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**USAID/West Bank and Gaza Strategy
1996-2000**

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USAID/West Bank and Gaza Strategic Plan: 1996-2000

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Acronyms

AMIDEAST	American Middle East Education and Testing Services (U.S. PVO)
ANERA	American Near East Relief Agency, (U.S. PVO)
CHF	Cooperative Housing Foundation (U.S. PVO)
CPRS	Center for Palestinian Research and Studies
CRS	Catholic Relief Services, (U.S. PVO)
DAI	Development Alternatives, Inc.
DOP	Declaration of Principles
EU	European Union
FY	Fiscal Year (October through September)
IBRD	International Bank for Reconstruction and Development (World Bank)
IFES	International Foundation for Electoral Systems (U.S. organization)
IMF	International Monetary Fund
I.R.	Intermediate Result
IRI	International Republican Institute (U.S. PVO)
JD	Jordanian Dinar
JWC	Joint Water Committee
LACC	Local Aid Coordinating Committee
NDI	National Democratic Institute (U.S. PVO)
NIS	New Israeli Shekel (approx 3 NIS = \$1.00)
NGO	Local Non-Governmental Organization
OE	Operating Expenses
OPIC	Overseas Private Investment Corporation (U.S. Government)
PA	Palestinian Authority
PICP	Palestinian-Israeli Cooperation Program
PIO	Public International Organization
PMA	Palestinian Monetary Authority
PWA	Palestinian Water Authority
PVO	Private Voluntary Organization
SBSP	USAID Small Business Support Project
SCF	Save the Children Foundation (U.S. PVO)
SME	Small and Microenterprise
SpO	Special Objective
S.O.	Strategic Objective
SSCI	USAID Small Scale Community Infrastructure Project
SWG	Sector Working Group
UNDP	United Nations Development Program
UNRWA	United Nations Relief and Works Agency
UNSCO	United Nations Special Coordinator for the West Bank and Gaza
USAID	United States Agency for International Development
USIS	United States Information Service
WBWD	West Bank Water Department
YMCA	Young Men's Christian Association, (U.S. PVO)

**insert West Bank and
Gaza map here**

Executive Summary

Because of the strategic importance of the Middle East to the United States and the historic opportunity represented by the Palestinian-Israeli Peace Process, the United States is committing significant resources to help the Palestinian people. Following the 1993 Declaration of Principles, the United States pledged \$500 million for a five-year program of assistance to the West Bank and Gaza, \$375 million administered by USAID and \$125 million through the Overseas Private Investment Corporation (OPIC). USAID established a field mission in 1994 in response to this new priority. USAID efforts to facilitate economic and democratic development contribute to regional stability and complement U.S. leadership in the political arena of the Middle East Peace Process.

This five year, \$375 million strategy for the West Bank and Gaza focuses on expanding economic opportunities, increasing access to, and more effective use of, scarce water resources, and more responsive and accountable governance in order to ensure that Palestinians realize tangible benefits from the peace process. The Strategy reflects input from USAID customers and partners, and assumes the need for flexibility during its period of implementation.

The Strategy was developed to facilitate the transition from short-term, emergency programs essential in the initial days of Palestinian self-rule to a five year development program. Initial activities in 1994-1995 consisted of support for start-up costs of the new Palestinian Authority and the Palestinian police, housing, high priority infrastructure activities which demonstrated on-the-ground progress under the accords, employment programs which upgraded badly deteriorated community infrastructure and provided some relief from extremely high unemployment -- especially in Gaza, and ongoing PVO programs. These activities enabled the U.S. to have a highly visible and substantive role in the West Bank and Gaza from the very first days of self-rule. The program has had to evolve rapidly to respond to an extremely dynamic political and economic situation.

Since the peace process is still unfolding, the Mission expects that activities will be more specifically defined and elements of the Strategy will be updated over the five-year period. Program impact and responsiveness will be assessed by USAID, in consultation with stakeholders, partners and customers, on an ongoing basis. Although this is not an ideal environment for long-term planning because there are so many unknowns, including issues to be decided by Palestinians and the Government of Israel as part of final status negotiations, it is an historic opportunity for USAID to help influence the development of Palestinian self-rule.

I. OVERVIEW

A. Relationship to U.S. Foreign Policy Concerns

USAID efforts to facilitate economic and democratic development in West Bank/Gaza contribute to regional stability and complement U.S. political leadership in the Middle East Peace Process. The overall goal of the USAID program is to strengthen Palestinian commitment to the process by helping them realize the tangible benefits of peace. The program places a heavy emphasis both on short-term, visible results to address immediate needs, and on longer-term development objectives which bring sustainable improvements in the lives of Palestinians.

B. West Bank and Gaza Conditions

1. Political Developments

A watershed event in Palestinian political history occurred in September 1993, when the Palestinian Liberation Organization (PLO) and the Government of Israel signed the "Declaration of Principles" (DOP), a blueprint for bringing peace between Israelis and Palestinians after decades of enmity and violence. The DOP provided for an initial transfer of authority over the Gaza Strip and Jericho to the PLO, to be followed by the West Bank after subsequent negotiations. Palestinian self-rule has evolved rapidly since the signing of the DOP, with most of the population centers in the West Bank now under Palestinian control.

Demonstrating their commitment to the beginnings of the democratic process, nearly 80% of registered voters went to the polls in the January 1996 elections of the Council and Head of the Executive Authority, thereby providing Yasser Arafat, as the elected Head of the Executive Authority, with a strong mandate for self-rule. Arafat, whose candidacy was contested by a female opponent, received 87.1% of the vote.

Elections for the 88 member Council, with roughly eight candidates per seat, were a concrete demonstration of the optimism of most Palestinians. According to polls taken after the election, the Council, made up of a mix of political factions and members with varying degrees of political experience, has a mandate to consider society-wide--rather than local level--issues, indicating that expectations are great that the council will play a major role in governance.

Municipal elections, which are scheduled for July 1996, are the next pivotal step in the evolution of self-rule. Elections will be held for a total of 360 councils, covering the municipal, village and local levels.

The recent suicide bombings (February - March 1996) in Israel by Palestinian terrorists and the resulting closure of the West Bank and Gaza Strip have led to some calls on both sides to abandon or slow down the peace process. However, while these recent events have placed additional obstacles in the way of rapid progress, the Palestinian Authority and Government

of Israel remain committed to continuing down the historic path begun in Oslo in 1993. According to the September 1995 "Interim Agreement", the next steps are to include Israeli redeployment from Hebron in the West Bank, amendment of language in the Palestinian National Charter calling for the destruction of Israel, and the beginning of so-called "final status" talks to solve remaining issues between the parties.

2. Economic Developments

When the Palestinian Authority was established in May 1994, it inherited a weak economy with poor public services and infrastructure, low levels of industrialization, and a heavy

EMPLOYMENT					
<u>Total Employment</u>					
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(000s)	287	319	315	339	319
Change	-3%	11%	-1%	8%	-6%
<u>Employment in Israel</u>					
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(000s)	98	116	83	53	25
Change	-9%	18%	-28%	-36%	-53%
<u>Employment in WB/G</u>					
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(000s)	189	203	232	286	294
Change	5%	7%	14%	23%	3%

dependence on Israel for both for employment and trade. The West Bank and Gaza (WB/G) has a modest agricultural and manufacturing base, and is highly dependant upon imports. Israel has been an important source of employment for many Palestinians. Over the 1990-1992 period, wages of Palestinians working in Israel averaged about 27% of GNP. However, the number of Palestinians working in Israel declined by over 28 percent in 1993 and a further 36 percent in 1994, with a concomitant reduction in remittances flowing into the Palestinian economy. Exacerbating this situation was the loss in 1991 of an

estimated 60,000 Palestinian jobs in the Gulf States due to the Gulf War.

With incomes highly dependent on employment in Israel, disruptions such as the recent closure reduce economic activity and have a severe impact on Palestinian livelihoods. Between 1993 and 1995, for example, real GNP in WB/G declined by 10.1 percent. According to some estimates, annual per capita incomes dropped to approximately \$1,200 in the West Bank in 1995 and \$600 in Gaza. However, there are no good statistics which measure the full impact of recent setbacks accompanying the closures. Although there was some domestic job creation in 1993-95, particularly in private housing construction and the public sector, this was insufficient to compensate for the lost wages from employment in Israel and Palestinians returning from abroad.

Domestic private investment as a share of GDP also declined from 20.7 percent in 1993 to 18 percent in 1994, and is projected to decline further to 12 percent in 1995.

Although domestic agriculture and manufacturing are important contributors to GDP in percentage terms, output and productivity in these sectors has been low. Due to the narrow production base, GDP is notably affected by the cyclical nature of olive crop production. Overall, the declining availability of water resources and land has constrained domestic production. This constraint is mainly due to restrictions on water access, increased soil

salinity and the loss of land.

Fiscal Policy: The Israeli Civil Administration (CIVAD) and the United Nations Relief and Works Agency (UNRWA) administered most public sector functions prior to the formation of the Palestinian Authority in 1994. A series of agreements over the following two years turned control of these functions over to the PA, financed primarily by income taxes, value added taxes (VAT), health fees and insurance premiums, and donor contributions. Israel also transfers to the PA taxes paid by Palestinians working in Israel, VAT refunds and customs duties. The PA was making substantial progress in the collection of these revenues with a projected 1996 deficit of \$75 million expected to be covered by donor contributions. However, the recent closures are having a substantial, but so far unquantified, impact on the projected deficit for 1996, calling into question how soon the donors will be able to disengage from this type of support.

Inflation: Inflation in the West Bank and Gaza is largely tied to economic developments in Israel. In 1994, inflation reached 14 percent in WB/G (compared to 12% in Israel), reflecting higher price increases in land and housing. Inflation was higher in Gaza almost across the board--with the exception of fruit and vegetables which could not be marketed due to border closures. The IMF has estimated the 1995 inflation rate for the West Bank and Gaza at 10 percent, but this was before the recent closure.

Banking and Finance: Since the establishment of the self-rule areas, the banking system in the West Bank and Gaza has grown exponentially. In 1993, there were only two banks with a total of 13 operating branches. Presently, there are 12 banks with 65 operating branches. By the end of 1995, total deposits and outstanding credit had risen to \$1.2 billion and \$225 million, respectively. There are concerns about the adequacy of banking supervision, especially given the large volume of deposits taken in from the public.

The new Palestinian Monetary Authority (PMA) is the PA's official economic and financial advisor, the sole financial agent for the public sector, and the public sector's manager of foreign exchange and gold reserves. However, the PMA is currently a weak institution and it is not playing a sufficiently effective role in determining economic and financial policy. The PMA's most pressing concern at the present time is the establishment of an effective system for bank licensing and supervision.

Trade: The West Bank and Gaza economy depends on Israel, not only with respect to employment opportunities but also for commodity trade. Over the period 1988-92, Israel accounted for 87 percent of WB/G's imports and 83 percent of its exports. Palestinian exports of goods are modest, accounting for only 12% of GNP from 1988-1992. Both exports and imports have declined substantially since 1994 due primarily to the closures and reduction in remittances by Palestinians working in Israel. Continuing sharp compression of both imports and exports is expected in the near term.

Economic Relations: Economic relations between the Palestinian Authority and Israel are covered by the April 1994 "Protocol on Economic Relations" and the September 1995 "Interim Agreement". Most trade between Israel and the self rule areas is free from restrictions. Israeli import policies and practices continue to apply to most trade between the

West Bank/Gaza and the rest of the world however. Other important aspects governed by Israeli-Palestinian agreements include customs duties, taxes on internal trade, and VAT collections and transfers.

Since there is no port or airport in WB/G (although both are planned for the Gaza Strip), Israeli control of borders and crossing points per the "Protocols Concerning Redeployment and Security Arrangements" takes on added weight. This can dramatically restrict movement between the West Bank and Gaza, and to international markets. It also entails dual bureaucracies for obtaining licenses, dual import/export procedures, lengthy and costly security checks, and the added costs of Israeli customs clearing agents and bonded warehouses.

Future Economic Outlook: In the near term, security-related border closures, further compression of Palestinian employment in Israel, and limited PA revenues for investment will continue to have a negative impact on economic performance and incomes. To help buffer the economy from the impact of exogenous shocks, steps must be taken to accelerate the creation of conditions conducive to increased public and private investment. More effective financial intermediation, a clearer and more coherent legal and regulatory framework for investment, and protection for property rights are all needed. Poor public services, inadequate physical infrastructure, finite land and water resources all inhibit productive investment in the West Bank and Gaza.

West Bank and Gaza: Selected Economic Indicators, 1991-95

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>SOCIAL INDICATORS</u>					
Population (in thousands)	1682.2	1767.5	1833.3	1906.6	1982.9
Population Growth Rate	--	5.2	5.1	3.7	4.0
<u>NATIONAL INCOME</u>					
Real GNP growth (%)	-5.2	23.8	-10.1	2.7	-4.9
Real GDP growth (%)	-4.1	23.1	-1.3	7.3	3.5
Real per capita GDP (1986 U.S. prices)	706.9	767.8	634.8	613.8	610.6
Real per capita GDP growth (%)	-19.4	8.6	-17.3	-3.3	-0.5
Nominal GDP (in millions of U.S. \$)	2161.0	2685.5	2557.2	2930.5	3329.0
<u>PRICES, EMPLOYMENT</u>					
Cost of Living Index	178.0	199.3	221.2	252.1	276.8
Inflation (% change in cost of living)	12.3	12.0	11.0	14.0	9.8
Unemployment rate	19.1	15.8	18.1	15.3	23.3
Employed persons (000s)	287.4	319.3	315.0	339.0	319.0
percent change	-3.1	11.1	-1.3	7.6	-5.9
Employed persons in Israel (000s)	98.0	116.0	83.0	53.0	25.0
percent change	-9.3	18.4	-28.4	-36.1	-52.8
Employed persons in WB/G (000s)	189.4	203.3	232.0	286.0	294.0
percent change	0.5	7.3	14.1	23.3	2.8
<u>BALANCE OF PAYMENTS (U.S.\$ millions)</u>					
Current Account Balance	-181.0	-224.0	-282.0	-402.3	-614.3
Exports, f.o.b.	246.0	299.0	236.0	164.5	230.9
Imports, c.i.f.	1139.0	1232.0	1138.0	1126.0	1240.9
Unrequited Transfers	459.0	384.0	536.0	605.9	781.3
<u>PUBLIC SECTOR (% of GDP)</u>					
Fiscal Revenues and Grants	11.1	12.2	11.6	13.6	14.1
Domestic Revenue	11.1	12.2	11.6	9.1	9.6
of which is PA	-	-	-	1.8	8.8
Total Expenditure and Net Lending	11.1	11.6	14.5	13.1	17.9
Overall Deficit	0.0	0.6	-2.9	-0.4	-8.3
<u>INVESTMENT AND SAVINGS</u>					
Gross Domestic Savings/GDP (% cons)	-25.4	-17.9	-18.1	-15.6	-18.7
Private	-26.9	-20.7	-19.0	-14.5	-14.4
Public	1.5	2.8	0.9	-1.0	-4.3
Investment/GDP (% constant prices)	30.4	27.9	25.9	20.9	16.0
Private	27.4	25.0	20.7	18.0	12.0
Public	3.1	2.9	5.2	2.9	4.0
<u>DEBT</u>					
Gross External Debt (millions of U.S.)	-	-	-	-	54.0
Outstanding Debt as a % of GDP	-	-	-	-	1.6

Source: IMF, September 1995.

3. Disparities Between the West Bank and Gaza

There are significant social, economic, and political differences between the West Bank and Gaza. These differences are due in part to geography (Gaza is a small, densely populated strip easily closed off from Israel, while the West Bank is relatively less populated and has more amorphous borders) and also to recent history (with the West Bank occupied by Jordan from 1948-1967, and the Gaza Strip by Egypt during the same period).

Gazan per capita incomes are half those of the West Bank, and investment per capita less than 60% of the West Bank level. Physical infrastructure is in greater disrepair in Gaza. A much larger portion of the Gaza workforce, compared to West Bank labor, is employed in Israel than in the West Bank. The West Bank has a number of large cities, villages, and potential access to Arab markets via Jordan. As a result, Gaza tends to be much more adversely affected by Israeli border closures than does the West Bank.

C. The Development Challenge and Opportunities

The West Bank and Gaza population is approximately 2 million. The birth rate is high at 51 per 1000. Per capita incomes are falling. Public infrastructure and services are inadequate and badly deteriorated. As a result, Palestinians trail others in the region in quality of life and basic services, including sanitation, road networks and water delivery systems. Water is scarce and, in Gaza, frequently of poor quality. There are no standards for health service. Clearly, if the Palestinians are to realize the benefits of the peace process, and remain committed to it, a fundamental and urgent effort must be made to address their economic and social needs. And this effort must proceed in the face of continuing threats by opponents of the peace process who have become increasingly desperate to halt the progress that has already been made.

However, despite what would appear to be overwhelming obstacles, the Palestinians are making a truly historic effort at nation-building. In just over two years, they have achieved through negotiation something that has eluded them for decades. They have formed a government and they have taken important first steps toward democracy. And they are beginning to tackle the serious economic and social problems that must be addressed if this experiment is to survive. USAID has a unique opportunity to get in on the ground floor of this nation-building effort by helping to shape the economic and political transformation that is required if peace is to survive. This strategy has been crafted with that ambitious objective in mind.

D. The Strategy Development Process

This Strategic Plan was developed in a participatory fashion and reflects the input of stakeholders, partners, and customers. Core and extended Strategic Objective teams for planning and achieving, with "virtual members" from neighboring missions (Jordan and Israel) and USAID/Washington were formed in November 1995. The strategy was developed intensively over the December 1995 - March 1996 period with assistance from USAID/Washington.

Stakeholders included Israelis, USG officials and U.S. groups with strong interest in the Israeli-Palestinian peace process. Extensive, ongoing contact with the U.S. Embassy in Tel Aviv and the U.S. Consulate in Jerusalem, as well as with USAID/Washington, has helped ensure the Strategy reflects highly sensitive USG geopolitical concerns. The Government of Israel has been involved in the water resources area, per the peace agreements. Partners include the Palestinian Authority, the Government of Israel, the U.S. State Department, the U.S. Information Service, U.S. private voluntary organizations (PVOs), Palestinian nongovernmental organizations (NGO)s, the United Nations Special Coordinator for the West Bank and Gaza, (UNSCO), the United Nations Relief and Works Agency, (UNRWA), and the United Nations Development Programme (UNDP), the World Bank, the International Monetary Fund, the European Union, a series of bilateral donors, and private sector representatives. The needs of Intermediate and Ultimate Customers for each Strategic Objective were identified and taken into consideration, and the Strategy revised accordingly. A summary of these consultations with customers is included as Annex 1 to this Strategy.

E. Role of Other Donors

There are a number of donor coordination mechanisms in the West Bank and Gaza that have been established to guide the overall donor effort. The Local Aid Coordinating Committee (LACC), comprised of local heads of donor agencies, meets to discuss policy, technical, and implementation issues. The LACC has formed 12 Sector Working Groups (SWGs) for technical coordination at the working level. The U.S. chairs the Public Finance SWG and the Private Sector SWG. We have regular contact with bilateral donors, the Palestinian Authority, and the Government of Israel. There are also a number of special mechanisms or committees established under various Israeli-Palestinian agreements which are designed to resolve issues related to implementation of the respective agreements. Given the magnitude of the task at hand and the extremely dynamic environment in the West Bank and Gaza, a strong donor presence and an ongoing donor coordination process will continue to be critical.

II. PROPOSED MISSION STRATEGY

A. West Bank and Gaza Program Goal

The goal of the West Bank and Gaza program is to strengthen Palestinian commitment to the peace process by helping them realize the tangible benefits of peace. This strategy responds to the enormous needs facing Palestinians as they prepare for the next millennium by balancing short-term support for the establishment of self-rule with longer-term sustainable developmental programs.

B. Strategic and Special Objectives

The Mission Program will focus in the following areas:

Strategic Objective No.1: Expanded Economic Opportunities

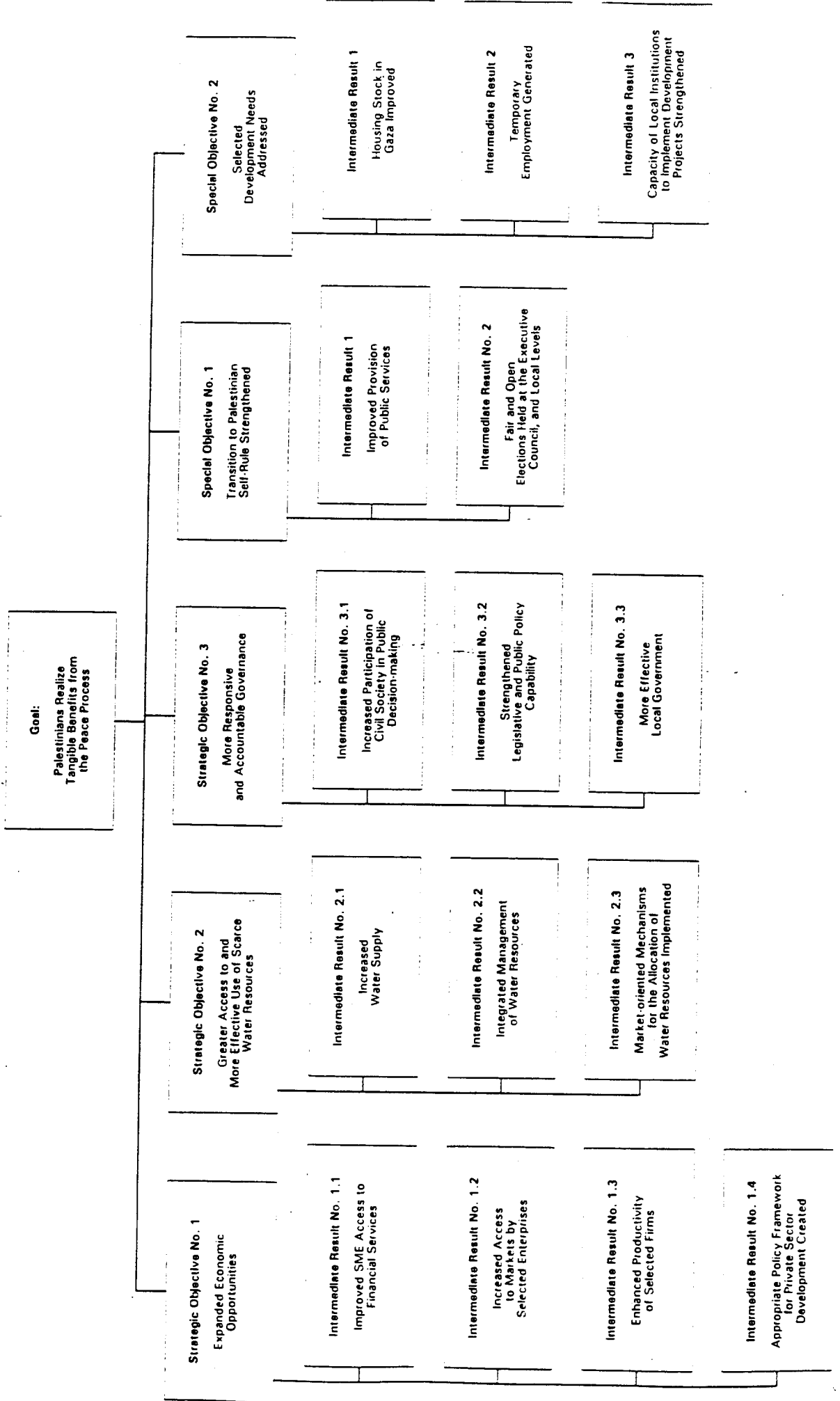
Strategic Objective No.2: Greater Access to and More Effective Use of Scarce Water Resources

Strategic Objective No.3: More Responsive and Accountable Governance

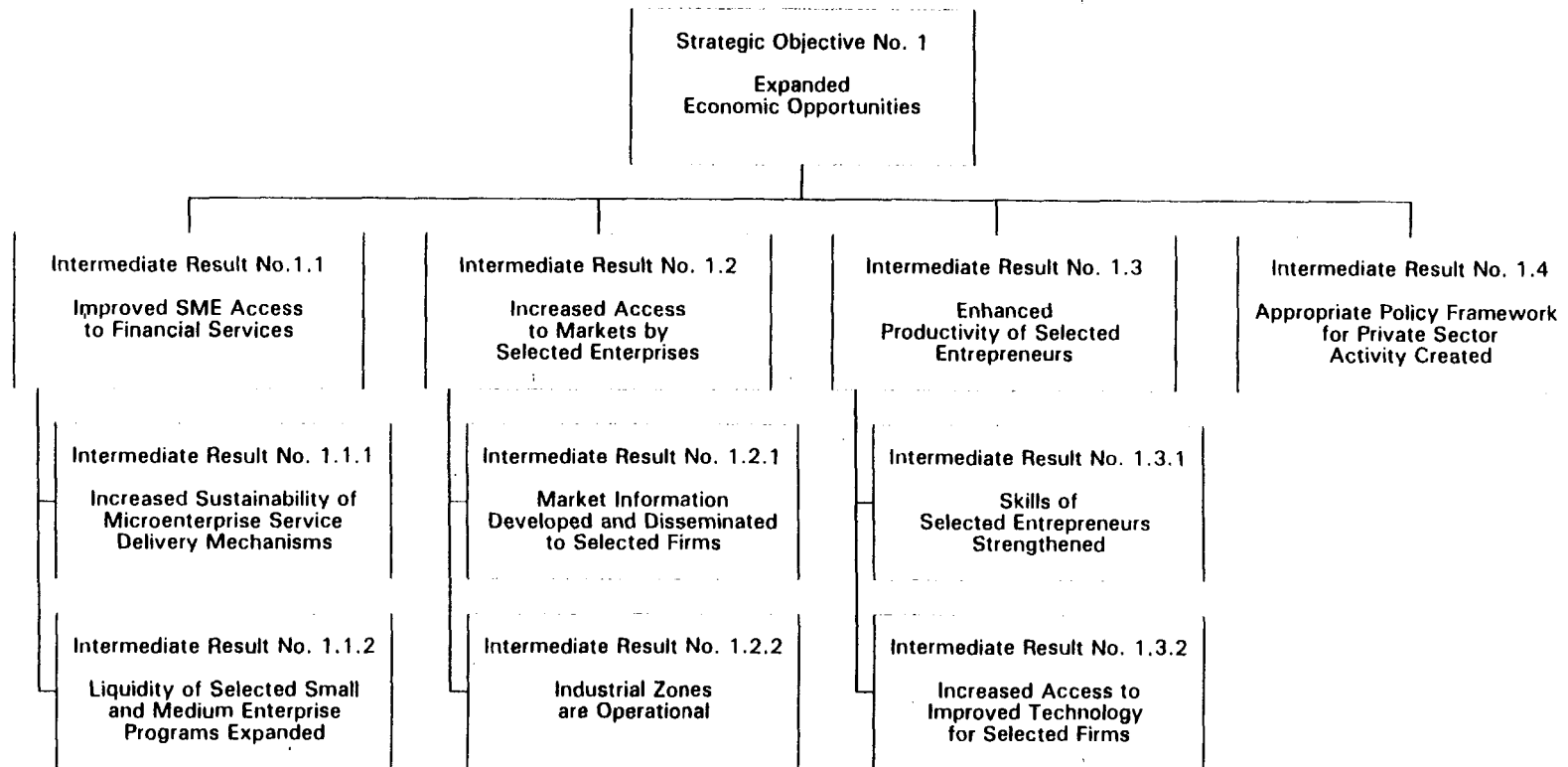
Special Objective No.1: Transition to Self-Rule Facilitated

Special Objective No. 2: Selected Development Needs Met

USAID/ West Bank and Gaza



USAID/ West Bank and Gaza



1. Expanded Economic Opportunities

a. Statement of Strategic Objective

This Strategic Objective is designed to increase private sector economic opportunities for Palestinians. Mission activities under this Objective will support the Agency Goal of *encouraging broad-based growth* by strengthening markets, providing training and expanding access and opportunities through lending to small and micro-enterprises. It is directly supportive of the Mission Goal because economic opportunities, broadly distributed, provide the most direct and tangible evidence that the peace process yields benefits for Palestinians. Improving private sector opportunities to achieve increased employment and incomes will help build support for the peace process and provide a stable foundation for long-term prosperity and self-rule.

A broad range of constraints to enhancing economic opportunities is being addressed by other development partners. Activities range from projects focusing on the enabling legal, institutional and financial environment, to addressing specific needs in credit, marketing, trade, and access to technology. This Strategic Objective targets activities which ultimately generate jobs and income by improving access to financial services for Small and Microenterprises (SMEs), access to markets for Palestinian goods and services, productivity and competitiveness of Palestinian enterprises, and the policy framework for private sector development.

Expanding economic opportunities are particularly important in the West Bank and Gaza because employment and income levels have fallen since the DOP. In an environment where over 80% of GDP is generated by the private sector, development efforts focused in this sector are key to increasing jobs and incomes. While USAID and other donors have funded a number of emergency programs designed to generate temporary jobs, it is clear that longer-term, more sustainable efforts are needed to improve the lives of the majority of Palestinians.

b. Private Sector Overview

Given a nascent Palestinian "public sector", the private sector dominates Palestinian economic activity, which consists primarily of agriculture, construction, and light industry. Other significant areas of private sector activity include clothing, textiles, and construction. Israel is the primary source for raw materials and the main export market for Palestinian goods. Although agriculture has traditionally been an important segment of the private sector, marketed agricultural production has been declining because of excessive regulation, frequent border closures (disastrous for perishable goods), competition from Israeli producers, and the high cost/lack of availability of agricultural inputs. The decline of the agricultural sector is further compounded by the scarcity of water resources and poor water quality. It is expected, therefore, that other economic sectors, particularly light manufacturing and construction, will increase their contributions to GDP and employment over time.

The construction industry in the West Bank and Gaza has experienced somewhat of a construction "boom" following the signing of the peace accords with Israel. There has been significant donor investment in infrastructure, especially in Gaza. Because of a lack of alternative investment options, over 80% of private fixed capital formation is in the housing sector. However, private building activity has been decreasing since mid-1995, largely because the relatively high cost of construction has dampened demand and the expected return of expatriate Palestinians following the peace accords has failed to materialize.

While industry contributes only 9-10% to GDP in Gaza and even less in the West Bank, it is the sector with the most potential for growth in the immediate term. For example, in Gaza in 1995, Palestinian statistics¹ show a growth in the number of firms, a jump in overall revenues, and an increase of 45% in the number of workers employed from the first quarter of 1995 to the third quarter. In spite of frequent border closures, the value of industrial inputs purchased from Israel more than tripled during this period - a difference only partially attributable to price changes and increased transportation costs (due to the implementation of trade by convoy and back-to-back transit). This serves to highlight two important facets of the Palestinian economy, the resiliency of Palestinian entrepreneurs in spite of daunting constraints; and the extent to which trade with Israel (in both goods and services) influences the economic development of the territories.

During the last five years, border closures and other security measures have led to a drastic reduction in the number of Palestinian workers allowed in Israel (from 130,000 legal workers/day before the *Intifada* to less than 59,000 in 1996). Those workers that are barred from entering Israel seek other livelihood options, notably cottage industry and small and microenterprises. In the absence of viable employment options and an effective social safety net, many people have turned to microenterprise as a means of survival. Hence light industrial expansion may occur, although incomes decline. Annual per capita income in the West Bank dropped from \$2,200 in 1990 to \$1,200 in 1995; in Gaza, per capita income dropped from \$1,400 in 1990 to \$600 in 1995². Meanwhile, the number of microenterprises grew to an estimated 150,000 (accounting for 25-30% of the employed population).

Over 80% of all enterprises in the West Bank and Gaza employ fewer than five people. Only 20 firms have more than 100 employees. Most firms are single proprietorships, producing for the domestic market and employing relatively unsophisticated technology. Typically, these firms produce consumer products such as food, household goods, and clothing. The microenterprise sector in the West Bank and Gaza is very labor intensive, and microentrepreneurs will continue to invest in labor (at least their own) until the returns to labor fall to zero. This is because much microenterprise activity is an alternative to unemployment, which provides a zero return.

The productivity of Palestinian manufacturing enterprises, measured as a percentage of installed capacity utilization, has declined steadily since the *Intifada*. This is due to

¹Palestinian Ministry of Planning and International Cooperation, 1995 (TEL AVIV 1828)

²U.S. Foreign and Commercial Service figures, 1995. Unreported income is not reflected.

obsolescence of manufacturing equipment, a lack of investment in equipment maintenance, shrinking export markets (due primarily to border closures), a depressed domestic economy, and the inability of Palestinian enterprises to import needed spare parts in a timely or predictable fashion. Palestinian firms do not have ready access to appropriate technologies or to the information necessary to make informed decisions about the selection of such technologies.

A 1992 survey of more than 600 industrial firms indicated that almost 75% were operating at less than 50% of their capacity. The survey also found that about 33% of the larger firms faced difficulties in finding skilled workers; and that firms largely relied on on-the-job training, not training institutes, to improve workers' skills because of the inadequate coverage and quality of formal training courses.

Although little hard data exists on changes in labor productivity over time, a World Bank study on Labor Markets and Training in the West Bank and Gaza (Gill, 1995) cited a number of "shortcomings" in this sector due to: (1) the flight of skilled workers to opportunities outside of the Palestinian territories; (2) the shortage of secondary programs to produce skilled workers; 3) weak relationships between training institutions and employers; and (4) the high unit costs of training inputs. The study recommends donor assistance for the rehabilitation of some vocational training centers (VTCs) and reform of post-secondary vocational education through support for Ministry of Education initiatives.

While government and most private VTCs produce semi-skilled workers at the secondary school level, currently, UNRWA programs are the sole source of training for skilled workers. UNRWA graduates reportedly have high placement levels.

The financial system has grown exponentially over the last two years and is mobilizing domestic savings. However, it is not yet performing an effective financial intermediation role. At the end of 1993, the West Bank and Gaza were served by 2 banks with a total of 10 branches. According to a recent USAID Microfinance Sector Assessment (1996) there are now 12 licensed banks with 65 branches. Total deposits totaled \$1.2 billion at year-end 1995 versus \$225 million in loans; most deposits are transferred to Jordan and invested in government securities there. The low local investment levels reflect the embryonic nature of the financial system, the uncertain investment climate, an unclear legal/regulatory framework, inadequate bank training, and conservative bank policies. The formal financial system does not provide credit for unsecured project finance or cash-flow based loans. Only 25% of total deposits are on-lent, primarily to established clients ("name lending"), against asset-based (preferably offshore) collateral, or Palestinian Authority overdrafts. The SME sector is not served by the formal financial sector in any meaningful way.

The World Bank and IMF are working to improve the financial system and to develop banking supervision and regulation. Concurrently, a variety of mechanisms have been used in an attempt to mitigate the failure of the formal financial system to reach the important SME sector, which represents over 80% of all firms and a third of employment. An ongoing USAID Global Bureau Loan Guarantee Program covering 50% of the risk of bank loans to small and micro enterprises has had modest results because of the conservative attitude and weaknesses of participating local banks. UNRWA and a number of PVOs also provide credit

for small and microenterprises. USAID and numerous other donors have provided funding to UNRWA's Small Business Lending Program in Gaza, which provides loans to both refugees and non-refugees for productive purposes (average loan size is \$23,000). A USAID-financed YMCA program provides equipment rentals (in effect, supplier credit) to enable its trainees to establish small and microenterprises and also helps its clients learn how to secure financing for business activities.

Although several PVO microenterprise credit programs are getting underway on a modest scale, in general, other donor funded programs are focusing on the small enterprise sector and have deferred to USAID for microenterprise support.

Other planned SME programs include a grant from the Government of Italy to create small business units within selected chambers of commerce, and a proposed 1996 EU project to provide technical assistance and training to firms with current or potential linkages to European importers. While similar in many respects to the USAID-funded Small Business Support Program (SBSP), these activities will work more directly with the local chambers of commerce to service the needs of Palestinian firms focusing on European market opportunities.

Investment in the Palestinian territories has been largely limited to construction finance. It is estimated that about \$400 million has been invested between April 1994 and the end of 1995, almost all from domestic sources or expatriate Palestinians; most of this is for residential construction. Direct foreign investment in the West Bank and Gaza has been negligible, in part because of concerns about political stability, the lack of commercial infrastructure, the inadequate legal framework and concerns about the depth of Palestinian Authority commitment to free market principles.

c. Specific Problems to be Addressed

The Palestinian private sector operates in an environment where market forces are often thwarted by political and security-related constraints. This strategy addresses a sub-set of those constraints that are collectively and individually critical to the enhancement of economic opportunities in the West Bank and Gaza. The selection of specific problems to be addressed reflects customer priorities, political considerations, an analysis of USAID's comparative advantages vis-a-vis other donors and an assessment of USAID's manageable interests.

Although the long-term health of the West Bank and Gazan economy depends to a very significant degree on its political and economic relations with Israel, much can be accomplished in the "domestic" economy. This strategic objective targets broad sector-wide policy constraints (such as an incoherent and unsupportive legal and regulatory framework for business activity) as well as several key problems which specifically constrain the small and microenterprise sector (insufficient access to credit, market information, appropriate technology, and workforce training). The need for credible governance as it impacts business and investment is addressed under the Governance Strategic Objective. Other partner infrastructure efforts, including rehabilitating existing systems and developing modern ones in the areas of power, roads, telecommunications, and a port and airport in Gaza will

help improve the investment climate.

d. Customers

The customers for this Strategic Objective include small and micro-entrepreneurs, potential investors in, and employees of, industrial zones, and Palestinian exporters. Customers will include Palestinians engaged in a wide variety of business sectors, particularly light manufacturing, construction, small-scale trading, food processing and services. Larger enterprises with potential for expansion will be targeted for firm-specific technical assistance and training. Market information will be made available on a wide scale to current and prospective exporters. In addition, the overall sector will benefit from USAID efforts to improve the policy framework for private sector development.

e. Critical Assumptions

This Strategic Objective is predicated upon several key assumptions:

- that the political and security situation vis-a-vis Israel enables Palestinian goods and services to access Israeli and third country markets via Israel.
- that the Palestinian Authority is committed to appropriate reform of the legal and regulatory framework; and
- that Palestinians and Israelis reach agreement on the establishment and operation of industrial zones so that development proceeds in a coherent and timely manner, and that said agreements will make investment and location in industrial zones attractive.

Based upon USAID understanding of the situation and discussions with customers and partners, these assumptions appear reasonable. However, given the unsettled and rapidly changing environment in the West Bank and Gaza, USAID will constantly monitor the situation and revise its program if needed.

f. The Results Framework

As discussed above, this strategic objective addresses key problems which hinder economic opportunities: small and microenterprise (SME) access to financial services; access to markets; productivity and competitiveness of Palestinian firms; and the policy framework for private sector development. By simultaneously addressing these constraints, a significant number of Palestinian firms that have been unable or unwilling to invest or to expand business operations will be able to do so, thereby generating expanded economic opportunities and increased incomes. The Intermediate Results under this Strategic Objectives are: Improved SME Access to Financial Services, Increased Access to Markets for Selected Entrepreneurs, Enhanced Productivity of Selected Firms, and an Appropriate Policy Framework for Private Sector Development Created. These results will be achieved through a mix of activities carried out by U.S. contractors, public international and non-governmental organizations (such as UNWRA and U.S. PVOs), and direct and indirect

relationships with the local private sector.

(1) Improved SME Access to Financial Services

This Intermediate Result includes both short-term activities to provide immediate access to credit for SMEs as well as longer-term interventions to foster the development of sustainable microenterprise financial services delivery mechanisms. If USAID is successful in identifying and supporting one or more institutional "champion(s)" within the formal financial system, this assistance, in combination with more efficient NGO partners, will ultimately lead to sustained access to financial services for up to 150,000 SMEs throughout the West Bank and Gaza .

The World Bank and IMF are working to improve the financial system and to develop banking supervision and regulation. Other initiatives focused more directly on the SME sector include the USAID Global Bureau Loan Guarantee Program for small and medium businesses and ANERA, UNDP and ESCWA programs to create small business "incubators" that provide factory space and common services for a small number of microentrepreneurs. The strategy does not support continued construction of business incubators because of their limited impact, but the Mission does support the continuation of the Loan Guarantee Program, at least until the competitive dynamics of the rapidly-evolving financial sector are more developed. The Mission will continue to work with the Global Bureau to seek ways to improve the LPG utilization rate, particularly because recent program data suggests that the utilization trends are positive for some participating banks. And because it is expected that, with the proliferation of banks seeking lending opportunities, more attention will be paid to the SME sector.

Other credit delivery mechanisms, outside the formal banking system, also need to be strengthened or developed to adequately meet SME demand for capital in the near-term. The European Union (EU) has been very active in supporting local Palestinian credit agencies. EU assistance consists of contributions to the revolving credit funds of a number of agencies, technical assistance and institutional support. The EU is now assisting in the merger of three credit agencies into one, which will focus on small (not micro) and medium scale borrowers, to improve viability. Although the EU-funded programs made microenterprise loans in the past, they are now opting to serve larger borrowers because poorly-structured microlending programs resulted in net operating losses. Cooperation for Development (CD), a UK-funded microenterprise program that has been operating on the West Bank and Gaza since 1983 also targets small and medium enterprises. It has a small borrower base because of funding limitations and does not seek to achieve full cost recovery.

USAID will phase-out its support for the UNRWA small business program in 1996. Although this is a successful program, USAID believes that given overall needs and partner efforts, this strategy should focus on the microenterprise sector in the medium to long-term. Therefore, funding for this small business loan program is expected to end in 1996, with the USAID contribution fully on-lent by the end of 1997.

The USAID-financed YMCA program which provides equipment rentals (in effect, supplier credit) and helps its clients learn how to secure financing for business activities will be

continued. This is a modest but very successful program which may be expanded over the Strategy period to benefit more entrepreneurs.

An extensive Microfinance Sector Assessment was undertaken in early 1996. The results of this assessment are currently being utilized to develop a microenterprise results package. As recommended by the assessment team, USAID will pursue a two-track approach to develop sustainable microenterprise financial services delivery mechanisms. First, USAID will provide assistance to several existing NGO microfinance programs which show promise and meet Agency microenterprise criteria. At the same time, USAID will undertake a number of initiatives aimed at identifying and assisting one or more potential partner(s) to develop sustainable microfinance programs. The ultimate aim would be to develop linkages with the formal financial system, to help ensure that microcredit delivery mechanisms are both sustainable and accessible to clients. Assistance to support an institutional "champion" for microfinance may include: training, technical assistance, microfinance software, operational cost-sharing and/or the provision of a "resident advisor" to help inaugurate a new microfinance division within one or more existing financial institution. Assistance will be designed in conformance with Section 219 of the Agency Automated Directive which specifies interest rate policies and loan delinquency controls, requires commitment to full financial sustainability and specifies annual reporting parameters.

(2) Increased Access to Markets by Selected Enterprises

The two problems addressed under this Intermediate Result include lack of adequate and timely market information at the firm level, and the difficulties encountered by Palestinian firms attempting to market their products across boundaries with Israel. The latter is a result of frequent border closures imposed by the Israelis for security reasons.

USAID will continue to utilize its Small Business Support Project (SBSP) as the principal vehicle to provide firm-specific technical assistance to help Palestinian producers gain access to export markets. Among other services, the SBSP provides price and market information, assistance in the selection of appropriate technology, laboratory testing and product certification, product promotion and distribution assistance, and other forms of export marketing support. Although this project is currently scheduled to conclude in FY 1997, the Mission will consider an expansion of SBSP activities to include, inter alia, marketing support for Palestinian firms located in border industrial zones or municipal centers for light manufacturing. Other donors efforts complement the SBSP by providing institutional support for chambers of commerce and industry associations which serve as outlets for SBSP market data. The SBSP project implementors estimate that by utilizing the network of business associations in combination with the firm-specific efforts of the project, more than half of all Palestinian exporters will ultimately benefit from enhanced market information.

The major new initiative to increase market access is the development of industrial zones. While the Agency as a matter of law and policy has proscribed the financing of industrial zone development in recent years, special circumstances in the West Bank and Gaza may warrant its consideration here. Industrial Zone development has been identified as a priority for Israelis, the Palestinians, and donors as a means of creating jobs and avoiding the

economic dislocations caused by border closures. The constrained investment climate and the need for Palestinian goods and services to have reliable access to Israel (and to third-country markets through Israel) have led to proposals to develop industrial zones with special legal/regulatory and security regimes, along borders and in the autonomous areas. However, many of the policies/actions that are a prerequisite to zone development remain undefined or in the process of formulation.

The World Bank conducted a number of studies to assess the technical feasibility and commercial attractiveness of industrial estate development. Their most recent field mission resulted in the production of an Action Plan that sets out specific steps and target dates for the creation of an appropriate enabling environment for estate development. In accordance with that plan, Israeli and Palestinian officials have been meeting in an attempt to resolve numerous issues relating to site selection, legal and administrative arrangements and zone access/security considerations. Assuming that agreement is reached on the basic framework for zone development, USAID will finance a program of technical assistance that will include both long- and short-term advisors who will convey "best practices" in zone management and lessons learned in other countries.

These and other USAID initiatives in support of zone development will be undertaken through a carefully-coordinated, multi-donor effort involving the World Bank and several bilateral donor organizations, and future resources will be committed only based on the commitment of Palestinian and Israeli authorities and the potential impact of specific site development.

The Foreign Investment Advisory Service (FIAS) of the World Bank is helping the Palestinian Authority to review its investment law, to develop zone-specific incentive packages, and to create an investment promotion mechanism within the Ministry of Industry. Other donors (particularly the Dutch and the Germans) are considering investments in off-site infrastructure. The World Bank is leading donor coordination efforts in this area and is providing technical assistance for the creation of legal and administrative frameworks for industrial zone development.

At present, USAID is providing technical assistance for industrial zone development under a "Determination and Certification" signed by the Secretary of State in December 1995. Part of that technical assistance is designed to review options for further USAID investments in industrial zone development and to help coordinate the activities of various participants/stakeholders in the zone development process. Because of the high political sensitivity of this activity, the Mission will continue to work very closely with USAID/Washington and the State Department on industrial zones-related issues.

A matter of particular interest to the USG is the development of an industrial estate at Qarni (near Gaza City). This potential site is located within the jurisdiction of the PA and hence is less dependent on the outcome of on-going legal framework negotiations. It is the site of an existing transit/clearance point for trucks entering Israel. Both the PA and elements of the USG have determined that this is the site most ready to move forward and that USAID assistance should focus there. USAID is currently engaging the services of a civil engineer to review off-site infrastructure requirements at Qarni and to examine the technical feasibility

and cost implications of various infrastructure options. Depending on the outcome of that analysis, USAID assistance may finance some of the infrastructure needs at this site.

The rationale for USAID assistance for off-site infrastructure development in the near term is that it will: 1) advance the pace of discussions on broader zone-related issues; 2) encourage other-donor participation; 3) surface operational issues, the resolution of which will serve as precedents for subsequent zone development efforts; and 4) lead to the creation of a significant number of permanent new jobs (as many as 20,000 by some estimates) once the Qarni site becomes fully operational. USAID will conduct a detailed commercial viability analysis of the Qarni site before large amounts of assistance are committed for infrastructure development.

(3) Enhanced Productivity of Selected Enterprises

The productivity of manufacturing enterprises, as measured by capacity utilization, has declined steadily in recent years due to the poor economic conditions, shrinking domestic and export markets, and political uncertainties. Obsolescence, inadequate equipment and machinery maintenance, and lack of spare parts are common. Firms also lack information on new production technologies.

Donor programs (current or planned) include a wide variety of services in the fields of technical training, production technology, and related technical assistance. However, other donors are narrowly focused on specific products or markets and tend to deliver assistance through the intermediary of specialized associations like the European Palestinian Chamber of Commerce or the European Information Center. SBSP is the only program currently providing firm-specific technical assistance and exposure to appropriate technologies on a sustained basis. Under this program, USAID will reach most of the population of exporters or potential exporters.

In addition, the YMCA program provides specialized training and apprenticeships for selected graduates of vocational-technical training institutes in the West Bank and Gaza. The YMCA clients either obtain jobs or establish their own enterprises as a result of the assistance received. While the total number of project beneficiaries is relatively small, USAID and its partners will explore other options for improving workforce skills in order to increase the impact under this Intermediate Result and the overall Strategic Objective. Future activities in support of vocational training will be designed to: 1) complement existing public and private training programs or lead to reform of such programs, as appropriate; 2) reflect a demand-driven approach responsive to the needs of private industry; and 3) include provisions to ensure sustainability through appropriate cost recovery mechanisms.

(4) Appropriate Policy Framework for Private Sector Development Created

Business activity in the West Bank and Gaza has been constrained by the absence of an appropriate system of commercial law. The current legal and regulatory regime governing business transactions derives from a number of Ottoman, British, Jordanian, Egyptian, and Israeli sources. This incoherent framework is not transparent or reliable, and does not support a modern market economy. It contributes to a perception of commercial risk that

dampens the enthusiasm of domestic and foreign investors, alike. Other economic consequences of this situation include: increased costs of private sector activities, barriers to entry, skewed resource allocations, and constraints on the adoption of modern technology.

To attract investment and business expansion, the Palestinian Authority recognizes that it must accord high priority to the modernization and harmonization of the legal/regulatory framework governing business activities and property rights. While legal protection and user-friendly commercial laws alone may not be sufficient to induce foreign companies and individuals to invest, they are, nonetheless, important elements in any investment decision.

Although support for macroeconomic policy reform and public sector institution building is being led by other donors (particularly the IMF and the World Bank), USAID will be an active player in the policy arena. The USAID strategy includes a planned program of technical assistance and advocacy support to address significant business policy and regulation issues such as: dispute resolution, contract enforcement and execution, companies law and agency representation, intellectual property, banking, finance and leasing regulation, investment, taxation, industrial zone administration, insurance regulation, landlord and tenant regulation, import/export provisions, labor regulation, technology licensing, bankruptcy regulation, and securities exchange. Enforcement of a revised legal regime is also critical. Initiatives in this regard may include training and technical assistance to help develop alternative dispute resolution mechanisms and a local court system that is adequately trained in matters relating to the enforcement of intellectual property rights and other areas of business/investor concern. USAID will also seek to expand the scope of investment policy designed to encourage the development of industrial estates, in order to broaden its impacts and ultimately to encompass investors throughout the formerly occupied territories.

While this list is necessarily illustrative, it will be refined to reflect those areas where USAID has a comparative advantage and progress can be achieved over the strategy period. The specific modalities for USAID interventions will be determined as a function of the type of policy issues to be addressed. USAID will meet with its partners, including the Palestinian Authority, to determine the best approach for working in this area.

g. Other Development Partners

The USAID Mission works closely with partners to support private sector development, and chairs the LACC Private Sector Working Group. In terms of public sector counterpart relationships, it should be noted that although the PA lacks technical capacity in some areas, officials of PA Ministries have shown a clear commitment to work with donor agencies, private investors and Israeli counterparts on private sector related issues such as industrial estate development. USAID is directly involved in donor coordination bodies, such as the Trilateral Commission, that deal periodically with private sector development concerns. Other agencies of the USG, such as OPIC, have both the capacity and the commitment to achieve economic impacts in the West Bank and Gaza but they have often been stymied by the inauspicious investment climate and by other exogenous factors that limit their ability to leverage significant results on the ground.

h. Sustainability

Long-term sustainability of private sector initiatives will depend heavily on the success of USAID and other donor efforts to effect policy and regulatory reforms. USAID activities in support of investment incentives, zone policy formulation, and commercial and legal reform will seek to codify changes (e.g. through legislation) in a manner that is both transparent and relatively permanent.

Because not all of the SME credit programs in place can be sustained, USAID is narrowing its focus on the microenterprise sector and on only those mechanisms which are designed with institutional viability and sustainability in mind. Microenterprise credit will be sustained by ensuring that programs receiving USAID assistance set interest rates and fees sufficient to cover full long-run costs of lending. USAID will also require that microfinance institutions demonstrate firm control over loan delinquency and a commitment to attain full financial sustainability on its financial service activities within no more than seven years of the initial provision of USAID assistance.

USAID efforts to improve the productivity and competitiveness of Palestinian goods and services will be sustained, to the maximum extent possible, through the development of indigenous capacity to deliver technical assistance, training and marketing support services on a commercial basis.

Within the industrial zones, market access initiatives will center around the creation of an Industrial Zone Authority that will cover recurrent costs through fees paid by firms locating in the zones. Individual zone development will be sustainable to the extent that commercial viability projections prove to be accurate and investors respond to the incentives offered.

i. Monitoring Achievement

Achievements realized under this Strategic Objective will be largely quantitative in nature. Specific, time-bound targets will be established for each intermediate result package and a methodology for data collection and analysis will be established that draws on existing sources of economic data, where available. Productivity and competitiveness enhancement will be measured through the use of post-hoc beneficiary surveys and client tracking methodologies.

Data collected for the monitoring of microenterprise initiatives and USAID training will be gender disaggregated and results analyzed with a view to correcting biases, where appropriate, and maximizing womens' participation in these activities.

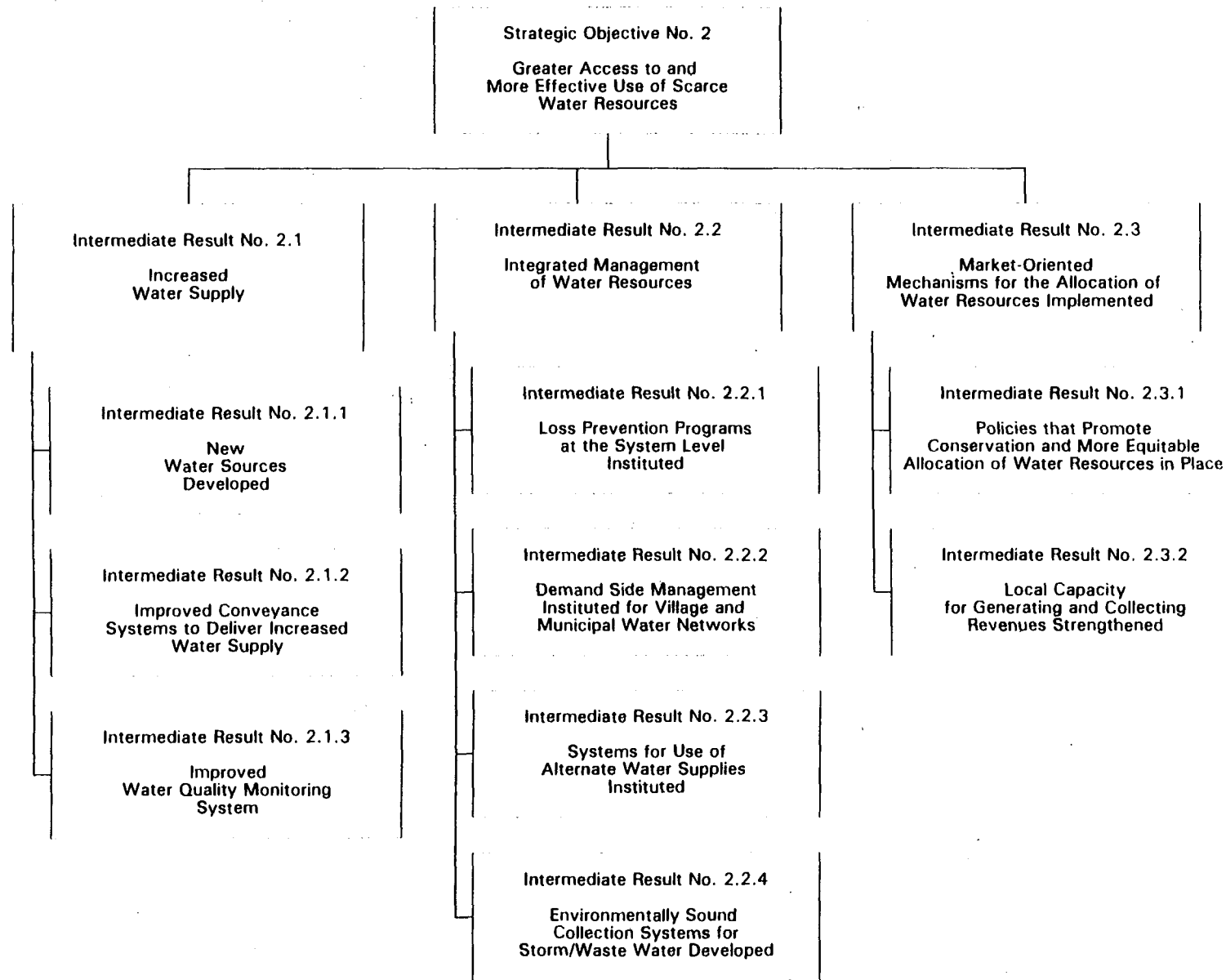
Strategic Objective/Intermediate Result	Preliminary Indicator
S.O 1.: Enhancing Economic Opportunities	<p>increase in total number of people employed by SMEs and in industrial zones</p> <p>increase in the number of SMEs</p> <p>increase in the real value of total sales revenue of SMEs</p>
I.R. 1.1: <u>Increased SME access to Financial Services</u>	<p>increase in the number of institutional outlets for SME finance</p> <p>increased percentage of SME population with access to outlets for financial services</p> <p>increased value of credit (# and \$ volume) available to SMEs from formal sources</p>
I.R.1.1.1: <u>Increased Sustainability of Microenterprise Financial Services Delivery Mechanisms</u>	<p>percentage of total costs recovered under micro finance programs</p> <p>percentage of micro program funds from non-donor sources</p>
I.R.1.1.2: <u>Liquidity of Selected Small and Medium Enterprise Programs Expanded</u>	<p>increase in value of loans (# and \$ volume) to small and medium enterprises by banks participating in the Loan Guarantee Program.</p> <p>increase in number of SMEs receiving credit from selected sources</p>
I.R.1.2: <u>Increased Access to Markets by Selected Enterprises</u>	<p>increase in volume and real value of goods sold by selected enterprises</p>
I.R.1.2.1: <u>Market Information Developed and Disseminated to Selected Firms</u>	<p>increase in number of selected small businesses receiving market information</p> <p>increased number and value of contracts resulting from marketing assistance</p>
I.R. 1.2.2: <u>Industrial Zones are Operational</u>	<p>increase in real value of goods shipped out of industrial zones</p>
I.R. 1.3: <u>Enhanced Productivity of Selected Enterprises</u>	<p>increase in average wage rates for training recipients</p> <p>increase in value added per unit cost</p>
I.R. 1.3.1: <u>Entrepreneurial Skills Strengthened and Expanded</u>	<p>increase in number of enterprises and associations with trained employees by region</p> <p>increased number of people trained by region</p>
I.R. 1.3.2: <u>Increased Access to Improved Technology</u>	<p>specific technology adoption rates</p>

<p>I.R. 1.4: Appropriate Policy Framework for Private Sector Development Created</p>	<p>value of new investments</p> <p>more efficient business transactions</p> <p>new firms established as a result of reduced barriers to entry</p>
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Summary of Relevant Donor Activities

	U S A I D	I M F	E U	U N D P	U N R W A	A U S T R A L I A	I B R D	G E R M A N Y	I T A L Y
Credible Governance			✓			✓			
Macroeconomic and Financial Policy		✓					✓		
Legal/Regulatory Framework	✓						✓		
Financial Sector Development								✓	
Financial Sector Supervision and Regulation		✓							
Industrial Zones	✓						✓	✓	
Physical Infrastructure --Roads --Telecommunications -- Electric power				✓					
Improved Human Resource Base -- Schools -- Vocational/Technical Training	✓			✓	✓ ✓			✓	✓
Business Support and Advisory Services	✓		✓						✓
Small Business Support	✓		✓		✓				✓
Microenterprise Support	✓				✓				

USAID/West Bank and Gaza



2. Greater Access to and More Effective Use of Scarce Water Resources

a. Statement of Strategic Objective

This Strategic Objective is designed to address the critical shortage and inefficient use of water in the West Bank and Gaza. Water is perhaps the most acute issue affecting all Palestinians, and has featured prominently in peace process negotiations. Significantly increasing the quantities and quality of water in the Palestinian self-rule areas is absolutely essential to laying the bases for sustainable economic growth to improve the lives of Palestinians. Achievement of this Strategic Objective will support the Israeli-Palestinian peace process-- both by reducing the social, economic and political tension caused by inadequate and inequitable access to water and by developing independent and sustainable Palestinian water sources and expanded conveyance systems. This latter aspect becomes even more critical as the Government of Israel appears to be giving more credence to "separation" of Israelis and Palestinians in the wake of recent terror attacks. Therefore, this Objective will support both the Agency's Goals of *encouraging broad-based growth*, by addressing perhaps the most critical constraint to expanding economic activity and improved quality of life in the West Bank and Gaza, and *protecting the environment*, by modifying unsustainable practices.

Though the Government of Israel recognizes Palestinian water rights in the West Bank and Gaza, the precise nature and exact application of these rights will be determined as part of the final status negotiations to be concluded by May 1999. An interim "Protocol Concerning Redeployment and Security Arrangements" recognizes that the Palestinians require an additional water allocation of between 70 and 80 million cubic meters per year to meet future needs, and specifies the framework for developing a 28.6 million cubic meter per year increase in the water allocation to the Palestinians to meet immediate needs. This Strategic Objective is directly linked to the 1995 Israeli-Palestinian "Interim Agreement", and will be the primary vehicle for initiating the development of water infrastructure identified through the Trilateral Committee (U.S.-Israeli-Palestinian) to meet the immediate needs of the Palestinians.

b. Water Resources Sector Overview

The basic inadequacy and inequity of access to water in the West Bank and Gaza is reflected in the fact that Palestinians consume less than 50 liters of water per day, compared to an estimated minimum daily water requirement of 70 liters, a preferred consumption rate of 135 liters per day, and the 250 to 300 liters per day consumed by Israelis. Based on population growth alone, access to water resources is an immediate problem that will become more severe over time, unless aggressive interventions are carried out over the life of this Strategy.

The real problem in the region is that there are few unexploited sources of fresh water left. The only significant surface source of fresh water serving Palestinians and Israelis is the Jordan River/Lake Kinneret (Sea of Galilee), which runs along territory controlled or

claimed by Israel, Palestinians, Syria, and Jordan. Aquifers are shared and recharged across borders, and rainfall throughout the region is inadequate. In the region, only Syria, Lebanon, Egypt, and Turkey have adequate sources of replenishable fresh water -- the Palestinians, the Israelis, and Jordanians can all be classified as water poor. Many planners believe that if the Palestinians are to develop a sound economic base they will need to import vast quantities from water from outside their boundaries. Thus, the transportation of water across national boundaries is a serious, albeit costly, option to be considered in any long-term strategy for water resources in the region. As a truly regional issue, water has become a central theme in the Middle East Peace Process.

The inadequate supply problem in the West Bank and Gaza is exacerbated by: dependence on quotas from the Israeli national water authority, deteriorated conveyance systems, inappropriate and wasteful water uses, insufficient treatment facilities for wastewater and catchments for stormwater, and arbitrary pricing/allocation mechanisms. Agricultural and industrial development is limited due to lack of water, and high salinity levels due to over-exploitation of aquifers. In most West Bank municipal water systems, roughly 50% of the water supplied is lost or "unaccounted for". Extensive use of potable water for agriculture limits the availability of this scarce resource for domestic use. Inadequate (and often nonexistent) treatment of sewage is causing health and environmental problems, especially in the Gaza Strip. In Gaza, 12,000-14,000 cubic meters of raw effluent are discharged into the sea each day. It has been reported that 20% of children under the age of three that visit UNRWA clinics in Gaza have diarrheal diseases, and 50% of all patients during the summer months suffer from environmentally related infectious diseases.

"... farming ... is the big thief ... The value of water used for irrigating ... can end up being many times greater than the value of the produce...."

The Economist, December 23rd-January 5th 1996, p. 55

c. Specific Problems To Be Addressed

USAID and partner efforts under this Strategic Objective are designed to increase the water supply, and improve the management and allocation of water resources. Developed water supplies in the West Bank and Gaza Strip are insufficient to meet domestic and commercial needs, limiting potential improvements of the quality of life (economic, health and environmental aspects) of Palestinians. New sources must be developed and existing supplies better utilized. The failure to use alternate water sources for agriculture and industry leads to costly diversions of potable water from Palestinian households. At present, improper disposal and lack of treatment of wastewater is the norm, thus, limiting the reuse

"In the Palestinian territories, water is the most precious natural resource and its relative scarcity is a major constraint on economic development."

Palestinian Water Resources, A Rapid Interdisciplinary Sector Review and Issues Paper, The Wrap Task Force, October 1994, p. 4.

potential of spent water. The maintenance of existing water systems and the development of major new water infrastructure are seriously hampered by the failure of system operators to collect sufficient revenues to cover the actual cost of delivering water to the user.

d. Customers

The ultimate customer of the Mission's water activities will be the Palestinian population in general. The Strategic Objective will have a direct impact on a large number of individual Palestinians, and an indirect impact on virtually the entire Palestinian population in the West Bank and Gaza. This Results Framework is designed to have a cost effective impact on the widest segment of Palestinian society possible.

The Palestinian Water Authority (PWA) will be a recipient of USAID assistance (first-level customer) and implementor of USAID-financed activities (partner). The Mission has engaged the PWA in extensive discussions related to the strategy in the water resources sector and how the specific activities would be implemented. The strategy reflects the priorities of the PWA and the demands of its clients, the water consumers in the West Bank and Gaza. The specific activities to be implemented under the strategy were revised per the request of the PWA and the Joint Water Committee (JWC), e.g., development of the Eastern Aquifer Basin for additional supplies of water.

Likewise, the West Bank Water Department (WBWD), which will undertake activities under this Strategic Objective, is also a customer of USAID assistance and has liaison with USAID's ultimate customer, the end-users of water resources. Through the PWA and the JWC, the Mission engaged the WBWD in broad-based discussions related to the design and implementation of activities in the water resources sector. These discussions have impacted primarily on the proposed institutional arrangements, e.g., bulk water carrier approach, and technical details, e.g, tandem well arrangements tapping both lower and upper aquifers.

Municipalities and Villages have been the Mission's most direct link to its ultimate customers under this Strategic Objective. Discussions have been held with representative municipal and village officials to obtain their views on water related issues. These discussions primarily highlighted the emphasis that local officials place on providing potable water to the Palestinian controlled areas.

e. Critical Assumptions

Achievement of this Strategic Objective is predicated upon the following critical assumptions:

- Israelis and Palestinians reach appropriate political and technical level agreements that will establish implementation guidelines related to information sharing, water rights and pricing.
- Appropriate authority and resources will be assigned to Palestinian entities

such as the Palestinian Water Authority (PWA), West Bank Water Department (WBWD), municipalities, and villages councils. Progress has been made along these lines, but much remains to be defined and operationalized.

Because these are critical assumptions, USAID will take proactive steps to encourage progress in these areas and track their status. Through donor coordination mechanisms and consistent contact with Palestinian, Israeli and other donor officials, the USG will promote a policy agenda that emphasizes cooperation in laying the groundwork for an eventual autonomous, privatized, cost-effective/efficient Palestinian water system. Under this Strategic Objective and the Mission's Local Government activities under the Governance Strategic Objective, USAID will coordinate with other donors and identify opportunities for targeted assistance related to management and revenues.

f. The Water Resources Results Framework

"Greater access to and more effective use of scarce water resources" will be achieved through a coordinated effort with other donors and Palestinian institutions. The Government of Israel will be a key actor, especially in trilateral initiatives to develop new water sources. Interventions will be designed to: increase the water supply, integrate management of water resources, and implement market-oriented mechanisms for allocation. A system-wide approach is needed because the problem is widespread (all cities and municipalities and most villages are inadequately serviced) and is defined by interrelated factors (development of new sources of potable water, recovery of wastewater for reuse, recharge of aquifers, more efficient use of irrigation water). The entire package of interventions outlined below is necessary to achieve this Strategic Objective. While USAID will provide support in each area to some extent, other development partners will finance and indeed take the lead in certain aspects of the framework. For example, it is expected that USAID will finance feasibility studies and master plans for the overall West Bank water system, but only finance the construction of wells and conveyance systems in selected areas (with other donors complementing these efforts). Likewise, USAID's investment in village-level delivery systems will be significant, but will meet only a fraction of the demand. Loss prevention and demand-side management initiatives will be financed almost entirely by other donors. USAID and the World Bank will work together on municipal capacity building. The first three years of the strategy concentrate on the development of new sources of water and delivery to domestic users. In the succeeding years, increased emphasis will be placed on meeting industrial and agricultural demands. It is envisaged that industrial and agricultural demands will be provided for by the more efficient use of existing water resources. The Intermediate Results under this Strategic Objective are: Increased Water Supply, Integrated management of Water Resources, and Market-Oriented Mechanisms for the Allocation of Water Resources Implemented.

USAID has for several years financed initiatives related to village and municipal water delivery and irrigation systems, and initiated the Gaza Wastewater Project in FY 1995. This Strategic Objective builds upon these efforts and reflects the current donor, Palestinian, and

Israeli emphasis on promoting greater access to and more efficient use of water resources in the West Bank and Gaza. It will be carried out primarily through U.S. contractors, with complementary activities implemented by UNRWA (Phase I of the Gaza Wastewater Project), UNDP (fast-track water distribution systems), and the Catholic Relief Services, Save the Children Foundation and possibly other U.S. PVOs (village/municipal-level construction and training); it is expected that each grantee/contractor will form partnerships with appropriate Palestinian institutions.

(1) Increased Water Supply

In its simplest terms, this Intermediate Result entails the provision of additional potable water for consumption by Palestinians. Its achievement will require the development of new water supplies, improved conveyance systems for the increased supply, and improved water quality monitoring systems. Though immediate solutions will focus primarily on potential water sources within the Palestinian areas, long-term solutions may involve the transportation of water from other countries in the region. USAID activities under "Increased Water Supply" will be achieved by engaging a U.S. contractor to work with local contractors, the Palestinian Water Authority, and West Bank Water Department to, among other things, provide technical support; track implementation of donor activities; procure equipment, conduct training and carry out analysis related to hydrological data; prepare water master plans; design and construct monitoring and production wells; design and construct major transmission facilities and associated storage reservoirs; and design and construct distribution systems. The U.S. contractor will develop municipal/village training programs and village water network programs to be carried out, after a competitive selection process, by U.S. PVOs, Public International Organizations, and the private sector.

New Water Sources Developed: The Water Agreement included in the Interim Accords recognizes that Palestinians require an additional water allocation of 70 to 80 million cubic meters annually beyond the current use, estimated at between 200 and 240 million cubic meters. In meeting this increase, it will be important to balance immediate needs against the limited capacity of aquifers and other water sources, taking into consideration technical, environmental, economic, and political factors. Based on the Water Agreement, virtually all of the increased water supply will come from the Eastern Aquifer. While current plans to meet this requirement call primarily for well development, other options -- such as desalination and importation of surface waters from neighboring countries -- may be viable in the future. To date, most Palestinians have been dependent on access to the Israeli water network. It is expected that Palestinian access to the Israeli water network will, at best, remain inadequate and may eventually be severed. However, the Government of Israel is in the process of turning over existing well supplies and major transmission systems to the Palestinians.

USAID and Germany are the main donors involved in developing new water sources. Germany has already developed major wells in the Nablus and Ramallah areas, and are preparing to drill new wells in the Ramallah and Hebron areas. The proposed well in the

Hebron area will be in the same well field where USAID will drill several wells to serve the Hebron-Bethlehem Area. The USAID wells, augmented by the German well and several wells to be turned over by the Government of Israel, will provide sufficient water to meet the immediate needs of Palestinians in the municipalities of both Hebron and Bethlehem.

USAID will also provide additional wells in Jenin, Ramallah, or Nablus to increase the water available to individual users in those areas. USAID is taking the lead in addressing issues related to the long-term sustainability of the aquifers being utilized as sources of supply.

Improved Water Conveyance Systems: Adequate conveyance systems to carry the new water supplies to the end user, including transmission facilities, associated storage reservoirs, and distribution systems, are also needed. These conveyance systems, where they exist, do not have the capacity to carry increased supplies. USAID is taking the lead in developing cost-effective system layouts for selected areas.

USAID, the World Bank, UNDP, the Swiss, and Germany are involved in improving water conveyance systems. USAID will develop a major new transmission system to transport bulk water supplies from the Herodian well field to the municipalities of Hebron and Bethlehem. This will enable the Germans to deliver water from their new well to Hebron (the existing transmission system is at capacity). It is envisaged that the World Bank, UNDP, and other donors will tie into the core facilities developed by USAID and deliver the additional water supplies from the Herodian well field to outlying villages in the Hebron and Bethlehem areas. The Swiss are financing a new transmission line to deliver water from a new well being developed by the Government of Israel for the Palestinians in the Jenin area. USAID will tie into the Swiss-financed transmission line delivering water to the municipality of Jenin and carry water to 11 outlying villages in the Jenin area. USAID will also finance the construction of distribution systems within the 11 villages. USAID, through the UNDP, is presently upgrading village water systems in the northern sector of the West Bank and is rehabilitating and reinforcing the existing water network in Hebron. SCF is replacing deteriorated or installing new water distribution lines in the poorer neighborhoods of Gaza and Jabalia under the Neighborhood Upgrading Component of the Gaza Housing Project. CRS is providing new village water networks in the northern West Bank under the USAID Integrated Rural Development Project. It is envisaged that USAID will also rehabilitate the entire water network in Jericho and upgrade water networks in one or more other selected areas.

Improved Water Quality Monitoring System: It is essential that additional water, as well as existing supplies, delivered to the Palestinian consumers is safe to drink. Accordingly, the monitoring of both the aquifers supplying water and the systems conveying water will be instituted. The cost efficiency and impact of developing new sources and conveying the increased quantities of water will be undercut if acceptable quality standards are not achieved and maintained. USAID will construct monitoring wells in the Eastern Aquifer Basin and the Gaza Coastal Aquifer Basin. USAID will also develop critical surface water monitoring stations in the West Bank. USAID will provide the PWA, the WBWD, and selected municipalities and villages with appropriate data collection/sampling equipment and

laboratory equipment to monitor aquifers, surface water bodies, wastewater discharges, and potable water systems. The proposed data collection and monitoring program will complement the activities of Norway in its establishment of a hydrological data bank for the West Bank and Gaza that will be part of an overall Middle East Water Data Bank.

(2) Integrated Management of Water Resources

Potable water cannot be viewed in isolation from other water resources in the region. Considering the scarcity of water in the Palestinian areas, it is absolutely imperative that available water resources be managed in the most efficient manner practicable. This requires that irrigation water, stormwater, potable water, industrial water, and wastewater be considered as part of a complex, interrelated water balance. Integrated management of all water resources is essential to sustaining greater access to the increased water supply. Considering that both Israelis and the Palestinians are water poor, currently available water will have to be used more efficiently and effectively if the water demands of industrial and agriculture users are to be met in addition to those of the domestic users.

USAID interventions under "Integrated Management of Water Resources" will be implemented in part by a U.S. firm, which will develop plans for the integrated management of water resources in selected areas (Hebron-Bethlehem, Jenin, Jericho, and one other selected area). These integrated management plans will lay the foundation for future interventions related to the reclamation of wastewater and stormwater, define flow conservation programs for potable water systems and irrigation systems, lay out loss prevention programs for potable water systems, and identify alternate sources of supply for irrigation and other non-domestic uses.

Loss Prevention Programs Instituted at the System Level: On a system-wide basis, excessive losses through leakages and illicit diversions increase the cost of water and its availability to entire villages and zones. Loss reduction mitigates the demand for new water sources, increases access of communities to existing water supplies (as many areas are subject to rationing due in large part to these losses), and provides greater potential for the rationalization and recovery of costs.

USAID will institute both: 1) measures applicable to the entire Palestinian areas and 2) specific loss prevention programs aimed at selected communities to significantly reduce system losses. Through the PWA, new design criteria for water networks will ensure the integrity of new pipelines and reduce leakages. In selected communities, metering of production and usage will be improved and system operators will be trained to identify unusual losses. The loss prevention program will be comprehensive and will include hydraulic analyses of water networks using computer systems, leak detection equipment, equipment and training for the repair and calibration of water meters, analyzing production and consumption patterns to determine water losses, rehabilitation of selected lines, and pipe repair materials. Both the UNDP and Norway have conducted recent leak detection programs in the West Bank. Germany is considering a major project in water losses

reduction that would start in Jenin and expand to Tulkarem. USAID is coordinating its activities with these and other donors in order to avoid any duplication of effort.

Demand Side Management of Village and Municipal Water Networks: Though the initial focus of the Strategic Objective is on supply and supply augmentation, the natural limits on water supply development in the West Bank and Gaza dictate that demand side management is the only realistic long-term strategy to meet future demands. Demand side management is closely linked to "Market-Oriented Mechanisms for the Allocation of Water Resources". When treated as an economic resource, water use is more carefully managed by both the system operators and the end users.

USAID will initiate the development of user-oriented programs that will promote flow conservation and establish realistic pricing structures for potable water, whether used for domestic or agricultural consumption. USAID will demonstrate the applicability of the programs by testing them in a limited number of representative areas. The programs will address not only domestic uses, but also agricultural uses. Through the PWA, USAID will encourage the expansion of the demand side management programs throughout the West Bank and Gaza.

Systems Developed for Use of Alternative Water Sources: Currently, the same water that is used to meet the drinking needs of the population in the West Bank and Gaza is used for agricultural purposes and, to a lesser extent, for industrial purposes. Meanwhile, large quantities of stormwater and wastewater are unused and often discharged in ways that are unsound from an environmental and health perspective. The development of systems to collect, treat, and use these alternate water sources is an integral part of integrated water management that will result in increased access of Palestinians to potable water, by meeting other demands through cheaper, already available but under-utilized sources. Under the Gaza Wastewater Project, stormwater and wastewater in the Municipality of Gaza will be recovered for appropriate treatment and eventual reuse. Under the Municipal Services Project, means to recover and reuse stormwater and wastewater in Hebron, Bethlehem, Jenin, Jericho, and one other selected area will be investigated. The use of brackish water for agricultural purposes will be investigated for selected areas in the West Bank and Gaza. Likewise, the harvesting of rainwater will be investigated. At least one demonstration system using an alternate source for irrigation will be constructed.

Environmentally Sound Collection Systems for Stormwater/Wastewater: Integral to the reuse of stormwater and wastewater is their collection in an environmentally sound manner. Under the Gaza Wastewater Project, stormwater and wastewater will be segregated and collected for treatment by others and ultimate reuse. Under the SCF Neighborhood Upgrading Grant, storm sewers and sanitary sewers in some of the poorer neighborhoods of Gaza and Jabalia are being rehabilitated. Improved and expanded collection systems in these densely populated municipalities will alleviate flooding and overflowing sewers during periods of heavy rainfall, and will contribute to improvements in the health of residents. Community education is included under both projects to improve public awareness regarding the importance of maintaining community facilities.

(3) Market-Oriented Mechanisms for the Allocation of Water Resources Implemented

Access to and effective use of water resources will be affected by the ability of Palestinians to introduce market mechanisms in the sector. Without such an intermediate result, progress in the short-term will be stifled and sustainability in the long-term will be impossible. Ultimately, all aspects of this framework are designed to facilitate the emergence of a privatized water system that will ensure that the needs of Palestinians, both households and commercial interests, are met well into the next century. Complete sustainability and cost-recovery may not be met within the next five years, but significant progress can be expected.

USAID "Market-Oriented Mechanisms for the Allocation of Water Resources" activities will be carried out through policy dialogue and the institutional support provided by U.S. contractors. By guiding municipalities and villages initially to full cost recovery and finally to privatization of water utilities, it is envisaged that the PWA will be the leading proponent of reforms that will lead to this Intermediate Result. While USAID involvement will be consistent in this area, progress is expected to be a medium- to long-term proposition.

Policies that Promote Conservation and More Equitable Allocation of Water Resources:

USAID and other donors will engage the Palestinian Authority in a policy dialogue to promote conservation and more equitable allocation of water. These policies will include rationing criteria and market pricing, as well as others that will be developed in the context of the Local Aid Coordination Committee(LACC)/ Sectoral Working Group. The wide range of tariffs presently applied in the Palestinian areas generally does not promote appropriate allocation of scarce water resources. Generally, the tariffs do not reflect the true cost of producing and delivering the water to the user, or the finite limits on potable water in the region. All master planning activities undertaken by USAID will address water conservation issues and will promote appropriate pricing structures for the various categories of service within the water resources sector.

Municipal Capacity for Generating and Collecting Revenues Strengthened: The capacity of municipalities to generate and collect resources must be strengthened. This effort will be coordinated with other donors, most significantly the World Bank and Norway, and the Mission's local government activities. USAID will finance institution building for selected municipalities and villages to complement the activities of others. USAID-financed institution building activities will improve the quality of services rendered by water system operators and will ensure the satisfactory management and administration of water facilities in a cost-effective manner. As systems in the West Bank and Gaza have deteriorated, so has the ability to generate revenue from the systems. USAID activities, coupled with those of other donors, will lead to improved generation and collection of revenues supporting full cost recovery of water, stormwater, and wastewater facilities. Full cost recovery will permit the orderly expansion of utilities to meet a rapidly increasing population and to provide an adequate level of service to the existing population.

(4) Next Generation Activities

Initial activities (3-year program) in the water resources sector will be aimed at ensuring that domestic users have at least the minimum daily water required to meet their basic needs. The next generation of activities (beyond Year 3) in the water resources sector will attempt to provide sufficient water to enable the economy to expand. As Palestinians return to their homeland and as the economy develops, it will become necessary to utilize existing sources of water more efficiently if the needs of agriculture and industry are to be met. Once Palestinians accept that their finite water resources are a valuable economic resource, it is envisioned that future activities (beyond Year 5) in the sector will be driven by market-oriented policies. Thus, there will be an increased emphasis on the reduction of losses, the conservation of available supplies, and the recovery of stormwater and wastewater. In the intermediate range (Years 4 to 5), USAID would assist in the development of major systems to collect, treat, and distribute recovered stormwater and wastewater for reuse in the industrial and agricultural sectors. Such reuse might possibly involve blending the recovered water with newly developed sources of brackish water.

Ultimately (beyond Year 10), it will probably be necessary to import water in bulk into the Palestinian areas from outside the immediate vicinity -- Turkey and Lebanon are the most likely sources of future supplies. Such an undertaking is not economically or financially feasible at present, and should be considered only after having maximized the utilization of existing water resources.

g. Other Development Partners

Many other donors are investing significant resources in the water sector. Below is a summary of the most relevant activities being carried out or planned by USAID's partners. All of these activities are encompassed in the Strategic Framework and will complement initiatives financed by USAID.

The Joint Water Committee (JWC), an Israeli-Palestinian unit established as part of the Interim Agreement, is working closely with USAID to identify priority activities consistent with the water agreement. The Trilateral Committee's (U.S.-Israeli-Palestinian) Water Working Group which consists of the JWC with the participation of the U.S. Department of State is also actively involved in guiding USAID and other donor participation in the water resources sector. The JWC is seeking to expedite the proposed USAID-funded activities with particular emphasis on a bulk water system for the Hebron-Bethlehem Area.

The World Bank is poised to be the major proponent of institutional arrangements leading to the ultimate privatization of utilities in the West Bank and the Gaza Strip. The World Bank has already launched a \$25 million project for the Gaza Strip that will provide for the operation of 17 water systems by a private operator. Under that loan, it is envisaged that the 17 water utilities will be consolidated into a single entity and fully privatized after 5 years. The World Bank is preparing a new loan for the West Bank that would begin privatizing

municipal infrastructure systems and services. The Palestinian Water Authority has strongly endorsed both World Bank projects, and appears to be committed to full cost recovery for all utilities serving the Palestinian areas.

The United Nations Development Programme (UNDP) is presently implementing \$8 million in USAID water activities under the Municipal Services Project. USAID is discussing with UNDP a possible program for a municipal water system for Jericho. UNDP has implemented a number of USAID-financed small water programs, such as water network improvements in Ramallah, Rafah, and Nablus. Because donors have relied so heavily on the UNDP to implement a broad range of activities in the West Bank and Gaza, there is some concern within both UNDP and the donor community that the agency is reaching its implementation capacity.

The United Nations Relief and Works Agency (UNRWA) is presently implementing a large number of USAID and other donor activities, including Phase I of USAID's \$40 million Gaza Wastewater Project. As is the case with UNDP, donors have relied heavily on UNRWA since the signing of the DOP and there is some concern in the donor community about straining the agency's implementation capacity by adding major new infrastructure initiatives.

Norway has been providing technical support to establish the Palestinian Water Authority (PWA). This initiative seeks to establish an operational PWA that can regulate and monitor the water resources within the Palestinian areas. The Norwegians are concentrating on the establishment of water data banks, water policy issues, and organizational structure. They are also assisting the PWA with on-the-job training and preparing terms of reference for studies on tariffs, legislation, and water master plans.

Germany is working closely with municipalities and the West Bank Water Department (WBWD) to develop major new well systems for the supply of potable water (primarily in Hebron and Ramallah). The Germans have also proposed financing the construction of a major wastewater treatment plant for East Jerusalem to eliminate raw sewage flows into the Herodian area (the proposed site of a major well field for supplying the Hebron-Bethlehem Area) of the Eastern Aquifer Basin. The Germans are also considering a water loss reduction program for existing municipal systems for Jenin and Tulkarem.

Other Donors are actively involved in virtually every aspect of the water resources sector due to the emphasis that the Palestinians have placed on water. Switzerland is working with the WBWD to construct a transmission line to transport a bulk supply of water from a major well being drilled by the Government of Israel in the Jenin area to serve the Palestinians. France, the United Kingdom, and Japan are all pursuing planning activities for new water and wastewater facilities, primarily in the Gaza Strip. Saudi Arabia will finance a demonstration project recovering wastewater for reuse in a village in the Hebron area. Sweden, Italy, Finland, and a number of other donors will probably pursue activities in the water resources sector.

U.S. Private Voluntary Organizations have significant experience in water related activities in the West Bank and Gaza (irrigation, village water systems, community health). This experience does not include the development of new supplies, an area where the bulk of USAID resources will be concentrated. Notwithstanding, U.S. PVOs are considered potential partners in this Strategic Objective, especially in relation to the loss prevention and demand-side management at village and municipal levels. Ongoing activities carried out by the Save the Children Foundation (Gaza Neighborhood Upgrading) and Catholic Relief Services (Integrated Rural Development) have been incorporated into the Strategic Objective as means of testing community level interventions in the early stages of the Strategy. Discussions have been held with U.S. PVOs to identify and maximize their potential for cost-effective impact on the Objective.

The magnitude and scope of this Strategic Objective, as well as number of partners and customers involved, makes coordination and flexibility essential to achieving the Strategic Objective.

There are ample mechanisms in place to allow for effective donor coordination at both the policy and technical levels. As in other areas, local heads of donor agencies comprise the Local Aid Coordinating Committee (LACC) which meets regularly to discuss issues. The LACC and its Sector Working Groups include Israeli and Palestinian partners. There is a LACC Infrastructure Sector Working Group (SWG) which is chaired by the Germans. Because of high interest in the water sector, a separate SWG for water may be established. In addition, the Israeli-Palestinian Joint Water Committee is charged with facilitating implementation of the water agreement. The Trilateral Committee brings together high-level Israeli, Palestinian, and USG representatives to resolve issues related to the interim accords. The Trilateral Committee has established a special Trilateral Water Working Group to address the water sector needs of the Palestinian population.

Through these mechanisms and ongoing dialogue with partners, the Mission will track partner plans and activities. While the results framework reflects current plans and information, it is certainly possible that there will be changes in partner plans over the five year life of this Strategy. When there are significant changes in partner activities, USAID may need to modify its planned interventions. For example, if the wastewater treatment plant in Gaza is not upgraded by other donors as planned, the Mission could either shift resources under this Strategic Objective to support alternate treatment options, or decide not to finance all planned waste/storm water activities in Gaza and shift resources to other aspects of the Results Framework. If village delivery mechanisms, loss prevention and demand-side management do not keep pace with the development of new supplies because of other donor shortfalls or technical problems, USAID could decide to become more involved in those areas. Ultimately, while progress can be made based solely on USAID investment (assuming Palestinian-Israeli agreements and Palestinian commitment), the full success of this Strategic Objective depends on the combined efforts of various donors.

**DONOR MATRIX
WATER RESOURCES STRATEGIC OBJECTIVE**

Key Donor Activities	U S A I D	I B R D	U N D P	U N R W A	N O R W A Y	G E R M A N Y	O T H E R S
New Water Sources	✓					✓	✓
Water Conveyance Systems	✓	✓	✓			✓	✓
Water Quality Monitoring Systems	✓				✓		
System-Level Loss Prevention Programs	✓		✓		✓	✓	✓
Demand Side Management at Village/Municipal Levels	✓		✓		✓		
Systems for Use of-Alternate Water Supplies	✓		✓	✓		✓	✓
Environmentally Sound Collection Systems for Storm/Waste Water	✓	✓		✓			✓
Policies that Promote Conservation and Equitable Allocation of Water Resources	✓				✓		
Municipal Capacity for Generating and Collecting Revenues	✓	✓			✓		

h. Sustainability

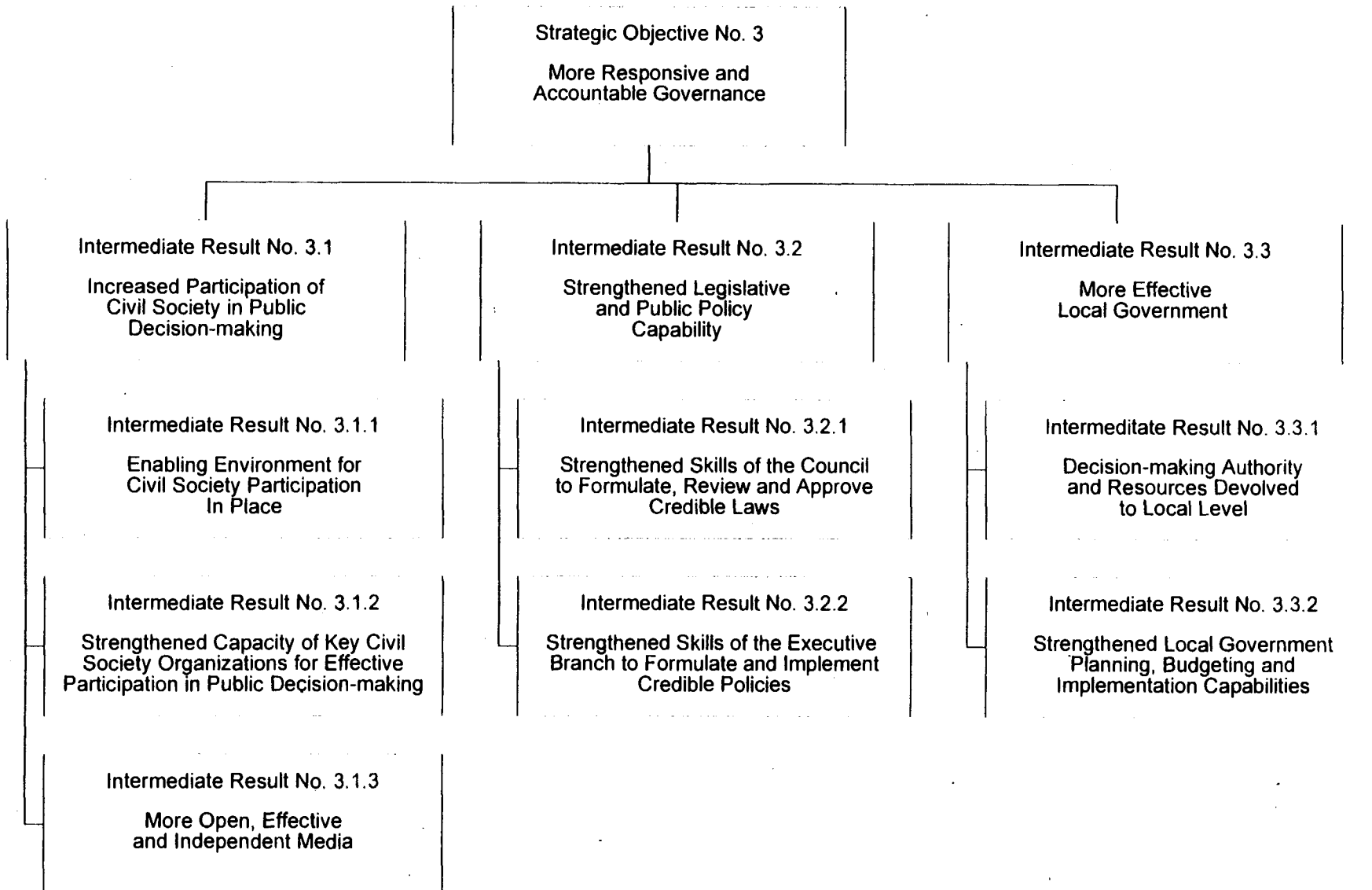
Sustainability concerns will be addressed by virtually every activity to be carried out by USAID. Potential water sources will be studied and appropriate monitoring systems established to ensure that the sustainable yield of the aquifer or surface water body is not exceeded. Water, stormwater, and wastewater systems will be constructed to a standard to ensure serviceability throughout the entire design life. Standard operation, maintenance, safety, and laboratory procedures will be developed and instituted to ensure that system operators continue to provide service at a satisfactory level. Loss prevention programs, demand side management programs, and water reuse programs will be established to promote the efficient and sustained utilization of limited water resources. Water regulatory bodies and water system operators will be strengthened to improve revenue generation and collection to support not only the continued operation of existing utilities, but also the upgrading and expansion of these facilities to meet an expanding population. Every activity undertaken will be to move the Palestinians towards full cost recovery and ultimately privatization of utilities in the water resources sector in order to ensure the long-term sustainability of this precious resource via market-oriented mechanisms.

j. Monitoring Achievement

USAID mechanisms will be established to track activities and gather and analyze data related to the overall Strategic Objective and each Intermediate Result. While baselines and targets will be established after this Strategy is approved and the Mission develops its Performance Monitoring and Evaluation Plan, it is reasonable to expect that during the next five years at least an additional 500,000 Palestinians will directly benefit from USAID interventions by gaining access to piped water that is both safe and affordable. At the national level, the average domestic average per capita domestic consumption rate will increase from approximately 45 liters per day to 70 liters per day. Further, USAID interventions will lay the groundwork for improved service to another 300,000 Palestinians moving into serviced areas, and through modest system extensions--probably financed by other donors--to new service areas in outlying villages. USAID interventions, coupled with those of other donors, will also indirectly benefit virtually the entire 2,500,000 Palestinian population for the Year 2000 through the improved management of scarce water resources.

Strategic Objective/Intermediate Result	Preliminary Indicators
S.O. 2: <u>Greater Access to and More Effective Use of Scarce Water Resources</u>	Percent of users with access to piped, potable water Domestic consumption rates Percent of agricultural and industrial requirements met with non-potable water
I.R. 2.1: <u>Increased Water Supply</u>	Gross volume of potable water
I.R. 2.1.1: New Water Sources Developed	Number of wells developed
I.R. 2.1.2: Improved Water Conveyance Systems	Bulk delivery capacity of major transmission activities Number of users for water distribution system
I.R. 2.1.3: Improved Water Quality Monitoring System	Minimum water quality norms and standards established and implemented
I.R. 2.2: <u>Integrated Management of Water Resources</u>	Volume of water re-used Volume of losses prevented Volume of water conserved Volume of usable water from alternate sources
I.R. 2.2.1: Loss Prevention Programs Instituted	Number of users covered
I.R. 2.2.2: Demand Side Management Instituted for Village and Municipal Networks	Number of users with metered water
I.R. 2.2.3: Systems for Use of Alternate Water Supplies Instituted	Number of systems
I.R. 2.2.4: Environmentally Sound Collection Systems for Storm/Waste Water Instituted	Number of users of storm water collection systems Number of users of waste water collection systems
I.R. 2.3: <u>Market-Oriented Allocation Mechanisms Implemented</u>	Percent full cost recovery
I.R. 2.3.1: Policies that Promote Conservation and More Equitable Allocation of Water Resources in Place	Specific policies and regulations (based on multi-donor policy agenda) ratified and adopted
I.R. 2.3.2: Municipal Capacity for Generating and Collecting Revenues Strengthened	Percent of municipalities with strengthened capacity based on established criteria

USAID/West Bank and Gaza



3. More Responsive and Accountable Governance

a. Statement of Strategic Objective

One of the most tangible benefits of the peace process for many Palestinians is the opportunity to manage their own affairs under self-rule in the autonomous areas. With elections for the Legislative Council and Head of the Executive Authority, the Palestinian Interim Self Governing Authority³ is now challenged to create a functioning government that is seen to be responsive to the needs and expectations of its people. Under the Democracy and Governance Strategic Objective, the Mission will support the creation of more responsive and accountable governance. Activities carried out under this Objective will relate directly to the Agency's Goal of *building democracy*, by increasing citizen participation, expanding institutions of civil society, increasing the flow and diversity of information to citizens, and strengthening selected democratic institutions.

Improved governance directly supports the Mission's other Strategic Objectives, as effective governing institutions and practices are essential for facilitating long-term private sector economic opportunities and sustainable use of water resources. This Strategic Objective also builds upon the Mission's "Transition to Self-Rule Facilitated" Special Objective, which includes programs supporting preparations for the recent and upcoming local elections and financing the initial operations of the Palestinian Authority.

To encourage greater responsiveness and accountability at all levels of government, the Mission will focus on three major inter-related areas: increasing the participation of civil society⁴ in the public decision-making process to broaden debate on critical issues and establish an outside check on government performance; strengthening the legislative and public policy capability of the Council and Executive Authority; and working with local government councils following local elections to increase their effectiveness in meeting the needs of their citizens.

b. Democracy/Governance Sector Overview

The Palestinians' history of occupation and statelessness, combined with a high degree of education and literacy and exposure to Western-style democracies, has created a relatively sophisticated understanding of democracy as well as support for democratic self-rule. When discussing their support for a democratic form of government, Palestinians are quick to point out that they want a "real" democracy (generally defined as a form of government

³The "Palestinian Interim Self Governing Authority" encompasses the Executive Authority, the Council, and the judicial system. The term "Palestinian Authority" generally refers to the Executive Authority.

⁴ Civil society organizations are defined as NGOs whose primary purpose is to influence public policy.

characterized by the protection of individual rights and freedoms), and often describe the need to create a unique type of democratic government that takes into account the blend of religious, cultural, social and historical factors characterizing Palestinian society.

In addition to creating new governing structures and defining the division of power among the executive, legislative and judicial branches of government, Palestinians are also faced with other challenges due to the interim nature of the self-governing authority. The Authority will exist up until final status talks between the PA and the GOI are completed, or until May 1999, whichever comes first. If popular expectations of the governing authority are not met, frustration with the peace process will increase, and, depending on how that frustration is channeled, progress in the peace talks could be undermined.

To date, the PA has been plagued by the usual problems associated with the start-up of new institutions as well as other uniquely local factors. The lack of specialized expertise in policy formulation and implementation, a scarcity of top and middle management personnel, and a lack of general knowledge of public administration all characterize the PA. The WB/G's unique geography and arrangements with Israel, the physical dispersion of personnel around Gaza and the West Bank and the inability to travel freely between locations has led to the creation of different administrative structures and levels of authority in different locations.

The Council is dominated by the same political faction as that of the head of the Executive Authority. Consequently, policies and legislation may be approved with little debate or input from other political factions or interest groups.⁵ In addition, despite the fact that the majority of the population supports democratic values such as freedom of the press and protection of human rights⁶, there has been a recent tendency to limit freedom of expression. Arrests of prominent newspaper editors and human rights activists have demonstrated a disregard for certain aspects of democratic governance including a discomfort with public debate and criticism.

Given Palestinians' desire for the Council to focus on larger issues, the role of local government, through municipal, village and community councils, becomes even more important. The roles and responsibilities of these local councils and their relationship to the Executive Authority are still being resolved, but it is likely they will play a key role in local service delivery.

Local government, in the form of municipal councils and mayors, village councils and

⁵44% of the Council are from the Fatah list (the official slate), 31% are Fatah or Fatah related, and 25% are independent, representing a range of political factions.

⁶In an election day poll by CPRS, 66% of respondents said that protection of freedom of the press and of human rights should take precedence over national issues.

appointed local leaders, has been present in the West Bank and Gaza since the British mandate. When the Israeli occupation began in 1967, the powers of local government were limited. For example, the Israelis had the power to limit the amount and type of municipal taxes levied, and to nullify permits and licenses issued by the municipality. Local government elections in the West Bank have been held twice in the past 29 years -- in 1972 and in 1976. The councils elected in 1976 are generally still in place, although in some locations council members have been replaced by appointees of the Palestinian Authority. Only one of the mayors elected in 1976 still remains; the rest have been deported, deposed or assassinated. The last local government elections in the Gaza Strip took place in 1946.

A new draft law is being prepared to unify the framework for the operation of local government. Another law is being drafted establishing the parameters for new local government elections. These elections are projected for July 1996, and will result in the election of approximately 360 councils, covering the municipal, village and local levels; 152 new village councils and 68 new municipalities will be created.

The Palestinian populace has a vital role to play in solidifying democracy and encouraging good governance. Citizen input into the functioning of government and the operation of a democratic system will be usually channeled through: public interest associations (such as advocacy groups, government watch-dog organizations, human rights organizations, policy think tanks and research groups); organizations based on functional interests (such as professional associations, trade associations, labor unions and sectoral groups); and organizations of an ascriptive nature (such as religious groups, ethnic groups, and those based on kin or clan).

Although there is a relatively large number of Palestinian NGOs (estimated at over 1,200), there is a dearth of organizations falling into the category of public interest associations, such as advocacy or "good government" organizations. Palestinian NGOs have instead tended to focus on gaps in public service delivery. A World Bank report notes that NGOs in the West Bank and Gaza account for 60% of primary health care services, about 50% of hospital care, and 100% of disability care. However, since the basic institutions of a functioning democracy are just now being created, there is a unique opportunity for NGOs to influence the process of determining their future role in a democratic society.

There are a number of issues that need to be addressed to ensure responsive and accountable governance and democratic stability. First in order of priority is the establishment of a sound framework for the operation of government. Although the DOP and Interim Agreement ratified the establishment of an interim self-governing authority, the details of the roles, responsibilities and mandate of each branch of government still need to be defined. It is expected that one of the first pieces of legislation that the Council will consider is the Basic Law, which is roughly equivalent to a Constitution, which will lay out the division of responsibilities among the branches of government and establish basic individual rights and freedoms. The U.S. has been involved in policy dialogue on these issues, pressing for a separation of powers and a clear delineation of roles. Although there may be some success

in differentiating the roles of the Council and Executive Authority, the real test will be in how the legislative process is structured and what the balance of power is on key issues such as control of the budget.

c. Specific Problems To Be Addressed

The basic problem to be addressed under this Strategic Objective is that the new Palestinian governing institutions (executive, legislative, and local level) and civil society have inadequate technical, organizational, and policy skills to effectively perform their respective roles in establishing more responsive and accountable governance. To help address this, other donors are providing public administration training to the Palestinian Authority, developing the civil service, forming budget capabilities and revenue administration, and compiling legislation. USAID will concentrate on increasing participation of civil society in public decision-making, strengthening legislative and public policy capability and making local government more effective.

d. Customers

The customers for this Strategic Objective are the new Palestinian institutions, and, ultimately, the Palestinian people.

e. Critical Assumptions

- the Palestinian Authority is committed to basic democratic principles
- an appropriate enabling environment for civil society participation is established, and
- roles and responsibilities of the Council and local government are defined in a manner which enables them to facilitate good governance.

A common thread in all three areas of emphasis is the establishment of a sound policy framework supportive of democracy. Without continued acceptance of democracy and democratic practices, demonstrated by the creation of an appropriate policy framework, Palestinian support for the new structure of government will erode, jeopardizing the future of the new governing organizations. USAID believes these assumptions are sensible under the circumstances. However, if laws and regulations are drafted that do not support basic democratic principles, such as freedom of the press, freedom of association or devolution of authority to the local level, the approach taken to achieve the Mission's strategic objective may need to be revised.

f. The Results Framework

This Strategic Objective focuses on an essential element of Palestinian development,

responsive and accountable governance. The Intermediate Results under this Objective are: Increased Participation of Civil Society in Public Decision-Making, Strengthened Legislative and Public Policy Capability, and More Effective Local Government. Due primarily to the fact that institutional/policy development and commitment to a direct sectoral intervention in rule of law (ROL) does not exist at present, the framework does not include a specific related intermediate result. However, USAID may provide preliminary support to the justice sector as it relates to the civic participation and legislative aspects of the Strategy. Depending upon an appropriate evolution of the environment for programs related to the rule of law, USAID may choose to review its current position on becoming directly involved with ROL activities. It is expected that activities will be carried out by a mix of local NGOs and U.S. PVOs/contractors, based on competitive processes to be initiated in FY 1996.

(1) Increased Participation of Civil Society in Public Decision-Making

Civil society activities include both policy dialogue on the enabling environment as well as institutional development and strengthening of selected institutions. The U.S. is the only active donor in this area.

The Enabling Environment: USAID and other partners have engaged the Palestinian Authority on the need for a NGO law which enables Palestinian NGOs and other civil organizations to play an active role in decision-making processes. At present, there is no valid law governing the activities of NGOs, no formal or informal mechanisms are in place for the interchange of information between the government and its citizens, and, despite the presence of an active civil society, no groups are prepared to fill advocacy roles. The current draft law on NGOs, if approved as is, would severely limit the operation of civil society. Based on donor input and comments from Palestinian NGOs, this law will be redrafted by an Executive Authority commission. USAID and other donors will provide input on the law and support civil society's involvement in commenting upon the law as it is developed, to ensure that it allows civil society to operate freely.

Laws drafted and approved by the Palestinian Authority generally have not been publicly discussed, and in the few cases where public input was solicited, it was not done in an orderly, transparent manner. With the election of the Council, mechanisms are needed to allow for regular, ongoing interchange of information between the government and its citizens. Civil society organizations can help serve as a channel for information from citizens to the government and vice versa.

USAID will support the establishment of mechanisms such as public hearings, debates, town meetings, publication and sharing of draft laws, attendance at Council sessions, formal consultation between relevant civil society organizations and Council committees, and published rosters of pending legislation and votes of Council members, to encourage increased citizen awareness and participation. Because the exact mechanisms that will be established will need to be determined by civil society itself, in order to be successful and fully responsive to the Palestinian context, USAID will encourage creative proposals from

local civil society organizations.

Strengthened Capacity of Key Civil Society Organizations for Effective Participation in Public Decision-Making: USAID will support the creation and strengthening of civil society organizations which focus on democracy and good governance issues. This could include advocacy groups, government watch-dog organizations, think-tanks and research organizations. Coalitions of existing groups focusing on these issues will also be supported. USAID will focus on building up the overall capacity of these organizations to fill an advocacy or government oversight role (including their ability to review legislation and policies and to draft their own suggested legislation and policies) , and on increasing their institutional sustainability through more effective revenue generation, better management of resources, the adoption of internal democratic practices and improved relationships with their membership.

More Open, Effective, and Independent Media: Another key component for increased civil society participation in public decision-making is the media. The media is a critical vehicle for the interchange of information and of differing viewpoints. To date, the media has not been allowed to operate freely. Newspaper editors and others have been arrested and newspapers have been closed if they were perceived to be too openly critical of the government. A new law has been drafted governing the operation of the media that does not adequately protect freedom of the press.

USAID will not work directly on promoting a more effective and independent media, but will collaborate with USIS in their ongoing policy dialogue and assistance in this area. If the media's ability to operate is so constrained that effective civil participation is threatened, USAID will review its involvement in this area and consider playing a more direct role.

(2) Strengthened Legislative and Public Policy Capability

In the area of legislative and public policy capability, the Mission's activities will focus on addressing constraints affecting the performance of the Council and Executive Authority and on improving the legal framework. Due to a lack of internal procedures, poor organization, insufficient numbers of trained staff, limited equipment and supplies, and special problems created by the need to operate in physically divided areas, the newly elected Council and the Executive Authority are not fully prepared to fulfill their policy-making roles. The exact roles and responsibilities of the Council and Executive Authority have not been delineated, and it is not clear which organization will have the authority to draft legislation. There are no established procedures governing the legislative process, and there is very limited internal capacity to draft or review legislation, regulations or policy in either the Council or the Executive Authority. The existing legislative framework is complex, consisting of an amalgamation of Ottoman, Egyptian, Jordanian and Israeli law, and differing between Gaza and the West Bank.

Strengthened Skills of the Council to Formulate and Draft Credible Laws: Although the specifics of the legislative process are still being defined, regardless of which branch of

government has the ultimate authority to draft legislation, both the Council and Executive Authority will need assistance to make the process work correctly. USAID will work with the appropriate Council structures to increase its institutional capacity to draft, review and approve legislation. This will include training committee members on drafting and review procedures, establishing a functioning committee structure, increasing the Council's internal analytical capacity and developing mechanisms for constituency relationships. USAID will also disseminate information from the exit polls conducted on election day to provide Council members with additional information about the expectations of their constituencies. With more information about the specific expectations of their constituencies, the Council will be better equipped to respond to their needs as they make policy decisions.

The specific scope and type of USAID assistance will be further determined by the role that the Council has in the legislative process. USAID assistance will complement partner efforts. These include the European Union (EU), which has signed a three year \$4 million agreement with the Council. While the EU is still defining the scope of their assistance, it is likely that it will focus on the operations of the Council's secretariat and on establishing overall operating procedures. Britain and Australia are also providing short-term technical assistance for the establishment of Council procedures.

Strengthened Skills of the Executive Branch to Formulate and Implement Credible Policies:

The ultimate structure of the Executive Authority has yet to be decided, and Cabinet Ministers have not been named. It is likely that the new structure of the Executive Authority will be significantly larger than that of the previous Palestinian Authority, with expectations that the number of Ministries will grow from 18 to nearly 40. In this new structure, assistance is needed to rationalize the mandates of each Ministry, clarify the government-wide planning and budgeting process, and strengthen the capacity of each Ministry to produce better quality legislation and policies. Assistance is also required in implementing agreed upon policies. To deal with the issues related to the differing legal systems in the West Bank and Gaza, the Ministry of Justice has proposed a process for the sector by sector review of legislation. Under this process, a group of local lawyers would review all laws related to a certain sector (such as in the commercial area), and then make recommendations for the modification or unification of the laws.

USAID will work with the planning and policy units of each Ministry to strengthen their skills to draft and analyze legislation and policies. In addition, USAID will support the creation of a legal unit in the Ministry of Justice which would review all new legislation and serve as a quality check before legislation was presented to the Council for approval. USAID efforts in this area will complement the work of other donors, such as the IMF, British, the World Bank and the UNDP, who are working on establishing public administration procedures and building up a core of experienced public managers.

USAID will also support legal reform efforts through the provision of targeted expert technical assistance to the sectoral committees, to ensure that the legislation that is being

drafted complies with international standards. The Mission will focus its support for legal reform in key sectors of interest to the Mission. The first two sectoral committees to be established will deal with the judicial framework and economic/commercial legislation, both of which relate to the Mission's Strategic Objectives. Complementary to USAID's efforts, the World Bank and the EU are planning to support the compilation of existing legislation in the West Bank and Gaza from 1917 to the present, which will lead to the eventual creation of an indexed computerized legal database.

(3) More Effective Local Government

The local government level is generally where most people interact with government. For continuing confidence in the peace process and democracy, local government must be responsive to citizens' expectations and needs. Newly elected councils are the first step in establishing effective local government. Key issues that need to be addressed include a determination of which services will be provided at the local level (taking into account efficiency and economies of scale), the role of local government versus the Ministry of Local Government, the authorities of local government, the power of local government to generate revenue, and the independence that local government will have. The legal framework for the operation of local government, and the role and responsibilities of local government vis-a-vis the Palestinian Authority will be key policy issues for the Mission.

Two laws are currently being drafted that are related to local government. The first law delineates the procedures to be followed for the planned local elections while the second outlines the authority of local government. USAID is providing technical assistance in drafting the local government laws to ensure that an appropriate level of authority is devolved to the local councils.

Under the Special Objective "Transition to Self-Rule Facilitated", USAID is supporting preparations for the local government elections. These elections are estimated to take place in July 1996. As a result of these elections, 360 new local councils will be in place, covering the municipal, village and local levels.

Once the elections take place, the new councils will require assistance in overall management, public administration, revenue generation, cost recovery, strategic planning, service delivery and other areas. Although the European Union, World Bank, and UNDP will also be active in assisting local government, there is ample scope for USAID involvement. The World Bank has designed a \$90 million, three year municipal infrastructure rehabilitation and local government development project, focusing on five of the larger municipalities (Rafah, Gaza City, Jenin, Nablus and Hebron). Of the remaining 355 local governments, USAID proposes focusing on the new councils which will be created as a result of the elections (152 new village councils and 68 new municipal councils), where there was no local government entity previously and on the smaller councils. Both the European Union and the UNDP have plans to work with local government in the future, primarily in the area of infrastructure and service provision.

In the immediate term, USAID is supporting preparations for the local government elections and providing technical assistance with the drafting of the local government and local government elections law. Over the longer term, USAID will work with selected municipal, village and local councils on developing sound public administration and on more effective service delivery. USAID will work with councils and local government staff to strengthen their management capacity, train personnel, develop operating procedures and guidelines, establish local government plans and define budgets. USAID will also provide assistance designed to increase cost recovery of the services delivered, establish pricing structures, maintain necessary infrastructure, increase revenue collection and, in general, provide services in a more effective manner. Focus will be on those services deemed most important by the local population.

In addition to developing the skills and capabilities of selected local governments through technical support, USAID may also finance municipal-level public works programs. Prior to embarking on this, however, the Mission will work closely with partners and customers to determine if this is appropriate once the role of local government is defined.

g. Other Development Partners

On a policy level, there is strong support in the donor community for developing the framework for deepening democratic self-rule and good governance. Specific activities are being undertaken by Great Britain, Australia, the European Union, the UNDP, the World Bank, and the IMF. All the Palestinian partners are new organizations; as such, the commitment has been demonstrated but implementing capabilities are unproven. Nevertheless, this is a historic opportunity to support the development of Palestinian self-rule.

Governance Donor Matrix

Activity/Donor	U S A I D	I M F	I B R D	E U	A U S T R A L I A	B R I T I A N	U N D P
Support for Civil Society Participation	√						
Support to the Council	√			√	√	√	
Assistance to the Palestinian Authority on policy analysis/implementation	√				√		
Public administration training for the Palestinian Authority						√	√
Civil service development			√				
Budgeting and revenue administration		√					
Compilation of existing legislation			√	√			
Support for unification of laws					√		
Local government development	√		√	√			√

h. Sustainability

The approaches utilized under this Results Framework will be designed to address sustainability issues. For example, rather than providing general support to a large number of civil society organizations, USAID will work with only a few, and will focus on developing their institutional viability. Local government assistance will tackle key policy areas and skills to help ensure the sustainability of operations. Other activities, such as Council and Executive Authority legislative and policy skills, are considered to be initial support which the institutions themselves will carry on, perhaps with the assistance of other donors.

i. Monitoring Achievement

To measure performance towards achievement of the strategic objective, the Mission has established a set of intermediate results and performance indicators that are summarized in the chart that follows. Due to the rapidly evolving circumstances and the changing political conditions in the post-election environment, as well as the high degree of uncertainty in

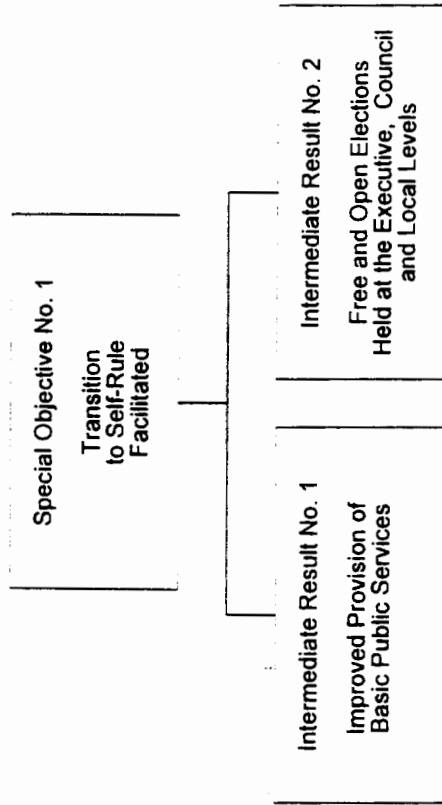
terms of the roles of the various parts of the Interim Self-Governing Authority, the Mission will need to continually monitor progress against short and longer term performance indicators to determine if approaches or activities need to be adjusted. To take advantage of new opportunities that present themselves and to respond as closely as possible to customer needs (defined under this strategic objective as the needs and expectations of all Palestinians under self-rule), the Mission will use a variety of implementation methods. By the end of the strategy period, the Mission will have contributed to the creation of a democratic and stable society, characterized by responsive and accountable governance.

Strategic Objective/Intermediate Result	Preliminary Indicator
S.O 3.: More Responsive and Accountable Governance	<p>citizens' perceptions of executive authority and local government responsiveness and accountability</p> <p>proportion of civil society-initiated complaints of government misconduct satisfactorily resolved</p>
I.R. 3.1: <u>Increased Participation of Civil Society in Public Decision-making</u>	<p>number of key laws, regulations, reforms, etc. drafted and proposed by civil society that are approved</p> <p>number of modifications in laws, regulations, policies, etc. because of civil society input</p>
I.R.3.1.1: Enabling Environment for Civil Society Participation in Place	<p>enabling NGO law ratified and implemented</p> <p>type and number of formal consultative mechanisms (e.g., public hearings, debates, publication and sharing of draft laws, etc.)</p> <p>number of civil society actors by category (indigenous advocacy groups, etc.)</p>
I.R. 3.1.2: Strengthened Capacity of Key Civil Society Organizations for Effective Participation in Public Decision-making	<p>percent of civil society organization's total operating costs covered by membership dues and self-generated funds</p> <p>size of active membership in key civil society organizations</p> <p>number of key civil society organizations that have adopted democratic and transparent decision-making procedures and practices</p>
I.R.3.1.3: More Open, Effective and Independent Media (This indicator will be tracked by USAID, but accomplished through ongoing USIS programs.)	<p>number and diversity of information sources</p> <p>number of key political, social and economic issues/policies adjusted as a result of improved media analysis and commentary</p>

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<p>I.R. 3.2: <u>Strengthened Legislative and Public Policy Capability</u></p>	<p>degree of clarity of respective roles of executive and legislative council</p> <p>existence of appropriate organizational structures and procedures for reviewing, drafting and approving key legislation and policies</p> <p>percent of key legislation and policies drafted and ratified through established procedures</p>
<p>I.R. 3.2.1: Strengthened Skills of Legislative Council to Formulate, Review and Approve Credible Laws</p>	<p>percent of draft legislation based on sound technical analysis and accurate data</p>
<p>I.R. 3.2.2: Strengthened Skills of the Executive Branch to Formulate and Implement Credible Policies</p>	<p>percent of key policy recommendations supported by sound technical analysis and accurate data</p> <p>degree to which government budgeting and expenditure decisions are based on informed analysis of needs and priorities</p> <p>existence of review and quality assurance procedures</p>
<p>I.R. 3.3: <u>More Effective Local Government</u></p>	<p>public perception of the responsiveness of local government</p>
<p>I.R. 3.3.1: Decision-making Authority and Resources Devolved to Local Level</p>	<p>percent of total public sector resources managed at the local level</p> <p>local revenue retention rate</p>
<p>I.R. 3.3.2 : Strengthened Local Government Planning, Budgeting and Implementation Capabilities</p>	<p>extent to which key government management systems and procedures are in place and operational</p> <p>extent to which key government functions are manned by appropriately trained and experienced staff</p>

USAID/West Bank and Gaza



4. Special Objective: Transition to Self-Rule Facilitated

a. Statement of Special Objective

This Special Objective, "Transition to Self-Rule Facilitated", consists of short-term activities which have provided special assistance after the signing of the peace accords. Included hereunder are: 1) assistance for Palestinian start-up costs via the World Bank's Holst Fund, and 2) support for the 1996 executive/legislative and upcoming local government elections. These activities were designed to be transitional in nature, and provide a basis for activities under Strategic Objective No. 3, "More Responsive and Accountable Governance". All activities under this Special Objective are expected to end in 1996.

Key Facts on the Council and Head of the Executive Authority Elections

80% voter turnout, with Arafat receiving 87% of the vote

672 candidates for 88 Council seats

75% of Council members are Fatah or Fatah-related

64% of voters felt the elections process was fair

58% voters were male; 42% female

b. Activities

(1) Elections

Support for the January 1996 Council and head of the Executive Authority elections included civic education programs for more than 75,000 Palestinians, with a special focus on women, former political prisoners, youth and rural residents, technical assistance to the Central Elections Commission on the organization of the elections, periodic public opinion polls on democracy to raise awareness of key issues, the creation of a domestic monitoring coalition made up of more than 40 local NGOs and the organization of a

international observer delegation lead by former U.S. President Jimmy Carter. USAID's support for these elections was coordinated with the EU, which was the major partner of the Central Elections Commission in organizing the elections, and with other donors as well.

USAID plans to provide technical assistance for the organization and administration of the upcoming local elections (est. July 1996) as well as to support targeted civic education programs related to those elections. The local elections will be administered by the Ministry of Local Government. USAID will work through a U.S. organization to support training of pollworkers, revision of the pollworkers manual, updating of the voter registration list, development of media materials, expert technical assistance for the drafting of the local government laws, support for organization of the elections, and the procurement of a limited amount of needed election supplies. The European Union, Canada, and other donors may also be providing support for the local elections. The U.S. is actively working with the Ministry of Local Government to coordinate elections assistance and to identify other sources of funding for those elections-related costs which our program can not support.

USAID does not plan on providing any assistance to the permanent elections commission, which is expected to be established in the next six months. The next local election is not anticipated until after the final status talks are completed, which is expected to be in May 1999.

(2) Start-Up Costs

The World Bank's Holst Fund was established and supported by the donor community in recognition of the extraordinary needs of the new Palestinian Authority, after the peace accords with Israel. The Holst Fund was designed as short-term assistance until the Authority developed an adequate revenue base and budget capabilities. The United States and 24 other donors have made contributions to the Holst Fund, which paid salaries, operating costs, and other expenses of the central administration and key public employees, such as school teachers and health workers. Other contributing donors are: Kuwait, the United Arab Emirates, Norway, Saudi Arabia, the Netherlands, Israel, Brunei, Canada, Australia, Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Japan, Luxembourg, Qatar, Spain, Sweden, Switzerland, the United Kingdom, and the World Bank. Before the current closure, it was expected that this financial support will not be needed beyond 1996, largely due to the Palestinian Authority's success in raising revenues and collecting taxes.

With both support for start-up costs and elections assistance phasing out in 1996, USAID will focus on the areas included under the Governance Strategic Objective (civil society, policy/legislative development skills, local government) to have a greater impact in this sector.

c. Expected Results

As a result of USAID contributions and other donors to the Holst Fund, basic public services will be provided to Palestinians. (Since this is a multi-donor funded trust fund, there is no "attribution" to USAID.) While one cannot attribute disbursements under the Fund to USAID, USG contributions to the Fund are known: through 1995, \$39.9 million of the \$169 million total provided for the Holst Fund (or 24%) was provided by USAID. The planned USAID obligation to the World Bank for the Holst Fund in 1996 is \$10 million.

Through U.S., other donor and Palestinian efforts, the Council and head of the Executive Authority elections were able to take place on January 20, 1996, following a very brief preparation period. Although there were a number of administrative and other problems in the first Palestinian elections, they were widely seen by international and domestic monitoring groups and the public at large as being legitimate. In a USAID-funded exit poll on election day conducted by the Center for Palestinian Research and Studies (CPRS) in collaboration with the International Republican Institute (IRI), 64% of those polled indicated that they felt that the election process was fair, and nearly 80% of registered voters participated in the elections.

Mission support for the local council elections (encompassing the municipal, village and community levels) will contribute overall to legitimate local elections, and is expected to result in a sound local elections law, a competently administered election and even greater voter participation.

d. Monitoring Achievement

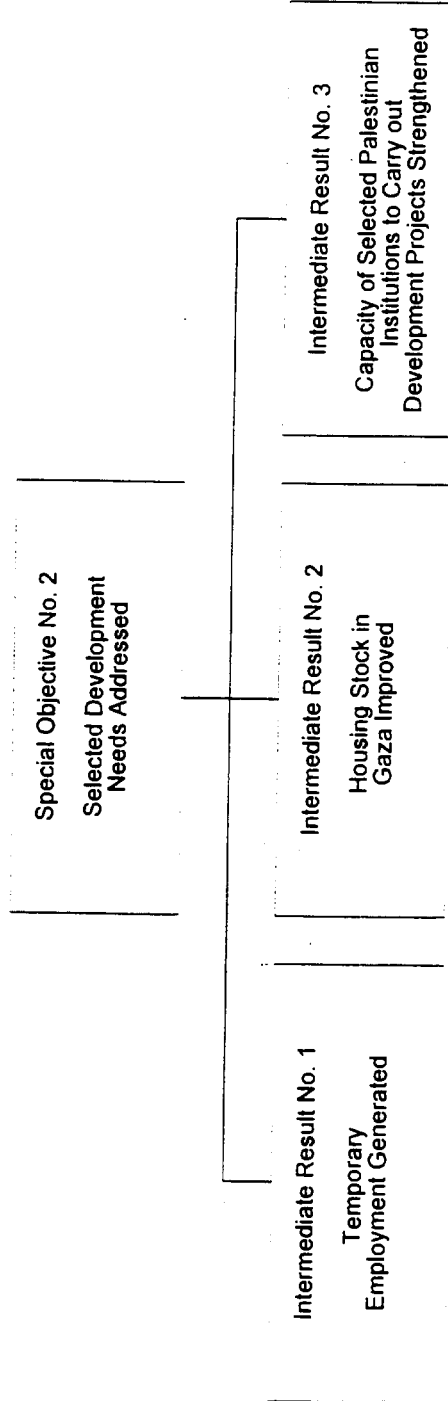
Exit polls conducted by CPRS have provided valuable insight into Palestinian views of the executive/council elections. In addition, the preparations for the elections and the elections themselves were closely monitored by international and domestic groups. An equal level of attention is expected at the local elections. The Mission will continually monitor the various phases of local elections preparations to ensure that they are perceived as fair and transparent, and that errors made in the administration of the executive and Council elections are not repeated.

There is close scrutiny of Holst Fund resources. Future assistance is not contemplated and disbursements cannot be attributed to individual donors. The Palestinian Authority's fiscal performance, including revenue collections, has been used by donors to assess progress in this area.

Indicators for this Special Objective are shown below.

Special Objective/Intermediate Result	Preliminary Indicator
<u>SpO.: Transition to Self Rule Facilitated</u>	degree to which a functioning and cohesive government structure is in place
I.R. 1: <u>Improved Provision of Basic Services</u>	percent of PA operating costs funded by donors versus PA revenues
I.R.2: <u>Free and Open Elections Held at the executive, council and local levels</u>	percent of Palestinians who view the elections as legitimate qualitative assessments of international and domestic monitors as to the fairness and openness of both elections

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5. Special Objective: Selected Development Needs Met

a. Statement of Special Objective

This Special Objective consists of ongoing interventions, designed in a transition period both in terms of Palestinian self-rule and of the U.S. Government's support to the peace process. Given the urgent requirements to show immediate, visible results as the Palestinian Authority assumed control of Gaza and Jericho, USAID initiated several activities following the Declaration of Principles (DOP) that were meant to rapidly meet selected development needs (e.g., improve infrastructure, develop local institutions, and/or create temporary employment). The range of implementation options at that time was defined largely by the capacity and experience of a limited number of international and U.S. organizations with activities in the West Bank and Gaza (e.g., U.S. PVOs had been active in the West Bank and Gaza for several decades). This was especially true since the USAID Mission was not established until late 1994, and many positions were not filled until late 1995. Therefore, these first USAID activities in support of the peace process formed a bridge to the more comprehensive and focused interventions included under this strategy.

With the development of the Mission's Strategic Objectives, USAID has made every effort to ensure that activities included under this Special Objective will be completed in a timely and orderly fashion, while maximizing impact. This has been accomplished by speeding up implementation, scaling back projects, and seeking some synergy with the Strategic Objectives. Limited new financing might be provided during the strategy period to complete selected activities, but it is expected that all activities will be terminated by the end of FY 1997.

While it is the Mission's intention to phase out activities under this Special Objective, the rationale for this Special Objective might remain valid if political, economic and social developments provide an imperative for immediate-term USG support outside USAID's Strategic Objectives. It is essential that USAID remain focused but also flexible enough to respond to the rapidly changing circumstances in the West Bank and Gaza. For example, if the Government of Israel pursues a policy of "separation" that seals off the country as an employment outlet for Palestinians, donors will be asked to support mechanisms for generating short-term employment.

b. Activities

This Special Objective consists of the following Intermediate Results: Housing Stock in Gaza Improved, Temporary Employment Generated, and Capacity of Local Institutions to Implement Development Projects Strengthened.

(1) Housing Stock in Gaza Improved

The Gaza Housing Project was authorized in December 1993, after the signing of the DOP. Originally envisioned as a \$25.5 million sector-wide intervention, the Project has been scaled back to approximately \$17.5 million to construct the Al Karama Tower Apartments, rehabilitate and finance housing, and upgrade neighborhoods (the later the Water Resources Strategic Objective.) By cancelling previous plans to support institutional development in the housing sector, USAID is: focusing its resources in other areas where it has comparative advantages and interests, recognizing that other donors will play a longer-term role in this sector, completing the highly visible Al Karama construction, and establishing a viable home improvement loan program, as developed by the Cooperative Housing Foundation (CHF). Additionally, the upgrading of housing in refugee camps, carried out primarily based on a short-term employment generation rationale as described below, will have an impact related to this Intermediate Result. The obligation of approximately \$1.4 million to the Gaza Housing Project in FY 1996 will complete USAID's funding of this Intermediate Result.

(2) Temporary Employment Generated

The Small-Scale Community Infrastructure (SSCI) Project will create employment almost entirely in Gaza by developing and improving community and productive infrastructure. The Project responded to the immediate and extreme need for increased income opportunities, as well as the dire condition of basic social and economic infrastructure. Employment is being generated through refugee shelter rehabilitation, comprehensive maintenance and construction of schools and playgrounds, and after-school recreation programs. Additional short-term employment has been generated as a result of the Al Karama construction cited above. Due to the more permanent impact of the YMCA job training and UNRWA small business loan activities financed under the SSCI Project, those activities are considered part of the Mission's Expanded Economic Opportunities Strategic Objective. At this time, the \$8 million programmed for school construction in FY 1996 is the last planned obligation under this Intermediate Result, and activities should be completed early in FY 1997. However, as suggested above, this is an area where the USG may have a continued special interest in financing, depending upon the length and intensity of the current border closure and future Israeli policies in response to the increased terrorism.

(3) Capacity of Local Institutions to Implement Development Projects Strengthened

After the DOP and the USG's pledge to provide \$375 million in USAID resources over a five year period, USAID/Washington entered into a series of Grants with U.S. PVOs active in the West Bank and Gaza. The PVOs provided an appropriate vehicle to initiate post-DOP USG assistance, test development alternatives, and build relationships with and the capabilities of Palestinian institutions. Grants with American Near East Refugee Aid (ANERA) and the Save the Children Foundation (SCF) are carrying out relatively broad activities, with the ultimate purpose of strengthening local organizations (cooperatives and

municipalities with ANERA, NGOs with SCF). This purpose is considered to be achievable, to some degree, during the life of the current Grants, which end in June 1997. Funding, up to the amount needed to fully finance the Grants (\$6.2 million), may be provided in FYs 1996/1997, based on technical merit of proposed sub-activities and implementation rates.

The Mission considers these Grants as transitional in the context of its Strategy. They were initiated before a comprehensive Strategic Framework for the USAID Program was in place. The institutional development objectives of the Grants remain generally supportive of the Mission's goals and preferred approaches, even if specific sub-activities are not focussed in areas that will have a significant impact on the Mission's Strategic Objectives. As such, the Mission will work with ANERA and SCF to achieve the original purposes of the Grants under this Special Objective. The Mission will continue to engage ANERA and SCF in discussions of the USAID Strategy to identify -- but not force fit -- future linkages between their initiatives (either through these Grants or, more likely, future competitive procurement) to the Strategic Objectives.

c. Expected Results

As a result of USAID's short-term investment in the housing sector, the Al Karama apartments constructed under the Gaza Housing Project will provide permanent shelter for 192 lower and middle income families. This will be the first major infrastructure project completed by a donor in Gaza. Around 650 families in Gaza will have received housing loans valued at approximately \$4 million through CHF's Grant. As these activities are completed and USAID withdraws from the housing sector, a revolving loan fund will be established with implementation arrangements to be determined by USAID, CHF and the Palestinian Housing Council. It is expected that almost 400 shelters in Gazan refugee camps will be rehabilitated and upgraded through a USAID Grant to UNRWA.

More than 1,000 person years of temporary employment will be generated as a result of USAID activities between 1995-1997. This does not include the 1,300 permanent jobs created through the YMCA Job Skills Training and UNRWA Small Business Lending which are included under the Economic Opportunities Strategic Objective. As a result of the job creation efforts, 150 schools will be rehabilitated or repaired, 5 new schools will be constructed, approximately 21,000 children will participate in after school recreational programs at 75 of schools, and 60 kilometers of streets and sidewalks will be paved.

As a result of USAID's efforts to strengthen local institutions, 70 activities will be carried out through sub-grant arrangements, directly benefiting 15,000 Palestinians. It is also expected that over 100 local organizations will have a strengthened capacity to carry out development projects, as reflected in improved administrative and financial systems and increased technical capacity.

d. Monitoring Achievement

Each Grantee and Contractor carrying out activities under this Special Objective is providing regular and detailed data relating to the outputs of USAID funding. Follow-up to USAID investments in the housing sector will be financed largely by Palestinians (in part with USAID reflows) and other donors; other donors will continue to have a strong interest in short-term employment generation, and USAID--barring a change in plans precipitated by worsening conditions and/or stricter closures--will focus resources on permanent economic opportunities; and institutional strengthening will be incorporated into each of the Mission's Strategic Objectives.

Special Objective/Intermediate Result	Preliminary Indicator
SpO: <u>Selected Development Needs</u>	income generated under short-term employment opportunities people with new/improved shelter potential beneficiaries of development projects carried out by strengthened local institutions
I.R. 1: Improved Housing Stock in Gaza	new/rehabilitated units
I.R. 2: Temporary Employment Opportunities	person years of employment
I.R. 3: Capacity of Local Institutions to Implement Development Projects Strengthened	number of institutions with improved administrative, financial, technical capacity

6. Linkages Between Strategic Objectives

Each of the three Strategic Objectives outlined above, in and of themselves, is designed to improve the quality of life of Palestinians, and thereby support the Israeli-Palestinian peace process. However, the impact of the USAID/West Bank and Gaza Program will be further maximized by identifying and developing cross-cutting themes and linkages between the Objectives.

In the policy arena, strengthened legislative and public policy capabilities within the PA will facilitate Mission efforts to promote legal and regulatory frameworks that will lead to expanded economic opportunities and more effective use of water resources. The definition and divestment of authority and resources to local-level institutions is a policy agenda item that is relevant to each SO, although USAID's interventions will be funded primarily as part of the More Responsive and Accountable Governance Objective. Market-oriented policies will not only enhance economic opportunities, but will accelerate the transition to privatized water (and other municipal) services.

As cited above, increased access to water resources (including availability and affordability) is a prerequisite to economic growth in the West Bank and Gaza. Likewise, the extent to which democratic stability is achieved will affect the levels of new investments and trade. The potential impact on economic opportunities (including cost efficiency) will be an explicit criterion for decision-making in the areas of water resources (e.g., options for new supplies, uses of alternate sources, conveyance systems, pricing) and democracy/governance (e.g., options to provide technical support for related legislation).

In addition to the policy elements cited above, specific interventions to strengthen the capacity of local governments to generate and manage resources under the Governance Objective will find their most relevant and immediate application in the area of water services. Likewise, since water will always be a precious commodity in the West Bank and Gaza, the long-term sustainability the water system serving Palestinians assumes that more expensive options can be considered over time (e.g., desalinization, transfer from other countries), as economic opportunities expand.

Finally, the management of water resources at municipal and village levels will feed into broader results under the Governance Objective. And efforts to empower civil society and hold government accountable to its citizens will be re-enforced by activities under the Economic Opportunities SO to promote transparency and limit corruption in business practices, and to improve the access of micro-entrepreneurs to information and credit.

7. Other USG Activities

USAID/Washington has provided funding under the West Bank and Gaza Program to other USG partners via Inter-Agency Transfer Agreements for a number of programs in the autonomous areas. While supportive of overall USG efforts to support the Peace Process, the following do not directly contribute to this Strategy and are not managed by the Mission. In order to promote investment in the region, funding was provided to the Department of Commerce for the Builders for Peace Program. Funding was also provided to the State Department for the Palestinian-Israeli Cooperation Program (PICP), a small grants program which provides seed money for activities featuring nongovernmental and private institutional cooperation between Palestinians and Israelis.

While not funded by USAID, the Overseas Private Investment Corporation is expected to contribute \$125 million in assistance to the West Bank and Gaza as a part of the five year, \$500 million USG pledge made in 1993 in support of the peace process.

Although USAID does not have management responsibility for the above activities, there are some linkages with the Strategy. For example, if OPIC and Builders for Peace efforts bear fruit, jobs will be created in the West Bank and Gaza. With extremely limited USAID staff, however, close monitoring and tracking of these activities is not possible.

USAID/Washington has provided discrete TDY and contractor assistance since the DOP was signed in response to urgent requests and developments in the peace process. While future urgent matters or crises cannot be foreseen in this highly dynamic environment, it is anticipated that Washington would continue to be highly collaborative and engaged in discrete actions. The USAID Global Bureau is involved in the West Bank and Gaza program in several areas. Under the Project in Development and the Environment, environmental assessments of PVO activities were undertaken; this or other Global mechanisms may be utilized in the future. In the democracy area, rule of law and a womens' participation activity related to the Beijing conference were completed. It is possible that new Global field support mechanisms now being developed could be vehicles for activities in the democracy/governance area. Technical assistance for industrial zones as well as for microenterprise will be accessed via existing Global Bureau mechanisms. The Environmental Health Project has been, and is expected to continue, to provide technical assistance related to the Gaza Wastewater project. Outside of this strategic framework and not managed by the Mission is the Middle East Regional Cooperation program (MERC).

III. RESOURCE REQUIREMENT

Table 1 below summarizes the funding required to carry out the USAID/West Bank and Gaza Strategy outlined in this document. Based on the USG pledge following the signing of the DOP and consultations with the U.S. Embassy/Tel Aviv, the Mission has assumed a \$75 million funding level through FY 1996 - FY 2000. Including carry-over from FY 1995, the total anticipated funding for the Strategy period is \$375.5 million. Of the total, approximately \$5 million is expected to be used to access Global Bureau mechanisms. Details as to field support requirements through FY 1998 are cited in the Mission's R-4. Table 2 is a rough sensitivity analysis that illustratively outlines the impact of different program funding scenarios. None of these scenarios includes a total breakdown of the peace process, since such a scenario is considered improbable, despite the recent wave of violence and the strict closure policies now in effect. If the peace process were to change course drastically, it is assumed that the Mission would oversee an orderly phase-out/completion (depending on the security situation) of ongoing activities, and any USAID assistance thereafter would take the form of humanitarian/crisis assistance.

USAID/West Bank Gaza currently projects a total staffing requirement of 61 positions to implement the proposed program strategy. This staff would comprise 16 U.S. Direct Hires (USDH), including one International Development Intern (IDI); 7 U.S. Personal Services Contractors (USPSC), including one resident hire USPSC; 3 Dependent Hire PSCs; and 35 Foreign National PSCs (FNPSC), including 5 program-funded FNPSCs.

With an overall funding level of \$375 million for FY 1994-98, the proposed staffing level for USAID/WBG is significantly lower than those of other missions with much smaller programs. Staffing projections -- already reduced from an earlier approved level of 69 positions in order to accommodate OE funding constraints -- are based on the management and accountability requirements of this high profile program:

- design, review and approval of 4-6 new programs each year;
- implementation and continuing oversight for more than 30 individual contract, sub-contract, or grant activities;
- reporting and assurance of accountability for all facets of the program.

The current NSDD 38 approved level of 14 USDH positions will need to be increased to 16 to include a Contracting Officer and an Executive Officer (IDI) position to achieve the Mission's strategic objectives. Details of this request are included in the Mission's R-4 which accompanies this Strategy.

Although the FY 1996 ABS request was for a total of \$5,611,000, the Mission budget for FY 1996 approved in November 1995 was based on a revised, "bare bones" staffing level of 59 positions (excluding the two new USDH positions identified above) and amounted to

\$4,243,000, exclusive of FAAS costs. At a minimum, USAID/WBG requires this budget and staffing level in order to achieve our strategic objectives. The addition of the two USDH positions will increase the bare bones budget to \$4,596,500. OE funding estimates for the strategy period, therefore, are based on this figure for FY 1996 and the assumption that workload demands will increase through the first 2-3 years of the Strategy period, then level out but not decrease through the year 2000 as implementation of this Strategy shifts into full gear.

Table No. 1: Funding FY 1996-FY 2000
(\$000's)

STRATEGIC/SPECIAL OBJECTIVE	FUNDING REQUIREMENTS
1. Enhanced Economic Opportunities	39,800
2. Greater Access to and More Effective Use of Scarce Water Resources	265,500
3. More Responsive and Accountable Governance	41,000
4. Transition to Self-Rule Facilitated	13,100
5. Selected Development Needs Met	15,600
6. Other (Program Support not Attributable to S.O.s: currently only anticipated if FY 1996 funding provided to Builders for Peace)	500
Program Funding Subtotal	375,500
Operating Expenses Subtotal	30,000

Table No. 2: Programming Options

	High Option No. 1	High Option # 2	Low Option #1	Low Option #2
Assumptions	<ul style="list-style-type: none"> ▶ peace process continues, with Palestinian access to Israeli markets ▶ USG level of commitment to peace process unchanged ▶ program to continue beyond FY 2000 	<ul style="list-style-type: none"> ▶ peace process continues, but access to Israeli markets is extremely limited (either permanently or over a significant part of the strategy period) ▶ USG level of commitment to peace process unchanged ▶ program to continue beyond FY 2000 	<ul style="list-style-type: none"> ▶ peace process continues, but ▶ USG financial support reduced due to internal budget pressures or dissatisfaction with the pace of the process ▶ assumption that program will continue beyond FY 2000 	<p>USG financial support for the peace process phased-out after initial pledge due to internal budget pressures or dissatisfaction with the pace of the process</p> <p>no assumption that Program will continue beyond FY 2000</p>
Resource Levels	\$75 million per year FY 1996-FY 2000	\$75 million per year FY 1996-FY 2000	\$75 million in FY 1996; \$60 million in FY 1997; \$52.5 million in FY 1998-FY 2000	\$75 million FY 1996-FY 1998; <\$50 million through FY 2000
Impact on Objectives	<p>Full execution of Strategy, including:</p> <ul style="list-style-type: none"> ▶ support to industrial zones, new microenterprise activity, and extension/expansion of support to small businesses ▶ water resources activities include significant re-use aspects and move into "next generation" sustainability issues ▶ significant local governance activity initiated in FY 1997, with anticipated funding for technical assistance and public works ▶ <u>option</u> to fully fund transitional PVO grants (ANERA/SCF) 	<p>Adjustments to the Mission Strategy could include:</p> <ul style="list-style-type: none"> ▶ increased support to industrial zones ▶ adjust SME support to account for reduced marketing options ▶ new emergency employment activities ▶ accelerated separation of Israeli/Palestinian water systems ▶ subsequent reduction in funding for SOs, especially Water ▶ increased cost of all activities in terms of USAID/partner staff time, input costs, etc. 	<p>This scenario reflects the funding options required in the R-4. However, the Country Team considers it highly improbable that the USG will fail to meet its pledge through FY 1998. Funding at this level could result in:</p> <ul style="list-style-type: none"> ▶ no option for additional support to industrial zones ▶ reduced support for municipal water/waste water systems; limited options to initiate protection of Gaza coastal aquifer, desalination research, irrigation mgmt.; groundwork for sustainability laid, but effort incomplete ▶ local governance interventions limited to technical assistance ▶ no <u>option</u> to provide FY 1997 funding for PVO grants 	<p>Impact would be similar to previous scenario, except by adding the possibility that no funding will be provided beyond the year 2000, phase-out of the Program would begin and no new activities designed in FY 1999-FY 2000.</p>

CONSULTATIONS WITH CUSTOMERS BY STRATEGIC OBJECTIVE

Under the "**Expanded Economic Opportunities**" Strategic Objective, customers include formal and informal financial institutions (e.g., PVOs, UNRWA) who participate in and are strengthened by small and microenterprise activities; Palestinian firms and entrepreneurs receiving training, technical assistance, and marketing information under small business and jobs skills activities; and Israelis and Palestinians involved in the development of industrial zones. The private sector as a whole is the customer for efforts to improve the legal and regulatory framework for business activity.

As an example of participation in developing this Strategic Objective, small and microentrepreneurs were surveyed intensively during the Microenterprise Finance Sector Assessment (1996), as were representatives of the NGOs and other institutions currently providing financial services to this sector to determine the framework for USAID assistance to the microenterprise sector. As a result, USAID has changed its plans, is phasing out of small business credit, and has developed a two track approach to ensure sustainability of microenterprise financial services delivery mechanisms.

The strategy was also discussed in depth with Palestinian participants in the USAID Small Business Support Project, the main vehicle for the delivery of firm specific training and technical assistance. The aspects of the strategy concerning legal and regulatory reforms was developed in collaboration with Palestinian business and legal representatives during two USAID-funded workshops in the West Bank and Gaza.

The ultimate customer for the "**Greater Access to and More Effective Use of Scarce Water Resources**" Strategic Objective is the Palestinian people, as activities will have a direct impact on a large number of Palestinians, and an indirect impact on virtually the entire Palestinian population in the West Bank and Gaza. There are a number of intermediate customers in the water sector.

The Palestinian Water Authority (PWA), is a recipient of USAID assistance (customer) and implementor of USAID-financed activities (partner). The Mission engaged the PWA in extensive discussions on the strategy and illustrative approaches. The strategy reflects the priorities of the PWA and the demands of its clients, water consumers in the West Bank and Gaza. Specific activities were revised per the request of the PWA and the Joint Water Committee (JWC), e.g., development of the Eastern Aquifer Basin for additional supplies of water.

The West Bank Water Department (WBWD), is also a customer and a partner under the water Strategic Objective, and has liaison with end-users of water resources. Through the PWA and the JWC, the Mission engaged the WBWD in broad-based discussions related to

the design and implementation of water activities. These discussions have impacted on the proposed institutional arrangements, e.g., bulk water carrier approach, and technical details, e.g, tandem well arrangements tapping both lower and upper aquifers.

Municipalities and Villages have been the Mission's most direct link to its ultimate customers under this Strategic Objective. Discussions have been held with representative municipal and village officials to obtain their views on water related issues. These discussions highlighted the emphasis that local officials place on providing potable water to the Palestinian areas.

Finally, customers for the "**More Responsive and Accountable Governance**" Strategic Objective" include the new Palestinian institutions (the Executive Authority, the legislative Council, local government) and civil society organizations. The ultimate customer is the Palestinian people. To ascertain whether USG strategic directions in the democracy/governance were consistent with Palestinian needs, roundtable discussions with local coordinators of civic education programs in the West Bank and Gaza were held. These coordinators are considered "Customer Service Representatives" in touch with the needs and aspirations of Palestinian people as a result of contact with thousands of Palestinians under the USAID-financed civic education program. These discussions, which included both men and women and rural and urban residents, highlighted the need to establish consultative mechanisms for citizen contact with the Council and the Executive Authority. The importance of an appropriate NGO law was also stressed. Consultations with PVOs and some members of the Palestinian Authority also confirmed the viability of the Strategy.