

Testimony of James Bever, West Bank & Gaza Mission Director U.S. Agency for International Development

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Mr. Chairman, Congresswoman Lowey, and distinguished members of the committee, thank you for the opportunity to testify on USAID's program in the West Bank and Gaza.

The Palestinian political leadership transition, the current municipal elections, the upcoming legislative elections, and the Government of Israel's disengagement plan from the Gaza Strip and settlements in the northern West Bank all present an unprecedented opportunity to enhance the Israeli-Palestinian peace process and pave the way for the state solution.

The USAID West Bank and Gaza program plays an integral role in advancing the peace process and promoting the U.S. Government's strategic foreign policy objective of creating an independent, viable, and democratic Palestinian state living side by side with Israel in peace and security. In order for a Palestinian State to succeed it must be economically sustainable, territorially viable, and politically and socially stable. It is in pursuit of assisting the Palestinians towards statehood, meeting both immediate and medium term needs, that USAID programs are targeted.

Since the beginning of the second Intifada in 2001, USAID programs in the West Bank and Gaza have focused on helping to alleviate the hardships faced by the Palestinians. These include a decline in employment opportunities and disposable income, and a decline in the overall quality of life. Thanks to USAID programs, jobs have been created, businesses revitalized, roads and water infrastructure built, and health care and nutrition needs of the most vulnerable met.

Our private sector programs have assisted some 1,200 businesses to penetrate new markets, creating 5,600 jobs and generating \$36 million in exports. Nearly 70,000 micro-credit loans totaling \$33 million have been made by USAID to finance activities in the service sector, trade, production and agriculture. USAID-funded water infrastructure has provided a reliable source of clean water for 1.2 million Palestinians across the West Bank and Gaza. Under the health program, we trained health workers, provided medical supplies and essential drugs, and distributed health education kits to more than a 1,000 women living in isolated communities, training them to recognize danger signs during pregnancy and newborn care.

With the political leadership transition, elections, and disengagement, USAID programs are guided by the desire to achieve the following objectives:

1. Support for a moderate leadership and maintaining momentum: USAID programs seek to assist a new Palestinian leadership develop a moderate and democratic society, and to maintain the momentum created by the recent developments identified above.
2. Support Gaza disengagement: USAID programs provide critical confidence building measures needed to reinvigorate the Palestinian economy and to make Gaza disengagement a success.
3. Longer-term stability towards a Palestinian state: USAID programs will help Palestinian leadership put into place the basic institutions and infrastructure necessary to an independent State.

To accomplish these ambitious goals, USAID has developed a new strategic framework for assistance in the West Bank and Gaza. Activities are designed to be responsive to the rapidly changing political and foreign policy environment and to be supportive of our objective of supporting the peace process and facilitating the building of a Palestinian State. In order to achieve these goals and maintain momentum in the peace process, USAID intends to use all available and planned resources, and to reprogram resources to help meet immediate needs.

1. Support for a Moderate Leadership and Maintaining Momentum

To demonstrate our early support for the peaceful transition of leadership in the West Bank & Gaza, our assistance has taken two forms, cash transfers and rapid impact assistance. Through two \$20 million cash transfers, one in 2003 and the second in 2004, the U.S. Government provided urgently needed budgetary support as the PA developed its reform agenda and prepared for elections. Both of these were accomplished after President Bush signed a determination that waived limitations on assistance to the Palestinian Authority, and the expenditure of funds for both have been closely monitored to guarantee that no funds are diverted from their intended purposes.

In July 2005, the President signed a waiver allowing for an additional cash transfer to the Palestinian Authority for \$50 million. The primary purpose for this transfer is to support Gaza disengagement. Palestinian residents living in Gaza, where poverty and unemployment are very high, must see positive improvements in their everyday lives. These funds will be used for the construction of new infrastructure projects in Gaza (housing, schools, community and municipal buildings) which provide both desperately needed physical facilities as well as employment and income-generating opportunities for Palestinians. A side benefit of this cash transfer is that it provides a means for municipalities to build their capacities to manage activities. The capability of local communities and local governments to manage public projects is a basic component of an independent democratic state.

Part of the first cash transfer, and the entirety of the second, was spent on the payment of utility bills on behalf of the Palestinian Authority. The other part of the first, as well as the entirety of the third, is being spent on projects. Following current practice, USAID and the PA agree on a list of small infrastructure activities supporting targeted communities. USAID will maintain strict oversight of the program to ensure that the funds are used for the appropriate purposes, and not diverted, and to ensure the quality of construction. For projects in Gaza, much of the monitoring work will be done by USAID's U.S.-trained Palestinian engineers who currently live in Gaza.

USAID's second approach to supporting a peaceful transition is through rapid impact assistance - specifically, by reprogramming \$41 million for use in programs designed to demonstrate the tangible economic and social benefits of reform. Key to maintaining the momentum that changes in Palestinian leadership and plans for disengagement have generated is developing a sense of hope and expectation on the part of the population. The rapid impact assistance is intended to provide visible and tangible benefits to as many people as possible, and to do this in a way that lends support to the moderate Palestinian leadership. Activities selected were ones that could be initiated quickly, would present minimum implementation difficulties, and would have significant impact. They include: 1) a robust microfinance program that is benefiting 10,000 Palestinians; 2) an agricultural program to expand employment opportunities; 3) a variety of small water infrastructure projects that are benefiting as many as 400,000 residents; 4) community facility construction and road reconstruction to provide employment as well as a safe recreational environment for young Palestinians; and 5) health facilities and emergency assistance benefiting 480,000 Palestinians.

Construction is underway on seven key roads that were selected in consultation with the Ministry of Public Works and Housing. The roads project is benefiting more than 200,000 people and creating new employment opportunities for an estimated 500 Palestinians, or the equivalent of about 20,000 person-days of employment. The last four years of violence and economic depression left many Palestinians feeling hopeless and discouraged about their futures and the prospect of peace with their neighbors. Seeing the construction of a new road, many say, is one of the best morale boosters in the world because roads augur good things to come in the future.

USAID's education program, being undertaken through the \$41 million initiative, is providing funds to benefit institutions of higher education, students and faculty alike, giving them better access to current research and technology. Under this initiative, 13 technical and vocational colleges are being provided with modern equipment and supplies, 20 community colleges are receiving new computers and upgraded software in order to improve internet access and provide state-of-the-art skills training, 11 university libraries are receiving funds to enhance student and faculty access to the latest global information in the fields of science, business and economics, and scholarships are being provided for 1,500 students to attend technical and vocational colleges. Our investments in education today are empowering a new generation of Palestinians to be productive members of their society and effective future leaders of their country.

2) Support for Gaza Disengagement

Our \$200 million FY 2005 supplemental request was designed to further signal the USG's deepened engagement and to maximize opportunities for forward movement during this critical time. In addition to emphasizing new programs in the areas of democracy and governance, the supplemental will assist the Palestinians to pursue economic opportunities that may emerge after Israel's withdrawal from Gaza and the four settlements in northern West Bank, and to address pressing social issues such as the productive engagement of youth.

With the FY 2005 supplemental funds, we intend to allocate \$110 million for the economic revitalization of the West Bank and Gaza, with a focus on Gaza and disengagement. Activities will support job creation, improved access to trade in international markets, loans for home construction, and improved municipal services. Up to \$50 million of these funds will be used to upgrade and improve the passages through which Palestinian goods and people transit to Israel and the rest of the world, thereby helping to establish a viable Palestinian economy. This urgently needed project will help ensure that Israeli security needs are met as disengagement goes forward. Likewise, it will respond to Israel's continuing effort to find the appropriate balance between the imperative need to respond to terrorism and the humanitarian interests of the Palestinian people, at the same time, helping the Palestinian economy recover and become less dependent on outside assistance.

Also under the supplemental program, we plan to allocate \$90 million for economic, social and political stability and infrastructure development. Investing in basic infrastructure such as water and roads is a vital component to reversing the decline and helping to revitalize the Palestinian economy in the medium term. Developing and rehabilitating roads and water usage systems, in the longer term, is helping to lay the necessary foundations to a self-sustaining state.

Our activities in the areas of higher education, health care and food assistance are helping to ensure that Palestinian basic needs are met, while at the same time making an investment in the future of these important sectors. We are also using supplemental funds to put a renewed effort into democracy reform and rule of law which are central to assuring a smooth transition following disengagement. Assistance in this area will include working with the justice sector, civil society, the parliament, political parties and the media. We also will work with General Ward to strengthen civilian control over security structures to confront terror and violence and restore the rule of law. By supporting the above activities, the USG will strengthen political moderates, help to provide an alternative source of public services to those offered by Hamas, and provide tangible, immediate benefits to Palestinians.

3) Longer Term Stability towards a Palestinian State

Successful implementation of the state policy requires substantial work toward creating a stable environment in which a moderate Palestinian state can develop. Because the bulk of USAID's FY 2005 budget (excluding the FY 2005 Supplemental) now has been allocated as direct assistance to the Palestinian Authority to demonstrate support for its leadership, we are planning to reprogram \$50 million from funds remaining from the Wye Accord account to support ongoing and new USAID activities. These funds initially were allocated for planned water infrastructure projects in Gaza which, while critical, have not yet been implemented because of security concerns. Funds from future budgets, if appropriated, would be combined with remaining Wye funds to initiate and complete any or all of those projects once security concerns are addressed.

During FYs 2005 and 2006, USAID's program will have three priorities. Two of these will address immediate needs: first, providing assistance that helps improve the wellbeing of Palestinians; and second, facilitating successful disengagement. The third priority is to support the development of a moderate, informed and capable Palestinian leadership, as well as the institutions and facilities, both governmental and nongovernmental, necessary for a state to grow and prosper. Reprogrammed Wye funds and our FY 2006 request will fund new activities, as well as build on and enhance activities started under the FY 2005 supplemental budget, in areas of economic growth, political reform, education and health and infrastructure development.

Right now, Palestinians need jobs and incomes, health care, and other basic services. One-third of the population is in the age group 14 - 24 and is particularly vulnerable to recruitment for violent and terrorist activities. The USAID program will address these immediate needs through a variety of ways: (1) funding infrastructure and construction activities that are labor intensive and create jobs; (2) fostering the continued growth of micro and small enterprises; (3) initiating an agriculture program that has both immediate as well as longer term impact; (4) continuing well drilling and village water distribution projects; (5) continuing a health program that provides improved quality of care as well as immediate emergency medical and nutritional support; and (6) initiating new youth-oriented activities such as provision of recreational infrastructure, vocational training, and the creation of job opportunities. In addition, USAID is providing election support for the on-going municipal council elections and the planned Legislative Council elections.

Successful disengagement requires a number of coordinated actions that must be accomplished within a relatively short, defined time period. USAID is working closely with Lieutenant General Ward, Mr. Wolfensohn, Israel, the Palestinian Authority, the World Bank and other donors, the U.S. Embassy and the Consul General to support the disengagement process in every way possible. In addition to meeting immediate economic and social needs, as identified above, this support includes: maintaining and improving the flow of goods and people across borders; maintaining the provision of basic services by both municipal councils and the Palestinian Authority; and fostering the increased role and participation of nongovernmental organizations as opportunities arise in the new environment.

Beyond the immediate term, USAID also will address strengthening the foundations and structure of an eventual Palestinian state. In this way, not only are Palestinian needs met, but also regional security is enhanced. Programs will include strengthening financial, health, water management, and trade institutions and organizations, both private and public. Improving governance is essential to meeting citizen expectations and maintaining order. Programs for this purpose will include strengthening the judiciary as well as Palestinian Legislative Council and Executive Branch policy units, helping to develop effective community policing, and improving the quality of governance and the service delivery capabilities at the local level. USAID will seek to ensure that the municipalities, town and village councils that it supports are able to deliver a range of services that are sustainable, tangible and highly visible. On the economic front, one of the most significant actions will be developing a major agriculture revitalization initiative that will establish private sector partnerships and linkages with Israeli marketing firms to increase agricultural production and exports to regional and international markets.

Fostering an educated, informed and moderate leadership will be a major factor in the statehood process. USAID plans to assist higher education through the development of a state-of-the-art business school, as well as by providing funding that will enable access to electronic journals and databases from universities worldwide, and funding for research proposals in the scientific and social sectors. On an individual basis, USAID will provide local scholarships to students in fields that meet immediate and critical needs. Leadership also is essential at the grass-roots, nongovernmental level, and USAID will continue to work to strengthen the nongovernmental organization community so that civil society has increased opportunities to help meet public needs and can advocate effectively on behalf of ordinary citizens.

We have also funded programs to develop the capacity of the Palestinian Legislative Council (PLC) and the Palestinian Monetary Authority, to assist the Minister of Finance in strengthening the internal audit capacity of the Palestinian Authority (PA), and to restructure the new Ministry of National Economy. One benefit of this assistance was evident recently when the PLC used its newly developed capabilities to influence the Executive Branch in the selection of the current reform-oriented cabinet. We will continue to work in these areas to help strengthen the overall capacity of the Palestinian Authority and to enhance transparency and accountability.

Program Management

Managing the West Bank and Gaza program is a challenging exercise. Special vetting procedures for both individuals and organizations, in addition to USAID's anti-terrorism certification process, are in place to ensure that no U.S. Government resources fall into terrorist hands. Travel restrictions imposed due to security concerns present additional challenges for program implementation. Often areas are closed to travel by USG officials for long periods of time. The terrorist bombing in Gaza in October 2003 resulted in the deaths of three American security personnel and has resulted in a prohibition on American direct hire travel into Gaza. Travel into the West Bank is also impeded by continued security concerns. USAID/WBG has adapted its programs to these extraordinary circumstances, balancing the desire to maintain program presence while at the same time assuring prudent management. Extensive use of qualified Foreign Service National staff and other personnel has allowed activities that do not require day-to-day American oversight to continue.

Given the evolving political and security environment, program flexibility is essential to meet new challenges and to take advantage of emerging opportunities. USAID has developed its program to be as effective as possible in this environment. We recently prepared a plan that allows us to proceed in an organized fashion to meet the priorities identified here, but that also recognizes the volatility of the region and the possibility, if not likelihood, that alterations to and deviations from the plan will be necessary. As part of our management plan, USAID maintains close contact with all of the major players with respect to the Palestinian territories so that we are current with their thinking and actions and can influence or react as appropriate.

Conclusion

The USAID program for West Bank and Gaza has successfully responded to the ever-changing conditions on the ground. The program has provided a robust response to immediate needs as well as the difficult humanitarian situation, while maintaining development projects, including the strengthening of institutions that will underpin a future Palestinian state. In this way, the program has played an important role in furthering U.S. foreign policy objectives in the region.