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COMMISSION IMPLEMENTING DECISION

of 29.2.2016

**on the Annual Action Programme 2016 part 1 in favour of Palestine to be financed from
the general budget of the European Union**

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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 action¹, and in particular Article 2 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 1605/2002², and in particular Article 84(2) thereof,

Whereas:

- (1) The Commission has adopted a Single Support Framework (SSF) for the period 2014-2015³, which was extended until the end of 2016, providing for the following priorities:
 - Support to governance at local and national levels;
 - Support to the private sector and economic development;
 - Support to water and land development.

In addition to the three focal sectors, and considering that Palestine has not yet attained statehood, the SSF also envisages temporary measures in support to the Palestinian Authority through PEGASE⁴ and to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) and yearly contributions for East Jerusalem.

- (2) The situation in Palestine continues to deteriorate with no immediate prospects for the peace negotiations; the Gaza Strip living conditions are worsening under all aspects and finally the deep fiscal and economic crisis of the Palestinian Authority and the chronic deficit of UNRWA, put the delivery of basic services to the Palestinian people at risk.
- (3) The protracted crisis situation linked to the stagnation of the Middle East Peace Process and the fact that Palestine has not yet attained statehood continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution.

¹ OJ L 77, 15.3.2014, p. 95.

² OJ L 298, 26.10.2012, p. 1.

³ C(2014) 5128 of 25.07.2014.

⁴ *Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.*

- (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".

In the absence of a solution to the Palestine refugee problem, the General Assembly has repeatedly renewed UNRWA's mandate. Among United Nations Agencies, UNRWA is unique in delivering services directly to beneficiaries. The European Union remains keeps supporting the Agenc to sustain essential basic services to Palestine refugees.

- (5) The objectives pursued by this Annual Action Programme, 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 Instrument⁵, are to provide urgent financial support to the Palestinian Authority and to UNRWA to keep the delivery of basic services to the Palestinian people.
- (6) The action entitled “PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016” 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) 2016 Programme Budget" 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) 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 1268/2012⁶.
- (9) 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).
- (10) 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.

⁵ OJ L 77, 15.3.2014, p. 27.

⁶ Commission Delegated Regulation (EU) 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

- (11) The authorising officer responsible should be able to award grants without a call for proposals provided that the conditions for an exception to a call for proposals in accordance with Article 190 of Commission Delegated Regulation (EU) No 1268/2012 are fulfilled.
- (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 action provided for in this Decision is 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 5,

HAS DECIDED AS FOLLOWS:

Article 1

Adoption of the measure

The Annual Action Programme 2016 part 1 in favour of Palestine, as set out in the Annexes, is approved:

The programme shall include the following actions:

- Annex 1: PEGASE Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016
- Annex 2: UNRWA: EU Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) 2016 Programme Budget

Article 2

Financial contribution

The maximum contribution of the European Union for the implementation of the programme referred to in Article 1 is set at EUR 252.5 million and shall be financed from budget line 22 04 01 04 of the general budget of the European Union for 2016.

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

Article 3

Implementation modalities

The section “Implementation Issues” of the Annex to this Decision sets out the elements required by Article 94(2) of Commission Delegated Regulation (EU) No 1268/2012.

Grants may be awarded without a call for proposals by the authorising officer responsible in accordance with Article 190 of Commission Delegated Regulation (EU) No 1268/2012.

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 the 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, 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, 29.2.2016

For the Commission
Johannes HAHN
Member of the Commission



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2016 part 1 in favour of Palestine¹ to be financed from the general budget of the European Union

Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016"

1. Title/basic act/ CRIS number	"PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016", CRIS number: ENI/2016/038-842, financed under the European Neighbourhood Instrument			
2. Zone benefiting from the action/location	Palestine The action shall be carried out at the following location: Palestine			
3. Programming document	The Single Support Framework for 2014-15 (extended till the end of 2016) envisages specific temporary support measures to contribute to maintaining the viability of the two-state solution.			
4. Sector of concentration/ thematic area	Temporary support measures: PEGASE Direct Financial Support (PDFS) to the Palestinian Authority (PA)			
5. Amounts concerned	Total estimated cost: EUR 170,500,000 Total amount of EU budget contribution: EUR 170,500,000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management			
7. DAC code(s)	16010			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

¹ 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.

	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	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"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. These cover the PEGASE² Direct Financial Support (DFS) to the Palestinian Authority (PA)'s national budget, as well as the support to UNRWA interventions for Palestinian refugees, altogether sustaining the delivery of basic services to the entire Palestinian population.

Through PEGASE DFS, the EU has contributed substantially to the recurrent expenditure of the national budget (around EUR 1.9 billion since 2008), with systematic, predictable and unconditional contributions to the payment of PA civil servants' salaries and pensions (PEGASE DFS "Civil Servants and Pensioners" (CSP) programme), of social allowances to the poorest and most vulnerable Palestinians families (PEGASE DFS "Vulnerable Palestinian Families" (VPF) programme), and, since 2013, of health referral bills through the PEGASE DFS "East Jerusalem hospitals" (EJH) programme. Through this programme, the EU provides crucial funding to avoid the collapse of those hospitals, which are amongst the few remaining Palestinian institutions in East Jerusalem and are providing key medical services to the Palestinian population. PEGASE DFS has contributed substantially to state building, as well as to the social cohesion, economic and security stabilisation of the Palestinian territories.

Coupled to PEGASE DFS, the EU has been supporting the PA to implement certain policy reforms aiming at enhancing its fiscal sustainability and improving the accountability, integrity, and transparency of its public finance system (public finance management, revenue mobilisation and fiscal reforms such as reduction of the net lending, health medical referrals), supporting its civil service reform, as well as improving service delivery (social protection).

In December 2013, the European Court of Auditors (ECA) published a report on PEGASE DFS³ where it recognised that the European External Action Service and the Commission had succeeded in implementing direct financial support to the PA in difficult circumstances. The report also concluded that the control measures put in place are robust and that there is no sign

² Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.

³ European Union Direct Financial Support to the PA - European Court of Auditors Special Report No 14 – 2013.

of mismanagement or diversion of funds. It also put forward a number of recommendations, most of which have already been addressed.

While disbursement remains unconditional, PEGASE DFS has undergone a shift towards a 'results-oriented approach' that aims to guide/formalise a more structured, coherent results-oriented policy dialogue, with stronger monitoring and evaluation of the PA's achievements in key areas, through a Results-Oriented Framework (ROF). Both the December 2013 ECA performance audit and the July 2014 external evaluation of the EU co-operation with Palestine confirmed the relevance and timeliness of this shift. The first ROF was co-signed in March 2015 by the EU and the Palestinian Prime Minister. It covers six sectors, falling within two pillars, aligned to EU PEGASE DFS specific objectives as set-up in the Single Support Framework (SSF) 2014-2015, namely Pillar I: Fiscal Consolidation and Policy Reforms covering (1) Macroeconomic Support; (2) Public Finance Management; and (3) Public Administration Reform; Pillar II: Service delivery covering (1) Education; (2) Health; and (3) Social protection.

1 CONTEXT

1.1 Country context

Palestine has been marked by the disruption of more than forty years of Israeli occupation, during which the economic development path and the democratisation process have paralleled the political developments. After a period of sustained state-building progress and economic recovery between 2007 and 2011 (which was largely driven by government spending, in turn, funded by aid flows), the democratic path (no electoral process, limited institutional accountability) and the economy (slowing growth, high unemployment, large fiscal deficits) have significantly slowed down since 2012.

The general outlook has deteriorated dramatically over the last two years. During 2014, the Peace Process negotiations collapsed and the Gaza Strip suffered a major humanitarian crisis and massive destruction as a result of Israel's "Operation Protective Edge", while Israeli restrictions imposed on Palestinian people and their economy continued unabated. Since the beginning of October 2015, violence and tension have alarmingly escalated in Jerusalem and the West Bank. More widespread violence is likely to return unless the root causes are addressed.

The aforementioned conflict and humanitarian tragedy in Gaza has made an already struggling Palestinian economy worse and put further stress on the Palestinian Authority's (PA), both in terms of accountability and on its fiscal situation – the PA's total deficit is projected to amount to USD 1.2 billion for 2015. With the reconciliation process struggling and Israel's withholding of clearance revenues during the first quarter of 2015 as a response to the PA's request for accession to the International Criminal Court (ICC), the PA ongoing fiscal crisis and difficult governance was further exacerbated. Difficulties of the PA in paying salaries and bills are recurrent, putting the institutional functioning and the delivery of basic services to the Palestinian population at risk. This is particular exacerbated in the Gaza Strip where the "National Consensus Government" (NCG) is not (yet) present on the ground and civil servants recruited after

2007 have not received their salaries since April 2014, except one-off 'humanitarian' cash assistance.

Consequently, the PA continues to accumulate considerable debts to the banking sector and arrears to the private sector. The total external and internal PA debt reached USD 2.24 billion at the end of September 2015. Besides, debt to the Pension Fund also continued to grow and stood at USD 1.6 billion, while arrears to the private sector amounted to USD 475 million (both as of December 2014⁴). In this context, health services have been greatly affected. As a result of the PA's accumulated unpaid arrears, hospitals in East Jerusalem have recurrent difficulties in paying salaries and are highly indebted to medical suppliers.

The decreasing political prospects for a viable two-state solution and the lack of intra-Palestinian reconciliation progress further increases donors' fatigue. For instance, although approximately USD 5.4 billion were pledged at the Cairo Conference on 12 October 2014 (half of which to be dedicated for the reconstruction of Gaza), there has been significant lack of progress in the actual volume and speed of the contributions as of December 2015.

In the absence of successful peace negotiations, the Palestinian economy will continue to be unsustainable and dependent on donor aid.

Poverty levels remain of serious concern. The latest available data from the Palestinian Central Bureau of Statistics (PCBS) indicate that, in 2011, poverty rates reached 18% in the West Bank and 39% in Gaza, with *70 percent of the population in Gaza being aid dependent*. These figures have increased due to the 2014 hostilities in Gaza, which pushed many Gaza families into (deeper) poverty. According to the World Bank report to the Ad-Hoc Liaison Committee (AHLC) of 14 September 2015, poverty in Palestine reached 25% in 2014, with levels in Gaza at 39%.

1.1.1 Public Policy Assessment and EU Policy Framework

In April 2011, the PA introduced its National Development Plan (NDP) entitled "Establishing the State - Building our Future" covering the period 2011-2013. In May 2014, the PA released the Palestinian National Development Plan 2014-2016 "State Building to Sovereignty" – it builds on the previous tri-annual national plans and focuses on four key sectors: 1) economic development and employment, 2) good governance and institution building, 3) social protection and development and 4) infrastructure. Work in the government's new policy agenda covering the period 2017-23 is expected to begin in early 2016.

The PA released its "National Early Recovery and Reconstruction Plan for Gaza 2014-2017" in October 2014 in the aftermath of the devastating conflict of July/August 2014. The implementation of this plan, in particular with the current level of Israeli's restrictions, remains challenging.

⁴ As of 30 September 2015, the PA had further accumulated NIS 1.9 billion of arrears to both the Pension Fund and the private sector.

In October 2015, the Palestinian Council of Ministers approved the merging of the Ministry of Planning with the Ministry of Finance. Following subsequent approval by the President it is to be called Ministry of Finance and Planning.

In 2015, a total of EUR 178 million were committed from the 2015 EU budget, through PEGASE DFS, to help the PA with the payments of PA salaries/pensions (EUR 115 million), of allowances for poor Palestinian families (EUR 50 million) and of arrears for medical referrals to East Jerusalem Hospitals (EUR 13 million).

These funds were complemented in 2015 by the following contributions from EU Members States through PEGASE DFS: DKK 80 million (equivalent to EUR 10.7 million) from Denmark for arrears to East Jerusalem hospitals; SEK 40 million (equivalent to EUR 4.3 million) from Sweden for salaries/pensions; EUR 4.0 million from the Netherlands for salaries/pensions (earmarked to the justice sector); EUR 3.0 million from Finland for arrears to East Jerusalem hospitals; EUR 1.5 from Austria (through assigned revenues) for social allowances; EUR 25.000 from Portugal (also through assigned revenues) for social allowances; EUR 1.0 million from Italy for arrears to East Jerusalem hospitals; and, EUR 1.0 million from Spain for social allowances.

In 2015, other donors (including EU Member States) have also provided additional support to the PA budget either directly or via the World Bank-managed PRDP Trust Fund. The Arab countries direct financial assistance support to the PA in the first nine months of 2015 amounted to NIS 1.05 billion (EUR 0.26 billion), mainly from Saudi Arabia (NIS 710 million - EUR 172.6 million), Algeria (NIS 205 million - EUR 49.8 million) and Iraq (NIS 112.4 million - EUR 27.3 million). The PRDP Trust Fund's total disbursements in the first 9 months of 2015 amounted to NIS 395 million (EUR 0.46 billion)⁵.

1.1.2 Stakeholder analysis

The final beneficiary of the action will be the Palestinian population as a whole. Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the EU and based upon requests and information provided by the PA.

Key partners include the PA institutions: Ministry of Finance and Planning, the technical Ministries and other relevant Departments and Agencies of the PA.

All donors contributing to the PEGASE DFS mechanism are considered key stakeholders.

1.1.3 Priority areas for support/problem analysis

Volatile context, worsening macroeconomic outlook and continuing donors' dependency

Recent years' worrisome trends in the economy (slowing growth, high unemployment, and large fiscal deficits) have continued. The outlook further deteriorated dramatically in 2014 as a result of the massive destruction in Gaza during "Operation Protective Edge" and related restrictions in the West Bank. The conflict and humanitarian tragedy in Gaza made an already struggling Palestinian economy worse and has put further

⁵ EUR amounts based on December 2015 InfoEuro rate: 1 ILS is equal to 0.24 EUR.

stress on the PA's fiscal situation. Since October 2015, the aforesaid alarming escalation in violence and tension has yet again affected negatively not only the political stability but also Palestinian economic prospects.

Given increased restrictions on movement and access, support to the Palestinian's national budget was the main driver of growth in the past. This financing model is, however, not sustainable and there will not be significant sustainable economic growth as long as there is no political horizon ending the occupation, freedom of access and movement to foster private sector investment and development. In fact, the current level of foreign aid is not sufficient to maintain the status quo, without even taking into account the huge needs arising from last year's conflict in Gaza and the potential expansion of governmental responsibilities in Gaza of the "National Consensus Government".

Moreover, it is to be noted that the Government of Israel has frozen the transfer of clearance of revenues in several occasions as a response to political decisions made by the PA. On the one hand, this has forced the PA increase its debt to domestic banks, thereby exposing them further to the public sector and almost exhausting its legal borrowing capacities. On the other hand, the lack of this key source of revenues has forced the PA to delay the payment of salaries and/or to pay them only partially, thus putting the delivery of basic services to the Palestinian population at risk. Depending on political developments, it is conceivable that such situation is repeated in the future.

In its last report to the AHLC dated 18 September 2015, the IMF considered the economic outlook for Palestine to be very challenging and subject to considerable risks. The IMF summarized the situation as follows: "The economic outlook for the remainder of 2015 is highly uncertain, with numerous risks calling for a cautious policy stance. Assuming the political status quo with no change in restrictions and/or security conditions, real Gross Domestic Product (GDP) growth for the West Bank and Gaza (WBG) economy is projected at 2.9 percent, implying stagnant per capita incomes after a drop last year. Main risks to the outlook include an escalation of political tensions and violence, fiscal slippages, and shortfalls in donor aid. Risks could be mitigated—and medium-term prospects enhanced—through progress on the peace front, an easing of Israeli restrictions, scaled-up donor aid, and improved economic collaboration at a technical level between the Palestinian Authority (PA) and the Government of Israel (GoI), including by seeking clarity on the level of the PA's outstanding electricity sector debts." These conclusions were reached prior to the increased level of violence between Israelis and Palestinians witnessed since October 2015.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Substantially worsening political and fiscal context with continued occupation, notably the potential	H	Enhanced EU dialogue with Israel, including linking EU co-operation effectiveness in

freezing of the transfer of Clearance Revenues by Israel, which may lead to increased instability, volatility and of a return to violence in the medium-term growing		Palestine directly to Israeli actions
Lack of progress of in the reconciliation process and continued regression in democratic and social accountability, with decreased accountability of the PA among the Palestinian population	H	EU support for the NCG to take leadership both at the technical and political level, as well as policy dialogue and monitoring of progress in reforms Increased support for civilian oversight
Deterioration of the status quo in Gaza with expected increased level of poverty	M/H	Enhanced EU dialogue with Israel and the NCG
Fluctuations in the exchange rate may have an impact on funding needs	M/H	Continuous monitoring
Assumptions		
<ul style="list-style-type: none"> • The two-State solution is still the political aim supported by the EU, and the EU continues supporting the PA as part of EU support for a peaceful solution; • The PA continues to be committed to its statehood agenda and the reconciliation process; • 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; • Contributions from EU Member States and other donors will be made available during the implementation period to complement the proposed funds. • Full co-operation with the PA is essential. This co-operation needs to be maintained, in particular for the identification of eligible beneficiaries and timing of payments and for the identification of eligible expenditure. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The PEGASE DFS mechanism builds upon the successful experience of the Temporary International Mechanism (2006-2007) and is implemented in full co-ordination with the PA and in close co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the PA for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

The mid-term review of PEGASE conducted in 2009 highlighted the flexibility in planning and implementation, the highly competent and professional staff and the use of well-proven management systems while continuously innovating, which contributed to the success of this mechanism. Final evaluations covering the periods 2008-2011 and 2011-2013 confirmed these findings.

In December 2013, the ECA published a report on PEGASE DFS providing a number of recommendations. Most of these have already been addressed (e.g. using competitive tendering for technical assistance; review of the mechanism aiming at its simplification and applying the relevant simplification measures; establishment of a results-oriented approach – details under section 5.7).

3.2 Complementarity, synergy and donor co-ordination

The Annual Action Programme 2015, in line with the Single Support Framework 2014-2015, was approved in July 2015 for a total of EUR 40 million, for the following support priorities: (i) governance at local and national levels; (ii) private sector and economic development; (iii) water and land development; and, (iv) East Jerusalem. In addition, in 2016, EUR 82 million are being made available for UNRWA's General Fund. The Annual Action Programme 2016 is currently under preparation.

The EU already provides/intends to support complementary capacity building activities in line with the newly-set Results-Oriented Framework pilot sectors (macro-economic support, public finance management, public administration reform, education, health, and social protection), in terms of: (1) Policy Reform: a) strengthening of the accountability, integrity, and transparency of the public finance system, by supporting 'checks and balances' aspects (tackling both the supply and the demand-side), b) domestic revenue mobilisation - through a support to the PA's Taxpayer Awareness Programme; c) support to the PA's efforts in reducing the burden of net lending (ended in July 2014 – additional support could be envisaged in co-ordination with other donors); d) civil service reform; and, e) strengthening statistics capacities. (2) Service Delivery: through support to the Ministry of Social Affairs. Other EU Member States provide complementary capacity building support in relation to policy reforms and service delivery (in the fields of education and health).

The Palestinian Reform Development Plan -Trust Fund (PRDP-TF) is managed by the World Bank, and its main donors include the UK, France, Norway, Australia and Kuwait. The release of funds is untargeted, but conditional on the implementation of key reforms for: a) improving the PA's fiscal sustainability; and, b) improving public financial management and accountability. Synergies between PEGASE DFS and PRDP-TF are fostered to the largest extent possible.

Local donor co-ordination has been streamlined in accordance with the conclusions of the AHLC meeting held in December 2005, following a proposal by the European Commission, the World Bank and Norway to reform Aid Management Structures. The EU continues to play a leading role in these structures at all levels. Relevant platforms include: (i) the Fiscal Working Group (co-chaired by the Ministry of Finance and Planning and the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (co-chaired by the Ministry of Finance and Planning and

the UK/Department for International Development (DfID)); (iii) the Social Protection Sector Working Group (co-chaired by the Ministry of Social Affairs and the EU); and (iv) the sub-group on Health Referrals under the Health Sector Working Group.

The EU plays a leading role in local EU Member States co-ordination. Under the framework of the EU Heads of Co-operation meetings, an EU Informal Group on PEGASE DFS was set-up in early 2013 and has become the main forum to jointly monitor progress on the pilot sectors covered by the aforementioned ROF. Since 2013, increased co-ordination with other direct financial assistance donors (mainly the World Bank and the contributors to the PRDP-TF) has taken place.

3.3 Cross-cutting issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the PA is assured. The EU also support complementary capacity building activities focusing notably on the strengthening the public finance system, including 'checks and balances' aspects.

The actions proposed provide services vital to the social and economic rights of the Palestinian population.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this temporary EU support is to maintain the viability of the two-state solution by avoiding the fiscal collapse of the PA and sustaining basic living conditions of the whole Palestinian population.

The specific objective is to support the Palestinian national development agenda and in particular:

- (1) to support the PA to deliver to the Palestinian population essential basic services by maintaining the functioning of the administration;
- (2) to improve the economic opportunities of poor, vulnerable and isolated population; and
- (3) to support the PA in reducing its budget deficit and implementing its reform agenda while increasing the PA's transparency and accountability.

4.2 Main activities

Three categories of public expenditure are eligible for support under this action for a total amount of EUR 168.0 million, which follows previous Decisions committed every year since 2008 for funds disbursed through the PEGASE DFS mechanism:

Component 1: Supporting Palestinian administration and services (indicative allocation: EUR 115.0 million)

The EU will contribute to the payment of salaries and pensions to the PA civil servants in Palestine (West Bank and Gaza Strip). The objective of this activity is to support the PA to maintain the functioning of the administration and thus deliver to the Palestinian population essential basic services. The objective of this activity is to allow the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza Strip. The regular contribution to the funding of the wages expenditure

for civil servants also reinforces the PA's public finance management and public finance reform implementation.

Component 2: Supporting the Palestinian social protection system (indicative allocation: EUR 40.0 million)

The EU will contribute to the quarterly payment of social allowances to poor and vulnerable Palestinian families in the West Bank and the Gaza Strip through the PA's national cash transfer programme (CTP). The objective of this activity is to ensure the continued assistance to Palestinian families living in extreme poverty, who are dependent on financial aid from the PA. This activity also reinforces the reform of the social protection system and the social cohesion among Palestinians.

Component 3: Support to East Jerusalem Hospitals (indicative allocation: EUR 13.0 million)

The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for Palestinians. In addition to the importance to the health network, these hospitals are also a symbol of continued Palestinian presence in East Jerusalem. The financial difficulties of the PA have resulted in a situation where many of the hospital bills underwritten by the Ministry of Health, and validated by the Ministry of Finance, remain unpaid. The hospitals are therefore, and to differing degrees, themselves in and/or worsen the PA's financial crisis.

In addition, the action will cover the following activities:

Audit, verification, monitoring and visibility of PEGASE DFS programmes (Indicative allocation: EUR 2.5 million)

High standards of control are achieved through audit, verification, control and monitoring systems governing all PEGASE DFS programmes, including the three mentioned above. These systems are implemented under the continuous overview of independent auditors. Ex-ante verifications include identifying PEGASE eligible beneficiaries and/or invoices 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 high standards of verification of individual recipients of funds, and in order to avert any risk of misuse of funds, all direct beneficiaries of contributions channelled through PEGASE DFS are screened against international sanctions lists and other ad-hoc lists through a specialised software. Visibility and outreach activities related to the PEGASE DFS mechanism, notably the VPF programme, will also be organised.

4.3 Intervention logic

Through the systematic, predictable and unconditional contributions to the PA's recurrent expenditures made through the PEGASE DFS mechanism, the EU is making a key contribution to avoiding the financial collapse of the PA itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so, the EU significantly contributes to maintaining the viability of the two-state solution and the PA's state-building activities, notably in terms of service delivery. The funds channelled through the PEGASE DFS mechanism thus contribute to the social cohesion and the economic and security stabilisation of Palestine. The contributions made through any of the three aforementioned components play a key role in supporting the PA to

implement policy reforms aiming at enhancing its fiscal sustainability and improve the accountability, integrity, and transparency of its public finance system, as well as to improve service delivery.

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 described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 84 months from the date of entry into force of the financing agreement. The funds under Components 1 to 3 are however expected to be disbursed in total by the end of 2016.

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

Direct management will be applied for all components.

PEGASE DFS programmes will be implemented by the Commission through the Office of the European Union Representative to the West Bank and Gaza Strip, UNRWA (EUREP), located in East Jerusalem, in close co-ordination with the PA and EU Member States.

For the aforesaid Components 1, 2 and 3, disbursements will be made by the Commission through specific sub-accounts of PA's Single-Treasury Account to the eligible beneficiaries of the PEGASE DFS programmes detailed in Section 3.2 above, following eligibility checks and verification and control procedures by external experts and international audit firms.

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to the recurrent costs of the Palestinian Authority through PEGASE DFS programmes	Direct Financial Support	3	1 st trimester of 2016
Ex-post and ex-ante audit*and verifications for PEGASE DFS programmes	Services	3	1 st trimester of 2017

Financial audits of funds disbursed through PEGASE DFS programmes (years 2016 and 2017)	Services	2	2 nd trimester of 2017
Software to screen PEGASE DFS beneficiaries against international sanctions lists and other ad-hoc lists (2018-2020 period)	Services/Supplies	1	2 nd trimester of 2017
Visibility	Services	1	1 st trimester of 2016

* Ex-ante audit on 2016 expenses is covered by ongoing contracts.

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 realization of this action impossible or exceedingly difficult.

5.5 Indicative budget

	Amount in EUR thousands	Third party contribution
Component 1: Supporting Palestinian administration and services (CSP)	115,000	N/A
Component 2: Supporting the Palestinian social protection system (VPF)	40,000	N/A
Component 3: Support to East Jerusalem hospitals (EJH)	13,000	N/A
Audit, verification and monitoring of PEGASE DFS programmes	2,400	N/A
Communication and visibility for PEGASE DFS programmes	0,100	N/A
Total	170,500	N/A

The aforementioned allocations are indicative and may be changed depending on the needs expressed by the PA and the funds received from other donors for specific areas covered by PEGASE DFS programmes. It is anticipated that, as in earlier years, other donors will make contributions.

Other funds for the necessary technical assistance (aligned to the Results-Oriented Framework), evaluation, audit and visibility actions have also been made available under separate Decisions (notably under decision ENI/2015/038-315 ("Support to Governance at Local and National Levels") under the Annual Action Plan 2015).

5.6 Organisational set-up and responsibilities

A Financing Agreement will be concluded between the EU and the PA, to be implemented via Direct Management (PEGASE DFS).

The project will be implemented by the EU through EUREP in East Jerusalem.

On the PA 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 Affairs (Component 2), and Ministry of Health (Component 3).

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

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 the following:

- liaise with the Ministry of Finance and Planning concerning eligible expenditures;
- organise and manage the process of validation, control, payment and audit; and,
- be 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.

The Ministry of Finance and Planning 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.

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.

Payments will be executed in accordance with Commission regulations. A sophisticated quarterly financial reporting system is in place and will continue to be implemented, giving detailed information on all operations processed. Individual beneficiaries as well as businesses will be uniformly checked against international sanctions lists.

As from early 2013, the EU started working towards a Results-Oriented Framework 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). The ROF is anchored within the EU process towards EU Joint Programming (expected to start in 2017). The basis has been the EU/MS Local Development Strategy (EU LDS), which defines rolling EU operational priorities and an EU/MS division of labour in Palestine. This includes 16 EU/MS Sector Strategy Fiches in line with the Palestinian National Development Plan 2014-2016 and related sectors strategies. The approach is thus a consolidated EU approach, and a step towards Joint Programming. The development of such framework has also been done in close

collaboration with the PA and the other direct financial assistance donors. Civil society has also been consulted during the process.

The pilot ROF covers six of the above 16 sectors, under the respective EU leaderships in accordance with the local EU Division of Labour:

(i) *Pillar I: "Fiscal consolidation and policy reforms"*: (1) Macroeconomic Support/Fiscal Outlook (sector led by the EU with the Ministry of Finance and Planning as counterpart); (2) Public Finance Management (sector led by the EU with the Ministry of Finance and Planning and the State Audit and administrative Central Bureau as counterparts); and, (3) Public Administration Reform (sector led by the UK with the Prime Minister's Office and the General Personnel Council as counterparts).

(ii) *Pillar II "Service delivery"*: (1) Education (sector led Belgium with the Ministry of Education and Higher Education as counterpart); (2) Health (sector led by Italy with the Ministry of Health as counterpart); and, (3) Social Protection (sector led by the EU with the Ministry of Social Affairs as counterpart).

The EU and the PA signed a Memorandum of Understanding on 25 March 2015, which includes the pilot ROF and its performance monitoring and reporting set-up, for the period 1 April 2015 to 31 December 2015. A quarterly (internal) and yearly (shared with the PA) operational reporting system has been put in place, building notably on internal and external reviews such as reviews by the World Bank and by the International Monetary Fund (IMF) on macroeconomic issues. If need arises, the current pilot phase might be extended to the year 2016.

5.8 Evaluation

A comprehensive evaluation report covering the first three years (2008-2011) of implementation of the PEGASE DFS programmes was carried-out in 2012. An evaluation covering the period 2011-2013 was completed in March 2015. An evaluation for the period 2014-2015, including an evaluation of the pilot ROF, should start in the first quarter of 2016.

Mid-term evaluations are currently planned to take place every 18 months and a final evaluation after a 3-year implementation period in line with the current PA development planning cycle.

5.9 Audit

Financial experts and qualified auditors will be involved in the implementation of PEGASE DFS programmes, which will be complemented by Commission and EU Member States specialists and international or local experts.

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.

5.10 Communication and visibility

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

Progress of implementation will be communicated regularly to all stakeholders through quarterly financial and operational reports, and an operational annual report. Regular meetings are held with EU Member States in Brussels as well as locally (EU Heads of Co-operation and EU Informal Group on PEGASE DFS meetings).

6 PRE-CONDITIONS

None.



This action is funded by the European Union

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2016 part 1 in favour of Palestine to be financed from the general budget of the European Union

Action Document for "UNRWA: EU Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) 2016 Programme Budget"

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning grants awarded directly without a call for proposals: 0

1. Title/basic act/ CRIS number	"UNRWA: EU Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) 2016 Programme Budget" CRIS number: ENI/2016/ 370-281 financed under European Neighbourhood Instrument.
2. Zone benefiting from the action/location	Palestine ¹ The action shall be carried out at the following location: Palestine Refugee camps in UNRWA's 5 fields of operation: West Bank, Gaza Strip, Syria, Lebanon and Jordan.
3. Programming document	The Single Support Framework for 2014-15 (extended till the end of 2016) envisages specific temporary support measures to contribute to maintaining the viability of the two-state solution.
4. Sector of concentration/ thematic area	Temporary support measures: Financial Support to UNRWA's Regular Budget
5. Amounts concerned	Total estimated cost: EUR 650,591,034 Total amount of EU budget contribution EUR 82,000,000.00. This action is co-financed in parallel co-financing by: Other donors to UNRWA for an amount of EUR 568,591,034

¹ 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.

6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with UNRWA (or direct management – grants – direct award to UNRWA)			
7. DAC code(s)	72010			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	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"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	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"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. These cover the PEGASE² Direct Financial Support (DFS) to the Palestinian Authority (PA)'s national budget, as well as the support to UNRWA interventions for Palestinian refugees, altogether sustaining the delivery of basic services to the entire Palestinian population.

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (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. 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 the absence of a solution to the Palestine refugee problem, the General Assembly has repeatedly renewed UNRWA's mandate. Among United Nations Agencies, UNRWA is unique in delivering services directly to beneficiaries.

² Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.

The aim of this Action is to contribute to the UNRWA's 2016 Programme Budget³ to sustain the delivery of essential public services to the Palestinian refugees. Continued EU support to UNRWA is an essential element of the EU strategy for the Middle-East Peace Process, in particular EU commitment to keep a close watch on the refugee issue, including during final status negotiations.

Since 1971, the EU has contributed annually to UNRWA's Programme Budget. This funding is used primarily to cover the Agency's crucial core programme services in the areas of health, education, and social services and is essentially used to pay salaries for teachers, doctors and social workers active in the refugee camps. UNRWA has more than 30 600 staff posts to cover for services provided to over 5 million refugees. In combination with contributions from EU Member States, EU overall contributions in 2015 accounted for 34% of the total support to UNRWA. Since the year 2000, the EU has provided over EUR 1.6 billion in support of UNRWA's work.

1 CONTEXT

1.1 Regional context

UNRWA is currently working in a context of considerable regional turmoil and conflict. While the Agency has thus far played a pivotal role in addressing the needs of Palestine refugees across the region, UNRWA is experiencing huge challenges in carrying out its operations.

UNRWA operations in Syria continue to be impacted by an unpredictable and devastating armed conflict. For the 450,000 Palestine refugees estimated in Syria, daily life is a bleak and constant struggle, with over 95% relying on UNRWA to meet their basic needs. Ramifications of the conflict in Syria extend also to Jordan and Lebanon.

The situation in the West Bank and East Jerusalem is also complex: increased access restrictions, numerous Israeli incursions into refugee camps and escalating violence since October 2015 has led to disruptions of UNRWA's activities. Moreover, in the Gaza Strip, the 2014 conflict and humanitarian tragedy continues to put high demands on the Palestinian Authority and UNRWA.

Poverty continues to be one of the defining characteristics of many of the Palestinian refugees served by UNRWA in Palestine (the Gaza Strip, the West Bank), Jordan, Lebanon and Syria. It is important to note that not only is poverty definitional in the UNRWA context, it also intersects with the question of refugee rights, social protection, and international protection. As such, UNRWA is proposing a rights based approach to poverty e.g. poverty addressed not simply in terms of human needs, or of developmental requirements, but in terms of inalienable and universal rights of individuals to equality, non-discrimination, participation, and empowerment.

After 65 years, UNRWA continues to provide refugees not only with critical services, but also with stability and hope for the future. UNRWA's role as a pillar of

³ Previously referred to as UNRWA's Regular Budget (General Fund).

stability in the region was put at risk last June when severe funding shortfalls threatened to close down UNRWA's educational programme and delay the return to school of some 500,000 children.

In light of the financial crisis, the Agency warned that it might have no alternative but to resort to the unprecedented measure of deferring the start of the 2015/2016 school year until sufficient resources were secured.

Thanks to exceptional additional contributions from donors, the 2015/16 school year could begin according to schedule in the fall with 685 schools benefiting half a million pupils across the region. In addition to the baseline contribution of EUR 82 million, the EU provided additional support amounting to EUR 20 million to UNRWA's Programme Budget helped to bridge UNRWA's 2015 financing gap.

Without any political resolution to the refugee problem, while this population grows at a pace of approximately 4-6% per year, and with a downward trend of donors' contribution, UNRWA faces a huge challenge in terms of fiscal sustainability. It maintains its regional quasi government operations via its 30 600 predominately Palestinian workforce. The crucial issue remains serving those most in need. Moreover, 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 through 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.

1.1.1 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 entirely dependent on sufficient voluntary contributions made available annually from donors.

Latest figures project that the UNRWA Programme Budget for 2016 will face a shortfall of around USD 81,000,000 despite continued stringent austerity and cost-reduction measures as well as management initiatives aimed at safeguarding UNRWA's core programmes. This shortfall would not include funding for emergency appeals, organisational development or specific projects (like Nahr El-Bared camp or those assisting Syrian refugees).

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 even slightly increased, per capita allocated would drop; (ii) reduced donations from a number of donors under the impact of the financial crisis; (iii) the increase in commodity prices has adversely affected its food aid programme; (iv) the Agency has been delving into its reserves and in part effectively living off donors' frontloaded contributions in recent years – the reserves are gone; (v) the situation has been aggravated by exchange rate losses – the Israeli Shekel has gained strength against both the Euro and the US Dollar; (vi) the situation in Syria has increased the demand for relief services from Palestinian refugees affected by the on-going conflict.

The UNRWA Medium-Term Strategy (MTS) 2016-2021 of UNRWA is expected to pave the way to substantial consolidation and savings of its expenditures by

refocussing the Agency on its core business (primary health, basic education and social relief). Technical reforms foreseen in the Agency's MTS are expected to help secure UNRWA's financial stability and ensure that services are being delivered to the most vulnerable among the refugee population.

In parallel, UNRWA is currently in the final stages of developing its Resource Mobilization Strategy (RMS) for 2016-2018. While further diversifying its donor base, the Agency will continue to deepen its partnerships with traditional donors in an attempt to meet an increasing need for resources in the coming three years.

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. These cover the PEGASE Direct Financial Support (DFS) to the Palestinian Authority (PA)'s national budget, as well as the support to UNRWA interventions for Palestinian refugees, altogether sustaining the delivery of basic services to the entire Palestinian population.

Since 1971, the EU has contributed annually to UNRWA's Programme Budget. The contribution to the UNRWA's Programme Budget is in line with the EU-UNRWA Joint Declaration (JD) on the EU's support for UNRWA for the period 2014-2016. This agreement offers the agency much needed predictability in sustaining its core programmes. The Declaration foresees a core EU contribution during these years of EUR 246 million (i.e. EUR 82 million per year), depending on funds available in the annual EU budget.

1.1.2 Stakeholder analysis

The direct 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.

1.1.3 Priority areas for support/problem analysis

UNRWA continues to provide refugees not only with critical services, but also with stability and hope for the future. UNRWA's role as a pillar of stability in the region was put at risk in 2015 when severe funding shortfalls threatened to close down UNRWA's educational programme and delay the return to school of some 500,000 children.

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.

Necessary measures initiated by UNRWA's management in 2015 to control spiralling costs under the Programme Budget were crucial. Although these measures, such as the class formation exercise, 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 a stronger 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.

UNRWA's financial crisis is far from over. The challenge UNRWA faces in the coming years to improve financial stability while continuing to address critical needs and ensuring quality services is enormous. Nevertheless, there is increased confidence that the Agency is determined to achieve this goal. With the budget process largely centralised and commitments to introduce phased reforms, it is clear UNRWA is committed to contain its expenditures and prioritise its operations. The Agency will again need to make difficult decisions, but all of them should help ensure that UNRWA's core services in terms ensuring children's access to quality education, providing quality primary health care and providing an appropriate level of assistance to Palestine refugees who cannot meet basic needs (i.e. UNRWA's main priorities) are well protected.

With this commitment to UNRWA's Programme Budget, the EU will continue to be a reliable and predictable supporter of the Agency's core budget, enabling the Agency to reinforce ownership, responsibility, and accountability and to prioritise within its core programmes, while sustaining essential basic services. This commitment will also serve to highlight the EU's confidence in and support for the Agency in the difficult period ahead as UNRWA takes serious and progressive measures to tackle their financial instability.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
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	Continuous monitoring
Insufficient resources to enable the Agency to sustain core operations	M/H	2016 will see the introduction of UNRWA's new Resource Mobilization Strategy (RMS) covering the period 2016-2018, which will set out new areas of strategic focus where further resources may be mobilized. The new RMS will also seek to further enhance existing relations with both traditional and non-traditional donors (e.g. continued and accelerated outreach to Gulf donors). Undertaken successfully, both the new RMS and the internal measures will maximize the Agency's efforts to close the 2016 deficit.
Risks associated with change: Structural changes and reforms within UNRWA's operations are likely to raise concerns and encounter opposition from the Agency's staff,	H	UNRWA ensures adequate stakeholder consultation and communication throughout the envisaged reform process. Donors (and other stakeholders including host

unions, and refugees. In addition, some reforms are likely to take time, and may also require temporary investments to ensure adequate transformation processes.		countries) remain supportive and engaged both politically and financially.
Assumptions		
<ul style="list-style-type: none"> • Funding from UNRWA's traditional donors remains stable including via regular and predictable support to UNRWA's core budget through multi-year agreements. • Building on UNRWA's achievements in 2015, Arab donors contributions' to UNRWA's Programme Budget are sustained. • UNRWA breaks the annual cycle of funding shortfalls and rebuilds its working capital to realise optimal cost efficiency and continuity of operations throughout the year. 		

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 is to provide 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 has become increasingly necessary to adopt a ‘long term development’ as opposed to a temporary ‘relief’ approach given the UNRWA's repeatedly renewed mandate over the past 65 years.

However, the importance of UNRWA’s continued assistance to refugees is about more than just its services, but marks the lack of an acceptable solution to the plight of the Palestine refugees. For this reason, attempts to change UNRWA’s role are often strongly resisted by the refugee population and by the governments of their host countries. Nonetheless, UNRWA recognises that the resource scarcity resulting from the current global economic climate, 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 complementary strategies between the programmes of the host countries, international organisations and UNRWA. To the extent possible, the overall purpose will be to ensure consistencies 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. Synergies with UNRWA, notably in terms of social protection, are currently under analysis.

Donor co-ordination is ensured through UNRWA's Advisory Commission⁴ sessions, through the EU Interest Group⁵ on UNRWA and other regular meetings organised by the Office of the European Union Representative (EUREP) in East Jerusalem with local and international stakeholders.

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.

The EU and other donors have recurrently stressed the need for more clarity on the interface between the Programme Budget, the Emergency Appeals and project donations, particularly to avoid that the latter two headings impact on the Programme Budget when the project/donation money runs out.

In combination with contributions from EU Member States, EU overall contributions in 2015 accounted for 34% of the total support to UNRWA. Since the year 2000, the EU has provided over EUR 1.6 billion in support of UNRWA's work.

3.3 Cross-cutting issues

Good governance has been integrated through reforms of UNRWA administration and management.

As regards UNRWA and gender equality, UNRWA's 2016-2021 Medium Term Strategy (MTS) embeds gender equality across all dimensions of the MTS 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. UNRWA has a Gender Mainstreaming Strategy and a Gender based Violence programme, a Disability Policy, an Inclusive Education Policy and is undertaking a mapping with a view to developing a Child Protection Framework for the Agency.

In responding to UN commitments on climate change, UNRWA is dedicated to assist and to co-ordinate with others undertaking work on climate change and its impact on refugee populations. The Agency is committed to achieving tangible and measureable results in these areas in the strategic MTS period.

⁴ 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.

⁵ Co-ordination within this group ensures that the EU and its Member States speak with one voice. The Group also discusses and prepares the joint AdCom statement delivered by the EU Representative in Jerusalem on behalf of the EU and its Member States.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this Action is to maintain the viability of the two-state solution by sustaining basic living conditions of the whole Palestinian population, including refugees. It is thus to provide support to sustain essential basic services provided by UNRWA within the Agency's 2016 Programme Budget (education, health, relief and social services, infrastructure/camp improvement programmes, and supporting departments and services).

The specific objectives are to: (1) support UNRWA to deliver to the Palestinian refugee population essential basic services; (2) to improve the economic opportunities of poor, vulnerable and isolated population; and (3) increase UNRWA's transparency and accountability.

4.2 Main activities

Within the UNRWA's 2016 Programme Budget, main core programme expenditures are eligible for support under this action. UNRWA's main programmes are:

Education programme:

Education services are currently provided through around 700 UNRWA elementary, preparatory and secondary schools and eight vocational training centres in all 5 fields of operation staffed by approximately 22,000 educational personnel and attended by around 500,000 pupils.

This programme aims to provide, within the framework of the curricula⁶ prescribed by the host countries and by the Palestinian Authority, quality basic education as well as 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, based on its commitment to Palestine refugees' human development, is to help children and youth gain appropriate knowledge and skills by providing universal primary education besides improving the quality of education provided.

In 2011, the UNRWA education programme began a major reform to help it meet the evolving demands of an education system in the twenty-first century. The reform is on track and is expected to lead to improved services for the Palestine refugee students in UNRWA schools and vocational training centres.

Health programme:

UNRWA's health programme is community-based, with the emphasis placed on primary health care and with a very selective use of hospital services. Around three million refugees (66% of UNRWA registered refugees) make use of UNRWA health facilities. Primary care is provided through UNRWA's own 139 facilities, serving approximately 9.5 million patient visits per year. Secondary care is provided through contractual arrangements with governmental or non-governmental hospitals or through partial reimbursement of the costs of treatment. Two thirds of the refugee

⁶ UNRWA supplements these with its own materials on human rights.

population consist of women in reproductive age and children below 15 years of age, making maternal and child health, including family planning services, a priority area.

This programme aims to protect, preserve and promote the health especially of the registered Palestine refugees by providing access to comprehensive, quality basic health services.

UNRWA's strategy for health reform is based on the Family Health Team approach (FHT) which includes forming health teams in all clinics that provide family health services. In addition, there are two critical supportive components, namely the e-health information system and physical improvement of health centre infrastructure. Initial results of FHT implementation have shown signs of quality improvement and potential efficiency. The progress is particularly significant in health centres where the two above critical support components for FHT took place like those in Lebanon and Gaza. In these health centres, doctors are now able to spend more consultation time with patients. Such changes could potentially bring cost savings in the future.

Relief and social services programme:

The Agency provides eligible refugees with a range of services including food support, shelter rehabilitation, and selective cash assistance for Special Hardship Cases (SHCs). Over 294,000 persons are currently benefiting from the cyclical assistance under this SHCs programme. This assistance is primarily directed to families headed by women, families without a male adult medically fit to earn an income and to the elderly who cannot support themselves.

This programme aims to provide a social safety net for Palestine refugees most affected by poverty promotes the self-reliance of less advantaged members of the refugee community, especially women, children, youth and persons with disabilities.

The Relief and Social Services (RSS) reform contained three key components: consistent application of a targeting system across the Agency (proxy means test formula - PMTF); developing more effective poverty interventions; and, transitioning from food to cash support. While there has been noticeable progress in the first two components, the third component has not been implemented due to resource constraints and host countries' reservations. The RSS reform and the Agency's overall assistance to Palestine refugees who cannot meet their basic needs remain however a subject of ongoing deliberation within the forum of the UNRWA's AdCom.

Infrastructure/camp improvement programme:

This programme aims to improve the quality of life for camp residents living in substandard conditions. 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 this reliable and predictable contribution to the UNRWA's 2016 Programme Budget, the EU is making a key contribution towards ensuring that UNRWA continues to carry out its mandate with minimal risks

to its operations while providing essential services to the more than five million Palestine refugees who depend on the Agency.

Continued EU support to UNRWA is an essential element of the EU strategy for the Middle-East Peace Process. Until an agreed, just, fair and realistic solution is reached, the EU remains committed to Palestine refugees and the support provided by UNRWA in accordance with its mandate.

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 4.1 will be carried out and the corresponding contracts and agreements implemented, is 12 months as from 1 January 2016, the expected final date of operational duration being 31 December 2016.

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

5.3.1 Indirect management with an international organisation (UNRWA)

This action may 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 4.3 in order to (1) provide sustained access of the Palestinian refugee population in the Gaza Strip, West Bank, Jordan, Syria, and Lebanon, to quality essential public services, with a specific focus on the most poor/vulnerable; (2) increase livelihoods opportunities of poor, vulnerable and isolated population; (3) improve UNRWA's responsiveness to respective Palestine refugees' needs. 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 extending it until 30 June 2017.

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 2016.

5.3.2 Change from indirect to direct management mode due to exceptional circumstances

Grant: direct award "EU Contribution to the UNRWA 2016 Programme Budget" (direct management)

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

This action has the objective of providing support to sustain essential basic services provided by UNRWA within the Agency's 2016 Programme Budget.

The specific objectives are to: (1) support UNRWA to deliver to the Palestinian refugee population essential basic services; (2) to improve the economic opportunities of poor, vulnerable and isolated population; and (3) increase UNRWA's transparency and accountability.

The main expected results of the Action are: (1) sustained access of the Palestinian refugee population in the Gaza Strip, West Bank, Jordan, Syria, and Lebanon, to quality essential public services, with a specific focus on the most poor/vulnerable; (2) increased livelihoods opportunities of poor, vulnerable and isolated population; (3) the improvement of UNRWA's responsiveness to respective Palestine refugees' needs.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to UNRWA.

Under the responsibility of the Commission's authorising officer responsible, and in accordance with Article 190(1)(f) of Regulation (EU, Euratom) No 966/2012, the recourse to an award of a grant without a call for proposals is justified because the action has specific characteristics requiring a specific type of beneficiary for its technical competence, specialisation or administrative power. 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 extending it until 30 June 2017.

(c) Eligibility conditions

Not applicable.

(d) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria is that UNRWA, established by the United Nations General Assembly, is the UN Agency mandated to provide services to Palestine refugees.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 30% of the eligible costs of the action.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-

financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to conclude the grant agreement

1st trimester of the year 2016

(g) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1 January 2016.

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 (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1 Indirect management with UNRWA	82,000,000.00	EUR 568,591,034
Totals	82,000,000.00	EUR 568,591,034

5.6 Organisational set-up and responsibilities

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

5.7 Performance monitoring and reporting

Since 2010, the Agency has been developed a unified reporting framework. The initiative sought to generate a standardised methodology with a set of indicators for reporting out to donors encompassing reporting timeframes, template and quantitative and qualitative information required. This harmonised reporting approach aimed to reduced transactions costs and better quality of reporting to respective donors. Alignment of reporting would also reflect best practice

discussions and recommendations formulated among UNRWA, donors and the evaluation consultants, in addition to established principles in global forums and studies such as the Paris Declaration and the High Level Committee on Management Results Reporting Study.

In April 2011, the Agency published the first Harmonised UNRWA-Donor Monitoring and Evaluation Matrix for the period ended December 31, 2010. Internally, the results aggregation and qualitative analysis were consistent and well communicated.

Overall, the institutionalised monitoring and evaluation capacities, frameworks and functions and the Agency's overall management of the Monitoring and Evaluation tools within the Department of Planning have been deemed adequate to ensure coherent, accurate, and analytical reporting to UNRWA's management, donors and hosts; both on impact and results.

The Agency has regularly revised its Monitoring and Evaluation Matrix in close coordination with major donors including Australian Aid, the EU, the United Kingdom and the United States. Within the forum of UNRWA AdCom, members have welcomed UNRWA's effort to consolidate and improve the quality and consistency of monitoring and external reporting and have acknowledged this monitoring tool and process. Since 2012, a significant number of UNRWA's top donors (Australian Aid, Denmark, the EU, Norway, the United Kingdom and the United States) have aligned UNRWA's reporting obligations in line with this performance report (UNRWA's Results report). The Agency's Results Report serves as the primary performance monitoring tool for the planned grant agreement foreseen within the framework of this Decision.

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, an 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 provisions and the obligations applicable to the agreement to be concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent expenditure verification assignments.

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.

Over the past 7 years UNRWA and the EU have successfully executed a wide variety of activities that highlight EU support for Palestine refugees across the Agency's fields of operation, targeting a wide range of audiences: from EU Member State decision-makers in Brussels to Palestine refugee students at UNRWA schools in the West Bank, through a variety of activities such as multimedia art competitions for Palestine refugee youth, EU Fun days for children, film festivals, and additional communication outreach activities throughout the five fields have been implemented. Similar and new activities will be supported within the planned 2016 EU-UNRWA Communications and Visibility Plan.

6 PRE-CONDITIONS

None.