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National Security and
International Affairs Division

B-279029

February 18, 1998

Congressional Requesters

Subject: Foreign Assistance: U.S. Assistance for the West Bank and Gaza Strip

Following the signing of the Declaration of Principles between Israel and the Palestine Liberation Organization in September 1993, the United States pledged to provide \$500 million over a 5-year period for the West Bank and Gaza Strip. The U.S. Agency for International Development (USAID) is administering \$375 million of the assistance, and the Overseas Private Investment Corporation (OPIC) was expected to provide private investment support totaling \$125 million. The U.S. pledge was part of a 1993 \$2.3 billion international donor assistance package for the Palestinian Authority (PA),¹ which has since grown to \$3.6 billion.

In July and August 1997, press accounts cited PA internal reports of widespread misuse and abuse of foreign aid funds by several PA ministries. Based at least in part on these press accounts, you asked that we determine how U.S. assistance for PA has been used, what organizations have received U.S. funds, and whether there is any evidence that U.S. funds had been misused.

Between October 1993 and September 1997, USAID obligated² assistance totaling about \$273.1 million, and OPIC approved financing totaling about \$73.6 million for private sector proposals in the West Bank and Gaza Strip.³

¹In keeping with the Declaration of Principles, PA was established in May 1994 to begin assuming self-governing responsibilities for the West Bank and Gaza Strip.

²Funds spent or available to be spent by the implementing organization.

³Only \$3.6 million was committed for individual projects in the West Bank and Gaza Strip. The remaining \$70 million is financing available for private sector projects in the West Bank and Gaza Strip and in Jordan; \$30 million (of the \$70 million) is also available for projects in Oman. However, no funds have been disbursed.

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However, as of September 30, 1997, only about \$1.1 million in OPIC financing had been disbursed. An OPIC official informed us that its relatively low level of activity was the result of continued economic and political uncertainty in the region, which has produced fewer than hoped for private sector loan applications and qualifying proposals. Therefore, we focused our attention on the USAID funds.

RESULTS IN BRIEF

USAID officials told us that to guard against the possibility of corruption in the administration of the West Bank and Gaza Strip assistance program, USAID (1) did not provide any funds directly to PA because, among other things, the new authority did not have acceptable financial and accounting procedures and practices in place and (2) focused on a number of areas that USAID could more readily monitor, such as infrastructure improvements. Our review of USAID program documents confirmed that this has been the case.

- During fiscal years 1994-97, no USAID funds were provided directly to PA. Most USAID funds for the West Bank and Gaza Strip—\$264.4 million, or 97 percent—were obligated for specific projects implemented through U.S. contractors, private voluntary organizations, and government agencies or international organizations such as the United Nations and the World Bank.
- More than half (58 percent) of the USAID funds were used for infrastructure projects such as improving access to water supplies and providing housing and schools. The rest was provided for PA start-up costs⁴ and promoting democratic structures (26 percent), expanding income opportunities (11 percent), and implementing various other smaller programs (5 percent).

The enclosure provides more detail of USAID obligations for the West Bank and Gaza Strip for fiscal years 1994-97. As noted above, not all USAID funds were obligated for U.S. or international organizations. However, in each case USAID took precautions to ensure the funds were spent for intended purposes.

- In fiscal year 1994, \$5 million was provided for Palestine Liberation Organization police salaries. To ensure proper accountability, USAID hired

⁴In 1994, the Johan Jorgen Holst Peace Fund—a trust fund of international donor assistance administered by the World Bank—was established to pay certain PA start-up costs such as employee salaries. As of November 1997, the fund had provided PA \$212.1 million for recurrent budget support, \$34.2 million for employment generation projects, and \$6.7 million for overhead and administrative fees. USAID's contribution was \$39.9 million.

- an Egyptian audit firm to accompany the paymaster to verify individual payment records and to provide an overall accounting of disbursed funds.⁵
- In fiscal years 1994 and 1995, USAID provided \$2.6 million in grants to a Palestinian nongovernmental organization that, upon review, USAID determined had claimed ineligible expenditures. The grant was terminated.
- In fiscal year 1997, USAID provided about \$1.1 million to four other Palestinian nongovernmental organizations. As a condition for receiving the grants, each agreed to monthly reviews by an independent accounting firm.

Our review of USAID audits of certain contracts for West Bank and Gaza Strip projects disclosed no other findings of corruption or misuse of U.S. funds, though some specific claims for reimbursement were questioned and resolved through USAID's normal administrative processes. In addition to these audits, USAID recently conducted a procurement compliance review of its mission in Tel Aviv, which was established in 1994 to administer the U.S. assistance program for the West Bank and Gaza Strip. The review examined the mission's procedures for managing its contracts, grants, and cooperative agreements and found the mission in compliance with USAID guidance, which is based on Office of Management and Budget requirements.

We reviewed two PA internal reports that were cited in press accounts as alleging that U.S. and other donor funds had been misused⁶ and found that these accounts were not accurate. While the reports criticized PA financial management and alleged corruption among some ministry and other officials, neither asserted corruption or misuse of U.S. or other international donor funds.

⁵The payments for police salaries were addressed in our report, Foreign Assistance: Controls Over U.S. Funds Provided for the Benefit of the Palestinian Authority (GAO/NSIAD-96-18, Jan. 8, 1996). In that report, we also noted that accountability concerns over the use of U.S. funds should be mitigated by extensive financial controls.

⁶The first report was a review of the operations of various PA entities by the General Control Institution—PA's auditor general's office; it was issued in May 1997. The second report was a review of the General Control Institution's report by a special committee of the Palestinian Legislative Council; it was issued in August 1997.

AGENCY COMMENTS

USAID and the Department of State commented on a draft of this report. Both agreed with our overall observations and provided certain updated information and technical changes that we have incorporated.

SCOPE AND METHODOLOGY

To determine how U.S. assistance provided for the benefit of PA has been used, what organizations have received the assistance, and whether there was any evidence that U.S. funds had been misused, we interviewed cognizant officials from USAID, OPIC, State, and the World Bank, including the West Bank and Gaza Strip resident directors for USAID and World Bank programs. We also reviewed USAID and World Bank program documents and audit reports for the West Bank and Gaza Strip, two PA studies cited as alleging misuse of PA funds, and a November 1997 Defense Intelligence Agency report on PA. Additionally, the Central Intelligence Agency replied in writing to our questions.

We conducted our review from October 1997 to January 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretary of State, the Administrator of USAID, interested congressional committees, and other interested parties. Copies will also be made available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report were David R. Martin and A.H. Huntington, III.



Harold J. Johnson
Associate Director, International
Relations and Trade Issues

Enclosure

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List of Congressional Requesters

The Honorable Peter Deutsch
The Honorable Sue W. Kelly
The Honorable James P. McGovern
The Honorable Robert Menendez
The Honorable Glenn Poshard
The Honorable Ileana Ros-Lehtinen
The Honorable Matt Salmon
The Honorable Charles E. Schumer
The Honorable Louise Slaughter
The Honorable James A. Traficant, Jr.
The Honorable J.C. Watts, Jr.
House of Representatives

USAID FUNDS OBLIGATED FOR THE U.S. ASSISTANCE PROGRAM TO
THE WEST BANK AND GAZA STRIP, FISCAL YEARS 1994-97

Dollars in thousands

Strategic objective and activity	Implementing organization	Fiscal year				Total
		1994	1995	1996	1997	
Improved democratic practices and processes						
Palestinian Authority start-up costs ^a	IBRD	\$10,000	\$29,900	0	0	\$39,900
Democratic development						
Election support	USPVO	2,384	989	\$2,914	0	6,287
Legislative council	USPVO, USC	0	0	2,981	\$2,473	5,454
Executive authority	USC	0	0	403	2,125	2,528
Civil society	USPVO, PNGO	0	0	2,766	4,867	7,633
Local government	USPVO	0	0	0	522	522
Completed activities						
Public administration training	USPVO	1,601	1,000	436	0	3,037
Technical Assistance Trust Fund ^b	IBRD	5,000	(4,000)	0	0	1,000
Police salaries ^{c,d}	PLO	9,000	(4,000)	0	0	5,000
Better access and use of water resources						
Gaza wastewater	UNRWA, USC	0	12,000	10,536	14,178	36,714
Water resources (municipal services)	UNDP, USC	0	8,000	20,501	28,817	57,318
Integrated rural development (village water)	USPVO	1,000	1,000	1,500	2,000	5,500
Gaza housing - neighbor upgrading	USPVO	0	1,388	662	0	2,050
Completed activity						
Ramallah wastewater design	USPVO	130	0	0	0	130
Expanded income opportunities						
Small business support	USC	3,000	2,711	2,000	3,276	10,987
Small-scale community infrastructure						
Small business lending	UNRWA	0	2,000	2,000	0	4,000

Strategic objective and activity	Implementing organization	Fiscal year				Total
		1994	1995	1996	1997	
Job skills	USPVO	0	\$2,221	\$300	\$1,735	\$4,256
Microenterprise development	UNRWA, USPVO	0	0	1,617	2,600	4,217
Industrial zone development	USC	0	0	437	5,394	5,831
Completed activities						
Program support						
Industrial zones	USC	0	0	206	42	248
Microenterprises	USC	0	0	72	0	72
Transfer to USAID for bank training	USC	0	0	13	0	13
Job skills	USPVO	0	323	0	0	323
Selected short-term development needs						
Cooperative and municipal development	USPVO	\$1,500	1,500	1,700	0	4,700
Gaza housing						
Al Karama	USC	9,863	2,222	2,437	200	14,722
Home improvement loan	USPVO	2,864	1,690	843	0	5,397
Small-scale community infrastructure						
Sidewalk paving	UNDP	0	4,000	0	0	4,000
Schools	UNRWA	0	4,000	3,600	0	7,600
After school	UNRWA	0	1,030	0	0	1,030
Shelter	UNRWA	0	4,000	4,400	0	8,400
Institutional development	USPVO	2,000	1,000	1,000	0	4,000
Completed activity						
Shelters/jobs	UNRWA	5,880	0	0	0	5,880
Other						
Program support*	USPVO	285	1,639	116	331	2,371
Completed activities						
Builders for Peace	USPVO	350	500	380	0	1,230
Palestinian Israeli Cooperation Program	DOS	0	500	0	0	500
Agricultural pilot program	DOS	0	30	0	0	30

Strategic objective and activity	Implementing organization	Fiscal year				Total
		1994	1995	1996	1997	
Care of the Handicapped Children and Children at Risk	PNGO	\$1,100	\$1,500	0	0	\$2,600
Human resources development	USPVO	920	0	0	0	920
Women in Development Conference	USPVO	0	8	0	0	8
Health systems	USPVO, BUCEN	1,456	0	0	0	1,456
Private investment promotion	OPIC	230	48	0	0	278
Jobs creation	USPVO	2,380	0	0	0	2,380
Program development and support	USAID	1,569	0	0	0	1,569
Cooperative development	USPVO	1,022	0	0	0	1,022
Total		\$63,534	\$77,199	\$63,820	\$68,560	\$273,113

Legend

BUCEN = U.S. Bureau of the Census
 DOS = U.S. Department of State
 IBRD = International Bank for Reconstruction and Development (part of the World Bank)
 PLO = Palestine Liberation Organization
 PNGO = Palestinian nongovernmental organization
 UNDP = United Nations Development Program
 UNRWA = United Nations Relief and Works Agency
 USC = U.S. contractor
 USPVO = U.S. private voluntary organization

^aProvided to PA through the World Bank Holst Fund.

^bIn fiscal year 1995, \$4 million was transferred to the Holst Fund.

^cAn Egyptian audit firm monitored the disbursement of these funds and reported they were used for intended purposes.

^dIn fiscal year 1995, \$3.9 million was transferred to the Holst Fund, \$27,700 was used to cover certain vehicle costs, and \$72,300 was not used and returned to the U.S. Treasury.

^eTechnical support, logistics, and audits, for example.

Source: USAID Bureau for Asia and the Near East, Office of Middle East Affairs, West Bank/Gaza Strip Desk.

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