

USAID West Bank & Gaza Transition Plan

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USAID West Bank and Gaza Transition Plan Table of Contents

Introduction	1
Part I: Review of the Overall Assistance Environment	2
A. US Foreign Policy Interests	2
B. Assessment of the Current Social, Economic and Political Environment	3
C. Other Donor Activities	4
D. USAID Response	5
Part II: Scenarios	6
A. Status Quo	7
B. Breakdown Scenario	8
C. Breakthrough Scenario	9
Part III: Revised Strategic Framework for the Status Quo Scenario	10
A. Goal Statement, Rationale, and Assumptions	10
B. Strategic Objectives	11
Part IV: Program Implementation Concerns for the Status Quo Scenario	16
Part V. Management and Resources Considerations	19
Appendices	
Appendix I: OFDA Humanitarian Assessment: Executive Summary	
Appendix II: USAID Press Release on Response to Crisis Situation in West Bank/Gaza	
Appendix III: Strategic Framework	
Appendix IV: Infrastructure Projects Status	
Appendix V: Program Budget	
Appendix VI: Staffing Levels	
Appendix VII: Existing and Planned Projects	

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Introduction

Since 1996, USAID West Bank/Gaza has operated under a five year strategic plan. At the end of FY 2000, the Mission requested a two year extension of the approved strategy through the end of FY 2002. In December 2000, the extension request was denied due to the new realities on the ground, which resulted from the outbreak of sustained violence in the West Bank and Gaza on September 29, 2000 (i.e., the Al Aksa Intifada).

The events of the past four months have altered the political, economic, and social circumstances facing Palestinians living in the West Bank and Gaza. Moreover, the combination of deteriorating security conditions and closures of crossing points between and within Israel, the West Bank, and Gaza have rendered large areas of the West Bank and Gaza inaccessible to USAID and expatriate contractor staff, and have halted or severely restricted the delivery of supplies and equipment to many USAID project sites. Consequently, the underlying analytic assumptions of the USAID West Bank/Gaza strategy have been called into question and concerns have been raised regarding the capacity of the Mission to operate normally and to achieve planned results.

In light of the changed circumstances, and their potential impact on management and implementation of the USAID West Bank/Gaza program, the ANE Bureau requested that the Mission prepare a Transition Plan, including an interim strategic framework (SECSTATE 229855, dated 12/04/00). The Transition Plan presented here responds to the issues raised in the cable and covers a 12-36 month period beginning in January 2001. The plan's actual duration will depend on both the outcome and timing of negotiations between the Palestinian Authority (PA) and the Government of Israel, and internal developments within the PA affecting the population of the West Bank and Gaza.

The first section of the Transition Plan provides a brief review of the overall assistance environment in the West Bank and Gaza. The second section outlines three possible scenarios that the Mission believes are possible, with specific indicators and trigger points identified for each scenario. The third section proposes a detailed strategic framework for the status quo scenario during this Transition Plan period, taking into account the current circumstances and the need to remain flexible given the unpredictable environment in which the Mission is operating. The fourth section reviews operational constraints to implementing activities in the status quo scenario, delineates four general categories of activities (infrastructure, service delivery, technical assistance and training), and describes how activities can and would be implemented for each category. The fifth section analyzes resources requirements and management considerations associated with implementing the Transition Plan. Appendices to this Transition Plan provide the Strategic Framework for the Plan, a program budget for the next two fiscal years, a list of infrastructure projects and their current status, and a chart on current and planned staffing levels.

The thrust of this Transition Plan is that, notwithstanding dramatic changes in the Palestinian territories resulting from developments during the past four months, a major overhaul of the USAID West Bank/Gaza strategic approach is not required. The overall Mission goal will now focus on stability as laying the foundation for peace, but the underlying objectives of improving the quality of life for Palestinians and laying the foundation for the establishment of a functioning and democratic Palestinian state remain valid. Consequently, assuming current budget levels are maintained, the Transition Plan proposes: a continuation of existing USAID sectoral involvement; revision or elimination of certain intermediate results; and refinement, and in some cases suspension, of individual projects, depending on political, operational, and management constraints.

I. Review of the Overall Assistance Environment

A. U.S. Foreign Policy Interests

The USAID West Bank/Gaza program is an integral component of broader efforts to support achievement of United States foreign policy goals in the Middle East. Under both Democratic and Republican Administrations, Israel has been identified as a key strategic partner and ally, and safeguarding Israel's security will remain a high priority foreign policy objective. Normalization of relations between Israel and its Arab neighbors, including Palestinians in the West Bank and Gaza, will remain vital to long-term peace and stability in the region.

US foreign policy interests specific to the West Bank and Gaza are to support the achievement of a comprehensive Israel-Palestinian peace agreement as first outlined in the 1993 Oslo Accords, and further advanced by the Wye River Accord, and subsequent negotiations. In this context, US Government assistance efforts in the West Bank/Gaza have evolved since 1993 into one of USAID's largest and most complex, multi-faceted bilateral programs. During the 1994-2000 period, the USAID program has sought to encourage sustained Palestinian commitment to the peace process by demonstrating the tangible benefits of peace and normalization of relations with Israel and the United States. The program has also provided economic and technical support for implementation of specific elements of the various interim agreements reached between the GOI and the PA, notably shared access to water resources. Finally, the program has supported the establishment of conditions conducive to democratic governance and sustainable economic growth. Implicit in all this has been the expectation that US and other donor assistance would improve the prospects for the emergence of a viable, well-functioning, democratic Palestinian state at the culmination of the peace process.

Despite delays and disruptions in reaching a successful conclusion to the final status negotiations, the underlying rationale for sustained US support to Palestinians in the West Bank and Gaza remains valid. No viable alternative to the peace process exists, and a successful conclusion of the negotiations between Israel and the PA is vital to US national security interests and foreign policy objectives. As such, the principal goal of the USAID Transition Plan will be to promote stability in the West Bank and Gaza as a

necessary pre-condition for successful negotiation of a permanent status agreement and the eventual emergence of a democratic Palestinian state with a viable market economy.

B. Assessment of the Current Social, Economic, and Political Environment

The outbreak of violence throughout areas of the West Bank and Gaza beginning in late September has led to a marked deterioration of social, economic, and political conditions. The vicious cycle of violence has also raised the level of anger and frustration among Israeli and Palestinian populations to unprecedented heights. Palestinian sources estimate the number of Palestinian deaths during the past four months at more than 350 and the number of injuries at more than 11,000. The human effects of the violence have massively overburdened the limited capacity of the Palestinian health care system. Resultant physical and psychological rehabilitation needs of the Palestinian population are difficult to estimate at this stage, but are believed to be serious and widespread. Addressing them will require substantial time and additional resources.

According to PA sources, total economic losses resulting from the violence are estimated at over \$1.0 billion through January 2001. These losses amount to a blow of catastrophic proportions to an economy with an annual estimated GDP of approximately \$4.75 billion. The estimated losses include decreased domestic output and income, lost labor income from Israel, damage to property and structures, costs of additional burdens on health and social services, and decreased revenue transfers from the GOI to the PA.

The most direct and quantifiable economic hardship has been the loss of an estimated 125,000 Palestinian jobs in Israel due to border closures. Given an economic dependence ratio of 6.2 persons per wage earner, this means that over 750,000 Palestinians have had virtually no source of income since the end of September 2000. According to the United Nations Relief Works Agency (UNRWA), the core unemployment rate estimated conservatively at about 11% before the violence has since soared to more than 40%. Similarly the estimate of the percentage of the population living below the poverty rate has jumped from 21% to 32%. The massive disruption of the economy has also directly affected the ability of the PA to pay civil servant salaries and deliver basic social services to the population.

The political environment in both the West Bank/Gaza and Israel also has dramatically changed since the end of September. Perhaps most troubling is the marked reduction in the level of popular support and confidence on each side for the overall peace process. As the language of compromise has given way to more harsh and strident rhetoric, the PA and Israeli political leadership have found themselves facing serious challenges from opposition factions, which reject further compromises and have called into question the underlying rationale for the peace process. In Israel, political turmoil related to the violence has accelerated the electoral process, with early elections for Prime Minister scheduled for February 6, 2001.

Despite this dramatic economic, social and political downturn, the situation in the West Bank and Gaza has not yet reached the level of a humanitarian crisis, though the

possibility exists if the crisis persists. This assessment was confirmed in a report prepared by a team from USAID's Office of Foreign Disaster Assistance (OFDA) in December 2000. (Appendix I) According to the OFDA report, food is still readily available in the markets and, except in isolated cases, water and electricity are also available. In the short term, Palestinians have managed the situation by adapting various coping strategies for purchasing food and other basic supplies, including depleting personal savings, selling jewelry or other material assets, and relying on existing family and community networks. Given the already high and rapidly rising level of poverty in Gaza and the West Bank, such interim coping mechanisms will not be sufficient to enable Palestinian families to deal with a prolonged crisis.

C. Other Donor Activities

USAID's principal donor partners in the West Bank and Gaza are the European Union, the World Bank, Norway, Japan, and the UN specialized agencies, including UNDP, UNRWA, and UNSCO. In consultations with USAID, key representatives of the international donor community have indicated that they intend to sustain their long-term program strategies at or above levels planned prior to the outbreak of violence. However, they acknowledge that the pace of project implementation and disbursement of funds for ongoing development programs has decreased substantially. The PA Ministry of Planning and International Cooperation (MOPIC), meanwhile, has formally requested that donors maintain their longer-term development perspective.

The donors recognize that internal and external border closures have had a devastating short-term effect on the Palestinian economy and has created a need for rapid response. In these circumstances, donors are emphasizing short-term job and income creation, emergency health care, and budget support. In addition, the donor community has established the Humanitarian Task Force for Emergency Needs (HFTEN), chaired by UNSCO and of which USAID is a member. HFTEN meets regularly, provides ongoing analyses of the evolving emergency situation, and compiles information about donor responses.

Individual donors have responded on several fronts. Both the UNDP and the Japanese have specifically earmarked funds for short term emergency job creation. In December 2000, the World Bank approved a \$12 million grant for job creation activities. Additionally, the EU will provide approximately \$25 million for each of the next three months to fill part of the gap created by Israeli refusal to transfer collected tax revenues to the PA. Many donors also have supplied emergency medical supplies.

D. USAID Response

The Mission adopted a two-pronged approach in early October aimed at (1) mitigating the short-term impacts of the immediate crisis and (2) preserving the longer term objectives of its ongoing development program. Each of these elements is discussed below.

To develop a strategy for mitigating the short-term impacts of the crisis, the Mission formed three operational task forces in October 2000. Task Force One sought to help humanitarian efforts on the ground. Task Force Two designed the parameters and strategic emphases of the Mission's short-term emergency program response. Task Force Three developed crisis management procedures for Mission operations. At the same time, the Mission quickly approved a \$230,000 expansion of the Care International grant to purchase and distribute emergency medical equipment.

Task Force Two recommended that USAID provide funds for emergency job creation, physical and mental rehabilitation, and youth activities. On January 12, the Mission issued a Request for Applications (RFA) for a new \$10.0 million job creation activity, which will provide 150,000 person-days of work over a two-year period. Additionally, implementing partners under the Community Services Program are submitting proposals for expanding their current programs in response to the emergency defined by Task Force Two. The Mission is also now in the process of developing a new \$10 million Municipal Infrastructure Support program, which will target at four to six key municipalities. Emergency healthcare and short-term training efforts under existing projects have been increased as well. Lastly, the Mission will expedite small grants to Palestinian NGOs to enable them to respond to needs of the most vulnerable groups. (See Appendix II: USAID Press Release issued January 18, 2001).

As mentioned earlier, the Mission invited a three-person team from OFDA in December 2000 to visit the region to assess the humanitarian situation. The team concluded that a humanitarian disaster, as defined by the Agency, has not yet developed, but the situation should be watched closely. More specifically, the team endorsed the Mission's emergency program emphasis and suggested that the Mission support efforts to develop an early warning system to monitor the humanitarian situation on the ground.

To preserve progress achieved to date and sustain longer term development objectives, the Mission undertook – and continues to undertake - an SO by SO review of current and planned activities to validate or propose revisions to the existing strategic framework and to assess the feasibility of sustaining specific activities. As indicated in this Plan, the fundamental conclusion of this review is that the Mission's strategic objectives remain valid, though some revisions of the framework are warranted in response to circumstances on the ground. Operational issues have affected implementation of a broad range of longer term development activities, but the Mission has successfully altered the way it conducts business to sustain progress towards its longer term objectives.

Immediately following the outbreak of violence, the Mission instructed and authorized contractors with projects currently underway to redeploy resident expatriate staff to safer locales in Israel proper while at the same time seeking innovative ways to sustain a reasonable level of activity and continue to achieve meaningful results. As discussed in greater detail below, most or all planned activities under the Water Resources and Economic Infrastructure areas remain on track as contractors shifted the locale of design activities from the West Bank and Gaza to home office sites in the US and increased the

use of local subcontractors. In terms of specific results during the last four months, construction of the long-awaited Ein Sultan water distribution system was completed. Similarly, all of the Community Services Project grantees have sustained activities at very close to planned levels and have successfully completed dozens of new small scale community development projects. Furthermore, a number of newly awarded contracts, including the Micro Finance Industry Project, the Promoting Industrial Zones and Investment Mobilization (PRIZIM), and the Civil Society Development Project, have now mobilized, albeit at a slower pace and with revised outputs. Each of these new start-up activities is in the process of fielding technical advisors to manage and implement the project, setting up offices in Jerusalem, and finalizing annual workplans for the next twelve month period.

II. Scenarios

The Mission foresees three possible scenarios under which the USAID West Bank|Gaza program would be managed and implemented during the 12 to 36 month period beginning in January 2001. The scenarios are: (1) “status quo;” (2) “breakdown;” and (3) “breakthrough.”

In developing comparative descriptions of these scenarios, the Mission has focused on three key factors as follows:

- progress in the final status negotiations and relations between the PA and the GOI;
- security conditions and accessibility of project sites in the West Bank and Gaza; and
- general social, economic, and political environment in the Palestinian territories.

In considering the scenarios, the Mission stresses that anticipating the precise course of future events in this environment is an extremely difficult and inexact exercise. Each of the proposed scenarios described below is therefore intended as an approximation of events and circumstances that can realistically be expected to emerge during the next 36 months. Furthermore, given the volatility of the situation and the range of stakeholders with competing vested interests, straight line progress from one scenario to another is unrealistic to expect. Rather, the actual situation on the ground will move forwards and backwards both within the status quo scenario and among scenarios.

A brief description of each scenario, including key trigger points and indicators for moving from one to another, is provided below.

A. Status Quo

The “status quo” scenario constitutes the starting point for implementation of the Transition Plan and is an approximation of the way things are as of January 2001. Under this scenario, the following conditions characterize the status of ongoing Palestinian-Israeli negotiations and relations:

- Both the PA and the GOI remain engaged in the negotiations over political and security issues, but the negotiations do not yield definitive results;
- Each side continues to exert pressure and to employ tough – even violent – tactics to gain concessions on key issues, including Jerusalem, the right of return, the disposition of Israeli settlements, international borders, and further land exchanges;
- The International Community continues to follow closely the negotiations and maintains continued interest in the region; and
- A sizable proportion of Palestinian and Israeli populations continue to express deep skepticism about the feasibility of an acceptable political solution.

The security situation and access to project sites under the Status Quo Scenario are characterized by the following conditions:

- A continuing cycle of violence persists, appearing at times to be out of the control of central Israeli and Palestinian authorities;
- Security conditions throughout the West Bank and Gaza remain highly volatile due to the sporadic and unpredictable outbreaks of violence;
- Access to project sites for USAID personnel is restricted, but is feasible with security escorts and careful advanced planning;
- Many USAID-funded grantees and contractor personnel remain willing to travel to and from certain project sites at their discretion based on regular monitoring of day to day events; and
- The GOI remains officially amenable to allowing delivery of necessary supplies and equipment to project sites, but additional USAID and contractor staff time and effort is required to work out practical arrangements.

The general social, economic, and political environment under the status quo scenario is as follows:

- Economic and social indicators among populations throughout the West Bank and Gaza continue to deteriorate gradually, but do not reach the status of a full blown general humanitarian emergency;
- High unemployment and increased poverty pose the principal threats for triggering a humanitarian crisis;
- Palestinian public support for the PA continues to erode, but the PA is able to maintain nominal authority and control in those areas currently under its official administration (i.e., areas A and B); and
- Palestinian NGOs continue to function and increasingly play a major role both in mitigating the impact of the crisis and in influencing public opinion.

As described in detail in Section IV below, the Mission will, under a status quo scenario, sustain as much of its long-term development program as is practical and feasible, while at the same time refocusing and redirecting resources to mitigate the short-term impacts of the situation.

B. Breakdown Scenario

The deteriorated situation or “breakdown” constitutes the worst case scenario and the one for which additional contingency planning is required. Under the breakdown scenario, the following are the anticipated conditions and trigger points related to the status of Palestinian-Israeli negotiations and relations:

- There is an effective collapse, termination, or indefinite suspension of negotiations between the GOI and the PA, and relations break down amidst mutual recriminations;
- The collapse of negotiations is exacerbated by unilateral implementation of a “total separation” plan by the GOI or a unilateral declaration of statehood by the PA; and
- There is broad-based Palestinian public rejection of further negotiations with GOI representatives or further involvement in the Peace Process.

Security conditions and accessibility of project sites under the breakdown scenario are characterized as follows:

- Sustained and intensified violence throughout the West Bank and Gaza results in unacceptably dangerous conditions for USAID and implementing partner personnel;
- Travel within the West Bank and Gaza by USAID and other USG employees is prohibited, except under extraordinary conditions;
- Most implementing partners (grantees and contractors) are unwilling to authorize expatriate travel to project sites; and
- Rigid and prolonged closures of all or large parts of the West Bank and Gaza by the GOI severely restrict and/or prevent movement of people and anything other than humanitarian goods into and out of the West Bank and Gaza.

The general social, economic, and political environment of a breakdown scenario includes the following:

- A broad-based and dramatic decline in economic security of populations and a sharp rise in percentages living below the poverty line;
- Health, nutrition, and other social indicators decline to crisis levels;
- PA central control over areas under its administration breaks down, including acute financial crisis and an incapacity to deliver basic services; and
- The breakdown of central PA authority gives rise to factions competing for local control and other incipient indications of a “failed state syndrome.”

Under this worst-case scenario, USAID would eliminate most long-term development assistance program and refocus available resources and efforts on provision of humanitarian and emergency assistance, meeting basic human needs, and other activities aimed at preventing further deterioration of conditions in the West Bank and Gaza. An illustrative list of activities under this scenario would include provision of food and emergency medical response. As circumstances warranted, additional activities might include small scale community infrastructure and services (e.g., household cisterns, rainfall catchments, rural roads, schools and clinics), microfinance, and job creation.

USAID and its implementing partners would place particular emphasis on the use of sub-agreements with local NGOs and subcontracts with local companies for the delivery of essential services and implementation of emergency and humanitarian assistance activities.

C. Breakthrough Scenario

The “breakthrough” scenario would entail a marked and sustained improvement over the status quo, particularly in terms of better security conditions and accessibility to sites throughout the West Bank and Gaza.

Trigger points related to the final status negotiations indicating movement from the status quo to a breakthrough scenario would include the following:

- Sustained negotiations between the GOI and the PA negotiators (with or without US mediation) resulting in mutual agreement on the terms and conditions of a peace agreement;
- A negotiated agreement officially ratified by both the GOI and the PA for implementation and implicitly or explicitly approved by large segments of both populations; and
- Terms of the agreement establish conditions for long-term cooperation and interaction of the two states.

Security conditions and accessibility of project sites under the breakthrough scenario are characterized as follows:

- Regular and open access to areas throughout the West Bank and Gaza for USAID and implementing partners’ personnel;
- Dramatic improvement in security conditions for residents and expatriates with the cessation of most or all violence and unrest;
- Restrictions on the movement of people, goods, and equipment between and within the West Bank, Gaza, and Israel are lifted; and
- USAID funded implementing partners resume full time operations at project sites and redeploy staff to offices and residences in the West Bank and Gaza.

The general social, economic, and political environment resulting from the breakthrough scenario includes the following:

- Further deterioration of economic and social indicators halts, although recovery is slow;
- Restored access and resumption of full-scale USAID, other donor and private sector activities eases economic deprivation by restoring jobs and incomes; and
- The PA evolves into a sovereign central government and begins the process of scheduling and organizing a full slate of local and national elections.

Under the breakthrough scenario, USAID would sustain activities proposed under the status quo scenario, while reviving specific activities that had been de-emphasized and/or deferred under the status quo scenario. USAID's breakthrough scenario program would last until implementation of the terms and conditions of the final status was complete. In the interim, the Mission would proceed with development of a new five-year strategic plan. In addition to activities under the existing strategic objectives, the new strategic plan that would emerge from the break through scenario might include substantial new components in such areas as refugee resettlement, housing, desalination, and institution building related to statehood.

III. Revised Strategic Framework for the Status Quo Scenario

A. Goal Statement, Rationale and Assumptions

USAID's primary goal during this Transition Plan period is to promote stability in the West Bank and Gaza and in the region. Stability will allow Palestinians to improve their quality of life. Stability will facilitate the development and maturing of Palestinian institutions. Stability will allow Palestinians to earn a living more easily, and will enhance broader economic growth prospects. Moreover, by focussing on stability, the Mission will strengthen the political, economic and social underpinnings for an eventual resolution of the conflict, even if the peace process becomes moribund for a period.

If a breakthrough in the political situation follows a period of stability, then the Palestinian economy and institutions will be better prepared for peace, as will the Palestinian people. Conversely, a focus on stability could help prevent a deteriorating status quo environment from being transformed into the breakdown scenario. In summary, USAID's focus on stability will help preserve Palestinian developmental advances under current conditions, make their transition in the event of breakthrough easier, and create a disincentive to possible breakdown.

Despite the refinement of the Mission Goal Statement, the long-term assistance priorities in the West Bank and Gaza remain largely unchanged from the time that the 1996-2000 strategy was written. Economic growth, sustainable access to water resources, a democratic system of governance, and adequate social services and infrastructure at the community and national levels, individually and together promote stability, and thus remain fundamental building blocks for a viable, independent state. These sectoral priorities will continue during the period covered by the Transition Plan. At the same time, the Plan acknowledges the overall deterioration implied by continuation of the status quo and addresses new requirements created by recent events (e.g., the need for income generation, emergency medical treatment, and service-provision by NGOs). The Plan also recognizes the need to reconsider management and implementation arrangements, including the postponement, deferral, suspension, and deceleration of specific activities within the program portfolio. The strategic framework for this Transition Plan is described below and presented in Appendix III. Activity level

implementation concerns and the implications of a deteriorating operating environment are discussed in Section IV.

The revised strategic framework retains five strategic objectives and one special objective, but incorporates refinements to the Strategic Objective 1 statement and throughout the strategic framework at the intermediate results level. Intermediate results are divided into those that will be emphasized during the period of the Transition Plan and others that should be de-emphasized in this period. The de-emphasized IRs will not be terminated unless breakdown occurs since they remain vitally important to the overall development of the Palestinian people and strategically valid.

B. Strategic Objectives

Strategic Objective 1: Sustained Private Sector Economic Opportunities

For this Transition Plan, sustained (in place of expanded) private sector economic opportunities is the economic support objective. Given the difficulties faced by Palestinians under the status quo and the economic downturn, expectations of economic expansion are unrealistic. Even in the event of a breakthrough, recovery from the economic setbacks of late 2000 and early 2001 would require a considerable amount of time. For example, Palestinian laborers might be able to cross into Israel for work while large service industry employment related to tourism suffers for at least a year or more. Similarly, trade-related infrastructure, such as the Gaza seaport, has been delayed by the current situation. Accordingly, this strategic objective will promote stability under a status quo scenario by sustaining past accomplishments. Moreover, by helping to avoid economic collapse under the status quo, Palestinians will be poised for economic expansion in the event of breakthrough.

Intermediate Result 1.1 remains Increased Access to Financial Services by the Private Sector. The Mission will continue to focus on, and possibly expand, microenterprise programs. This activity has provided finance for creditworthy Palestinians for whom small loans are otherwise generally unavailable. In the status quo, a continuation or expansion of the microenterprise program will enable USAID's Palestinian partners to sustain advances already made by this successful program while averting the potentially destabilizing effect of inadequate availability of needed capital to sustain micro, small and medium scale enterprises, many of which are of particular importance to the relatively poor segments of Palestinian society.

Intermediate Result 1.2, Increased Access to Markets by the Industrial Sector, will be retained, with the focus shifted to initiatives that make operational and strategic sense. In addition, if Palestinian economic separation from Israel becomes a reality, activities under this IR would increasingly focus on development of export markets beyond Israel. USAID's support for industrial zone expansion on the borders between Israel and the Palestinian Authority would not proceed for now, although internal industrial parks may be supported as part of an effort to create jobs and to improve the environment.

Intermediate Result 1.3, Effective Operation of Selected Economic Regulatory Institutions, is a de-emphasized IR. Consequently, the IR will remain in the strategic framework, but anticipated results will be scaled back under the status quo. Activities under this IR assist with development of institutions vital to a viable market economy, such as the Palestinian Monetary Authority, the Capital Markets Authority, the Palestinian Industrial Estate and Free Zone Authority (PIEFZA), the Palestinian Investment Promotion Agency (PIPA) and a future financial accounting standards board. Operational constraints and strategic realities under the status quo scenario will limit the Mission's ability to intensify support to these regulatory institutions as originally planned. However, as these regulatory bodies remain of critical importance to longer-term economic growth and restructuring objectives, their continued presence in the strategic framework is justified despite operational limitations. In practical terms, the Mission will continue assisting these institutions on a selected basis while constantly monitoring their receptivity to institutional development support during this period. Activities under this IR will become more event-driven, with minimal long-term expatriate presence, but with short-term technical expertise provided as needed.

Strategic Objective 2: Greater Access to and More Effective Use of Scarce Water Resources

The Mission's current strategic emphasis on water continues to make sense. Access to safe water represents one of the most important basic human needs of the Palestinian people and is vital to continued stability, as well as to a growing economy and a healthy population. Better management of the available water also continues to be critical to promoting stability. The first two IRs, relating to water supply and water management, will continue to be emphasized. The third IR, relating to water pricing, is being eliminated as infeasible during the period of this Transition Plan.

Intermediate Result 2.1, Increased Water Supply from Conventional Sources, will continue unchanged as an area of emphasis. The initial analysis of Palestinian water needs remains valid. Phase I of the West Bank Water Resources program put in service four major production wells yielding approximately nine million cubic meters of water per year. The Phase I program also constructed a 32-kilometer water transmission line connecting Hebron and Bethlehem, with two huge reservoirs at either end, serving approximately 360,000 Palestinians living in the southern West Bank. A fifth USAID-financed well is in the Jenin area (northern West Bank), serving another 35,000 Palestinians. Eight new production wells, which will further increase the amount of water available to residents of the West Bank, are planned for completion during the Transition Plan period.

Intermediate Result 2.2, Integrated Management of Water Resources, will continue as an area of emphasis under this Transition Plan, but the approach will change so that the strategic result is achieved in ways that are operationally possible. The basic point of maximizing the efficiency with which available water resources are managed remains key to the realization of this strategic objective. Through a newly-initiated village water

program, more than 25 villages will be connected to water networks and, through the work of NGOs, local residents will take responsibility for management of this resource.

Aquifer management in both Gaza and the West Bank will remain an important part of this strategic objective. Institutional development efforts for the Palestinian Water Authority (PWA), however, will be de-emphasized since expatriate contractor access to PWA offices cannot be assured under the status quo. Another change in the transition period will be greater emphasis on wastewater treatment, which will supplement the overall amount of water available to Palestinians, provide some of the infrastructure needed for effectively integrated management of water resources, and help avert the looming environmental problem of aquifer pollution. From an operational standpoint, the Mission anticipates that the permitting process will go smoothly even under the status quo since the Government of Israel shares the Palestinians' strong support for improved wastewater treatment.

Intermediate Result 2.3, Market-Oriented Allocation Mechanisms Implemented, will be deleted from this Transition Plan. In the long term, rational use of water resources is critically important for Palestinians. However, under the status quo, it will be impossible to achieve an economically rational allocation of the resources. Too much political turmoil exists to begin policy dialogue discussions on raising the price of water.

Strategic Objective 3: More Responsive and Accountable Governance

The governance strategic objective statement will remain the same. However, there will be significant changes in the intermediate results. These changes will be for both strategic and operational reasons. The civil society and legal system IRs will continue in full implementation, albeit with significantly refined programs. The legislative capacity and decentralization IRs will be de-emphasized, with a scaling back of activities and a refocus on human resources development. Despite the changes introduced in this transitional period, USAID remains committed to achieving the objectives of making Palestinian government more responsive and accountable, and citizens more politically aware and involved.

Intermediate Result 3.1 will be changed from Increased Participation in Public Decision Making and Government Oversight to Increased Participation of Civil Society in Public Discourse. This IR will continue as an area of emphasis throughout the Transition Plan. Given the realities of constant conflict throughout the West Bank and Gaza under the status quo scenario, specific references to decision-making and government oversight have been removed from the IR. Palestinian civil society organizations, particularly those the Mission will support, can be expected to play a leading role in public discourse, and indeed, to encourage stability and avoidance of a societal breakdown. Consequently, the status quo will see an intensification and expansion of support to Palestinian civil society organizations, including those that are equipped to provide essential services to the growing vulnerable groups among Palestinian populations. Viewed operationally, these Palestinian organizations have much easier access to Palestinian areas than most other USAID partners.

Intermediate Result 3.2, Legislative Capacity, is vitally important as a building block for a well-functioning state. Unfortunately, the current legislative council's mandate ran only through March 2000 and, understandably, the council is now losing legitimacy. While improving legislative capacity is absolutely essential to the success of the Palestinian democratization process, under the status quo scenario there is reduced prospect of such advances with the current legislative council. The Transition Plan de-emphasizes this IR and refocuses activities to emphasize staff training, human resource development, and complementary technical assistance. In the event of legislative elections in this status quo period, USAID will review the appropriateness of providing additional assistance.

Intermediate Result 3.3, Foundation for Decentralized Local Government in Place, presents similar strategic and operational problems. With so much of everyday life affected by political discord at a national level, a coherent approach to the devolution of governmental powers to local authorities appears unrealistic. For operational reasons, it is also difficult for the Mission to pursue this result because it requires resident expatriate assistance. Like IR 3.2, the local government result is de-emphasized in the Mission's Transition Plan, and activities will be refocused to emphasize training and capacity building to facilitate delivery of services at the community level. In addition, these activities under this IR will be linked strategically to USAID's community services programs.

Intermediate Result 3.4, Elements of a More Effective Judicial System in Place, will be broadened to Elements of a More Effective Legal (instead of Judicial) System in Place, and will continue as an area of emphasis. The roles of the legal system in promoting stability and as an element of a functioning state are evident. Under the status quo, the Mission will focus on activities related to strengthening the constituencies for reform within the PA and civil society. Technical and material assistance will be provided to Palestinian law schools and, as warranted, to the courts, prosecutors, bar associations, and others in the legal community. Construction of courthouses and capacity building of law enforcement operations, however, are not anticipated during the Transition Plan period.

Strategic Objective 7: Healthier Palestinian Families

At the strategic level, the objective of Healthier Palestinian Families remains unchanged. Improved family health conditions are important for the long-term development of the Palestinian people and, given the more acute health needs arising from current circumstances, support for this objective will also promote stability. As shown to date through emergency purchase of medical equipment and supplies, the Mission will remain flexible in responding to health issues as they develop. As with other strategic objectives, however, the IRs are changed in this Transition Plan.

Intermediate Results 7.1 and 7.2, Improved Timing of Births and Reproductive Health, respectively, represent vitally important challenges with which the Palestinian people must grapple at some point. Since they are central to healthier Palestinian families in the

longer term, USAID is not removing them from its strategic framework but they are de-emphasized in the Transition Plan. In any event, clinics in the West Bank and Gaza already financed by USAID's Pilot Health project will continue to provide needed health services related to these two results, and the Mission will remain committed to their continued viability.

Emphasis will be given to IR 7.3 (infant and child health and nutrition). Efforts under this IR will be intensified during the Transition Plan because economic difficulties have made assistance for infant and child health and nutrition even more critical. The focus will be on the most vulnerable groups, especially the women and children of those families who have been unemployed since September 2000.

The old IR 7.4, Increased Ability to Address Selected Health Problems Affecting Palestinian Families, is being eliminated from the Transition Plan. Activities under this IR were preventive and had not yet started implementation. Under current circumstances, the IR is both strategically and operationally inappropriate.

Intermediate Result 7.5, Increased Capacity to Respond to Emergency Health Problems, is new. Developments since September 2000 have clearly placed long-term burdens on the Palestinian health care system. Unfortunately, the system is ill-prepared to cope with the challenges. To assist in this regard, the Mission will provide medical equipment, supplies, support for rehabilitation of clinics, and training for emergency health workers.

Strategic Objective 8: Improved Community Services

Improved Community Services remains as Strategic Objective 8. From both strategic and operational points of view, the activities in this area are vitally important during the status quo to promote stability. Intermediate Results 8.1 (Improved Physical Infrastructure) and 8.2 (Improved Quality of Service and Economic Infrastructure) will remain unchanged and activities under them will be expanded during this period. The community services program uses non-governmental organizations to deliver a range of needed improvements to the physical and economic infrastructure of West Bank and Gaza communities. Additional fiscal constraints on Palestinian governmental units increases the need for the kinds of assistance provided by USAID's community services program. Moreover, since USAID's financing is through the ongoing programs of NGOs, a number of the operational constraints limiting the effectiveness of activities, such as contracted institution building, are not at issue. Intermediate Result 8.3, Improved Institutional Capacity of Local Councils, will remain in this Transition Plan, but will be de-emphasized during the status quo period for the same operational reasons that limit the effectiveness of similar capacity building efforts in other Strategic Objectives.

Special Objective: Selected Development Needs Addressed

For this Transition Plan, the Special Objective will have three intermediate results: Temporary Employment Generated, Selected Economic Infrastructure Developed, and Access to Higher Education and Training Increased.

Intermediate Result 1 is Temporary Employment Generated. In developing this IR, the Mission will draw upon its successful experience in creating jobs in the West Bank and Gaza in 1995 and 1996. Under the Transition Plan, activities under this IR will be a short to medium term effort to respond to immediate needs and increase stability. Increased USAID financing in this area will generate a large number of employment opportunities, thus assisting the many Palestinians who have lost work because of the border closures and generally diminished economic activity since late 2000.

Activities under Intermediate Result 2, Selected Economic Infrastructure Developed, will provide Palestinians with critical capital infrastructure, which will be all the more important in the context of a separation from Israel. Construction activities under this IR are also expected to generate a substantial number of jobs for Palestinians. Currently the major project in progress under this IR is the Jenin-Nablus road. As of the end of January 2001, the design phase is largely on track, with the partial or 30% design activity nearly completed. Under the status quo scenario, the Mission proposes completing all design activities already underway under this IR. Once finished designs are available, mission management will make a determination regarding the operational and contractual feasibility and strategic importance of proceeding with actual construction.

A new Intermediate Result 3, Increased Access to Higher Education and Training, is added to reflect the Mission's work in these areas. The Clinton Scholarship and University Linkages activities are underway and will continue under the status quo scenario. In addition, there will be an increased emphasis on short term training, reflecting a strategic decision to develop Palestinian human capacity during this period of economic stagnation.

IV. Program Implementation Concerns for the Status Quo

A. Delineation of Category of Projects

This section describes some of the obstacles to program implementation faced by the Mission since late 2000, and that will continue during the status quo. For this purpose, the Mission has considered the implementation challenges associated with four types of activities: infrastructure, service delivery, technical assistance, and training. By way of summary, cost, time and results will be affected across the portfolio. Most activities will cost more and take longer to implement. Some results will, inevitably, fall below expectations, though the Mission will do all that it can to avoid compromises on quality and unreasonable cost overruns.

B. Infrastructure

Appendix IV provides a list and summary of the current status of 25 infrastructure activities planned for USAID support in the West Bank and Gaza. Of these, three construction projects have been operational since October 2000: one of these projects was completed (Ein Sultan), a second has been suspended (one of the demonstration projects under the Gaza Coastal Aquifer Management Project); and the third (West Bank Bulk Water Supply) has continued through the mobilization stage but has required considerable Mission management time and effort to keep on track. Smaller scale, community services infrastructure activities have run into minor delays, but work has continued largely unabated. Large infrastructure activities in the governance and economic opportunities areas are being delayed for strategic rather than operational reasons. Discussion of the specific challenges follows.

There have been several travel warnings issued since September 2000 and the security situation in the West Bank and Gaza is volatile. Travel of USAID expatriate staff for project oversight is possible in certain cases but must be planned in advance and cleared by the Regional Security Office (RSO). In addition, fully armored vehicles and RSO security escorts are required. There are some parallel restrictions in place for FSN staff. However, USAID's FSN staff resident in the West Bank and Gaza have been able to provide a limited amount of on-site monitoring and the Mission is working to expand this within the current restrictions. Under the status quo scenario, sufficient oversight can be provided through increased reliance on FSNs and with periodic visits by USDH or USPSC employees. However, virtually all project site monitoring would be a concern under the breakdown scenario.

Over the past four months, access to sites in the West Bank and for US personnel working on contracts has been severely limited. Personnel working under grants and cooperative agreements (e.g., the community services activities) have been less affected. With the lifting of the prohibition on travel to the West Bank and Gaza, US contractors in the water sector should be able to accomplish most of the Mission's planned construction activities by making staff adjustments or subcontracting, as appropriate.

The ability of subcontractor personnel to reach project sites could be affected by closures and related difficulties. The Mission and its contractors recognize that such closures will pose problems. However, strategies for overcoming them are being developed. Using a Palestinian contractor was helpful at Ein Sultan. Using Palestinian subcontractors who do not have to travel through Israeli checkpoints to reach work sites is another option.

Movement of materials to project sites presents two different problems. Delivery of needed materials through Israeli ports often results in delays. Once materials are available in country, there have also been delays in their onward delivery to project sites. The Mission anticipates delays of both types but these will not cause cessation of work. In short, movement of personnel, equipment and materials will continue to be an obstacle to implementation but the Mission will continue to seek creative ways to get the job done.

Issuance of permits by the Government of Israel (GOI) for planned infrastructure work may also become a problem. The Mission does have experience with GOI practice in prior peace process downturns and will bring that experience to bear should these difficulties emerge again. This experience has recently proven helpful in securing admission of necessary construction materials. Also, the GOI has promised in writing to facilitate customs clearance and movement of all water project (as well as humanitarian) material to and within the West Bank and Gaza.

Another issue facing contractors is the difficulty in obtaining insurance for their operations in the West Bank and Gaza. As with other specific problems, the Mission expects this to be resolved but with increased costs. Insurance is one example of the many issues that will require contract amendment and change orders, which will add considerably to the Mission's management burden.

C. Service Delivery

The Mission's service delivery activities are mainly in the microenterprise, health, civil society, and community services fields. As with infrastructure, service delivery has progressed best when local organizations are responsible for implementation. US contractors have faced specific hurdles in travelling to project sites, but are increasingly relying on local staff and subcontracts with local organizations.

Generally, access of Palestinian organizations to beneficiaries is unimpeded within municipalities, but they are regionally limited by closures. US grantees have greater mobility around the Palestinian territories but may, from time to time, not be able to reach a destination. Thus, the civil society, health, microenterprise and community service organizations that the Mission supports have been largely unaffected to the extent that activities occur within closed areas. The corollary, of course, is that Palestinian beneficiaries continue to receive services so long as travel is not required. Difficulties arise when regional programs are undertaken.

Another service delivery problem is collecting fees. As a result of the current economic difficulties, health activities no longer seek fees for service. In the water sector, the IR related to cost recovery has been dropped for the period of this Transition Plan.

D. Technical Assistance

The Mission's technical assistance portfolio covers a wide range of partners, including the judiciary, bar association, law schools, municipal governments, universities, Palestinian Securities Exchange, broker-dealer community, business sector associations, and ministries such as Health, Environment, Public Works, Industry, Finance and Trade. The ability to provide on-site expatriate support on a permanent or short-term basis is a major concern under the status quo. In some cases, contractors have been sent home because they do not have access to the institutions with which they are supposed to be working in the West Bank and Gaza. Contractors also have been advised to limit mobilization of full time expatriate advisors and to monitor progress more intensively.

For example, under the Capital Markets Development Initiative, the Mission has authorized only short-term expatriate assistance to focus primarily on securities laws while de-emphasizing the planned public awareness campaign.

Where available, Palestinian personnel can be used to provide more stable technical assistance delivery. This approach has been successful in the health sector. The combination of local expertise and remote expatriate support has proven successful in stabilizing the potential volatility of the securities market.

The Mission is concerned about the sustainability of technical assistance to public institutions, given the turmoil expected in the PA during the period of this Transition Plan. There is also a concern in the community services area that financing small, municipal infrastructure may be unwise in the absence of related institution building. Expansion of training is one alternative to institution building technical assistance under consideration. More generally, the Mission is considering ways of scaling back expectations to less ambitious goals while not withdrawing from sectors that will be important in the event of a breakthrough.

E. Training

Higher education support, Clinton Scholarships, long- and short-term training are all feasible. Challenges include identification of candidates, ensuring that candidates are able to travel to the US or third countries when required, and that they return upon completion of the program. For in-country training, identifying qualified Palestinian trainers will be important, as well as securing access for needed expatriate trainers. Health sector training has progressed well through the use of local trainers. Unfortunately, trainees often have difficulty getting from one Palestinian city to another so the Mission is decentralizing training activities. Generally speaking, training is feasible under the status quo with the understanding that there may be additional costs because of transportation (both external and internal) difficulties and the need for additional course offerings.

V. Management and Resource Considerations

The current situation in the West Bank and Gaza has created important management constraints for the Mission. The FSN staff from the West Bank and Gaza only recently received permits from the GOI to travel again into Israel and the Mission has had to reassign job responsibilities and keep in touch by email and phone. The security situation severely limited travel into the West Bank and Gaza, although this is now improving. Change orders, contract amendments, Revisions to contract scopes-of-work, change orders for construction contracts, and contract amendments have and will continue to increase our management burden. The emergency humanitarian situation has also required new programs and changes to ongoing programs. However, the Mission, with the full support of the Embassy and Consul General, has worked hard to find ways to deal with these and other constraints.

The attached program and Wye budget tables show planned obligations for the next two fiscal years. (See Appendix V). The Mission believes that funds are adequate to cover the Transition Plan programming needs and also any extra costs that may arise during this period, such as those required for infrastructure projects and additional PSC positions. Because certain projects have been put on hold or cancelled, at least \$60 million in Wye funds will need to be reprogrammed. The Mission and the Bureau will also need to decide whether to ask for an extension of the Wye Funds obligation window before the end of this FY.

While the projected OE budget for the Transition Plan is slightly above that of the current fiscal year, this may not be sufficient to cover all potential problems and security requirements that may arise. Some of these include the need for more Fully Armored Vehicles (FAVs) to ensure USAID staff compliance with RSO security rules for travel into the West Bank and Gaza and the possible hiring of one or more RSOs assigned to facilitate USAID travel, if feasible.

The Mission currently employs 18 Direct Hires, 58 FSNs, and 15 PSCs. (See Appendix VI). Increased burdens on some SOs, particularly SO 8, which will manage the new job creation and municipal services projects, and SO 2, assuming the Mission proceeds with new water and infrastructure project, may require more staff, although staff will be reassigned from other SOs when their workload warrants it before the Mission hires from outside. The Contracting Office will need additional staff, especially with the nature of direct construction contracts and the anticipated increase in change orders and contract amendments.

The Mission believes that USG oversight of its projects in the field is of the utmost importance. To date, Mission staff have been able to travel infrequently to project sites. Because of RSO security requirements, travel must be planned well in advance and, at times, USAID staff are bumped by higher priority travelers. USAID FSNs living in the West Bank and Gaza, on the other hand, are usually able to travel to project sites and are providing sufficient oversight for now. With the use of email, phones and faxes, the Mission has been able to ensure instantaneous communication with FSNs who report daily on their site visits and other activities. The Mission will continue to expand use of Information Technology (IT) to overcome logistical constraints to fulfilling project management and implementation responsibilities.

Conclusion

This Transition Plan has been prepared in the context of a fluid and uncertain environment. Despite the turmoil of the past four months, the Mission is convinced that sustained engagement with the Palestinians remains in the US interest and that the USAID assistance program in the West Bank and Gaza represents a primary and constructive expression of that engagement.