



Brussels, 23.2.2018  
C(2018) 1271 final

**COMMISSION IMPLEMENTING DECISION**

**of 23.2.2018**

**on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine<sup>1</sup>  
from the general budget of the Union**

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

# COMMISSION IMPLEMENTING DECISION

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**on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine<sup>1</sup>  
from the general budget of the Union**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action<sup>2</sup>, and in particular Articles 2(1) and 6(3) thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002<sup>3</sup>, and in particular Article 84(2) thereof,

Whereas:

- (1) The Commission adopted on 8 December 2017 the Union's part of the European Joint Strategy, in support of Palestine for the period 2017-2020,<sup>4</sup> which replaces the Single Support Framework and which provides for the following pillars:
  - Governance Reform, Fiscal Consolidation and Policy (Macroeconomic Support and Public Finance Management, Public Administration Reform and Local Government Reform).
  - Rule of Law, Justice, Citizen Safety and Human Rights (Justice, Safety and Human Rights legislation).
  - Sustainable Service Delivery (Education, Health and Social Protection).
  - Access to Self-Sufficient Water and Energy (Infrastructure and Institutional Focus).
  - Sustainable Economic Development (Private Sector Development and Agriculture).
- (2) The objective of the multi-annual Action Programme for 2018, 2019 and 2020 to be financed under Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument<sup>5</sup>, is to allow continuity of contributions to recurrent expenditure of the Palestinian Authority via the PEGASE mechanism and to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA).

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<sup>2</sup> OJ L 77, 15.3.2014, p. 95.

<sup>3</sup> OJ L 298, 22.10.2012, p. 1.

<sup>4</sup> C(2017) 8394 final.

<sup>5</sup> OJ L 77, 15.3.2014, p. 27.

- (3) Direct financial support via PEGASE and support to UNRWA are necessary to ensure the delivery of basic services to the Palestinian people, including refugees.
- (4) Through PEGASE Direct financial support, the EU has contributed substantially to the recurrent expenditure of the national budget of the Palestinian Authority, with systematic, predictable and unconditional contributions to the payment of Palestinian Authority's civil servants' salaries and pensions; of social allowances to the poorest and most vulnerable Palestinians families and, since 2013 to health referral of "East Jerusalem hospitals".
- (5) UNRWA provides education, health, relief and social services, microfinance, housing and infrastructure support to approximately 5 million registered Palestine refugees in Jordan, Lebanon, Syria, the West Bank and the Gaza Strip. Continued EU support to UNRWA is an essential element of the EU's strategy to bring peace, stability and prosperity to the region and represents the EU's longstanding commitment to Palestine refugees until a just resolution to their plight is accomplished.
- (6) The action entitled "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020" aims at supporting the Palestinian Authority to deliver to the Palestinian population essential basic services by maintaining the functioning of the administration; at improving the economic opportunities of poor, vulnerable and isolated population; and at supporting the Palestinian Authority in reducing its budget deficit and implementing its reform agenda while increasing its transparency and accountability.
- (7) The action entitled "UNRWA: EU Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) Programme Budget 2018, 2019 and 2020 " aims at supporting UNRWA to deliver to the Palestinian refugee population essential basic services; improving the economic opportunities of poor, vulnerable and isolated population; and increasing the Agency's transparency and accountability.
- (8) A review of the modalities of the European Union's engagement in Israel and Palestine to ensure that all EU actions are supporting the achievement of a two-state solution is ongoing. Results, findings and conclusions of this review may lead to a revision of the Union's part of the European Joint Strategy in support of Palestine as adopted on 8 December 2017 and, potentially as a consequence, to a revision of this Decision.
- (9) It is necessary to adopt a financing Decision, the detailed rules of which are set out in Article 94 of Commission Delegated Regulation (EU) No 1268/2012.
- (10) It is necessary to adopt a work programme for grants, the detailed rules on which are set out in Article 128(1) of Regulation (EU, Euratom) No 966/2012 and in Article 188(1) of Commission Delegated Regulation (EU) No 1268/2012. The work programme is constituted by the Annex 2 (section 5.3.2).
- (11) The Commission should entrust budget-implementation tasks under indirect management to the entities specified in this Decision, subject to the conclusion of a delegation agreement. In accordance with Article 60(1) and (2) of Regulation (EU, Euratom) No 966/2012, the authorising officer responsible needs to ensure that these entities guarantee a level of protection of the financial interests of the Union equivalent to that required when the Commission manages Union funds. These entities comply with the conditions of points (a) to (d) of the first subparagraph of Article 60(2) of Regulation (EU, Euratom) No 966/2012 and the supervisory and support measures are in place as necessary.

- (12) The Commission should authorise the eligibility of costs under indirect management as of a date preceding the adoption of this Decision or under direct management as of a date preceding that of submission of a grant application, for the reasons of extreme urgency in crisis management aid or in situations of imminent or immediate danger to the stability of a country, including by an armed conflict, where an early involvement engagement of the Union may prevent an escalation.
- (13) It is necessary to allow the payment of interest due for late payment on the basis of Article 92 of Regulation (EU, Euratom) No 966/2012 and Article 111(4) of Commission Delegated Regulation (EU) No 1268/2012.
- (14) Pursuant to Article 94(4) of Commission Delegated Regulation No 1268/2012, the Commission should define changes to this Decision which are not substantial in order to ensure that any such changes can be adopted by the authorising officer responsible.
- (15) The measures provided for in this Decision are in accordance with the opinion of the European Neighbourhood Instrument (ENI) Committee set up by Article 15 of the financing instrument referred to in Recital 2,

HAS DECIDED AS FOLLOWS:

#### *Article 1*

##### **Adoption of the measure**

The multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine, as set out in the Annexes, is adopted.

The measure shall include the following actions:

- Annex 1: PEGASE Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020
- Annex 2: UNRWA: EU Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) Programme Budget 2018, 2019 and 2020

#### *Article 2*

##### **Financial contribution**

The maximum contribution of the European Union for the implementation of the programmes referred to in Article 1 is set at EUR 686,350,000 and shall be financed for an amount of EUR 237,050,000 from budget line 22 04 01 04 of the general budget of the Union for 2018, for an amount of EUR 225,750,000 from budget line 22 04 01 04 of the general budget of the Union for 2019 and for an amount of EUR 223,550,000 from budget line 22 04 01 04 of the general budget of the Union for 2020.

The financial contribution provided for in the first paragraph may also cover interest due for late payment.

The implementation of this Decision is subject to the availability of the appropriations provided for in the draft general budgets of the Union for 2019 and 2020 following the adoption of that budget by the budgetary authority or as provided for in the system of provisional twelfths.

### *Article 3*

#### **Methods of implementation**

Budget implementation tasks under indirect management may be entrusted to the entity identified in the attached Annex 2, subject to the conclusion of the relevant agreement.

The elements required by Article 94(2) of the Delegated Regulation (EU) No 1268/2012 are set out in the Annexes to this Decision.

The eligibility of costs under indirect management prior to the adoption of this Decision or prior to the submission of a grant application shall be authorised as of the dates set out in Annex 2.

### *Article 4*

#### **Non-substantial changes**

Increases or decreases of up to EUR 10 million not exceeding 20% of the contribution set by the first paragraph of Article 2, considering each year separately, or cumulated changes to the allocations of specific actions not exceeding 20% of that contribution, as well as extensions of the implementation period shall not be considered substantial within the meaning of Article 94(4) of Commission Delegated Regulation (EU) No 1268/2012, provided that they do not significantly affect the nature and objectives of the actions.

The authorising officer responsible may adopt these non-substantial changes in accordance with the principles of sound financial management and proportionality.

Done at Brussels, 23.2.2018

*For the Commission*  
*Johannes HAHN*  
*Member of the Commission*



**ANNEX 1**

**to Commission Implementing Decision on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine<sup>1</sup> from the general budget of the Union**

**Multi-annual Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020"**

<b>1. Title/basic act/ CRIS number</b>	"PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020", CRIS number: ENI/2018/40179 financed under the European Neighbourhood Instrument	
<b>2. Zone benefiting from the action/location</b>	Palestine <sup>2</sup> The action shall be carried out at the following location: Palestine	
<b>3. Programming document</b>	European Joint Strategy in Support of Palestine 2017-2020	
<b>4. Sector of concentration/ thematic area</b>	PEGASE Direct Financial Support (PDFS) to the Palestinian Authority (PA)	DEV. Aid: YES <sup>3</sup>
<b>5. Amounts concerned</b>	<p>Total estimated cost: <b>EUR 442,850,000</b></p> <p>Total amount of EU budget contribution <b>EUR 440,350,000</b></p> <p>The contribution is for an amount of EUR 155,050,000 from the general budget of the Union for financial year 2018, EUR 143,750,000 for financial year 2019 subject to the adoption of the draft budget for 2019 and availability of commitment appropriations, and EUR 141,550,000 for financial year 2020, subject to the adoption of the draft budget for 2020 and availability of commitment appropriations.</p> <p>This action (result 1) is co-financed in joint co-financing by:</p> <ul style="list-style-type: none"> <li>- Government of Italy for an amount of EUR 2 million;</li> <li>- Government of Spain for an amount of EUR 0.5 million.</li> </ul>	

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

<sup>3</sup> Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

<b>6. Aid modality(ies) and implementation modality(ies)</b>	Project Modality - Direct management - Indirect management with an international organisation (ILO)			
<b>7 a) DAC code(s)</b>	16010 15110			
<b>b) Main Delivery Channel</b>	10000 - Public Sector Institutions 12000 - Recipient Government			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagship</b>	N/A			
<b>10. Sustainable Development Goals (SDG)</b>	Main SDG: SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Secondary SDGs: SDG 1 - End poverty in all its forms everywhere; SDG 3, Ensure healthy lives and promote well-being for all at all ages; SDG 4, Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.			

## SUMMARY

The proposed Action supports Pillar I and III of the first *European Joint Strategy in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State (EJS)*, which revolves around the two main facets of aid effectiveness and political impact by providing

opportunities to strengthen the coherence between the political objective of the two-state solution and related development policy goals.

In line with the Strategy, the Action's overall objective is to build effective and accountable institutions ready for statehood and enable inclusive social development. The specific objective is to improve public services responding to citizens' needs, including those of marginalised groups. The action's objectives are underpinned by the following results: selected institutions deliver efficient and needs-based services; timely and regular payments of salaries and pensions are made by the Palestinian Authority (PA); timely and regular payments of social allowances are made by the PA; people in need of medical referrals have access to East Jerusalem Hospitals. In so doing, the Action specifically underpins the first and third Pillars of the EJS, respectively 'Governance Reform, Fiscal Consolidation and Policy Reform' as well as 'Sustainable Service Delivery'.

Considering each financial year separately, the Multi-annual Action proposes to allocate EUR 155,050,000 for 2018, EUR 143,750,000 for 2019 and EUR 141,550,000 for 2020.

The Action builds on previous PEGASE Direct Financial Support (DFS) to the PA, which, since 2008, has accounted for over EUR 2.3 billion in contributions to the recurrent expenditure of the national budget with systematic, predictable and unconditional contributions to the payment of PA civil servant salaries and pensions (PEGASE DFS "Civil Servants and Pensioners" or CSP programme), of social allowances to the poorest and most vulnerable Palestinians families (PEGASE DFS "Vulnerable Palestinian Families" or VPF, now "Support to the Cash Transfer Programme" or CTP programme), and, since 2013, of health referral bills through the PEGASE DFS "East Jerusalem hospitals" (EJH) programme.

The proposed Action introduces a series of new key elements, including multi-annual programming, which enhances predictability; incentive-based allocations for the CSP programme, as recommended by the European Court of Auditors<sup>4</sup>; the provision of complementary support to institution capacity building for policy reform in the field of social protection, public administration reform and human resource management, so as to reinforce the expected objectives; widened monitoring and evaluation, via an expanded Results-Oriented Framework (ROF) in line with the European Joint Strategy and where PEGASE DFS can be used as leverage for policy dialogue.

A review of the modalities of the European Union's engagement in Israel and Palestine to ensure that all EU actions are supporting the achievement of a two-state solution is ongoing.

To consolidate the Palestinian Authority in its general governance capacity, selected government ministries and agencies will benefit from Technical Assistance (TA) support and from EU Member States expertise through the Twinning instrument.

## **1. CONTEXT**

### **1.1 Sector/Country/Regional context/Thematic area**

Palestine is home to some 4.8 million people, of which 2.9 million live in the West Bank (including East Jerusalem) and the remaining 1.8 million live in the Gaza Strip<sup>5</sup>. Two out of five

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<sup>4</sup> European Court of Auditors, *European Union Direct Financial Support to the Palestinian Authority*, Special Report No 14/2013.

<sup>5</sup> Palestinian Central Bureau of Statistics (PCBS), 2016.



Palestinians living in Palestine are refugees.<sup>6</sup> 40% of the population is under 14 years old and almost 70% of the population is younger than 30, while around 4% is over 65 years old.

Palestine has been marked by the ongoing Palestinian-Israeli conflict, as well as by the disruption of fifty years of occupation and the progressive fragmentation of its territory, including the illegal annexation of East Jerusalem. Moreover, the region has experienced regular cycles of violence and wars that have led, amongst others, to the construction of an illegal separation barrier beyond the 1967 border since 2002, and to the movement restrictions imposed by Israel on the Gaza Strip since the early 1990s and intensified in June 2007 with its closure and imposition of the land, air and sea blockade.

The Oslo Accords, under which the Palestinian Authority (PA) was created in 1994, were intended to lead to a final negotiated settlement between the parties. More than twenty years after, the PA, which has operated as a transitional authority with limited jurisdiction since its creation, has full civil and security authority only in 18% of the West Bank. This takes place in the context of growing governance challenge on the Palestinian side. The last general elections were held in January 2006 and the Gaza Strip came under the de facto control of Hamas in 2007. As a consequence of this split, the work of the Palestinian Legislative Council (PLC) was suspended. No new legislative measures have been adopted by the PLC subsequently, with legal acts being promulgated instead by presidential decrees applicable only to the West Bank. In the Gaza Strip, Hamas has been enacting laws by convening a PLC through a proxy system. A renewed push towards reconciliation started in September 2017 with the mediation of Egypt, which resulted in the PA Prime Minister and his Cabinet convening in Gaza on 2 October 2017, for the first time since 2014.

Palestinian economic development and political relations with Israel are strictly linked, as Palestine runs under the framework of an uneven customs and monetary union with Israel. It has no control over its own borders and suffers from restrictions and controls on the movement of its people, goods and resources (land, water, etc.). Consequently, the Palestinian Authority has limited control over the majority of its revenues and experiences substantial losses under the current revenue sharing arrangements. Israel's intermittent withholding of clearance revenues hampers the predictability and service delivery by the Palestinian Authority and has had serious consequences, including delays in the payment of salaries. Given the severe development constraints of the Palestinian context, Palestine's revenue is still highly aid-dependent.

Palestine is a Lower Middle Income Country. In terms of Human Development Index it is one of the better off Arab States of the region (it is ranked 114 out of 188 countries in 2016). Still, longer term reforms, which are key for the Palestinian economy and the Palestinian Authority's sustainability over time, need to be addressed. The relative size of the PA's wage bill (15% of the Gross Domestic Product (GDP) is among the highest in the world and Palestine's pension system remains unsustainable. In 2016 the unemployment rate in the West Bank increased by almost 4 percentage points to 20.5%, and edged up further to 44% in Gaza. It disproportionately affects youth and recent graduates. Only 40% of those aged between 15 and 29 are active in the labour market, with dramatic differences in participation by gender (29% of female in 2016). The poverty rate averaged 15.6% in the West Bank and 38.2% in the Gaza Strip from 1994 to 1998. In 2011, the last year for which data are available, the poverty rate was about 17.8% for the West Bank and 38.8% for Gaza Strip – a net increase in poverty over the twenty-year period.

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<sup>6</sup> Approximately 70% of the estimated population in Gaza are registered Palestine refugees.

### **1.1.1 Public Policy Assessment and EU Policy Framework**

The Palestinian Authority *National Policy Agenda 2017-2022 Putting Citizens First* (NPA) contains three pillars describing the strategic direction of the government: path to independence; government reform; and sustainable development. On the basis of key national priorities, sector policies have been defined to improve the quality of life of the Palestinian people, while continuing efforts to attain Statehood. The *European Joint Strategy in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State* (EJS) is closely aligned with the NPA. In line with the revised European Neighbourhood Policy and the EU Global Security Strategy, the EJS identifies economic independence, social justice and rule of law, inclusive quality education, health for all, and resilient communities among the main priorities for EU and Member States' development co-operation.

In the public administration sector, on 19 September 2017, the Cabinet approved the *National Strategic Plan of Civil Service 2017–2022*. The strategy directly links to the SDGs on areas such as gender equality, impartiality, transparency and strengthening of public institutions. It is also linked to the National Policy Agenda (2017-2022) priorities through the establishment of the following goals: i) strengthening the legislative framework of civil service; ii) modernising the Human Resource Management (HRM) policies and procedures; iii) developing the civil service Human Resources; and v) improving the IT systems related to HRM through a commitment to improving and building its civil service registry, to be unified under a single electronic system.

*The Public Financial Management (PFM) strategy 2017–2022* prepared by the Ministry of Finance and Planning (MoFP) in 2016 was endorsed by Cabinet in July 2017 and is set to provide the Palestinian Authority with a framework for reforms contributing to improved transparency and sustainability of public expenditures and efficiency in the provision of essential public services.

In the social protection sector, poverty reduction and service delivery are placed at the core of the government's responsibility in the Palestinian National Policy Agenda. The *Social Development Strategy 2017-2022* is proposing a comprehensive social development approach ensuring that the right to social protection for the most vulnerable is respected and protected, in particular women, children, the elderly and persons with disabilities, underpinning a Right-Based Approach. The vision of the sector strategy is: a strong, solidary, productive and innovative Palestinian society that provides dignified life for all its members, unleashes their potential and believes in rights, equality, justice, partnership and integration.

As regards medical referrals, the Ministry of Health (MoH) has embarked on a process of reform to rationalise the referral system and contain costs, culminating in the signature of Memoranda of Understanding (MoU) between MoH and seven health service providers, including three East Jerusalem Hospitals (EJH), in January 2017. Moreover, new referrals guidelines and protocols have been adopted and an e-referrals system has been launched in the course of 2017, which will further improve traceability and clarify responsibilities, whereby also strengthening quality assurance mechanisms along with the complaints' system.

### **1.1.2 Stakeholder analysis**

For each component, stakeholders and beneficiaries differ and have been identified as follows. The **final beneficiary** of the action will be the Palestinian population as a whole, estimated at 4.8 million.

Component 1 – Selected institutions deliver efficient and needs-based services; **Main stakeholders** are the General Personnel Council (GPC), the Ministry of Finance and Planning (MoFP) and Ministry of Social Development (see paragraphs below for more details).

The willingness of the above institutions' to engage in the reform agenda is considered sufficiently satisfactory but the implementation of reforms will require significant skills development on the part of the relevant institutions' staff.

Main stakeholders on the donor side are the EU, the UK, France and the World Bank. In addition, the Social Security Corporation, newly established with the support of the International Labour Organisation (ILO) for the administration of the new social security system for private sector workers and their families, will require technical and financial support to set up a sustainable social security system. Italy and Spain have expressed an interest in joining this initiative.

Moreover, the Palestinian Energy and Natural Resources Authority (PENRA) and the Palestinian Energy Regulatory Council (PERC) as well as the Palestinian Central Bureau of Statistics (PCBS) have been tentatively identified as main stakeholders for Twinning support in 2018. The Twinning National Contact Point within the Office of the Prime Minister will be involved in the identification of ministries and agencies to benefit from further twinning. Discussions with the Palestinian authorities show that their main indicative priority areas are agriculture, environment, energy, social affairs, health, consumer protection, revenue collection and public service.

Beneficiaries will be the vast majority of the Palestinians who make use of public services as right holders, as well as the institutions themselves as duty bearers. Vulnerable groups such as People with Disabilities (PwDs), the elderly and women will benefit from improved availability of public services at community level, as they have limited access to other types of services due to reduced mobility.

Component 2 – Civil Servants and Pensioners: **Main stakeholders** are the Ministry of Finance and Planning, the GPC and the Pension Authority. Together they are responsible for the salaries and pensions of the Palestinian Authority staff, including the payroll, financial controls and audits. MoFP is also the line ministry in charge of implementing the Public Financial Management (PFM) strategy. To date, this component targets nearly 58,000 civil servants and pensioners of which a significant majority works in the education and health sectors.

Component 3 – Cash Transfer Programme: **Main stakeholders** are the Ministry of Social Development (MoSD) which manages the Palestinian Authority's cash transfer programme and the Ministry of Finance and Planning. Despite scarce financial resources, the MoSD is a dynamic institution following through any required steps from policy development to implementation. The EU has provided technical assistance to the MoSD since 2010 to strengthen its capacities of improving and monitoring social services and developing evidence-based strategy and policy planning. Further support is essential to bring greater quality in the services provided.

This component aims to target 110,000 vulnerable families or some equivalent of 660,000 people considering an average of 6 members per family (40,132 families in the West Bank i.e. 28% and 71,728 families the Gaza Strip i.e. 72%). As of September 2017, the Cash Transfer Programme (CTP) targeted 555,221 individuals affected by deep poverty, 25,735 elderly and 32,465 PwDs, it also included 41% female-headed families.<sup>7</sup>

Component 4 – East Jerusalem Hospitals: **Main stakeholders** are the Ministry of Health (MoH), MoFP and the six East Jerusalem Hospitals - namely Al-Makassed Islamic Charitable Hospital, Augusta Victoria Hospital, Red Crescent Maternity Hospital, St John's Eye Hospital, Princess Basma Rehabilitation Centre and St Joseph's Hospital. These hospitals provide specialised tertiary healthcare services hardly available to Palestinians elsewhere. The hospitals are legally independent from the Palestinian Authority to which they are linked exclusively through contractual agreements. In crisis situations, such as the 2014 Gaza war, they are the main

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<sup>7</sup> Source: Ministry of Social Development Database.

providers of emergency services on the Palestinian side. The EJH are the largest remaining Palestinian-run institutions in the city.

As regards beneficiaries, in 2016, a total of 91,927 patients benefited from Outside Medical Referrals to non-MoH medical facilities, out of a total caseload of 102,000 individuals in need.<sup>8</sup> With regards to referrals for Gaza patients, since 2006, the MoH has implemented a policy of universal health coverage for tertiary health care. Although the number of referrals for Gazans has improved since, numbers are still a third lower in comparison with the past.<sup>9</sup> Moreover, even when granted a referral from MoH, access for patients from Gaza remains very difficult, as permits from Israeli authorities are increasingly being denied

### ***1.1.3 Priority areas for support/problem analysis***

#### **Macro-economic instability and fiscal deficit**

The Palestinian Authority fiscal position suffers a financing gap of USD 580 million (IMF, September 2017) despite a gross revenue and net revenue increase in 2017, respectively 9% and 8%. Restrictions on trade and access to resources, along with a decade long blockade of Gaza have hollowed out the productive base. The economy is import dependent with imports over three times the size of exports and a trade deficit close to 40% of the GDP. Growth in real GDP slowed to 2% on average between 2013 and 2016, and dropped to a mere 0.7% in early 2017. Budget support from donors has continued to decline, contributing to the financing gap. As a share of GDP, budget support has fallen from 32% in 2008 to under 6% in 2016. It is expected to decline further to under 5% in 2017.<sup>10</sup> Additional decline in donor budget support seriously risks jeopardising an already fragile economy and further broadening the financing gap, thus leading to additional arrears to the private sector. Reducing the fiscal financing demands on banks, together with proactively managing financial risks, will enable the financial sector to better support private sector activity. According to the IMF, engagement by Israel – including the reduction in punitive and non-transparent barriers on Palestinian trade – and increased donor aid remain vital to striking a balance between achieving fiscal sustainability and investing in growth (IMF, August 2017). The proposed programme intends to afford the Palestinian Authority some breathing space while structural reforms spelled out in the PFM strategy are implemented.

#### **Reduced access to service delivery by the most vulnerable**

The fiscal gap risks undermining service delivery to citizens, with the prospect of delayed wages or social allowance payments, and insolvability to pay medical arrears, affecting the most vulnerable, in particular in Gaza. The Palestinian Authority has been doing its utmost to preserve the delivery of service to the population, with 41% of the budget addressed to health, education and social protection in 2016. The challenge will be to maintain this achievement in the years to come. The quality of the services provided is at stake, too. Delivery of quality education and health, as well as social inclusion, is high in the agenda of both the PA and the EU, as defined in the respective strategic policy documents, but this can only be achieved through continuous support to state building efforts and efficiency-oriented reforms.

#### **Institutional capacity for implementing policy reforms**

The proposed Action also plans to provide complementary support to PEGASE DFS for institution building and capacity development for policy reform under Pillar 1 - Governance Reform, Fiscal Consolidation and Policy Reform - and Pillar 2 - Rule of Law, Justice, Citizen

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<sup>8</sup> United Nations Development Assistance Framework State of Palestine 2018-2022.

<sup>9</sup> WHO Occupied Palestinian Territory monthly reports, August 2017.

<sup>10</sup> World Bank report to AHLC, September 2017.

Safety and Human Rights - of the European Joint Strategy in Support of Palestine 2017-2020. PA institutions require technical assistance to implement their policy reform agenda and sectoral strategies, building on previous EU-funded technical assistance. The limited budget allocated to MoSD does not allow the Ministry to pursue its reform of rolling out social services to specific marginalised groups. The newly established Social Security Corporation for private sector workers and families needs financial and technical support to be able to start operations before being self-sufficient through workers' own contributions. In addition, there is a need to develop the public administration staff payroll system to enhance its efficiency and reliability, especially in terms of control and audit.

**2. RISKS AND ASSUMPTIONS**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
Worsening of the Palestinian Authority fiscal situation	M	Tight budget monitoring
Weak PA co-operation	M	Regular policy dialogue
Insufficient capacity of the PA to implement the reforms causing delays	M	Regular guidance through policy dialogue and support; incentives/conditionalities based allocations for CSP component
Failure of the reconciliation process	H	Diplomatic engagement with those critical of the deal focusing on stabilising Gaza over the medium- to long-term and financial support in key sectors such as civil service reform, water and energy and private sector development.
<b>Assumptions</b>		
<ul style="list-style-type: none"> <li>• The two-State solution remains the political aim supported by international peace building initiatives;</li> <li>• No further significant deterioration of the current political and security context;</li> <li>• The Palestinian Authority continues to be committed to its statehood agenda and the reconciliation process;</li> <li>• The Palestinian Authority remains committed to implementing the NPA strategy and related sector reforms;</li> <li>• Human resources and technical capacity to implement reforms are available;</li> <li>• The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions.</li> </ul>		

### 3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

#### 3.1 Lessons learnt

Through PEGASE DFS, the EU has been contributing substantially to the recurrent expenditures of the Palestinian national budget (over EUR 2.3 billion spent since 2008). PEGASE has provided systematic, predictable and unconditional contributions to the payment of salaries/pensions of civil servants employed by the PA, social allowances to the Palestinians living in poverty and medical referral costs to the six East Jerusalem Hospitals and thereby contributed to maintain the functioning of the Palestinian administration and the delivery of essential services.

In December 2016, the European Court of Auditors (ECA) issued a follow up on the status of recommendations delivered in the framework of its Special Report No. 14 from 2013 "*EU direct financial support to the Palestinian Authority*".<sup>11</sup> All recommendations are to date fully implemented (funding of salaries and pensions for civil servants in Gaza was discontinued since beginning of 2017), with two partial exceptions, notably engagement with Israel through triangulation and application of a mechanism of incentive or conditionality to PEGASE. The latter is currently being addressed in this Action Document as detailed in paragraph 5.3 below.

Furthermore, PEGASE evaluations carried out during the period 2008-2015 highlighted the flexibility in planning and implementation and the use of well-proven management systems while continuously updating the programme. In particular, the latest evaluation, covering the period 2014-2015, considered that the PEGASE DFS was an "appropriate, efficient and effective modality to support the Palestinian Authority towards a Two-State Solution."<sup>12</sup> PEGASE DFS contribution was found to be appropriate in supporting the PA in the provision of quality public services to the Palestinian population. At the same time, "there are some elements within PEGASE DFS that would be better addressed through policy dialogue, such as the progression of the wage bill."<sup>13</sup> The financial contribution to social allowances through the CTP provided 'extreme poor' families with basic means for decent standard of living. According to the World Bank, it has reduced poverty significantly 'as simulations made in 2011 show that poverty rate would have been 11% points higher in the absence of these programmes.'<sup>14</sup> However, a report by OXFAM pointed out that, in Gaza, 'national safety net payments reach only 450,000 people (out of 740,000 living in deep poverty) and even then are too low to meet basic needs.'<sup>15</sup> Finally, the payment of the costs of referral to the East Jerusalem Hospitals ensured access to quality healthcare by the Palestinian population. With proper technical assistance, the MoH was able to improve, to a large extent, the efficiency in managing outside medical referrals. Remaining challenges to further improve the efficiency and appropriateness of referrals include: finalising a national price list by Diagnosis Related Groups; developing the MoH capacities in terms of monitoring the adherence to MoUs and protocols; and adopting a health insurance scheme reform that supports a more regulated environment and process.

In 2015, a Results-Oriented Framework (ROF) for PEGASE DFS support, covering policy reforms and service delivery, was introduced to co-ordinate donor support, technical assistance and policy dialogue. This was a first preparatory step towards linking future disbursements with

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<sup>11</sup> Clearing letter – Follow-up of the Court's recommendations made in its Special Report 14/2013 on EU direct financial support to the PA – Reference PF 8267, 13 December 2016.

<sup>12</sup> Final Report "Evaluation of the PEGASE Programmes of Direct Financial Support to the Palestinian Authority and Results Oriented Framework in the period 2014 – 2015", page ii, December 2016.

<sup>13</sup> Idem as above, page 25.

<sup>14</sup> World Bank, Assistance Strategy 2015-2016 for the West Bank and Gaza, 8 October 2014.

<sup>15</sup> OXFAM, *Left behind in Gaza*, November 2016.

monitoring requirements. This proposed Action goes a step forward and includes an incentive tranche linking disbursements to achievements of agreed indicators for the CSP component.

### **3.2 Complementarity, synergy and donor co-ordination**

PEGASE DFS has been coupled with complementary capacity building measures to develop capacities in related sectors and promote reforms in selected areas, e.g. improvement of Public Financial Management and development of social protection services. EU Member States provide complementary support in the fields of education and health, based on the EU/MS division of labour in Palestine as well as other donors or UN organisations (USAID, UNICEF, WFP, ILO, WHO, etc.). The Palestinian Reform Development Plan-Trust Fund (PRDP-TF), with which PEGASE DFS has synergies, is managed by the World Bank and funded by France, Norway, Australia and Kuwait. It conditions the release of funds to the implementation of key reforms for improving the Palestinian Authority's fiscal sustainability, public financial management and accountability. Since 2008, PRDP-TF has disbursed USD 1.4 billion to the Palestinian Authority

Following recommendations by the European Court of Auditors in 2013 and the July 2014 external evaluation of the EU co-operation with Palestine, the EU and the Palestinian Authority designed a Results- Oriented Framework (ROF) to shift PEGASE DFS towards a 'results-oriented approach' aiming to guide/formalise a more structured, coherent results-oriented policy dialogue, with stronger monitoring and evaluation of PA's achievements in key areas. The 2015-2016 Pilot ROF covered six sectors under the umbrella of two pillars: (1) Fiscal consolidation and policy reforms with (a) Macro-economic support/Fiscal outlook – led by the EU, (b) Public Financial Management (PFM) – led by the EU, (c) Public Administrative Reform (PAR) led by the United Kingdom, and (2) Service Delivery with (a) Education – led by Belgium, (b) Health – led by Italy, (c) Social Protection – led by the EU. The EU lead donors conducted sector-level quarterly meetings with their relevant counterparts to follow-up on latest developments and progress toward agreed targets. Twice a year, the Head of Co-operation at the EU Delegation, i.e. the Office of the EU Representative (EUREP) and the Prime Minister's Office (Head, Policy Priorities and Reform Unit) co-chaired high level policy dialogue meetings where progress and challenges on the ROF were discussed.

Locally, Development Partners and PA co-ordination is managed through the Local Aid Co-ordination Secretariat (LACS) led by the Prime Minister's Office. It was restructured in 2017 to ensure Palestinian ownership, while maintaining strong donor engagement and to reflect the priorities of the National Policy Agenda (NPA). This should reinforce the policy dialogue role which often remained a forum of exchange of information rather than a decision-making mechanism. The EU plays a leading role in these structures at all levels. Relevant platforms include: (i) the Fiscal Working Group (chair: the Ministry of Finance and Planning; deputy chair: the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (chair: the Ministry of Finance and Planning; deputy chair: the UK<sup>16</sup>); (iii) the Social Protection Sector Working Group (chair: the Ministry of Social Development; deputy chair: the EU); (iv) the sub-group on Health Referrals under the Health Sector Working Group; Energy sector working group; and regular co-ordination meetings with the PCBS.

Finally, EUREP leads the local European Development Partner co-ordination under the framework of the EU Heads of Co-operation meetings, which take place twice a month.

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<sup>16</sup> To note that this group did not convene since 2013.

Under those co-operation frameworks, the EU will ensure effective liaison and co-ordination with EU Member States and other donor-funded projects.

It is noteworthy to mention the growing attractiveness of PEGASE DFS among Member States, and others, as an instrument through which to channel donor contributions to the Palestinian Authority in different sectors (health, education, social protection and justice), which appears to be reinforcing a joint approach to aid effectiveness.

### **3.3 Cross-cutting issues**

*Good governance principles* are applied to the implementation mechanism and ownership on the part of the Palestinian Authority is assured. The EU also supports complementary capacity building activities focusing notably on strengthening the public finance system, including 'checks and balances' aspects, and enhancing the Palestinian public administration in line with the public administration framework for Neighbourhood countries. Supporting the Palestinian Central Bureau of Statistics as a crucial institution aims to ensure a sound monitoring and evaluation of the reforms and overall macroeconomic and social outlook, and therefore enhance the principles of transparency and accountability for public sector governance.

*Youth:* the actions proposed provide services which are vital to the social and economic rights of the Palestinian population as a whole but which will have indirect impact on youth, in terms of providing an alternative to violence and radicalisation. Youth-related statistics that can help monitor the fulfilment of the youth economic and social rights will be provided by the PCBS.

*Gender equality:* the upholding of key social services such as education and health will be critical to cater to women's –as well as men's – basic needs. Of the funds disbursed in 2016 within the CSP component, 41.3% of beneficiaries were women. Under the CTP programme, 41% of the households are female-headed (source MoSD). Gender disaggregated data will be ensured in the national statistics published by the PCBS.

*Civil society:* According to the 'Mapping Study of Civil Society in Palestine - Update 2015', the improvement of public service delivery is an area in which CSO engagement in governance and policy dialogue is possible. A strong collaboration already exists in education, health and services for people with “special needs”. MoSD is developing a partnership approach with private social service providers (NGO and private sector) to provide and plan improved social protection services for most vulnerable groups. Relevant statistics will be collected by the PCBS.

## **4. DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels, but also promotes progress towards SDG 1 - End poverty in all its forms everywhere; SDG 3 - Ensure healthy lives and promote well-being for all at all ages; and SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

The overall objective of this Action is to build effective and accountable institutions ready for statehood and enable inclusive social development (leaving no-one behind).

The specific objective is improved public services responding to citizens' needs, including those of marginalised groups.



The **Expected Results** are:

- Result 1. Selected institutions deliver efficient and needs based services.
- Result 2. Timely and regular payment of salaries and pensions are made by the PA.
- Result 3. Timely and regular payments of social allowances are made by the PA.
- Result 4. People in need of medical referrals have access to East Jerusalem Hospitals.

## **4.2 Main activities**

Activities are broken down into 4 components reflecting the above-mentioned 4 Results.

Component 1 – Reflecting Result 1 "Selected institutions deliver efficient and needs based services" - (indicative allocation: EUR 13.2 million - EUR 6 million for 2018, EUR 4.2 million for 2019 and EUR 3 million for 2020).

The proposed component will focus on supporting key reforms in the area of public administration and good governance in the public sector and aims at: (i) improving the civil service legislation; (ii) supporting the implementation of the civil service strategy in line with the public administration framework for ENP countries; and (iii) supporting the unification of the Palestinian public administration.

The underlying logic of this component is to improve the capacities of the counterparts benefiting from the direct financial support provided through the other three components in order to maximise impact. It will focus on institution capacity building and better effectiveness in reforms implementation.

Component 1 shall include 5 sub-components:

Sub-component 1.1. Reinforcement of the administrative capacity of the Palestinian Authority through ad-hoc technical assistance for the implementation of the priorities agreed within the ENP Action Plan of 2013 and the European Joint Strategy in Support of Palestine 2017-2020 (Pillar 1 and Pillar 3), in particular in the area of fiscal consolidation, public finance management (strengthening the integrity, transparency and accountability of public funds management) and public administration.

Sub-component 1.2. Institutional capacity building of the Ministry of Social Development. Following an institutional capacity assessment of the Ministry, further support to the Ministry will be provided to improve the monitoring and evaluation of the implementation of the social development strategy as well as the quality of service delivery by the Ministry and Regional Directorates in partnership with the private sector and any other identified needs.

Sub-component 1.3. Assessment of the PA's payroll payment systems at the level of Ministry of Finance and Planning, General Personnel Council and Pension Authority - possibly with IT systems development,.

Sub-component 1.4. Technical and financial support to the newly established Palestinian Social Security Corporation (PSSC): this will entail activities to introduce and promote the new social security scheme in Palestine and support its administration with the establishment of the Social Security Corporation.

Sub-component 1.5. Reinforcement of the administrative capacity of the Palestinian Authority through partnership co-operation between Palestinian public administrations and those of EU Member States for the implementation of the priorities agreed within the ENP Action Plan of 2013 and the European Joint Strategy in Support of Palestine 2017-2020 (all pillars).

Component 2 - Civil Servants and Pensioners (CSP) - (indicative allocation: EUR 255 million - EUR 85 million for 2018, EUR 85 million for 2019, and EUR 85 million for 2020):

The annual allocation of EUR 85 million will be disbursed according to a timetable to be agreed upon with the PA and taking into consideration the results of the incentive tranche indicators (see section 5.3.3 for more details). There will be about 5-6 payments per year to contribute to the salaries and pensions of around 58,000 PA civil servants and pensioners. The number of beneficiaries may change as a result of the Global Assessment of the soundness, reliability and completeness of the payroll system, or in case the eligibility criteria are modified, or in light of relevant political developments. This activity aims to support the Palestinian Authority to maintain the functioning of the administration effectively under its control and thus deliver to the Palestinian population essential public services, including in the health, social protection, education and justice sectors.

Component 3 – Cash Transfer Programme (CTP) - (indicative allocation: EUR 130 million – EUR 50 million for 2018, EUR 40 million for 2019 and EUR 40 million for 2020):

PEGASE will contribute to quarterly CTP payments to an average of 70,000 families (80% of which in Gaza). The number of beneficiaries may change as a result of the Global Assessment of the soundness and reliability of the CTP database, in case the eligibility criteria are modified, or in light of relevant political developments. For 2018, out of EUR 50 million, EUR 10 million will be earmarked for Gaza, following the discontinuation of CSP in Gaza as of January 2017 and reallocation of funds to CTP and productive investment interventions. This activity aims to ensure the continued assistance to Palestinian families living in extreme poverty, who are dependent on additional financial aid from the Palestinian Authority. It also reinforces the reform of the social protection system and the social cohesion among Palestinians.

Component 4 – East Jerusalem Hospitals (EJH) - (indicative allocation: EUR 39 million – EUR 13 million for 2018, EUR 13 million for 2019 and EUR 13 million for 2020):

The six EJH provide a quality range of tertiary healthcare, most of which is not available elsewhere in Palestine. The hospitals also serve as leading teaching and training institutions, and in crisis situations are the main providers of emergency services. The six EJH are the largest remaining Palestinian-run institutions in East Jerusalem. The financial difficulties of the Palestinian Authority have resulted in a situation where numerous hospital bills underwritten by the Ministry of Health for referrals to the EJH, and validated by the Ministry of Finance, remain unpaid, generating arrears despite ongoing reforms. This activity aims to ensure access to quality health services to the entire Palestinian population by covering part of the arrears for referrals.

Safeguarding measures: audit, verification, monitoring, evaluation, screening and IT support of PEGASE DFS programmes (Indicative allocation: EUR 2.85 million – EUR 1.05 million for 2018, EUR 1.25 million for 2019 and EUR 0.55 million for 2020).

High standards of control are achieved through audit, verification, control, monitoring, evaluation, screening and IT systems governing all PEGASE DFS programmes mentioned above. These systems are implemented under the continuous overview of independent auditors and/or contractors. Ex-ante verifications for PEGASE eligible beneficiaries and/or invoices are performed before every disbursement on the basis of eligibility criteria defined by the EU. Ex-post activities include confirming that the funds have been duly disbursed to the eligible beneficiaries. Moreover, to ensure verification of each recipient of funds, and in order to avert any risk of misuse of funds, all PEGASE beneficiaries are encoded in PEGASE IT system and screened against international sanctions lists and other ad-hoc lists through specialised software.

Visibility of PEGASE DFS programmes (Indicative allocation: EUR 0.3 million for 2019). Visibility and outreach activities related to the PEGASE DFS mechanism will be organised, notably with respect to the CTP programme.

### **4.3 Intervention logic**

By ensuring systematic and predictable contributions to the Palestinian Authority's recurrent expenditures through the PEGASE DFS mechanism, the EU is making a key contribution towards underpinning the financial sustainability of the PA itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so - within a context of diminishing budget support from donors, as repeatedly pointed at by the IMF and WB reports - the EU significantly contributes to maintaining the viability of the two-State solution and the PA's state-building activities, notably in terms of social service delivery. The Direct Financial Support mechanism also contributes to social cohesion and economic and security stabilisation of Palestine and helps the PA to implement policy reforms in public finance management and public administration, as well as in the social development sector. The institution building and capacity development component will ensure progress in implementation of the policy reform agenda, necessary to reach statehood and enable inclusive social development (leaving no-one behind).

## **5. IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities (as described in section 4.2) will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement. This period will be extended for the second and third years (2019 and 2020 respectively) subject to the availability of the 2019 and 2020 appropriations.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

### **5.3 Implementation modalities**

The envisaged assistance to Palestine is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU.

#### **5.3.1 Direct management**

The amount allocated under PEGASE Direct Financial Support components (components 2, 3 and 4, and partially component 1) is EUR 424 million (EUR 148 million for 2018, EUR 138 million for 2019, and EUR 138 million for 2020).

The amount allocated to component 1 (selected institutions deliver efficient and needs based services) that will be implemented under direct management is EUR 4.2 million (EUR 2 million for 2018, EUR 1.7 million for 2019, and EUR 0.5 million for 2020).

The amount allocated to safeguarding activities is EUR 2.85 million (EUR 1.05 million for 2018, EUR 1.25 million for 2019, and EUR 0.55 million for 2020).

The amount allocated to visibility and communication is EUR 0.3 million in 2019.

Direct management will be applied for all PEGASE Direct Financial Support programmes (components 2, 3 and 4, and partially component 1). They will be implemented by the Commission through the Office of the European Union Representative to the West Bank and Gaza Strip (EUREP), located in East Jerusalem, in close co-ordination with the Palestinian Authority and EU Member States. Disbursements will be made by the Commission through specific sub-accounts of the Palestinian Authority's Single-Treasury Account, as detailed in Section 4.2 above, following eligibility checks and verification as well as control procedures by external experts and international audit firms.

#### *Procurement and Direct Financial Support*

<b>Subject in generic terms, if possible</b>	<b>Types (e.g.: works, supplies, services, DFS)</b>	<b>Indicative number of contracts</b>	<b>Indicative quarter of launch of the procedure</b>
Support to the recurrent costs of the Palestinian Authority through PEGASE DFS programmes (Components 2, 3 and 4)	Direct Financial Support (pro-forma contracts)	One contract for each programme per year (total 9 contracts)	First or second quarter of each year
Technical Assistance to GPC, MoSD, and MoFP (sub-components 1.2 and 1.3)	Services	3	Last quarter 2018 to second quarter 2019
Ad-hoc Technical Assistance to selected institutions (sub-component 1.1)	Services	2	Last quarter 2019 to second quarter 2020
PEGASE bi-annual evaluation 2018-19 Component 1 projects evaluation	Services	1 1	First quarter 2020 Third quarter 2019
Visibility	Services	1	First quarter 2019
Ex-post, ex-ante audit, financial audits screening against international and ad hoc sanction lists of the beneficiaries and the IT development (covering components 2, 3 and 4)	Services	9	Triannual

#### **5.3.2 Criteria and indicative schedule of disbursement of the Implementation of Direct Financial Support to Civil Servants and Pensioners (CSP) – component subject to conditionality**

Based on the recommendation in the above-mentioned Special Report by the European Court of Auditors, the component 2 of the PEGASE Action intends to gradually shift from previous

unconditional support to linking part of the disbursements to the achievement of certain benchmarks agreed with the Palestinian Authority in the framework of PA-led reforms.

The amount subject to the incentive-based approach under the CSP component alone is EUR 20 million out of a total of EUR 85 million for 2018; EUR 20 million out of a total of EUR 85 million for 2019; and EUR 20 million out of a total of EUR 85 million for 2020.

The specific conditions that may be used for the incentive-based tranches will be the achievements of established benchmarks in the following indicative areas:

- Budget transparency (budget preparation, monitoring and reporting);
- Public procurement transparency;
- Public administration reform, including Payroll control and replacement of the current payroll system with a more modernised and effective system;
- Effectiveness of control process.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme and will be detailed in the corresponding Financing agreements. However, in duly justified circumstances, the MoFP may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions).

Tranches (EUR million /Years) <sup>17</sup>	2018	2019	2020	<b>Total</b>
Regular Payment Tranche	65	65	65	<b>195</b>
Incentive-Based Tranche	20	20	20	<b>60</b>
<b>Total</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>255</b>

### 5.3.3 Grants: Calls for proposals on Twinning projects (direct management)

#### *(a) Objectives of the grant, fields of intervention, priorities of the year and expected results*

Calls for proposals will be launched to implement proposed Twinning projects related to the achievement of sub-component 1.5 under section 4.2 above. Indicatively six Twinning projects are foreseen for an amount of EUR 7,500,000: two for 2018, for an amount of EUR 2,500,000; two for 2019, for an amount of EUR 2,500,000; and two for 2020, for an amount of EUR 2,500,000. The exact size of each grant will be decided based on the type of sector identified, needs of the beneficiary administration, duration of the project, and typology of costs in the specific field of the project.

Expected results concern the reinforcement of the administrative capacity of respective institutions benefiting from Twinning support through partnership co-operation between Palestinian public administrations and those of EU Member States. Twinning projects will be implemented in accordance with the applicable Twinning Manual.

#### *(b) Eligibility conditions*

<sup>17</sup> The annual timetable of the tranches will be agreed upon with the PA every year. There will be 3-4 fixed tranches and 1 variable tranche every year. The variable tranche will be last tranche of the year.

In line with Article 4(10)b of Regulation (EU) No 236/2014, participation in Twinning calls for proposals is limited to public administrations of EU Member States being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

*(c) Essential selection and award criteria*

The essential selection criterion is the operational capacity of the applicant. The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

*(d) Maximum rate of co-financing*

Grants will finance 100% of the Twinning budget<sup>18</sup>.

*(e) Indicative trimester to launch the call*

The Call for Proposals should be launched in the second trimester following the signature of the relevant Financing Agreement – tentatively in the last trimester of 2018, 2019 and 2020.

*(f) Use of lump sums/flat rates/unit costs*

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing has been approved by Commission decision C(2017)1122 of 21 February 2017.

#### **5.3.4 Indirect management with International Labour Organisation (ILO)**

The sub-component 1.4 of the PEGASE Action may be implemented in indirect management with ILO in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the support to an Independent Social Security Corporation for the administration of the new social security system for private sector workers and their family members (with the following main outputs: Introducing and promoting the new social security scheme; building the features of the new social security administration; establishing the pilot phase for the administration of the new social security system; establishing the new social security corporation).

The amount allocated to Sub-component 1.4 (selected institutions deliver efficient and needs based services) that will be implemented under Indirect Management with ILO is EUR 1.5 million in 2018.

This implementation is justified because the extension of social security coverage is one of the core mandates of the International Labour Organization (ILO), as laid down in its Constitution (1919) and reaffirmed in 1944 by the Declaration of Philadelphia which recognises “The solemn obligation of the International Labour Organization to further among the nations of the world programmes which will achieve the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care” This mandate was most recently restated in the Declaration on Social Justice for a Fair Globalization (2008) and in 2011 by the International Labour Conference (ILC), which reiterated the extension of social security coverage as a top priority. The ILO has a unique position to deliver technically sound and neutral advice recognised by all social partners. The ILO has worked closely together with tripartite

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<sup>18</sup> As provided for in the twinning manual.

stakeholders in Palestine during the past five years to develop a comprehensive social security system for private sector workers and their family members.

In the context of the European Joint Strategy and joint programming with European Development Partners, it is to be highlighted that Italy and Spain will contribute to the project.

The entrusted entity would carry out the following budget-implementation tasks: procuring, concluding and managing technical assistance through service contracts for capacity building on social security for tripartite stakeholders, civil society, private sector industries with 20 employers and more with a special focus on industries with a majority of women employed; training of a preparatory team of the new social security administration; and establishment of international, regional and bilateral co-operation agreements with other social security organisations and institutions. Procuring, concluding and managing service contracts for the development of an awareness raising campaign, including awareness raising materials.

The entrusted international organisation has undergone the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission’s authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free co-operation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

### 5.3.5 Changes from indirect to direct management mode due to exceptional circumstances

If the action (sub-component 1.4) cannot be implemented under indirect management due to reasons outside the control of the Commission, it is proposed to implement it under direct management through a service contract (technical assistance) in support to the Social Security Corporation..

## 5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

## 5.5 Indicative budget

	<b>EU contribution 2018 (EUR)</b>	<b>EU contribution 2019 (EUR)</b>	<b>EU contribution 2020 (EUR)</b>	<b>Indicative third party contribution (EUR)</b>
<b>5.5.1 – Result 1: Selected institutions deliver efficient and needs based services, composed of</b>	<b>6,000,000</b>	<b>4,200,000</b>	<b>3,000,000</b>	<b>2,500,000</b>
5.5.1.1 – Procurement (direct management) - Public Administration Reform (GPC and other selected institutions)	1,500,000	500,000	500,000	
5.5.1.2 – Procurement (direct		1,200,000		

management) - Institution building of MoSD				
5.5.1.3 – Procurement (direct management) - Development of the MoFP payroll	500,000			
5.5.1.4 – Indirect management with ILO	1,500,000			2,500,000
5.5.1.5 – Call for proposals / Grants 'Twinning support to selected institutions' (direct management)	2,500,000	2,500,000	2,500,000	
<b>5.5.2 – Result 2: Supporting Palestinian administration and services (CSP), composed of</b>	<b>85,000,000</b>	<b>85,000,000</b>	<b>85,000,000</b>	
5.5.2.1 – Procurement (direct management) – Direct Financial Support	85,000,000	85,000,000	85,000,000	N/A
<b>5.5.3 – Result 3: Supporting the Palestinian Cash Transfer Programme (CTP), composed of</b>	<b>50,000,000</b>	<b>40,000,000</b>	<b>40,000,000</b>	
5.5.3.1 – Procurement (direct management) – Direct Financial Support	50,000,000	40,000,000	40,000,000	N/A
<b>5.5.4 – Result 4: Support to East Jerusalem hospitals (EJH), composed of</b>	<b>13,000,000</b>	<b>13,000,000</b>	<b>13,000,000</b>	
5.5.4.1 – Procurement (direct management) – Direct Financial Support	13,000,000	13,000,000	13,000,000	N/A
<b>5.5.5 - Safeguarding activities, composed of</b>	<b>1,050,000</b>	<b>1,250,000</b>	<b>550,000</b>	
5.5.5. 1 - Evaluation		100,000	100,000	
5.5.5.2 – Ex post/ex ante audit, financial audit, sanctions screening, IT development,	1,050,000	1,150,000	450,000	
<b>5.5.6 - Communication and visibility, composed of</b>	<b>0</b>	<b>300,000</b>	<b>0</b>	
5.5.6.1 – Communication and visibility		300,000		N/A
<b>Totals</b>	<b>155,050,000</b>	<b>143,750,000</b>	<b>141,550,000</b>	<b>2,500,000</b>

## 5.6 Organisational set-up and responsibilities

On the Palestinian Authority side, the leading partners in the implementation of the PEGASE DFS programme will be the Ministry of Finance and Planning in the execution of the payments to final beneficiaries, the Ministry of Social Development (Result 3) and the Ministry of Health (Result 4).

All contracts and payments are made by the Commission on behalf of the Beneficiary.



The Action will be implemented by the EU through the EUREP; EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including for the following:

- liaising with the Ministry of Finance and Planning concerning eligible expenditures;
- organising and managing the process of validation, control, payment and audit; and,
- being responsible for paying contributions or for supporting payments to be made by individual donors.

Financial experts and qualified auditors will work for the project and will be complemented by other experts as required, in particular in the fields of IT and screening against international sanctions.

MoFP will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources. MoFP will enable EU auditors and experts to have access to the necessary documents and information to verify the implementation of the incentive-based tranche indicators.

## **5.7 Performance monitoring and reporting**

A comprehensive system of monitoring, control and audit will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide assurance over the use of funds, and the efficient and effective provision of support to the Palestinian Authority and population while fully protecting donor interests.

As from early 2013, the EU started working towards a Results-Oriented Framework (ROF) for PEGASE DFS covering both Policy Reforms and Service Delivery, under which EU donors would further co-ordinate the support (in terms of funding, technical assistance and policy dialogue). A pilot ROF and its performance monitoring and reporting set-up were adopted for the years 2015 (as of second quarter)-2016, with a quarterly (internal) and yearly (shared with the Palestinian Authority) operational reporting system building on internal and external reviews. The process was paralleled with the development of the *European Joint Strategy in Support of Palestine 2017-2020* (EJS) in 2016.

As detailed in 1.1.1 above, the EJS seeks close alignment to the new Palestinian National Policy Agenda (NPA), which covers national priorities, policies and interventions for the period 2017-2022. With the aim to foster alignment between their respective agendas but also to further develop result/performance-based approach to development, the PA and EU/MS have agreed to extend the next ROF to all five pillars of the EJS. The next ROF is expected to be agreed in the beginning of 2018. Particular attention will be paid to enhancing monitoring and evaluation, and continuing strengthening the reforms-oriented policy dialogue.

EUREP may undertake project monitoring visits both through its own staff and through independent consultants recruited directly by EUREP for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

It should also be noted that some data to measure progress in the achievements related to the Sustainable Development Goals are still not available with certain PA institutions. The capacity development interventions funded through this action will enable the latter to gather data so as to track progress.

## **5.8 Evaluation**

One mid-term evaluation will be carried out for the DFS components via independent consultants during the period concerned. The focus of the evaluation will be on the assessment of achievements, the quality and the results of Actions in the context of an evolving co-operation policy with an increasing emphasis on result-oriented approaches. The evaluation should provide an understanding of the cause and effects links between inputs and activities, and outputs, outcomes and impacts. The evaluation will serve accountability, decision making, learning and management purposes.

The main users of this evaluation will be the partner country, relevant services of the European Union, the interested stakeholders and the wider public. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Additional mid-term evaluations may be carried out, as relevant, for the result 1 component.

The evaluation reports shall be shared with the partner country and other key stakeholders, notably contributing donors. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

## **5.9 Audit**

Financial experts and qualified auditors will be involved in the implementation of PEGASE DFS programmes.

Advanced monitoring, control and audit systems are set up for all of PEGASE DFS programmes. All donors contributing to PEGASE DFS programmes have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

In addition to the regular verifications and audits of eligible expenditures to identify and validate payments, annual ex-post audits of PEGASE DFS programmes will be undertaken in accordance with international standards, to provide the maximum level of assurance which will be partly contracted from other decisions related to the PEGASE DFS activities. Contributing donors will be invited to participate. Contributing donors may also carry out ex-post audits of expenditures covered by their payments.

Indicatively, a contract for one financial audit shall be concluded under a framework contract in 2020. The financing of the other financial audits shall be covered by another financing decision.

## **5.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that one Service contract will be signed for visibility and communication.

Progress of implementation will be communicated regularly to all stakeholders through mid-and end-year financial and operational reports. Regular meetings are held with EU Member States in Brussels as well as locally.

## **6. PRE-CONDITIONS**

None.

## APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) <sup>19</sup>

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	O.O.: Build effective and accountable institutions ready for statehood and enable inclusive social development (leaving no-one behind).	1. Proportion of total government spending on essential services (education, health and social protection)[SDG 16.6.1]	1. 41% (2016)	1. Maintaining the baseline throughout 2018-20	1. MoFP Annual Report; SDG Reports	
		2. Proportion of government recurrent and capital spending to sectors that disproportionately benefit women, the poor and vulnerable groups [SDG 1.b.1]	2. Recurrent: 11.14%; Capital: 0.14% (2016)	2. Recurrent: 11.14%; Capital: 0.42% (2020)	2. MoFP Annual Report	
		3. Proportion of population living in households with	3. Data collected, analysed and shared by PCBS by mid-2018	3. Targets to be set by mid-2018	3. PCBS Report (multi-dimensional	

<sup>19</sup> Mark indicators aligned with the relevant programming document mark with '\*' and indicators aligned to the EU Results Framework with '\*\*'.

		access to basic services [SDG 1.4.1]			poverty assessment)	
		4. Average Voice and Accountability score**	4. 16.26 (2016)	4. 17.89 (2020)	4. Worldwide Governance Index	
Specific objective: Outcome	S.O.: Improved public services responding to citizens' needs, including those of marginalised groups.	1.1 Percentage of out of pocket spending per household, as % of total health spending	1.1. 45.5% (2013)	1.1 decreased to 20% by 2020	1.1 National Health Accounts	The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions under the occupation
		2.1 % of households living in extreme poverty covered by social protection systems, disaggregated by gender and age	2.1 to be determined after PCBS poverty assessment 2018	2.1 to be determined after PCBS poverty assessment 2018	2.1 PCBS report, CTP database	
		3.1 Citizen degree of satisfaction of public service	3.1 Data to be shared by the Cabinet by end 2018	3.1 Targets to be set by end 2018	3.1 Cabinet reports	
		4.1 % of patients actually referred out of those in need (average of 102,000 per year – source UNCT common country analysis)	4.1. 90.12% (91927 patients referred in 2016)	4.1 Maintaining the baseline throughout 2018-20	4.1 MoH annual report	
		5.1 Number and actual cost of medical referrals to Israeli hospitals from West	5.1 13,119 referrals; 233.9 M NIS (2016)	5.1 20% reduction	5.1 MoH annual report	

		Bank and Gaza (disaggregated by cause) *				
Outputs	Output 1: Selected Institutions deliver efficient and needs based services.	1.1.1 Improved social services for marginalised groups (PwD, children, women, elderly).	1.1.1 Data collected, analysed and shared by PCBS by mid-2018	1.1.1 TBC	1.1.1 PCBS/ MoSD reports/database	Human resources and technical capacity to implement reforms are available
		1.1.2 Private Sector Social Security Corporation (PSSSC) in place and functioning	1.1.2 Board of Directors in place, General Manager hired, investment strategy developed	1.1.2 A fully functional and effective IT System is in place; A Voluntary Complementary Old-Age Pension Scheme is implemented ;The Department of employment injury benefit and occupational diseases benefit, the Department of maternity benefit and the Department of old age, disability and survivors' pension are operationalised	1.1.2 ILO reports, PSSSC records	
		1.2.1 GPC: Number and type of bylaws prepared, endorsed and implemented	1.2.1 Developing the Secondary legislation, based on the new Civil Service Law	1.2.1 Modernised Secondary legislation. (2017-2022)	1.2.1 Official Gazette GPC, PM reports	Progress in the Palestinian internal reconciliation process
		1.2.2 Number of Human resources trained on the new legislation	1.2.2 No comprehensive training was provided on new legislation	1.2.2 Head of Legal & HRM Units at ministries and other public agencies trained (currently 75 institutions)	1.2.2 GPC, PM reports	
	1.2.3 Number and type	1.2.3.1 A 2017 Cabinet	1.2.3.1.1 Drafting the	1.2.3 GPC reports,		

		of Areas of Human Resource Management (HRM) improved according to excellence standards	Decision for restructuring Public Institutions organisational structures. 57 Institutions will be restructured. 18 institutions were restructures within the past 7 years	Standards and policies for developing the CS Public institutions' organisational structures (2018-2019)  1.2.3.1.2 Restructuring the civil service sector public institutions (2019-2022)  1.2.3.2 Unified Human Resources Management system	PM reports	
<b>Outputs</b>	<b>Output 2:</b> Timely and regular payment of salaries and pensions are made by the PA in the West Bank.	2.1.1 Number of payments made over the year by the PA  2.1.2 Regular global assessment of the payroll done  2.1.3.Ex-ante and ex-	2.1.1. 12 (2016, including PEGASE DFS contribution)  2.1.2 0 (zero)  2.1.3. 0 (zero)	2.1.1. 12payments  2.1.2 approved and launched every 18 months  2.1.3. launched and approved prior and subsequent to every	2.1.1 Ministry of Finance and Planning (MoFP) Statements; beneficiaries bank statements  2.1.2 Auditors' statements  2.1.3. Auditors' statements	

		post control carried out		PEGASE contribution		
<b>Outputs</b>	<b>Output 3:</b> Timely and regular payments of social allowances are made by the PA.	3.1.1. Social allowances paid every quarter  3.1.2. Cash transfer Programme database updated regularly (recertification)  3.1.3. Ex-ante and ex-post control carried out	3.1.1 4 payments year  3.1.2. 11,713 (out of the annual target of 21,000) households re-certified in 2017  3.1.3. 0 (zero)	3.1.1. 4 payments a year  3.1.2. Annual target 21,000  3.1.3. launched and approved prior and subsequent to every PEGASE contribution	3.1.1. MoSD report, PEGASE report, MoFP data  3.1.2. Audit reports, EU payment report  3.1.3. Auditors' statements	
<b>Outputs</b>	<b>Output 4:</b> People in need of medical referrals have access to East Jerusalem Hospitals.	4.1.1 Reimbursement of referral costs are made to the 6 EJH  4.1.2 Status of Outside Medical Referrals reform	4.1.1. % of financial exposure of the 6 EJH vis-a'-vis Ministry of Health/MoFP: about EUR 30 million from the previous year (2017)  4.1.2 MoUs between MoH and outside service providers: 7 including all EJHs as of September 2017; lack of unified drugs national price list	4.1.1. reduced exposure by 30%  4.1.2 MoUs: 10, including all 6 EJHs; unified drugs national price list; by 2020	4.1.1 MoH Statements; Hospitals records  4.1.2 MoH Service Providers Unit report	





ANNEX 2

**to Commission Implementing Decision on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine<sup>1</sup> from the general budget of the Union**

**Multi-annual Action Document for "UNRWA: European Union Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) Programme Budget 2018, 2019 and 2020"**

<b>1. Title/basic act/ CRIS number</b>	"UNRWA: European Union Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) Programme Budget 2018, 2019 and 2020 " CRIS number: ENI/2017/387214 financed under the European Neighbourhood Instrument	
<b>2. Zone benefiting from the action/location</b>	Palestine <sup>2</sup> The action shall be carried out at the following locations: Refugee camps and areas populated by Palestine refugees in the UNRWA's five fields of operation: West Bank, Gaza Strip, Syria, Lebanon and Jordan.	
<b>3. Programming document</b>	European Joint Strategy in Support of Palestine 2017-2020	
<b>4. Sector of concentration/ thematic area</b>	Financial Support to UNRWA Programme Budget	DEV. Aid: YES <sup>3</sup>
<b>5. Amounts concerned</b>	Total estimated cost: EUR 1,925,000,000 <sup>4</sup> . Total amount of EU budget contribution EUR 246,000,000. The contribution is for an amount of EUR 82,000,000 from the general budget of the EU for financial year 2018, 82,000,000 from the general budget of the EU for financial year 2019 subject to the adoption of the budget for 2019 and availability of commitment appropriations, and EUR 82,000,000 from the general budget of the EU for financial year 2020, subject to the adoption of the budget for 2020 and availability of appropriations.	

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

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

<sup>3</sup> Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

<sup>4</sup> Based on the UNRWA 2017 Programme Budget total estimated cost.

	This action is co-financed in joint co-financing by: - Other donors to UNRWA for an amount of EUR 1,679,000,000.			
<b>6. Aid modality(ies) and implementation modality(ies)</b>	Project Modality Indirect management with an international organisation (UNRWA, multi-donor)			
<b>7 a) DAC code(s)</b>	72010			
<b>b) Main Delivery Channel</b>	United Nations Relief and Works Agency for Palestine Refugees in the Near East - 41130			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>9. Global Public Goods and Challenges (GPGC) thematic flagship</b>	N/A		
<b>10. SDGs</b>	Main SDG Goals: SDG 4 - Ensure inclusive and quality education for all and promote lifelong learning; as well as SDG 3 - Ensure healthy lives and promote well-being for all at all ages. Secondary SDG Goals: SDG 1: End poverty in all its forms everywhere; as well as SDG 17: Revitalize the global partnership for sustainable development.			

## SUMMARY

Continued EU support to UNRWA is an essential element of the EU's strategy to bring peace, stability and prosperity to the region and represents the EU's longstanding commitment to Palestine refugees until a just resolution to their plight is accomplished.

In June 2017, the EU and UNRWA signed the 2017-2020 Joint Declaration, strengthening the political nature of the EU-UNRWA partnership and reaffirming the European Union's commitment to promoting the rights of Palestine refugees. Among United Nations Agencies, UNRWA is unique in delivering services directly to beneficiaries and its direct contribution to the welfare and human development of generations of Palestine refugees.

UNRWA provides education, health care, relief and social services, microfinance, protection camp infrastructure and improvement and emergency assistance to approximately 5.6 million registered Palestine refugees in West Bank, Gaza Strip, Syria, Lebanon and Jordan. Established by the United Nations (UN) in 1949 to carry out direct relief and works programmes for Palestine refugees, the Agency began operations in 1950.

In line with the European Joint Strategy in Support of Palestine 2017-2020, the Action's overall objective is to maintain basic living conditions and human development of Palestine refugees. The specific objectives are to: (1) To support UNRWA to deliver uninterrupted essential basic services within the Agency's Programme Budget, (2) To provide complementary services to Palestine refugees, whereby focusing on activities that ensure high visibility, (3) To help UNRWA move forward with the planning of specific operations and reforms.

Pending a just solution to the question of Palestine refugees, the United Nations General Assembly (UNGA) has continued to emphasise (most recently in GA Resolutions 70/83, 70/84 and 70/85, of 2015 and 71/91 of 2016) the necessity for the continuation of the work of the Agency and the essential role that UNRWA has been playing for over sixty-seven years in providing vital services to Palestine refugees. In the absence of a solution to the Palestine refugee problem, the General Assembly has repeatedly renewed UNRWA's mandate (most recently until June 2020) while calling for reinforced efforts to support the Agency's operations and to advance on adequate, flexible and predictable funding for UNRWA.

Since 1971, the EU has contributed annually to UNRWA's Programme Budget. This funding is used primarily to cover the Agency's key core services in the areas of health, education, and social services and is essentially used to pay salaries for UNRWA local area staff, in particular teachers, doctors and social workers active in the refugee camps. UNRWA has more than 30 000 staff posts to provide services to over 5 million refugees.

Complementing the 2017-2020 EU-UNRWA Joint Declaration, this multi-annual (2018-2020) action indicatively commits EUR 82 million in support of UNRWA's annual Programme Budget and offers the Agency much needed predictability in sustaining its core programmes while carrying out important reforms.

A review of the modalities of the European Union's engagement in Israel and Palestine to ensure that all EU actions are supporting the achievement of a two-state solution is ongoing.

## **1 CONTEXT**

### **1.1 Regional context**

Playing a pivotal role in addressing the needs of Palestine refugees across the region, the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) is currently experiencing enormous challenges in fulfilling its mandate derived from the United Nations General Assembly, as the Agency operates in a context of considerable regional unrest and conflict.

Violence and marginalisation continue to affect Palestine refugees registered across all five fields of operations of UNRWA: West Bank, Gaza Strip, Syria, Lebanon and Jordan, where the Agency continues to deliver human development services and humanitarian assistance in the areas of education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance.

In the Gaza Strip, a renewed push towards reconciliation started in September 2017 with the mediation of Egypt, which resulted in the PA Prime Minister and his cabinet meeting in Gaza on 2 October 2017, for the first time since 2014. On 10 October and 21 November 2017, the parties met in Cairo to discuss the details of a comprehensive reconciliation agreement, signed by senior leaders of both sides on 12 October 2017. These developments may result in the reintegration/legalisation of part or all of the Gaza employees engaged by the de facto authority in Gaza since 2007, and the reintegration of the PA civil servants in Gaza who have not reported to work since 2007, as well as in the overall unification of the Palestinian public administration. Notwithstanding this process, the population of Gaza suffer the effects of blockade that persists in imposing wide-ranging import (including medical, humanitarian items), export and movement restrictions.

In the West Bank, economic stagnation and restricted access to land, services and markets, particularly for those living or owning land in Area C and the seam zone, inhibit Palestinian livelihoods, eroding purchasing power and prolonging reliance on humanitarian assistance. During 2016 and 2017 Israel continued to demolish Palestinian structures, including schools and other community buildings, in Area C and to advance plans for the transfer of 46 Bedouin communities, a majority of whom are Palestine refugees.

In Syria, six years into the conflict, Palestine refugee coping mechanisms have been all but exhausted by prolonged displacement, unchecked inflation, rising unemployment rates and loss of property. As a result, Palestine refugees continue to rely heavily on UNRWA to meet their basic needs and enjoy a measure of protection: 85 per cent of Palestine refugees remaining in Syria are dependent on UNRWA's assistance to survive.

The wider destabilisation of the region resulting from the conflict in Syria continues to pose major socioeconomic and security concerns for Jordan and Lebanon which host large numbers of refugees from Syria, including Palestine refugees, in addition to existing resident populations of Palestine refugees.

In Lebanon, it is expected that the crisis will also contribute to higher poverty and unemployment rates and place further pressure on the economy, already weak public finances and infrastructure.

In Jordan, high unemployment has become a major challenge, with levels of joblessness rising from 13.8 per cent in January 2016 to 15.8 per cent by the end of that year; youth have been particularly affected.

### ***1.1.1 Public Policy Assessment and EU Policy Framework***

The Programme Budget is the Agency's primary means of sustaining core services. The ability of the Agency to provide its services is predominantly dependent on sufficient voluntary contributions made available annually from donors.

In the beginning of November 2017, UNRWA's 2017 Programme Budget shortfall stood at USD 77 million<sup>5</sup>. This amount corresponds to more than 1 month of basic expenditure. Such a deficit has caused the Agency to take stringent austerity measures and may ultimately lead to the temporary discontinuation of basic services. The shortfall also affects the administrative and

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<sup>5</sup> UNRWA Donor Communiqué 22 October - 3 November 2017.

management staff who, in addition to supporting the core programmes, also support the Agency emergency operations and ad-hoc projects. This shortfall would not include funding for emergency appeals, or specific projects (like Nahr El-Bared or those assisting Syrian refugees).

Despite the Agency's continued strong lobbying for funds and its commitment for continued stringent austerity and cost reduction measures as well as management initiatives aimed at safeguarding UNRWA's core programmes, the Agency risks experiencing financial shortfalls in the years ahead.

Substantial chronic gaps have been the result of several factors: (i) the high birth rate in the refugee population means that, even if funding was maintained or slightly further increased, per capita allocations would drop; (ii) reduced donations from a number of donors; (iii) the increase in commodity prices; (iv) the depletion of reserves; (v) exchange rate losses; (vi) various humanitarian concerns and crises in UNRWA's five fields of operation.

Against this background the UNRWA Medium-Term Strategy (MTS) 2016-2021 has been increasingly vital in paving the way for consolidation and savings of expenditures by refocussing the Agency on its core business (primary health, basic education and social relief). While sensitive, technical reforms foreseen in the Agency's MTS are evolving and are expected to help improve UNRWA's financial stability and ensure that quality services are being delivered to the most vulnerable among the refugee population.

In parallel, the Agency's Resource Mobilization Strategy (RMS) 2016-18 is seeking to mobilise sufficient resources to deliver upon the strategic outcomes set out in the MTS for Palestine refugees, as well as laying the foundation to re-establish UNRWA's financial stability.

The resource mobilisation environment, however, has presented several challenges for UNRWA. Regional turmoil continues with conflicts across the Middle East region all demanding political and financial resources. Underpinning this context is the failure of all concerned parties to find a just and lasting solution to the plight of Palestine refugees.

In response to UNRWA's repeated funding challenges, the United Nations General Assembly (UNGA) in December 2016<sup>6</sup>, called upon the United Nations Secretary-General (UNSG) to facilitate broad consultations with Member States, notably host countries, members of the UNRWA Advisory Commission and other donors, as well as with international financial institutions, to explore all potential ways and means, including through voluntary and assessed contributions, to ensure that the Agency's funding is sufficient, predictable and sustained for the duration of its mandate. In March 2017, the UNSG issued a report (A/71/849) that provides recommendations to the international community to explore four avenues for increased, sustained and more predictable funding to UNRWA, including: voluntary contributions, the UN regular budget, international financial institutions (IFIs) and multilateral funds, and other tracks. While the impact of reinforcing these funding approaches may not be immediate, they provide a good basis for continued discussions.

Continued EU support to UNRWA is an essential element of the EU's strategy to bring peace, stability and prosperity to the region and represents the EU's longstanding commitment to Palestine refugees until a just resolution to their plight is accomplished.

Since 1971, the EU has contributed annually to UNRWA's Programme Budget. For the period 2014-2016, contributions to the Programme Budget have been framed within the EU-UNRWA Joint Declaration. An ensuing Joint Declaration agreement for the period 2017-2020 was signed in June 2017. The Joint Declaration reaffirms the European Union's political support to UNRWA

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<sup>6</sup> UNRWA Operations Resolution A/71/93 adopted by the UNGA on 6 December 2016.

and foresees UNRWA's commitment towards i) focusing on core priorities, ii) pursuing the internal reform process, iii) developing a resource mobilisation strategy towards non-traditional donors and iv) ensuring better transparency and complementarity of all UNRWA programmes in the region.

Supplementing the above 2017-2020 EU-UNRWA Joint Declaration, and as a key partner in the European Joint Strategy, this multi-year (2018-2020) action indicatively commits EUR 82 million in support of UNRWA's annual core budget and offers the Agency much needed predictability in sustaining its core programmes while carrying out important reforms.

### ***1.1.2 Stakeholder analysis***

The direct/final beneficiary of the action is the Palestine refugee population in UNRWA's five fields of operations.

UNRWA itself, as well as all donors and host countries supporting UNRWA are also key stakeholders.

Poverty is one of the defining characteristics of many of the Palestine refugees served by UNRWA in the Gaza Strip, the West Bank, Jordan, Lebanon and Syria. In particular for Palestine refugees in Syria, repeated displacements, flight into neighbouring countries, erosion of social and economic capital and depletion of resilience and coping mechanisms in the context of the ongoing emergency means that for all intents and purposes, the Agency is considering the 450,000 Palestinians currently residing in Syria in need of humanitarian assistance.

The ability of the Agency to provide its services is entirely dependent on sufficient voluntary contributions made available annually for the most part from donors. With a population growth at a pace of approximately 2-3% per year UNRWA faces extra-ordinary challenges to its fiscal sustainability. While the Agency maintains regional quasi government operations via its 30,000 predominately Palestinian workforce, increases in contributions to the Agency's Programme Budget have lagged behind increases in UNRWA's minimum operational requirements. Growth in income has been at only 2 % over the last years while expenditures are forecasted to grow at a rate of 6% per annum.

At stake remains the capacity of the Agency to ensure sustainability in its core activities, by introducing reforms as well as by securing reliable and predictable funding for the Programme Budget. Donor fatigue is evidently noticeable among UNRWA's traditional donors. This is occurring in an environment where host and donor countries are facing substantial domestic economic challenges making it more difficult for them to maintain existing levels of support.

### ***1.1.3 Priority areas for support/problem analysis***

UNRWA continues to provide Palestine refugees not only with critical services, but also with stability and prospects for their future. The Agency is the largest UN operation in the Middle East, active in five fields of operations (West Bank, Gaza Strip, Jordan, Syria and Lebanon).

UNRWA's role as a pillar of stability in the region was put at risk in 2015 due to funding shortages. While the 2015 crisis was averted, all stakeholders including donors, host countries, and the Agency itself committed to work together so that a crisis of this scale and kind would not be repeated. In 2016, UNRWA committed to a zero growth budget, reform initiatives and cost containment measures. Notwithstanding these measures, UNRWA's financial challenges have continued in 2017 and the Agency risks facing repeated financial shortfalls also in the future.

From 2015-2017, necessary measures initiated by UNRWA's management to control rising costs under the Programme Budget have been crucial. Although these measures, such as formation larger school classes, the freeze on Programme Budget recruitment and the review of international consultancies posed serious challenges for the Agency and consequently for Palestine refugees,

the EU supported them as a necessary and unavoidable means to bring the Agency onto better financial footing. The EU has in recent years, at every available opportunity, warned of the dangers of a growing deficit and reduced reserves and the impact of this on the delivery of services to Palestine refugees.

However, increased funding from most of the Agency’s traditional donors and efforts to broaden and diversify the income sources in the last years have been outpaced by demand caused by the prevailing conflicts in some fields of operation and deteriorating economic conditions in all of them.

With this commitment to UNRWA's Programme Budgets for the period 2018-2020, the EU will continue to be a reliable and predictable supporter of the Agency's Programme Budgets, enabling the Agency to reinforce ownership, responsibility, and accountability and to prioritise within its core programmes, while sustaining essential basic services. These commitments will also serve to highlight the EU's confidence in and support for the Agency in the challenging period ahead as UNRWA takes further measures to tackle its financial instability through internal reforms and other measures.

Maintaining a baseline contribution of EUR 82 million to UNRWA's core programmes is based on the EU's assumption that UNRWA will continue to press forward with structural reforms aimed at addressing the chronic deficit of UNRWA. Within this process, the EU will remain a constructive partner in this endeavour with the expectation that more can and should be delivered on.

Internal reforms should aim to reduce expenditure, including by re-focusing of UNRWA's services, with the objective of concentrating more rigorously on core activities and prioritise the delivery of core services to the most vulnerable.

**2 RISKS AND ASSUMPTIONS**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
Deterioration of existing protracted conflicts and new conflicts arising in UNRWA's fields of operations that change refugee needs or the Agency’s ability to operate	M/H	Operational adjustments based on improved Agency-wide emergency preparedness
Insufficient resources, in particular a potential funding cut from the US, to enable the Agency to sustain core operations	M/H	UNRWA ensures adequate implementation of the Agency's Resource Mobilization Strategy (RMS) covering the period 2016-2018. Based on lessons learned a credible follow-up strategy will be developed setting out areas of strategic focus where further resources can be mobilised.
Risks associated with change: structural changes and reforms within UNRWA's operations are likely to raise concerns and encounter	H	UNRWA ensures adequate stakeholder consultation and communication throughout the envisaged reform processes. Based on timely and comprehensive information

<p>opposition from the Agency's staff, unions, and refugees. In addition, some reforms are likely to take time, and may also require temporary investments to ensure adequate transformation processes.</p>		<p>sharing by UNRWA, hosts and donors, including the EU and its Member States, express their support for envisaged reforms.</p>
<p><b>Assumptions</b></p>		
<ul style="list-style-type: none"> <li>• Funding from UNRWA's traditional donors remains stable including via regular and predictable support to UNRWA's core budget through multi-year agreements.</li> <li>• Building on UNRWA's achievements in 2015-2016, regional donors' contributions to UNRWA's Programme Budget are sustained, if not increased.</li> <li>• UNRWA presses forward with structural reforms to break the annual cycle of funding shortfalls and rebuilds its working capital to realise optimal cost efficiency and continuity of operations throughout the year.</li> </ul>		

### 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

#### 3.1 Lessons learnt

Since its establishment in 1950, UNRWA has become identified as the “quasi government” structure for Palestinians living in refuge in UNRWA’s fields of operation. Its mandate includes the provision of services to refugees which would otherwise be provided by a government body. Originally, these services encompassed Relief provision and Public Works, but in order to support refugees effectively in the context of long-term political uncertainty, it became increasingly necessary to adopt a ‘long term development’ as opposed to a temporary ‘relief’ approach within UNRWA's repeatedly renewed mandate over the past 67 years.

Next to service provision UNRWA's establishment and continued operation also mark the lack of a solution to the plight of Palestine refugees. For this reason, attempts to change UNRWA’s role are strongly resisted by the refugee population and by the governments of their host countries. Nonetheless, UNRWA recognises that the resource scarcity resulting from ongoing conflicts, growing needs from population growth, as well as inflationary pressures, require the Agency to prioritise services and activities within, and between, its programmes.

#### 3.2 Complementarity, synergy and donor co-ordination

The EU will continue to promote synergies and alignment between the programmes of host countries, International Organisations and UNRWA. To the extent possible, consistency should be ensured between programmes managed by these parties that aim at delivering essential basic services (including at policy, strategy, and programme levels) and in the case of the Palestinian Authority (PA) to support it in its state-building efforts. Steps towards greater synergies between the PA and UNRWA, notably in terms of social protection, are encouragingly underway.

Donor co-ordination is ensured in UNRWA Advisory Commission<sup>7</sup> and Sub-Committee meetings, through the EU Interest Group on UNRWA<sup>8</sup> and other regular meetings organised by

<sup>7</sup> Following the UN General Assembly's approval of its expansion in December 2005, membership consists of the following: Australia, Belgium, Brazil, Canada, Denmark, Egypt, Finland, France, Germany, Ireland, Italy, Japan, Jordan, Kuwait, Lebanon, Luxembourg, Netherlands, Norway, Saudi Arabia, Spain, Sweden, Switzerland, Syrian Arab Republic, Turkey, United Arab Emirates, United Kingdom, United States. Observers are the Palestine Liberation Organisation, the European Union, and the League of Arab States.



the Office of the European Union Representative (EUREP) in East Jerusalem with local and international stakeholders.

Also, to underpin the 2017-2020 EU – UNRWA Joint Declaration an EU-UNRWA Strategic Dialogue meeting is organised on an annual basis. This senior level meeting aims to ensure better co-ordination and understanding between both institutions, to take stock of UNRWA commitments within the Declaration, to update on the operational and financial impact of reforms on UNRWA, and to analyse challenges facing the Agency.

Besides supporting UNRWA's Programme Budget, the EU has actively supported UNRWA's management reforms and continues to provide support to a number of extra-budgetary special emergency appeals and projects. EU humanitarian assistance supports the Agency's emergency responses and preparedness to unpredictable but recurrent humanitarian needs predominantly emerging from the protracted crises in Palestine and Syria.

### **3.3 Cross-cutting issues**

Good governance is an integral part of the on-going reform of UNRWA administration and management. Since the Geneva Conference in 2004<sup>9</sup>, UNRWA has engaged in a process of internal reform. This process concentrated on reforming UNRWA's organisation design, management capacity and approach for achieving improved service delivery.

As a key theme within the MTS, UNRWA embeds gender equality across all Strategic Outcomes and in its management and operational objectives. Amongst other elements, indicators and targets are disaggregated wherever appropriate by sex, thereby ensuring that gender receives specific attention at all stages of the programme cycle. In November 2016, the UNRWA new Gender Equality Strategy (GES) 2016-21 was formally approved. In line with international standards, the GES is built according to a 'dual-track' approach, which focuses both on organisational and programme change as the main levers for achieving more inclusive and equitable services for Palestine refugees. Such an approach enables the framing of the logic of change in consonance with the goal and strategic outcomes identified by the MTS 2016-21. The UNRWA GES includes: i) the processes to improve the quality of services through gender mainstreaming; ii) a framework clarifying reporting and responsibilities; and iii) a gender action plan for the next 5 years.

Under UNRWA's mandate for protection of Palestine refugees, the Agency addresses the protection concerns of all refugees, with particular focus on women, children and persons with disabilities, inter alia through the application of gender mainstreaming and the implementation of a dedicated gender based violence programme, a disability policy, an inclusive education policy and a child protection framework. In addition, UNRWA documents alleged human rights violations and brings these to the attention of duty bearers, donors and the international human rights system.

In the area of livelihoods, UNRWA focuses on the mutually reinforcing outcomes of building the capabilities of refugees and improving access to livelihood opportunities. It does this by strengthening the capacities of refugees through training and other educational opportunities, enabling access to financial services, creating employment opportunities, as an indirect by-product of its operations, and advocating for refugees' legal right to work, where this is restricted.

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<sup>8</sup> The EU Interest Group on UNRWA meets regularly in Jerusalem to exchange information and to ensure coherence in dialogue with the Agency. The Group also discusses and prepares the Joint EU Statement delivered by the EU Representative on behalf of the EU and its Member States in meetings of the UNRWA Advisory Committee.

<sup>9</sup> This conference identified how improvements could be made in the responsiveness, effectiveness and efficiency of the Agency's operations in providing high-quality services for Palestinian refugees, consistent with UN and regional standards.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

The overall objective of this Action is to maintain basic living conditions and human development of Palestine refugees.

The specific objective is to:

To support UNRWA to deliver uninterrupted essential basic services within the Agency's Programme Budget.

The expected result is:

Quality core services are delivered to Palestine refugees while the Agency continues to implement and pursue MTS objectives and reforms.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of Sustainable Development Goals (SDG) 4 and 3, but also promotes progress towards Goals 1 and 17. This does not imply a commitment by the Agency benefiting from this programme.

### **4.2 Main activities**

#### **Programme (core) Budget**

Within UNRWA's annual Programme Budget, main core programme expenditures outlined in the Agency's mandate are eligible for support under this action. These include, in particular, the following programmes:

- Education:

Over half of the Agency's annual Programme Budget is earmarked for education. Education services are currently provided through around 692 UNRWA elementary, preparatory and secondary schools and eight vocational training centres in all five fields of operation staffed by more than 23,000 educational personnel and attended by more than 513,000 pupils.

This programme aims to provide, within the framework of the curricula of the host countries and the Palestinian Authority, general basic education, teacher education and vocational and technical education for Palestine refugees to enhance their educational opportunities at all levels of the educational system. UNRWA's objectives for the medium term focus on improving the quality and equity of education whilst ensuring access for all Palestine refugee children, including those with special educational needs.

- Health

Approximately 15 percent of the Agency's annual Programme Budget is allocated to health services. UNRWA's health programme is community-based, with emphasis on a Family Health Team (FHT) primary health care model, and a selective use of hospital services. Over three million refugees (60% of UNRWA registered refugees) make use of the Agency's health facilities. Primary care is provided through 143 UNRWA facilities, providing approximately 8.8 million medical consultations per year. Secondary care is predominantly provided through contractual arrangements with governmental or non-governmental hospitals or through a cost-sharing scheme. Two thirds of the Palestine refugee population consists of women in reproductive age and children below 15 years of age; maternal and child health services, including family

planning, preconception, antenatal and post-natal care services are therefore key aspects of health support to Palestine refugees. Non-communicable diseases<sup>10</sup> (NCDs) account for the vast majority of deaths occurring in UNRWA's host-country populations. NCDs also represent an increasing health challenge among Palestine refugees, with a steady increase in the number of diabetes and or hypertension patients treated at UNRWA health centres.

- Relief and social services

The Relief and Social Services Programme (RSSP) provides a range of direct and indirect social protection services to Palestine refugees. These services are carried out by a total of 810 staff through RSSP's three operational units: poverty and relief, social services and registration and eligibility.

Within the Poverty and Relief Unit, the Agency provides eligible refugees in-kind food assistance and cash-based transfers (cash or vouchers) under the Social Safety Net Programme (SSNP). The SSNP aims to contribute to poverty mitigation for Palestine refugees across UNRWA's fields of operations, with priority focus on the abject/extreme poor. This programme, while modest in scale, represents a crucial contribution to household incomes of those served and provides an important vehicle for identifying and tracking families living in extreme poverty.

- Infrastructure/camp improvement

Of all Palestine refugees registered with the Agency, roughly one third live in 58 recognised refugee camps in Jordan, Lebanon, Syria, the West Bank and the Gaza Strip. Over the years, these camps have transformed from temporary 'tent cities' into congested conglomerates of multi-storey buildings with narrow alleys, characterised by high concentrations of poverty and overcrowding. UNRWA refugee camps belong to the densest urban environments in the world. This component of the Programme Budget contributes to improve the quality of life for camp residents. Moreover, it ensures that all UNRWA facilities are efficiently planned, designed, constructed and maintained in order to meet the physical infrastructure needs of both the Palestine refugees and the Agency.

### **4.3 Intervention logic**

The EU and its Member States remain the largest providers of international assistance to Palestine refugees. Through reliable and predictable contributions to UNRWA's Programme Budget, the EU is making a key contribution towards ensuring that the Agency is able to continue carrying out its operations in line with its mandate and to provide essential services to the more than five million Palestine refugees.

Sustained EU support to UNRWA is an essential element of the EU's strategy to support the Middle-East Peace Process until an agreed, just, fair and realistic solution is reached.

## **5 IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements

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<sup>10</sup> Such as diabetes mellitus, hypertension, and cardiovascular and chronic respiratory diseases.

implemented, is 48 months as from 1 January 2018, the expected final date of operational duration being 31 December 2021.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

### **5.3 Implementation modalities**

The envisaged assistance to Palestine is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU.

#### ***Indirect management with an international organisation (UNRWA)***

This component will be implemented in indirect management with UNRWA in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails carrying out the activities described in section 4.2 in order to provide sustained access of the Palestine refugee population in the Gaza Strip, West Bank, Jordan, Syria, and Lebanon, to quality essential services, with a specific focus on the most poor/vulnerable. This implementation is justified because the action has specific characteristics requiring a specific type of implementer with proven technical competence and specialisation. UNRWA, established by the United Nations General Assembly, is the UN Agency mandated to provide services to Palestine refugees. In the absence of a solution to the Palestine refugee problem, the UN General Assembly has repeatedly renewed UNRWA's mandate, most recently until 2020.

The entrusted entity would carry out the following budget-implementation tasks: provision of cash transfers to refugee families, procurement of supplies and services, including tendering, contracting and making payments.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 01 January for the years 2018, 2019, and 2020 in order to fully guarantee continuation of vital basic service provision to the Palestinian refugees.

### **5.4 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

## 5.5 Indicative budget

	EU contribution 2018 (EUR)	EU contribution 2019 (EUR)	EU contribution 2020 (EUR)	Indicative third party contribution (EUR)
<b>Support to the UNRWA Programme Budget</b>				
Indirect management with an international organisation (UNRWA)	82,000,000.00	82,000,000.00	82,000,000.00	1,679,000,000 <sup>11</sup>
<b>Totals</b>	<b>82,000,000.00</b>	<b>82,000,000.00</b>	<b>82,000,000.00</b>	<b>1,679,000,000</b>

The exact amount of annual allocations to UNRWA's Programme Budget for 2019 and 2020 will depend on availability of commitment appropriations and will take into account the extent to which UNRWA has implemented a variety of impactful visibility activities, including but not limited to possible sponsorship arrangements that tangibly highlight and reflect the substantial contributions made by the European Union.

## 5.6 Organisational set-up and responsibilities

The action will be implemented by UNRWA whereas the delegation agreement will be managed by the EU through the Office of the European Union Representative to the West Bank and Gaza Strip (EUREP), located in East Jerusalem.

## 5.7 Performance monitoring and reporting

In 2010, UNRWA embarked on an initiative to create a unified reporting framework aligned with the Agency's Medium Term Strategy (MTS) 2010-15. The effort, continuing and refined through the development and implementation of the MTS 2016-21 generates a standardised methodology with a set of indicators for reporting to donors, encompassing reporting timeframes, templates and both quantitative and qualitative information. This harmonised reporting approach aims to reduce transactions costs while producing better quality of reporting. In this regard, a unified reporting framework aligned with the UNRWA MTS 2016-21, Field Office strategic plans 2016-21 and annual operational plans, strengthens the reporting process through the: (i) use of a common monitoring matrix, annexed to the MTS 2016-21, which establishes a robust basket of indicators that include 'core' donor and/or legislatively mandated indicators against which results based reporting is required; (ii) the designation, by the Harmonised Results Working Group<sup>12</sup>, of a set of indicators against which the Agency will provide both data and narrative results reporting on an annual basis; (iii) the application of a results-analysis methodology for reporting against each indicator and, where possible, disaggregating Agency-wide data by Field Office, gender, poor/non-poor according to the Agency-wide definition, disability according to the UNRWA guidelines to defining disability, spatial distribution (camp, non-camp, urban, rural), and by key age groups (e.g. youth); and (iv) the using of one template and a set periodicity.

<sup>11</sup> Estimate of the third party contribution over the three years based on the UNRWA 2017 Programme Budget total estimated costs (EUR 641.666 million) and is likely to increase over the years.

<sup>12</sup> The EU actively participates in this group. Other donors include: Australia, Canada, Denmark, Ireland, Italy, Norway, Sweden, Switzerland, and the United Kingdom.

Results reporting are derived from the UNRWA results-based monitoring system which enables data collection and analysis against strategic outcomes set out in the MTS 2016-21. The system also hosts monitoring structures for emergency appeals, projects and other frameworks employed by the Agency and, where possible, establishes linkages between them. Data is collected and analysed on a quarterly basis at the field-office level and on a semi-annual basis through Agency-wide results reviews.

UNRWA continues to strengthen its monitoring and analytical capacity, including in relation to the development of a better understanding of vulnerability to poverty and social marginalisation and how Agency programmes and partners can provide a more effective response.

The Agency's Annual Operational Reports will serve as the primary performance monitoring tool for the planned delegation agreements to implement the action.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8 Evaluation**

Having regard to the nature of the action, a final evaluation will not be carried out for this action or its components.

The Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

## **5.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision

## **5.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Building on the 2017 EU-UNRWA visibility plan which includes both field-level and EU-based activities, annual visibility implementation plans will be developed for the action.

## **6 PRE-CONDITIONS**

None.

## 7 [APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) <sup>13</sup>]

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines <sup>14</sup> – 2016 actuals (incl. reference year)	Targets <sup>15</sup> (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To maintain basic living conditions and human development of Palestine refugees.	<p>1. Percentage of individuals identified as experiencing a general protection risk are provided with assistance</p> <p>2. Number of primary health care facilities providing services to Palestine refugees.</p> <p>3. Number of UNRWA schools/educational facilities providing services to Palestine refugees</p> <p>4. Annual ave. number of (poor/vulnerable) Special</p>	<p><b>2016</b></p> <p>87.86%</p> <p>143 primary health care facilities</p> <p>702 schools /educational facilities</p>	<p><b>2020</b></p> <p>100%</p> <p>143 primary health care facilities</p> <p>702 schools /educational facilities</p>	<p>United Nations General Assembly (UNGA) resolutions and reports on the mandate and operations of UNRWA and Palestine refugees.</p> <p>UNRWA annual operational reports.</p>	

<sup>13</sup> Mark indicators aligned with the relevant programming document mark with '\*' and indicators aligned to the EU Results Framework with '\*\*'.

<sup>14</sup> Baselines are based on actuals from UNRWA's 2016 Annual Operational Report (<https://www.unrwa.org/resources/reports/annual-operational-report-2016>).

<sup>15</sup> Targets for 2018 – 2020 are provisional and may need to be updated based on 2017 actuals (available in May 2018). UNRWA's standard procedure is update baselines and targets based on previous year's actuals.



		Hardship/Social Safety Net (SHCs/SSN) beneficiaries assisted.	254,000 beneficiaries	254,000 beneficiaries		
<b>Specific objective(s): Outcomes</b>	(1) To support UNRWA to deliver uninterrupted essential basic services within the Agency's Programme Budget	<p>1. 1 Education</p> <p>Preparatory education cumulative drop-out rates (males)</p> <p>Preparatory education cumulative drop-out rates (females)</p> <p>Elementary cumulative drop-out rates (males)</p> <p>Elementary education cumulative drop-out rates (females)</p> <p>1.2 Health</p> <p>Percentage of targeted population screened for Non-communicable diseases such as diabetes mellitus, 40 and above</p> <p>Number of Expanded Programme of Immunisation (EPI)<sup>16</sup>-</p>	<p><b>2016</b></p> <p>4.28 %</p> <p>2.70%</p> <p>3.32%</p> <p>1.71%</p> <p>20.01%</p> <p>0 outbreaks</p>	<p><b>2020</b></p> <p>3.10%</p> <p>1.99%</p> <p>3.17%</p> <p>1.52%</p> <p>18.1% 18.8% 19.5%</p> <p>0 outbreaks 0 outbreaks 0 outbreaks</p>	UNRWA Annual Operational Reports, using data collecting by UNRWA staff through UNRWA management information systems.	<p>Operating context for UNRWA (and Palestine refugees) across the Agency's five fields does not deter the Agency from carrying out its mandate.</p> <p>The political situation and existing crises do not deteriorate further.</p> <p>Host countries and the International Community will continue to support UNRWA.</p> <p>Refugee vulnerabilities and needs will continue to grow.</p>
<b>Outcome(s)</b>						

<sup>16</sup>

Diseases targeted by the EPI include diphtheria, whooping cough, tetanus, measles, poliomyelitis and tuberculosis.

		vaccine preventable disease outbreaks  1.3 Percentage of abject poverty gap bridged through UNRWA social transfers	18.7%	20%	20%	20%		UNRWA will be successful in implementing the reforms envisaged in the 2017-2020 Medium Term Strategy (MTS) and Resource Mobilisation Strategy (RMS).
<b>Outputs</b>	(1) Quality core services are delivered to Palestine refugees while the Agency continues to implement and pursue MTS objectives and reforms.	1.1 Education:  Students meeting required levels in Monitoring of Learning Achievement (MLA) <sup>17</sup> tests (grade 4 Arabic, male)  Students meeting required	43.1%  69.3%	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	UNRWA annual Operational Reports, using data collected by	Operational and political situation/contexts deteriorating further.
				-	-	46.7%		
				-	-	74.8%		

<sup>17</sup>

MLA testing will be conducted once during the period 2018 – 2020. The Monitoring of Learning Achievement (MLA) tests are provided to grade 4 and grade 8 students (in 2016, 65,000 students participated in total) to assess their performance levels, their understanding of content, and the level of their skills and competencies, including higher order thinking skills. The MLA is important in telling the Agency how its education programme is doing, providing insight into its quality and equity. It also helps UNRWA to better understand the nature of the learning that is going on in its classrooms and how this aligns with the aspirations of the Agency’s Education Reform.

	levels in MLA tests (grade 4 Arabic, female)					UNRWA staff through UNRWA management information systems.	Inadequate funding levels to meet minimum operational requirements.
	Students meeting required levels in MLA tests (grade 4 Mathematics, male)	22.7%	-	-	23.5%		
	Students meeting required levels in MLA tests (grade 4 Mathematics, female)	35.6%	-	-	36.6%	Follow up meetings and UNRWA final reports.	Reforms envisaged in the 2017-2020 Medium Term Strategy (MTS) and Resource Mobilisation Strategy (RMS) are derailed due to sensitivities and tension.
	Students meeting required levels in MLA tests (grade 8 Arabic, male)	39.9%	-	-	42.3%		
	Students meeting required levels in MLA tests (grade 8 Arabic, female)	72.8%	-	-	76.6%		
	Students meeting required levels in MLA tests (grade 8 Mathematics, male)	34.5%	-	-	35.3%		
	Students meeting required levels in MLA tests (grade 8 Mathematics, female)	51.0%	-	-	52.3%		
	<b>1.2 Health</b>			<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	
	Average daily medical consultations per doctor (c/d)	85 consultations per doctor (c/d)	81c/d	80 c/d	79 c/d		

		1.3 Percentage of Social Safety Net (SSN) individuals that received social transfers (out of the total poor refugee population) disaggregated by sex and disability	14.62 %	13.8%	13.5%	13.1%		
		1.4 Percentage of substandard shelters repaired or reconstructed out of total substandard shelters identified for poor	6.13 %	23%	29%	34%		
		1.5 Number of partnerships (p) established in support of livelihood activities for vulnerable Palestine refugees (in particular youth and women)	15 partnerships (p)	46 (p)	52 (p)	58 (p)		