

SUMMARY

Special Measure 2017 in favour of Palestine¹ to be financed from the general budget of the Union

1. IDENTIFICATION

Budget heading	22 04 01 04
Total cost	EU contribution: EUR 220,100,000
Legal basis	Regulation (EU) No 232/2014 of the European Parliament and of the Council

2. COUNTRY BACKGROUND

The overarching objective of EU's support to Palestine is to contribute to maintaining the viability of the two-state solution. The general outlook has deteriorated dramatically over the last two years with decreasing political prospects for the peace process, lack of intra-Palestinian reconciliation, continuing policy of Israeli settlement construction and expansion in the West Bank and East Jerusalem, and increase rate of demolitions of Palestinian infrastructure.

Despite the fact that the Palestinian Authority has made good progress in fiscal and budgetary matters, the sharp decline in budget support by certain donors keeps the Palestinian Authority in a fiscal and economic crisis.

The adoption of this Special measure serves the purpose of ensuring continuity Direct Financial Support (DFS) to the Palestinian Authority via the PEGASE mechanism, thereby sustaining the delivery of basic services to the entire Palestinian population, while the multi-annual programme is adopted.

Similarly the Special measure will allow ensuring continuity in the support to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in the delivery of basic services to Palestine refugees.

Since the end of 2015, European development partners have been working on developing the first-ever European Joint Strategy, which is closely aligned to the new Palestinian National Policy Agenda (NPA) 2017-2022. The Joint Strategy will be adopted around mid-2017; therefore to allow continuity of contributions ensuring the delivery of basic services to Palestinians, it is necessary to adopt this Special Measure.

3. SUMMARY OF THE ACTION PROGRAMME

1) Background:

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

Most of the European Union's assistance to the Palestinian Authority (PA) is channelled through PEGASE², the financial mechanism launched in 2008 which aims to build strong governmental institutions as the basis for the future independent Palestinian State.

EU's support to Palestine refugees is channelled through UNRWA and covers not only the West Bank and Gaza Strip, but also Jordan, Lebanon and Syria camps.

2) Co-operation/Neighbourhood related policy of beneficiary country:

The actions are coherent with the Palestinian National Development Plan PNDP for 2014-2016, and with the new Palestinian National Policy Agenda covering 2017 to 2022.

3) Coherence with the programming documents:

The special measure covers recurrent programmes of support to Palestine.

4) Identified actions:

1. **PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2017.**

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

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

2. **Contribution to UNRWA's 2017 Programme Budget.**

This action has the objective of providing support to sustain essential basic services provided by UNRWA within the Agency's 2017 Programme Budget.

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

5) Expected results:

1. **PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2017.**

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

Component 1: Supporting Palestinian administration and services (indicative allocation: EUR 85.0 million)

- By contributing to the payment of salaries and pensions to the Palestinian Authority civil servants in Palestine the EU will help the Palestinian Authority to maintain the functioning of the administration and thus deliver to the Palestinian population essential basic services and reinforcing the Palestinian Authority's public finance management and public finance reform implementation.

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

- The EU will contribute to the quarterly payment of social allowances to poor and vulnerable Palestinian families in the West Bank and the Gaza Strip through the Palestinian Authority's national cash transfer programme (CTP) with the objective of ensuring the continued assistance to Palestinian families living in extreme poverty. This activity also reinforces the reform of the social protection system and the social cohesion among Palestinians.

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

- The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for Palestinians; by contributing to the payment of hospital bills underwritten by the Ministry of Health the EU seeks to mitigate the Palestinian Authority's financial crisis and to keep the Palestinian presence in East Jerusalem.

In addition, the action will cover the following activities:

Component 4: Visibility of PEGASE DFS programmes (Indicative allocation: EUR 0.1 million)

- Visibility and outreach activities related to the PEGASE DFS mechanism will be organised, notably with respect to the VPF programme.

2. Contribution to UNRWA's 2017 Programme Budget.

The main expected results of the Action are:

- a) improved access of Palestinian refugee population in Gaza Strip, West Bank, Jordan, Syria, and Lebanon, to quality essential public services, with a specific focus on the most poor/vulnerable;
- b) increased livelihoods opportunities of poor, vulnerable and isolated population;
- c) increased UNRWA's transparency and accountability.

6) Complementary actions/donor co-ordination:

The Palestinian Reform Development Plan -Trust Fund (PRDP-TF) is managed by the World Bank and its main donors include the UK, France, Norway, Australia and

Kuwait. The release of funds is untargeted, but conditional on the implementation of key reforms for: a) improving the Palestinian Authority's fiscal sustainability; and, b) improving public financial management and accountability. Synergies between PEGASE DFS and PRDP-TF are fostered to the largest extent possible.

The EU continues to play a leading role in several local coordination platforms at all levels. Relevant platforms include: (i) the Fiscal Working Group (co-chaired by the Ministry of Finance and Planning and the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (co-chaired by the Ministry of Finance and Planning and the UK/Department for International Development (DfID)); (iii) the Social Protection Sector Working Group (co-chaired by the Ministry of Social Affairs and the EU); and (iv) the sub-group on Health Referrals under the Health Sector Working Group.

For UNRWA donor co-ordination is ensured through the Advisory Commission sessions and through regular meetings organised by EUREP with local and international stakeholders.

4. COMMUNICATION AND VISIBILITY

The action will follow the EU visibility guidelines and in the 2017 EU-UNRWA Communications and Visibility Plan.

5. COST AND FINANCING

Title of the Action	EU contribution
PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2017	EUR 138,100,000
Audit, verification, monitoring and visibility of PEGASE DFS programmes	EUR 100,000
Contribution to UNRWA's 2017 Programme Budget	EUR 82,000,000
Total EU Contribution to the Annual Action Programme	EUR 220,100,000



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Special Measure 2017 in favour of Palestine¹
to be financed from the general budget of the Union

Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2017"

1. Title/basic act/ CRIS number	"PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2017", CRIS number: ENI/2017/39376, financed under the European Neighbourhood Instrument	
2. Zone benefiting from the action/location	Palestine The action shall be carried out at the following location: Palestine	
3. Programming document	The next programming exercise for the period 2017-2020 is currently under preparation and is expected to be adopted in the second half of 2017. In the meantime, special measures are envisaged for 2017 to ensure continuity of support to the Palestinian Authority, thereby contributing to maintaining the viability of the two-state solution.	
4. Sector of concentration/ thematic area	PEGASE Direct Financial Support (PDFS) to the Palestinian Authority (PA)	DEV. Aid: YES ²
5. Amounts concerned	Total estimated cost: EUR 138,100,000 Total amount of European Union (EU) budget contribution: EUR 138,100,000	
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management	
7 a) DAC code(s)	16010	
b) Main Delivery	10000 - Public Sector Institutions	

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² Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

Channel	12000 - Recipient Government			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagship	N/A			
10. Sustainable development goals (SDGs)	<p>Main SDG Goal: SDG 16, Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.</p> <p>Secondary SDG Goals: SDG 1, End poverty in all its forms everywhere; SDG 3, Ensure healthy lives and promote well-being for all at all ages; SDG 4, Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.</p>			

SUMMARY

The overarching objective of the EU's support to Palestine is to contribute to maintaining the viability of the two-state solution. The multi-annual programming document for 2017-2020 is currently being prepared and is expected to be adopted in the second half of 2017. In the meantime, this special measure serves the purpose of ensuring continuity of the PEGASE³ Direct Financial Support (DFS) to the Palestinian Authority, thereby sustaining the delivery of basic services to the entire Palestinian population.

Through PEGASE DFS, the EU has contributed substantially to the recurrent expenditure of the national budget (over EUR 2 billion since 2008), with systematic, predictable and unconditional contributions to the payment of Palestinian Authority civil servants' salaries and pensions

³ Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.

(PEGASE DFS "Civil Servants and Pensioners" (CSP) programme), of social allowances to the poorest and most vulnerable Palestinians families (PEGASE DFS "Vulnerable Palestinian Families" (VPF) programme), and, since 2013, of health referral bills through the PEGASE DFS "East Jerusalem hospitals" (EJH) programme. Through this programme, the EU provides crucial funding to avoid the collapse of those hospitals, which are amongst the few remaining Palestinian institutions in East Jerusalem and are providing key medical services to the Palestinian population. PEGASE DFS has contributed substantially to state building, as well as to the social cohesion, economic and security stabilisation of the Palestinian territories.

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

In December 2013, the European Court of Auditors (ECA) published a report on PEGASE DFS⁴ where it recognised that the European External Action Service and the Commission had succeeded in implementing direct financial support to the Palestinian Authority in difficult circumstances. The report also concluded that the control measures put in place are robust and that there is no sign of mismanagement or diversion of funds. It put forward a number of recommendations, most of which have already been addressed.

PEGASE DFS has undergone a shift towards a 'results-oriented approach' that aims to guide/formalise a more structured, coherent results-oriented policy dialogue, with stronger monitoring and evaluation of the Palestinian Authority's achievements in key areas, through a Results-Oriented Framework (ROF). Both the December 2013 ECA performance audit and the July 2014 external evaluation of the EU co-operation with Palestine confirmed the relevance and timeliness of this shift. The ROF was co-signed in March 2015 by the EU and the Palestinian Prime Minister and subsequently extended in June 2016 until the end of the year. It covers six sectors, falling within two pillars, aligned to EU PEGASE DFS specific objectives as set-up in the Single Support Framework (SSF) 2014-2016, namely Pillar I: Fiscal Consolidation and Policy Reforms covering (1) Macroeconomic Support; (2) Public Finance Management; and (3) Public Administration Reform; Pillar II: Service delivery covering (1) Education; (2) Health; and (3) Social protection.

The latest external evaluation in July 2016 reiterated that PEGASE DFS has contributed to build capacities of institutions critical to the underpinning of the two-state solution. It also found that the prospect of the programme's continuation, together with better targeted, reforms-oriented policy dialogue, is on the right track for pursuing that solution. Meanwhile, the EU and EU Member States steadily continue progressing towards an EU Joint Programming Approach to enhance programmes' consistency and avoid fragmentation. The Joint Strategy is currently being finalised and will be aligned on the national priorities, in particular as set in the upcoming National Policy Agenda, the overarching national document defining priorities, policies and interventions, which is expected to be completed by the end of 2016.

⁴ European Union Direct Financial Support to the PA - European Court of Auditors Special Report No 14 – 2013.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

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

The general outlook has deteriorated over the last three years. During 2014, the Peace Process negotiations collapsed and the Gaza Strip suffered a major humanitarian crisis and massive destruction as a result of Israel's "Operation Protective Edge", while Israeli restrictions imposed on Palestinian people and their economy continued unabated. Starting at the end of 2015, violence and tension have alarmingly escalated in Jerusalem and the West Bank. More widespread violence is likely to return unless the root causes are addressed. A recent bilateral agreement regulating Palestinian debt payment to the Israel Electric Corporation signed in September 2016 does not seem destined to significantly alter the status quo.

The aforementioned conflict and humanitarian tragedy in Gaza has made an already struggling Palestinian economy worse and put further stress on the Palestinian Authority, both in terms of legitimacy and on its fiscal situation – the Palestinian Authority's total deficit amounted to EUR 1.1 billion for 2015. Due to the lack of reconciliation process between Hamas⁵ - the *de facto* authority in Gaza – and Fatah, diminished funding from the Gulf countries and Israel's sporadic withholding of clearance revenues, the Palestinian Authority ongoing fiscal crisis and difficult governance have been further exacerbated. Difficulties of the Palestinian Authority in paying salaries and bills are recurrent, putting the institutional functioning and the delivery of basic services to the Palestinian population at risk. This is particularly exacerbated in the Gaza Strip where the process to create a "National Consensus Government" (NCG) is stalled and civil servants recruited after 2007 are receiving irregular, partial payments of salaries.

Despite revenues having become the main source to cover expenses, with coverage ratio for revenues growing from 50% in 2009 to 70% in 2015, the Palestinian Authority continues to accumulate considerable debts to the banking sector and arrears to the private sector. The Palestinian Authority debt as of 31 December 2015 amounted to 43% of Gross Domestic product (GDP). Arrears to private sector stood at over EUR 500 million, while arrears to the Pension Fund amounted to over EUR 2 billion. Domestic banks are highly exposed to the Palestinian Authority as their share of loans given is 42%. In this context, social services have been greatly affected. As a result of the Palestinian Authority's accumulated unpaid arrears, hospitals in East Jerusalem have recurrent difficulties in paying salaries and are highly indebted to medical suppliers.

The decreasing political prospects for a viable two-state solution and the lack of intra-Palestinian reconciliation progress further increases donors' fatigue, including on the side of Arab Gulf countries. For instance, Saudi Arabia has withheld a pledge of USD 20 million monthly support

⁵ Following Hamas' victory in the Palestinian legislative elections in 2006, the West Bank has been governed by Mahmoud Abbas and Fatah and Gaza by Hamas, which is regarded as a terrorist group in many countries.

to the Palestinian Authority budget, and although approximately USD 5 billion was pledged at the Cairo Conference on 12 October 2014 (over two thirds of which to be dedicated for the reconstruction of Gaza), there has been significant lack of progress in the actual volume and speed of the contributions⁶. According to the Ad-Hoc Liaison Committee (AHLC), "the Palestinian Authority has made good progress in fiscal and budgetary matters, but the sharp decline in budget support by certain donors risks to put achieved fiscal consolidation into question and could lead to unforeseeable consequences". In the absence of successful peace negotiations, the Palestinian economy will continue to be unsustainable and excessively dependent on donor aid.

Poverty and unemployment levels remain of serious concern. A quarter of the Palestinian labour force is still unemployed. The latest available data from the Palestinian Central Bureau of Statistics (PCBS) indicate that, in 2011, poverty rates reached 18% in the West Bank and 39% in Gaza, with 70% of the population in Gaza being aid dependent. These figures have increased due to the 2014 hostilities in the Strip, which pushed many Gaza families into (deeper) poverty. According to the World Bank report to the AHLC of September 2016, poverty in Palestine reached 27% in 2016, with levels in Gaza at 42%.

1.1.1 Public Policy Assessment and EU Policy Framework

Taking stock of previous planning exercises, the Palestinian Authority has engaged in developing a new National Policy Agenda (NPA) covering national priorities, policies and interventions. The NPA is expected to be adopted towards the end of 2016 and will be valid for the period 2017-2022. Main national priorities will comprise the achievement of independence, government reform and sustainable development. The latter revolves around: 1) economic independence, 2) social justice and rule of law, 3) inclusive, quality education 4) health for all, and 5) resilient communities. Twenty one sectoral strategies are being reviewed and should also be finalised by the end of 2016. The NPA will be the basis for a European Joint Strategy for Palestine from 2017 onwards. Building on the current Results-Oriented Framework, efforts will be targeted towards further improving alignment, enhancing monitoring and evaluation, and continuing strengthening the policy dialogue.

The Palestinian Authority released its "National Early Recovery and Reconstruction Plan for Gaza 2014-2017" in 2014 in the aftermath of the devastating conflict of July/August 2014. The implementation of this plan, in particular with the current level of Israeli's restrictions, remains challenging. Furthermore, prospects for reconciliation between the Palestinian faction governing Gaza – Hamas – and the Fatah-administered West Bank have so far come to naught.

In October 2015, the Palestinian Council of Ministers approved the merging of the Ministry of Planning with the Ministry of Finance, thus creating the Ministry of Finance and Planning and improving the outlook for more effective policy monitoring and evaluation.

In 2016, the EU budget contributed a total of EUR 168 million, through PEGASE DFS, to help the Palestinian Authority with the payments of Palestinian Authority salaries/pensions (EUR 115 million), of allowances for poor Palestinian families (EUR 40 million) and of arrears for medical referrals to East Jerusalem Hospitals (EUR 13 million). These funds were complemented in 2016 by the following contributions from EU Members States: EUR 1 million from Ireland (EUR 0.30 million for salaries/pensions and EUR 0.70 million for social allowances) and EUR 4 million

⁶ According to the WB report to AHLC meeting in September 2016, 46% of pledges to Gaza were disbursed.

from the Netherlands for salaries/pensions, earmarked to the justice sector; EUR 1.5 million from Austria for social allowances and EUR 25,000 from Portugal also for social allowances.

In 2016, other donors (including EU Member States) have also provided additional support to the Palestinian Authority budget either directly or via the World Bank-managed Palestinian Reform Development Plan (PRDP) Trust Fund. The Arab countries direct financial assistance support to the Palestinian Authority in the first eight months of 2016 amounted to NIS 576 million (EUR 136 million), mainly from Saudi Arabia (NIS 461 million - EUR 109 million), Algeria (NIS 103 million - EUR 24 million) and Egypt (NIS 12 million - EUR 3 million). The PRDP Trust Fund's total disbursements in the first 8 months of 2016 amounted to NIS 281 million (EUR 66 million)⁷.

1.1.2 Stakeholder analysis

The final beneficiary of the action will be the Palestinian population as a whole, estimated at 4,8 million⁸. Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the EU and based upon requests and information provided by the Palestinian Authority.

The Civil Servants and Pensioners component targets some 47,000 civil servants and pensioners in the West Bank, of which a significant majority works in the education and health sectors.

The Ministry of Social Development (MoSD) manages the Palestinian Authority's Cash Transfer Programme (CPT). For 2017 NIS 520 million (EUR 123.4 million) have already been allocated by Ministerial Council decision to the CPT⁹. With an annual average family allowance amounting to NIS 4,640 (EUR 1,100), the CPT is expected to target 112,000 vulnerable families in the West Bank and the Gaza Strip, i.e. around 670,000 persons, based on an average family size of six.

The Ministry of Health (MoH) and the East Jerusalem Hospital Network, composed of 6 East Jerusalem Hospitals (EJH), are the main counterpart for the EJH component. Since 2012, the EU and MS have covered the referral costs for patients referred for treatment in EJH by the MoH.

Overall, key partners include the Palestinian Authority institutions: Ministry of Finance and Planning, the technical Ministries and other relevant Departments and Agencies of the Palestinian Authority.

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

1.1.3 Priority areas for support/problem analysis

Volatile context, worsening macroeconomic outlook and continuing donors' dependency

In its last report to the AHLC in September 2016, the World Bank (WB) considered the economic outlook for Palestine to be very challenging and subject to considerable risks. The WB summarised the situation as follows: "Political instability and the long lasting restrictions on movement, access and trade are the main impediments to economic growth in Palestine". These restrictions have significantly limited private sector activity and resulted in the

⁷ EUR amounts based on August 2016 InfoEuro rate: 1 EUR is equal to 4.2383 ILS.

⁸ The latest census was carried out in 2007; the figure is an estimate by the Palestinian Central Bureau of Statistics: http://www.pcbs.gov.ps/Portals/Rainbow/Documents/gover_e.htm

⁹ This amount is meant to encompass already prospective donor contributions to the PA budget.

“deindustrialisation” of the Palestinian economy - with the share of manufacturing in GDP dropping from 18% in 1995 to around 10% in 2015. The share of agriculture in the economy has also decreased to 50% of what it was in 1995.

The World Bank also stated that whilst the Palestinian economy will not be able to reach its potential until a permanent peace agreement is established there is much that can be done. One of the key constraints to economic growth continues to be Israeli restrictions on Palestinian access to Area C. A 2013¹⁰ World Bank study suggested that unrestricted Palestinian economic activity in Area C, including the exploitation of its natural resources, could increase GDP by as much as 35%. WB and IMF project medium-term growth in real GDP at 3.5%, which is insufficient to reduce unemployment below its current level of more than a quarter of the Palestinian labour force and raise per capita income given the projected population growth.

Moreover, it is to be noted that, in the past, the Government of Israel froze the transfer of clearance of revenues on several occasions as a response to political decisions made by the Palestinian Authority. This is considered a potential significant recurrent risk. In addition, as mentioned above, donor support has significantly declined in recent years (budget support in particular has decreased by around 40% since 2011) and become less predictable, with stalled commitments from several countries. Against this background the Palestinian Authority was forced to increase its debt to domestic banks, thereby exposing them further to the public sector and almost exhausting their legal borrowing capacities.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Substantially worsening political and fiscal context with continued occupation, notably the potential freezing of the transfer of Clearance Revenues by Israel, which may lead to increased instability, volatility and of a return to violence in the medium-term growing	H	Enhanced EU dialogue with Israel, including linking EU co-operation effectiveness in Palestine directly to Israeli actions – in line with the ECA recommendation that 'the EEAS and Commission in conjunction with the broader donor community, should further engage with Israel, within the framework of broader EU-Israeli cooperation, in order to determine what steps Israel needs to take to ensure PEGASE DFS is more effective'.
Lack of progress of in the reconciliation process and continued regression in democratic and social accountability, with decreased legitimacy of the	H	EU support for the NCG to take leadership both at the technical and political level, as well as policy dialogue and monitoring of progress in reforms

¹⁰

World Bank Report No. AUS2922 -Area C and the Future of the Palestinian Economy

Palestinian Authority among the Palestinian population		Increased support for civilian oversight
Deterioration of the status quo in Gaza with expected increased level of poverty	M/H	Enhanced EU dialogue with Israel and the NCG
Fluctuations in the exchange rate may have an impact on funding needs	M/H	Continuous monitoring
Assumptions		
<ul style="list-style-type: none"> • The two-State solution is still the political aim supported by the EU; and the EU continues supporting the Palestinian Authority in view of a peaceful solution; • The PA continues to be committed to its statehood agenda and the reconciliation process; • The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions under the occupation; • Contributions from EU Member States and other donors will be made available during the implementation period to complement the proposed funds; • Full co-operation with the Palestinian Authority is essential. This co-operation needs to be maintained, in particular for the identification of eligible beneficiaries and timing of payments and for the identification of eligible expenditure. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

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

The mid-term review of PEGASE conducted in 2009 highlighted the flexibility in planning and implementation, the highly competent and professional staff and the use of well-proven management systems while continuously innovating, which contributed to the success of this mechanism. Final evaluations covering the periods 2008-2015 have confirmed these findings. In particular, the latest evaluation covering the period 2014-2015 found that PEGASE DFS mechanism has contributed to provide "predictable, reliable and unconditional contributions to the Palestinian Authority. It has enabled the Palestinian Authority to maintain and manage its administration and build capacity despite the very critical political situation imposed by the occupation and the restrictions from Israel. The Palestinian Authority/PMO appreciates this support and call for its continuation in the same spirit". At the same time, "there are some elements within PEGASE DFS that would be better addressed through policy dialogue, such as the progression of the wage bill and the political issue of the reintegration of civil servants and pensioners in Gaza."

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

3.2 Complementarity, synergy and donor coordination

Following the Single Support Framework for 2014-2016, the next programming exercise will cover the period 2017-2020, as part of a well-advanced Joint Programming process with MS, and in line with the Palestinian National Policy Agenda starting in 2017 and covering a 6 years period. The first European Joint Strategy currently being developed with European development partners has identified the following 5 pillars of support aligning with the next planning document of the Palestinian Authority: 1) Governance Reform, Fiscal Consolidation and Policy (Macroeconomic and Public Finance Management, Public Administration and Local Governance); 2) Rule of Law, Justice, Citizen Safety and Human Rights (Justice, Safety and Human Rights legislation); 3) Sustainable Service Delivery (Education, Health and Social Protection); 4) Access to Self-Sufficient Water and Energy Services (Infrastructure focus); 5. Sustainable Economic Development (Agriculture and Private Sector). The Strategy is due to be finalised in the last quarter of 2016 on the ground and be approved in the second quarter of 2017.

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

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

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

Development and the EU); and (iv) the sub-group on Health Referrals under the Health Sector Working Group.

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

3.3 Cross-cutting issues

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

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

As for gender equality, the upholding of key social services such as education and health will be critical to cater to women's –as well as men's – basic needs. Of the funds disbursed so far in 2016 within the CSP component, 42.3% of beneficiaries were women.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this special measure is to maintain the viability of the two-state solution by avoiding the fiscal collapse of the Palestinian Authority and sustaining basic living conditions of the whole Palestinian population.

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

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

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 16, Peace, Justice and Strong Institutions; but also promotes progress towards Goal 1, No Poverty; Goal 3, Good Health and Well-being; Goal 4, Quality Education. This does not imply a commitment by the Palestinian Authority benefiting from this programme.

4.2 Main activities

Three categories of public expenditure are eligible for support under this action for a total amount of EUR 138.1 million, which follows previous actions committed every year since 2008 for funds disbursed through the PEGASE DFS mechanism:

Component 1: Supporting Palestinian administration and services (indicative allocation: EUR 85 million)

The EU will contribute to the payment of salaries and pensions to the Palestinian Authority civil servants in Palestine (West Bank). The objective of this activity is to support the Palestinian Authority to maintain the functioning of the administration effectively under its control and thus deliver to the Palestinian population essential basic services in the West Bank. The regular contribution to the funding of the wages expenditure for civil servants also reinforces the Palestinian Authority's public finance management and public finance reform implementation.

Component 2: Supporting the Palestinian social protection system (indicative allocation: EUR 40 million)

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

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

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

Component 4: Visibility of PEGASE DFS programmes (Indicative allocation: EUR 0.1 million)

Visibility and outreach activities related to the PEGASE DFS mechanism will be organised, notably with respect to the VPF programme.

4.3 Intervention logic

Through systematic and predictable contributions to the Palestinian Authority's recurrent expenditures made through the PEGASE DFS mechanism, the EU is making a key contribution to avoiding the financial collapse of the Palestinian Authority itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so, the EU significantly contributes to maintaining the viability of the two-state solution and the Palestinian Authority's state-building activities, notably in terms of service delivery. The funds channelled through the PEGASE DFS mechanism thus contribute to the social cohesion and the economic and security stabilisation of Palestine. The contributions made through any of the aforementioned three main components play a key role in supporting the PA to implement policy reforms aiming at enhancing its fiscal sustainability and improve the accountability, integrity, and transparency of its public finance system, as well as to improve service delivery.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement. The funds under the three Components are, however, expected to be disbursed in total by the end of 2017.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

Direct management will be applied for all four components.

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

Subject in generic terms, if possible	Type (e.g.: works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to the recurrent costs of the Palestinian Authority through PEGASE DFS programmes	Direct Financial Support (pro-forma contracts)	3	First quarter 2017
Visibility	Services	1	Second quarter 2017

For the aforesaid Components 1, 2 and 3, disbursements will be made by the Commission through specific sub-accounts of the Palestinian Authority's Single-Treasury Account to the eligible beneficiaries of the PEGASE DFS programmes detailed in Section 4.2 above, following eligibility checks and verification and control procedures by external experts and international audit firms.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
Component 1: Supporting Palestinian administration and services (CSP)	85,000,000	N/A
Component 2: Supporting the Palestinian social protection system (VPF)	40,000,000	N/A
Component 3: Support to East Jerusalem hospitals (EJH)	13,000,000	N/A
Component 4: Communication and visibility for PEGASE DFS programmes	100,000	N/A
Totals	138,100,000	N/A

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

Other funds for the necessary technical assistance (aligned to the Results-Oriented Framework), evaluation, audit and visibility actions have been made available under separate Financing Decisions (notably Decision C(2016)1359 on "Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016" - ENI/2016/38842).

5.6 Organisational set-up and responsibilities

On the Palestinian Authority side, the leading partners in the implementation of the PEGASE DFS programme will be the Ministry of Finance and Planning in the execution of the payments to final beneficiaries, the Ministry of Social Development (Component 2) and the Ministry of Health (Component 3).

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

EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including for the following:

- liaise with the Ministry of Finance and Planning concerning eligible expenditures;
- organise and manage the process of validation, control, payment and audit; and,
- be responsible for paying contributions or for supporting payments to be made by individual donors.

Financial experts and qualified auditors will work for the project and will be complemented by other experts as required.

The Ministry of Finance and Planning will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources.

5.7 Performance monitoring and reporting

A comprehensive system of monitoring, control and audit will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide assurance over the use of funds, and the efficient and effective provision of support to the Palestinian Authority and population while fully protecting donor interests.

Payments will be executed in accordance with Commission regulations. A sophisticated bi-annual financial reporting system will be used, giving detailed information on all operations processed. Individual beneficiaries as well as businesses will be uniformly checked against international sanctions lists.

As from early 2013, the EU started working towards a Results-Oriented Framework for PEGASE DFS covering both Policy Reforms and Service Delivery, under which EU donors would further co-ordinate the support (in terms of funding, technical assistance and policy dialogue). The ROF is anchored within the EU process towards EU Joint Programming expected to start in 2017. The basis has been the EU/MS Local Development Strategy (EU LDS), which defines rolling EU operational priorities and an EU/MS division of labour in Palestine. This includes 16 EU/MS Sector Strategy Fiches in line with the Palestinian National Development Plan 2014-2016 and related sectors strategies. The approach is thus a consolidated EU approach, and a step towards Joint Programming. The development of such framework has also been done in close collaboration with the Palestinian Authority and the other direct financial assistance donors.

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

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

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

The next programming exercise covering the period 2017-2020, as part of a well-advanced Joint Programming process with MS, will further align with the Palestinian National Policy Agenda.

Particular attention will be paid to enhancing monitoring and evaluation, and continuing strengthening the policy dialogue in terms of reforms.

5.8 Evaluation

An evaluation of the PEGASE DFS programmes for the period 2014-2015, including an evaluation of the pilot ROF, took place in the first semester of 2016. Earlier, a comprehensive evaluation report covering the first three years (2008-2011) of implementation was carried-out in 2012. Another evaluation covering the period 2011-2013 was completed in March 2015.

Follow-up evaluations are currently planned to take place every 18 months. They will be carried out for accountability and learning purposes, in particular with respect to the alignment with the priorities defined in the future NPA; the assurance that the Palestinian Authority leads the process of monitoring, evaluation and reporting of the ROF; and the increased impact of policy dialogue.

The evaluation reports shall be shared with the partner country and other key stakeholders, notably contributing donors. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5.9 Audit

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

Advanced monitoring, control and audit systems are set up for all of PEGASE DFS programmes. All donors contributing to PEGASE DFS programmes have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

In addition to the regular verifications and audits of eligible expenditures to identify and validate payments, annual ex-post audits of PEGASE DFS programmes will be undertaken in accordance with international standards, to provide the maximum level of assurance which will be partly contracted from other decisions related to the PEGASE DFS activities. Contributing donors will be invited to participate. Contributing donors may also carry out ex-post audits of expenditures covered by their payments.

5.10 Communication and visibility

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

Progress of implementation will be communicated regularly to all stakeholders through mid-and end-year financial and operational reports. Regular meetings are held with EU Member States in Brussels as well as locally.

It is foreseen that one contract (through a relevant framework contract) will be signed for visibility and communication purposes during the second quarter 2017.

6 PRE-CONDITIONS

None.



This action is funded by the European Union

ANNEX 2

of the Commission Implementing Decision on the Special Measure 2017 in favour of Palestine¹
to be financed from the general budget of the Union

**Action Document for "UNRWA: EU Contribution to the United Nations Relief and
Works Agency for Palestine Refugees (UNRWA) 2017 Programme Budget"**

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning grants awarded directly without a call for proposals: 5.3.2

1. Title/basic act/ CRIS number	"European Union (EU) Contribution to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) 2017 Programme Budget" CRIS number: ENI/2016/378-971 financed under European Neighbourhood Instrument.	
2. Zone benefiting from the action/location	Palestine ¹ The action shall be carried out at the following location: Palestine refugee camps in UNRWA's 5 fields of operation: West Bank, Gaza Strip, Syria, Lebanon and Jordan.	
3. Programming document	The next programming exercise for the period 2017-2020 is currently under preparation and is expected to be adopted in the second half of 2017. In the meantime, special measures are envisaged for 2017 to ensure continuity of support to UNRWA, thereby contributing to maintaining the viability of the two-state solution and sustaining the delivery of essential public services to the Palestine refugees.	
4. Sector of concentration/ thematic area	Financial Support to UNRWA's Programme Budget	DEV. Aid: YES

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

5. Amounts concerned	Total estimated cost: EUR 620,870,000 Total amount of EU budget contribution EUR 82,000,000. This action is co-financed in parallel co-financing by: - Other donors to UNRWA for an amount of EUR 538,870,000.			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with UNRWA (or direct management – grants – direct award to UNRWA)			
7 a) DAC code(s)	72010			
b) Main Delivery Channel	41130 - United Nations Relief and Works Agency for Palestine Refugees in the Near East			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagship	N/A			
10. Sustainable development goals (SDGs)	Main SDG Goals: Goal 4: Ensure inclusive and quality education for all and promote lifelong learning; as well as Goal 3: Ensure healthy lives and promote well-being for all at all ages. Secondary SDG Goals: Goal 1: End poverty in all its forms everywhere; as well as Goal 17: Revitalize the global partnership for sustainable development.			

SUMMARY

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require temporary measures to contribute to maintaining the viability of the two-state solution.

Continued EU support to UNRWA is an essential element of the EU's strategy to bring peace, stability and prosperity to the region and represents the EU's longstanding commitment to Palestine refugees until a just resolution to their plight is accomplished.

UNRWA provides education, health, relief and social services, microfinance, housing and infrastructure support to approximately 5 million registered Palestine refugees in Jordan, Lebanon, Syria, the West Bank and the Gaza Strip. Established by the United Nations (UN) in 1949 to carry out direct relief and works programmes for Palestine refugees, the Agency began operations in 1950. In the absence of a solution to the Palestine refugee problem, the General Assembly has repeatedly renewed UNRWA's mandate. Among United Nations Agencies, UNRWA is unique in delivering services directly to beneficiaries.

The aim of this Action is to contribute to the UNRWA's 2017 Programme Budget to sustain the delivery of essential public services to Palestine refugees. Since 1971, the EU has contributed annually to UNRWA's Programme Budget. This funding is used primarily to cover the Agency's key core programme services in the areas of health, education, and social services and is essentially used to pay salaries for teachers, doctors and social workers active in the refugee camps. UNRWA has more than 30 000 staff posts to cover for services provided to over 5 million refugees. In combination with contributions from EU Member States, EU overall support accounted for about 40% of all contributions to the Agency's 2016 entire operations. Since the year 2000, the EU has provided over EUR 1.6 billion in support of UNRWA's work.

1 CONTEXT

1.1 Regional context

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

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

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

Poverty continues to be one of the defining characteristics of many of the Palestine refugees served by UNRWA in Palestine (the Gaza Strip, the West Bank), Jordan, Lebanon and Syria.

After 66 years, UNRWA continues to provide refugees not only with critical services, but also with stability and hope for the future. UNRWA's role as a pillar of stability in the region was put at risk in 2015 when severe funding shortfalls threatened to close down UNRWA's educational programme and delay the return to school of some 500,000 children. Thanks to exceptional additional contributions from donors including from the EU, the 2015/16 school year could begin according to schedule in the fall with 685 schools benefiting half a million pupils across the region.

Despite UNRWA's commitment to a zero growth budget in 2016, reform initiatives and cost containment measures, its financial challenges continue. The Agency has, as of September 2016, forecasted a USD 74 million deficit. Lack of any working capital since 2014 is now compounding this situation. The UNRWA Commissioner General has therefore decided to update his Special Report of 3 August 2015 on the Agency's financial crisis to the United Nations Secretary General with an appeal to all UN Members and Observers to close the 2016 gap and to urgently establish a process that would identify measures putting UNRWA on stable financial footing.

With a population grows at a pace of approximately 4-6% per year UNRWA faces huge challenges to its fiscal sustainability. While the Agency maintains regional quasi government operations via its 30.000 predominately Palestinian workforce, contributions to the Agency's Programme Budget have stagnated. Growth in income has been at only 2 % over the last years while expenditures are forecasted to grow at a rate of 6% per annum.

At stake remains the capacity of the Agency to ensure sustainability in its core activities, by introducing reforms as well as by securing reliable and predictable funding for the Programme Budget. Donor fatigue is evidently noticeable among UNRWA's traditional donors. This is occurring in an environment where host and donor countries are facing substantial domestic economic challenges making it more difficult for them to maintain existing levels of support.

1.1.1 Public Policy Assessment and EU Policy Framework

The Programme Budget is the Agency's primary means of sustaining core services. The ability of the Agency to provide its services is entirely dependent on sufficient voluntary contributions made available annually from donors.

Despite the Agency's continued strong lobbying for funds and its commitment for continued stringent austerity and cost reduction measures as well as management initiatives aimed at safeguarding UNRWA's core programmes, the Agency risks experiencing another financial shortfall in 2017.

In the last years, substantial chronic gaps have been the result of several factors: (i) the high birth rate in the refugee population means that, even if funding was maintained or slightly further increased, per capita allocations would drop; (ii) reduced donations from a number of donors; (iii) the increase in commodity prices; (iv) the depletion of reserves; (v) exchange rate losses; (vi) the situation in Syria which has increased the demand for relief services from Palestine refugees affected by the on-going conflict.

Against this background the UNRWA Medium-Term Strategy (MTS) 2016-2021 is expected to gain momentum and pave the way to consolidation and savings of its expenditures by refocussing the Agency on its core business (primary health, basic education and social relief). Technical reforms foreseen in the Agency's MTS are expected to help improve UNRWA's financial stability and ensure that services are being delivered to the most vulnerable among the refugee population.

In parallel, UNRWA's Resource Mobilization Strategy (RMS) for 2016-2018 aims at further diversifying the Agency's donor base while continuing to deepen its partnership with traditional donors in an attempt to meet an increasing need for resources in the coming years.

Continued EU support to UNRWA is an essential element of the EU's strategy to bring peace, stability and prosperity to the region and represents the EU's longstanding commitment to Palestine refugees until a just resolution to their plight is accomplished.

Since 1971, the EU has contributed annually to UNRWA's Programme Budget. For the period 2014-2016, contributions to the Programme Budget have been framed within the EU-UNRWA Joint Declaration indicatively committing annually €82 million. The agreement has offered the Agency much needed predictability in sustaining its core programmes. A new Joint Declaration agreement for the upcoming period 2017-2020 is expected to be endorsed by the end of 2016. The proposed new Joint Declaration foresees UNRWA's commitment towards i) focusing on core priorities, ii) pursuing the internal reform process, iii) developing a resource mobilization strategy towards non-traditional donors and iv) ensuring better transparency and complementarity of all UNRWA programmes in the region.

1.1.2 Stakeholder analysis

The direct beneficiary of the action is the Palestine refugee population in UNRWA's five fields of operations.

UNRWA itself, as well as all donors and host countries supporting UNRWA are also key stakeholders.

1.1.3 Priority areas for support/problem analysis

UNRWA continues to provide refugees not only with critical services, but also with stability and hope for the future. The Agency is the largest UN operation in the Middle East, active in five fields of operations (West Bank, Gaza Strip, Jordan, Syria and Lebanon).

UNRWA's role as a pillar of stability in the region was put at risk in 2015 due to funding shortages. While the 2015 crisis was averted, all stakeholders including donors, host countries, and the Agency itself committed to work together so that a crisis of this scale and kind would not be repeated.

In 2016, UNRWA committed to a zero growth budget, reform initiatives and cost containment measures. Notwithstanding these measures, UNRWA's financial challenges have continued and the Agency risks facing repeated financial shortfalls.

In 2015 and in 2016, necessary measures initiated by UNRWA's management to control spiralling costs under the Programme Budget have been crucial. Although these measures, such as the class formation exercise, the freeze on Programme Budget recruitment and the review of international consultancies posed serious challenges for the Agency and consequently for

Palestine refugees, the EU supported them as a necessary and unavoidable means to bring the Agency onto a stronger financial footing. The EU has in recent years, at every available opportunity, warned of the dangers of a growing deficit and reduced reserves and the impact of this on the delivery of services to Palestine refugees.

However, increased funding from most of the Agency's traditional donors and efforts to broaden and diversify the income sources in the last years have been outpaced by demand caused by the prevailing conflicts in most fields of operation and deteriorating economic conditions in all of them.

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

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Deterioration of existing protracted conflicts and new conflicts arising in UNRWA's fields of operations that change refugee needs or the Agency's ability to operate	M/H	Continuous monitoring
Insufficient resources to enable the Agency to sustain core operations	M/H	UNRWA's new Resource Mobilization Strategy (RMS) covering the period 2016-2018 sets out new areas of strategic focus where further resources may be mobilised. The RMS seeks to further enhance existing relations with both traditional and non-traditional donors (e.g. continued and accelerated outreach to Gulf donors). Undertaken successfully, both the RMS and the internal measures/reforms will maximize the Agency's efforts to sustain its core operations.
Risks associated with change: Structural changes and reforms within UNRWA's operations are likely to raise concerns and encounter opposition from the	H	UNRWA ensures adequate stakeholder consultation and communication throughout the envisaged reform processes.

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

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Since its establishment in 1950, UNRWA has become identified as the “quasi government” structure for Palestinians living in refuge in UNRWA’s fields of operation. Its mandate is to provide services to refugees which would otherwise be provided by a government body. Originally, these services encompassed Relief provision and Public Works, but in order to support refugees effectively in the context of long-term political uncertainty, it has become increasingly necessary to adopt a ‘long term development’ as opposed to a temporary ‘relief’ approach within UNRWA's repeatedly renewed mandate over the past 65 years.

Next to service provision UNRWA's establishment and continued operation also mark the lack of an acceptable solution to the plight of Palestine refugees. For this reason, attempts to change UNRWA’s role are often strongly resisted by the refugee population and by the governments of their host countries. Nonetheless, UNRWA recognises that the resource scarcity resulting from ongoing conflicts, growing needs from population growth, as well as inflationary pressures, require the Agency to prioritise services and activities within, and between, its programmes.

3.2 Complementarity, synergy and donor coordination

The EU will continue to promote synergies and complementary strategies between the programmes of the host countries, international organisations and UNRWA. To the extent possible, the overall purpose will be to ensure consistencies between programmes managed by these parties that aim at delivering essential basic services (including at policy, strategy, and programme levels) and in the case of the Palestinian Authority (PA) to support it in its state-building efforts. Steps towards greater synergies with UNRWA, notably in terms of social protection, are currently under discussion.

Donor co-ordination is ensured through UNRWA's Advisory Commission² sessions, through the EU Interest Group³ on UNRWA and other regular meetings organised by the Office of the European Union Representative (EUREP) in East Jerusalem with local and international stakeholders.

Besides supporting UNRWA's Programme Budget, the EU has actively supported UNRWA's management reforms and continues to provide support to a number of extra-budgetary special emergency appeals and projects. EU humanitarian assistance supports the Agency's emergency responses and preparedness to unpredictable but recurrent humanitarian needs predominantly emerging from the protracted crises in Palestine and Syria.

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

In combination with contributions from EU Member States, EU overall contributions in 2016 accounted for about 40% of the total support to UNRWA. Since the year 2000, the EU has provided over EUR 1.6 billion in support of UNRWA's work.

3.3 Cross-cutting issues

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

As regards gender equality, UNRWA's 2016-2021 Medium Term Strategy (MTS) embeds gender equality across all dimensions of the MTS Strategic Outcomes and in its management and operational objectives. Amongst other elements, indicators and targets are disaggregated wherever appropriate by sex, thereby ensuring gender receives specific attention at all stages of the programme cycle.

Under UNRWA's mandate for the protection of Palestine refugees, the Agency addresses specific concerns of women, children and persons with disabilities through the implementation of a gender mainstreaming strategy and gender based violence programme, a disability policy, an inclusive education policy and a child protection framework. In the area of livelihoods, UNRWA focuses on the mutually reinforcing outcomes of building the capabilities of refugees and improving access to livelihood opportunities.

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

² Following the UN General Assembly's approval of its expansion in December 2005, membership consists of the following: Australia, Belgium, Brazil, Canada, Denmark, Egypt, Finland, France, Germany, Ireland, Italy, Japan, Jordan, Kuwait, Lebanon, Luxembourg, Netherlands, Norway, Saudi Arabia, Spain, Sweden, Switzerland, Syrian Arab Republic, Turkey, United Arab Emirates, United Kingdom, United States. Observers are the Palestine Liberation Organisation, the European Union, and the League of Arab States.

³ Coordination within this group ensures that the EU and its Member States speak with one voice. The Group also discusses and prepares the joint AdCom statement delivered by the EU Representative in Jerusalem on behalf of the EU and its Member States.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this Action is to maintain the viability of the two-state solution by sustaining basic living conditions of the whole Palestinian population, including refugees. It is thus to provide support to sustain essential basic services provided by UNRWA within the Agency's 2017 Programme Budget (education, health, relief and social services, infrastructure/camp improvement programmes, and supporting departments and services).

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

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goals 4 and 3, but also promotes progress towards Goals 1 and 17.

4.2 Main activities

Within the UNRWA's 2017 Programme Budget, main core programme expenditures are eligible for support under this action. UNRWA's main programmes are:

Education programme:

Education services are currently provided through around 692 UNRWA elementary, preparatory and secondary schools and eight vocational training centres in all 5 fields of operation staffed by approximately 23,000 educational personnel and attended by around 500,000 pupils.

This programme aims to provide, within the framework of the curricula prescribed by the host countries and by the Palestinian Authority, quality basic education as well as vocational and technical education for Palestine refugees to enhance their educational opportunities at all levels of the educational system. UNRWA's objectives for the medium term, based on its commitment to Palestine refugees' human development, is to help children and youth gain appropriate knowledge and skills by providing universal primary education besides improving the quality of education provided.

In 2011, the UNRWA education programme began a major reform to help it meet the evolving demands of an education system in the twenty-first century. The reform was completed in 2015 and is progressively leading to improved services for the Palestine refugee students in UNRWA schools and vocational training centres.

Health programme:

UNRWA's health programme is community-based, with the emphasis placed on primary health care and with a very selective use of hospital services. Over three million refugees (66% of UNRWA registered refugees) make use of UNRWA health facilities. Primary care is provided through UNRWA's own 144 facilities, serving approximately 9.9 million patient visits per year. Secondary care is provided through contractual arrangements with governmental or non-governmental hospitals or through partial reimbursement of the costs of treatment. Two thirds of the refugee population consist of women in reproductive age and children below 15 years of age, making maternal and child health, including family planning services, a priority area.

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

UNRWA's strategy for health reform is based on the Family Health Team approach (FHT) which includes forming health teams in all clinics that provide family health services. In addition, there are two critical supportive components, namely the e-Health information system and physical improvement of health centre infrastructure. The now complete FHT implementation⁴ process has shown signs of enhanced health care quality, system efficiency and has been positively received by patients. New FHT health centres also allow doctors and nurses to spend more consultation time with patients.

Relief and social services programme:

The Agency provides eligible refugees with a range of services including food support, cash subsidies and selective cash assistance (modest cash support, vouchers and cheques), and shelter rehabilitation under the Social Safety Net Programme (SSNP).

The SSNP aims to alleviate poverty and food insecurity of the Palestine refugees living in poverty across UNRWA's five fields of operations, with priority focus on the abject/extreme poor. Through the SSNP, UNRWA supports and assists Palestine refugees through the provision of a basic quarterly food basket and modest cash subsidies. The SSNP provides assistance to around 291,000 beneficiaries in the five fields.

This programme, while modest in scale, represents an important contribution to household incomes of those served and provides an important vehicle for identifying and tracking particularly vulnerable families.

Traditionally, UNRWA provided quarterly food baskets and cash subsidies to all beneficiaries deemed eligible under the SSNP, Gaza being the exception where no cash subsidy has been provided. In April 2016 Lebanon, West Bank and Jordan, the Agency began the transition from the provision of food to the provision of E-vouchers and E-cash to Social Safety Net recipient families. This focus seeks to contribute to greater well-being within refugee communities and to provide refugee families with a wider range of healthy food options and the dignity of choice. This shift has not led to any change in the targeting approach for the selection of SSNP families or in the eligibility for the assistance. Based on a future evaluation of E-voucher and E-cash implementation in Lebanon, West Bank and Jordan, the Agency will consider whether to expand the programme to the remaining two fields (Syria and Gaza).

Infrastructure/camp improvement programme:

This programme aims to improve the quality of life for camp residents living in substandard conditions. It ensures that all UNRWA facilities are efficiently planned, designed, constructed and maintained in order to meet the physical infrastructure needs of both the Palestine refugees and the Agency.

⁴ FHT transition is complete in all fields except Syria, where implementation began in 4 health centres in 2015 and will expand as the security situation allows.

4.3 Intervention logic

The EU and its Member States remain the largest providers of international assistance to Palestine refugees. Through this reliable and predictable contribution to UNRWA's 2017 Programme Budget, the EU is making a key contribution towards ensuring that UNRWA continues to carry out its mandate with minimal risks to its operations while providing essential services to the more than five million Palestine refugees who depend on the Agency.

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

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 12 months as from 1 January 2017, the expected final date of operational duration being 31 December 2017.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Indirect management with an international organisation (UNRWA)

This action may be implemented in indirect management with UNRWA in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails carrying out the activities described in section 4.3 in order to (1) provide sustained access of the Palestine refugee population in the Gaza Strip, West Bank, Jordan, Syria, and Lebanon, to quality essential public services, with a specific focus on the most poor/vulnerable; (2) increase livelihoods opportunities of poor, vulnerable and isolated population; (3) improve UNRWA's responsiveness to respective Palestine refugees' needs. This implementation is justified because the action has specific characteristics requiring a specific type of implementer with proven technical competence and specialisation. UNRWA, established by the United Nations General Assembly, is the UN Agency mandated to provide services to Palestine refugees. In the absence of a solution to the Palestine refugee problem, the UN General Assembly has repeatedly renewed UNRWA's mandate.

The entrusted entity would carry out the following budget-implementation tasks provision of cash transfers to refugee families, procurement of supplies and services, including tendering, contracting and making payments.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 01 January 2017.

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

Grant: direct award "EU Contribution to the UNRWA 2017 Programme Budget" (direct management)

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

This action has the objective of providing support to sustain essential basic services provided by UNRWA within the Agency's 2017 Programme Budget.

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

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

(b) Justification of a direct grant

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

Under the responsibility of the Commission's authorising officer responsible, and in accordance with Article 190(1)(f) of Regulation (EU, Euratom) No 966/2012, the recourse to an award of a grant without a call for proposals is justified because the action has specific characteristics requiring a specific type of beneficiary for its technical competence, specialisation or administrative power. UNRWA, established by the United Nations General Assembly, is the UN Agency mandated to provide services to Palestine refugees. In the absence of a solution to the Palestine refugee problem, the UN General Assembly has repeatedly renewed UNRWA's mandate, most recently extending it until 30 June 2017.

(c) Eligibility conditions

Not applicable.

(d) Essential selection and award criteria

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

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

(e) Maximum rate of co-financing

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

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to conclude the grant agreement

1st trimester of the year 2017

(g) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1 January 2017.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1. – Indirect management with UNRWA	82,000,000.00	EUR 538,870,000
Totals	82,000,000.00	EUR 538,870,000

5.6 Organisational set-up and responsibilities

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

5.7 Performance monitoring and reporting

Since 2010, the Agency has developed a unified reporting framework. The initiative sought to generate a standardised methodology with a set of indicators for reporting out to donors encompassing reporting timeframes, template and quantitative and qualitative information required. This harmonised reporting approach aimed to reduced transactions costs and better quality of reporting to respective donors. Alignment of reporting also reflects best practice discussions and recommendations formulated among UNRWA, donors and the evaluation consultants, in addition to established principles in global forums and studies such as the Paris Declaration and the High Level Committee on Management Results Reporting Study.

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

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

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

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and

employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the nature of the action, an evaluation will not be carried out for this action or its components.

The Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

5.10 Communication and visibility

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

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Over the past 8 years UNRWA and the EU have successfully executed a wide variety of activities that highlight EU support for Palestine refugees across the Agency's fields of operation, targeting a wide range of audiences: from EU Member State decision-makers in Brussels to Palestine refugee students at UNRWA schools in the West Bank, through a variety of activities such as multimedia art competitions for Palestine refugee youth, EU Fun days for children, film festivals, and additional communication outreach activities throughout the five fields have been implemented. Similar and new activities will be supported within the planned 2017 EU-UNRWA Communications and Visibility Plan.

6 PRE-CONDITIONS

None.