



# Australia’s strategic approach to aid in the Palestinian Territories

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# 1 Strategic priorities for the Australian aid program in the Palestinian Territories

## 1.1 Introduction

This document outlines Australia's proposed strategy for its aid program in the Palestinian Territories and for Palestinian refugees. This updates AusAID's *Approach to Humanitarian and Development Assistance for the Palestinian Territories*, which is due to expire at 30 June 2011. The strategy outlined here will be subject to further discussion with the Palestinian Authority, and a final strategy will be released by June 2011.

The proposed objective of Australia's new five year (2011-16) aid program is to reduce poverty and suffering, and promote peace and development in the Palestinian Territories.

The program will strengthen engagement between Australia and the Palestinian Territories and provide targeted, more sustained support to the Palestinian Authority and the Palestinian people. The program will combine support for the peace process, state building and vulnerable groups, with the flexibility to respond to emergency and humanitarian needs.

The proposed key priorities for Australia's aid program to the Palestinian Territories are:

- providing basic services and humanitarian and emergency assistance to refugees and other vulnerable groups
- state-building and support for the peace process, with a focus on improving the governance and capacity of the Palestinian Authority
- developing civil society, with a focus on reducing vulnerability, particularly for Palestinian women, children and youth

In delivering the aid program, Australia will enter into multiyear partnership agreements with the Palestinian Authority and the UN Relief and Works Agency (UNRWA). Support will be provided to assist the Palestinian Authority implement its national development plan. Funding to the Palestinian Authority will be provided through the World Bank Trust Fund. Both core and program support will be provided to UNRWA to provide services to refugees living in the West Bank, Gaza and surrounding countries. Australia will also work with international and local non-government organisations and like minded donors.

## 1.2 Recommendations for the strategic focus of Australia's aid program

### Objective and key priorities

Australia's aid policy in the Palestinian Territories is shaped by the humanitarian concerns of the Australian community, Australia's commitment to supporting the Middle East peace process, and the close people-to-people and other links between Australia and the region. Australia supports a negotiated two-state solution, with Israel and an independent Palestinian state living side-by-side in peace and security.

Australia has committed to increasing its overall official development assistance (ODA) towards the target of 0.5% of gross national income by 2015. As part of this expansion, the Australian Agency for International Development (AusAID) proposes an increase in development assistance to strengthen Australia's support for the Palestinian Territories.

The proposed objective of Australia's aid to the Palestinian Territories is:

- To reduce suffering and poverty, and promote peace and development

Australia's proposed three key priorities are:

#### a) Providing basic services and humanitarian and emergency assistance to refugees and other vulnerable groups

Humanitarian relief for refugees and other vulnerable groups, primarily through the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and other United Nations (UN) agencies, currently constitutes around half of Australia's aid for the Palestinian Territories and Palestinian people. As the Palestinian Authority develops its capacity, and subject to progress in the peace process, we expect many of UNRWA's responsibilities will progressively transfer to the Palestinian Authority. Australian assistance should aim to support such a transfer.

#### b) Developing the institutions, governance and capacity of the Palestinian Authority in support of the peace process

Assistance for development of institutions and capacity currently constitutes about one-third of Australian aid to the Palestinian Territories. Given the importance of stable and effective Palestinian institutions to achieving a negotiated two-state solution where a future Palestinian state lives side-by-side in peace and security with Israel, Australia proposes to strengthen assistance through a five-year development partnership with the Palestinian Authority, including regular budget support and a scholarships program focussed on those disciplines critical to institution building.

#### c) Developing civil society with a focus on reducing vulnerability, particularly for Palestinian women, children and youth

Civil society development programs currently amount to about one sixth of Australia's aid to the Palestinian Territories. Australia proposes to continue this work and continue to provide services, including micro-credit, for the community and micro-level businesses that offer income generating opportunities for poor and vulnerable communities often difficult to reach.

### Constraints to success and risks

The key risk to the successful delivery of Australia's proposed Palestinian Territories program is the possibility of increased conflict, which would increase the need for humanitarian and emergency

assistance. A constraint to the institution-building and civil society components of Australia's program is that sustainable outcomes will be subject to progress in the peace process enabling greater Palestinian control of security, the economy and borders. The main risk to support for the Palestinian Authority is if progress on reform falters. Underlying all assistance are risks of corruption and diversion of resources to terrorist groups. These risks will be minimised by working closely with trusted partner agencies and by close monitoring on the ground by AusAID staff.

### **1.3 Proposed approaches and ways of working**

Australia has established partnerships with UNRWA, the Palestinian Authority, other UN agencies (United Nations Children's Fund and the World Health Organization) and civil society. Australia has provided annual funding to UNRWA since 2008. In recognition of UNRWA's ability to identify priority needs and to improve management efficiency, in October 2010 Australia signed an agreement for three years of funding, which includes a component linked to improved performance. This will strengthen cooperation, and provide greater predictability in UNRWA's funding. In addition to the three-year base commitment, Australia proposes to provide further funding so that total support to UNRWA will increase incrementally over the period of the strategy. This stronger relationship with UNRWA will also see Australia taking a more active role in the UNWRA Advisory Commission and in assessing UNRWA's effectiveness.

Since April 2008, Australia has provided funding to the Palestinian Authority through the multi-donor World Bank Palestinian Reform and Development Plan Trust Fund. The fund has oversight of progress on public financial management reform and fiduciary controls in the territories. Australia proposes an enhanced development partnership with the Palestinian Authority, including multi-year funding through the trust fund (the World Bank has proposed a three-year extension to the trust fund from January 2011), and a targeted scholarships program to help build technical expertise. Formal annual aid consultations between Australia and the Palestinian Authority would be established.

Australia's support to civil society in the Palestinian Territories is provided mainly through Phase Two of the five-year Australian Middle East NGO Cooperation Agreement. Australia proposes to continue multi-year funding agreements with Australian non-government organisations (NGOs).

## 2 Critical issues in the Palestinian Territories

### 2.1 Critical development challenges in the Palestinian Territories

#### Palestinian people and the Palestinian Territories

The majority of the seven million Palestinian people are scattered across five locations: the Palestinian Territories of Gaza and the West Bank (including East Jerusalem), and in Jordan, Lebanon and Syria. The Palestinian Territories are the main focus of Australia's Middle East aid program, although some support is provided to Palestinian refugees in Jordan, Lebanon and Syria. More than four million Palestinians live in the Palestinian Territories, almost two million of whom are registered as refugees. Of these, 492 000 refugees in Gaza and 191 000 in the West Bank are housed in official refugee camps, with the rest living in cities, villages and unofficial camps.

#### Government and the provision of services

The Palestinian Authority (run by Fateh) administers the Palestinian Territories. Its reach is largely limited to the West Bank although it continues to pay for key infrastructure in Gaza. Gaza is run by Hamas, the military wing of which is designated in Australia as a terrorist organisation. The Palestinian Authority provides basic services in all major population centres and most rural communities (areas A and B) of the West Bank. Israel controls Area C, which comprises 59% of the Palestinian Territories. Since June 2007, under Prime Minister Fayyad, the Palestinian Authority has been implementing a reform and development plan to pursue economic and governance reforms, and to provide greater structure to the Authority's budget.

In Gaza, the Hamas administration provides some basic services such as schools and hospitals and law enforcement, and maintains close oversight of UN agencies and NGOs. Around 80% of Gazans are dependent on international humanitarian assistance for the essentials of life, with approximately one-third of UNRWA<sup>1</sup> expenditure going to activities in the area.

UNRWA is the chief provider of basic services for Palestinian refugees. The Agency's services encompass education, health care, relief, camp infrastructure and improvement, community support, microfinance and emergency response, including in times of armed conflict.

#### Economic situation

Since 2006 when real gross domestic product (GDP) in the Palestinian Territories fell by 4.8%, positive GDP growth has returned and 8% growth is projected for 2010. In the West Bank, economic recovery started in 2007. Growth in real GDP was more than 10% in 2007 and 2008, and is estimated to be between

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<sup>1</sup> UNRWA was established in 1949 to carry out direct relief and assistance programs for Palestinian refugees. It provides many of the services in the Palestinian Territories that would normally be provided by government.

8% and 9% in 2009 and 2010 respectively. Economic growth continues to be supported by the Palestinian Authority's reforms, and the easing of some obstacles to the internal movement of people and goods, which has improved the investment climate. Unemployment fell from 15.9% in the second quarter of 2009 to 15.2% in the second quarter of 2010.

Gaza's estimated growth of 16% in the first half of 2010 was the result of large inflows of humanitarian assistance and a gradual lifting of restrictions on imports. Living standards in Gaza are well below those in the early 1990s, and unemployment is more than 35%.

The main driver of growth in the Palestinian Territories is donor finance—in 2008, total donor support amounted to more than 40% of GDP. Sustainable economic growth in the Palestinian Territories will not be possible while the current restrictions on economic activity are maintained.

### Conflict, human security and development

The longstanding conflict between Israel and Palestinians is the fundamental constraint to economic and social development in the Palestinian Territories. A key prerequisite for a peace settlement with Israel is the formation of a stable and moderate Palestinian state that can deliver security on Israel's borders. While recent progress in the government of the West Bank is promising, the obstacles to overcoming these constraints are formidable.

Poverty measures in 2007 showed that 56% of the Gazan population and 24% of people in the West Bank were living in poverty. Without donor aid—food and cash—these rates would be much higher.

Nevertheless, in the latest Human Development Index (2008) the Palestinian Territories ranked 110 out of 182 countries. This largely reflects the role of UNRWA in providing Palestinian refugees with access to education, health and other services. Overall education levels are ranked the best in the Arab world. Health indicators are also relatively strong and the maternal mortality rate is the lowest in the Arab world. Mental health is an increasing concern, with many Palestinians having high levels of fear and insecurity. Access to potable water in Gaza is poor, with 90% of the population not connected to a potable water system. While Palestinian women have some of the highest levels of education in the Arab world, their participation in the formal workforce is very low (13% in 2009) and many experience domestic violence, discrimination and restrictions on behaviour.

## 2.2 Partner government's development plans or priorities

The Palestinian Authority's priorities are: providing security while respecting citizens' rights; improving transparency and fighting corruption and waste; improving the quality of public services; and enabling private sector growth. These priorities are reflected in a series of reform programs: the Palestinian Reform and Development Plan 2008–2010 (June 2007); the Program of the 13th Government: Ending the Occupation, Establishing the State (August 2009); and the Palestinian National Plan 2011–2013 (forthcoming). Information on Hamas's development plans and priorities is limited. However, two priorities are clear: complete freedom of movement of goods and people, and water and sanitation.

The key priorities of UNRWA and international aid agencies are to meet the humanitarian needs of the Palestinians, support the peace process and assist the Palestinian Authority to build a capable and stable government.

## 2.3 Donor engagement on development challenges

In 2008, total ODA to the Palestinian Territories was estimated at US\$2.56 billion. The European Commission and the United States were the two largest donors (US\$661 million and US\$490 million respectively). Australia currently ranks 13, and its aid (estimated at \$35 million in 2010–11) constitutes approximately 1.5% of total aid to the Palestinian Territories. Like most western countries, Australia does not engage with, or provide funding to, Hamas, which is a proscribed terrorist organisation under Australian legislation.

An estimated 40% to 45% of ODA to the Palestinian Territories is provided to the Palestinian Authority, to support the reform programs being implemented under Prime Minister Fayyed. Saudi Arabia, Kuwait and the United Arab Emirates also contribute funding directly to the Palestinian Authority (US\$383 million in 2009, with a similar amount expected in 2010).

UNRWA receives an estimated 40% to 45% of ODA to the Palestinian Territories. Its budget in 2009 was US\$1.2 billion for core programs, emergency activities and special projects. In spite of cuts to its services, UNRWA is currently facing budget difficulties. UNRWA's major donors are the United States, European Commission, United Kingdom, Sweden and Norway, with Australia currently ranked 16.

In 2008 donor contributions to more than 1500 NGOs active in the Palestinian Territories were estimated at US\$258 million, about 10% of total ODA. European agencies provide more than two thirds of NGO funding, and Arab funding is estimated to be about 10% of the total.

## 2.4 Opportunities for donor coordination, harmonisation and alignment

The chief coordinating body for aid is the Ad Hoc Liaison Committee, established in 1993. The committee is chaired by Norway and co-sponsored by the European Commission and United States.

It meets bi-annually, with membership including all main Western and Arab donors, the World Bank, the Palestinian Authority and Israel.

Below the committee sits a Local Development Forum for the Palestinian Authority, which includes sector working groups. Donor coordination also operates through joint payments to trust funds providing budget support to the Palestinian Authority, including the Palestinian Reform and Development Plan Trust Fund that Australia contributes to. The annual consolidated appeal provides an opportunity to coordinate the humanitarian work of UN agencies and NGOs.

UNRWA's Advisory Commission meets twice yearly, providing an opportunity to coordinate assistance and discuss performance and future plans. UNRWA's efficiency, effectiveness and transparency have improved in recent years, and donors continue to encourage further internal reforms.