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The Honorable Patrick J. Leahy
Chairman
The Honorable Judd Gregg
Ranking Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
United States Senate

The Honorable Nita M. Lowey
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Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
House of Representatives

Subject: *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2008 and 2009*

For decades, the United States has worked toward the resolution of the Israeli-Palestinian conflict, most recently under the 2003 Roadmap for Peace, which calls for an independent Palestinian state coexisting peacefully with the State of Israel.¹ The United States had obligated more than \$2.9 billion in bilateral assistance to the West Bank and Gaza focused on further developing the Palestinian economic, social services, and civil society sectors and on strengthening the processes, governance, and security-

¹“A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict,” (UN Document S/2003/529, dated May 7, 2003). Among other things, this agreement obligated the Israelis and Palestinians to undertake a series of coordinated steps to disengage Israeli troops from areas in the Palestinian territories occupied after the 2000 intifada and replace them with consolidated and retrained Palestinian Authority (PA) security forces operating under the direction of the PA Interior Minister.

providing capacity of Palestinian Authority (PA) institutions from fiscal years 1993 through 2009. An additional \$400.4 million is planned for fiscal year 2010. Since June 2007, when Hamas—a U.S. designated terrorist organization—seized control of the Gaza Strip, the United States has directed most of its assistance to the West Bank.²

The U.S. Agency for International Development (USAID) is primarily responsible for administering Economic Support Fund (ESF) appropriations.³ Fiscal year 2008 and 2009 ESF funds support, among other things, priority needs identified in the 2007 Palestinian Reform and Development Plan, as well as humanitarian needs in Gaza following the Israeli-Hamas conflict there from December 2008 through January 2009.⁴

For fiscal years 2008 and 2009, the Congress mandated that the Comptroller General of the United States report to the Congress on U.S. assistance to the West Bank and Gaza.⁵ In response to these mandates, this report (1) examines the status of USAID's obligations and expenditures⁶ of the fiscal years 2008 and 2009 ESF appropriations for the West Bank and Gaza and (2) describes how the USAID mission is obligating the fiscal years 2008 and 2009 funds. In addition, in response to the mandate in the Consolidated Appropriations Act of 2008, we previously reported on the extent to which USAID has complied with its policies and procedures to help ensure that its programs do not provide support to entities or individuals associated with terrorism in the West Bank and Gaza.⁷

²Provisions in U.S. annual appropriations acts have placed restrictions on funds being provided to Hamas. The most recent provision placed restrictions on funds being provided to Hamas, a Hamas controlled entity or any power sharing government of which Hamas is a member, though assistance may be provided to such a power-sharing government if the President certifies that Hamas has taken certain steps such as publicly acknowledging the Jewish state of Israel's right to exist, or for national security reasons. See Consolidated Appropriations Act, 2010, P.L. 111-117, December 16, 2009. Likewise, U.S. law also places restrictions on assistance to a Hamas-controlled Palestinian Authority unless the President certifies that certain steps have been met or for national security reasons. See 22 U.S.C. § 2378b.

³According to the Department of State, the ESF promotes the economic and political foreign policy interests of the United States by providing assistance to allies and countries in transition to democracy, supporting Middle East peace negotiations, and financing economic stabilization programs. Funds appropriated to the Economic Support Fund generally remain available for two years; that is, USAID would generally have two years from the time the funds were appropriated to obligate the funds. In addition, there are various restrictions placed on funds provided to the West Bank and Gaza programs in the annual appropriations acts. For example, the 2009 Omnibus Appropriations Act prohibits certain funds, including funds appropriated to the Economic Support Fund, from being used for the purpose of recognizing or otherwise honoring individuals who commit, or have committed, acts of terrorism. See Omnibus Appropriations Act, 2009, Pub. Law No. 111-8, 123 Stat. 881, Sec. 7039(c), March 11, 2009.

⁴On December 27, 2008, Israel launched a military campaign called "Operation Cast Lead" against Hamas in the Gaza Strip. The Israeli offensive came in response to markedly increased Palestinian rocket fire following the expiration of a six-month cease-fire on December 19. On January 3, 2009, Israel began a ground offensive into Gaza. Despite international pressure to halt the fighting, the conflict continued until January 18, when Israel unilaterally ceased fire. Hamas ceased fire shortly thereafter.

⁵Consolidated Appropriations Act, 2008, Pub. Law No. 110-161, Sec. 657(e)(2), Dec. 26, 2007 and Omnibus Appropriations Act, 2009, Pub. Law No. 111-08, Sec. 7039(e)(2), March 11, 2009.

⁶For this report, we use the term "expenditures" to mean cash disbursements.

⁷GAO, *Foreign Assistance: Measures to Prevent Inadvertent Payments to Terrorists under Palestinian Aid Programs Have Been Strengthened, but Some Weaknesses Remain*, [GAO-09-622](#) (Washington, D.C.: May 19, 2009).

To address these objectives, we analyzed data provided by USAID for fiscal years 2008 and 2009 appropriations for assistance to the West Bank and Gaza as of December 31, 2009. We also met with USAID officials in Washington, D.C., and at the USAID mission (mission) in Tel Aviv, Israel, and reviewed relevant documents related to projects funded with fiscal year 2008 and fiscal year 2009 ESF funds. To determine whether the data were sufficiently reliable for purposes of this report, we requested and reviewed information from and interviewed officials at the USAID mission in Tel Aviv, Israel, about their procedures for entering contract and financial information into USAID's data system. We also requested and reviewed information from USAID officials at the Washington, D.C., headquarters about the underlying financial data system. We determined that the USAID data were sufficiently reliable for purposes of this report.

We conducted our work from July 2009 to May 2010 and in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data we obtained, and the analysis we conducted, provide a reasonable basis for the findings in this product. (Encl. I contains a full discussion of our scope and methodology.)

Summary

Of the approximately \$1.17 billion in ESF assistance provided by the United States to the West Bank and Gaza from fiscal years 2008 and 2009 ESF appropriations, USAID obligated a total of about \$1.16 billion and expended \$678.5 million, as of December 31, 2009. More specifically, as of this date, USAID obligated 100 percent and expended over 80 percent of fiscal year 2008 ESF funds for the West Bank and Gaza.⁸ For fiscal year 2009, USAID obligated approximately 98 percent and expended 47 percent of the ESF funds, as of December 31, 2009. The USAID mission in Tel Aviv reported that it plans to obligate the remaining \$8.3 million in fiscal year 2009 ESF funds prior to the end of fiscal year 2010. The total of \$1.17 billion in ESF funds for fiscal years 2008 and 2009 represented a large increase from previous years' appropriations, which totaled \$448.7 million from fiscal years 2004 through 2007.

USAID's West Bank and Gaza mission obligated \$1.15 billion in fiscal year 2008 and 2009 ESF assistance primarily for projects in five sectors: water and infrastructure, democracy and governance, health and humanitarian assistance, private enterprise, and education.⁹ This assistance funds humanitarian, development, and reform projects mainly throughout the West Bank and, to a lesser extent, Gaza. Overall, USAID directed most of the fiscal year 2008 and 2009 ESF funding to the water and infrastructure sector, followed by the democracy and governance sector and health and humanitarian assistance sector. In addition, USAID also provided a total of \$500 million from the

⁸Approximately \$1.5 million in fiscal year 2008 obligations were later de-obligated and not re-allotted to the mission.

⁹USAID obligated \$18.8 million, from the \$1.15 billion in 2008 and 2009 ESF fund obligations, for program and field support activities and direct transfers.

\$1.15 billion in obligations to the PA in three separate cash transfers for direct budgetary support. USAID officials stated that political and security conditions severely limited their ability to fund projects in Gaza in fiscal year 2008. A USAID official reported that USAID plans to commit up to \$86 million in fiscal year 2009 ESF funds for humanitarian assistance and recovery projects in Gaza; however, their ability to undertake all of these planned activities is uncertain.

Background

The Palestinian territories, comprising the West Bank and Gaza, cover 2,400 square miles and have a combined population of 4.0 million people, with over 1.5 million people in Gaza and approximately 2.5 million in the West Bank.¹⁰ The Hamas-controlled *de facto* authorities operate in Gaza while both the PA and Israel administer areas within the West Bank.¹¹ (See fig. 1.)

¹⁰Central Intelligence Agency World Factbook.

¹¹In June 2007, fighting between the two major political parties within the PA, Fatah and Hamas, resulted in Hamas forcibly seizing control of the Gaza Strip, creating a Hamas-led *de facto* government in Gaza.

Figure 1: Map of West Bank and Gaza and Surrounding Countries



Sources: GAO (data); CIA and Map Resources (map).

In 1993, the government of Israel and the Palestine Liberation Organization signed the Oslo Peace Accords,¹² and USAID established its West Bank and Gaza mission. In September 2000, the second *intifada* began and the Oslo peace process unraveled. Peace efforts were renewed in June 2002 when the U.S. President outlined the

¹²The accords called for the withdrawal of Israeli forces from parts of the Gaza Strip and West Bank and affirmed the Palestinian right to self-government within those areas through the creation of the Palestinian Interim Self Government Authority. Palestinian rule would last for a 5-year interim period during which a permanent agreement would be negotiated.

principles for a performance-based strategy called the Roadmap for Peace, which calls for an independent Palestinian state coexisting peacefully with the State of Israel. The United Nations, the United States, the European Union, and Russia—known as the Quartet on the Middle East¹³—as well as Israel and the PA endorsed the strategy in April 2003.

In January 2005, the Palestinian people elected Mahmoud Abbas, a supporter of the peace strategy, to be president of the PA. In January 2006, the Palestinian elections resulted in a Hamas majority in the Palestinian Legislative Council. Following the results of the January 2006 election and the subsequent formation of a Fatah-Hamas unity government in 2007, the Quartet on the Middle East stated that its members would continue to provide support and assistance to the Hamas-led government only if the government would agree to nonviolence, recognize the State of Israel, and respect previous Israeli-Palestinian peace agreements. Hamas had not met these conditions and USAID reduced and restructured its direct assistance to the Palestinians. The United States no longer provided aid directly to the PA, but instead shifted the focus of aid to providing humanitarian and project assistance indirectly through international and non-governmental organizations.¹⁴

In June 2007, Hamas forcibly took control of the Gaza Strip. This led President Abbas to issue an emergency decree suspending the operation of the PA government and appointing a new government to administer the affairs of the West Bank during the state of emergency, under a new Prime Minister, Salam Fayyad, who is not affiliated with either Hamas or Fatah. This newly formed government presented an opportunity for the United States to re-engage with the PA directly and led to increased levels of U.S. assistance aimed at improving the economic and security climate in the West Bank and increasing the capacity of the PA. In December 2007, Prime Minister Fayyad presented the Palestinian Reform and Development Plan that outlined the vision of a future Palestinian state and prioritized needs. The plan presented a private sector-led strategy for economic growth. In response to this plan, USAID has coordinated with the PA to identify a wide range of assistance activities that meet PA priority state-building needs and support a two-state solution by helping to create a peaceful and democratic Palestinian state. In August 2009, Prime Minister Fayyad released the “Program of the 13th Government: Ending the Occupation, Establishing the State,” which builds on the Palestinian Reform and Development Plan and describes the PA’s priorities, over a 2-year period, for establishing the necessary institutions for governing a future Palestinian state. In Gaza, according to USAID, the prohibitions on providing assistance to Hamas or any entity controlled by Hamas limit assistance options to programs implemented through international organizations, U.S. non-governmental organizations, and vetted local partners.

¹³The Quartet is involved in mediating the peace process between the State of Israel and the PA.

¹⁴GAO previously reported on changes to U.S. aid to the Palestinians as a result of the January 2006 elections. See *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2005 and 2006*, [GAO-07-443R](#) (Washington, D.C.: Mar. 5, 2007).

Status of U.S. Assistance to the West Bank and Gaza for Fiscal Years 2008 and 2009

In fiscal years 2008 and 2009, the United States provided a total of about \$1.17 billion in ESF assistance to the West Bank and Gaza through five separate appropriations. As of December 31, 2009, USAID had obligated a total of approximately \$1.16 billion of this total U.S. assistance, of which it had expended \$678.5 million. (See table 1.)

Table 1: Summary of Fiscal Year 2008-2009 ESF Assistance to the West Bank and Gaza as of December 31, 2009

(Millions of U.S. dollars)

| ESF appropriation | Allocated from ESF appropriation | Total obligations | Expended balance | Obligated balance | Unobligated balance |
|---|----------------------------------|--------------------|------------------|-------------------|---------------------|
| Fiscal year 2008 | \$389.0 | \$387.5 | \$314.5 | \$73.0 | \$0 |
| Consolidated Appropriations Act, 2008, Pub. Law No. 110-161 | 218.0 ^b | 217.0 ^c | 202.4 | 14.6 | 0 |
| Supplemental Appropriations Act, 2008, Pub. Law No. 110-252 | 171.0 | 170.5 ^d | 112.1 | 58.4 | 0 |
| Fiscal year 2009 | \$776.0 | \$767.7 | \$364.0 | \$403.7 | \$8.3 |
| Supplemental Appropriations Act, 2008, Pub. Law No. 110-252 (Bridge Funds) ^a | 150.0 | 150.0 | 150.0 | 0.0 | 0 |
| Omnibus Appropriations Act, 2009, Pub. Law No. 111-8 | 75.0 | 74.4 ^e | 12.6 | 61.8 | 0.6 |
| Supplemental Appropriations Act, 2009, Pub. Law No. 111-32 | 551.0 | 543.3 | 201.4 | 341.9 | 7.7 |
| Total | \$1,165.0 | \$1,155.2 | \$678.5 | \$476.7 | \$8.3 |

Source: GAO analysis of USAID data.

^aThese bridge funds are ESF funds that were made available starting October 1, 2008, and remained available until September 30, 2009.

^bOriginal allocation was \$218.5 million; however, in response to an across-the-board rescission, USAID lowered the amount by \$0.5 million to approximately \$218.0 million. In addition, USAID headquarters asked the mission to convert \$2 million of these funds from program to operating expense account funds to cover the administrative expenses required to carry out programs in the West Bank and Gaza, as allowed for in the appropriations act.

^cIncludes de-obligations totaling \$1,001,297. According to the mission, once funds are de-obligated they do not necessarily get reallocated to the mission. In this case, the funds that were de-obligated were not reallocated to the mission.

^dIncludes de-obligations totaling \$516,092.

^eIncludes de-obligations totaling \$391.

Of the total fiscal year 2008 appropriations of \$389 million, USAID obligated all available funds,¹⁵ of which it expended \$314.5 million, as of December 31, 2009. The Congress provided the fiscal year 2008 ESF funds through two separate appropriations.

- From the ESF funds appropriated in the 2008 Consolidated Appropriations Act, USAID was allocated \$218 million for the West Bank and Gaza.¹⁶ Of this amount, \$2 million was used for USAID administrative expenses to carry out programs in the West Bank and Gaza as allowed for in the ESF appropriations language in the act.
- From the ESF funds appropriated in the 2008 Supplemental Appropriations Act, USAID was allocated an additional \$171 million for the West Bank and Gaza.¹⁷

Of the total fiscal year 2009 appropriations of \$776 million, USAID obligated approximately \$768 million, of which it expended \$364 million, as of December 31, 2009. The Congress provided the fiscal year 2009 ESF funds through three separate appropriations.

- From the ESF bridge funds appropriated in the 2008 Supplemental Appropriations Act, USAID was allocated an additional \$150 million in funding for the West Bank and Gaza to be made available to USAID for fiscal year 2009.¹⁸
- From the ESF funds appropriated in the 2009 Omnibus Appropriations Act, USAID was allocated \$75 million in funding for the West Bank and Gaza.¹⁹ As of December 31, 2009, the USAID mission had approximately \$600,000 available to be obligated by the end of fiscal year 2010. USAID reported that it plans to fully obligate the remaining funds by September 30, 2010.
- From the ESF funds appropriated in the 2009 Supplemental Appropriations Act, USAID was allocated an additional \$551 million in funding for the West Bank and Gaza.²⁰ As of December 31, 2009, approximately \$7.7 million remained unobligated. USAID reported that it plans to fully obligate the remaining funds by September 30, 2010.

The combined total of about \$1.17 billion for fiscal years 2008 and 2009 represented a large increase from previous years' appropriations, which totaled \$448.7 million combined from fiscal years 2004 through 2007.²¹ USAID directed the funding toward, among other things, supporting the PA in the West Bank and the priority reform and development needs outlined in the Palestinian Reform and Development Plan.

¹⁵Obligations of fiscal year 2008 ESF funds totaled \$387.5 million; however, this does not include roughly \$1.5 million in deobligations of previously obligated 2008 ESF funds that were not reallocated to the mission.

¹⁶Consolidated Appropriations Act, 2008, Pub. Law No. 110-161, December 26, 2007. Originally, Congress had appropriated not more than \$218.5 million in ESF funding for the West Bank and Gaza. However, in response to an across-the-board rescission, USAID lowered the amount by \$0.5 million to approximately \$218.0 million. See Section 699P of Division J of the Consolidated Appropriations Act, 2008, Pub. Law No. 110-161, Dec. 26, 2007.

¹⁷Supplemental Appropriations Act, 2008, Pub. Law No. 110-252, June 30, 2008.

¹⁸Supplemental Appropriations Act, 2008, Pub. Law No. 110-252, June 30, 2008.

¹⁹Omnibus Appropriations Act of 2009, Pub. Law No. 111-8, March 11, 2009

²⁰Supplemental Appropriations Act, 2009, Pub. Law No. 111-32, June 24, 2009.

²¹As a result of carry-over funds from previous years, mission obligations from fiscal years 2004 through 2007 totaled \$725 million.

USAID Obligations of Fiscal Year 2008 and 2009 ESF Assistance Fund Various Projects and Budgetary Support, Primarily in the West Bank

USAID’s West Bank and Gaza mission obligated \$1.15 billion in fiscal years 2008 and 2009 ESF funds primarily among five development sectors: water and infrastructure, democracy and governance, health and humanitarian assistance, private enterprise, and education.²² (See table 2.) USAID also provided \$500 million, from the \$1.15 billion in obligations, as direct budgetary support to the PA. Most 2008 and 2009 USAID assistance is for the West Bank, as assistance to Gaza is primarily limited to humanitarian assistance.

Table 2: Total Mission Obligations by ESF Appropriation Source, Fiscal Years 2008 and 2009 as of December 31, 2009

(Millions of U.S. dollars)

| | Consolidated Appropriations Act, 2008, Pub. Law No. 110-161 | Supplemental Appropriations Act, 2008, Pub. Law No. 110-252 | Supplemental Appropriations Act, 2008, Pub. Law No. 110-252 (Bridge Funds) | Omnibus Appropriations Act, 2009, Pub. Law No. 111-8 | Supplemental Appropriations Act, 2009, Pub. Law No. 111-32 | Total 2008- 2009 |
|-------------------------------------|---|---|---|---|--|------------------------------|
| Development sectors | | | | | | |
| Water and Infrastructure | \$13.0 | \$100.3 | 0 | \$22.0 | \$206.4 | \$341.7 |
| Democracy and Governance | 12.2 | 28.3 | 0 | 21.0 | 40.0 | 101.5 ^a |
| Health and Humanitarian assistance | 14.8 | 11.2 | 0 | 11.6 | 59.1 | 96.7 |
| Private enterprise | 13.8 | 23.6 | 0 | 7.2 | 17.8 | 62.3 |
| Education | 7.5 | 0.6 | 0 | 7.7 | 16.3 | 32.1 |
| Cash transfers/support/other | | | | | | |
| Cash transfers | 150.0 | 0 | \$150.0 | 0 | 200.0 | 500.0 |
| Program support | 2.9 | 6.6 | 0 | 4.7 | 0.2 | 14.3 |
| Field support/direct transfers | 0.8 | 0 | 0 | 0.1 | 3.5 | 4.5 |
| Total | \$215.0 | \$170.5 | \$150.0 | \$74.4 | \$543.3 | \$1,153.2^b |

Source: GAO analysis of USAID data.

Note: Totals may differ due to rounding.

^aA portion of the Democracy and Governance funding during these years was redirected to the emergency needs of the Gaza population following Operation Cast Lead. Of the total Democracy and Governance obligation, USAID redirected approximately \$37 million to these humanitarian operations.

^bTotal does not include \$2 million in operating expense account funds used to cover the administrative expenses required to carry out programs in the West Bank and Gaza.

²²USAID obligated \$18.8 million of 2008 and 2009 ESF funds for program and field support activities and direct transfers.

USAID Directed Project Assistance across All Five Development Sectors in the West Bank

Through funds allocated from the fiscal years 2008 and 2009 ESF appropriations, USAID has funded various projects, primarily in the West Bank, across all five development sectors. In order to describe a cross section of these projects, we chose a project from each sector that (1) represented the largest financial obligation under that sector and (2) also received funding from at least 1 of the fiscal years 2008 and 2009 appropriations.²³

Water and Infrastructure: The Emergency Water and Sanitation and Other Infrastructure Program

In September 2008, USAID awarded a cooperative agreement to American Near East Refugee Aid, a U.S. headquartered non-profit organization, to develop and implement the Emergency Water and Sanitation and Other Infrastructure Program. USAID estimates total costs for the program of \$60 million, including \$16.2 million in fiscal year 2008 and \$21.7 million in fiscal year 2009 ESF funding. According to USAID documents, this program provides rapid response and emergency relief primarily in the water and sanitation sectors, and in other sectors as needed, to address the basic infrastructure needs of the Palestinian people. The program aims to rehabilitate, expand and upgrade small- and medium-scale water and sewage systems and deliver potable water to needy communities. The program will also target the construction of small-scale infrastructure to support USAID's implementation of other programs. Examples of USAID-reported accomplishments under this program include:

- Completed 18 water and sanitation projects, including laying 42,730 linear meters of water networks, installing 1,400 linear meters of rainwater drainage pipes, and providing 203,000 persons with a clean and regular supply of potable water at an affordable price.
- Completed the renovation of 141 classrooms and other educational facilities. As a result of this activity, more than 5,000 additional students will have access to improved education facilities.
- Upgraded the water and sanitation facilities of three schools to address the lack of a proper supply of potable water as well as deteriorated infrastructure.

Democracy and Governance: Palestinian Authority Capacity Enhancement Project

In September 2008, USAID awarded a contract to Chemonics International, a large U.S. based international development consulting firm, to implement a program to support PA public sector reform efforts. USAID estimates total costs of \$20 million for this

²³ All contracts selected began in fiscal year 2008 or later. USAID-reported accomplishments under these contracts cover the period from the beginning of fiscal year 2008 through March 2010. We did not independently verify the accomplishments USAID reported for the selected projects.

project, including \$10 million in fiscal year 2008 ESF funding and \$6 million in 2009 ESF funding. The program assists the PA in its efforts to strengthen the operational and management capability of key ministries and public sector institutions to govern more effectively. The overall goal of the program is to create a more professional and competent public administration and civil service within the PA that provides more effective, efficient and responsive services and benefits to the Palestinian people. Activities consist of short- and medium-term capacity building, including training in areas such as leadership, communications, fiscal management, technical assistance, and the provision of equipment. Objectives of the program include the improved delivery of key services that result in immediate tangible benefits to citizens; increased financial transparency and accountability in public finance management; and strengthened public communications about, and participation in, PA decision-making. Examples of USAID-reported accomplishments under this project include:

- Conducted in-depth assessment on ways to increase revenue collection by the customs and value-added tax departments and supported a 4-week in-depth course for customs officials on classification and tariffs.
- Provided information technology and technical support to bring passport and national identification card services for over 70,000 residents in the Tubas area.
- Partially renovated the Ramallah, Hebron, and Nablus licensing bureaus to ensure more efficient and effective provision of key public services, and established a computer lab to automate driver testing and report immediate results.

Health and Humanitarian Assistance: The Palestinian Health Sector Reform and Development Project (The Flagship Project)

In September 2008, USAID awarded a contract to Chemonics International to implement the Flagship Project. USAID estimates total costs for its Flagship Project at \$85 million, including obligations of \$18 million in fiscal year 2008 and \$27 million in fiscal year 2009 ESF funding. The Flagship Project is a 5-year initiative funded by USAID, designed in close collaboration with the Palestinian Ministry of Health. The project's main objective is to support the ministry, select nongovernmental organizations, and select educational and professional institutions in strengthening their institutional capacities and performance to support a functional, democratic Palestinian health sector able to meet its priority public health needs. The project works to achieve this goal through three components: (1) supporting health sector reform and management, (2) strengthening clinical and community-based health, and (3) supporting procurement of health and humanitarian assistance commodities. Examples of USAID-reported accomplishments under this project include:

- Supported the Ministry of Health as it conducted a health system needs assessment and finalized a 5-year Institutional Development Plan based on the results of the assessment. The plan was used as a tool to update the Ministry's National Strategic Health Plan and for donor coordination.
- Trained 354 Ministry of Health and nongovernmental organization staff on identified needs including leadership and management, health finance, costing and pricing, supervision, first responder training for ambulance drivers, advanced trauma life

- support, monitoring and evaluation, procurement, community mobilization, and behavior change communications.
- Procured \$703,962 worth of medical equipment and \$476,157 worth of pharmaceuticals for Ministry of Health facilities and warehouses.

Private Enterprise: Expanded and Sustained Access to Financial Services Program

In September 2008, USAID awarded a cooperative agreement to the Academy for Educational Development, a U.S.-based non-profit organization, to implement a program that is to contribute to the development of a dynamic private sector in the West Bank and Gaza by improving the access of Palestinian households and small- and medium-sized businesses to financial services, especially credit, and stimulating investment in already profitable Palestinian businesses. USAID estimates total costs of the program at \$36 million, including \$13 million in fiscal year 2008 and \$15 million in fiscal year 2009 ESF funding. The purpose of the program is to improve and expand sustainable access to financial services through the development of an efficient, inter-linked financial system and viable institutions. By assisting in the development of this system, these institutions are expected to efficiently mobilize local financial resources and provide investors with the lending facilities Palestinians need. Activities undertaken through this program include providing technical assistance and training to financial institutions to help them improve their credit management policies, business planning strategies, and lending practices; financing some capacity building needs of Palestinian credit providers, financial institutions, and relevant associations and agencies; mitigating financial risks through the development and provision of insurance products; and helping set up land and collateral registers in the West Bank and Gaza. Examples of USAID-reported accomplishments under this program include:

- Developed partnerships with 13 different institutions, facilitated \$30.5 million in lending to 3,664 clients, and created 9,217 jobs.
- Assisted the Palestinian Monetary Authority, Capital Market Authority, and Ministry of National Economy with improving consumer protection regulations; developing procedures for the registration of non-bank financial institutions; building the capacity of their staff; and reviewing, revising, and developing procedures to implement a secured transaction law.
- Helped 100 farmers build greenhouses, which led to over \$100,000 in increased produce sales.

Education: The Model Schools Network Program

In September 2007, USAID awarded a cooperative agreement to American-Mideast Educational and Training Services (AMIDEAST), a U.S.-based non-profit organization, to implement the Model Schools Network Program. USAID estimates a total cost of \$20 million for this program, including obligations of \$2 million in fiscal year 2008 ESF and \$13.2 million in fiscal year 2009 ESF funding. The Model Schools Network program will create a network of 20 private schools, which is able to design and develop educational

concepts and practices for measurably improving students learning outcomes. The program focuses on four types of initiatives:

- (1) professional development, which focuses on the development of teachers and administrators at the model schools, particularly in the areas of English, math, and science;
- (2) physical capacity building, which includes computer and science lab upgrades and a small grants program providing an opportunity for member schools to apply for funds for other improvements;
- (3) professional networking, which includes an annual national conference, and local peer-to-peer exchanges; and
- (4) student and community involvement, whereby schools involved in the program actively work with parent-teacher associations and engage in an after-school youth enrichment program, and students participate in summer English, math, and science camps. Examples of USAID-reported accomplishments under this program include:
 - Launched the professional certificate programs for math, science, and English classroom teachers. Ten of 16 modules were taught to approximately 140 private school teachers. In addition, all teachers received training on critical thinking and the virtual learning environment.
 - Upgraded computer and science labs and procured 100 netbooks for math, science, and English teachers at the 17 private schools.
 - Implemented after-school youth enrichment programs at 57 public and private schools.

USAID Provided \$500 Million to the PA for Direct Budgetary Support

Out of the \$1.15 billion in 2008 and 2009 ESF mission obligations, USAID provided three separate cash transfers, totaling \$500 million, to the PA for direct budgetary support. According to USAID documents, given the gap between revenues and expenses for the PA, donor assistance to the PA in 2009 had been insufficient to meet its fiscal needs, falling short of PA's budgeted commitments by \$30 million per month. These cash transfers were provided as follows:

- In February 2008, the President issued a waiver to allow USAID to provide \$150 million in fiscal year 2008 ESF funds directly to the PA to avert an impending financial crisis.²⁴
- In October 2008, the President issued another waiver to allow USAID to provide \$150 million in fiscal year 2009 ESF bridge funds from the 2008 supplemental appropriation to the PA for budgetary assistance.

²⁴Consistent with language in the 2008 Consolidated Appropriations Act, before more than \$100,000,000 of ESF funds were made available for cash transfer assistance to the PA, the Secretary of State certified and reported to the Committees on Appropriations that the PA had (1) established a single treasury account for all PA financing and all financing mechanisms flow through this account, (2) eliminated all parallel financing mechanisms outside of the PA treasury account, and (3) established a single comprehensive civil service roster and payroll. *See* Pub. Law No. 110-161, 121 Stat. 2298, Dec. 26, 2007.

- In July 2009, the President issued a waiver allowing USAID to provide \$200 million in fiscal year 2009 supplemental ESF funds to the PA for budget support. USAID provided this funding to meet the PA's urgent cash liquidity needs caused by larger than expected budget deficits exacerbated by the December 2008-January 2009 conflict in Gaza.

USAID's Limited Assistance to Gaza Has Focused on Humanitarian Needs

According to USAID officials, since Hamas seized control of Gaza in June 2007, USAID has directed most ESF assistance to programs in the West Bank, with programs in Gaza focused entirely on humanitarian needs. According to the USAID mission, the political and security conditions that existed in Gaza during the fiscal year 2008 implementation period severely limited their ability to support programs there, resulting in fiscal year 2008 obligations for activities in Gaza of only approximately \$1.7 million. The situation in Gaza then changed in December 2008 and January 2009 with the Israeli-led Operation Cast Lead. The humanitarian crisis that developed in Gaza resulted in USAID redirecting some fiscal year 2008 funding and supplementing that with fiscal year 2009 funds to support emergency distributions of both food and non-food items. This emergency assistance committed a total of \$24 million in fiscal year 2008 and 2009 ESF funds to Gaza.

Of the fiscal year 2009 funds that the mission has obligated, a mission official said USAID intends to use up to \$86 million for humanitarian assistance and recovery programs in Gaza. According to mission officials, the contracts and agreements under which they have obligated these funds allow the mission to use them in either the West Bank or Gaza. However, a USAID official stated that their ability to implement that amount of funded activities in Gaza remains uncertain. The official cited difficulties in carrying out programs in Gaza including long delays in gaining Government of Israel approval for necessary shipments of materials, obstacles to staff movement in and out of Gaza, and interference with U.S. supported programs by the Hamas-led *de facto* authorities in Gaza.

Agency Comments

We provided USAID with a draft copy of this report for review and comment. USAID provided no written comments on the draft, but did provide technical comments, which we incorporated as appropriate.

Copies of this report are being sent to the USAID Administrator, relevant congressional committees, and other interested parties. In addition, the report will be made available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (202) 512-3149 or at gootnickd@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report.

A handwritten signature in black ink that reads "David Gootnick". The signature is written in a cursive style with a large initial "D" and "G".

David Gootnick
Director, International Affairs and Trade

Enclosures

Enclosure I: Scope and Methodology

To determine the status of appropriations, obligations, and expenditures of the Economic Support Fund (ESF) assistance to the West Bank and Gaza in fiscal years 2008 and 2009, we relied on appropriations legislation, including related conference reports, and financial data provided by USAID's West Bank and Gaza mission (the mission). The mission provided data on obligations and disbursements of all ESF funds for the West Bank and Gaza provided for in the fiscal years 2008 and 2009 annual and supplemental appropriations, as of December 31, 2009. USAID provided financial data to GAO in the form of total obligations and expenditures. For reporting purposes we converted total obligations into an obligated balance by subtracting expenditures from the total obligations reported by USAID. We also reviewed relevant USAID documents, including notifications to the Congress on the use of appropriated funds. To assess the reliability of the data provided by the mission, we requested and reviewed information from and interviewed officials at the mission about their procedures for entering contract and financial information into USAID's data system. We also requested and reviewed information from USAID officials at the Washington, D.C., headquarters about the underlying financial data system. For purposes of this report, we determined that USAID's data were sufficiently reliable.

For the project information that we include in this report, we relied on the data provided by the mission on their obligations of fiscal year 2008 and 2009 ESF funds for West Bank and Gaza. We chose projects that: (1) represented the largest financial obligation under that sector; and (2) contained obligations from one of the five fiscal year 2008 and 2009 appropriations. We reviewed the relevant agreements and accomplishment report information for each selected project. We provide project descriptions and accomplishments for illustrative purposes only. All programs selected were started in fiscal year 2008 or later. Accomplishments reported by USAID under these programs cover the period from the beginning of fiscal year 2008 through March 2010. USAID provided a summary list of major accomplishments for each selected project. From this list we provided several examples to illustrate the effects of each program. We did not independently verify the accomplishments USAID reported for the selected projects.

We conducted our work from July 2009 to May 2010 and in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data we obtained, and the analysis we conducted, provide a reasonable basis for the findings in this product.

Enclosure II: GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick (202) 512-3149 or at gootnickd@gao.gov

Staff Acknowledgments

Cheryl Goodman, Assistant Director; Michael Maslowski; B. Patrick Hickey; Mary Moutsos; Martin De Alteriis; and Joseph Carney made key contributions to this report.

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