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United States Government Accountability Office  
Washington, DC 20548

March 5, 2007

The Honorable Patrick J. Leahy  
Chairman  
The Honorable Judd Gregg  
Ranking Minority Member  
Subcommittee on State, Foreign Operations,  
and Related Programs  
Committee on Appropriations  
United States Senate

The Honorable Nita M. Lowey  
Chairman  
The Honorable Frank R. Wolf  
Ranking Minority 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 2005 and 2006*

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. Since fiscal year 1993, the United States has provided more than \$2.2 billion in assistance to the West Bank and Gaza to support the Middle East peace process and encourage progress in reforming the Palestinian Authority.<sup>1</sup>

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<sup>1</sup>These funds included \$121 million in direct budget support for the Palestinian Authority and \$1.3 billion to the United Nations Relief and Works Agency.

In fiscal years 2005 and 2006 alone, the United States provided over \$420 million in Economic Support Funds<sup>2</sup> for the West Bank and Gaza; this funding is primarily administered by the U.S. Agency for International Development (USAID). About \$200 million of this assistance was provided through a fiscal year 2005 supplemental appropriation.<sup>3</sup> In the conference report accompanying the 2005 supplemental appropriation legislation, the Congress directed that the assistance be allocated to two broad development categories—economic revitalization and infrastructure development—each with five subcategories.<sup>4</sup> The Congress did not provide similar direction for the remaining funds appropriated in fiscal years 2005 or 2006<sup>5</sup>—about \$223 million.

In January 2006, Hamas—designated a terrorist organization by the United States and others—won a majority of the seats in the Palestinian parliament. On January 30, 2006, the United Nations (UN), the United States, the European Union, and Russia—known as the Quartet on the Middle East—stated that they would provide support and assistance to the Hamas-led government only if it agreed to nonviolence, to recognize the State of Israel, and to respect previous Israeli-Palestinian peace agreements.<sup>6</sup> In June 2006, the Congress directed that the Department of State (State) submit a new assistance plan; State provided that on July 21, 2006.<sup>7</sup>

For fiscal years 2005 and 2006, the Congress mandated that the Comptroller General of the United States report to the Congress on U.S. assistance to the West Bank and Gaza.<sup>8</sup> In response to this mandate, we reported in September 2006 on the steps USAID had taken to help ensure that U.S. assistance did not support terrorist

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<sup>2</sup>According to a Department of State publication, the Economic Support Fund 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. Also, legislation authorizing the Economic Support Fund provides 2 years to obligate the funds; that is, USAID does not have to obligate the funds appropriated in fiscal year 2005 until the end of fiscal year 2006, or September 30, 2006. In addition, none of the funds appropriated for assistance under the West Bank and Gaza program may be made available for the purpose of recognizing or otherwise honoring individuals who commit, or have committed, acts of terrorism (Consolidated Appropriations Act of 2005, Pub. L. No. 109-102, § 559(c), 118 Stat. 2809, 3019 (2004)).

<sup>3</sup>Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, Pub. L. No. 109-13, 119 Stat. 231 (2005).

<sup>4</sup>H.R. Conf. Rep. No. 109-72, at 132 (2005).

<sup>5</sup>Pub. L. No. 108-447, 118 Stat. 2809 (2004) and Consolidated Appropriations Act of 2006, Pub. L. No. 109-102, 119 Stat. 2172 (2005).

<sup>6</sup>As of March 1, 2006, Hamas had not accepted these conditions.

<sup>7</sup>Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234, § 1304, 120 Stat. 418, 435 (2006).

<sup>8</sup>Pub. L. No. 109-13, § 2103, 119 Stat. at 266; Pub. L. No. 109-102, § 559, 119 Stat. at 2222.

activities in the West Bank and Gaza.<sup>9</sup> In this report, also in response to the mandate, we examine the status of (1) USAID's obligations and expenditures<sup>10</sup> of the fiscal years 2005 and 2006 appropriations for the West Bank and Gaza and (2) the fiscal year 2005 supplemental appropriation in greater detail to determine whether USAID allocated the funds in accordance with congressional guidance.

To address these objectives, we analyzed data provided by USAID for fiscal years 2005 and 2006 appropriations for assistance to the West Bank and Gaza as of December 31, 2006. We asked for and obtained additional information on how the 2005 supplemental appropriation had been allocated to the congressionally directed categories and subcategories. To determine whether the data were sufficiently reliable for purposes of this report, we interviewed officials at the USAID mission in Tel Aviv, Israel, about their procedures for entering contract information into USAID's data system. We also interviewed USAID officials at the Washington, D.C., headquarters about the underlying financial data system. We verified much of the USAID project information with similar data we had developed and verified with USAID project officers at USAID's Israel mission for a previous engagement related to awards for the West Bank and Gaza. We determined that the USAID data were sufficiently reliable for purposes of our report. See enclosure I for a more detailed description of our scope and methodology. We conducted our review from October 2006 through March 2007 in accordance with generally accepted government auditing standards.

## Results in Brief

As of December 31, 2006, USAID had obligated \$300.8 million and expended \$109.1 million of the \$422.9 million in assistance provided by the United States to the West Bank and Gaza from fiscal years 2005 and 2006 appropriations. After Hamas won a majority of the seats in the Palestinian parliament in January 2006, USAID slowed and, in April 2006, selectively suspended assistance to the West Bank and Gaza to prevent U.S. assistance from potentially benefiting a terrorist organization. USAID resumed assistance in July 2006 after the Department of State notified the Congress of its new U.S. assistance plan, along with a revised spending plan, for the West Bank and Gaza in response to the June 2006 congressional mandate. The revised spending plan emphasized humanitarian projects, private sector support, and democracy/civil society programs directed to the Palestinian people. In February 2006, USAID requested that the Office of the President of the Palestinian Authority return \$50 million in fiscal year 2005 appropriations. The Palestinian Authority returned \$45 million, and USAID has since reobligated these funds to other projects.<sup>11</sup>

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<sup>9</sup>GAO, *Foreign Assistance: Recent Improvements Made, but USAID Should Do More to Help Ensure Aid Is Not Provided for Terrorist Activities in West Bank and Gaza*, GAO-06-1062R, (Washington, D.C.: Sept. 29, 2006).

<sup>10</sup>In this report, we use "expenditures" to mean cash disbursements.

<sup>11</sup>According to a USAID mission official, the Palestinian Ministry of Finance returned \$30 million on March 1, 2006, and \$15 million on May 8, 2006.

The remaining \$5 million funded road projects that USAID canceled. According to a mission official, as of January 30, 2007, USAID and the Palestinian Authority had not yet resolved the value of the pre-cancellation construction, close-out and security costs, and the remaining funds to be returned.

USAID obligated the fiscal year 2005 supplemental appropriations for projects in the West Bank and Gaza almost equally between the two congressionally directed categories: economic revitalization and infrastructure development. However, as a result of the parliamentary election and the subsequent shift in U.S. strategy for assistance to the West Bank and Gaza, USAID's obligations to the 10 subcategories differed from the allocations originally put forward by the Congress. Before the election, the U.S. assistance plan supported the administration of the Office of the President of the Palestinian Authority with a wide range of development projects; after the election, all funds going to the Palestinian Authority were canceled or, in the case of existing obligations, withdrawn and funneled through other organizations. Examples of specific projects funded in part with the 2005 supplemental funds include labor-intensive construction projects to improve infrastructure and generate employment, and the training of doctors to improve medical care in the region. The results of these projects included new classrooms being built, doctors being trained, and facilities being rehabilitated.

## **Background**

The Palestinian territories, comprising the West Bank and Gaza, cover about 2,400 square miles and have a combined population of 3.8 million people.<sup>12</sup> The Palestinian Authority administers Gaza while both the Palestinian Authority and Israel administer areas within the West Bank.

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<sup>12</sup>The West Bank has a land area of 2,263 square miles and a population of about 2.4 million. Gaza has a land area of 139 square miles and a population of about 1.4 million.

**Figure 1: Map of West Bank and Gaza and Surrounding Countries**



Sources: GAO (data); CIA and Map Resources (map).

In 1993, the Oslo Peace Accords<sup>13</sup> were signed, and USAID established its West Bank and Gaza mission. In September 2000, the second *intifada* (uprising) began and the Oslo peace process unraveled. Peace efforts were renewed in June 2002 when President George W. Bush outlined the principles for a strategy called the Roadmap for Peace. The Quartet on the Middle East,<sup>14</sup> as well as Israel and the Palestinian Authority, endorsed the strategy in April 2003. In January 2005, Mahmoud Abbas, a

<sup>13</sup>The accords called for the withdrawal of Israeli forces from parts of Gaza and the West Bank and affirm the Palestinian right to self-government within those areas through the creation of the Palestinian Interim Self-Government Authority. Palestinian rule would last for a 5-year interim period during which a permanent agreement would be negotiated (beginning no later than May 1996).

<sup>14</sup>The quartet is involved in mediating the peace process between the State of Israel and the Palestinian Authority.

supporter of the peace strategy, was elected president of the Palestinian Authority. A year later, in January 2006, the Palestinian people elected a Hamas majority to the Palestinian parliament.

Since establishing its mission in the West Bank and Gaza in September 1993, USAID has directed assistance to the Palestinians toward five development sectors: economic growth, water and infrastructure, democracy and governance, health, and higher education. It has supported these objectives through efforts such as job creation programs, construction of reservoirs and roads, election support projects, projects to improve maternal and child health, and university scholarship programs.

### The January 2006 Elections

In January 2006, Hamas won a majority of the seats in the Palestinian parliament. On January 30, 2006, the Quartet on the Middle East stated that its members would continue to provide support and assistance to the Hamas-led government only if the government would agree to nonviolence, recognize the State of Israel, and respect previous Israeli-Palestinian peace agreements. As of March 2006, Hamas had not accepted these conditions.

In June 2006, the Congress directed that no Economic Support Funds in 2006 or any prior appropriation for foreign operations, export financing, and related programs be obligated for assistance to the West Bank and Gaza until the Secretary of State reported to the appropriations committees (1) how the funds would be spent and (2) that appropriate measures were in place to ensure that no funds would support terrorist activities.<sup>15</sup> The Department of State released its new assistance plan on July 21, 2006.

### **Status of U.S. Assistance to the West Bank and Gaza for Fiscal Years 2005 and 2006**

In fiscal years 2005 and 2006, the United States provided a total of \$422.9 million in bilateral assistance to the West Bank and Gaza through three separate appropriations.<sup>16</sup> After Hamas won a majority in the Palestinian parliament in January 2006, USAID slowed aid pending a review of how to proceed.

### Fiscal Years 2005 and 2006 Appropriations

As of December 31, 2006, USAID had obligated \$300.8 million and expended \$109.1 million of the total U.S. assistance provided to the West Bank and Gaza in fiscal years 2005 and 2006. (See table 1.)

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<sup>15</sup>Pub. L. No. 109-234, §1304, 120 Stat. at 435.

<sup>16</sup>Pub. L. No. 108-447; § 595, 118 Stat. at 3039; Pub. L. No. 109-13, § 2111, 119 Stat. at 268; and Pub. L. No. 109-102 § 596, 119 Stat. at 2239.

**Table 1: U.S. Appropriations, Obligations, and Mission Expenditures for West Bank and Gaza, Fiscal Years 2005 and 2006**

Dollars in millions

	<b>Appropriations</b>	<b>Obligations</b>	<b>Expenditures</b>
<b>Fiscal year 2005</b>	\$74.4	\$74.4 <sup>a</sup>	\$27.6
<b>Fiscal year 2005 supplemental</b>	200.0	200.0 <sup>b</sup>	79.4
<b>Fiscal year 2006</b>	148.5 <sup>c</sup>	26.4	2.1
<b>Total</b>	<b>\$422.9</b>	<b>\$300.8</b>	<b>\$109.1</b>

Source: USAID

<sup>a</sup>Includes a \$36 million transfer to the United Nation Relief and Works Agency that is not reflected in mission expenditures.

<sup>b</sup>Includes \$27.35 million in Washington, D.C.-based obligations that are not reflected in mission expenditures.

<sup>c</sup>Includes \$33.3 million in direct allocations to other agencies.

Note: Economic Support Funds are available for 2 years for obligation and for 5 years for expenditure. Expenditures are exclusively mission-directed project expenditures.

The combined total 2005 appropriations of \$274.4 million—the largest yearly amount of U.S. bilateral assistance for the West Bank and Gaza since the second *intifada*—was provided, among other purposes, to support the President of the Palestinian Authority, elected in January 2005, and to facilitate the Israeli disengagement from four northern West Bank settlements and Gaza.

- In December 2004, the United States provided \$75 million in assistance to the West Bank and Gaza through the fiscal year 2005 annual appropriation. A subsequent 0.8 percent rescission reduced that appropriation to \$74.4 million.
- In May 2005, the United States provided an additional \$200 million to the West Bank and Gaza in a fiscal year 2005 supplemental appropriation, which was accompanied by a conference report that allocated the funds to 10 different subcategories<sup>17</sup> under the two broad categories of economic revitalization and infrastructure development.

Additionally, in November 2005, the United States provided \$150 million in assistance to the West Bank and Gaza through the fiscal year 2006 annual appropriation. A subsequent 0.99 percent rescission reduced that to \$148.5 million. The legislation

<sup>17</sup>The 10 subcategories are (1) Palestinian agriculture and agribusiness production and marketing; (2) trade promotion and capacity building; (3) home construction financing; (4) job creation, with an emphasis on construction of schools and community centers; (5) improved flow of people and goods into Israel; (6) roads and water; (7) democratic reform and the rule of law; (8) community policing; (9) education, including vocational training; and (10) health care and food assistance.

authorizing the 2006 assistance did not contain the same congressional directives relating to categories of assistance as the conference report accompanying the fiscal year 2005 supplemental appropriation.

### USAID Response to the Change in the U.S. Assistance Plan for the West Bank and Gaza

After the January 2006 parliamentary elections, USAID slowed assistance to the West Bank and Gaza pending a comprehensive review. In April 2006, in concert with State, USAID notified its implementing partners that it intended to suspend certain activities. On July 21, 2006, the Secretary of State issued a new assistance plan with a revised spending plan totaling \$468 million,<sup>18</sup> about a third of which had previously been obligated, focused primarily on democracy and governance, health, and higher education. This revised spending plan affected the use of all three appropriations from fiscal years 2005 and 2006.

#### *USAID Deobligated Certain Funds from the Fiscal Year 2005 Annual Appropriation*

Along with the revised spending plan, USAID requested the return of \$50 million from its fiscal year 2005 annual appropriation of \$74.4 million that had been obligated for the use of the Palestinian Authority. Between March 1, 2006, and May 8, 2006, the Palestinian Authority returned a total of \$45 million, which USAID reobligated. The remaining \$5 million funded road projects that USAID canceled. According to a mission official, as of January 30, 2007, USAID and the Palestinian Authority had not yet resolved the value of the pre-cancellation construction, close-out and security costs, and the remaining funds to be returned.

#### *USAID Shifted the Emphasis of the Remaining 2005 Supplemental Appropriations*

USAID's obligations of U.S. assistance to the West Bank and Gaza varied from the allocations set forth in the conference report to the fiscal year 2005 supplemental appropriation because the revised assistance plan that State presented to the Congress on July 21, 2006, redirected some funds to humanitarian assistance. While U.S. assistance before the January 2006 election supported the administration of the Office of the President of the Palestinian Authority with a wide range of development projects, all funds going to the Palestinian Authority after the election were canceled or, in the case of some obligations, withdrawn and funneled through other organizations. For example, State notified the Congress that food fortification and nutrition management programs would be redirected from the Palestinian Ministry of Health to individual private mills and the Palestinian Association of Food Industries. Funds for one existing activity were redirected away from public infrastructure works

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<sup>18</sup> Although the fiscal year 2006 supplemental appropriation act required a revised plan for unobligated Economic Support Funds for the West Bank and Gaza, State also included some programs funded from other sources or from already obligated Economic Support Funds in the revised spending plan.



to ensure that the Palestinian government would not benefit and to shift support away from the Palestinian Authority. As of December 31, 2006, USAID had obligated the full \$200 million from the supplemental appropriation. Those obligations included \$27.35 million made by USAID in Washington, D.C. The West Bank and Gaza mission expended about \$79.4 million.

*State Retained a Significant Proportion of Fiscal Year 2006 Funds Appropriated for Use in the West Bank and Gaza*

In its July 2006 revised spending plan, State notified the Congress of its intent to retain approximately \$83 million of the \$148.5 million fiscal year 2006 appropriation for the West Bank and Gaza, transfer or directly provide about \$33 million to other U.S. entities,<sup>19</sup> and allocate \$31.9 million to USAID's West Bank and Gaza mission. As of December 31, 2006, USAID had obligated approximately \$26.4 million and expended approximately \$2.1 million in fiscal year 2006 funds for projects in the West Bank and Gaza. On January 30, 2007, State notified the Congress of its intent to obligate \$86.4 million in fiscal year 2006 funds to carry out security measures in the West Bank and Gaza. As of the date of this report, the Congress and State continue to discuss the use of those funds and, as a result, these funds have not been obligated.

**USAID-Funded Projects Highlight Areas of Humanitarian Aid and Infrastructure Development**

After the election and the change in the U.S. assistance plan for the West Bank and Gaza, USAID restructured its assistance to place an increased emphasis on humanitarian projects and to shift funds away from the Palestinian Authority. The West Bank and Gaza mission provided us with detailed information about the use of the fiscal year 2005 supplemental funds for the 10 subcategories of assistance directed by the Congress. Table 2 shows these subcategories for the fiscal year 2005 supplemental appropriation with USAID's actual obligations of those funds, the percentage differences between the congressional direction and USAID's obligations, and USAID's expenditures. It should be noted that the table displays the congressional allocations (determined prior to the January 2006 election) and USAID West Bank and Gaza mission obligations and expenditures (as of December 31, 2006), which reflect USAID's restructured plan after the election.

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<sup>19</sup>These included the Overseas Private Investment Corporation, USAID's Office of Transition Initiatives, and State's Near East Asia Middle East Peace Initiative, among others.

**Table 2: U.S. Economic Support Funds Obligated per Congressional Allocation for the West Bank and Gaza, Fiscal Year 2005 Supplemental Appropriation, as of December 31, 2006**

**Dollars in thousands**

Category and subcategory	Congressional allocation	Obligations	Percentage difference from congressional allocation	Expenditures <sup>a</sup>
<b>Economic revitalization post-disengagement</b>	<b>\$110,000</b>	<b>\$101,291</b>	<b>(8)</b>	<b>\$35,729</b>
Support for production and marketing in Palestinian agriculture	15,000	15,209	1	9,219
Trade promotion and capacity building	24,000	6,693	(30)	8,932
Home construction financing	1,000	1,000	0	989
Job creation, with emphasis on construction of schools and community centers	20,000	18,389	(8)	5,284
Improved flow of people and goods	50,000	50,000	0	11,305
<b>Economic, social, political, and security infrastructure development</b>	<b>90,000</b>	<b>98,709</b>	<b>10</b>	<b>43,712</b>
Basic infrastructure (roads and water)	48,500	33,196	(32)	18,181
Democratic reform and government	17,500	14,932	(15)	7,232
Support to confront terror and violence	3,000	3,500	17	2,415
Expanding education opportunities	8,000	6,032	25	1,285
Provision of social services to the poor	13,000	41,048	215	14,599
<b>Total</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>0</b>	<b>\$79,441</b>

Source: USAID (data) and GAO (analysis).

<sup>a</sup>Expenditures are exclusive to the USAID mission in the West Bank and Gaza and do not include USAID expenditures by its Washington, D.C. headquarters officials. The mission is wholly responsible for project expenditures.

USAID obligated the \$200 million fiscal year 2005 supplemental appropriation almost equally between the two congressionally directed categories. USAID further obligated the funds to approximately 40 different awards under the 10 subcategories directed by the Congress, including some ongoing contracts that had been initiated as early as 2004. The average award size was about \$4.2 million. As discussed earlier, the January 2006 parliamentary election resulted in USAID shifting the focus of its assistance to humanitarian projects. For example, following the redirection of funds, the category receiving the largest funding was health care and food assistance projects (\$41 million). A \$50 million allocation to border security measures—labeled “improved flow of people and goods” in table 2—was specified in the congressional allocations and was not affected by the change in the U.S. assistance plan for the West Bank and Gaza.

Based on information provided by the West Bank and Gaza mission, 13 awards had been completed for projects using some portion of the fiscal year 2005 supplemental appropriation funds. We selected two awards that were completed or well established with preliminary results from each of the two major congressional categories—economic revitalization and infrastructure development—in order to get a cross section of the types of projects being completed. The four awards represented projects classified under 4 of the 10 congressional subcategories set out in the fiscal year 2005 supplemental appropriations conference report. Descriptions of the projects we chose follow.

*Palestinian Economic Opportunity Program for Lending and Economic Development*

USAID awarded a total of \$8.6 million, including \$1 million in fiscal year 2005 supplemental funds, to a contractor to continue its Palestinian Economic Opportunity for Lending and Economic Development program. This program seeks to provide housing solutions that are technically appropriate and meet basic standards of livability and safety. The program gives 12- to 42-month microfinance loans for home improvements to low-income Palestinians to repair, expand, or improve their homes. All loans are extended at market rates and under strict repayment conditions to families with a demonstrated ability to repay. Monthly loan installments are limited to 33 percent of income to ensure repayment capacity. Since the program began, the contractor has opened site offices in Ramallah, Nablus, Hebron, Khan Younis, Jenin, Bethlehem, and Tulkarem and hired qualified staff in all required positions. According to USAID reports, as of September 30, 2006, the program had disbursed home improvement loans totaling \$21.7 million and generated over 648,000 person days of employment, almost exclusively in the construction sector, far exceeding the 595,200 days projected by the contractor.

*Partnership for Expanded Access to Quality Maternal and Neonatal Health Care for Palestinian Women and Infants*

USAID awarded a total of \$3.5 million, all in fiscal year 2005 supplemental funds, to the Holy Family Hospital of Bethlehem for a project to provide quality maternal and child health services, especially for high-risk pregnancies and newborns. The project also seeks to expand its current services in response to evolving community needs, promote sustainability of the facility's specialized care capacity, and enhance the quality of existing maternal and neonatal services. Project components included expanded access to advanced neonatal health care, expanded access to gynecology services, expanded access to health education services for families, expanded access to training for health care professionals, and expanded support for essential equipment and supplies. According to USAID, program achievements, as of September 30, 2006, include the following:

- a contract was awarded for the construction of a labor ward, emergency department, and nursery/day care unit, with construction started on the new labor ward;

- a new part-time gynecologist was hired for the Well Women program;
- two obstetric/gynecologist resident doctors began board certification training;
- two pediatric resident doctors were chosen and began to receive long-term training;
- three student midwives were currently studying at Bethlehem University; and
- the hospital procured a vehicle and medical equipment.

*Labor-intensive Building for Education, Recreation, and Training of Youth*

USAID awarded a total of almost \$2 million, including about \$184,000 from fiscal year 2005 supplemental funds, to a contractor to improve educational and youth infrastructure, thereby generating critically needed employment in the most deprived areas of Gaza. This program also leveraged an additional \$800,000 from other sources to increase the scope of activities. According to USAID, the program provided immediate job opportunities for Palestinians in southern Gaza through a series of labor-intensive infrastructure interventions that generated approximately 48,000 days of employment. These interventions included the building of classrooms and the beautification and rehabilitation of local schools. The program also improved educational and youth facilities through the implementation of several educational infrastructure development projects including the construction, expansion, renovation and minor upgrading of several schools and the construction of multipurpose youth centers and kindergartens. According to USAID reports,

- 86 classrooms were built,
- 20 schools were beautified,
- 22 additional classrooms were rehabilitated,
- 1 multipurpose hall was constructed,
- 3 sports fields and 3 sanitation units were built,
- 4 new kindergartens were constructed, and
- 2 youth and sporting clubs were rehabilitated.

*Emergency Assistance to Palestinians through Nongovernmental Organizations*

USAID awarded a total of \$28.2 million, including \$7 million in fiscal year 2005 supplemental funds, to a contractor to extend its Emergency Assistance through Nongovernmental Organizations program. According to USAID, this program provided highly targeted grants to address urgent needs of Palestinians in the West Bank and Gaza, using existing locally based nongovernmental organizations of various sizes and capabilities as the main vehicle for service delivery. Emphasis was placed on reaching the poorest sectors and marginalized groups of Palestinian citizens, frequently those living in remote areas, enclaves that experienced recurrent and prolonged closures, and regions severely affected by occupation. Over 100 subprojects valued at \$10.2 million have been completed or are being implemented, addressing general humanitarian assistance, environment, education, infrastructure, conflict mitigation, economic growth, and health. Activities supported include aid to

the disabled, agricultural revitalization, shelter for the abused, and basic social services infrastructure. Specific projects included the following:

- supporting the establishment of a Palestinian pediatric surgery unit to provide high-quality heart surgery for children in Palestinian hospitals;
- establishing the first Palestinian eye bank and helping raise the awareness of the importance of corneal donations;
- providing sunshades and water fountains for six schools; and
- constructing, maintaining and improving sanitary units, washing facilities, drinking water taps, classrooms, playgrounds, and outdoor spaces at 11 public schools.

### Agency Comments

USAID provided written comments on a draft of this report (see enc. II). Overall, USAID was pleased that the report emphasized the changed political situation following the January 2006 parliamentary elections and the resultant shift in the allocation of resources. USAID also provided two clarifications that we incorporated. In addition, USAID provided technical comments and updates, which we have incorporated throughout the report as appropriate.

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Copies of this report are being sent to the Secretary of State, the Director of Foreign Assistance and USAID Administrator, relevant congressional committees, and other interested parties. We will also make copies available to others upon request. 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 on (202) 512-3149 or at [GootnickD@gao.gov](mailto:GootnickD@gao.gov). Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report.



David Gootnick  
Director, International Affairs and Trade

## **Enclosure I: Scope and Methodology**

To determine the status of appropriations, obligations, and expenditures of the U.S. Agency for International Development (USAID) assistance to the West Bank and Gaza in fiscal years 2005 and 2006, we relied on appropriations legislation, including related conference reports, and USAID data provided separately by USAID's West Bank and Gaza mission (the mission) and USAID's Washington, D.C., headquarters. The mission is responsible for allocating its appropriated funds to specific projects in the West Bank and Gaza, and headquarters controls obligations of funds to the Palestinian Authority and other institutions, such as the Office of Transition Initiatives at USAID. The mission provided data on obligations and disbursements for each contract and specific information on its management of each contract (the start and end dates and specific appropriations that funded each contract). We reviewed legislative documents to determine congressional policy goals for assistance to the West Bank and Gaza and changes in those goals after the election of Hamas to the Palestinian parliament. The mission and Washington, D.C., USAID officials described the steps they took immediately after the January 2006 parliamentary election and later actions in response to congressional legislation and the Department of State's new U.S. assistance plan for the West Bank and Gaza. Headquarters staff provided supporting documentation for notifications to the Congress on the revised spending plan for the West Bank and Gaza released in July 2006.

To determine USAID's use of the fiscal year 2005 supplemental appropriations and whether it obligated the funds in response to the congressional guidance, we reviewed legislative documents and detailed data provided by the mission, including information on specific awards as of December 31, 2006. To assess the reliability of the data provided by mission and headquarters staff, we spoke with agency officials at headquarters and reviewed technical documentation about the agency data systems. We also conducted interviews with mission staff to determine how they implemented USAID operating procedures for entering, verifying, and processing data. For purposes of this report, we determined that USAID's data were sufficiently reliable. For the project information that we include in this report, we relied on data provided by the mission. Because the Congress allocated funds to 10 categories of assistance, the mission had detailed data for projects using fiscal year 2005 supplemental funds. We examined the start and end dates for all projects to identify projects that had been under way long enough to demonstrate results. We also interviewed mission staff on the status of projects, and the mission provided us with quarterly reports of the project results. We verified much of the information provided with similar data we developed and verified with USAID project officers at its Israel mission for a previous engagement related to awards for the West Bank and Gaza. These data provided award amounts and contractor information.

## Enclosure II: USAID's Comments



FEB 28 2007

Mr. David Gootnick  
Director  
International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Gootnick:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled Foreign Assistance: USAID Assistance to the West Bank and Gaza for Fiscal Years 2005 and 2006 (GAO-07-443R) (March 2007). I would like to thank the GAO staff for their hard work and professionalism. The USAID staff enjoyed working with GAO on this report and appreciates the highlights of some of our most important project accomplishments. USAID is particularly pleased that the GAO emphasized the change in the political situation that took place following the January 2006 Palestinian parliamentary elections which resulted in a major shift in the allocation and obligation of resources.

#### Statements Requiring Clarification:

The draft report includes a few statements that warrant clarification, including the following:

1. FY 2006 Allocations and Obligations: On page 10, second paragraph, the report discusses FY 2006 obligations and expenditures. USAID feels it is important to note that while \$150 million was originally appropriated to fund U.S. efforts in the West Bank and Gaza for FY 2006, the Secretary of State retained \$83 million of that amount pending a decision about how to proceed given the political ascendancy of Hamas. The State Department also transferred an additional \$35 million to other entities such as the Overseas Private Investment Corporation, Office of Middle East Partnership Initiatives, Office of Inspector General and Office of Transition Initiatives.

See comment 1.

## Enclosure II: USAID's Comments (cont.)

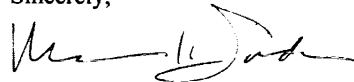
- 2 -

While some of this money may have benefited the West Bank and Gaza program, none of these funds are accounted for at the Mission level. Only the remaining \$32 million in FY 2006 funds was actually allowed to the USAID Mission for implementation. Although USAID halted assistance to the Palestinian Authority in March 2006, the Mission was able to obligate over \$25 million of the \$32 million the State Department allocated to the Mission in accordance with the Secretary of State's revised Palestinian Assistance Strategy from July 2006. The funds were obligated and approximately \$2.1 million expended for projects in the West Bank and Gaza as of December 31, 2006.

2. USAID suspension of activities: On page three, second sentence under Results in Brief, the report states that between January 2006 and July 2006 USAID halted assistance to the West Bank and Gaza. This same assertion is made in the middle of page seven. On page nine the report states USAID did not make a single obligation for six months. This depiction of events is not correct. Many activities slowed down after the elections due to uncertainties, but official U.S. government action took place only after Hamas took power in March. In concert with the Secretary of State's announcement on April 7, 2006, USAID sent out a notice on April 26, 2006 to partners detailing our intent to selectively suspend activities. With the agreement of the State Department, USAID then took actions (a) to close out selected activities which no longer met program requirements, and (b) to continue food aid activities as well as other activities (e.g., health activities) that had "notwithstanding authority" associated with their funding.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



Mosina H. Jordan  
Counselor to the Agency

See comment 2.



## **Enclosure II: GAO's comments on USAID's letter**

The following are GAO's comments on USAID's letter dated February 28, 2007.

1. We added information to this report regarding State's decision to retain \$83 million out of the total \$150 million for fiscal year 2006 in the West Bank and Gaza.
2. We modified the text to reflect USAID's comment.

## **Enclosure III**

### **GAO Contact and Staff Acknowledgments**

#### **GAO Contact**

David Gootnick (202) 512-3149

#### **Staff Acknowledgments**

Albert H. Huntington, III; Judith K. Knepper; and Michael Maslowski made key contributions to this report. In addition, David M. Bruno, Martin de Alteriis, Etana Finkler, Reid L. Lowe, and Grace P. Lui provided technical assistance.

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