

USAID/West Bank and Gaza

Annual Report

FY 2004

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Please Note:

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West Bank and Gaza

Performance:

Country Setting: There are approximately 3.2 million Palestinians living in territories occupied by Israel as a result of the 1967 war. In 1993, Israel and the PLO signed the Oslo Accords, which ultimately led to the formation of the Palestinian Authority and to the withdrawal of the Israeli military from parts of the West Bank and Gaza. The second Palestinian intifada began in September 2000 and continues today. The conflict is now characterized by a cycle of terrorist acts and Israeli military incursions, with occasional periods of calm. Mitigating and resolving this conflict remains one of the U.S. Government's top three foreign policy objectives, as laid out in the 2003 State-USAID strategic plan.

Political Update: This past year held moments of anticipation and despair for the Palestinian people. Hopeful signs included the establishment of the post of Palestinian Authority (PA) Prime Minister and the agreement by the Israelis and Palestinians to accept the Road Map. These developments provided a sense of optimism that President Bush's June 24, 2002 vision of a democratic Palestinian state living side-by-side with Israel might soon be realized. Indeed, following the June 4 Aqaba Summit, the US Government dispatched a senior diplomat to establish an on-the-ground Road Map monitoring regime and to encourage the parties to fulfill their Road Map obligations. For a time, both sides undertook limited actions consistent with the Road Map: Israel removed several illegal outposts and withdrew from Northern Gaza and Bethlehem; and the PA implemented reforms, particularly in the financial management sector. Also, in early July, Palestinian militants declared a "hudna", (temporary ceasefire as interpreted by the Palestinians and tactical retrenchment as interpreted by Israel), which brought an end to suicide bombings in Israel for six weeks during the summer.

The hudna was broken in mid-August as a result of the continuation of Israel's policy of targeted assassinations and the resumption of Palestinian suicide bombings. Through the end of the reporting period, the situation spiraled down-hill, with the collapse of Prime Minister Abbas' government, the stagnation of the PA reform process and the withdrawal of the USG monitoring team. Overall, the realities of the past 12 months reflect a continued low-intensity conflict, which include a cycle of suicide bombings and Israeli incursions into populated Palestinian areas, followed by periods of perceived calm. The consequences of this on-going conflict are loss of life, severe damage to the economy, restrictions on the movement of Palestinians, and a difficult environment for USAID project implementation.

Socio-Economic Update: A new analysis of the years 1995 through 2003 shows that, prior to the onset of the latest Intifada, the economy had been growing at a 9.2 per cent annual rate, primarily because of private sector investment. The Intifada resulted in a 35 per cent fall in GDP through 2002, but estimates for 2003 suggest approximately a 5 per cent growth rate this year. Gross Disposable Income rose slightly in late 2002 and 2003, primarily because of a large infusion of cash from donors, revenue transfers from Israel and other sources, but incomes remain sharply below the peak in the late 1990's, and this small rise may prove unsustainable. Still, just released results of the official Labor Force Survey show that unemployment dropped sharply this year - to 23.6 percent in the third quarter of 2003, down from a peak of 35.6 percent a year earlier. Moreover, a September 2003 IMF report says that the worst is over and the economy has weathered the intifada related storm.

Nutritional status follows income. Current estimates are that 40 per cent of West Bank and Gaza inhabitants are food insecure, and an additional 30 per cent are on the verge of becoming so. Still, USAID-funded surveys show a slight improvement in acute malnutrition rates from 2002 to 2003, despite a continued decrease in the quality of food consumed.

Security Update: This past year did not see military incursions on the scale of the Spring 2002. However,

closures and curfews, checkpoints and roadblocks, and the separation wall continue to dominate the assistance landscape. More tragically, two weeks after the end of the fiscal year, a US diplomatic convoy was attacked and three U.S. citizens were killed. In another ominous incident, a few days earlier, the Israeli Defense Forces destroyed five agricultural wells that had recently been repaired with USAID funds near the fence separating Gaza and Israel. As the result of these incidents, along with continued political instability in the Palestinian Authority, USAID reviewed sectoral resource allocations and project implementation plans to determine their continued relevance and practicality

2003 Accomplishments: Notwithstanding the challenges associated with operating in such a high risk environment, USAID achieved many notable successes during the reporting period. In February, following intense dialogue among Palestinians, Israelis and the USG, a USAID-funded monitoring mechanism facilitated the transfer of more than \$700 million in previously withheld tax revenues collected by Israel on behalf of the Palestinians. The transfer allowed the PA to continue paying salaries and to repay debt owed to the private sector, thus contributing to an economic upturn in the third quarter of 2003. In addition, the ensuing USAID project formed part of a broader reform effort.

In helping avert a full-blown humanitarian crisis, USAID provided nutritious food to approximately 540,000 of the most vulnerable people living in the West Bank and Gaza, delivered more than \$7 million of emergency medical supplies, equipment, and pharmaceuticals to clinics and hospitals, helped 42,900 children deal with the trauma of daily violence and repaired damaged water infrastructure in 50 municipalities. USAID also contributed to a better understanding of the humanitarian situation and improved donor decision-making through timely research, surveillance systems and analytic studies.

A three-year, \$30 million USAID-funded water infrastructure project was completed in September and is now providing an additional 5 million cubic meters of potable water to the Southern West Bank. Countless small infrastructure projects funded by USAID brought meaningful improvements to the quality of life for the Palestinian population. For example, 367 classrooms have now been repaired or constructed under the Mission's Community Service Program (CSP), accounting for approximately 30 per cent of all Palestinian classrooms. This activity has eased the overcrowding in Palestinian schools and provided additional educational opportunities for girls. Overall, the CSP small infrastructure projects created more than 1.9 million person days of temporary employment, thus providing much needed jobs for a population suffering from 30 percent unemployment.

The Palestinian economy needs a firm foundation if it is to recover from the slump caused by three years of fighting. The Mission-funded NGO micro-credit portfolio, in addition to generating short term jobs, has made available a cumulative of \$17 million in loans for micro-businesses, compared with a target of \$18.9 million, and around \$7 million in home improvement loans against a target of \$7.2 million.

Unlike many donors, USAID continues to implement several long term institutional development programs, such as supporting the reorganization of the Ministry of National Economy, enhancing the supervisory capacity of the Palestinian Monetary Authority, and increasing the effectiveness of the Palestinian Legislative Council and the courts. More than 100 Palestinian non-governmental organizations received USAID funded grants, which allowed the organizations to provide services and develop democratic means of advocating issues of public concern. USAID-funded programs supported the development of alternative dispute mechanisms and creative legal mechanisms for addressing gaps in legislation that stymie private sector activities. Other long term USAID-funded investments include scholarship programs for Palestinians to travel to the United States for masters degrees, 373 scholarships that permitted Palestinians to continue their studies at local universities and a few short term training opportunities, which may be expanded as budget and opportunities permit.

Responding to positive developments associated with the acceptance of the Road Map by both parties and the formation of a reformist government under Prime Minister Abbas, President Bush authorized a \$20 million cash transfer to the Palestinian Authority. In taking this unprecedented step, the President waived an explicit congressional prohibition on national security grounds, but insisted that the PA's use of the funds be carefully monitored by USAID. The Mission accomplished this task through close collaboration with the reformist PA Minister of Finance and reliance on FSN engineers, who visit project

sites where the funds are to be used before, during and after project completion.

With \$15 million in supplemental funds, the Mission implemented an emergency road construction project, utilizing innovative contracting mechanisms to expedite results. Within six months, 70 kilometers of roads were repaired or replaced, 300 engineering and 3,000 short-term skilled and unskilled jobs were generated. The US Government received countless letters of thanks and public kudos through newspaper advertisements from officials in the 16 municipalities where the project was active.

Most important challenges: The above examples demonstrate that USAID/WBG can achieve meaningful results in an extremely difficult situation. For example, when nearly all the U.S. staff were out of the country during the evacuation at the start of the Iraq war, Mission programs continued to provide much needed assistance to the Palestinian population. Oversight was provided by a talented group of FSN staff. The Mission also maintains excellent working relationships with Israeli military and political counterparts, facilitating the movement of goods and personnel essential for project implementation.

Country Close and Graduation:

N/A

Results Framework

294-001 Expanded Private Sector Economic Opportunities

SO Level Indicator(s):

Increased Exports Directly Attributable to USAID Interventions

Increased Value of Housing Loans

Increased Value of Micro-Finance Loans

294-001.1 Increase Access to Financial Resources

294-001.2 Increased Access to Domestic and International Markets by the Industrial and Service

Sectors

294-001.3 Effective Operations of Selected Economic Regulatory Institutions

294-002 Greater Access To and More Effective Use of Scarce Water Resources

SO Level Indicator(s):

Major Infrastructure Construction Milestones

Population With Upgraded Village Water Systems

294.002.2 Local Water and Sanitation Infrastructure Restored and Upgraded

294-002.1 Major Water and Sanitation facilities constructed

294-003 Maintaining and Strengthening Key Institutions of a Modern, Inclusive Palestinian Democracy

SO Level Indicator(s):

Democracy and Governance Milestone Indicators

294-003.1 Strengthen and Support CSOs To Be Effective Advocates for and Protectors of Citizen's

Interests

294-003.2 More Effective Legislative Process

294-003.4 Increased Adherence to and Respect for Principles and Practices of Rule of Law

294-003.5 More Genuine and Competitive Political Processes

294-005 Increased Access To Higher Education and Training

SO Level Indicator(s):

Number of Undergraduate Students Making Progress Towards Their Degrees and Perform
Community Service

Percentage of 89 Scholars Who Have Returned and are Working in Their Specialty

294-005.01 Improved Willingness and Capacity of Palestinian Citizens to Contribute to Development
Needs

294-005.02 Palestinian Higher Education Institutions Identify, Adapt and Meet Changing Development
Needs of Society

294-007 Improved and Sustained Performance in the Health Sector

SO Level Indicator(s):

% of Pregnant Women Receiving Maternal Tetanus Toxoid

Acute Malnutrition % of Children Aged 6-59 Months

Number of Children Supported by Psychosocial Interventions

294-007.01 Improved Quality of Maternal and Child Health and Nutrition

294-007.02 Improved Behavior Related to Maternal and Child Health, Nutrition and Well-Being

294-007.03 Improved Capacity to Meet Health, Nutrition and Psycho-Social Needs Arising Out of the
Crisis

294-008 Improved Community Services

SO Level Indicator(s):

Educational Rooms Constructed/Rehabilitated

Person-Days of Employment Generated

294-008.1 Improved Community Physical Infrastructure

294-008.2 Improved Delivery of Community Services

294-008.3 Improved Income Generation

294-008.4 Enhanced Access to Humanitarian Relief in Times of Crisis