



Australian Government

Department of Foreign Affairs and Trade



Aid Investment Plan

Palestinian Territories

2015-2019

Strategic priorities and rationale

The development context

The Palestinian Territories (PT), consisting of the West Bank and the Gaza Strip, is one of the poorest regions in the Middle East. The 2014 United Nations Human Development Index, measuring life expectancy, standard of living and education, rated the PTs 107 out of 187 countries. Some 22 per cent of the Territories' 4.5 million people are food insecure, 26 per cent live in poverty and 25 per cent are unemployed. These figures are all the more alarming given they have got worse in the last 20 years, leading the United Nations to refer to the PTs as having undergone a process of 'de-development'. Almost 44 per cent of the PTs' population are refugees. A further three million Palestinian refugees live in Jordan, Syria and Lebanon and rely on the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) for essential services, protection, and, in many cases, food.

The PTs face formidable constraints to economic development including the physical separation of territory, a lack of control over territorial borders and key natural resources such as land and water, restrictions on movement of goods and people, and the ever present threat of violent conflict. The World Bank has determined that restrictions on access and economic activity in Area C (the two-thirds of the PTs which remain under full Israeli control) cost the Palestinian economy US\$3.4 billion per year or about 35 per cent of its Gross Domestic Product.

There is significant demographic and gender inequality in the PTs. Women represent a greater share of the unemployed at 35 per cent and they earn significantly less than men when they do find paid work. Women are under-represented at most levels of management despite attaining similar levels of educational achievement to men. There is a large youth bulge in the PTs. Around half the population is aged 18 or under and youth have an unemployment rate of 44 per cent.

The Gaza Strip experiences development constraints akin to the West Bank but is further challenged by extreme population density, heavier restrictions on the movement of people and goods and a tiny land mass. A UN report on poverty and inequality has noted that even the poorest governorates in the West Bank are better off than most of Gaza. Unemployment in Gaza is 44 per cent and youth unemployment is 63 per cent. Half of the population of Gaza relies on food assistance. Gaza's challenges are further exacerbated by regular episodes of violent conflict and their associated humanitarian impact. As often as not, modest development gains are nullified by the next conflict.

Economic prospects across the PTs are poor. GDP has been declining for a decade and 2014 produced negative economic growth of 0.4 per cent. The mid-2014 conflict in Gaza and its after-effects caused the local economy to contract by 15.2 per cent. Modest growth in the West Bank - though primarily caused by higher taxation - could not stop the PT economy falling into recession.

The International Monetary Fund expects the PT's economy to grow by 2.9 per cent in 2015 but with three per cent population growth this means 2015 will be the third year in a row in which per capita income has declined. The PTs' economy is fragile. Approximately two-thirds of revenue comes from taxes collected and remitted by Israel and the withholding of these clearance revenues for several months in 2015 demonstrated the precariousness of this arrangement. The other third of the PT economy comes from donor support and the recent humanitarian crises in Syria and Iraq have impacted on these flows.

The lack of a resolution to the Middle East peace process is a fundamental constraint to economic growth and social development in the PTs. In the absence of a political settlement, the PTs will have only a limited capacity to develop its economic and social potential. A political settlement is the only way to encourage substantial and sustainable investment to build a vibrant private sector and reduce the decline in the development.

Our development framework

A successful resolution of the Middle East peace process is in Australia's national interest. Australia continues to call for a negotiated two-state solution, with Israel and a Palestinian state existing side-by-side in peace and security within internationally-recognised borders. Australia aid is a tangible demonstration of support for that outcome. In 2015-16, Australia will provide \$23.5 million (through bilateral, scholarships, Direct Aid Program and ANCP funding) to the PTs and \$19.3 million to Palestinian refugees in the PTs, Jordan, Syria and Lebanon (through global program funding to UNRWA). This will bring our total Official Development Assistance to \$42.8 million which represents less than half a per cent of the PT's GDP and around three per cent of all bilateral aid to the PTs.

Our aid priorities are realistic and commensurate with the modest size of our contribution. Our investments have been consolidated to the point where available resources can manage risk at an acceptable level. Our program focusses on inclusive economic growth in the PTs and basic services for refugees in the PTs and the region. These priorities are contributors to stability. They are also aligned with the Australian Government's *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, the Palestinian National Authority's (PA) *Palestine National Development Plan: State Building to Sovereignty (2014-16)* and UNRWA's *Medium Term Strategy (2016-21)*. They also complement other donor priorities.

What will we do differently?

Given the many constraints of the operating environment in the PTs, there are relatively few alternatives to the approaches and the partners which our program has been using and we know to be effective. However, this Aid Investment Plan updates the objectives of our previous delivery strategy for 2011-16.

We are no longer 'supporting state building and the peace process' as an explicit objective. Despite our continued engagement in activities that support a two-state solution, state building - in the sense of building the PA's capacity - has now largely been achieved. The World Bank has assessed that the capacity of PA institutions is good by the standards of comparable Arab countries and the PA has sufficient institutional capacity to govern a future state. It is now time to move on from institution building to helping to construct a viable economy that can underpin these institutions. As a consequence, this Aid Investment Plan will focus on the PA's public financial management capacity and promoting economic growth by making the agricultural economy more competitive. Over the duration of this Plan we will reduce the proportion of program resources that flow to the PA and increase the proportion that goes directly to promote

economic growth in the agriculture sector. This sector is a large employer of Palestinians and an investment priority in the Palestinian *National Development Plan*. It is also where our civil society programming has made a major impact in terms of improving rural productivity and incomes.

Assistance to UNRWA (for refugees in the PTs and in neighbouring countries) has always been a prominent part of the PTs program but this has not been reflected in the previous objectives. In 2015-16 just under half of the program's resources will go to UNRWA. A re-formulated second objective of this new Plan will acknowledge the significance of UNRWA in our investment profile.

Our objectives

1. **Improved public financial management and a more competitive agricultural economy in the PTs**
2. **Palestinian refugees in the PTs and across the region are able to access quality basic services**

Objective 1: Improved public financial management and a more competitive agricultural economy in the PTs

1. We will continue to support the **PA through the World Bank's** Palestine Reform and Development Plan (PRDP) Multi-Donor Trust Fund which supports policy dialogue on **public financial management**. Sound public financial management is the basis of good governance and through participation in the Trust Fund and the Fiscal Sector Working Group in Ramallah we will work with the Bank and other donors to help the PA Ministry of Finance improve its budget preparation, execution and accountability. The release of tranche payments from the Trust Fund is contingent on progress against reform objectives.
2. We will continue the phase down in funding levels to the PA which we have been implementing since 2013-14. From \$20 million in 2014-15 we will go to around \$16 million in 2015-16 and will stabilise at about \$10 million per year for the remainder of this Aid Investment Plan period. We will regularly re-assess whether our support to the PA (through the Trust Fund) remains an effective investment.
3. The third phase of the Australian Middle East NGO Cooperation Agreement (*AMENCA 3: Palestinian Farmers Connecting to Markets*) will commence in 2016 and run for five years. Building on the achievements of its two predecessor programs, it will be implemented by Australian NGOs leading consortia of Palestinian civil society organisations. AMENCA 3 is aligned to the *Palestinian National Agriculture Sector Strategy* and the Ministry of Agriculture will sit on the program steering committee. The program will work with private sector businesses operating in agricultural value chains to **improve the competitiveness and increase the incomes of Palestinian farmers**. At the same time the program will provide opportunities for **women and young Palestinians** in farming communities to develop skills, gain employment and exercise leadership. The Australian Government will provide additional, small-scale support to civil society through the Australian NGO Cooperation Program (ANCP) and Direct Aid Program (DAP).
4. Australia's current Australia Awards scholarship program in the PTs will send its last scholars to Australia in 2015-16. Thirty-nine awardees have undertaken studies in Australia since 2011 (including 11 women) and a further 11 students will commence in Australia in 2015-16. Returned scholars have been promoted by their home agencies and are starting to build durable personal and institutional linkages with Australia. They

have played an active role in the public diplomacy initiatives of the Australian Representative Office (ARO) in Ramallah.

5. There are strong grounds to start a new, five-year, **scholarships program for 50 young Palestinian leaders** in 2016-17. The new program will focus on academic disciplines that support public financial management and agriculture sector development to align with our investments in the World Bank Trust Fund and AMENCA 3.
6. Two other programs will continue into this Aid Investment Plan period but for resourcing reasons will not be continued when they end in 2016-17. They are: UNICEF's water and sanitation activity in disadvantaged schools and the Access Coordination Unit which facilitates the delivery of humanitarian aid across the PTs and the entry of reconstruction materials into Gaza.

Objective 2: Palestinian refugees in the PTs and across the region are able to access quality basic services

1. We will continue to support **UNRWA** to provide protection and basic services to the more than five million Palestinian refugees in the PTs, Syria, Lebanon and Jordan. Our \$90 million, five year commitment will end in 2015-16 and subject to the outcome of a multilateral assessment review we will consider a new, multi-year funding commitment.
2. We will support UNRWA's General Fund which largely subsidises **health and education** services. Our policy dialogue will concentrate on the quality of these services and we will monitor progress through UNRWA's Harmonized Results Reports.

Implementation approaches

At the political level, Australia will continue to participate in the biannual meetings of the **Ad Hoc Liaison Committee** which is a policy-level coordination mechanism for development assistance to the PTs, promoting dialogue between donors, the PA and the Government of Israel and reinforcing efforts to realise a two-state solution and promote stability and economic growth. Given Israel's role in the PTs, where appropriate we will engage with the Israeli authorities and seek their assistance in facilitating strong development outcomes from our aid.

On the ground, DFAT will deliver its aid program through the PA, UNRWA, Australian NGOs and Palestinian civil society groups and private sector agribusinesses. This is a consolidated range of partners which is commensurate with the limited human and financial resources available to the program and the high level of risk inherent in the PTs.

PA

The ARO in Ramallah is not resourced to monitor the breadth of government functions that the PA and its ministries undertake so working through the World Bank PRDP Trust Fund is the most efficient and effective means by which Australia can support the PA. The Bank can use the leveraging power of pooled donor funds many times what Australia can contribute to promote reform. (In 2014 Australia contributed USD18 million but the Fund was able to disburse over USD156 million.) This allows us influence that Australia would not otherwise have.

Civil society

We will implement AMENCA 3 through consortia of Australian and Palestinian NGOs and civil society organisations. When we engage with civil society organisations we not only secure specific development outcomes but also strengthen their organisational and technical capacity. Working through these partners enables us to help poor and grass-roots communities across the PTs which Australian aid would otherwise be unable to reach. This is particularly important in Gaza where needs are very high but relatively few donors are able to operate. The program's connection with Gazan communities also allows us to provide rapid and well-targeted emergency humanitarian assistance if necessary. All this generates public diplomacy benefits for Australia.

Private sector

AMENCA 3 will adopt market development approaches whereby commercial incentives are found for private sector agribusinesses to help connect farming communities to markets and increase their productivity and participation in the rural economy. Embracing the private sector is an innovation for the PTs' program and it will present many challenges. However, it is the only way that AMENCA 3 will be able to reach scale and impact.

UNRWA

UNRWA has a unique mandate and a record of delivering for its constituents, both through cost-effective health and education services and timely and sustained emergency responses. No other organisation has the relationships, the networks and the infrastructure to assist the vulnerable Palestinian refugee population dispersed across the region.

Subject to the outcome of our multilateral performance assessment of UNRWA in early 2016, we will negotiate another multi-year funding agreement with UNRWA. Consistent with good humanitarian donor principles, we will contribute un-earmarked assistance to the General Fund which finances UNRWA's core health and education services. Through its high-level Advisory Committee, we will engage closely on UNRWA's efforts to improve these services. One example is the 'family health team reform' which is aimed at rationalising and reducing the costs of health servicing. In 2013-14 and 2014-15 Australia funded evaluation work on an aspect of this (e-health) which should improve data availability for UNRWA health professionals. The successful roll-out of the 'family health team reform' to all health centres will be a benchmark for our PTs' program in 2015-16.

Gender

Gender equality contributes to development and stability and it will be a cross-cutting feature of this Aid Investment Plan. The AMENCA 3 program contains ambitious targets for women's economic empowerment which means giving them a voice in community and workplace decision making. Our policy dialogue with UNRWA will include advocacy for gender-responsive services through its new Gender Equality Strategy for 2016-2021. This will include the build-up of systems and capacity among its medical staff, teachers and social workers to respond to gender-based violence through increases in detection and referrals.

Through the new scholarships program we are also committed to furthering the career development and leadership potential of young, female Palestinians. We will strive for equal numbers of female and male awardees and will support as many quality female candidates as possible to take up scholarships. The ARO will encourage returned female awardees in particular to apply their new knowledge and skills and pursue leadership opportunities in traditionally male-dominated areas.

Performance management

Performance benchmarks

Performance benchmarks

2015-16

Aid objective 1:	Improved public financial management and a more competitive agricultural economy in the PTs
Performance benchmark	Gross domestic tax revenues have increased in nominal terms and as a percentage of 2015 GDP
Performance benchmark	<i>AMENCA 3 successfully mobilised</i>
Aid objective 2:	Palestinian refugees in the PTs and across the region are able to access quality basic services
Performance benchmark	<i>At least half of Grade 4 students in UNRWA schools are performing at or above the expected level in mathematics</i>
	<i>The Family health team reforms are in place in all UNRWA health centres</i>

Mutual obligations

DFAT will assess and report annually on performance against mutual obligations in our Aid Program Performance Report. Our multi-year funding partnership with the PA will end in 2016. We will continue to provide support to the PA through the World Bank PRDP Trust Fund but it will be on an annual basis rather than through a renewed multi-year funding agreement. We will be an active member of the Bank's Fiscal Sector Working Group, which brings donors together with the PA's Ministry of Finance and Ministry of Planning and Administrative Development (MoPAD) to assess progress against fiscal reform targets under the Trust Fund and the Bank's development policy grants. The Bank releases tranche payments to the PA from the Trust Fund contingent on progress on agreed reforms and a move to annual rather than multi-year funding will enable us to calibrate the volume of our support directly with the public financial management results being achieved. We will also continue to require that the PA screen all individual beneficiaries of our funding against Australian and international sanctions lists. Beyond public financial management, we will engage with MoPAD in both its capacity as the PA lead on donor coordination and scholarships. We will be jointly responsible with MoPAD for implementing the scholarships performance assessment framework. The PA Ministry of

Agriculture will sit on the Program Steering Committee of AMENCA 3 and will be jointly responsible for discharging the responsibility of managing the program with DFAT and the implementing NGOs.

The AMENCA 3 program will be implemented by Australian NGOs which will provide six monthly reporting and whose annual budgets will be agreed by DFAT only after satisfactory performance in the previous year. The Palestinian Ministry of Agriculture is a partner in AMENCA 3 and the program's performance assessment of each NGO will include the results data they have contributed against the indicators of both the AMENCA 3 program and the PA's National Agriculture Strategy. These partners, with whom we have long-standing relationships, are accountable for compliance with DFAT's safeguards policies (particularly Australian counter-terrorism laws) and zero tolerance approach to fraud and corruption. DFAT will be closely monitoring them.

With regard to Palestinian refugees, new leadership in UNRWA has committed to driving structural change and placing the organisation on a firmer financial footing. Our dialogue with UNRWA will be around this as well as the quality of health and education services, which our core funding supports. On our part, we will strive to provide regular and predictable funding to UNRWA and we will continue to take part in the joint donor performance assessment group which tries to make donor assessments of UNRWA more rigorous and consistent. In 2013-14 and 2014-15 we provided additional funding to help UNRWA evaluate the roll-out of its inclusive education reform which aims to improve access to education for children with a disability or learning difficulties. We will be monitoring progress in this and other aspects of UNRWA reform such as its evaluation capacity and private sector linkages which we have also supported either with funding or advocacy. We will also monitor UNRWA's implementation of the recommendations of the Board of Inquiry into breaches of UNRWA's neutrality during the conflict in Gaza in mid-2014.

Monitoring, review and evaluation

The PTs' program will be monitored in accordance with DFAT's annual Aid Program Performance Report which tracks progress against program-specific benchmarks and internationally accepted aid quality criteria. In all our monitoring and evaluation work, we will gather sex-disaggregated data and use indicators that enable us to measure our contributions to progress in closing gender equality gaps.

The UK is conducting an independent review of its support to the PA through the World Bank and will share the results with Australia when they are available in late 2015. We will draw on its findings to inform our policy dialogue with the PA and the Bank. The Bank also conducts annual assessments of its own performance in managing the Trust Fund and development policy loans to the PA. This assessment will also inform DFAT's annual aid quality check of our investment in the PA through the World Bank.

DFAT will also conduct an annual aid quality check of AMENCA 3. In addition an independent, mid-term review of AMENCA 3 will take place in late 2017. The Access Coordination Unit, which we will fund till 2016-17, is conducting an independent evaluation of its performance in September and October 2015. This will inform our policy dialogue with the Unit over the remaining period in which we will be supporting it.

Program management

Governance and resource management

The aid program is managed by the ARO in Ramallah in close coordination with Middle East Development Section in the Middle East Branch (MDS/MEB) Canberra. The ARO will manage Australia's day-to-day relationships with the PA, the World Bank and UNRWA but Canberra sets policy and ensures that Australia's political, economic and aid priorities are coordinated. Ramallah post has one A-based Head of Aid and two locally engaged staff to manage the aid program. The Ramallah Head of Office assists aid staff to manage the relationships with the Israeli authorities, the PA and UNRWA.

The three-person PTs unit in MDS will hand over the AMENCA 3 program after it has been contracted in February 2016. AMENCA 3 will have a range of implementers and stakeholders and will impose the largest management burden on post over the implementation period of this Aid Investment Plan. Canberra will need to work in close liaison with post to ensure contractual, advisory and due diligence arrangements are working smoothly.

Risk management

Operating in the PTs is high risk because the environment is characterised by conflict, instability and the risk of aid funding being diverted to terrorism. The PTs program has strong measures in place to manage these risks. Australia maintains a 'zero tolerance' approach to corruption and fraud in our aid program. Over the course of this AIP we will regularly monitor our systems and processes and make use of our comprehensive fraud control and risk management frameworks to help prevent, detect and control fraud. We will continue to engage with trusted and effective implementing partners, respected regional institutions and high performing NGOs. Tranche payments to the PA are made through a World Bank PDRP Trust Fund, every individual beneficiary is screened against Australian and international sanctions lists and each tranche payment is independently audited before any subsequent payment is authorised.

The AMENCA 3 program is implemented through Australian NGOs (ANGOs) which, being subject to Australian counter-terrorism laws, are required to ensure no beneficiary is on Australian sanctions lists. Contractual arrangements between DFAT and the ANGOs and between the ANGOs and Palestinian NGOs have counter-terrorism clauses and the Palestinian NGOs undergo due diligence assessments consistent with the DFAT Due Diligence Framework. In our policy dialogue and our performance assessment arrangements with UNRWA we insist that UNRWA implement robust systems and practices to ensure the neutrality of its facilities, particularly in Gaza.

Some development projects identified in the investment pipeline may entail risks of unintended social and environmental consequences. We will work with development partners to minimise this risk. This will include applying robust social and environment safeguards policies and processes (including child protection), and conducting additional monitoring when required.

The key strategic risks identified are recorded in more detail in a Program Risk Register. We will regularly assess, monitor and manage risks in accordance with the table below

Risk monitoring and communication

Process	Frequency
Update of program-level and investment-level risk register by post in consultation with Canberra.	Quarterly
Independent audit of each DFAT payment to the PA through the World Bank PDRP Trust Fund	Bi-annually
Risk monitoring of AMENCA 3 through due diligence checks of ANGOs and local NGO partners, spot checks by the ARO, six-monthly program reporting by ANGOs and annual counter-terrorism risk management reports by ANGOs and DFAT.	Regular and on-going