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United States Government Accountability Office
Washington, DC 20548

July 13, 2012

The Honorable Patrick Leahy
Chairman
The Honorable Lindsey Graham
Ranking Member
Subcommittee on the Department of State, Foreign Operations, and Related Programs
Committee on Appropriations
United States Senate

The Honorable Kay Granger
Chairwoman
The Honorable Nita M. Lowey
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
House of Representatives

Subject: *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2010 and 2011*

For decades, the United States has worked toward the resolution of the Israeli-Palestinian conflict, most recently under the 2003 Roadmap for Peace, which calls for an independent Palestinian state coexisting peacefully with the state of Israel.¹ From fiscal years 2001 through 2009, the United States provided about \$3 billion in bilateral and multilateral assistance to the West Bank and Gaza, focused on further developing the Palestinian economic, social services, and civil society sectors and on strengthening the processes, governance, and security-providing capacity of Palestinian Authority (PA) institutions. Since June 2007, when Hamas—a U.S.-designated terrorist organization—seized control of

¹"A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict" (UN Document S/2003/529, May 7, 2003). Among other things, this agreement obligated the Israelis and Palestinians to undertake a series of coordinated steps to disengage Israeli troops from areas in the Palestinian territories occupied after the 2000 intifada and replace them with consolidated and retrained Palestinian Authority (PA) security forces operating under the direction of the PA Interior Minister.

Gaza,² the United States has directed most of its nonhumanitarian assistance to the West Bank.³

For fiscal years 2010 and 2011, U.S. funding for the Economic Support Fund (ESF) portion of U.S. assistance to the West Bank and Gaza totaled almost \$789 million. According to the Department of State (State), ESF promotes the economic and political foreign policy interests of the United States by providing assistance to allies and countries in transition to democracy, supporting Middle East peace negotiations, and financing economic stabilization programs. The U.S. Agency for International Development (USAID) is primarily responsible for administering ESF appropriations for the West Bank and Gaza.⁴ USAID officials said that fiscal years 2010 and 2011 ESF appropriations support, among other things, priority needs identified in the Palestinian National Authority's *National Development Plan 2011-2013, Establishing the State, Building Our Future* and through consultations between PA and USAID officials.

For fiscal years 2010 and 2011, the Congress directed that the Comptroller General of the United States report to the Congress on U.S. assistance to the West Bank and Gaza provided through ESF.⁵ In response to these directives, this report (1) examines the status of USAID's obligations and expenditures⁶ of the fiscal years 2010 and 2011 ESF appropriations for the West Bank and Gaza and (2) describes how the USAID mission is obligating the fiscal years 2010 and 2011 funds.

To determine the status of fiscal years 2010 and 2011 appropriations, obligations, and expenditures of the ESF assistance to the West Bank and Gaza, we reviewed appropriations legislation, including related budget justification documents, and financial

²Provisions in U.S. annual appropriations acts have prohibited funding for Hamas or a Hamas-controlled entity and generally prohibited funding for a power-sharing government of which Hamas is a member or that results from an agreement with Hamas and over which Hamas exercises undue influence, though under certain conditions, assistance may be provided to such a power-sharing government. See Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3367, Dec. 16, 2009 and the Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, 125 Stat. 1222, Dec. 23, 2011.

³According to USAID, cash transfers and development projects are kinds of nonhumanitarian assistance, which USAID uses to address the underlying factors that may lead to crises or emergencies. USAID defines humanitarian assistance as financial, material, or logistical assistance provided in response to humanitarian crises, such as natural or man-made disasters. USAID may provide humanitarian assistance for a short time to address an acute crisis or for many years to address chronic vulnerability.

⁴Funds appropriated to ESF generally remain available for obligation for 2 fiscal years. Funds obligated during the initial period of availability will remain available for re-obligation for an additional 4 years from the date on which the availability of such funds would otherwise have expired. Obligated funds will remain available for an additional 5 years after the extended period of availability to liquidate the obligations. In addition, annual appropriations acts placed various restrictions on funds provided to the West Bank and Gaza programs. For example, the 2010 Consolidated Appropriations Act prohibits certain funds, including funds appropriated to ESF, from being used for the purpose of recognizing or otherwise honoring individuals who commit, or have committed, acts of terrorism. See Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3366, Sec. 7039(c), Dec. 16, 2009.

⁵Pub.L. No. 111-117 (123 Stat. 3034), Div. F, Title VII, Section 7039(e). Fiscal year 2011 appropriations were enacted in the Department of Defense and Full-Year Continuing Appropriations Act, 2011, Pub. L. No. 112-10, 125 Stat. 102, April 15, 2011. Under the act, funds were appropriated under the authority and conditions as specified in the applicable appropriations acts for fiscal year 2010, unless otherwise specified. Therefore, the mandate contained in the Consolidated Appropriations Act, 2010, at section 7039(e) also carried forward to fiscal year 2011.

⁶For this report, we use the term "expenditures" to mean cash disbursements.

data provided by USAID's West Bank and Gaza mission in Tel Aviv, Israel. The mission provided data on obligations of all ESF funds for the West Bank and Gaza from the fiscal years 2010 and 2011 annual appropriations, as of April 30, 2012, and on disbursements as of March 31, 2012. We also reviewed relevant USAID documents, including notifications to the Congress on the use of appropriated funds. We also interviewed USAID officials in Washington, D.C., and at the mission. To determine whether the data were sufficiently reliable for purposes of this report, we requested and reviewed information from USAID mission officials about their procedures for entering contract and financial information into USAID's data system. We also requested and reviewed information from USAID officials in Washington, D.C., about the underlying financial data system. We determined that the USAID data were sufficiently reliable for purposes of this report. For the project information that we include in this report, we relied on the data provided by the mission on their obligations of fiscal year 2010 and 2011 ESF funds for West Bank and Gaza. We chose projects that (1) represented a large financial obligation in each sector and (2) contained obligations from at least one of the fiscal year 2010 and 2011 appropriations. USAID provided descriptions and accomplishments for each project. USAID-reported accomplishments cover the period from the beginning of fiscal year 2010 through the end of fiscal year 2011. From USAID's list of project accomplishments, we report several examples to illustrate the effects of each project. We did not independently verify the accomplishments USAID reported.

We conducted this performance audit from January 2012 to July 2012, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

USAID obligated and expended most of the ESF assistance to the West Bank and Gaza appropriated for fiscal years 2010 and 2011. Of the total \$789 million provided for West Bank and Gaza assistance over the 2 years, USAID had obligated 96 percent and expended 70 percent by the end of April 2012. USAID obligated about \$410 million for 26 development projects and \$350 million in budget support to the PA over the 2 fiscal years. USAID provided the most assistance to the water resources and infrastructure sector, about 56 percent of total project obligations.

Background

The Palestinian territories, comprising the West Bank and Gaza, cover about 2,400 square miles and have a combined population of 4.3 million people.⁷ The PA and Israel administer areas within the West Bank, and the Hamas-controlled *de facto* authorities operate in Gaza.⁸

⁷The West Bank has a land area of 2,263 square miles and a population of about 2.6 million. Gaza has a land area of 139 square miles and a population of about 1.7 million.

⁸The PA is based in the West Bank and continues to remain involved in Gaza, according to USAID. For example, although Hamas controls and pays the salaries of all the security employees in Gaza, the PA continues to pay salaries of the civil servants that were part of the PA governance structure before Hamas took over. USAID officials said that many of these civil servants remain in critical positions within the Gaza civil administration for delivery of citizen services through agencies, such as the Palestinian Water Authority.

In 1993, the government of Israel and the Palestinian Liberation Organization signed the Oslo Peace Accords, which called for the withdrawal of Israeli forces from parts of the West Bank and Gaza and affirmed the Palestinian right to self-government within those areas. After the death of Yasser Arafat, then president of the PA, in 2004, divisions appeared between Fatah, Arafat's party, and Hamas, a political party with religious associations, designated a terrorist organization by the United States in 1997. In January 2005, the Palestinian people elected Mahmoud Abbas, an Arafat deputy, Fatah member, and supporter of the peace strategy, to be president of the PA. In January 2006, Palestinian elections resulted in a Hamas majority in the Palestinian Legislative Council. In June 2007, Hamas forcibly took control as the *de facto* government of Gaza. This led President Abbas to issue an emergency decree suspending the operation of the PA government and appointing a new government to administer the affairs of the West Bank and Gaza during the state of emergency, under a new Prime Minister, Salam Fayyad, who is not affiliated with either Hamas or Fatah. USAID officials said that since 2007, USAID has adjusted U.S. assistance to Gaza to comply with U.S. law. According to USAID, it has coordinated closely with the PA. Furthermore, nonhumanitarian U.S. assistance has been directed mainly to the West Bank and the development of PA institutions.

Achieving a negotiated two-state solution to the Israeli-Palestinian conflict is a core U.S. national security objective, according to State. The U.S. government's foreign assistance program in the West Bank and Gaza is designed to advance progress toward the two-state solution by helping the PA build the institutions of a future Palestinian state, creating an atmosphere that supports negotiations, and improving the everyday lives of Palestinians, thereby contributing to the overall stability and security of the region.⁹

Recently, PA actions have raised some U.S. concerns about assistance to the West Bank and Gaza. In late 2011, PA officials submitted an application for membership in the United Nations. Also, the PA signed a reconciliation agreement with Hamas that could lead to a unity government. In response, in August and September 2011, several Congressional committees placed holds on most of the fiscal year 2011 funds for the West Bank and Gaza. USAID provided information to the committees, and two committees released their holds by the end of March 2012. In April 2012, the Secretary of State sent a letter to the remaining committee chair stating the administration's decision to pursue obligation of the remaining FY 2011 ESF funds still on hold. The mission began obligating those funds in April 2012.

USAID Obligated and Expended Most ESF Assistance to the West Bank and Gaza Appropriated for Fiscal Years 2010 and 2011

Of the almost \$789 million in assistance provided by the United States to the West Bank and Gaza from ESF appropriations for fiscal years 2010 and 2011, USAID has obligated about \$760 million through April 2012, or 96 percent of the appropriations, and expended about \$555 million, or 70 percent.¹⁰ Of the nearly \$393 million fiscal year 2010 ESF appropriation for the West Bank and Gaza, USAID reported that it obligated almost 100 percent and expended 89 percent. Of the almost \$396 million fiscal year 2011 ESF appropriation for West Bank and Gaza assistance, USAID obligated almost 93 percent and expended about 52 percent. Over the two fiscal years, \$350 million, about 63 percent, of the USAID

⁹Department of State, *Congressional Budget Justification: Foreign Operations Annex: Regional Perspectives, Fiscal Year 2013* (Washington, D.C.: 2012).

¹⁰Obligations through April 30, 2012, and expenditures through March 31, 2012. Expenditures refer to cash disbursements.

assistance expended was direct budget support in the form of cash transfers to the PA. Of the almost \$243 million remaining from the fiscal year 2010 appropriation after the cash transfers, USAID reported that it obligated almost 100 percent and expended 82 percent for program assistance to the West Bank and Gaza. Of the almost \$196 million remaining from the fiscal year 2011 appropriation after the cash transfers, USAID obligated about 85 percent and expended almost 3 percent for program assistance. (See table 1.) According to USAID, this relatively low expenditure rate occurred because USAID received most of the fiscal year 2011 funds in April 2012, halfway through the following fiscal year.

Table 1: Summary of Fiscal Years 2010 and 2011 ESF Assistance to the West Bank and Gaza as of April 2012
(thousands of U.S. dollars)

ESF appropriation	A: Allocations from ESF appropriation	B: Total Obligations (as of April 30, 2012)	C: Expended balance ^a (as of March 31, 2012)	Obligated balance (B-C)	Unobligated balance (A-B)
Total provided to USAID for FY 2010 (PL 111-117)	\$392,900	\$392,874^b	\$349,764	\$ 43,110	0
FY 2010 cash transfer to support PA budget	150,000	150,000	150,000	0	0
FY 2010 ESF-supported program funding	242,900	242,874 ^b	199,764	43,110	0
Total provided to USAID for FY 2011 (PL 112-10)	\$395,699	\$367,424^c	\$205,078	\$162,346	\$ 28,273
FY2011 cash transfer to support PA budget ^d	200,000	200,000	200,000	0	0
FY2011 ESF-supported program funding ^d	195,699	167,424 ^c	5,078	162,346	28,273
Total FY 2010-2011 ESF provided^d	\$788,599	\$760,298^{bc}	\$554,842	\$205,456	\$ 28,273

Legend: FY = fiscal year

Source: USAID data through April 2012 and GAO analysis.

Notes: Totals may not add due to rounding.

^aDoes not include accruals.

^bIncludes fiscal year de-obligations totaling \$25,741. According to the mission once USAID de-obligates funds, USAID does not necessarily reallocate them to the mission. In this case, the de-obligated funds were not reallocated to the mission.

^cIncludes fiscal year de-obligations totaling \$2,712. According to the mission once USAID de-obligates funds, USAID does not necessarily reallocate them to the mission. In this case, the de-obligated funds were not reallocated to the mission.

^dAccording to USAID, it notified Congress in August 2011 of plans to obligate the funds not already obligated, including the remaining \$50 million cash transfer. Three congressional committees, one in the Senate and two in the House, placed holds on about \$242.2 million of the FY 2011 funds. USAID provided information to the committees. In September 2011, the three committees released the holds on the \$50 million cash transfer as well as \$5 million for Feed the Future activities for the West Bank. In October 2011, the Senate committee released its hold on all funding. In December 2011, the two House committees released their holds on \$40 million. According to USAID, this left about \$147 million, or about 75 percent, of the FY 2011 ESF program funds under congressional holds. In March 2012, one House committee released its hold on the remaining funds. At the same time, the other House committee released \$88.6 million. In April 2012, the Secretary of State informed the committee chair that State would obligate the remaining FY 2011 ESF funds. USAID began obligating those funds in April 2012.

USAID Obligations of Fiscal Years 2010 and 2011 ESF Assistance Have Funded Various Projects and Budget Support, Primarily in the West Bank

USAID's West Bank and Gaza mission obligated a total of about \$410 million in fiscal years 2010 and 2011 ESF funds primarily among five development sectors: water resources and infrastructure, democracy and governance, health and humanitarian assistance, private enterprise, and education. (See table 2.) USAID also provided \$350 million as direct budget support to the PA.

Table 2: Total Mission Obligations by Sectors Supported, Fiscal Years 2010 and 2011 as of April 30, 2012 (thousands of U.S. dollars)

	FY 2010 (PL 111-117)	FY 2011 (PL 112-10) ^a	FY2010-2011 Total
Development sectors (excludes cash transfers)			
• Water resources and infrastructure	\$148,022	\$ 81,940	\$ 229,962
• Democracy and governance	32,000	17,949	\$ 49,949
• Health and humanitarian assistance	20,100	25,590	\$ 45,690
• Private enterprise	21,668	23,250	\$ 44,918
• Education	12,998	7,580	\$ 20,578
<i>Program support</i>	\$ 8,086	\$ 11,115	\$ 19,201
Development sectors subtotal	\$ 242,874	\$167,424	\$ 410,298
Cash transfers to PA budget	\$150,000	\$200,000	\$ 350,000
Total	\$392,874	\$367,424	\$ 760,298

Legend: FY = fiscal year

Source: USAID data through April 30, 2012, and GAO analysis.

Notes: Totals may not add due to rounding.

^aAccording to USAID, it notified Congress in August 2011 of plans to obligate the funds not already obligated, including the remaining \$50 million cash transfer. Three congressional committees, one in the Senate and two in the House, placed holds on about \$242.2 million of the FY 2011 funds. USAID provided information to the committees. In September 2011, the three committees released the holds on the \$50 million cash transfer as well as \$5 million for Feed the Future activities for the West Bank. In October 2011, the Senate committee released its hold on all funding. In December 2011, the two House committees released their holds on \$40 million. According to USAID, this left about \$147 million, or about 75 percent, of the FY 2011 ESF program funds under congressional holds. In March 2012, one House committee released its hold on the remaining funds. At the same time, the other House committee released \$88.6 million. In April 2012, the Secretary of State informed the committee chair that State would obligate the remaining FY 2011 ESF funds. USAID began obligating those funds in April 2012.

USAID Directed about \$410 Million in Project Assistance across Five Development Sectors in the West Bank

Through funds allocated from the fiscal years 2010 and 2011 ESF appropriations, USAID reported funding projects across five development sectors, as shown in table 2. In order to describe a cross section of these projects, we updated information about projects on which we previously reported.¹¹ These projects are among the largest financial obligations in each sector.¹²

Water Resources and Infrastructure: The Emergency Water and Sanitation and Other Infrastructure Program

The water resources and infrastructure sector received the largest share of USAID project support in fiscal years 2010 and 2011, about 56 percent. USAID obligated almost \$230 million of fiscal year 2010 and 2011 ESF funds for 5 continuing water and infrastructure projects and expended about \$116 million by March 31, 2012.

¹¹See GAO, *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2005 and 2006*, [GAO-07-443R](#) (Washington, D.C.: March 5, 2007) and GAO, *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2008 and 2009*, [GAO-10-623R](#) (Washington, D.C.: May 14, 2010).

¹²USAID-reported accomplishments under these projects cover the period from the beginning of fiscal year 2009 through September 2011. Thus, the accomplishments include funding from fiscal year 2011 and earlier. We did not independently verify the accomplishments USAID reported for the selected projects.

The Emergency Water and Sanitation and Other Infrastructure Program is a key project within this sector, according to USAID information. In September 2008, USAID awarded this 5-year cooperative agreement with a total estimated cost of nearly \$65 million to American Near East Refugee Aid, a U.S. nonprofit organization, to develop and implement the emergency water sanitation project.¹³ USAID designed this project to provide rapid response and emergency relief to address basic infrastructure needs of the Palestinian people, primarily in the water and sanitation sectors, and in other sectors as needed. According to USAID, about 515,000 people have benefited from this project. Using fiscal years 2010 and 2011 ESF funds, USAID obligated about \$21 million and \$6 million, respectively, for this project, to improve the supply of potable water to Palestinian communities facing serious water shortages by rehabilitating, expanding and upgrading small-and medium-scale water and sewage systems. The project also supported the improvement of basic Palestinian infrastructure needs by building and rehabilitating community centers, youth centers, classrooms, and community health facilities, according to USAID reports. USAID-reported accomplishments under this program occurring in fiscal years 2010 and 2011 include:

- renovated 5 hospitals and 6 clinics;
- upgraded 23 schools;
- constructed 3 schools;
- constructed or rehabilitated 26 water systems;
- provided almost 127,000 persons with access to potable water; and
- constructed or replaced over 30 linear kilometers of wastewater pipes.

Democracy and Governance: Palestinian Authority Capacity Enhancement

Democracy and governance received the second highest amount of funding from fiscal years 2010 and 2011 ESF appropriations for the West Bank and Gaza, almost \$50 million in obligations and almost \$26 million in expenditures. USAID funds supported six continuing projects.

The Palestinian Authority Capacity Enhancement project is one of the larger projects in this sector. In September 2008, USAID awarded a contract with a total estimated cost of nearly \$31 million to Chemonics International, a large U.S. international development consulting firm, to implement the PA capacity project to support reform efforts at five PA ministries to improve the provision of governmental services in the West Bank and Gaza. Using fiscal years 2010 and 2011 ESF funding, USAID obligated \$5 million and almost \$8 million, respectively. Chemonics works with PA agencies and ministries to expedite service delivery, improve financial and human resource management, and enhance accountability and transparency within the PA, according to USAID documents. Project support to the PA enables it to better serve the Palestinian people through more professional, efficient, and competent PA civil servants, according to USAID documents. In the first years of the project, USAID reported using a centers-of-excellence methodology to introduce and establish

¹³USAID defines a cooperative agreement as a legal instrument used when the principal purpose is the transfer of anything of value to a recipient to accomplish a public purpose by the federal government when substantial USAID involvement is anticipated. In contrast, a contract is a mutually binding legal instrument in which the principal purpose is the acquisition of property or services for the direct benefit or use of the Federal Government or host country.

processes for reforming government institutions. USAID-reported accomplishments under this project occurring in fiscal years 2010 and 2011 include the following:

- conducted two annual centers-of-excellence conferences, under the auspices of the PA prime minister, bringing together civil service teams committed to ongoing reforms in five pilot ministries;
- trained and supported staff of the five ministries to implement more than 60 government reform initiatives;
- worked with the Ministry of Public Works and Housing to re-establish three road repair units, refurbish a cold asphalt production facility for road repair, and produce the first Palestinian Road Standards Manual and the first affordable housing strategy;
- worked with the Ministry of Telecom and Information Technology to develop postal commercial and business strategies; launch domestic express mail and a government mail service; refurbish and equip the Bethlehem and Nablus post offices; and produce service guides for postal system and licensing and regulation of information technology and telecom service providers; and
- refurbished other PA government bureaus, such as car and driver licensing bureaus, civil affairs offices, and property tax service offices in seven towns.

Health and Humanitarian Assistance: Palestinian Health Sector Reform and Development Project

The health and humanitarian assistance sector received the third largest portion of ESF funding for West Bank and Gaza in fiscal years 2010 and 2011, with USAID obligating about \$20 million and \$26 million respectively. USAID expended almost \$19 million of the total amount obligated in both years. USAID funded three projects with the fiscal years 2010 and 2011 funds. The Palestinian Health Sector Reform and Development Project is the largest in the sector. The second project, the Holy Family Hospital in Bethlehem, ended in March 2012. Finally, USAID provides direct grant financial support and food commodities to the World Food Program

In September 2008, USAID awarded a 5-year contract for about \$85 million to Chemonics International to implement the Palestinian Health Sector Reform and Development Project. USAID designed the health sector reform project in close collaboration with the Palestinian Ministry of Health to improve the health care system in the West Bank. Using fiscal years 2010 and 2011 funding, USAID obligated over \$31 million for the project, \$17 million from fiscal year 2010 funds and \$14 million from fiscal year 2011 funds. The project's main objective is to support the Ministry of Health, select nongovernmental organizations, and select educational and professional institutions in strengthening their institutional capacities and performance to support a functional, democratic Palestinian health sector able to meet its priority public health needs. The project works to achieve this goal through three components: (1) supporting health sector reform and management, (2) strengthening clinical and community-based health, and (3) supporting procurement of health and humanitarian assistance commodities. USAID-reported accomplishments occurring in fiscal years 2010 and 2011 include the following:

- increased the total project cost by \$29 million in order to procure medical equipment, information technology systems, supplies, and pharmaceuticals;
- provided health professionals and facilities with about \$16 million of health sector commodities and diagnostic and therapeutic equipment, including CT (computed tomography) scanners and infant incubators; and

- developed, installed, and expanded an electronic health information system to centralize patient records, integrate clinical standards and protocols, and store patient records and personnel files.

Private Enterprise: Expanded and Sustained Access to Financial Services Project

In the private enterprise and economic growth sector, USAID supported five continuing projects to improve the private sector of the West Bank and Gaza with total obligations of almost \$44 million in fiscal years 2010 and 2011 funds. USAID expended almost \$21 million of the total appropriations.

In September 2008, USAID awarded a multiyear cooperative agreement with a total estimated cost of \$36 million to implement the Expanded and Sustained Access to Financial Services Project. USAID originally awarded this project, the largest in this sector, to the Academy for Educational Development, a U.S.-based nonprofit organization, as the primary implementing partner. In August 2011, USAID transferred the project to FHI Development 360 LLC, following USAID guidance.¹⁴ USAID obligated \$8 million of the fiscal year 2010 funds and none of the fiscal year 2011 funds for the project. According to USAID, the primary goal of the program is to contribute to the development of a dynamic private sector in the West Bank and Gaza by improving the access of Palestinian households and small- and medium-sized businesses to financial services, especially credit, and stimulating investment in already profitable Palestinian businesses. The program improves access to financial services for Palestinian households and enterprises ranging from first-time depositors to mortgage underwriting banks, according to USAID. The program also addresses weaknesses in the financial system at the consumer, institution, and regulatory levels by partnering with key Palestinian organizations and providing technical assistance to encourage appropriate regulation and to strengthen the regulatory authorities' role in consumer education and financial literacy, according to USAID documents. The program also trains loan officers at commercial banks; helps microfinance institutions become sustainable; and provides capital equipment to improve production, encourage joint ventures, and stimulate investment through cost sharing. The expanded financial services program also supports micro-entrepreneurs and the recovery of agricultural livelihoods in Gaza by increasing access to capital for small- and medium-sized enterprises and rehabilitating or initiating small-scale, sustainable agricultural projects, such as greenhouses, livestock, and family gardens. USAID-reported accomplishments under this program occurring in fiscal years 2010 and 2011 include the following:

- led the development of a national microfinance policy for the West Bank and Gaza,
- facilitated about \$76 million in lending and 589 loans to small- and medium-sized enterprises through on-the-job and formal training on lending to nine banks;
- supported the launch of a new microfinance unit and product at the Bank of Palestine, which has the most extensive branch network of any bank in the West Bank and Gaza, according to USAID;
- built consumer protection capacity at the Palestinian Monetary Authority, Palestinian Capital Markets Authority, Palestinian Insurance Federation, and Association of Banks in Palestine, and prepared the launch of a nationwide multimedia consumer awareness and financial literacy campaign in cooperation with these four partners; and

¹⁴ FHI is Family Health International.

- restored the livelihoods of at least 600 small farmers and households in Gaza through the provision of productive agricultural inputs and training for greenhouse, poultry, and livestock activities.

Education: Model Schools Network Program

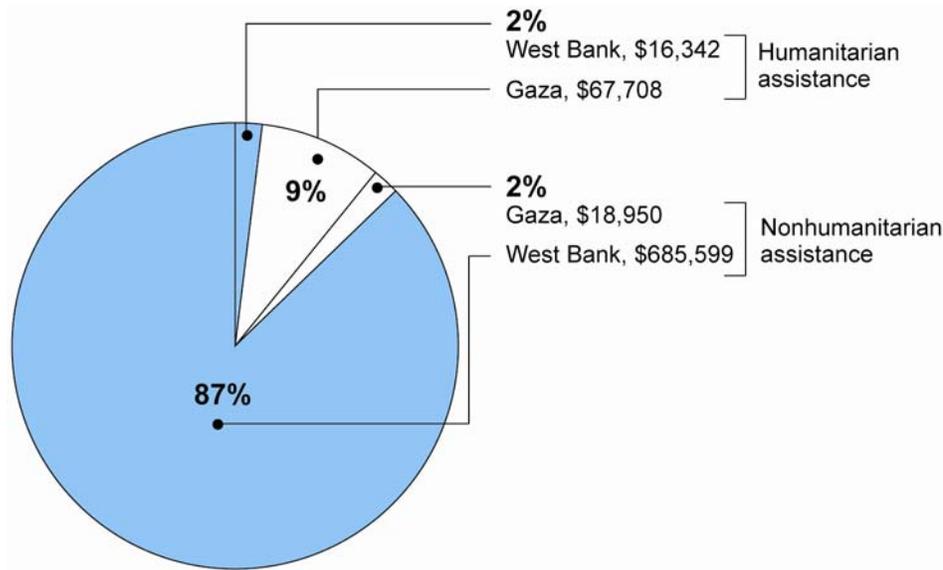
USAID provided almost \$21 million of the fiscal years 2010 and 2011 ESF appropriations for the West Bank and Gaza for education, the smallest sector, through six continuing projects. The Model Schools Network Program was the largest project in the sector, seeking to improve education for Palestinians. In September 2007, USAID awarded a 5-year cooperative agreement with a total estimated cost of about \$22 million to American-Mideast Educational and Training Services, a U.S. nonprofit organization, to implement the model schools project. USAID obligated about \$3 million from both fiscal years 2010 and 2011 funds. The model schools project focuses on improving the quality of basic education (grades 1-9) in the West Bank and Gaza and emphasizes critical thinking to better prepare the next generation for the global economy and for their role as active participants in a vibrant democracy, according to USAID documents. At its core, the program focuses on the professional development of teachers and administrators, particularly in the areas of English, math, and science. USAID reported that the program supports programming in 17 private schools and 40 public schools in the West Bank. In Gaza, the model schools program supports two types of educational opportunities: local scholarships for private school students and educational programming for teachers, students, and school counselors. USAID-reported accomplishments occurring in fiscal years 2010 and 2011 include the following:

- determined the information technology needs of 57 schools and processed six waivers for the purchase of information technology equipment, books, netbooks and other items for both the public and private schools;
- completed 80 percent of planned procurement, including all school refurbishments and renovation of facilities for the public schools, and the purchase of information technology equipment, books, netbooks, and other items for both the public and private schools. USAID put the remaining procurements on hold due to funding uncertainty;
- launched the professional certificate programs for math, science, English and classroom teachers for 322 public school teachers; and
- facilitated summer camps for approximately 300 children from private schools and supported dozens of other relevant activities including student debates, a major bike race, art teachers workshop, Sesame Street performances, and visits to interactive math and science museums for thousands of children.

USAID officials said that they directed nearly 90 percent of the \$787 million provided in fiscal years 2010 and 2011 ESF appropriations to the West Bank, mainly for nonhumanitarian assistance, and the remainder to Gaza. (See figure 1.) USAID officials said that Gaza projects are fully integrated into the USAID sector programs.

Figure 1: USAID's Allocation of Assistance to the West Bank and Gaza, Fiscal Years 2010-2011

(dollars in thousands)



Source: GAO analysis of USAID data.

USAID Provided \$350 Million to the PA for Direct Budget Support

Out of the \$789 million total ESF appropriations in fiscal years 2010 and 2011 funding, USAID provided four separate cash transfers, totaling \$350 million, to the PA for direct budget support. According to State, the achievement of a two-state solution to the Palestinian-Israeli conflict remained a core U.S. national security objective and the long-term focus of USAID programs. USAID reported that direct budget support to the PA enabled the PA to meet its financial obligations in the West Bank and Gaza. According to USAID, the assistance was essential to stabilizing the PA's budget and demonstrating U.S. support for a peaceful solution to the Arab-Israeli conflict.

Agency Comments and Our Evaluation

We provided USAID with a draft copy of this report for comment. USAID provided technical comments on the report, which we incorporated as appropriate. Based on USAID comments, we added figure 1 to provide additional detail on funding allocations.

We are sending copies of this report to the USAID Administrator, relevant congressional committees, and other interested parties. In addition, the report will be made available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3149 or gootnickd@gao.gov. Major contributors to this report were Cheryl Goodman, assistant director, as well as Eugene Beye, Mary Moutsos, Martin de Alteriis, and Karen

Deans. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report.

A handwritten signature in black ink, appearing to read "David Gootnick". The signature is fluid and cursive, with the first name "David" written in a larger, more prominent script than the last name "Gootnick".

David Gootnick
Director, International Affairs and Trade

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