



Australian Government

Department of Foreign Affairs and Trade

Aid Program Performance Report 2014-15

Palestinian Territories

October 2015

Key Messages

- › This report evaluates the progress of the Australian aid program to the Palestinian Territories (PTs) from July 2014 to June 2015. The PTs aid program performed well in extenuating circumstances during the reporting period, supporting the provision of essential services throughout significant fiscal shortfalls within the Palestinian Authority and UNRWA, and delivering emergency assistance to people affected by major conflict in Gaza.
- › **The Australia Middle East NGO Cooperation Agreement (AMENCA 2) concluded** at the end of 2014-15 and after six years had contributed to the creation of more than \$80 million in additional agriculture produce in the West Bank and Gaza. At the household level, this represented an average 47 per cent increase in income in 2014-15. During 2014-15, the third phase of AMENCA was designed, re-orienting the program to place a greater emphasis on engagement with commercial markets through agriculture.
- › **Cuts to the Australian aid program were announced in May 2015** and the aid budget to the PTs for 2015-16 was reduced by 40 per cent from 2014-15 levels. During 2014-15, significant work was undertaken to adjust the future budget pipeline to fit the new parameters and to more explicitly align the PTs aid program to the Australian Government's aid priorities of supporting private sector development and strengthening human development.
- › **Australia continued its support for the United Nations Relief and Works Agency in the Near East (UNRWA)** which provides services to more than five million Palestinians in the PTs, Lebanon, Syria and Jordan. The humanitarian crises in Syria and Iraq continued to create mass movements of people in the region and competed for finite donor contributions. Notwithstanding these challenges, UNRWA managed to enrol more than 490,000 students in UNRWA schools in 2014-15. New leadership at UNRWA have shown positive signs of addressing structural budget issues and placing them on a firmer financial footing, providing encouraging signs for donors concerned about the gap between increasing service delivery obligations and finite resources.
- › **The Palestinian Authority (PA) continued to provide effective services** to its people notwithstanding structural budget challenges, limitations on enhancing private sector growth and factional issues. Australia's support to the World Bank's Palestine Reform and Development Plan Trust Fund continued to build the PA's capacity and reinforce the Bank's assessment that the PA has sufficient capacity to administer its territory. However with negotiations for a sustainable two-state solution on hold indefinitely, the PA's viability, so heavily reliant on donors, remains a year-by-year proposition.
- › **Violent conflict erupted in the Gaza Strip** in July and August 2014 as a result of the 'Operation Protective Edge' resulting in more than 2,300 deaths and damaging vital infrastructure. Some activities funded by the Australia aid program were damaged and this has impacted on some anticipated outcomes for the aid program. Australia responded promptly with humanitarian support of \$15.7 million to UNRWA and several other partners. Australia's support to World Vision enabled it to distribute 3,200 food parcels, 500 hygiene kits and facilitated an estimated 1,500 emergency medical procedures. Australia's timely and effective response was enabled through strong relationships with development partners forged over many years of engagement in the PTs.

Context

The Palestinian Territories (PTs), 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 deteriorated in the last 20 years, leading the United Nations to refer to the PTs as having undergone a process of 'de-development'. There is significant demographic and gender inequality in the PTs - around half the population is aged 18 or under, and women and youth represent 35 and 44 per cent of unemployment respectively.

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. All of these are exacerbated in Gaza, which has extreme population density, higher levels of unemployment and heavier restrictions than in the West Bank. Half of the Gaza population relies on food assistance.

The conflict in Gaza in July and August 2014 resulted in the deaths of more than 2,300 people (2,231 Palestinians and 72 Israelis). Over US\$4 billion of damage to public infrastructure and housing was sustained, including UNRWA facilities and livelihood projects supported by the Australian aid program. One year after the conflict, just 26 per cent of assistance pledged at the Cairo Conference on Gaza Reconstruction had been delivered. Tight restrictions on the movement of construction materials into Gaza in 2014-15 have exacerbated the humanitarian crisis and its impact on civilians.

During 2014-15, the economic situation in the PTs remained precarious. The conflict in Gaza and its after-effects caused the local economy to contract by 15.2 per cent. Modest growth in the West Bank in 2014-15 - primarily caused by an 8.6 per cent increase in domestic revenue collection - could not stop the PTs economy falling into recession. The budget deficit remains very high, growing from 12.4 per cent to 18.4 per cent of GDP in 2015. The public sector wage bill (as a percentage of GDP) fell from 16.1 per cent in 2014 to 15.8 per cent in 2015, but this is still among the largest in the world. Gross Domestic Product (GDP) in the PTs has been declining for a decade and 2014 produced negative economic growth of 0.4 per cent. In response to the PA's approach to the International Criminal Court in December 2014, the Government of Israel withheld four months of tax revenues - accounting for almost two thirds of PTs budget - further adding to its financial difficulties. The other third of the PT budget comes from donor support and the recent humanitarian crises in Syria and Iraq have impacted on these flows.

Continued strengthening of the Palestinian Authority must occur in parallel with progress towards a sustainable two-state solution. Both the World Bank and IMF note the status quo - declining per capita income, unfunded budget deficits, stubbornly high unemployment, and no visible horizon for a peace settlement - is unsustainable. 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 flows that struggle to keep pace with needs.

In addition to Palestinian refugees in the West Bank and Gaza, a further three million Palestinians refugees in Jordan, Syria and Lebanon rely on UNRWA for essential services, protection and, in many cases, food. Conflict in Syria and pressure on the region to absorb new

refugee populations led to worsening protection space for Palestinian refugees in 2014-15. The Palestinian 'Yarmouk camp' in Syria was besieged for the majority of the period and to date UNRWA is still unable to access and provide assistance to the civilian population. Amongst rising humanitarian worker casualties in the region, several UNRWA staff members were killed in Syria, along with 11 UNRWA staff casualties from the conflict in Gaza.

The objectives of the Australian aid program

Australia remains a long-standing supporter of a negotiated, two-state solution to the Israel-Palestinian issue. While parties search for a solution, Australian aid is helping to maintain enablers of economic growth (education and health services), and to keep many Palestinians out of poverty through social protection and the promotion of business opportunities. **Australia's objectives for 2014 -15 were: Supporting sustainable economic growth including helping rural communities and vulnerable groups; and supporting state building and the peace process.**

The main pillars of Australian aid are five-year funding commitments (2011-2016) to multilateral PA and UNRWA funds, and the second phase of Australia's long-standing civil society program, the Australia Middle East NGO Cooperation Agreement (AMENCA), which is delivered by Australian NGOs in partnership with local consortia. Most Australian assistance is contributed via multilateral funds, pooled with funds from a range of other donors including the USA, UK, France and Norway. The AMENCA program is funded solely by Australia.

In 2014-15, Australia contributed Official Development Assistance (ODA) of \$69.2 million to the PTs. This represented just under half a per cent of the PTs' estimated GDP in 2014. Statistics for overall donor contributions have not been published for 2014-15 but in the previous year Australia was the tenth largest OECD donor to the PTs.

Expenditure

Table 1 Total ODA Expenditure in FY 2014-15

Objective	A\$ million	% of total ODA
Bilateral		
Supporting sustainable economic growth including helping rural communities and vulnerable groups	46.5	67 %
Supporting state building and the peace process	20.0	29 %
Sub-Total Bilateral		
Regional and Global	2.7	4%
Other Government Departments		
Total ODA Expenditure	69.2	100%

Progress towards Objectives

Table 2 Rating of the Program's Progress towards Australia's Aid Objectives

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

Note:

- **Green.** Progress is as expected at this stage of implementation and it is likely that the objective will be achieved. Standard program management practices are sufficient.
- **Amber.** Progress is somewhat less than expected at this stage of implementation 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 at this stage of implementation and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Objective 1

Supporting sustainable economic growth including helping rural communities and vulnerable groups	Green
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Under this objective we work with UNRWA to provide basic services to vulnerable refugees (Australia was the ninth largest donor in 2014, contributing \$36 million in 2014-15, consisting of \$20.3 million for UNRWA's General Fund and \$15.7 million for UNRWA's Gaza Emergency Appeal); Australian and Palestinian NGOs through the Australia Middle East NGO Cooperation Agreement (AMENCA 2) (\$4.2 million in 2014-15) to bring economic opportunities to disadvantaged rural communities; the International Committee of the Red Cross (\$3 million in 2014-15) for emergency assistance after the conflict in Gaza; the United Nations Access Coordination Unit (\$0.5 million in 2014-15) to help facilitate access for reconstruction in Gaza; and UNICEF (\$2.5 million in 2014-15) to provide safe water and sanitation to under-served schools.

Our support to the Palestinian Authority (\$20 million in 2014-15), which included social protection to vulnerable groups, also contributed to this objective but this is reported on under Objective 2.

Assessment of progress:

Progress against this objective was rated green because of the strong performance of our implementing partners, as well as their ability to respond quickly and effectively with Australian funding in response to the Gaza conflict in 2014.

UNRWA¹ is the UN agency mandated to assist the more than five million Palestinian refugees across the Middle East. Australian funding is provided to UNRWA's General Fund, which with other donor's contributions provides education, health, livelihood and employment opportunities and protection.

In 2014 in education, on which UNRWA spends 60 per cent of its General Fund, Australian assistance helped enable 493,500 children to enrol in school, an increase of 17,177 from the previous year. However this figure masks some regional disparities; for example the conflict in Gaza (where 48 per cent of registered UNRWA students reside) saw drop-out rates for boys in elementary school increase from 2.8 per cent to 3.8 per cent, and for girls increase from 0.9 per cent to 1.5 per cent.

In 2014, Australian aid helped UNRWA's health program to provide over 9.5 million patient visits to health facilities (60 per cent female) and achieved 99.3 per cent full immunization coverage for infants aged 18 months against ten diseases (tetanus, diphtheria, pertussis, tuberculosis, measles, rubella, mumps, polio, haemophilus influenza type B and hepatitis).

Australia provided \$300,000 to UNRWA's General Fund in 2014-15 to support the provision of technical assistance to develop a Mental Health and Psycho-social Support Framework; Emergency Response Framework; updating the Health Reform Policy; and a study to determine the root causes of success factors and inhibitors in schools in Gaza that achieve learning improvements compared to those that underperform. DFAT will report on achievements from this assistance in the 2015-2016 APPR. Similarly, UNRWA is in the process of updating its gender equality mainstreaming policy.

UNRWA's technical and vocational education and training strategy was developed in 2014 with particular focus on involving the private sector. UNRWA's vocation training centres have

¹ UNRWA reports its outcomes on a calendar year basis whereas Australia's APPR's report by Australian financial years. The results summarised in this APPR for UNRWA have been sourced from UNRWA's 2014 Harmonised Reports and UNRWA's Statistics Report (2008-2014). Australia is a strong supporter of UNRWA's Harmonized Results Reporting. It however does not enable results to be disaggregated by each separate donor's financial commitment. Results reflect UNRWA's overall performance unless otherwise stated.

developed successful partnerships with a number of private sector actors. Unfortunately, primarily as a result of the conflict in Gaza, the number of students graduating and moving into paid employment declined in 2014-15 (72 per cent of male and 63 per cent of female graduates were employed or went on to higher studies in 2014-15, as opposed to 83 per cent for males and 76 per cent for females in 2013-14).

In 2014, UNRWA's microfinance program facilitated private sector development by providing 19,300 loans to microenterprise and small businesses, with a cumulative loan value of US\$21 million. Increasing access to financial services in the PTs and among refugee communities through UNRWA has been a central competent of Australia's work to empower women and promote economic growth. Ten thousand loans worth US\$11.6 million went to enterprises in the West Bank and Gaza. UNRWA has taken initial steps to transition its microfinance program into a private company which will allow it to leverage private investment and expand its loan portfolio ten-fold.

Australia's contributions to **UNRWA's Gaza Emergency Appeal** in 2014 helped it provide emergency food assistance to 767,633 refugees, ensuring that 142,613 families received food rations. This assistance continued uninterrupted throughout the conflict. In addition, UNRWA contributed an estimated US\$7.4 million of 'cash for work' income into the local economy and provided emergency water, sanitation, shelter, health care and education. At the height of the hostilities, almost 300,000 people were sheltered in 90 UNRWA facilities where they received food, water and basic healthcare and psychosocial support.

DFAT's Australia Middle East NGO Cooperation Agreement (AMENCA 2) program ended in June 2015. Throughout the six-year duration of the program, AMENCA 2 worked with rural communities to improve livelihoods and has helped poor farmers increase their incomes. In 2014-15, AMENCA 2 directly impacted 35,527 people. AMENCA 2 has assisted in connecting producers to markets and helped to improve marketing for women entrepreneurs in rural areas. During 2014-15, the total value of agricultural production facilitated by AMENCA 2 was more than \$17 million while the percentage increase of income generated at the household level was 47 per cent.

The majority of the Palestinian partners engaged in AMENCA 2 established strong ties with domestic or international markets. The seedbank established by AMENCA 2 exported 36 tonnes of freekeh (smoked cracked wheat used as a health food) during October and December 2014 to the UK. The sale provided a profit of US\$82,285 and benefited 15 farmers who increased their income by 40 per cent. A further 200 tonnes of freekeh were ordered from the seedbank in January 2015 (100 tonnes were exported to UK and 100 tonnes to Saudi Arabia). Overall, around 120 farmers sold freekeh to the seedbank and the total revenue for the farmers exceeded US\$170,000.

AMENCA 2 produced strong results on gender and in maximising local ownership. By the end of 2014-15, 8,384 poor women had increased their incomes at the same rate as male-headed households at an average of 47 per cent (in an environment where women only constitute 17 per cent of the formal workforce). AMENCA 2 also championed the number of women on boards of Community Based Organisations (CBOs). In 2012, only 20 per cent of board members CBOs participating in AMENCA 2 were women. At the end of 2014-15, this has risen to 35 per cent.

During 2014-15, DFAT re-allocated \$4 million from within the AMENCA 2 budget to enable two of our Australian NGO partners working in Gaza to undertake humanitarian relief activities in response to the Gaza conflict. World Vision distributed 3,200 food parcels, 500 hygiene kits and provided urgent medical supplies and equipment to Al-Awda hospital in North Gaza. These supplies included bed sheets, generator fuel, and medicines. The materials delivered helped an estimated minimum of 1,500 emergency procedures. APHEDA distributed food vouchers to 488 families in the villages of Abasan, al-Fukhari and Khuza'a in the Khan Younis area. APHEDA also repaired 75 commercial-scale greenhouses damaged during the conflict, 94 home gardens (with 47 new water tanks), 15 small-scale greenhouses, 49 water ponds, and 355 parcels of land were rehabilitated for 103 people.

Several of the AMENCA 2 project sites in Gaza were situated along the border with Israel and within close proximity of the 'no-go' zone. These locations were the target of some of the heaviest shelling, bombing and bulldozing and around \$3.2 million of AMENCA 2 assets were destroyed including greenhouses, irrigation pipes, crops, and livestock and fishing boats. Australia's humanitarian support focused on the rehabilitation of animal husbandry and livestock production as recommended by the Palestinian Ministry of Agriculture, which enabled beneficiaries to quickly rebuild productive assets like gardens, fruit crops and fishing equipment. AMENCA 2 participants were able to replant crops and avoid missing a harvest cycle - a major achievement for food security and demonstrative of increased household resilience.

The successor program to AMENCA 2 was designed during 2014-15 and will build on the strong results achieved so far but more explicitly focus on connecting agricultural producers to market opportunities.

In 2011, Australia funded **UNICEF** to undertake a water, sanitation and hygiene program (WASH) in the PTs. This program is aimed at promoting healthier learning environments for children, particularly girls, in disadvantaged schools. During 2014-15, UNICEF constructed or rehabilitated WASH facilities at 40 schools in the West Bank and at 51 schools in Gaza, benefiting 14,945 and 29,812 students respectively. Cost savings achieved over the last two years enabled an additional 33 schools to be reached by June 2015 (increasing the overall target for the activity from 207 to 240 schools).

As part of a hygiene awareness campaign, UNICEF supported Global Hand Washing Day in October 2014 with participation of over 100,000 students from 231 schools. Students engaged in activities such as drawing, short story telling, drama and songs related to good hygiene practices including hand-washing and rationalisation of water consumption. A total of 9,617 personal hygiene kits were distributed to students. The hygiene manual developed by the project has now been distributed in all Ministry of Education and Higher Education (MoEHE) basic schools.

During 2014-15, UNICEF installed solar distillation systems in one school in Gaza and one school in the West Bank to trial self-sustaining and environmentally friendly methods of water capture. This pilot project provided students with up to 1,000 litres of drinking water per day at up to 2 litres per student per day. Training for school staff on operating and maintaining the

solar distillation system, as well as developing monitoring plans, were completed by April 2015. Roll out of solar distillation units in other schools is being considered.

Australia's engagement with UNICEF has also focused on encouraging improved budgeting to ensure schools can maintain hygiene facilities, sustainable water solutions and better measurement of the impact of the project on girls, including through collecting gender disaggregated data. The program achieves good gender outcomes with 47 per cent of upgrades occurring in girls' schools, and both boys and girls reporting higher usage of WASH facilities in schools after works are completed. UNICEF has worked closely with MoEHE to systematically track girls' attendance in targeted schools.

Australia provided \$3 million to the **International Committee of the Red Cross (ICRC)** in the aftermath of the conflict in Gaza. Funding contributed to the rehabilitation of five damaged hospitals (Beit Hanoun, Al Dora, Al Aqsa, Najjar and Balsam hospitals in North, Gaza, Middle Area and Rafah governorates) restoring an overall capacity of 422 beds. ICRC also provided cash grants of \$1,200 per household to 250 farming households (supporting 1,500 individuals) in the border areas where houses were destroyed to enable beneficiaries to restart irrigated agriculture. Some 230 greenhouses, six agricultural wells, two water reservoirs and 12 kilometres of mains pipes were rehabilitated, together serving approximately 8,400 people and supplying around 5,000 hectares of agricultural land in border areas with water in time before the spring season. Australian funding to ICRC also enabled the provision of provide essential household items and food to 150,000 people whose houses were destroyed or damaged as a result of the conflict.

Australia supported, with other donors, the **United Nations Access Coordination Unit** to enable the movement of humanitarian and development personnel and goods through checkpoints and border crossings throughout the West Bank, East Jerusalem, Gaza and Israel. A total of 5,040 UN personnel, 5,234 international NGO personnel and 208 Palestinian NGO staff received support in obtaining visas, permits and approvals in 2014-15. The unit also oversaw the evacuation of over 1,300 dual-nationals and foreign residents (including Australians) from Gaza to Jordan and Egypt in 2014-15.

Objective 2

Supporting state building and the peace process

Green

Under this objective, Australia has a five-year, \$120 million funding agreement with the Palestinian Authority (\$20 million in 2014-15). Australia Awards also supported students in the PTs to build their skills in areas needed to strengthen Palestinian institutions, such as public financial management and legal skills.

Assessment of progress:

This objective was rated green because despite no change in the overall economic and political situation which would enable the **Palestinian Authority (PA)** to move to a more sustainable footing or assume responsibility for a future state, the PA has demonstrated commendable economic management and solid institutional reforms during 2014-15.

Australia's investment in budget support for the PA is helping to build its public financial management capacity and to fund social protection services that keep thousands of

Palestinians out of poverty. Australia contributes through the World Bank's Palestine Reform and Development Plan (PRDP) Trust Fund.

A World Bank report in July 2015 on the PA's implementation of its National Development Plan noted that progress on public financial management issues and improving the business climate were rated as moderately satisfactory but the pace of structural reform is slower than required.

Both the World Bank and the International Monetary Fund however have commended the PA's economic management during 2014-15, particularly its efforts to manage the fiscal crisis resulting from the withholding of revenues by the Government of Israel in early 2015. The PA responded by severe cash rationing, partial payment of public sector salaries, delaying most other expenditures, accumulating large arrears to the private sector and pension fund and increased borrowing from local banks. Despite this, public service delivery was well maintained and the PA's efforts to manage the crisis were successful.

There has also been an improvement during 2014-15 in the way the PA's Ministry of Finance (MOF) reports on arrears. The World Bank's now requires the insertion of a due date in the IFMIS information system for each arrears payment. This has improved the accounting of arrears because it enables MOF to get a clearer idea on the age profile for each arrear. The Bank is now working with the PA to further improve reporting through the inclusion in monthly fiscal reports on the overall stock of arrears in addition to the net accumulation each month. While the PA's reporting on arrears has improved, the management of arrears needs to continue to be carefully monitored. The PA's domestic revenue collection, necessary for fiscal stability and arrears management, remains low by international standards. Its ability and commitment to increase revenue collection will be a key performance benchmark to assess Australia's future funding for the PA.

The **Australia Awards** program (50 scholarships from 2011-2016) is making a modest but significant contribution to the PA's state building objective. There were two components to scholarships program during 2014-15: building the capacity of the public sector in public financial management; and training the next generation of legal academics.

Some 37 students from the PTs have come to Australian universities and so far seven have successfully completed their studies and returned to their home PA ministries. These seven have performed well on return and most have already stepped into more senior roles. Returned scholars have played an active role in public diplomacy initiatives; have set up their own facebook page and help build networks between academic institutions in Australia and the PTs. An alumni network was established in 2014 and will grow in influence as more scholars return to the PTs.

Performance Benchmarks

Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups

Benchmarks: 57,000 people (29,000 women) in the West Bank and Gaza increase their incomes by 40%

Result: At time of APPR publication performance benchmark data for AMENCA2 was not available. The AMENCA2 Project Completion Report, which will detail program outcomes, will be uploaded on the DFAT website once finalised. Interim results, including an estimated production of \$17 million additional agricultural by AMENCA 2 communities in 2014-15,

suggests this benchmark may be exceeded. Other AMENCA results in 2014-15 include rehabilitation of 539 irrigation networks and 5,537 dunums (1 dunum = 1000m²) of damaged lands due to the July - August Gaza conflict, and rehabilitating 217 greenhouses. These efforts directly benefited more than 1,158 families in Gaza.

Benchmark: 350 poor women and 585 poor men increase their access to financial services

Result: UNRWA provided 12,536 microfinance loans (5,146 female and 7,390 male) in 2014, up from 11,613 (4,427 women and 7,186 men) in 2013². This represents an additional 719 women and an additional 204 men accessing financial services –which is an impressive result given the impacts of conflict on Gaza and Syrian economies.

Benchmark: Over 22,000 additional children (including 11,000 girls) attend PA or UNRWA schools

Result: With Australian aid, an additional 15,435 children were enrolled in 2014-15 from 2013-14 levels (7,601 were girls.) Enrolment figures are affected by widespread conflict in Syria.

Objective 2: Supporting state building and the peace process

Benchmarks: Successful advocacy for improved reporting by the PA on arrears

Result: There has been an improvement in the past year in the way the Ministry of Finance (MOF) tracks and reports on arrears, including arrear age profiling – an important step toward overall arrear portfolio management. The most recent Fiscal Sector Working Group meeting provided a comprehensive report prior to the AHLC which reported on management of arrears.

Benchmark: Regular checks on the program's risk management system, particularly relating to measures that guard against aid diversions that finance terrorism

Result: DFAT updates our risk management matrix quarterly. In addition to independent audits, DFAT staff based in Ramallah conducts six monthly due diligence spot checks of AMENCA NGO partners. This practice will continue under the new AMENCA 3 phase. Australia's contribution to the World Bank's PRDP Trust Fund is audited by the Bank's external auditors following standard World Bank Trust Fund management practice. There is also an annual audit conducted by external auditors, paid for by the Bank as part of the cost of administering the PRDP. UNRWA is audited annually by the United Nations Board of Auditors, most recently in December 2014, which did not find 'any significant deficiencies'. We regularly advocate to UNRWA high level meetings the importance of maintaining its neutrality.

² This reflects overall UNRWA results for 2014 , achieved with Australian and other donor funding.

Mutual Obligations

Australia had planned to hold High Level Consultations (HLC) with the PA during 2014 but the conflict in Gaza prohibited this. HLCs were subsequently held in June 2015 in Ramallah. In the context of implementing the new Aid Investment Plan, we will discuss with the PA the most effective way to regularly evaluate the program and consult on development issues.

The PA and UNRWA's ability deliver on their objectives during 2014-15 were constrained by the internal and external factors outlined throughout this document. Nonetheless most external assessments note the commitment and capacity of both agencies in a dynamic environment.

Program Quality and Partner Performance

Overview

Each of the investments in the PTs aid program provides relevant and targeted performance reporting. The World Bank and IMF report on the PA through the PRDP Trust Fund, UNRWA reports through its Harmonized Results reporting, UNICEF provides twice yearly reports to DFAT and the AMENCA Monitoring and Evaluation Advisor produces annual synthesis reports informed by implementing partners in line with the AMENCA performance framework. Performance reporting is verified by spot checks which also assess on conformance with safeguards and due diligence obligations, including on risk, fraud and CT policy compliance.

An independent review of **AMENCA 2** in November 2014 found 'the AMENCA 'brand' is now well known and highly respected...due to activities having been extensively trialled and allowed time to mature... in an environment where short term, emergency programming is the norm'. The review recommended that DFAT initiate a third phase of AMENCA drawing on best practice and lessons learned from AMENCA 2, and DFAT has accepted that recommendation with the design of a third phase AMENCA in 2015-16. Among the range of lessons drawn from AMENCA 2, AMENCA 3 will focus operations in the agriculture sector, which is where AMENCA 2 achieved its strongest results, and is in line with priorities of the PA.

Australian participation in a planned independent evaluation led by the UK of the World Bank's PRDP Trust Fund did not eventuate during 2014-15, but we will participate in a World Bank-led review in late 2015.

A multilateral performance assessment for **UNRWA** scheduled in January 2016 is planned. This will assist DFAT in determining our plans for supporting UNRWA when the current multi-year partnership finishes in 2015-16.

In 2014-15 our PTs aid investments remained at an appropriate level of consolidation for risk and performance to be managed at an acceptable level with available resources. This is reflected in pipeline planning conducted during the period and in the Aid Investment Plan for 2015-19. In addition to the decision to continue with a third phase of the AMENCA program, arrangements to finalise UNICEF and ACU investments were put in place. The UNICEF program has been extended by \$2.3 million for a further two years based on favourable assessments made in the June 2014 mid-term independent evaluation. The extension will enable UNICEF to complete rehabilitation to water, hygiene and sanitation facilities in some schools urgently requiring upgrades (particularly for girls) as well as rolling out a hygiene curriculum in government schools and trialling innovative solutions for water management.

Analysis of Aid Quality Checks (AQC)

The PTs aid program produced two Aid Quality Checks (AQC) on UNICEF and the Palestinian Authority, one Humanitarian Aid Quality Check (HAQC) on International Committee of the Red Cross (ICRC) and a Final Aid Quality Check (FAQC) for AMENCA 2.

Across the program, quality check scores remained comparable to 2013-14 assessments. This is notable given the severity of conflict in Gaza. The ability to maintain scores across relevance, effectiveness, efficiency, monitoring and evaluation and sustainability, reflects the capacity of Australia's partners to adapt and respond to dynamic environments. Some examples to highlight this include UNICEF's reallocation of unspent funds to repair damaged schools in Gaza, reflecting effectiveness and efficiency; and AMENCA 2's rapid livelihoods support to affected communities.

The **Palestinian Authority** Partnership Arrangement's efficiency rating declined from 5 in 2014 to 4 in 2015. This reflected the assessment that, despite its important role, Australia's investment did not have the influence to achieve the objective of a successful peace process. This investment also scored the lowest rating across the program for gender, remaining at a 4 in line with 2013-14 ratings. The 2013-14 APPR undertook to incorporate gender more prominently into our policy dialogue with the PA. However as we operate through the World Bank's Trust Fund which is linked to fiscal policy reform, it has been problematic to engage on gender issues. To pursue gender dialogue with the PA in a meaningful way would require technical resources (e.g., by secondment or TA into the PA's Ministry of Social Affairs) which, as a smaller donor, Australia is not best placed to do. The AQC observed some positive progress on gender equality (e.g. the PA's National Development Plan integrates gender concerns and has targets for reducing violence against women, increasing female participation in the workforce and in leadership positions).

Gender ratings for our other programs were assessed as 'Good'. Though the PTs is traditionally a patriarchal environment and a difficult place to promote women's empowerment issues, DFATs focus on both mainstreamed and dedicated gender programming was supported by technical expertise, gender sensitive reporting, and was able to demonstrate results.

The HAQC conducted on **International Committee of the Red Cross** proved somewhat problematic given the limited reporting available. Scores reflected our confidence in their systems and experience responding to conflict in the PTs rather than being based on activity-specific data. This identifies the challenge of assessing core funds to multilateral humanitarian agencies and is something to be cognisant of in future emergency funding.

There are no Investments Requiring Improvement (IRI) in the PTs aid program.

Performance of key delivery partners

Key partners have performed well under difficult economic and security circumstances.

In the final year of **AMENCA 2**, all four partners met or exceeded program objectives. In the West Bank, CARE and ActionAid progressed programs on a relatively stable trajectory. CARE ranked highly across all performance areas, particularly sustainability, and its engagement in the agriculture sector provided a good evidence base for the design of AMENCA 3. ActionAid experienced staff turnover issues but despite this was able to deliver some important results for women and youth in the Hebron area, including increased representation of women in the Chamber of Commerce.

Australia's AMENCA relationships in Gaza meant we were positioned to respond quickly to the Gaza conflict. Gaza-based APHEDA and World Vision were able to deliver prompt and well-targeted humanitarian and early recovery assistance to communities during and after the conflict. By using existing head agreements with DFAT, partners were able to receive rapid emergency funds or reallocate existing funds to emergency and reconstruction efforts.

UNRWA has continued to face challenges from an expanding client base of refugees, chronic funding shortfalls and multiple humanitarian crises. In Gaza, where relatively few UN agencies and NGOs operate, UNRWA has been instrumental in providing basic services to a population impacted by access issues and youth unemployment among the highest in the world.

While playing a critical role during the Gaza conflict, UNRWA faced challenges to its impartiality and neutrality. A UN Secretary General's Board of Inquiry subsequently determined that UNRWA's neutrality was breached by militant groups when they placed weapons in UNRWA facilities. In May 2015 and again at the UNRWA Advisory Committee meeting in June 2015, DFAT raised this with UNRWA and encouraged them to act on the Board's recommendations.

UNRWA's ability to assist populations under its mandate has been constrained by its financial situation. The agency's February 2015 budget forecast a deficit of US\$163.3 million. Budget issues forced UNRWA to consider suspending the beginning of the 2015-16 school year and though this did not occur, UNRWA's financial stability will only be assured through a wider donor base. Recently appointed UNRWA leadership has showed positive signs of fiscal reform to bring the agency to a more sustainable operational footing. Australia participates in UNRWA's Advisory Commission and Sub-Committee meetings regularly throughout the year and our active participation in these fora enable us to contribute and be updated on issues such as the UNRWA's reform agenda.

Australia continues to work with UNRWA on its Harmonized Results Reporting which will enable all donors to have a clearer picture of UNRWA's outcomes with the minimal necessary administrative burden. Our commitment to abide by good humanitarian donor principles by providing un-earmarked funding to UNRWA's General Fund is predicated on a clear line-of-sight between donor funds and UNRWA's outcomes and the Harmonised Results Reporting framework can provide this.

The **Palestinian Authority** continued to perform adequately at a technical level despite the numerous challenges noted throughout this report. This was emphasised by the meeting of the Ad Hoc Liaison Committee (AHLC) for assistance to the Palestinians in September 2015 who commended the PA for sustaining 'fiscal discipline and for managing the liquidity crisis from the withholding of clearance revenues for the first half of 2015', and reiterated the PA has the institutional capacity to manage a Palestinian state.

Our policy dialogue with the PA occurs through AHLC meetings each year in the margins of the United Nations General Assembly in New York. We also participate in the Fiscal Sector Working Group in Ramallah that works directly with the PA on public financial management issues. The Australian Representative Office in Ramallah regular meets with the World Bank in Ramallah on issues related to the performance of the PA.

UNICEF performed satisfactorily meeting targets for reconstruction or rehabilitation of WASH facilities in schools identified by the Ministry of Education and Higher Education as being in urgent need of repair. UNICEF's financial management was generally very good. Program efficiencies meant some facilities scheduled for demolition were instead rehabilitated, creating savings that, with DFAT's approval, were redirected to rehabilitate schools damaged during the

Gaza conflict. While some elements of UNICEF’s monitoring, evaluation and reporting could be improved, field officers communicated regularly with the ARO in Ramallah on emerging issues during and after the Gaza conflict.

Risks

Table 3 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?	For emerging/ongoing risks provide a Risk Rating (low, medium, high, very high)
Diversification of aid funds to terrorist organisations or others linked to terrorism. This includes potential reconciliation between Hamas and Fatah, given Hamas is a proscribed terrorist organisation under Australian law	We completed an overhaul of risk management arrangements, amending contracts with NGOs. An independent risk management review in 2014 found these arrangements to be comprehensive.	Australia will continue to carefully monitor governance arrangements to ensure our full compliance with Australian law. Post will monitor implementation of these arrangements and continue to monitor the possibility of Hamas returning to the PA.	Very High
Australia’s major partners (PA and UNRWA) both face persistent budget shortfalls which threaten their sustainability.	Continued engagement with both agencies to emphasise the importance of these issues to donors	During 2015-16, we will have to determine our future engagement with both agencies given current agreements cease in June 2016. A key consideration in our assessment will be the agency’s reform agendas.	High
Small/large scale conflict in West Bank and/or Gaza, between Fatah, Hamas or other militant groups, and/or Israel.	Conflict sensitive programming. Advocacy for stakeholders to maintain strong risk practises and adhere to humanitarian principals. Continued diplomatic commitment to a two state solution	Australia will continue its diplomatic efforts in support of a two-state solution and adherence to humanitarian principles in conflict. The new phase of AMENCA will include conflict sensitive approaches and help to build economic resilience of communities to recover livelihoods after conflict.	High

Management Responses

In September 2015, the PTs Aid Investment Plan (2015-19) (AIP) was approved providing the program with re-oriented objectives, sharpened sectoral focus and articulating how we have responded to the budget cuts announced in May 2015. During 2015-16, we will implement the changes reflected in the AIP.

The performance benchmarks noted in this report were a set of 'pilot' benchmarks and reflected our best assessment at the time of our contribution to development outcomes in the PTs. With budget certainty, the AIP now completed and AMENCA 3 moving to implementation in 2016, we will be able to report on our new objectives and associated performance benchmarks with greater clarity in 2015-16's APPR.

In the context of implementing the new Aid Investment Plan we will engage with PA on the most effective way to regularly evaluate the program and consult on development issues.

During 2015-16, we will determine our future funding arrangements with the **Palestinian Authority** and **UNRWA**. Australia entered into significant multi-year funding agreements with both organisations in 2011 and both will conclude in June 2016. The profile our Australia's aid budget has evolved since 2011, the objectives of the PTs aid program have been re-oriented and the organisational challenges faced by both organisations have come into sharper focus. Our new funding commitments will reflect these issues.

Annex A - Progress in Addressing Management Responses

> Describe progress made against management responses in 2013-14 report

Management responses identified in 2013-14 APPR	Rating	Progress made in 2014-5
Review program objectives in the process of developing a new Aid Investment Plan	Achieved	A new Aid Investment Plan was finalised and the objectives have been re-oriented.
Hold bilateral High Level Consultations by the end of 2014.	Achieved	The conflict in Gaza prohibited holding HLCs in 2014. HLC's took place in Ramallah in June 2015.
Successor program to AMENCA developed and approved.	Achieved	AMENCA3 designed, approved and currently being tendered.
New AIP to take into account reconstruction needs in Gaza	Partly achieved	AMENCA 3 will work in Gaza and create economic opportunities. However budget cuts limited our capacity to support larger-scale reconstruction activities.
Extend support to the UNICEF WASH Program	Achieved	A \$3 million, two year extension of the WASH Program was approved in June 2015.

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 - Progress towards Performance Benchmarks in 2014 -15

> Report on the performance benchmarks identified in last year's APPR.

Aid objective	2014-15 benchmark	Rating	Progress in 2014-15
Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups	57,000 people (29,000 women) in the West Bank and Gaza increase their incomes by 40%.	TBA	While final AMENCA 2 results are not available at the date of publication, preliminary results indicate that this benchmark may be exceeded.
Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups	350 poor women and 585 poor men increase their access to financial services	Partly achieved	UNRWA provided 12,536 microfinance loans (5,146 female and 7,390 male) in 2014, up from 11,613 (4,427 women and 7,186 men) in 2013. This represents an additional 719 women and an additional 204 men accessing financial services.
Objective 1: Supporting sustainable economic growth including helping rural communities and vulnerable groups	Over 22,000 additional children (including 11,000 girls) attend PA or UNRWA schools	Partly achieved	An additional 15,435 children were enrolled in 2014-15 from 2013-14 levels. (7,601 were girls.)
Objective 2: Supporting state building and the peace process	Successful advocacy for improved reporting by the PA on arrears	Achieved	There has been an improvement in the past year in the way the Ministry of Finance (MOF) reports on arrears. The World Bank's now requires previous the insertion of a due date in the IFMIS information system for each arrears payment. This has improved the accounting of arrears because it allows MOF to get a clearer idea on the age profile for each arrears. The Bank is now working with the PA to also improve reporting through the inclusion in monthly fiscal reports on the overall stock of arrears in addition to the net accumulation each month. The most recent Fiscal Sector Working Group meeting provided a comprehensive report prior to the AHLC which reported on management of arrears. While the reporting on arrears has improved, the management of arrears needs to be carefully monitored.
Objective 2: Supporting state building and the peace process	Regular checks on the program's risk management system, particularly relating to measures that guard against aid diversions that finance terrorism	Achieved	DFAT updates our risk management matrix quarterly. In addition to independent audits, Post conducts six monthly due diligence spot checks of AMENCA NGO partners. This practice will continue under the new AMENCA 3 phase. Australia's contribution to the World Bank's PRDP Trust Fund is audited by the Bank's external auditors following standard World Bank Trust Fund management practice. There is also an annual audit conducted by external auditors, paid for by the Bank as part of the cost of administering the PRDP. UNRWA is audited annually by the United Nations Board of Auditors, most recently in December 2014, which did not find 'any significant deficiencies'. We regularly advocate to UNRWA high level meetings the importance of maintaining its neutrality.

Note:

- **Achieved.** Significant progress has been made and the performance benchmark was achieved
- **Partly achieved.** Some progress has been made towards achieving the performance benchmark, but progress was less than anticipated.
- **Not achieved.** Progress towards the performance benchmark has been significantly below expectations

Annex C - Evaluation and Review Pipeline Planning

> List all evaluations and reviews completed in the reporting period.

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
AMENCA 2		Independent Evaluation Review of AMENCA 2		Feb 2015	Feb 2015	March 2015

List of evaluations planned in the next 12 months

Name of Investment	AidWorks number	Type of evaluation	Purpose of evaluation	Expected completion date
Australia – PA Arrangement	INJ843	Partner-led Annual reviews conducted by World Bank	To assess Bank's performance in managing Trust Fund and Development Loan	Late 2015
UNRWA Partnership 2011-2016		Multilateral performance Assessment	To assess suitability to continued multi-year funding	Early 2016
UNRWA Partnership 2011-2016	INK460	Partner-led e-health reforms evaluations	To verify the quality and practicality of reforms to key services	Late 2016

Annex D - Aid Quality Check ratings

The previous investment level performance assessment system utilised Quality at Implementation (QAI) reports. Two criteria, Risks and Safeguards and Innovation and Private sector were not assessed in QAI reports and there have been significant changes in AQC reporting this year.

AQC ratings

Investment name	Approved budget and duration	AQC/QAI year	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Sustainability	Gender equality	Risks and Safeguards
Australia-Palestinian Authority Partnership Arrangement	\$120.0 million 2011 - 2016	2015 AQC	4	4	5	4	3	4	5
		2014 QAI	5	4	5	4	3	4	n/a
UNICEF - WASH in Palestinian Schools	\$12.5 million 2011 - 2017	2015 AQC	5	5	5	4	4	5	5
		2014 QAI	5	5	5	4	4	5	n/a

HAQC ratings (include if relevant)

Investment name	Approved budget and duration	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Connectedness	Protection	Gender equality	Risks and Safeguards
ICRC	\$3 million 2014-15	5	4	5	4	6	5	5	5

FAQC ratings

Investment name	Approved budget and duration	Overall rating	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Sustainability	Gender equality	Risks and Safeguards
AMENCA 2	\$39.0 m 2008 - 2015	5	5	5	5	5	5	5	6

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = 6 = Very good; satisfies criteria in all or almost all areas

5 = 5 = Good; satisfies criteria in most areas

4 = 4 = Adequate; on balance, satisfies criteria; does not fail in any major area

Less than satisfactory (1, 2 and 3)

3 = 3 = Less than adequate; on balance does not satisfy criteria but does not fail in any major area

2 = 2 = Poor; does not satisfy criteria in major areas

1 = 1 = Very poor; does not satisfy criteria in many major areas