

PI-ABS-354

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

1

DOCUMENT CODE

3

2. COUNTRY/ENTITY

West Bank/Gaza

4. BUREAU/OFFICE

ANE/ME

009317

3. PROJECT NUMBER

294-0001

5. PROJECT TITLE (maximum 40 characters)

Private Sector Support Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 04 30 97

7. ESTIMATED DATE OF OBLIGATION

(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 94

B. Quarter 2

C. Final FY 96

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 94			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	4,000		4,000	11,000		11,000
(Grant)	(4,000)	()	(4,000)	(11,000)	()	(11,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	4,000		4,000	11,000		11,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO. PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	PEBD								
(2)	PETI							11,000	
(3)									
(4)									
TOTALS									11,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

11. SECONDARY PURPOSE CODE

13. PROJECT PURPOSE (maximum 480 characters)

To increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in the West Bank and Gaza.

14. SCHEDULED EVALUATIONS

Interim MM YY 03 95 Final MM YY 09 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP. ~~Amendment~~ supplement)

Project purpose is amended to be "to increase the marketed production of goods and services through the enhancement of the management, production and marketing capabilities of private enterprises in the West Bank and Gaza."

BEST AVAILABLE COPY

17. APPROVED BY

Signature: *Dennis M. Corallo*
 Title: Special Coordinator for the Middle East Peace Process

Date Signed: MM DD YY
 11 10 95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

**WEST BANK & GAZA PRIVATE SECTOR SUPPORT
PROJECT PAPER SUPPLEMENT
Project No. 294-0001**

I. BACKGROUND

The West Bank/Gaza Private Sector Support Project (PSSP) was authorized on April 23, 1993. The project was designed to support the A.I.D. program goal for the West Bank/Gaza; i.e., ". . . to improve the economic and social well-being of Palestinians in the West Bank and Gaza (WB/G)."

The project's purpose is to increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in West Bank and Gaza (WB/G). Project assistance includes training for owners, operators and managers, technical assistance to firms and business associations, and market information services.

The project also will help businesses take a proactive role with the new public authorities in establishing an environment of policy, regulatory and legal structures that support commerce development. The project's planned focus is the manufacturing sector because it is relatively easy to access and offers the best opportunities for economic growth under the constrained commercial and security conditions in the WB/G.

During project design, consideration was given to assisting growth in the services sector, particularly in tourism and trade activities. It was determined, however, that provision of assistance to service firms would depend on improvements in political and security conditions in WB/G.

II. PROJECT MODIFICATIONS

With the signing of the framework agreement for a Palestinian/Israeli Peace Accord, and the resulting improved outlook for political and security conditions in the West Bank and Gaza, the project is being modified to expand the beneficiary base to include service firms. The original project plan allowed for participation of manufacturing and agricultural processing businesses only; and clearly focused project assistance on the industrial sector. A change is needed to accommodate the potential for creating sustainable institutions and an enabling policy environment now that a peace framework has been signed. The rationale for this expanded beneficiary base is: (a) to broaden the potential market for project assistance in order to more accurately gauge the extent to which user fees will sustain provision of assistance once the project is completed; and (b) to provide for broader-based, private-sector advocacy in the development of a enabling policy environment. This adjustment

does not change the manufacturing sector focus planned for the project under the AID strategy. It does mean that as consulting and training are provided on a market basis the mix of clients could change dramatically.

A. Sustainability

The peace framework and expected improvements in the security and commercial environment greatly increase the possibility of achieving sustained delivery of assistance provided by the project. We expect that participating firms will be more likely to succeed in increasing production and sales as the constraints of occupation are lifted.

Placing increased emphasis on assisting local training and consulting institutions to develop financial sustainability will ensure that a cadre of skilled, sustained delivery organizations remain in place after the project ends. A key aspect of this work will be implementing a fee-for-service system that increasingly reflects the market demand for the training and consulting assistance. Over time, and with an increased goal of financial sustainability, the selection of firms that benefit from local technical and training assistance will be made by the market; i.e., through the fee pricing mechanism.

This modification also provides for limited assistance to service sector enterprises in the initial stages of project implementation. In this instance, expanding the beneficiary base will broaden the potential market for project assistance and provide the basis to more accurately gauge the extent to which user fees will sustain provision of assistance once the project is completed. This is done on the premise that if the market is large enough, and comprised of sufficient enterprises that will pay for assistance, the move from targeted development assistance (which requires grant funding to be sustained) to assistance guided by market forces is more likely to occur.

B. Policy Development and Advocacy

With the increased prospect for security and autonomy, there is increased potential for reform of economic policies and the regulatory framework that have constrained development of commerce in WB/G. In a supportive policy environment, the project's technical and training assistance will have a greater positive impact. To help ensure that policy decisions are supportive of the private sector, the project's policy advocacy support component is being strengthened; primarily, by adding policy-related, technical assistance requirements to the contract.

Providing for some participation of services firms at the start of the project, opens advocacy to all of the private sector and

enables it to create a broader and more representative network. This in turn should strengthen the ability of the private sector to develop a policy agenda and participate in policy dialogue processes with public authorities.

III. IMPACT ON PROJECT LOGICAL FRAMEWORK

The major change in the logical framework comes in the project purpose. To allow for a broader local participation in the project and to enhance project sustainability and policy advocacy, project assistance is being extended to the service sector as well as to manufacturing and agribusiness firms. The new project purpose is to increase the marketed production of goods and services through the enhancement of the management, production and marketing capabilities of private sector enterprises in the West Bank and Gaza. There are also changes in the end of project status to reflect the policy and sustainability modifications to the project. These are detailed in the attached Revised Log Frame. The original log frame is also attached.

Anticipated project outcomes remain unchanged: increased adoption of modern business practices; increased business access to marketing, investment, regulatory, and technical information; and, increased value-added in Palestinian industrial production. Project implementers will have flexibility to extend eligibility for project benefits to service sector firms. This is expected to enhance attainment of project output levels and end of project status performance targets. Expanding project beneficiaries to include the services sector is expected to increase the project's potential to stimulate employment generation, and increase income.

No change in the project inputs and outputs, or their levels, is proposed. We expect performance to exceed current indicators as a result of the improved business conditions and expanded beneficiary pool. However, the current performance indicators are retained because of the uncertainty that still surrounds the peace framework. Project implementers will need to review the conditions and modify indicators during implementation process if positive or negative externalities substantially affect the project.

IV. PROJECT ANALYSES

Changes in the logframe, including indicators, are minimal as discussed in the above section. Generally this means that the findings and conclusions of the technical, economic and social analyses which support provision of assistance remain valid even with the modifications proposed. Provided below is a review of each of the principal analyses.

A. Technical and Economic Analysis

The technical and economic analysis outline constraints to enterprise growth which are valid for services sector firms as well as for manufacturing. These constraints are:

1. Inadequate marketing, management, technical and operational skills at the firm level.
2. Weak and inefficient economic infrastructure and institutions, including a fragmented and largely defunct financial sector.
3. A hostile regulatory, legal and policy environment which restricts market access, and is characterized by high levels of taxation, complex licensing procedures, and a high degree of government intervention.

Project assistance to relieve or remove these constraints can benefit all types of private firms, including those in the service sector.

The provision of technical assistance and training to strengthen skills in business management, financial analysis, accounting, and marketing will enhance the abilities of Palestinian businesses whether they are manufacturers, agribusinesses or service providers. Experience shows that business training and technical assistance projects yield high returns with respect to increasing private sector employment, output and income.

Now that the project is expected to be less constrained by security and restrictive policies, project implementers will have the flexibility to assist and draw on the experience of service firms to help achieve project objectives.

B. Institutional Analysis

One of the factors consistently constraining implementation of projects in WB/G has been the political and security situation. We are approaching a climate in the WB/G which promises potential for rapid progress and successful implementation of A.I.D. projects in the future.

We expect the findings and conclusions of the project paper's institutional analysis to initially remain valid with respect to the activities, capabilities and potential contributions of local businesses, private business associations, financial institutions, PVOs, university business programs and private consulting organizations currently operating in WB/G. However, the potential for improvement in the political and security situation in WB/G substantially change the implementation role envisioned for AMIDEAST. The justification for less than full

and open competition for AMIDEAST as a designated subcontractor is no longer valid. The U. S. prime contractor is free to propose any local or U.S. private sector organizations to help implement the contract. AMIDEAST is eligible to participate. The covering Action Memorandum to this Supplement discusses the justification and changed circumstances.

C. Social Soundness Analysis

The findings and conclusions of the project paper's social soundness analysis focus exclusively on the social and economic impact of enhanced performance in the manufacturing sector. No change is planned in this focus. As market forces, the fee-for-service pricing system, direct the allocation of technical assistance, training and information services, the contractor will assist the local subcontracting institution in developing tracking systems that monitor and report on key indicators, including employment, beneficiaries by gender, and firm location.

ANNEXES

A. Original and Revised Logical Framework

REVISED LOGICAL FRAMEWORK
West Bank & Gaza Private Sector Support
Project No. 294-0001

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS										
PROGRAM GOAL	MEASURE OF GOAL ACHIEVEMENT												
Sustained economic growth in the West Bank and Gaza	Increase in GNP growth.	Local statistics, World Bank and other donor data, and UNCTAD statistics.	No significant deterioration in the political conditions in the West Bank and Gaza										
PROJECT PURPOSE	END OF PROJECT STATUS												
Increased marketed production of goods and services	<ol style="list-style-type: none"> 1. Increase in employment (20% in assisted firms) as a proxy for higher marketed production. 2. Assisted firms adopt modern business practices and improve production and marketing techniques and capacity. 3. Increased access to relevant market information. 4. Establishment of a sustainable policy dialogue process through business associations. 5. Establishment of a sustainable mode for ongoing training and technical assistance. 	Project surveys and baseline data measured at the outset of the program.	Gradual improvement in the business policy climate, or at least no deterioration.										
OUTPUTS	MAGNITUDE OF OUTPUTS												
<ol style="list-style-type: none"> 1. Management training courses and workshops, and curriculum modules. 2. Technical Assistance assignments with individual Palestinian firms. 3. Business marketing and information services providing assistance to individual firms. 	<ol style="list-style-type: none"> 1. 300 Palestinian managers trained. 2. 100 Palestinian firms advised how to improve their productivity. 3. 7 private business associations helped to increase their capacity to provide information and policy assistance to their members. 	Project monitoring data and contractor reports	Contracting proceeds without challenge and implementation without serious delay.										
INPUTS	MAGNITUDE OF INPUTS												
Training Technical Assistance Marketing & Information Services Evaluation & Audit TOTAL	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">\$ 5,300</td> </tr> <tr> <td></td> <td style="text-align: right;">4,045</td> </tr> <tr> <td></td> <td style="text-align: right;">1,455</td> </tr> <tr> <td></td> <td style="text-align: right;">200</td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="text-align: right; border-top: 1px solid black;">\$ 11,000</td> </tr> </table>		\$ 5,300		4,045		1,455		200		\$ 11,000	Contractor financial reports. AID financial records.	Funds will be available as needed.
	\$ 5,300												
	4,045												
	1,455												
	200												
	\$ 11,000												

**ANNEX C
LOGICAL FRAMEWORK**

Project Title and Number: West Bank & Gaza Private Sector Support (294-0001)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Program or Sector Goal:</u> Sustained economic growth in WB/G.</p>	<p><u>Measure of Goal Achievements: Targets</u> Increase in GNP growth.</p>	<p><u>Sources of Information</u> Government of Israel statistics UNCTAD</p>	<p><u>Assumption for Achieving</u> No significant deterioration in the political conditions in WB/G.</p>
<p><u>Project Purpose:</u> Increased marketed production of manufactured goods.</p>	<p><u>End of Project Status:</u> Increase in employment (20% in assisted firms) as proxy for higher marketed production.</p>	<p>Project surveys and baseline data measured at project outset.</p>	<p>Gradual improvement in business policy climate, or at least no deterioration.</p>
<p><u>Outputs:</u></p> <ol style="list-style-type: none"> 1. Management training courses and workshops, and curriculum modules. 2. 100 technical assistance assignments with individual Palestinian firms 3. Business information brochures, marketing data and promotional materials. 	<p><u>Magnitude of Outputs:</u></p> <ol style="list-style-type: none"> 300 Palestinian managers trained. 100 Palestinian firms advised how to improve production processes. 7 private business associations with increased capacity to provide information to members. 	<p>Project monitoring data, disaggregated for WB/G.</p> <p>Project monitoring data, disaggregated for WB/G.</p> <p>Project monitoring data, disaggregated for WB/G.</p>	<p>Universities remain open on continuing basis.</p> <p>Business associations do not become overly politicized.</p>

Project Inputs:

Project Components:	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>Total</u>
Training	1414	1943	1943	5300
Technical Assistance	1079	1483	1483	4045
Information Services	388	533	634	1455
Evaluation / Audit	0	50	150	200
TOTAL	2881	4009	4110	11000



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

**ACTION MEMORANDUM FOR THE SPECIAL COORDINATOR
FOR THE MIDDLE EAST PEACE PROCESS**

FROM: *Jim Dempsey* Jim Dempsey, Chairman, WB/G Working Group for
Agricultural and Industrial Development

SUBJECT: West Bank/Gaza (WB/G) - Private Sector Support Project
(294-0001)

ACTION REQUESTED

Your approval is requested to modify the WB/G Private Sector Support Project (294-0001) to: (1) add service sector firms as project beneficiaries and (2) change the originally planned contracting arrangements to make them full and open competition for technical assistance and training.

DISCUSSION

The West Bank/Gaza (WB/G) - Private Sector Support Project (294-0001) was authorized on April 23, 1993. The project was developed on the basis of the USAID Program Strategy for the West Bank and Gaza Strip 1993-97 which was approved in November 1992. The project purpose is to increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in West Bank and Gaza. In the context of the signing the framework agreement for a Palestinian/Israel peace accord and the resultant improved outlook for political and security conditions in the West Bank and Gaza, the Agricultural and Industrial Development working group recommends changes in the project. This Action Memorandum and the attached Project Paper Supplement describe and justify the changes.

A. Inclusion of Service Sector Firms

The constraints to working in the West Bank and Gaza limited the opportunities for AID assistance and resulted in the focusing of the project on manufacturing since this sector was relatively easy to access and offered the best opportunities for economic growth under constrained commercial conditions. The Project Paper noted that:

Growth in the services is also possible, particularly in tourism and trade activities, but this will be dependent on improvements in the political and security conditions.

With the signing of the framework agreement for a Palestinian/Israel peace accord and the resultant improved outlook for political and security conditions in the West Bank and Gaza, the need to focus on manufacturing firms is no longer expected to be a major issue during the life of the project. However, in the initial stage of project implementation, the focus of project assistance will continue to be primarily on the manufacturing sector, which is expected to have the greatest initial potential for increased production and employment.

The rationale for the change is to accommodate the real potential for creating sustainable institutions and an enabling policy environment now that a peace framework has been signed. Thus, this modification will also provide for limited assistance to service sector enterprises in the project's initial stages. The reason for this expanded beneficiary base is: (a) to open up the market served by the project in order to assure a broader market to sustain and pay for the services when project assistance is completed; and (b) to provide for a broader-based, private-sector policy dialogue and advocacy for the development of a more enabling business environment.

The achievement of project outputs and end of project status will be strengthened by this opportunity to expand services. No changes in the inputs or outputs are required by the addition of service firms as beneficiaries. Impact should be strengthened since the indicators of performance, especially employment generation, are likely to achieve a higher level. However, because of the uncertainties surrounding the economic future of the WB/G, the project paper supplement recommends no changes in the indicators. The plan for the contractor to modify and improve the indicators as part of the implementation process will continue to be important with the addition of service sector beneficiaries.

The findings and conclusion of the Technical, Economic and Social Analyses remain valid under the planned modification to add private sector service firms. In the initial stages of project implementation, the majority of the assistance will still benefit manufacturers. However, an adjustment in eligibility to include service sector firms will allow the mix of beneficiaries to change over time based on market demand and project experience.

The attached Project Paper Supplement provides a more detailed description and justification for the changes described above.

B. Change in Contracting Arrangements

During the review of the PID for the PSSP, the State Department indicated that, given its desire to maintain a low U.S. profile because of existing political and security arrangements, it would not permit A.I.D. to place an American contractor team in the field to oversee the management of the project. A.I.D. did not believe that the project could be effectively implemented without the field presence of an American contractor. However, in order to meet State's mandate, the project design team surveyed the existing PVO's operating in the WB/G to assess which ones might have the resources and capabilities to assist an American contractor. AMIDEAST was determined to be the only PVO with the capability to participate in the contract. The NE Bureau agreed with the design team recommendation that a US contractor should be competitively selected with AMIDEAST as the designated sub-contractor. A Justification for a Designated Sub-contractor and for less than Full and Open Competition in the Selection of that Sub-contractor was prepared, cleared and made part of the authorization package. A Project Implementation Order for Technical Services (PIO/T) was sent to the AID/Washington contracting office on May 11, 1993 and a Commerce Business Daily announcement soliciting requests from offerors was published on June 2, 1993. More than 100 offerors sent in a request for the RFP. However, due to the late timing of the PIO/T in the FY, the heavy workload of the contracting office, and a reluctance on the part of contracts to proceed with an RFP which included a designated sub-contractor, no RFP was ever issued.

Now, with the signing of the framework agreement for a Palestinian/Israel peace accord and the resultant improved outlook for political and security conditions in the West Bank and Gaza, we not only are in a position which requires that we move forward with the contracting process, but also face a substantially changed situation in the West Bank and Gaza. The conditions which prohibited the presence of a U.S. contractor in WB/G and which required the selection of AMIDEAST as a designated sub-contractor no longer exist. Between the time of the issuance of the PIO/T in May and now, the following changes, mostly as a result of the signing of the framework agreement for a Palestinian/Israel peace accord, have undermined the justification for less than full and open competition.

1. State 000420, which was cited in the justification for State Department opposition to a U.S. contractor presence, stated:

"Given the complicated political environment in which this program operates . . . our assistance must be implemented in a low profile manner in order to maintain necessary political direction and to keep expectations for U.S. assistance at a reasonable level."

These objectives are no longer valid. As a result of the signing of the framework agreement for a Palestinian/Israel peace accord, the U.S. government is encouraging an open and expanded U.S. private sector presence, as well as increased assistance levels, in order to support the peace process. Furthermore, it is the expectation of all parties concerned that, over the life of the project, there will be a much improved political and security environment.

2. Given the support for the peace process, there is no longer a need to designate as a sub-contractor a U.S. PVO as an intermediary between Palestinian firms and a U.S. prime contractor. In fact, the recent release of the long overdue Comprehensive Survey of Gaza Business by the Gaza Union of Industrialists is indicative of an environment which is much more open and receptive toward U.S. firms' participation.
3. Contractors are extremely interested in the West Bank and Gaza and in establishing a presence there. This is substantiated by the large number of proposals on the WB/G that have been sent to A.I.D. recently. This increased interest again argues for full and open competition.

As such, it is the recommendation of the Agricultural and Industrial Working Group that the provision for a designated sub-contractor, selected under less than full and open competition, be deleted from the RFP and that it be opened up so that all contractors be selected on the basis of full and open competition, as is required by the FAR. This in no way precludes AMIDEAST from becoming a contractor, but it rather opens up the options and leaves it to the competitive process to identify the most effective team. Discussions with A.I.D.'s Contracting Office have also indicated that this should expedite the process significantly and make A.I.D. less vulnerable to protests.

RECOMMENDATION

That you approve the inclusion of service sector firms in the project by:

1. Signing the attached project authorization amendment;
2. Signing the project paper supplement data sheet;

and that you sign below, indicating your approval of the change in contracting arrangements to full and open competition for the technical assistance and training contract.

APPROVED: Dennis M. Charles

DISAPPROVED: _____

DATE: 10 NOV. 1993

Attachments:

- A. Private Sector Support Project Authorization Amendment
- B. Private Sector Support Project Supplement

Clearances:

GC/NE:KO'Donnell	(draft)	Date: 11/2/93
ANE/NE/DR:SShah	(draft)	Date: 11/9/93
ANE/NE/ME:RMachmer	(draft)	Date: 11/9/93
ANE/NE/ME:DSwain	(draft)	Date: 11/9/93
ANE/NE/DP:VMolldrem	(draft)	Date: 11/8/93

Drafted: ANE/ASIA/DR/PD:SK/Singer
 WB/G A&ID Working Group:11/2/93:X-7-7478
 Doc: U:\ASIAPUB\DOCS\WBG-RFP.ACT

PROJECT AUTHORIZATION AMENDMENT NO. 1

Region: West Bank/Gaza

Project Title: Private Sector
Support Project
Project No: 294-0001

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended the Private Sector Support Project for the West Bank and Gaza Region was authorized on May 23, 1993. That authorization is hereby amended as follows:

Paragraph 2 is deleted in its entirety and in lieu thereof the following Paragraph 2 is inserted:

"2. The project will aim to increase the marketed production of goods and services through the enhancement of the management, production and marketing capabilities of private enterprises in the West Bank and Gaza."

2. The authorization cited above remains in force except as hereby amended.


Dennis Chandler
Special Coordinator for the
Middle East Peace Process

10 NOV. 1993
Date

Clearances:

GC/NE: KO'Donnell KEM Date 11/2/93
NE/ME: RMachmer RM Date 11/9/93
NE/ME: DSwain DS Date 11/9/93
NE/DP: VMoldrem VM Date 11/8/93

Drafted: GBisson J. D. Campbell Acting GC/NE 11/1/93