Intifada. As in previous studies (Miaari et al., 2011; Calì et al., 2012), the number of Palestinians killed by Israel is the main measure of conflict intensity across the OPTs. This is a suitable measure as most of these fatalities came as a consequence of political demonstrations quelled by the Israeli army or direct confrontation between the Israeli army and Palestinian armed factions. B'Tselem also classifies most of the fatalities according to whether the Palestinians were killed while taking part in the hostilities or not. Using this information, we construct another dependent variable as the number of Palestinians killed by Israelis while (i) actively taking part in hostilities or (ii) participating in a demonstration.

Data on Israeli settlement populations and location as well as data on the length of the West Bank wall, which restricts the movement of into Israel, come from the Applied Research Institute–Jerusalem (ARIJ). Because data on the length of the wall is missing for 2003, 2005, 2007 and 2009, a linear interpolation technique is used to impute these observations.

19 Available at: http://www.btselem.org.

Data on the number of Palestinian prisoners in Israeli jails comes from the Palestinian Ministry of Prisoner Affairs. Finally, data on Palestinian public opinion comes from the Palestinian Center for Policy and Survey Research (PCPSR). This institute has conducted regular public opinion polls on all aspects of Palestinian life since the year 1993. The polls include information about respondents' demographic characteristics, location and attitudes towards various aspects of the conflict. In the polls, respondents were asked whether they 'support or oppose armed attacks against Israeli targets'. This is used to measure attitudes towards the conflict.

Methodology

The research strategy involves running quarterly district-level regressions of conflict intensity on public (and private) sector employment and wages, while controlling for other factors that potentially affect conflict. All main explanatory variables are measured at the previous quarter to mitigate direct statistical endogeneity. A negative binomial regression is used, which is an appropriate method for analysing count data characterised by over-dispersion and a large share of zeros in the dependent variable (Long and Freese, 2006).

The measurements of conflict intensity are: number of Palestinian fatalities, number of attacks inside Israel (both successful and unsuccessful) carried out from each Palestinian district in each quarter, and number of Palestinian fatalities due to demonstrations.

The study conducts the estimation for the West Bank and the Gaza strip separately for a number of reasons. First the relevance of the public sector in the economy has been quite different since the beginning of the Second Intifada. Gaza has relied more heavily on the public sector as a source of employment than in the West Bank. Second, unlike in the West Bank, the waves of violence that followed Israel's disengagement from Gaza in 2005 involved cross-border armed clashes between Palestinian military factions and Israeli forces, causing widespread Palestinian fatalities.

7.8.3 Results

The detailed results for the West Bank are reported in the tables below. Column (1) shows that the public sector employees' coefficient is positive and statistically significant at the 1% level. The study suggests that in the West Bank (but not Gaza), an increase in the number of public sector employees is associated with an increase in Palestinian fatalities due to conflict; although not with fatalities due to demonstrations. More specifically, an increase in public sector employment by 1% is associated with an increase in fatalities by 0.6% over this time period.

There is no associational relationship between change in the level of the public sector wage and changes in fatalities or conflict. There is also no associational relationship between changes in the level or number of private sector employees and changes in the number of fatalities and conflicts in the West Bank, but higher private sector employment is associated with reduced fatalities in Gaza. Higher unemployment is, however, significantly associated with increased Palestinian fatalities from active conflict in both the West Bank and Gaza, but not with fatalities from demonstrations.

As for the grievance factors, the only variables with significant effect on Palestinian fatalities are that of the presence of the West Bank separation wall and the number of Palestinian prisoners in the Israeli jails. The coefficient is positive and significant at the 1% level.

In column (3) the study uses the number of attacks against Israeli targets by district as a measurement of conflict intensity. The results suggest that the effect of public sector employees and its average daily wage are insignificant. The coefficient of the private sector daily wage, however, is negative and significant at the 5% level.

In columns (4), (5) and (6) the study restricts the dependent variable to the Palestinian attitudes towards various aspects of the Israeli–Palestinian conflict. This measure should allow for a more explicit test of the opportunity cost hypothesis. The results are consistent with the former measurements of the conflict.

The results for Gaza are reported in a further table below. The results in column 1 show that the number of public sector employees and public sector daily wage coefficient are negative and statistically insignificant. The private sector daily wage and number of private sector employees are negative and statistically significant at the 1% level. The same occurs in column (2) when using Palestinian fatalities due to demonstrations as the dependent variable. Unlike the public sector effect, these results confirm the negative effect of employment typically associated with the opportunity cost. The results in column (3) suggest that the effect of public and private sector employees and its average daily wage is insignificant.

7.8.4 Tentative conclusions

The study suggests several points regarding the relationship between public spending and employment on the one hand, and conflict on the other. It is important, however, to bear in mind the caveats surrounding the conclusions. Firstly, as mentioned, the study time period does not match that of the SSDG and ends in 2011. It is possible that the relationships between the major variables have changed in the post-2011 period, and this study would not identify this change. Secondly, the study suggests a tentative associational link between these variables at the impact level. However, it cannot establish a direct causal link between these variables. Other work looks in more detail at the possible mechanism by which public sector employment might causally relate to conflict (e.g. Calì et al., 2012). Thirdly, while the study contains, and controls for, other variables generally thought to contribute to conflict (e.g. numbers of prisoners in Israeli jails, presence of Israeli settlements) there is always the chance that key conflict-driving variables have been missed.

The conclusions from the study are consistent with the ‘opportunity cost’ hypothesis regarding decisions about engaging in active conflict. This states that conflict, and therefore fatalities, are more likely when the opportunity cost of engaging in conflict is lowered. For unemployed Palestinians, the opportunity cost of conflict is lowered, as the unemployed have no livelihood or job to lose. For public sector employees, the opportunity cost of conflict is also lowered as their employment will be kept open when they return from detention, and their family will continue to be paid their salary. For private sector employees, on the other hand, the opportunity cost of conflict appears more significant as if they are arrested, jailed or detained, they may lose their employment and family income.

This tentatively suggests that reducing unemployment overall does reduce conflict. Increasing *private sector employment* in particular may have some kind of conflict-reducing effect; but expanding *public sector employment* may not have the same level of conflict-reducing impact. It is also consistent with other findings in the region (e.g. Calì et al., 2012). As might be expected, non-economic factors also drive conflict. Positive significant associational relationships are found between the variables of existence of the West Bank separation wall and the number of Palestinian prisoners in jail and conflict.

The findings should also be seen as broadly consistent, even though it appears that higher unemployment *and* higher public sector employment are both associated with increased conflict in certain circumstances. The nature of the statistical regression means that only one variable can be isolated and studied at one time, while all others are held fixed. As a result, the two variables can both show positive associational links with certain types of conflict when all others are held constant. This suggests that in the real world – as might be expected – there will be numerous countervailing forces operating at the same time that incentivise people to engage in conflict and/or demonstrations.

Looking more specifically at fatalities caused by demonstrations (i.e. not caused by direct planned attacks on Israeli targets), the impact of public sector employment on increased fatalities is lessened. There is no relationship between this kind of fatality and private sector employment rates or wage levels. This suggests that the propensity to engage in demonstrations is overall less affected by employment factors.

Replacing the ‘actual fatalities’ variable with ‘attitudes to conflict’ and support for violence shows the same pattern of results. This suggests that support for violence is affected (or not) by the same variables as those that affect actual fatalities.

There is a slightly different picture in Gaza. Public sector employment and wage levels are less clearly associated with changes in fatalities. However, there is a similar pattern whereby private sector employment and higher private sector wages are associated with reduced fatalities.

This tentatively suggests that while donor support to the PA is fundamental to prevent the Palestinian economy and government from collapsing, it does not seem to promote peace or peaceful public attitudes in itself. To the extent that such a collapse would increase the chance of a violent escalation, donor – and DFID – support to the PA is instrumental to avoiding that outcome. This suggests that donors’ financial support to the PA and its public spending ‘buys time’ while at the same time not materially changing the Palestinian attitude towards conflict.

Table A17: Effect of public sector employment on violence in the West Bank

Dependent variable	*Palestinian fatalities in district*	*Palestinian fatalities due to demonstrations*	*Attacks by district*	*Support armed attacks against Israeli targets*	*Support armed attacks against Israeli civilians*	*Support for Fatah*
	(1)	(2)	(3)	(4)	(5)	(6)
Period			**1998–2011**			
(log) Public sector employees (t-1)	0.696***	0.337	-0.666	0.047	0.020	-0.000
	(0.186)	(0.317)	(0.517)	(0.063)	(0.040)	(0.035)
(log) Public sector daily wage (t-1)	0.267	0.618**	0.532	0.103	0.154**	0.019
	(0.206)	(0.310)	(0.462)	(0.173)	(0.063)	(0.058)
(log) Other sector employees (t-1)	0.110	-0.414	0.507	-0.035	-0.041	-0.048
	(0.201)	(0.364)	(0.466)	(0.071)	(0.043)	(0.037)
(log) Other sector daily wage (t-1)	-0.439	0.760	-2.118**	-0.065	-0.037	0.099*
	(0.350)	(0.590)	(1.055)	(0.075)	(0.063)	(0.054)
Palestinian fatalities (t-1)	0.007	-0.010	-0.005	0.003	0.002	0.000
	(0.005)	(0.010)	(0.014)	(0.003)	(0.001)	(0.001)
Israeli fatalities (t-1)	0.001	0.014	0.010	0.005	0.000	0.000
	(0.006)	(0.011)	(0.014)	(0.004)	(0.002)	(0.002)
Palestinian prisoners (t-1)	0.001***	0.000	0.001	-0.000	0.000	-0.000
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
Settlement population	-0.043	-0.304***	0.289	0.169***	-0.003	0.012
	(0.061)	(0.114)	(0.282)	(0.056)	(0.054)	(0.035)
West Bank wall (km)	0.016***	0.021***	-0.017*	0.003**	-0.002	0.000
	(0.004)	(0.006)	(0.010)	(0.001)	(0.001)	(0.001)
Proportion of males	-1.133	-10.570**	15.660*	0.306	-1.101	1.258**
	(3.236)	(5.263)	(8.952)	(0.919)	(0.795)	(0.615)
Proportion of married individuals	7.024***	5.097*	-0.499	-0.318	0.000	0.022
	(1.869)	(3.077)	(5.214)	(0.511)	(0.420)	(0.326)
Proportion of the labour force aged 15-40 years	-2.636	6.488	-11.648	-0.024	-2.084***	-0.409
	(2.754)	(4.368)	(7.806)	(0.837)	(0.602)	(0.505)
Average number of years of schooling	0.057	0.056	-1.478**	-0.032	0.016	-0.090**
	(0.186)	(0.322)	(0.592)	(0.058)	(0.050)	(0.039)
Proportion of refugees	-0.863	0.534	2.801	-0.257	-0.452*	0.249
	(1.077)	(1.867)	(3.883)	(0.279)	(0.243)	(0.185)
Proportion of	-0.293	1.902	4.197	0.290	0.112	-0.605*

refugees residing in camps	(1.464)	(2.565)	(4.790)	(1.125)	(0.370)	(0.326)
Unemployment among refugees (%)	0.070***	0.046	-0.040	0.003	-0.001	-0.001
	(0.017)	(0.030)	(0.046)	(0.006)	(0.005)	(0.004)
Observations	517	517	470	142	197	262
Wald test	1141.18	288.33	280.01	0.793	0.434	0.399
No. of districts	11	11	11	11	11	11

*Notes: All regressions include district fixed effects and round effects. The regressions in columns (1)–(3) are estimated through the conditional Negative Binomial model. The regressions in columns (4)–(6) are estimated through the OLS model. Robust standard errors (Huber-White method) clustered at district level in parentheses. The symbols *,**, *** represent statistical significance at the 10, 5, and 1% levels.*

Table A18: Effect of public sector employment on violence in Gaza

Dependent variable	*Palestinian fatalities in district*	*Palestinian fatalities due to demonstrations*	*Attacks by district*	*Support armed attacks against Israeli targets*	*Support armed attacks against Israeli civilians*	*Support for Fatah*
	(1)	(2)	(3)	(4)	(5)	(6)
Period	**1998–2011**					
(log) Public sector employees (t-1)	-0.432	0.374	1.030	0.218	-0.078	-0.068
	(0.276)	(0.337)	(1.495)	(0.145)	(0.096)	(0.064)
(log) Public sector daily wage (t-1)	-0.424	-0.495	5.774	0.311	-0.240	0.081
	(0.805)	(0.990)	(5.042)	(0.361)	(0.236)	(0.165)
(log) Other sector employees (t-1)	-0.899***	-1.282***	1.304	0.097	0.065	0.084
	(0.349)	(0.412)	(1.734)	(0.169)	(0.097)	(0.065)
(log) Other sector daily wage (t-1)	-1.166**	-1.860***	-5.214	0.254	0.093	0.005
	(0.500)	(0.586)	(3.398)	(0.158)	(0.134)	(0.089)
Palestinian fatalities (t-1)	0.003**	0.004***	-0.008	-0.000	0.001	0.001
	(0.001)	(0.001)	(0.011)	(0.001)	(0.001)	(0.001)
Israeli fatalities (t-1)	0.030*	0.062***	-0.063	0.002	-0.004	-0.001
	(0.017)	(0.021)	(0.065)	(0.005)	(0.004)	(0.003)
Palestinian prisoners (t-1)	0.002	0.007**	-0.028	-0.000	-0.001	0.001
	(0.003)	(0.003)	(0.020)	(0.001)	(0.001)	(0.001)
Proportion of males	-2.270	2.065	-29.381	0.625	-2.472**	0.041
	(4.615)	(4.863)	(21.029)	(1.808)	(1.193)	(0.785)
Proportion of married individuals	-4.659*	3.403	-13.475	-0.013	-0.149	-0.795*
	(2.534)	(2.920)	(14.454)	(0.856)	(0.743)	(0.462)
Proportion of the labour force aged 15-40 years	-6.541	-2.114	3.387	1.097	-0.705	-0.697
	(4.504)	(4.867)	(21.242)	(1.761)	(1.456)	(0.955)
Average number of years of schooling	-0.023	-0.443	-1.137	-0.107	-0.022	0.031
	(0.291)	(0.322)	(1.325)	(0.098)	(0.085)	(0.053)
Proportion of refugees	-1.419	0.624	-18.069**	-0.313	-0.142	0.292
	(1.164)	(1.338)	(7.542)	(0.483)	(0.328)	(0.223)
Proportion of refugees residing in camps	-2.385**	-2.922**	-8.410	-0.879	0.082	-0.122
	(1.028)	(1.145)	(7.390)	(0.794)	(0.533)	(0.353)
Unemployment among refugees (%)	0.044***	0.024	0.054	0.002	-0.001	0.002
	(0.016)	(0.019)	(0.069)	(0.005)	(0.004)	(0.003)
Observations	250	250	250	65	90	120
Wald test	804.56	655.49	40.41	0.923	0.646	0.688
No. of districts	5	5	5	5	5	5

*Notes: All regressions include district fixed effects and round effects. The regressions in columns (1)–(3) are estimated through the conditional Negative Binomial model. The regressions in columns (4)–(6) are estimated through the OLS model. Robust standard errors (Huber-White method) clustered at district level in parentheses. The symbols *,**, *** represent statistical significance at the 10, 5, and 1% levels.*

Annex 4 – List of key informants met during fieldwork

Institution	Interviewee
DFID	Jakesh Mahey
DFID	Louise Hancock
DFID	Sutapa Choudhury
DFID	Jill Fletcher
DFID	Jessica Stroud
DFID	Laura Mazal
FCO	Muna Shamsuddin
FCO	Katie Fernandes
EU	Rami Al'Azzeh
World Bank	Orhan Nicik
World Bank	Nur Nasser Eddin
World Bank	Pierre Messali
IMF	Ragnar Gudmundsson
IMF	Hania Qassis
Office of Norwegian Delegation	Tors Gjerde
US State Department	Jean Benedict
LACS	Jochen Peters
Ministry of Finance	Farid Ghammam
Ministry of Finance	Lailah Sbeih
Ministry of Finance	Ali Dreidi and MFU colleagues
Ministry of Finance	Haneen Zaquot

Ministry of Finance	Tareq Mustafa Nuha Aburabee Qadri Bsharat Hakem Salahat Mohamad Hithnawi
Ministry of Finance	Asa'ad Awashreh
Ministry of Finance	Yazan Abu Ajameih
Ministry of Finance	Farid Ghannam
Ministry of Planning	Dana Erekat
Prime Minister's Office	Ala Nofal
Prime Minister's Office	Bashar Jumma
Prime Minister's Office	Estephen Salameh
Prime Minister's Office	Kherieh Rassas
Ministry of Education	Sara Hoummadeh and colleagues
Ministry of Health	Dr. Mohammad Abu Ghal
Future for Palestine	Yousef Alzamer
Tajaawob Project	Ismail Abu Arafeh
Coalition for Accountability and Integrity	Lina Falah-khawaja
Palestinian Finance Institute	Fida Hmaid
OPM	Albert Pijuin
OPM	Martin Johnston
OPM	Steve Crout
OPM	Dan Whitaker
OPM	Simon Stone
ASI	Gord Evans

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ISSN: 2052-7209

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