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COMMISSION IMPLEMENTING DECISION

of 26.3.2013

on Special Measure in favour of the occupied Palestinian territory (West Bank and Gaza Strip) 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 (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument¹ and in particular Articles 13(2) 17(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 1605/2002² (hereinafter referred to as 'the Financial Regulation'), and in particular Article 84 thereof,

Having regard to Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union³ (hereinafter referred to as 'the Rules of Application'), and in particular Article 94 thereof

Whereas:

- (1) Since 2002 the Commission has set priorities for co-operation with the occupied Palestinian territory (West Bank and Gaza Strip) on an ad hoc basis and Article 13 of Regulation (EC) No 1638/2006 provides for the adoption of special measures in the event of unforeseen and duly justified needs or circumstances. Given the difficult situation within the West Bank and Gaza Strip, no strategy paper or multi-annual indicative programme has been established covering 2013.
- (2) The European Union remains committed to assist in the economic and financial development of a future viable Palestinian State and to provide the necessary support to the post- Annapolis process.
- (3) There is a widening gap between the Palestinian Authority's income and its mandatory expenditures that is putting at risk the livelihood of thousands of Palestinian families who depend on PA salaries, as well as the economy of both the West Bank and Gaza Strip. Despite prudent fiscal measures on the part of the PA, there is a major shortfall in external funding, particularly from Arab donors. The financial situation of United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the UN Agency responsible for the welfare of Palestine refugees remains critical. It is thus appropriate to maintain the PEGASE mechanism, which will constitute a key channel for EU funds and other international assistance, and to front load insofar as possible the EU assistance to the Palestinian Authority and UNRWA for 2013.

¹ OJ L 310, 9.11.2006, p. 1-14

² OJ L 298, 26.10.2012, p. 1.

³ OJ L 362, 31.12.2012, p. 1.

- (4) The criteria set out in Regulation (EC) No 1638/2006 and conditions for the adoption of special measures are fulfilled. The occupied Palestinian territory (West Bank and Gaza Strip) continues to be in a crisis situation, further aggravated by the effects of the conflict in Gaza in November 2012, of a continuing economic blockade, and by the lack of progress in Israeli-Palestinian negotiations as well as by the lack of tangible achievements following the announcement of intra-Palestinian reconciliation.
- (5) The maximum contribution of the European Union set by the present Decision should cover any possible claims for interest due for late payment on the basis of Articles 92 of the Financial Regulation and 111(4) of its Rules of Application.
- (6) The present Decision authorises the authorising officer by delegation to sign the agreements by which the Commission acknowledges and accepts the contribution from other donors to the present special measure pursuant to Article 21(2)(b) of the Financial Regulation and Article 17(3) of the Regulation (EC) No 1638/2006.
- (7) The Commission is required to define the term “substantial change” in the meaning of Article 94 (4) of the Rules of Application to ensure that any substantial change in this Decision shall follow the same procedure as the initial Decision.
- (8) The Commission has ensured that the management system set up by the entity to which the Commission will entrust implementation of EU funds for the action "Contribution to UNRWA's 2013 Regular Budget – Part II" complies with the conditions of the Article 53d of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities and Articles 35 and 43 of its Implementing Rules with regard to the actions implemented under joint management.
- (9) The Special Measure provided for in this Decision is in accordance with the opinion of the European Neighbourhood and Partnership Instrument Committee set up under Article 26 of Regulation (EC) No 1638/2006,

HAS DECIDED AS FOLLOWS:

Article 1

The Special Measure in favour of the occupied Palestinian territory (West Bank and Gaza Strip), constituted by the actions: "PEGASE 2013: Direct Financial Support for recurrent expenditures of the Palestinian Authority -Part II", and "Contribution to UNRWA's 2013 Regular Budget – Part II" the text of which is set out in the attached Annexes, is approved.

Article 2

The maximum contribution of the European Union for the Special Measure is set at EUR 148 million to be financed from the budget line 19 08 01 02 of the general budget of the European Union for 2013.

This maximum contribution shall also cover any possible interest due for the late payment.

Article 3

Cumulated changes of the allocations to the specific actions not exceeding 20% of the maximum contribution of the European Union shall not be considered substantial, provided that they do not significantly affect the nature and objectives of the Special Measure. This may include an increase of the maximum contribution of the European Union up to 20%.

The relevant authorising officer may amend the present Decision to introduce non substantial changes in accordance with the principles of sound financial management.

Article 4

The budget implementation tasks under joint management may be entrusted to the entity identified in the annex of this Decision.

Done at Brussels, 26.3.2013

For the Commission
Štefan FÜLE
Member of the Commission

ANNEXES

Special Measures in favour of the occupied Palestinian territory (West Bank and Gaza Strip)

Annex 1: Action Fiche for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority – 2013 (Part II)"

Annex 2: Action Fiche for "Contribution to UNRWA's 2013 Regular Budget – Part II"

Action Fiche for the occupied Palestinian territory (West Bank and Gaza Strip)

1. IDENTIFICATION

Title/Number	PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority – 2013 (Part II)		
Total cost	EU contribution: EUR 108 million		
Aid method / Method of implementation	Project approach –centralised direct management		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE

2.1. Sector context

Since its establishment in early 2008, the PEGASE mechanism (French acronym for Mécanisme "Palestino - Européen de Gestion et d'Aide Socio-Economique") provided direct financial support for the Palestinian Reform and Development Plan (PRDP) until its replacement in 2010 with the Palestinian National Development Plan (PNDP). Through this support, PEGASE sustained the Palestinian Authority's (PA) efforts in the four key sectors of governance, social development, economic and private sector development and public infrastructure.

The PRDP, presented by the Palestinian Authority for a three-year term (2008-2010), received an unprecedented level of external support in 2008 that was maintained at a reduced but still high amount in 2009 and 2010. The PRDP was superseded in 2011 by the National Development Plan, "Establishing the State - Building our Future", covering the period 2011-2013. The plan focuses on the legal framework, organisational structures and processes, the use of technology in government, the management of financial resources and the management of human resources in civil and security sectors based on 23 sector strategies. The EU has expressed its support for Prime Minister Fayyad's plan.

Since mid-2011, the PA has been experiencing a serious fiscal crisis as the Israeli occupation continues to impact on the Palestinian economy, Gaza remains effectively blockaded and insufficient donor funds have been made available to cover its budget deficit. The PA's financial crisis is furthermore exacerbated by Israel's withholding of tax transfers. The World Bank appealed for donors to contribute an additional USD 400 million to fill the PA's financial gap for the fiscal year 2012. Although no concrete budget data for the fiscal year 2013 is available yet, the outlook remains challenging. In September 2012 disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the authority's inability to pay the civil service salaries for the previous month. In 2012, nearly EUR 94 million were provided for recurrent expenditures from the EU Budget through PEGASE. It should however be noted that an allocation of EUR 72 million was provided for Direct Financial Support through PEGASE at the end of 2011 by a budgetary re-adjustment, which when added to the 2012 financial allocation, allowed

for funding for occupied Palestinian territory (oPt) to effectively remain at the same level as 2011.

These funds were complemented with funds from EU Member States, albeit at a lower level than in previous years. In 2012, EU Member States committed over EUR 33 million to PEGASE: The Netherlands (EUR 6.5 million), Denmark (approximately EUR 6 million, equivalent to DKK 45 million), Sweden (approximately EUR 5.2 million, equivalent to SEK 45 million), Spain (EUR 4 million) and Ireland (EUR 1 million) signed Memoranda of Understanding to contribute to payment of PA salaries/pensions. Belgium, Austria and Ireland made available EUR 9 million, EUR 1.25 million and EUR 0.5 million respectively for social allocations for vulnerable Palestinian families. For the beginning of 2013, Austria has made available EUR 1.25 million for social allowances and Luxembourg has provided EUR 0.7 million for salaries. France has also made contributions amounting to USD 36 million to the PA budget, not through PEGASE but through the World Bank Trust Fund and directly to the PA. EU Member States have also contributed to the World Bank Trust Fund which has delivered a total of USD 225 million in 2012. From this, the UK provided USD 67 million and France USD 12 million. Other major European donors through the fund included Norway with USD 63 million.

Other donors are also providing support for direct financial assistance through non-PEGASE channels, including directly to the PA budget or via the World Bank Trust Fund. Further support has been received from Saudi Arabia (USD 100 million); United Arab Emirates (USD 85 million); Kuwait (EUR 49 million); Australia (EUR 33 million); Qatar (USD 30 million); Algeria (USD 26 million); and Iraq (USD 25 million).

A first tranche of EUR 60 million from the 2013 EU budget was frontloaded through PEGASE to help the PA with the payments of PA salaries/pensions and allowances for vulnerable families at the beginning of the year. This first allocation is to be completed by funds under this Decision, to reach an annual contribution of EUR 168 million. It is hoped that further contributions from EU Member States and other donors to PEGASE will be received during the year.

2.2. Lessons learnt

Actions under PEGASE build upon the successful experience of the Temporary International Mechanism in 2006 and 2007. PEGASE is implemented in full co-ordination with Palestinian partners and in full co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the PA for its alignment with the National Development Plan and the strong sense of ownership on the part of Palestinians, as well as for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

A mid-term review of the PEGASE Mechanism was launched by the Commission late 2009, the results of which showed that the flexibility in planning and implementation, the highly competent and professional staff and the use of well proven management systems while continuously innovating improved and new approaches, contributed to the success of this mechanism.

2.3. Complementary actions

In 2012, a total of nearly EUR 384 million was committed by the European Union for the benefit of the Palestinian population: EUR 284 million from ENPI allocations, out of which EUR 4 million for PEGASE support to recurrent expenditure and EUR 118 million for UNRWA's General Fund. A further EUR 72 million was allocated for projects aimed at social and economic development and institution-building in support of the Palestine National Development Plan. UNRWA also received a further EUR 5 million allocation from the Food Security Budget Line to provide assistance for its Social Safety Net Programme to provide nutrition for those refugees living in absolute poverty and a further EUR 11 million from the same Budget Line has been allocated for support to livestock based livelihoods of the vulnerable population in the oPt.

EUR 52.5 million were committed from the EU budget as humanitarian assistance to the Palestinian population in the oPt and to Palestine refugees in Lebanon and Syria. A further EUR 4.4 million has been mobilised for civil society initiatives from the European Instrument for Human Rights and Democracy and the thematic line Non State Actors and Local Authorities in Development. EUR 5.7 million has been mobilised from the Instrument for Stability for actions aimed at supporting EUPOLCOPPS (European Union Co-ordinating Office for Palestinian Police Support) and EUBAM Rafah (European Union Border Assistance Mission at the Rafah Crossing Point) actions in the security sector.

Local donor co-ordination has been streamlined in accordance with the conclusions of the Ad-Hoc Liaison Committee (AHLC) meeting held 14 December 2005 in London following a proposal by the Commission, the World Bank and Norway to reform the Aid Management Structures. The Commission continues to play a leading role in these structures at all levels, as well as in local EU Member States co-ordination. Complementarity and co-ordination with other EU actions are assured through regular co-ordination meetings at Headquarters and daily contacts between staff working in the European Union Representative Office (EUREP) in East Jerusalem. The PA made known to potential donors at the Sharm-el-Sheik Conference in March 2009 that PEGASE was amongst its preferred delivery mechanism for channelling funds.

2.4. Donor co-ordination

PEGASE will be co-ordinated locally with the EU Member States, other international donors and international organisations. In order to do so, full use will be made of the existing local co-ordination groups already in place such as the Local Development Forum, the AHLC structures, the co-ordination meeting between Member States and the EU Delegation.

3. DESCRIPTION

3.1. Objectives

The *overall* objective of this action to be implemented through PEGASE is to maintain the viability of the two-States solution by sustaining basic living conditions of the whole Palestinian population.

The *specific* objective is to support the Palestinian National Development Plan by helping the PA to:

- reduce its budget deficit and implementing its reform agenda;
- meet its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society, and thus;
- maintain the functioning of the administration and the provision of essential public services to the population.

3.2. Expected results and main activities

Three categories of public expenditure are in principle eligible for support under this action, for a total amount of EUR 108 million which follows previous decisions committed on 2008, 2009, 2010, 2011 and 2012 funds.

Component 1: Supporting Palestinian administration and services (Indicative allocation EUR 65 million)

The EU will make available an additional contribution to the payment of salaries and pensions to the PA civil servants in the oPt. The objective of this activity is to help the PA meet its financial obligations towards civil employees and pensioners. The regular contribution to the funding of the wages expenditure for civil servants reinforces the PA's public finance management and public finance reform implementation. At the same time, it allows the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza Strip.

Component 2: Supporting the Palestinian social protection system (Indicative allocation EUR 30 million)

The EU will make available at regular intervals direct financial support to vulnerable families in the West Bank and the Gaza Strip. The objective of this activity is to ensure the continued assistance to poor and vulnerable Palestinian families dependent on financial aid from the PA. This activity reinforces the reform of the social protection system and improves PA public finances by relieving pressure on the budget by reducing expenditure through the coverage of allowances due to the beneficiaries of the Ministry of Social Affairs' cash support programme.

Component 3: Support to East Jerusalem Hospitals (Indicative allocation EUR 13 million)

The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for the oPt, in particular the West Bank. The Israeli annexation of East Jerusalem, although not recognised by the international community, and the

construction of the separation wall/barrier has had the effect of making access to these hospitals particularly difficult for Palestinians living outside the city. 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, both in a financial crisis of their own while also contributing to the overall financial crisis of the PA.

3.3. Risks and assumptions

It is expected that contributions from Member States and other donors will be made available during the implementation period to complement the proposed funds. Fluctuations in the exchange rate may have an impact on funding needs.

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.

All actions under this special measure require that no additional restrictions are imposed by the Israeli Government, for example on financial transactions, including transfer of funds between the West Bank and Gaza Strip.

3.4. Cross-cutting Issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the PA is assured. The actions proposed provide services vital to the social and economic rights of the Palestinian population.

3.5. Stakeholders

The direct beneficiary of the action is the Palestinian population.

Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the European Commission and based upon requests and information provided by the PA.

PEGASE will be implemented in close co-operation and full partnership with the Ministry of Finance, the Prime Minister's Office, the technical Ministries and other Departments and Agencies of the PA.

All donors supporting the mechanism will also be key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

This project will be financed under a financing agreement signed with the PA. Direct centralised management will be applied for all components.

PEGASE will be implemented by the Commission through the EU Representative Office in East Jerusalem, in close co-ordination with Member States officials and with the Palestinian Authority.

Disbursements will be made by the Commission directly to the eligible beneficiaries of the Vulnerable Palestinian Families and Civil Servants and Pensioners programmes following eligibility checks and verification and control procedures by external experts and international audit firms.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation 1638/2006.

4.3. Indicative budget and calendar

The maximum contribution to PEGASE – Support to Recurrent Expenditures of the PA under this decision is EUR 108 million. The contribution is indicatively distributed as follows:

Component 1: Supporting Palestinian administration and services (EUR 65 million).

Component 2: Supporting the Palestinian social protection system (EUR 30 million).

Component 3: Support to East Jerusalem hospitals (EUR 13 million).

All 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.

It is anticipated that, as in earlier years, other donors will make considerable contributions.

The period of implementation of the current action is 24 months. The funds under this Decision are however expected to be totally disbursed by the end of 2013.

Funds for the necessary technical assistance, evaluation, audit and visibility actions have already been made available under previous Commission Decisions.

4.4. Performance monitoring

PEGASE will continue to implement a comprehensive monitoring, verification and control system to provide reassurance over the use of their funds, and the efficient and effective provision of support to the Palestinian administration and population while fully protecting donor interests.

Monitoring arrangements also include reviews to take stock of other donor contributions, reviews by the World Bank on reform progress, reviews by the International Monetary Fund (IMF) on budget execution as well as other relevant political developments.

Payments will be executed in accordance with Commission regulations. A sophisticated and uniform 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.

4.5. Evaluation and audit

Financial experts and qualified auditors will work for PEGASE which will be complemented by Commission and Member States specialists and international or local experts.

Advanced monitoring, control and audit systems are set up for all of PEGASE's activities. All donors participating in PEGASE have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

As well as audits of eligible expenditures to identify and validate payments, the PEGASE team will organise an annual ex-post audit of the programme in accordance with international standards with a view to providing the maximum level of assurance. Donors will be invited to participate. In addition, contributing donors may carry out ex-post audits of expenditures covered by their payments.

A comprehensive evaluation report covering the first three years of the PEGASE was carried out and the results have been taken into account in the implementation of the activities. Mid-term evaluations will be performed every 18 months and final evaluation after a 3-year implementation period in line with the PA development planning cycle.

4.6. Communication and visibility

The action will follow the EU visibility guidelines.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through a monthly bulletin. Regular information meetings are held with Member States in Brussels as well as locally.

Action Fiche for the occupied Palestinian territory (West Bank and Gaza Strip)**1. IDENTIFICATION**

Title/Number	Contribution to UNRWA's 2013 Regular Budget - Part II		
Total cost	EU contribution: EUR 40 million		
Aid method / Method of implementation	Project approach – joint management Implementing organisation: United Nations Relief and Works Agency for Palestine Refugees (UNRWA).		
DAC-code	72010	Sector	Material relief assistance and services

2. RATIONALE**2.1. Sector context**

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 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.

The last few years have witnessed growing concern among the refugee community and in the region over the decline in UNRWA services. Successive funding shortages and subsequent austerity measures and cost reductions have prevented programmes from expanding in tandem with the growth in the refugee population. This has led to the reduction of on-going programme activities and precluded certain actions which normally would be part of UNRWA's regular programme of work. It also had a direct impact on the increased class size in UNRWA schools, rising patient/staff ratios in the health services, and higher caseloads for social workers dealing with the poorest refugees.

UNRWA has more than 30 600 staff posts to cover for services provided to 5 million refugees. The Regular Budget, including the General Fund and in-kind contributions, is the Agency's primary means of sustaining core services. According to UNRWA's projected donor-contribution estimates for 2013, there will be a shortfall of USD 69 million (c. EUR 53 million) in this budget, leading ultimately to stringent austerity measures and possible cutbacks of basic services. This shortfall would not include funding for emergency appeals, organisational development or specific projects (like Nahr El-Bared or those assisting Syrian refugees). The European Union made available EUR 11.5 million in the latter part of 2012, in addition to the initial EUR 80 million allocation from European Neighbourhood and Partnership Instrument (ENPI) funds, in order to alleviate UNRWA's 2012 Regular Budget deficit.

The ability of the Agency to provide its services is entirely dependent on sufficient voluntary contributions made available annually from donors while UNRWA's General Fund costs are highly fixed (85% of expenditure is allotted to its labour force of 30,600 staff). The Agency has a very limited margin for manoeuvre when it comes to making decisions over where further cost reductions can be made. Staff numbers have not been increased to reflect the increased numbers of refugees. Any cuts would have an immediate impact on the level of basic services provided.

This substantial anticipated gap is due to several factors:

- The high birth rate in the refugee population means that, even if funding was maintained or even slightly increased, per capita income would drop.
- Reduced donations from a number of donors under the impact of the financial crisis.
- The increase in commodity prices has adversely affected its food aid programme.
- The Agency has been delving into its reserves and effectively living off these in part in recent years. The reserves are gone.
- The situation has been aggravated by exchange rate losses. The Israeli Shekel has gained strength against both the Euro and the US Dollar.
- The situation in Syria has increased the demand for relief services from Palestinian refugees affected by the on-going conflict.

In combination with contributions from EU Member States, EU overall contributions in 2012 accounted for 46% of the total support to UNRWA. The EU has been a strong supporter of UNRWA since 1971, becoming in time its largest donor. Since the year 2000, the EU has provided over EUR 1.4 billion in support of UNRWA's work. Nevertheless, efforts at burden-sharing are beginning to bear some fruit, with Brazil and Saudi Arabia making their first-ever contributions to the General Fund in 2012.

2.2. Rationale of the intervention

Continued EU support to UNRWA is an essential element of the EU strategy for the Middle-East Peace Process. One of the key elements of this strategy is to confirm the EU commitment to keep a close watch on the refugee issue, including during final status negotiations. Under the non-binding "Joint Declaration" between the EU and UNRWA covering the period from 2011-13, the EU undertakes to try to provide EUR 80 million for the General Fund each year, providing that the overall allocation for occupied Palestinian territory (oPt) remains stable. A first decision for EUR 40 million was already taken in December 2012. This Decision therefore completes the EU "commitment" for 2013.

Since 1971, the EU has contributed annually to UNRWA's Regular 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.

Moreover, UNRWA has committed itself to the concept of prioritisation, therefore it is expected that the Agency take additional steps to further prioritise services with a clear focus on the most vulnerable Palestine refugees as stipulated in UNRWA's 2010-2015 Medium Term Strategy. However, successive funding shortages and subsequent austerity measures and cost reductions have prevented programmes from expanding in tandem with the growth in the refugee population. This has led to the reduction of on-going programme activities and precluded certain actions which normally would be part of UNRWA's regular programme of work.

The present contribution agreement takes into consideration the support UNRWA is receiving from the international community, including EU Member States (EU Member States provided around 32% of total contributions to UNRWA's Regular Budget in 2012). An added element of consideration is the increased burden on the Agency imposed by the on-going crisis in the oPt and Syria, the demographic growth rate of the refugee population, and cost increases due to the higher operational charges related to the movement and access restrictions imposed by Israeli authorities as well as the depletion of all reserves¹.

It is expected that contributions from EU Member States and other donors will be made available during the implementation period to complement the proposed funds. Fluctuations in the exchange rate may have an impact on funding needs.

2.3. 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 ‘relief’ approach which has been committed to within the Agency's Medium Term Strategy (2010-2015). 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.

2.4. Complementary actions

Besides supporting UNRWA’s Regular Budget, the EU has actively supported UNRWA’s management reforms and continues to provide support, including EU humanitarian funding, to a number of extra-budgetary special emergency appeals and projects. The EU and other donors have made known to UNRWA during recent Advisory Committee meetings that there is a need for more clarity on the interface between the General Fund, the Emergency Appeals and project donations, particularly to avoid that the latter two headings impact on the General Fund when the project/donation money runs out.

¹ The Agency has traditionally used its diminishing reserves towards bridging its chronic funding gaps.

2.5. Donor co-ordination

Donor co-ordination is ensured through UNRWA's Advisory committee sessions and through regular meetings organised by EUREP (the Office of the European Union Representative) with local and international stakeholders.

3. DESCRIPTION

3.1. Objectives

The overall objective of the Operation is to provide support to sustain essential basic services within the UNRWA's 2013 Regular Budget (education, health, relief and social services, infrastructure/camp improvement programmes, and support departments).

The specific objectives are:

Education programme: to provide, within the framework of the curricula prescribed by the host countries and by 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.

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

Relief and social services programme: 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.

Infrastructure/camp improvement programme: to improve the living conditions of Palestine refugees by efficiently providing adequate physical and social infrastructure.

Support departments: to manage in an effective way personnel and resources, internal communication, legal support, policy analysis and advice, resource mobilisation, advocacy and outreach to external interlocutors and reforms.

3.2. Expected results and main activities

The main result of the operation is expected to be the sustained delivery of essential public services to Palestine refugees.

Within the Agency's Regular Budget, the main programmes operated by UNRWA include the following activities:

Education programme

Education services are currently provided through around 700 UNRWA elementary, preparatory and secondary schools² and ten vocational training centres in all 5 fields of operation staffed by more than 21 000 teachers and attended by around 480 000 pupils.

In the West Bank and Gaza Strip, the education system as a whole has been severely disrupted by the armed conflict, curfews, closures and access problems since the Intifada. Working conditions for teachers have deteriorated, which has an impact in the staff morale and the difficulty to recruit and retain competent staff.

Recently in Syria, UNRWA's operations have been increasingly affected by the conflict. Violence has resulted in disruptions of education (and health) services, exacerbating stress and uncertainty in refugee communities. Some of UNRWA's facilities have sustained damage, and staff members have also been among the casualties of the fighting. Nonetheless, UNRWA's staff and operational capacity is being maintained, thus enabling the Agency to offer humanitarian response alongside continued education, health and other services.

UNRWA's objectives for the medium term focus on improving the quality of education and ensuring access for all Palestine refugee's children, including those with special educational needs. Based on a 2009 comprehensive review of UNRWA's approach to education, reform measures are under way to enhance the quality of services delivered by the Agency. Education reforms aim to install a change in the quality of children's learning in line and classroom practice through a number of interrelated actions comprising eight components – four are 'substantive' (teachers; curriculum and human rights education; inclusive education; and technical and vocational education and training (TVET)), while four are 'support', i.e. the backbone of any educational system (governance; educational management and information systems and research; information and communication technology (ICT) and communication; and overall strategic planning).

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. Approximately three million refugees (66% of UNRWA registered refugees) make use of UNRWA health facilities. Primary care is provided through UNRWA's own 137 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 population consist of women of reproductive age and children below 15 years of age, thus making maternal and child health, including family planning services, a priority area.

The quality of service delivery is affected by the excessive workloads borne by Agency staff (e.g. agency-wide average of 96 consultations per doctor per day) and

² Secondary schools (6) in Lebanon only.

chronic staff shortages and difficulties in attracting and retaining qualified staff, deteriorating health infrastructure and outdated equipment as a result of under investment. The cost of medical supplies and hospital care is also rising. UNRWA aims at reinforcing the staffing of the existing facilities, establishing new ones and renovating and updating existing facilities and medical equipment.

Water, sanitation and environmental conditions are poor, particularly in Gaza, the West Bank, Lebanon and in Jerash Camp in Jordan. For this reason, the Agency is working to improve the environmental conditions in the camps in co-ordination with local authorities and with special emphasis on wastewater disposal and solid waste management.

Refugees face the threat of resurging and newly emerging infectious diseases; increased morbidity and mortality from non-communicable diseases; mental and psychological problems; and high prevalence of micronutrient deficiencies. This is leading the Agency to introduce new programmes (mental health, psychosocial counselling) as well as putting in place an active intervention strategy for surveillance, prevention, early detection and management of these diseases in an effort to avoid the high cost of treating their complications/disabling effects at the secondary/tertiary care levels.

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 gains (e.g. reduction and equalization of workload and reduction of hospital referrals). The progress is particularly significant in health centres where the two critical support components for FHT, namely e-health and health centre infrastructure improvement, 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 291 000 persons are currently benefiting from the cyclical assistance under this Special Hardship Case 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.

Moreover, community support services encourage self-reliance in the refugee community through poverty alleviation schemes, and community-based, locally-managed institutions and services concerned with women and development, the rehabilitation and integration of refugees with disabilities, children and youth activities and leadership training. One of these services, the Microcredit Community Support Programme, provides small loans to over 20 000 refugees through group guaranteed lending and individual loan programmes.

The Relief and Social Services (RSS) reform contains 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 as the primary form of social transfer to cash support. While there has been marked progress in the first two components, the third component remains a subject of in-depth deliberation within the forum of the UNRWA's Advisory Commission (AdCom).

Infrastructure/camp improvement programme

The programme improves the quality of life for camp residents living in substandard habitat. The programme 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.

Support department services

Support services provided by the Commissioner General's Office, Administrative Services, Human Resource, Finance, Legal Affairs, Internal Oversight services, and External Relations and Communications departments ensure that best possible standards of management are promoted and sustained, enhance stakeholder relations, and provide necessary support to the Agency in carrying out its mandate and delivering quality programmes to Palestine refugees.

3.3. Risks and assumptions

The risk that the political environment will deteriorate to an extent that will significantly affect UNRWA's operations was taken into consideration. With the Gaza Strip subject to a blockade by Israel, areas of the West Bank subject to closure without warning and the unrest in the Arab World in general and in Syria in particular being a concern, UNRWA is effectively the only organisation which can ensure delivery in these conditions.

Any military operations in the region could have unpredictable consequences and might threaten the operation.

3.4 Cross-cutting issues

Good governance is integrated through the on-going reform of UNRWA administration and management. Since the Geneva Conference in 2004, UNRWA has engaged in a process of internal reform. The Organisational and Development Process has concentrated on reforming UNRWA's organisation design, management capacity and approach for achieving improved service delivery. The latter is currently being addressed through the Agency's new phase of programmatic reforms. In addition, UNRWA has developed its Medium Term Strategy (2010-2015). As a key theme within this strategy, the Agency is committed to ensure that its gender equality policy, adopted in 2007, is implemented. In particular, gender analysis that highlights the specific needs of men, women, boys and girls in different contexts leading to appropriate follow up interventions, is becoming a routine part of UNRWA's programming. Moreover, in responding to UN commitments on climate change, UNRWA has been putting in place an Environmental Management

Framework (EMF) that will guide intensified efforts to both minimise the negative environmental impacts caused by the Agency, and optimise – as far as possible – opportunities to create environmental benefits.

3.5 Stakeholders

The direct beneficiary of the action is the Palestine refugee population in UNRWA's five fields of operations. Naturally, UNRWA, as well as all donors and host countries supporting UNRWA are also key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Joint management through the signature of contribution agreement with UNRWA, the UN Agency mandated to provide services to Palestine refugees, in accordance with Article 53d of the Financial Regulation 1605/2002. UNRWA complies with the criteria provided for in the applicable Financial Regulation and is covered by the Financial and Administrative Framework Agreement (FAFA) concluded between the UN and the European Commission.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegated body under, respectively, decentralised, joint or indirect centralised management.

4.2. Procurement and grant award procedures

All contracts implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.3. Budget and calendar

The total EU financial contribution to this operation amounts to EUR 40 million – representing the EU's 2nd tranche support to UNRWA's 2013 Regular Budget.

The foreseen operational duration towards the implementation of the operation is for a maximum of 12 months, the final date of operational duration being imperatively 31 December 2013.

4.4. Performance monitoring

Since 2007, the European Commission has relied on external independent consultants to assess the performance of UNRWA's main operations. The review, conducted on an annual basis, has been based on a predefined set of result-based indicators and targets, as well as specific milestones identified to monitor the implementation of the Organisation Development process.

In 2010, the Agency embarked on an initiative to create a unified reporting framework aligned with UNRWA's Medium Terms Strategy (2010-2015) and Field and Headquarters Implementation Plans. 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.

A harmonised reporting approach would eventually result in 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,³ in addition to established principles in global forums and studies such as the Paris Declaration⁴ and the High Level Committee on Management Results Reporting Study⁵.

A unified reporting framework aligned with UNRWA's strategy will strengthen the reporting process through the following:

- (a) Use of the Common Monitoring Framework derived from Field Implementation Plans to formulate a robust basket of indicators;
- (b) Incorporating donor 'core' or legislatively required indicators to the basket of indicators already in place;
- (c) Applying a results- analysis methodology for each indicator and, where possible, disaggregating the Agency achievement by Field Office or gender; and
- (d) Using one template and a set periodicity.

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. However, the process encountered a few challenges; mainly the volume of indicators, the unique nature of some of the indicators (i.e., field specific) and, due to the implementation of transformational changes in some programmes, a number of indicators were not reportable (e.g., monitoring learning achievement testing). These challenges have been addressed.

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 Internal Oversight Services have been deemed adequate to ensure coherent, accurate, and analytical reporting to UNRWA's management, donors and hosts; both on impact and results.

Over the past 2 years, comments received from donors included the need to include more indicators on efficiency, effectiveness and processes. Progress has been made

³ Refer to 2009 review of UNRWA Programmes funded by the European Commission and to the European Commission UNRWA Joint Review dated January 20, 2010, Framework for Co-operation between UNRWA and the United States of America, 2010 and Review of Statistical and Reporting Processes in UNRWA, 2010.

⁴ <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

⁵ United Nations Development Group (UNDG)-HLCM Joint Study, *Common Principles of Results Reporting*, Final Report, 15 July 2011.

in this regard. The Agency has regularly revised its Monitoring and Evaluation Matrix in close co-ordination with major donors including Australian Aid, the EU, the United Kingdom and the United States. Within the forum of UNRWA Advisory Commission (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 for the period 2012-2013. Moreover, at the November 2012 UNRWA AdCom, EU donors expressed their intention to align UNRWA's reporting obligations in line with this performance report (now referred to as UNRWA's Results report). The Agency's Results Report will serve as the primary performance monitoring tool for the planned contribution agreement foreseen within the framework of this Decision.

4.5. Evaluation and audit

As the foreseen contribution agreement will be concluded with UNRWA under joint management, the financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of the Organisation.

4.6. Communication and visibility

In accordance with the visibility provisions under the EU-UN FAPA and with the EU-UN Joint Action Plan on Visibility signed in September 2006, the EU and the implementing organisations will work together to ensure appropriate visibility actions for the programme as a whole, as well as for specific interventions and activities under the programme.

Standards regarding visibility will be derived from the "Communication and Visibility Manual for EU External Actions"⁶.

Adequate communication and visibility will be ensured by the EU Delegation's monitoring of the adherence to the 2013 EU-UNRWA Communications and Visibility Plan. This plan is aimed at drawing attention to the on-going partnership between the EU and UNRWA and the EU's support for Palestine refugees.

⁶ http://ec.europa.eu/europeaid/work/visibility/index_en.htm.