



Australian Government

Department of Foreign Affairs and Trade



Aid Program Performance Report 2013-14

Palestinian Territories

October 2014

Key Messages

This report summarises the progress of the Australian aid program to the Palestinian Territories (PTs) from July 2013 to June 2014 but also includes reference to the events in Gaza in July and August 2014 because of their possible impact on our programming later in 2014-15.

- › Despite major setbacks to the peace process from the breakdown of final status talks between Israel and the Palestinians and conflict in Gaza, Australia's aid program is playing a useful role in maintaining the key enablers of economic growth (education and health services) to vulnerable Palestinians and helping to improve livelihoods. The Australian aid program has made it possible for nearly 22,000 additional children to enrol in school, helped over 50,000 poor Palestinians in rural areas increase their incomes, and contributed to health services for over three million refugees.
- › The Australian Government remains committed to help institution development to support an eventual Palestinian state to be established by the Middle East Peace Process and has allocated a three per cent increase in development funding to the PTs for 2014-15. At \$56.5 million, this will be Australia's largest ever annual contribution to the development of the PTs.
- › A number of organisations in the PTs are listed entities under Australia's counter-terrorism law. The aid program maintains very strong safeguards over our funding and is constantly reviewing its support to ensure compliance with Australian law.
- › Our aid to the PTs is well aligned with the Australian Government's new priorities for the aid program - for example initiatives to promote economic and private sector-led growth, particularly for women. Through new programming in 2014-15 and an Aid Investment Plan (AIP) due on 1 July 2015 we will align our activities even more closely with the Government's new aid policy framework. This may involve a re-fashioning of our state building objective to focus more on results that we can have direct influence over.

Context

The PTs are ranked 107th of 187 countries on the United Nations Development Programme's (UNDP) 2013 Human Development Index. Overall, a third of Palestinians are food insecure, 26 per cent live in poverty, and unemployment is around 25 per cent. In Gaza, poverty and unemployment rates are close to 40 per cent. It is unlikely that the PTs will reach the targets for Millennium Development Goal (MDG) 1 on poverty or MDG 4 on child mortality.

With very limited access to international borders and land, investment is stagnant and the economy is reliant on foreign aid and Israeli customs transfers. Economic activity in Gaza, which has been subject to a blockade since 2007, is almost entirely dependent on aid and remittances. The PTs have made significant gains in building governance capacity and strengthening service delivery over the past eight years but there is very little economic base to support these gains going forward. While tax revenues increased in 2013, economic growth is estimated to have fallen to two per cent (between 2007 and 2011 average yearly growth exceeded 8 per cent). The Palestinian Authority (PA), the main provider of services in the West Bank and also to a considerable extent in Gaza, is struggling with a large and unsustainable fiscal deficit.

Economic prospects, under current conditions, are bleak. Restrictions on access and movement within the PTs are a disincentive to private sector-led growth and have limited the impact of the PA's fiscal policy reforms. Aid cannot resolve these problems. A political solution is needed to prevent a decline in the development status of the Palestinians who were historically among the best educated and most entrepreneurial people in the Middle East. A political settlement that allows the free movement of people and goods within the PTs and across international borders and reintegrates the economies of the West Bank and Gaza, is the only way to encourage investment and build a vibrant private sector. The conflict in Gaza during July and August 2014 shows the tragic consequences of the failure to reach such a settlement.

Australia is a long-standing supporter of a negotiated, two-state solution to the Israel-Palestinian issue. While the parties search for a solution, our aid is helping to build the capacity of Palestinian individuals and institutions to take on the responsibilities of a separate state, maintaining enablers of economic growth (education and health services), and keeping many Palestinians out of poverty through social protection and the promotion of business opportunities. Our objectives – originating from a delivery strategy for 2011-16 – are: **Supporting sustainable economic growth including helping rural communities and vulnerable groups overcome poverty;** and **Supporting state building and the peace process.** The main pillars of our aid are five-year funding commitments (2011-2016) to the PA and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and a long-standing civil society program valued at \$37 million from 2009 to 2015.

2013 was a year of relative calm in terms of political tension between Israel and the Palestinians. But after final status peace talks, brokered by the USA, ended without agreement in April 2014, a series of incidents culminated with the Israeli Defence Force launching Operation Protective Edge in Gaza on 8 July to stop Hamas rocket fire and tunnelling into Israel. The conflict has resulted in the deaths of some 2,250 Palestinians and 71 people on the Israeli side, plus over US\$4 billion of damage to public infrastructure and housing in Gaza, including UNRWA facilities and livelihood projects supported by the aid program. Australia was quick to respond to humanitarian needs providing \$15 million in July and early August for urgent assistance and early recovery through UNRWA, the International Committee of the Red Cross (ICRC) and Australian Non Government Organisations (NGOs).

Reconstruction needs in Gaza will be immense and if there is a permanent ceasefire that lifts the blockade and increases access for building materials there will be a large call on donor funds. This could revive the Gaza economy but might also draw funds away from development needs across the whole PTs.

Table 1 The Donor Landscape in the Palestinian Territories (Commitments 2013-14) (source: PA)

Donor	US\$ million	Position
USA	684	1
European Union	466	2
UK	147	3
Sweden	93	4
Germany	84	5
Australia	50	10

In 2013-14 Australia was the tenth largest Western donor to the PTs with estimated Official Development Assistance (ODA) of A\$54.8 million (approximately 0.45 per cent of the PTs' estimated Gross Domestic Product in 2013). Middle Eastern countries, particularly Saudi Arabia (US\$260 million in 2013), are also contributors to the Palestinian Authority.

Expenditure

Table 2 Expenditure in FY 2013-14

Objective	A\$ million	% of bilateral program
Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups overcome poverty	31.5	57
Objective 2: Supporting state building and the peace process	23.3	43

Source: AidWorks, DFAT Budget ODA Reporting Section

Progress towards objectives

Progress towards objectives remained the same as in 2012-13. Our economic growth and social protection programs under Objective 1 continued to make impressive advances because they are less affected by a stalled peace process and a stagnant economy. But the state building and peace process objective is again amber because rapid progress in institutional reform remains hostage to the volatile political climate.

Table 3 Rating of the program's progress towards Australia's objectives

Objective	Previous Rating	Current Rating
Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups overcome poverty	Green	Green
Objective 2: Supporting state building and the peace process	Amber	Amber

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Reporting period: July 2013 - June 2014.

Objective 1

Supporting sustainable economic growth including helping rural communities and vulnerable groups

Green

Under this objective we work with: UNRWA (through a five-year \$90 million partnership arrangement) to provide basic services to vulnerable refugees; the UN Children's Fund (UNICEF) (\$12.4 million, 2012-2014) to provide safe water and sanitation to under-serviced schools; and four Australian NGOs (\$37 million, 2009-2015) to bring economic opportunities to disadvantaged rural communities, particularly women. Our support to the PA, which includes social protection to vulnerable groups, also contributes to this Objective but our engagement with the PA is reported on under Objective 2.

Assessment of progress:

Progress against the objective was rated green because of strong performance by our implementing UN and NGO partners. Program targets for 2013-14 were largely met or exceeded.

UNRWA is the UN agency mandated to assist the five million Palestinian refugees across the Middle East (in Gaza, West Bank, Lebanon, Jordan and Syria). It provides education, health, relief services, livelihood and employment opportunities and protection. Through our support to UNRWA we are helping to protect the development gains of these refugees and provide broader and better quality development opportunities for the younger age cohorts. Over the reporting period our aid helped UNRWA provide health services for over three million refugees and vaccinate 120,000 children (97 per cent coverage). Recently introduced health reforms are improving efficiency, reducing costs and improving the quality of patient care in UNRWA's 139 health clinics. In 2013 UNRWA met or exceeded four of its five health targets. We have recommended that it reduce the target it did not meet (number of medical consultations) to focus on maintaining current service delivery levels.

In education, on which UNRWA spends 57 per cent of its General Fund, it slightly exceeded its 2013-14 target for children enrolled in basic education (the target was 487,982 and it recorded 491,641). Our assistance directly enabled over 17,200 additional children to enrol in school. Education reforms have the potential to lift teaching quality in UNRWA's 703 schools, particularly by moving away from rote-learning and building higher order thinking skills.

UNRWA also made a good start involving the private sector in its programs. It is building stronger private sector partnerships in its technical and vocational training centres, resulting in high levels of employment for graduates (excluding graduates in Syria, 83 per cent of males and 76 per cent of female graduates were employed or went on to higher studies in 2013). UNRWA is also exploring options to open up courses to non-refugees on a commercial basis to generate funding and expand its program to poor youth. In addition, UNRWA has taken initial steps to transition its microfinance program to a private company which will allow it to leverage private investment and expand its loan portfolio ten-fold. During 2014-15 we will be monitoring these reforms through our membership of the UNRWA Advisory Committee and we will report on their progress in the next Aid Program Performance Report (APPR).

Australia is the sole funder of our **UNICEF** water and sanitation activity which is promoting healthier learning environments for children, particularly girls, in disadvantaged schools. In 2012 and 2013, UNICEF rehabilitated water and sanitation facilities in 75 schools (39 in Gaza), benefitting 32,652 pupils (half of whom were girls) and work is underway on others. This number is expected to rise to 173 schools (114 in Gaza), benefitting 85,508 children by the end of 2014. All new facilities include units for the disabled. During the period covered by this APPR, UNICEF provided 56,000 school students (59 per cent girls) with at least a litre of safe drinking water per day. This took place in Gaza which suffers from a chronic water shortage. Some 35,000 students participated in a Global Hand washing event across the PTs and a hygiene promotion manual was introduced into 79 schools. These results are broadly consistent with planned progress over the reporting period.

UNICEF conducted an independent evaluation in July 2014 which found very high levels of student satisfaction and signs of long-term change in hygiene practice, though this indicator will need to be monitored over time. The evaluation also found that delayed tenders had meant that some construction had been carried out during school time, causing disruption to classes. UNICEF has improved tendering processes to seek to address this, though some factors (such as problems sourcing construction material in Gaza) are beyond UNICEF's control.

Australia's engagement with UNICEF has focussed on encouraging improved budgeting to ensure schools can maintain hygiene facilities, sustainable water solutions (water tankering fills a crucial need but it is a short term solution) and better measuring the impact of the project on girls, including through collecting gender disaggregated data. UNICEF has worked with the relevant PA Ministry to systematically track girls' attendance in targeted schools and gender equality is a factor in determining the number of toilet blocks to be built or refurbished for girls and their location. We are considering one final phase of the program, smaller and more targeted, to ensure our previous investments are sustained. This would concentrate on integrating hygiene into the school curriculum, recurrent budgeting and sustainable water solutions.

Since 2009 the Australia Middle East NGO Cooperation (**AMENCA**) program, which works with rural communities to improve livelihoods, has helped 15,044 poor farmers increase their incomes by an average of 42.5 per cent. In 2013 the program directly assisted 23,647 people (nearly half the total number of beneficiaries targeted over the six-year duration of the program). Over 70 per cent of all beneficiaries over the last five years have expanded their business as a result of Australian support. Under one activity, beneficiaries with a disability who have started a small business report a 100 per cent success rate. AMENCA is also connecting producers to markets and helping to improve marketing for women entrepreneurs in rural areas. With the assistance of the project, the Jenin Cooperative is now exporting to the UK and Saudi Arabia and farmers in Gaza are exporting strawberries to Europe.

Further work in these areas is crucial if the Palestinian people are to have the skills to take advantage of the market opportunities resulting from any future peace deal. There is strong potential to build on this base in any successor program to AMENCA and focus more overtly on economies of scale and marketing.

Australia's engagement with AMENCA partners over the past 12 months has focussed on sustainable exit strategies to ensure Australia's investments are maintained once the project ends, monitoring of results is strong and risk management processes, particularly related to counter-terrorism risk, are rigorous. An independent review of program risk management arrangements in May 2014 found its processes were robust.

AMENCA's focus on results, including investing in building the capacity of monitoring and evaluation officers in local NGOs, has generated a wealth of information on what works and what does not. This allowed the program to scale down activities that were not achieving results and invest more in those that were. For example, over the past five years the program has moved away from household investments towards community level infrastructure, rural roads and community-scale water infrastructure that delivered greater impact.

Australia will consider a new phase of support to rural development which would build on lessons from AMENCA and connect producers to market opportunities. We will ensure the Ministry of Agriculture has a central role in design work for any future program. To deepen our understanding of agricultural economics in the PTs Australia has joined the agriculture sector working group and participated in joint monitoring with the Ministry.

Strong results in **gender** and local ownership have been achieved in AMENCA. By the end of the program's fifth year (2013) 5,807 poor women have increased their incomes by an average of 43.8 per cent. This is despite the very low female workforce participation rate in the PTs (only 17 per cent of women are in the workforce). There is now more acceptance of women in decision-making positions. In 2012, 20 per cent of board members of the community based organisations participating in AMENCA were women; in 2013 that figure rose to 31.5 per cent.

Objective 2

Supporting state building and the peace process

Amber

Under this objective the program manages a five-year, \$120 million funding agreement with the PA (which we pay through the World Bank's Palestine Reform and Development Plan (PRDP) Trust Fund). Australia Award scholarships targeted to the PTs' need for public financial management and legal skills, also contribute to this objective.

Assessment of progress:

This objective was rated amber because despite solid institutional reforms by the **PA**, there has been no change in the overall political situation, including an easing of restrictions, which limit the PA's ability to deliver micro and macro-economic progress.

Australia's investment in budget support for the PA (delivered through the World Bank) is helping to build the PA's public financial management capacity and to fund social protection services that keep thousands of Palestinians out of poverty. The PA has made gains in tackling corruption, re-establishing security and law and order, improved fiscal management and delivering services.

By pooling our resources with major donors (the US, EU, UK and others) we have been able to put significant weight behind reformers within the PA. The PRDP Trust Fund – to which Australia contributed \$22.5 million in 2013 – is a vehicle for Australia and like-minded donors to engage with the PA on policy. Our tranche payments go towards the PA budget and are contingent on the PA implementing fiscal and management reform agreed in policy dialogue with the World Bank and donors.

The PA's gains are impressive, but fragile. A comprehensive Public Expenditure and Financial Accountability report carried out by the World Bank in June 2013 found 'significant progress' related to the transparency and control of the public financial management system, which is strong by regional standards. A European Court of Auditors review released in 2014 also found that the European Union's (EU) budget support (similar to our own) had 'played an important part in supporting vulnerable families... and contributed to maintaining health and education services'. Budget support from donors over the last year helped 700,000 Palestinian children (more than half of whom were girls) go to school, kept 485 clinics and hospitals operating, vaccinated 120,000 children and ensured 118,000 women could give birth safely with the help of a skilled birth attendant. The PA would not be able to deliver these services without donor support. In 2013-14 our aid directly enabled an additional 4,575 children to enrol in PA schools.

However the PA faces a severe fiscal situation. The budget deficit remains very high and donor support cannot keep pace with rising needs. Reform must happen in parallel with a political solution. The status quo is not sustainable. Without a breakthrough that allows it to operate as a sovereign entity with full control over its own resources the PA will remain reliant on aid. If conditions are agreed that will allow reconstruction and some opening up to the world for Gaza, combined with international financial support, there is potential for an economic boost to the whole PTs. As part of Tel Aviv Post's regular dialogue with the Government of Israel we advocate for an easing of economic restrictions on the PTs. However, as at September 2014 the comprehensive political and security agreement that would open up the PT economy remains elusive.

Australia, with likeminded partners, has focused our engagement with the PA and the World Bank on encouraging reforms to the private sector enabling environment, increasing domestic revenue collection and robust results monitoring to ensure reform translates into better service delivery for the Palestinian people. The PA has made strong gains in these areas. Its new National Development Plan (NDP) 2014-2016 prioritises private sector development and sets an ambitious agenda of reform to the business enabling environment, with targets to boost new company registrations, increase private sector capital and production, and improve the PTs ranking on the World Bank's Starting a Business Indicator (currently ranked 138 of 181 countries). In light of reconstruction needs in Gaza the PA will be reassessing its targets in October 2014.

The PA has increased domestic revenue collection, which increased 17 per cent in 2013 from the previous year. However, DFAT must continue to focus on this area as revenue collection remains low by international standards. The new National Development Plan also contains strong service delivery targets and clearly links reform progress to practical benefits for the Palestinian people. The PA will need to rapidly increase its capacity to collect and analyse data if it is to effectively report on these targets.

The National Development Plan also links development to a forward fiscal framework to ensure that interventions are integrated into Government planning. This addresses a key weakness of earlier development plans. However, some of the projections in the Plan are ambitious and the PA will need to rapidly increase its revenue collection and other reforms if it is to meet its income targets. This will be especially challenging in light of the projected reconstruction needs in Gaza.

The **Australia Awards** program (50 scholarships from 2011-2016) is making a modest but significant contribution to the state building objective. Some 30 students from the PTs have come to Australian universities and so far six have successfully completed their studies and returned to their home PA ministries. These six have performed well on return; most have already stepped into more senior roles. Returned scholars have played an active role in public diplomacy initiatives, helping us to plan our aid and building networks between academic institutions in Australia and the PTs. An alumni network is being established which should grow in influence as more scholars return from Australia.

There are two components to the scholarships program: building the capacity of the public sector in public financial management; and training the next generation of legal academics. The public sector management component of the program is performing well and there are opportunities to further strengthen academic linkages through a new post-graduate school of public policy being established in Beir Zeit University. The legal component may be nearing the end of its utility. Australia will have offered an estimated 14 law scholarships by the end of 2014, likely sufficient for the PTs' 11 law schools. We will consider alternative focus areas in consultations with the PA later in 2014. Alternative areas could be agriculture and private sector development.

Mutual Obligations

The major mutual obligations under the PTs program stem from our partnership arrangements with the PA and UNRWA, through which Australia has committed to provide predictable, long-term funding. Our partnership with the **PA** helps it plan its own development through national plans for sustainable economic growth. We have also committed to building the capacity of the PA through targeted scholarships. The PA has committed to: continue its reform program in line with the World Bank Trust Fund to improve the delivery of efficient and effective services; pursue development that advances the welfare of women and people with disabilities; and improve the transparency and accountability of expenditure, including ensuring Australian funds are not diverted to terrorism.

Progress is reviewed through annual consultations, although they have been delayed this year due to the integration of AusAID and DFAT and the Gaza conflict. At the next consultations, to be held before the end of 2014, Australia will recognise that in difficult circumstances the PA has largely complied with these obligations. Its reform program continues; the services it delivers are of good quality by regional standards; its policies advance the welfare of women although they could be better implemented in practice; and clear disability policy direction from the relevant PA Ministry would assist our UNICEF program in schools. The PA has signed a Memorandum of Understanding (MoU) to screen our funding against sanctions lists.

At the consultations we will negotiate a modest reduction in our total assistance to the PA through the partnership arrangement, which was announced by the Government as part of its budget re-prioritisation in January 2014. We will also review whether the legal focus of the Australia Award scholarships should remain a priority.

Our five-year, \$90 million partnership agreement with **UNRWA** commits it to improve the effectiveness of its services to refugees; promote gender equity and the inclusion of people with disability; and build public awareness of Australia's contribution. These mutual obligations are reviewed at annual consultations. The last consultations took place in June 2013 and the next will be held before the end of 2014.

Despite instability across the region and funding shortfalls, UNRWA performed creditably against these criteria in 2013-14. Its efforts to improve service delivery and its overall performance are detailed elsewhere in this Report. In terms of disability inclusion, UNRWA is standardising its data collection which should provide evidence for more targeted future interventions. This is one of the areas we will follow up at the consultations.

Program Quality and Management

The program generates a wealth of performance information in the form of World Bank and IMF reporting on the performance of the PA through the PRDP Trust Fund, UNRWA's annual Results Reports, and six-monthly reports and a mid-term review of our water and sanitation program from UNICEF. Each of the four AMENCA NGOs provides six-monthly reports and the AMENCA monitoring and evaluation (M&E) adviser produces an annual synthesis report against the AMENCA performance assessment framework. A major component of AMENCA has been the transfer of program management and monitoring skills to the staff of local, partner civil society groups. Locally-engaged staff at post have similarly benefited from this transfer.

A review of risk management in the AMENCA program was finalised in June 2014. This review was conducted to test, among other things, the integrity of the additional due diligence measures introduced into AMENCA contracts with NGOs, which were reported on in the previous APPR. The review found that AMENCA's risk management systems, including counter-terrorism risk, were comprehensive and well managed. This gives us confidence that any future programming in the sector can operate successfully in an environment where many listed entities operate requiring very high standards of accountability for expenditure.

In April 2014 the PA, which has been managed by the Palestinian political faction Fatah, announced a government of national consensus, as a preliminary step towards elections and potential reconciliation with its rival faction Hamas. Hamas is a proscribed terrorist organisation under Australian law and subject to sanctions. To ensure that Australian funding to the PA does not flow to Hamas the program negotiated an arrangement in May with the PA Ministry of Finance to screen the value of our contributions to the PRDP Trust Fund against the EU's Pegase program which checks every beneficiary against Australian, international and ad hoc sanctions lists.

Other reviews conducted in 2013-14 include an independent evaluation of our program with UNICEF and annual reviews by AMENCA NGOs. In October 2014 we reviewed AMENCA's relevance, efficiency and effectiveness to inform future civil society programming and later in 2014-15 we will participate in an independent evaluation led by the UK of the World Bank's PRDP Trust Fund. A forward pipeline of investments is being compiled in tandem with the development of a new AIP. Multi-year commitments to the PA and UNRWA continue to 2015-16. Subject to government approval, we will re-design a new civil society program to start in mid-2015 with a larger focus on access to markets for Palestinian farming communities, while maintaining a focus on women and people with disabilities. The review of the AMENCA program will look at how management and monitoring arrangements in any future civil society program could be simplified.

In developing the new AIP we will revise our Objective 2 to de-link the results of our partnership with the PA from progress in state building and the Middle East peace process. While the AIP will have to identify the peace process as an Australian national interest that underpins the whole aid program to the PTs, it is not feasible to use the peace process as an indicator of the failure or success of our aid investments. Our PA partnership should focus on tangible activities we have some control over such as fiscal reform and regulatory improvements to the environment for business. Targets will be drawn from the PA's new National Development Plan (as well as other sources) and used as benchmarks for our AIP (see Annex D).

The aid program to the PTs does not suffer from a proliferation of aid activities and partners. In 2013-14 over 80 per cent of the program was implemented by the PA and three multilateral partners. AMENCA is the only activity where we manage Australian partners (four Australian NGOs). However, in refining our pipeline we will be mindful of the need for a consolidated portfolio of investments (and the limited staff numbers at post and desk).

Analysis of Quality at Implementation Reports

The PT program produced four Quality at Implementation (QAI) reports in 2014. The results (in Annex B) reflect the overall assessments made in this APPR. QAI ratings this year were broadly similar to 2013. The lowest scores (3s and 4s on a scale of 1-6) related to sustainability, monitoring and evaluation, and gender.

The biggest improver this year was UNICEF which went from 4 to 5 for efficiency because it was able to demonstrate more results, from 4 to 5 for sustainability as a result of buy-in from the Ministry of Health and school communities, and from 4 to 5 for gender because of more disaggregated reporting. AMENCA went from 3 to 4 on efficiency due to a stronger focus on value for money over the previous 12 months, and from 4 to 5 on gender because of more ability to report on results and a growing understanding of the needs and opportunities for women in the agricultural sector. The PA improved its efficiency score from 4 to 5 because of better donor harmonisation. For the first time a QAI was done on the small scholarships program (50 Australia Awards over five years). The lowest score was 3 for monitoring and evaluation but this is expected to improve as an M&E framework is introduced and a sufficient number of returnees are in place to establish a formal alumni network.

To try and bring gender scores for the PA and scholarships activities up from a 4 to a 5, post will seek to build our understanding of the barriers to participation for women in the PTs and incorporate this more prominently in our policy dialogue with the PA and in our promotion of the Australia Awards.

Performance of key delivery partners

Key partners have performed satisfactorily. The **PA** performs well at a technical level, despite only having control over 40 per cent of the territory of the West Bank. The standard of security, policing and basic services it oversees is very good by regional standards. It has greatly improved its capacity to plan and manage its own development. The third National Development Plan sets targets and indicators based on a forward fiscal projection. The latest national planning process was described by the UN as among the best in the Middle East. Sector strategies to support the Plan are under development.

Our policy dialogue advocates for the PA to reduce distortions in its expenditure (particularly salaries), increase its revenue collection, improve its budget execution and reduce its deficit. In coordination with the EU and the UK, DFAT is negotiating a joint performance assessment framework with the PA which will align performance targets with the National Development Plan and add more rigour to our mutual commitments. The latest World Bank Implementation, Completion and Results Report in March 2014 rated the PA's reform performance as 'moderately satisfactory' despite challenges beyond its control. The PA fully achieved four of six reform targets (relating to revenue collection, wages, public spending and transparency). It achieved improvements in implementing its new public procurement law although more needs to be done. The PA failed to meet targets on controlling excessive health referral costs and needs to reconsider its approach in this area.

This level of close cooperation with the PA and other donors helps us to coordinate and calibrate our messaging at high level forums for policy dialogue such as the Ad Hoc Liaison Committee which brings the PA, Israel and major donors together twice yearly (including in the margins of the UN General Assembly) to address Palestinian economic development priorities.

The **World Bank**, which manages the PRDP Trust Fund, performs satisfactorily. It maintains good expertise in-country to negotiate and progress technical reforms and to ensure robust governance arrangements for the Trust Fund. To align more closely with the PA's National Development Plan the Bank has included private sector reform in its annual development policy grant targets and increased its staffing to lead and coordinate engagement on the private sector. The Bank's performance in managing the development policy grant is assessed every year by an independent economist within the Bank and verified by Washington headquarters. The latest assessment (30 March 2014) rated the Bank as satisfactory. It noted the country team's solid analytical work and sharp focus on development impact, the strong alignment of the grant's results framework with the PRDP trust fund, and close dialogue with the PA. We will continue to work closely with the Bank in 2014-15.

UNRWA performs well in the face of an expanding client base of refugees, chronic funding shortfalls and multiple humanitarian crises. In Gaza, where 1.2 million of the 1.8 million population are refugees, and where relatively few UN agencies and international NGOs operate, UNRWA has been instrumental in providing basic services to a population affected by seven years of blockade with youth unemployment rates in excess of 50 per cent. In 2005 UNRWA was feeding 85,000 people in Gaza. In 2014 it is feeding 830,000.

As UNRWA's tenth largest donor and a member of its Advisory Committee, Australia encourages it to modernise and better target its approach to poverty alleviation and build up its evaluation capacity and communications. UNRWA has made good progress in developing a robust Medium Term Strategy 2016-21 to strengthen planning and focus its efforts on areas which will have the greatest impact for refugees. UNRWA has committed from November 2014 to developing targets for key deliverables in the Strategy. It has requested DFAT assistance to finalise its performance framework and we will provide this in 2014-15. The performance framework will help Australia and likeminded donors to better track performance and improve the quality of dialogue in the Advisory Committee. It is crucial that the final Strategy and the subsequent strategic response plans are based on realistic funding projections to help UNRWA overcome its persistent budget deficit, predicted at \$70.5 million for 2014. Australia will continue to engage closely with UNRWA on this over the coming 12 months.

Our partnership with UNRWA includes an annual performance assessment which judges progress against five criteria: results performance; value for money and due diligence; timely and accurate reporting; Australian profile; and responsiveness. Twenty per cent of Australia's annual payments are linked to this performance assessment. UNRWA has consistently scored 90 per cent or over in these assessments because of the quality of its core education and health programs and its particular strength in emergency response. In 2014, Australia introduced joint donor performance assessments. This process has strengthened Australia's engagement with UNRWA and allowed us to have a stronger voice on key reforms.

An independent evaluation of **UNICEF's** DFAT-funded activity in water and sanitation found that it was achieving most of its objectives, although there remains a lot to be done to inculcate good hygiene behaviours among students. UNICEF was able to address delays and a complex security situation in Gaza so that in the end timelines were not affected.

The four Australian NGOs implementing **AMENCA** have met or exceeded program objectives. The program targeted 50,000 beneficiaries over six years but over 55,000 have been reached at the end of the fifth year. While there have been some instances of slow disbursement of funds by partners, resolutions to problems have been successfully negotiated. AMENCA provides strong connections with communities but it could be more efficient with fewer layers between Australian and local NGOs. AMENCA can be resource intensive and in designing any successor program we will look at how we might streamline management arrangements while still retaining the oversight necessary to manage the heightened risks of operating in the PTs.

Risks

Table 4 Management of key risks to achieving objectives

Key risks	What actions were taken to manage the risks over the past year?	What further actions will be taken to manage the risks in the coming year?
Diversion of aid funds to terrorist organisations or others linked to terrorism.	The program completed its overhaul of risk management arrangements, amending contracts with NGOs. An independent risk management review in April-May 2014 found DFAT's arrangements to be comprehensive and robust.	Australia will continue to carefully monitor governance arrangements to ensure our full compliance with Australian law.
Reconciliation between Hamas and Fatah. (Hamas is a proscribed terrorist organisation under Australian law and subject to sanctions.)	In April 2014 the PA announced a government of national consensus, as a preliminary step towards elections and potential reconciliation with Hamas. In May 2014 the PA Ministry of Finance agreed that the value of all Australian payments to the PA through the World Bank PRDP Trust Fund will be paid against the EU Pegase list which screens all beneficiaries against Australian, international and ad hoc sanctions lists. On 25 August 2014 the Ministry signed an MoU with Australia to formalise this.	Post will monitor implementation of the MoU and review the findings of each audit with the Ministry.
Australia's major partners, the PA and UNRWA, both face persistent budget shortfalls which threaten their sustainability.	Australia has worked closely with the World Bank and other donors to encourage reform to put the PA on a more sustainable fiscal position, including by increasing domestic revenue collection and ensuring that the NDP was based on realistic budget projections, though funding targets are still ambitious. Australia worked with UNRWA to develop a new Medium Term Strategy that bases spending on realistic budget projections.	Australia will negotiate mutual obligation targets with the PA in upcoming consultations to track progress in increasing fiscal sustainability. Australia will engage closely with UNRWA in the development of the Medium Term Strategy (November 2014) and subsequent strategic response plans to ensure projections are realistic and achievable.

Management Responses

The objectives of the program will be reviewed in the process of developing a new AIP for 2015-16. The AIP will align our activities even more closely with the Government's new aid policy framework and particularly its focus on the private sector, agriculture and the empowerment of women and girls. The AIP will contain a performance framework with targets agreed by the PA to add more rigour to our mutual commitments. The AIP will also need to acknowledge the heightened political and reputational risk of aid funding diversions to terrorism in the PTs and the need for special measures to manage it.

Australia's annual, bilateral high level consultations were not able to be held in 2013-14 because of AusAID-DFAT integration. We will schedule consultations by the end of 2014. At these consultations we will negotiate modifications to our aid to reflect the new priorities and performance benchmarks of the Australian aid program. This will include a modest reduction to our total assistance to the PA through the current five-year Partnership Arrangement, which was announced by the Government as part of its budget re-prioritisation in January 2014. The consultations will also review the priority areas of study for the Australia Awards scholarships, making sure they are aligned to the PTs' new National Development Plan and DFAT's AIP.

Political tensions between Israel and Hamas also meant the cancellation of the six-monthly Ad Hoc Liaison Committee in April. This Committee brings together the PA, Israel and all major donors to coordinate development assistance to the PTs. As a significant contributor to the World Bank PRDP Trust Fund, Australia will participate in the next meeting, scheduled for 22 September in the margins of Leaders' Week, which should set the direction for aid to Gaza post Operation Protective Edge. Our new AIP will take into account reconstruction needs in Gaza.

Subject to the final outcome of the AMENCA review and government approval, a successor program in the civil society sector will be designed that encourages community, and particularly rural women's, participation in the private sector and greater access to markets. This will focus on the promotion of small-holder agricultural productivity and marketing strategies through partnerships with local cooperatives. It will also align with the Australian Government's Economic Diplomacy Strategy. We anticipate designing a new five-year program along these lines to mobilise in mid-2015.

Subject to the outcome of the AIP and demands on the program from international efforts to rebuild in Gaza, we also propose to extend our support to the UNICEF water and sanitation in schools program. In a two-year extension we could fund UNICEF and the PA to institutionalise water management committees in schools where the project has built facilities and assist the Ministry of Education to commit to recurrent funding for maintenance.

Annex A

Progress in addressing 2012-13 management responses

Management consequences identified in 2012-13 APPR	Rating	Progress made in 2013-14
To deepen Australia's engagement with the Palestinian Authority, consider developing a service delivery results reporting framework; on the quality of its health, education and social safety net services.	Partly achieved	<p>Post formed a joint donor group with the EU, UK and other likeminded donors to develop joint performance indicators to better align our policy dialogue on strengthening quality service delivery. The appropriate vehicle to do this was the Palestinian National Plan 2014-16 which was released in July 2014. It has strong monitoring and evaluation indicators and targets. We will focus our efforts on supporting the Palestinian Authority's capacity to monitor progress.</p> <p>A Performance Assessment Framework for the Australian aid program to the PTs has been drafted and will be finalised in conjunction with the AIP.</p>
Encourage a more conducive environment for private sector-led growth.	Partly achieved	Post, through the Fiscal Sector Working Group, led by the PA's Ministry of Finance, and the Agriculture Sector Working Group has reinforced a consistent message to the Authority from donors and the World Bank on the need to prioritise fiscal sustainability and private sector reform. The new National Development Plan prioritises economic growth and private sector development and includes ambitious targets. The World Bank increased their staffing to better coordinate private sector development efforts.
Further strengthen risk management mechanisms.	Achieved	The inclusion of stronger counter-terrorism mechanisms in AMENCA NGO contracts was finalised, and revised risk management arrangements were reviewed and found to be robust.
Monitor security threat to staff and consider security training.	Achieved	Locally engaged staff underwent security training.
Work with UNRWA to ensure its new medium term strategy includes robust results reporting.	Achieved	Post initiated a group with other donors that have performance agreements with UNRWA and successfully advocated for the inclusion of targets against indicators in the medium term strategy.

Note:

- Achieved. Significant progress has been made in addressing the issue
- Partly achieved. Some progress has been made in addressing the issue, but the issue has not been resolved
- Not achieved. Progress in addressing the issue has been significantly below expectations

Annex B

Quality at Implementation ratings (note: DFAT does not assess multilateral organisations such as UNRWA through the Quality at Implementation process)

Investment name	Approved budget and duration	Qal year	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Sustainability	Gender equality
Australia-PA Partnership Arrangement	\$120m	2013	5	4	5	4	3	4
	2011-16	2012	5	4	4	4	3	4
AMENCA 2	\$37m	2013	5	5	4	5	4	5
	2009-15	2012	5	5	3	5	4	4
UNICEF	\$12.5m	2013	5	5	5	4	4	5
	2012-14	2012	5	4	5	4	3	4
Australia Awards	\$8.6m	2013	5	5	3	5	4	4
	2011-16							

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = Very high quality

5 = Good quality

4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

3 = Less than adequate quality; needs significant work

2 = Poor quality; needs major work to improve

1 = Very poor quality; needs major overhaul

Annex C

Evaluation and Review Pipeline Planning

List of evaluations completed in the reporting period

Name of Investment	Aidworks number	Name of evaluation	Date finalised	Date Evaluation report Uploaded into Aidworks	Date Management response uploaded into Aidworks	Published on website
UNICEF	INK397	Independent mid-term evaluation of 'WASH in School Program'	18 March 2014		DFAT provided input into the evaluation and accepted findings. No response required.	No
AMENCA	INI054	Risk management component of independent review	July 2014	20 August 2014	When second component is completed.	No

List of evaluations planned in the next 12 months

Name of Investment	Aidworks number	Type of evaluation	Purpose of evaluation	Expected completion date
AMENCA	INI054	Performance component of the independent review	To verify AMENCA reporting outcomes and inform future programming in the civil society sector in 2015.	November 2014
UNRWA	INK460	Independent evaluation of the e-Health program	To improve performance.	December 2014
World Bank Trust Fund for PA	INJ843	Joint evaluation led by the UK	To assess performance and modalities of World Bank Multi-Donor Trust Fund.	Delayed till late 2014 because of conflict in Gaza.

Annex D

Performance Benchmarks 2014 -15

The following benchmarks are indicative in that they will be tested and modified in the process of developing the AIP and a performance assessment framework in 2014-15.

Program strategic objective	2014-15 benchmark	Rationale for selecting this performance benchmark
<i>Supporting sustainable economic growth including helping rural communities and vulnerable groups overcome poverty</i>	57,000 people (29,000 women) in the West Bank and Gaza increase their incomes by 40%	Australia has had an impact connecting small agricultural producers to the private sector to help them market their products domestically and abroad. Many Palestinian women earn their livelihood from agriculture. Australia will work with the PA's Ministry of Agriculture to scale up our work in this sector. The 2014 benchmark seeks to further improve Australia's reach, building on the cumulative figure of 53,465 people who had increased their incomes by 2013.
<i>Supporting sustainable economic growth including helping rural communities and vulnerable groups overcome poverty</i>	350 poor women and 585 poor men increase their access to financial services	Increasing access to financial services in the PTs and among refugee communities through UNRWA has been a central component of Australia's work to empower women and promote economic growth. A study of our work in Hebron found that women who started their business gained a greater confidence, were able to travel more freely within their communities, increased their reputation on boards, were more likely to register their business and had greater say over household decisions. This 2014 target (through UNRWA) is broadly the same as last year which will be challenging, because of the impact of conflict on the economies of Gaza and Syria, but achievable.
<i>Supporting sustainable economic growth and Supporting state building and the peace process</i>	Over 22,000 additional children (including 11,000 girls) attend PA or UNRWA schools	Providing quality education services, especially for girls, is a priority mutual obligation in our partnerships with the PA and UNRWA. The education of girls is crucial to help them to participate in the work opportunities and lead healthy and productive lives. Given the lack of an economic base, education services are currently heavily reliant on external support. This benchmark builds on 2013-14 aggregated development results for both UNRWA and the PA and reflects both strategic objectives of the program.

Program strategic objective	2014-15 benchmark	Rationale for selecting this performance benchmark
<i>Supporting state building and the peace process</i>	Successful advocacy for improved reporting by the PA on arrears	Fiscal reform is a key component of the mutual obligations agreed between Australia and the PA in order to put public expenditure on a sustainable footing and free up resources to invest in productive sectors. This benchmark stems from the Government's National Development Plan and is a strong indicator of the transparency of public finances. By joining the advocacy efforts of the World Bank and DFID, Australia can influence the PA to implement this reform target.
<i>Supporting state building and the peace process</i>	Regular checks on the program's risk management system, particularly relating to measures that guard against aid diversions that finance terrorism	In view of the heightened risk of aid funding diversions to terrorism in the PTs it is essential that the program ensures the special measures put in place to manage it are effective. DFAT will closely monitor the implementation of the MoU on screening payments against sanctions lists. A key mechanism for this will be the independent, six-monthly audits. DFAT will also closely monitor funding to NGOs and Community Based Organisations through the AMENCA program.