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# ***USAID PROGRAM STRATEGY***

***for***

## ***THE WEST BANK AND***

## ***GAZA STRIP***

***1993 - 1997***



*Near East Bureau  
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## **I. Introduction**

The A.I.D. program in the West Bank and Gaza is an important tool in furthering U.S. Government foreign policy objectives in the Middle East. For a number of years, it has enabled the U.S. Government to demonstrate American concern for the humanitarian needs of the Palestinian people.

A.I.D.'s goal is to improve the economic and social well-being of Palestinians in the West Bank and Gaza. In support of that goal, it has three long-term strategic objectives: increased marketed production of agricultural and manufactured goods; increased use of selected improved health care services; and improved planning and management of development activities by selected Palestinian institutions. In addition, there is a short-term objective of employment generation to counter the recent economic downturn resulting from the Intifada and the Gulf War.

## **II. Political and Economic Overview**

### **II.A. Political Overview**

The U.S. assistance program in the West Bank and Gaza Strip operates in a unique and highly complex political environment. The West Bank and Gaza Strip were occupied by Israel in 1967 and are administered by the Government of Israel through a Civil Administration (CIVAD) operating under the authority of the Minister of Defense. Prior to 1967 the West Bank and Gaza Strip were controlled by Jordan and Egypt, respectively.

### **U.S. Views:**

The United States believes that the future of the Occupied Territories must be resolved in negotiations among the parties concerned. Towards this end, the Middle East Peace Conference in Madrid in October 1991 established the framework for direct bilateral negotiations between Israel and a joint Palestinian-Jordanian delegation. The agreed framework for these talks set a two-stage process: initial negotiations to establish interim self-government arrangements for the West Bank and Gaza Strip; negotiations to determine the ultimate status of the areas to begin no later than the third year of implementation of the agreed interim self-governing arrangements.

The U.S. views our assistance program as an important element in furthering this process by demonstrating U.S. concern about the welfare of the Palestinians in the West Bank and Gaza strip and helping to improve economic and social conditions there. At a later stage, following an agreement among the parties on interim self-government arrangements, the assistance program could play a larger role in sustaining a self-governing

authority.

#### Palestinian Views:

The current peace process is supported by many Palestinians, but others are skeptical that it will achieve their political objectives. Other Palestinians reject the peace process entirely because they are unwilling to accept the framework of the peace process, or because they oppose the continued existence of the State of Israel.

Palestinians generally support the U.S. assistance program but frequently lament its small size (especially relative to U.S. assistance to Israel), the involvement of the CIVAD in project approval, and what some perceive to be favoring special interests. Palestinians view the occupation as the paramount factor hindering economic development in the territories and generally consider development impossible until the occupation is removed. Thus, Palestinians frequently view assistance projects in terms of whether or not they will advance their political objectives rather than on strictly developmental merits.

#### Israeli Views:

The Government of Israel (GOI) considers the West Bank and the Gaza Strip as "administered" rather than "occupied" territories. (The GOI has annexed East Jerusalem and considers it part of Israel.) The GOI has accepted the framework of the current peace process and has stated its willingness to negotiate interim self-government arrangements with Palestinians.

On a day-to-day basis, security concerns are paramount for Israeli authorities involved in the territories, and they generally take a broad view of what constitutes security (e.g. access to water is an especially sensitive issue in the territories.) Within these constraints, however, the CIVAD has sought to promote economic growth in the territories and, in particular, job creation. While constraints still exist, the CIVAD recently undertook a number of steps to ease permit requirements, reform the taxation system, and facilitate exports across the Jordan bridges.

The CIVAD has supported our assistance program and the PVOs which implement it. The CIVAD looks with particular favor on water projects (especially in Gaza), major infrastructure development, and employment generation.

Table 1

Basic Facts	Total	West Bank	Gaza
1. Land area (Donoms) *	5.94 mil	5.57 mil	.37 mil
2. Palestinian population **	2.1 mil	1.1 mil	1.0 mil
-- % registered refugees		40%	80%
-- % living in camps		26%	55%
3. Per capita GNP, 1990 (estimated)		\$1,400	\$780
4. Real GNP per capita annual growth, 1970-1990	0.7%		
5. Population growth rate, 1990		3.5%	4.5%
6. Infant mortality rates		17-97/1,000	40-70/1,000
7. Adult literacy, total 1990		80%	75%
-- Female, 1990		73%	66%
8. Primary enrollment rates	70-85%		
9. Contributions to GDP			
-- Agriculture (1990)	31%		
-- Industry (1990)	12% (1989) 9% (1990)		11.6% (1989)
10. Contributions to Employment			
-- Agriculture	20%		
-- Industry (1989)		17%	13.5%

\* 1 Donom = 1/4 acre approx. (+/- 10%)    \*\* 1990 estimated - last census 1967

References for Table 1: All figures are taken from Development Opportunities in the Occupied Territories (West Bank and Gaza Strip), Sectoral Analyses prepared by: Policy Research Inc., October 1992, for the Agency for International Development

## II.B. Social and Economic Status, Outlook and Needs

### Status:

The Occupied Territories have experienced modest per capita growth in GDP and in social indicators over the past 20 years. (Table 1 provides a variety of statistics illustrating status of economic and social indicators.) Given lack of raw materials, declining infrastructure and procedural/legal obstacles, industry has been a minor contributor to GDP. Agriculture has been more important as a source of employment, income and exports, though future growth will be very limited in Gaza because of water shortages. But, the most important contributor to growth has been remittances of Palestinian workers throughout the Middle East, including Israel. At least a third of domestic savings comes from worker remittances. Family savings from worker earnings have been the major source of financing for business and agriculture in the absence of a financial market.

Two events have reversed the growth trend: the Intifada (which began in December 1987) and the Gulf War. Intifada-related curfews, strike days, and increased travel and security restrictions have greatly increased the costs and uncertainties of productive activities. They have further limited Palestinians' access to market information, new technologies and international contacts. They have resulted in frequent closures of schools and health services, with the expected impact on quality of education and access to health care. The pro-Iraq stance Palestinians took during the Gulf War led to a great loss in employment in the Gulf (more than 150,000 jobs) as well as reduction in economic assistance from the Gulf States. Overall, GDP for the Occupied Territories may have dropped as much as 40 percent from its height in 1987 until 1990.

The socio-economic situation in the West Bank and Gaza reflects the conditions of occupation. Regulations on imports, exports, licensing, building permits, labeling requirements and land and water use serve to restrict investment in productive activity. Israelis, Palestinians' main competitors as well as their main trading partners, receive numerous subsidies not available to Palestinians. Faced with a mixture of pre-1967 laws amended by Israel military orders and a civil justice system often found unable to adjudicate claims, Palestinians find it hard to formulate and enforce contracts. Without an effective legal system to enforce loan repayment, banks are very reluctant to lend.

The GOI relies on revenues collected from the territories to finance government services for the Palestinians. While budget and revenue information is not released, it is believed that revenues are barely sufficient to cover operating costs. As a result, roads, urban water and wastewater, electricity

distribution and telecommunications are severely under-invested. Palestinians rely heavily on donor-supported NGOs for other services related to health, higher education and agriculture; but competition among them limits cooperation for more effective service delivery.

#### Outlook and Needs:

Palestinians could make improvements, with assistance, that would allow for modest growth in employment and incomes and improved social services.

Without a natural resource base to fall back on, Palestinians will have to rely on the skill, entrepreneurship and industriousness of their labor force as the engine of growth. But after years of relative isolation and brain drain, Palestinians lack basic technical and market knowledge, and they need to become competitive. In the social sectors, while there are many highly-skilled professionals, some essential categories of technical personnel are absent. Deficiencies in financial and management skills are across the board. Though there are many private organizations intended to serve business, agriculture, health, education, and other constituencies at a local level, there is a dearth of institutions to collect and share information, coordinate activities, establish trade links or provide sectoral analyses for the territories as a whole. Absence of information and analysis for decision-making results in diffusion of scarce resources. For this reason, upgrading Palestinian institutional and human resources is an essential need.

To increase incomes, Palestinians must increase their productivity. Increased agricultural output and trade will require greater adoption of high-value, water-economizing crops, improved marketing and farming systems, improvements to related infrastructure (irrigation and roads) and greater access to production credit. In Gaza, particularly, much greater efficiency in water use must be achieved for sustainable agriculture. Increased industrial output and trade will require adoption of modern, more efficient business and industrial practices, improved quality control and better market information. The educational system cannot respond rapidly to the skills requirements of modern industry and agriculture. A more practical orientation would require curriculum change, improved research and links with productive organizations. Until the many inhibiting factors on business and banking are removed, however, industrial growth will be limited.

To improve quality of life, social services require upgrading. Dependence on Arab donor financing for operating costs of private health providers, which provide half of all health care services, have made them vulnerable to the post-Gulf

War cuts in assistance. Some areas lack access to basic health and rehabilitation services. Poor water quality results in a high incidence of water-borne diseases in Gaza. Roads, communications, and power need upgrading if they are to support a growing economy.

### **III. A.I.D. Program Strategy**

#### **III.A. Program Goal and Strategic Objectives**

A.I.D.'s goal is to improve the economic and social well-being of Palestinians in the West Bank and Gaza.

The first part of this goal, economic well-being, depends on increased employment and incomes. To achieve this, given the dearth of natural resources, the scarcity of water--a severe scarcity in Gaza, and the small population size, requires a strong productive sector exporting human skill-intensive products. Palestinian entrepreneurs, managers, farmers and workers will have to raise their skill levels and become increasingly flexible if they are to compete successfully in today's rapidly changing international economy.

The second part of the goal, social well-being, is closely related to the first, in that increased incomes provide the wherewithal for social improvements. It also depends on the quality and availability of social services including health care, education and basic infrastructure. To achieve this, given the scarcity of financial resources to maintain and upgrade such services, Palestinian administrators, planners and practitioners must increase their information base, coordinate their efforts, link services more closely with user needs, and upgrade their skills in planning, operation, maintenance and financing.

In short, both economic and social improvements require, as a first step, addressing important human capital deficiencies. Development institutions need improved planning, management, financial and technical capacity. Institutional and human resource development--especially as relates to A.I.D.'s areas of focus described below--will be a key theme cutting through all of A.I.D.'s programs.

A.I.D.'s program activities will be directed towards achievement of three strategic objectives in support of the overall goal of improved economic and social well-being.

***Strategic Objective 1: Increased marketed production of agricultural and manufactured goods.***

This is the highest priority of the three objectives because it leads directly to increased employment and incomes. It is, however, the most difficult to accomplish. Under the most

favorable economic and political circumstances, the Palestinians of the West Bank and Gaza would have difficulty in product competition with their neighbors, since their natural resources are very limited, their wage rates are relatively high, and their technological capabilities are relatively low. Under the conditions of occupation, with the higher costs and risks that accompany bureaucratic and security-related restrictions, strengthening competitiveness of Palestinian production is even more difficult. (These conditions have been noted in Section II.B. above). Nonetheless, agriculture and industry together are major employers and contributors to GDP and could be more productive with improved information and marketing services, access to new technologies, use of modern business and technical practices, availability of credit, and a more highly trained work force.

*Strategic Objective 2: Increased use of selected improved health care services.*

Despite large amounts of donor assistance in this sector, key health indicators, especially related to maternal and child health and rehabilitation, are low. Incidence of diarrheal diseases is high, particularly in Gaza, because of declining water quality. Health care facilities are poorly distributed, so that certain areas have an abundance of services while some villages have none. Private health care organizations, which provide at least 50 percent of services, suffer from declining revenues and lack the management skills to continue essential high quality services with dwindling resources. A.I.D. will focus on those "selected" services which address the most critical needs:

- (1) health care management, planning, finance and training;
- (2) primary health care services where there is a clearly identified need;
- (3) community-based rehabilitation services; and
- (4) improved potable water and wastewater services, particularly in Gaza, to improve water quality and reduce incidence of water-borne diseases.

*Strategic Objective 3: Improved planning and management of development activities by selected Palestinian institutions.*

A.I.D. will provide training and technical assistance to help create well-managed, sustainable institutions which further economic development in the occupied territories. Assistance will be targeted to Palestinian institutions which A.I.D. selects based upon their economic and organizational viability, their geographic or population coverage and ability to expand services, and the priority of the developmental problems they address.

**III.B. Short-Term Strategy to Provide Immediate Relief for the Deteriorating Economic Situation**

Achieving A.I.D.'s three objectives for the West Bank and Gaza Strip is a long-term proposition. These objectives should remain relevant for the five years covered by this strategy (1993 through 1997). There is an immediate need, however, for short-term employment programs to counteract the devastating effects on the Palestinian economy of the Gulf War and the recent severe winter. Short-term labor-intensive public works programs can help to improve infrastructure such as roads, irrigation structures and potable water systems which will contribute directly to achievement of A.I.D.'s objectives, while at the same time providing temporary employment and incomes at a particularly difficult economic period. A.I.D. may support such programs, provided they are time limited, well publicized as temporary employment programs, and focused on carefully-selected, small-scale works.

**III.C. Program Outcomes and Activity Proposals**

This strategy assumes that \$25 million in ESF will be available for the West Bank and Gaza program annually, beginning in FY 93. A.I.D. will place two USDHs at post to monitor these programs, but for the time being will maintain program management responsibility from AID/W. Even so, with such an increase in funding levels, streamlined project management is essential to simplify A.I.D. oversight, increase potential impact and avoid activities with potentially negative economic results. A.I.D. will continue to work with PVO grantees for a substantial portion of its programs, but will expect grantees to concentrate their activities on the focus areas described below. A.I.D. will make an effort to involve carefully screened Palestinian NGOs in carrying out programs. In addition, A.I.D. will develop new project mechanisms for sectoral activities best undertaken through contracts with qualified firms.

A.I.D. will develop activities to achieve the following program outcomes:

*Strategic Objective 1: Increased marketed production of agricultural and manufactured goods.*

*Program Outcomes: Improved marketing of agricultural products.*

*Accelerated adoption of improved agriculture technologies, with special emphasis on high-valued, water-saving crops in Gaza.*

*Increased adoption of modern business and farm management practices.*

**Increased business access to marketing, investment, regulatory and technical information.**

**Increased value-added in Palestinian industrial production.**

For the first two program outcomes related to agriculture, A.I.D. may fund:

- activities to improve agricultural research and technology transfer geared at development, production, handling, marketing and transport of crops with potentially high export value but low water usage;
- activities to establish information clearinghouses accessible to farmers on both technology and market information;
- activities to introduce Palestinian produce to and upgrade the quality of Palestinian produce for export markets;
- activities to improve the role of cooperatives and other farmer organizations as marketing and extension agents;
- limited, rural community-based infrastructure activities to support improved production, water conservation or marketing. These might include small feeder roads, irrigation structure improvement, or land reclamation sites in the West Bank; and
- production credit programs based on concepts aimed at financial sustainability: market interest rates, simplified and standardized lending operations, large number of users, the bare minimum in technical assistance and training services, strong emphasis on loan repayment, and good management systems that track cash repayment, impact, productivity and sustainability.

For the third outcome which relates to both agriculture and industry, and for the fourth and fifth program outcomes related to industry, activities might include:

- links between Palestinian and U.S. industrial/business organizations to improve business information and access to new technologies,
- technical assistance to individual firms on a non-targeted basis,
- production credit for microenterprises on the same basis as described above,

- industrial R&D, or
- training to improve technical and management skills.

A.I.D. will not finance subsidies for capital agribusiness projects such as cold storage facilities, slaughterhouses, packing plants, nursery facilities and tractors. Such projects will only be funded through market-based credit programs which comply with the criteria described in the final bullet under the first two program outcomes above. Municipal capital projects intended to provide needed facilities for industry and business development, such as light industrial zones or wholesale markets, would be permitted.

In Gaza, A.I.D. will emphasize assistance for farmers to shift production from water-intensive crops such as citrus and flowers to water-saving crops with similar high value and exportability.

While A.I.D. expects PVOs to undertake many of these activities, especially in agriculture, A.I.D. will design a separate project for private sector support which will contract out implementation to a qualified firm. In this way, A.I.D. can obtain specialized expertise and direct activities in a coordinated fashion while minimizing the management burden.

When the restrictions that currently limit the banking system's ability to provide loans to industry and agriculture are reduced, A.I.D. may add one additional program outcome:

*Program*

*Outcome: Improved financial sector practices.*

This will be achieved through technical assistance and training for managers and employees of indigenous banks to expose them to the practices of successful corporate banks elsewhere.

*Strategic*

*Objective 2: Increased use of selected improved health care services.*

*Program*

*Outcomes:*

*Increased outreach to communities by primary health care (including family planning) and community-based rehabilitation services.*

*Improved water and wastewater management.*

*Improved health care management, planning and financing for selected institutions.*

PVOs undertaking new activities under this Strategic Objective should carry out assessments to determine the precise

areas in which gaps in service delivery exist. A.I.D. will fund direct service delivery activities in the areas of primary health care, family planning and community-based rehabilitation services. Assistance for curative care facilities construction, expansion or sophisticated equipment purchases will not be considered.

A.I.D. will expect strong coordination among the PVO grantees working in this sector, in order to avoid duplication and competition.

In light of the severe funding constraints facing private health care institutions, A.I.D. will encourage activities that help these private institutions improve their management and consider innovative programs to strengthen health care financing. A.I.D. will also provide assistance to improve management planning and financing, both for key private institutions and for efforts to promote more effective operations across the sector.

A.I.D. recognizes that water projects can have important benefits for agriculture, but for the purposes of this strategy, the most important immediate benefits relate to reduction of water-borne diseases. Small-scale, village-level potable water and rainwater conservation activities may be considered, as long as they include a plan for community finance and management of operations and maintenance. Larger scale, municipal-based sewerage programs may be considered for Gaza, but only if revenue generations appear adequate to cover operations and maintenance, if locations minimize the risk that reflows would be used by settlers, and if activity can be designed to minimize A.I.D.'s management burden.

*Strategic Objective 3: Improved planning and management of development activities by selected Palestinian institutions.*

Because the negotiations for interim self-government arrangements are only now underway and neither the phasing nor the extent of the changes have been determined, A.I.D. cannot yet specify program outcomes or potential activities beyond the general statements made in Section III.A above. These will be developed as events unfold. For the time being, A.I.D. envisions targeting assistance on one or two key sectors additional to those covered by the first two Strategic Objectives.

#### **IV. Benefits and Costs of the Strategy: Benchmarks of Progress and Resource Flows**

The benchmarks and resource flows estimates which follow are illustrative only. The political situation is evolving; the pace of progress on negotiations for interim self-government will have a great deal of influence on how quickly resources can be absorbed in certain sectors, as well as how ambitious the

benchmarks can be. When the general thrusts of the strategy have been approved, A.I.D. will carefully refine the strategic objectives, program outcomes and progress benchmarks which relate to them, then adjust resource allocation plans accordingly. In the meantime, these preliminary benchmarks and resource flows should give the reader a picture of what A.I.D. would like the strategy to achieve and generally what areas would receive funding priority.

The benchmarks also reflect the basic thesis of this strategy: that human capital and institutional strengthening is an essential requirement for progress in both the productive and social sectors. While human skills upgrading can take place rather rapidly, institutional strengthening takes time. For this reason, two categories of benchmarks are identified. Interim benchmarks, for which progress should be apparent by 1995, describe the changes which need to occur in those institutions responsible for sectoral progress. Longer-term benchmarks, which should begin to take place by the end of the planning period, 1997, relate to the marketing of products, employment benefits, and health improvements towards which the strategic objectives aim.

The resource flows estimates show an increasing emphasis on the productive sectors, which will absorb the majority of A.I.D.'s resources during the planning period, with priority shifting over time from agriculture to industry. Health services will consume a fifth to a third of program resources, but with better focusing of the health portfolio, resources will shift over time from direct service delivery to health administration and finance and, if adequate management mechanisms can be worked out, to Gaza potable water. Resources devoted to the third strategic objective, development administration, will remain relatively small, as A.I.D. focuses on only a couple of sectors. Should the level of total program resources expand beyond \$25 million, however, this area should have a high priority for additional funds.

Training and technical assistance financing are not identified in the resource table; however, both would play a part in virtually every activity listed.

Finally, it may be noted that some areas of activity traditionally engaged in by PVOs decline over the planning period (such as agriculture services, health services, and community-level infrastructure). Though A.I.D. plans to design projects and contract for the expertise to implement other parts of the portfolio, this does not necessarily mean that funding for the PVOs has to decline. Rather, it reflects A.I.D.'s desire to focus programs and move beyond traditional programming areas. A.I.D. will work with the PVO community to explore opportunities for their contribution within the new priority areas.

#### **IV.A. Illustrative Benchmarks of Progress**

##### **Strategic Objective 1:**

Interim, institutional/human capital benchmarks for 1995:

- 2 business/trade organizations and 5 major farmer service organizations (which could include co-ops) have been strengthened to the point where they are beginning to provide members up-to-date information on product and technology advancements, basic production and market statistics, export regulations and trade links. They may also locate credit and provide marketing services for members. These organizations are increasing their membership and/or their methods and activities are being replicated by other organizations.
- Palestinian agriculture universities or agriculture development organizations are producing adaptive research on water-saving crops and technologies.
- Credit programs are in place, providing loans for business and farm capital needs on market terms.
- Palestinian schools and other organizations are beginning to tailor courses to specific training needs of Palestinian businesses.

Longer-term benchmarks for end-1997:

- The contribution of Palestinian industry to GNP has increased from 7-9 percent in 1991 to a higher level (precise increase to be determined during preparation of final benchmarks).
- Crop production for export has increased by 10 percent. Water required for crop production does not increase, and decreases in Gaza, because of improved water management.
- Employment in agriculture and industry, including related services, increases from 35 percent of total employment in 1989/90 to 45 percent.

##### **Strategic Objective 2:**

Interim benchmarks for 1995:

- Palestinian health care organizations have access to reliable information on sector needs and are beginning to rationalize allocation and use of health resources, including donor assistance.

- Palestinian schools or development organizations are beginning to develop expertise and tailor courses to needs of health planners and administrators.
- A health insurance program modeled after existing successful NGO programs is being pilot tested by 2 or 3 of the stronger regional health care providers for eventual wider replication.
- Family planning and MCH services are now available in two-thirds of the villages which lacked access in 1991.
- Two Gaza municipalities have specific plans and have identified donor support for programs to improve water supply/wastewater disposal systems with adequate attention to system operation and maintenance.

Longer-term benchmarks for end-1997:

- MCH and family planning services, including rehabilitation, are broadly available throughout the West Bank and Gaza as measured by user rates (percentage increases to be supplied later).
- Child immunizations, pre/post-natal care, and use of family planning increase significantly, resulting in lowering of infant/child mortality (percentage changes to be supplied later).
- Health insurance availability renders health care accessible to many more Palestinians, as measured by a 25 percent increase in hospital/clinic user rates (figure to be adjusted after consultation with experts).
- Water or wastewater system improvement projects are underway in two Gaza municipalities.

Specific Objective 3:

Interim benchmarks for 1995:

- In 2 or 3 sectors mechanisms will be in place for collecting, analyzing and distributing sector-wide statistical information needed for decision-making.
- A significant number of individuals in these sectors will have access to technical expertise and training opportunities to upgrade sector management; and Palestinian universities and organizations are participating in providing such expertise and training.

Longer-term benchmarks for 1997:

- Longer-term benchmarks will be determined as individual sectors or institutions for targeting have been selected.

#### IV.B. Resource Flows Projections

The reader should recall that the figures below, like the benchmarks of progress, are only preliminary.

<u>Specific Objective and Contributing Activity</u>	<u>Proposed Obligations in \$ Millions</u>					
	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	
<b>S.O.1: Production &amp; Marketing</b>	<b>13</b>	<b>14</b>	<b>11</b>	<b>13</b>	<b>16</b>	
Agriculture	9	7	6	6	6	
-Ag. services (farmer orgs.)	(3)	(2)	(1)	(1)	(1)	
-Ag. credit	(3)	(2)	(2)	(2)	(2)	
-Water-saving research/ext.	(2)	(2)	(2)	(3)		
-Farm-level infrastructure	(1)	(1)	(1)	(1)		
Private Enterprise	4	7	5	7	10	
-Bus. services/trade links	(4)	(3)	(3)	(4)	(7)	
-Regulations, standards		(2)		(1)	(1)	
-Banking and credit		(2)	(2)	(2)	(2)	
<b>S.O.2: Health services</b>	<b>6</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>5</b>	
-Service delivery	(4)	(3)	(2)	(2)	(1)	
-Administration & finance		(1)	(5)	(3)	(1)	
-Village potable water	(2)	(1)	(1)	(1)	(1)	
-Gaza water			(2)	(2)	(2)	
<b>S.O.3: Devel. Admin.</b>		<b>4</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>4</b>
-Sectoral planning, admin.	(3)	(4)	(3)	(3)	(3)	
-Municipal gov't strength.		(1)		(1)	(1)	
-Community development	(1)	(1)	(1)	(1)		
<b>Short-term works/ag. relief</b>	<b>2</b>					

#### V. Role of Other Donors

As Table 2 indicates, there are many donors supporting activities in many sectors in the West Bank and Gaza. This table does not include Arab assistance or contributions from private Palestinians living overseas, both of which have historically been important sources of aid. Of the donors for which we have financial information, UNRWA is the most important. UNRWA's activities are directed towards registered refugees, particularly those in camps. Other donors direct their assistance towards the Palestinian population outside of camps.

In addition to the A.I.D. program, the U.S. finances 40 percent of UNRWA's program costs for refugees and about 10

percent of UNDP's programs, making the U.S. one of the largest donors in the Occupied Territories.

Health and education receive much more assistance than any other sectors, reflecting the humanitarian nature of most donor programs. Recently, however, many donors have stated their intention to shift resources from social services to employment-creation, often through subsidized credit programs. Donors typically direct their assistance to Palestinian organizations rather than through the CIVAD. Lack of donor coordination, combined with factionalism among Palestinian service organizations, has allowed for duplicative, competing activities financed by different donors, in some areas, while other areas lack any activities. This maldistribution of resources is especially obvious in health services, where donor assistance has been the most plentiful.

Recently, under the leadership of the UNDP, the Western bilateral and multilateral donors have begun to share information on their efforts. The first result of this is a complete listing of all donor-funded activities, amounts, implementing agencies, and location. This database should allow donors to reduce problems of maldistribution and to utilize resources more effectively. The second result is a multi-donor effort, again led by the UNDP, to provide emergency assistance to farmers most badly hurt by last winter's storms. A third is an exploratory effort by the donors to find a solution to problems of inadequate funding of health organizations for operating costs.

**TABLE 2: FINANCIAL SUMMARY OF ONGOING PROJECTS\*\***

<u>SECTOR</u>	<u>AMOUNT IN DOLLARS</u>
General Development Strategies	1,397,906.00
Natural Resources	7,171,100.78
Agriculture, Forestry, Fisheries	16,602,784.00
Industry	20,497,437.00
Trade and Development Finance	727,770.00
Population	295,828.00
Housing and Infrastructure	4,900,973.00
Health	71,812,646.00
Education	55,874,948.00
Humanitarian Aid and Relief	9,216,383.00
Social Conditions and Equity	5,360,659.00
Culture	506,519.00
Science and Technology	289,205.00
Multisectoral	5,562,475.00

\*\*From UNDP/Jerusalem's report "Compendium of Ongoing and Planned Projects," dated March 1992. Donors include Canada, U.K., EEC, Japan, Netherlands, Tunisia, UNDP, USAID, Australia, Austria, France, Italy, Spain, Finland, UNFPA, Germany, Ireland, Sweden, Switzerland, Arab Gulf Program for UN Development Programs, WHO, UNICEF, Greece, Belgium, WFP. UNRWA contributions are excluded.

Figures are for life-of-project total grants of all ongoing activities.

## VI. Key Concerns

There are five primary reasons that A.I.D. has opted to forgo certain kinds of project activities, despite the needs, under strategy described above:

(1) Sustainability. There are inadequate revenues to finance routine repairs as well as expansion of major infrastructure, including roads, power, telecommunications and potable water and wastewater systems. Prospects for increased revenues are limited under the current situation. In the case of private health care and education services, though user fees are collected, these and donor resources are inadequate to cover operating costs. A.I.D. cannot finance capital expansion when insufficient funds are available to operate and maintain these new facilities effectively. Typically, this can only be assured when the capital projects are small-scale in nature, so that community users are willing and able to take responsibility for financing ongoing operation. Nor can A.I.D. get into the business of funding operating costs, aside from an exception basis. A.I.D. is willing, however, to help organizations in our focus areas explore options for increasing their revenues and reducing their costs through more effective operation. All grants, regardless of content, must include plans to ensure long-term sustainability.

(2) Subsidization of productive operations. Some U.S. PVOs in the past have funded programs which provided equipment, supplies, capital construction, or credit on a grant or subsidized loan basis for productive enterprises. (This has been the practice of other donors as well.) Such grants have frequently gone to cooperatives and municipalities, but some have also gone directly to small farmers and entrepreneurs. When productive operations are based on subsidies, other firms, individuals or organizations, who do not have access to such subsidies, may not be able to compete. Alternatively, the organizations with access to subsidies are able to compete despite inefficient operations. A frequent rationale for use of these subsidies has been that there is no effective private sector competition in view of the restrictive legal environment, or that selected organizations should be allowed to provide services in place of the private sector, because there is no regulatory structure to ensure that private firms provide sufficient quality control. It is not wise to introduce additional distortions to compensate for an already distorted investment environment. It should be noted here, however, that certain capital projects of municipalities, which do generate revenues for the municipalities but are implemented primarily for the purpose of facilitating private sector expansion, such as light industrial zones or wholesale markets, may entail some subsidy element.

As for credit, a major problem experienced by both the banking sector and the informal sector has been inability to enforce collection of overdue loans. Provision of credit at costs lower than those required to cover costs--including the costs of uncollected loans--cannot lead to a sustainable credit operation. A.I.D. will examine all proposed loan activities with extreme care to ensure they have strong potential to operate on the basis of financial sustainability, include adequate plans for loan repayment and set interest rates to cover the costs of capital will be considered. Priority will go to credit programs for working capital rather than for new or expanded operation.

(3) Economies of scale: Certain capital projects are more efficient when functioning on a large scale; for example, electricity generation and communications. Sometimes, however, political dynamics work against large scale investments. Where this has been the case, A.I.D. involvement should be limited to small scale activities at the village level which can provide strong support for Objective 1.

(4) Managerial concerns: Certain activities are more staff-intensive for A.I.D. than others. Even under the best scenario, A.I.D.'s staffing capacity for the West Bank and Gaza program will remain very limited. To provide sufficient oversight in the use of U.S. assistance funds, A.I.D. will have to limit activities to the least staff-intensive. Oversight requirements depend, to some extent, on the experience and reputation of the grantee or contractor with previous A.I.D. projects, but also on the nature of the assistance. The activities which cause A.I.D. the greatest management burdens, and therefore are unlikely to be funded unless in exceptional cases, are as follows:

- Large infrastructure, especially dealing with complex technologies or high maintenance requirements, such as wastewater treatment. A.I.D. will consider such projects in Gaza, however, because the water situation there is so severe.

Construction. Construction projects will only be allowed if they include realistic provision for maintenance of completed facilities.

Equipment procurement, especially high-tech equipment or small procurements scattered over a wide geographic area. This is staff intensive because A.I.D. needs to check end use to ensure both proper use and proper maintenance.

Grants or contracts to institutions unfamiliar with A.I.D. or with the conditions in the Occupied Territories. Such institutions require substantial hand-holding, particularly in the start-up phases. Risk is reduced for organizations

which have worked with A.I.D. in the past or have operations in the region.

(5) Buy America. Consistent with A.I.D. policies and regulations, procurements under the program should be of U.S. source/origin to the greatest extent possible.

## VII. Management Plan

The Near East Bureau will assign six direct hire officers to the West Bank/Gaza program: a desk officer and three project managers to NE/ME, one A.I.D. affairs officer to Jerusalem, and one A.I.D. affairs officer to Tel Aviv. The field offices will be leanly staffed. The specific responsibilities of NE/ME vis-a-vis the field offices are in the process of being defined. Generally, NE/ME, in coordination with NE/DR and NE/DP, and with policy guidance from the Department of State, will be responsible for managing the program. The field officers will be responsible for monitoring the program, as agreed between State, A.I.D., Embassy Tel Aviv, and ConGen Jerusalem.

A.I.D. will continue to deliver assistance through private voluntary organizations but will, at the same time, expand the range of its delivery mechanisms to include contractors. The move toward contractors is driven by A.I.D.'s sense that, with increased funding levels we need to begin thinking and acting sectorally. The alternative to delivering the increased assistance through grantees was considered but rejected for two reasons: A.I.D.'s reluctance to further stretch the program focus and absorptive capacity of the currently active A.I.D.-funded PVOs, and its belief that adding a significant number of new groups would (a) create confusion, coordination problems, and inefficiencies in the field as all of the groups sought to establish relationships with many of the same Palestinian intermediaries and CIVAD authorities and (b) overburden A.I.D.'s own management capability.

The first implementation contract let will likely be to support private sector promotion activities. It will be awarded competitively after the design and approval of an A.I.D. project paper. A.I.D. is also considering the design of a project to bring its support to indigenous non-governmental organizations under the umbrella of a contractor or cooperative agreement.

A.I.D. will, as appropriate, consider buy-ins to regional and central bureau projects.