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The Political, Economic and Security Situation in the West Bank and Gaza

Before the Subcommittee on the Middle East and South Asia
Committee on Foreign Affairs
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Mr. Chairman and other distinguished members of the committee, thank you for inviting me to appear before you today. I appreciate the opportunity to testify on this critically important issue: *The Political, Economic and Security Situation in the West Bank and Gaza*. Much has taken place since Acting Deputy Administrator Kunder had the opportunity to brief the committee a year ago. I will describe how our assistance program is serving USG policy objectives and explain the vetting and anti-terrorist safeguards in place, which protect against U.S. funds being diverted to terrorist-controlled organizations.

USAID's strategy in the West Bank and Gaza remains consistent with the President's vision of supporting the development of a future democratic Palestinian state living side by side in peace and security with Israel. The majority of Palestinian and Israeli people are committed to the two-state solution, and it is in the United States' interest to help them realize this objective.

We will not work with Hamas or any other foreign terrorist organization, but we can and should continue to support moderate institutions and elements of Palestinian society - the private sector, moderate municipalities, independent institutions and those under President Abbas' control, civil society, and independent media - which counterbalance and confront extremist views and positions.

US assistance remains focused on two key objectives - meeting the needs of the Palestinian people and laying the foundation for the creation of a viable, democratic, and prosperous Palestinian state. In July 2006, Secretary Rice announced a Palestinian assistance strategy to: 1) support basic human needs; 2) secure and expand democracy and civil society; and 3) promote private sector development. The Administration and Congress agreed to a FY 2007 \$50 million budget level in order to further the Secretary's assistance objectives.

Support for Basic Human Needs

Despite an increase in donor assistance in 2006 over 2005, economic decline and insecurity have resulted in significant health and humanitarian concerns, particularly in Gaza. Factional violence, kidnapping and terrorism increasingly threaten lives and impede the distribution of humanitarian assistance.

The Palestinian Ministry of Health faces shortages of drugs and medical supplies, most significantly for cancer and dialysis treatment. Up to 20% of essential drugs may be out of stock. The UN reports that nearly 50% of the population is now food insecure, up from 36% in 2005. Many families lack the financial resources and resiliency to provide basic necessities such as food, water, health care, and medicines. It is estimated that 37% of Palestinians do not have enough food to meet daily nutritional needs, and one in four children under five is anemic. Nearly 1.2 million people in the West Bank and Gaza, including approximately 200,000 children under the age of five, lack access to sufficient quantities of safe drinking water.

Proper sewage treatment and disposal is nearly non-existent outside of the urban centers. Just six weeks ago a huge sewage pond collapsed and flooded a Bedouin village in Gaza, damaging 150 houses and killing five people. Such ponds are a poor but necessary substitute for proper treatment facilities. I am proud to say that USAID, as well as other USG-funded organizations such as UNRWA, responded immediately through our emergency and quick response mechanisms. USAID provided survival kits to every affected family and organized local residents into a

volunteer clean-up program.

In this challenging environment, the USG gives priority to the daily health care and nutrition needs of the most vulnerable Palestinians - mothers and children under age five - through the private health care system. USAID's grantees will train 180 health care providers in advanced, obstetrical life support and neonatal resuscitation. 450 emergency medical kits will be distributed to local providers who have received medical services training. Direct assistance is provided to the Holy Family Hospital in Bethlehem for maternal and child health care. USAID also has implemented small-scale emergency repair of water, sanitation, and solid waste services, and provided nearly 350,000 people with water, sanitation, education, hygiene, and health assistance.

The United States is the single largest contributor to the World Food Program (WFP) providing \$35.41 million of food assistance in 2006, thus enabling WFP and associated NGOs to distribute 47,000 metric tons of essential food commodities to 300,000 Palestinians, not registered as refugees with UNRWA, over a ten month period. We also provided supplies for NGO medical facilities, including life-saving dialysis pharmaceuticals, and other life-saving medical equipment for eight non-governmental hospitals, including fetal monitors, an incubator, and nebulizers. To overcome the constraint of not working with the Palestinian Authority government, USAID has identified new nongovernmental partners to deliver assistance quickly.

Secure and Expand Democracy

It is critical that we remain engaged with moderates and cultivate allies among those in Palestinian society who reject Hamas and other extremists. Moderate Palestinian leaders, including many close to President Abbas, have welcomed US assistance and used their partnership with the United States to respond to their constituents' priorities. USAID is working with these leaders as well as moderate municipal councils to provide much-needed assistance to Palestinian communities.

USAID provides flexible, rapidly available in-kind grants to strengthen civil society organizations and community groups. Our discrete, targeted support for moderate, progressive local officials and leaders increases their visibility and credibility in their communities--examples include support for community centers, youth clubs, small community-held infrastructure and public safety improvements. There is clear demand among moderate Palestinian leaders for this assistance, working in partnership with the US.

The Local Democratic Reform (LDR) program assists Palestinian local authorities that are headed by moderates committed to democratic governance. We currently work in 20 communities to help municipal leaders meet the needs of their constituents more effectively and responsibly. Leaders work directly with their constituents to identify local priorities and develop plans to meet those priorities. A grant component supports community projects that enable reform-minded leaders to deliver at the community level, and to help new democratic leaders build grassroots constituencies.

In the Gaza strip, moderate mayors are facing serious challenges due to increased poverty and lack of available resources. Three communities elected to use funding provided by USAID to pave internal roads, noting that this would generate needed employment opportunities for local youth as well as provide a safe route for children to get to school. In discussing this program, one mayor noted that his radical political opponent is receiving assistance from other sources to support his community. With USAID assistance, the mayor said he "is able to meet with citizens and tell them that their friends the Americans did not give up on them."

The USG is also working to strengthen independent media. Independent media is under threat by a growing number of radio and TV stations that are owned and well-funded by various political factions. USAID is assisting independent station owners to develop business plans and to raise revenue that will allow them to maintain editorial independence. The program is addressing incitement against Israel in the Palestinian media by assisting the Syndicate of Private TV and Radio. The Syndicate is lobbying for implementation of a media law that will require licenses and monitor programming and professionalism. The program also combats incitement by training media professionals about appropriate standards in unbiased reporting. Nearly 100 media professionals have been trained since January.

As an important tactic in fighting the Global War on Terror and winning the war of ideas, USAID believes it is important to support scholarship activities at institutions of higher education in the Middle East, and particularly in the West Bank and Gaza, as a way to support moderate influences. USAID currently has two higher education activities, which involve sending Palestinian students and faculty to the US for Masters/PHD programs. All scholarship students/faculty currently studying in the US have been vetted through US sources to ensure they have no ties to

terrorism. Experience worldwide has shown us that such programs providing exposure to the US have a very positive impact in our efforts to win the war of ideas. Students come back to their communities with a better appreciation of the US and the American people. Given the nature of the threat we face today, retreating from such activities would directly undermine our national security-our continued engagement is vital.

Private Sector Development

International aid to the Palestinians has actually increased over the past year in the form of food and humanitarian assistance. Many donors have redirected their traditional cash transfers away from the PA towards the European Union and World Bank's Temporary International Mechanism (TIM), which was designed to provide direct assistance to the Palestinian people. This loss of financial flows to the PA has exposed its dependence on donor assistance. One-third of its workers have gone without wages. The World Bank estimates that unemployment is over 25% and the United Nations (UN) estimates that 65.8% of the Palestinian population lives in poverty. Finally, exports through Gaza's Karni crossing average just 55 trucks per day, while the World Bank estimated that at least 150 export trucks per day are needed to sustain Gaza's economy. The lack of trade represents an absolute constriction of the entire Gazan economy.

Creating a more stable trading environment and better security will improve Palestinians' economic livelihoods. It is a fundamental pre-condition for realizing sustainable Palestinian economic growth and addressing Israeli security concerns. USAID is working very closely with the U.S. Security Coordinator on vital infrastructure and security upgrades on the Palestinian-side of the Karni/al-Mintar cargo crossing. This work, which we expect to begin very soon, includes constructing large roads, primary and secondary inspection areas, underground utilities including water, drainage, wastewater collection and treatment, and electrical and security conduits. The activities will improve physical security at the Karni crossing, while addressing Israeli security concerns and boosting cargo throughput to target levels in the Agreement on Movement and Access.

This work on the Palestinian side of the Karni border complements USAID's work on the Israeli side of the border. With the support of a cargo scanner provided by USAID, the Israelis have recently extended the operating hours at Karni. This has improved the volume of imported truckloads by 17% over the previous month to 279 trucks a day. It increased export truckloads to an average 55 a day, a 42% increase.

USAID supports small business and agricultural development to help strengthen the Palestinian economy through loan programs and technical assistance. In the beginning of 2007, the Palestinian Enterprise Development project formed a partnership with Palestinian industries to increase exports, enable investment, offer training, generate employment, and improve quality standards. These industries include: food, wood and furniture, stone and marble, pharmaceuticals, IT, and construction.

Since 2006, 10,000 Palestinian agribusinesses, farmers, and fishermen have received assistance and training through the Palestinian Agribusiness Partnership Activity (PAPA). A drip irrigation project has enabled 250 households in the Jordan Valley to become self-reliant by producing vegetables for home consumption and supplemental family income.

Capitalizing on USG Assistance

Current USG assistance bolsters moderate voices by letting the Palestinian people know we have not abandoned them. The USG publicizes USAID projects through press releases, media campaigns, branding, and press tours. After a press tour on March 29, 2007, at least two independent media outlets and the AP positively reported in Arabic on the many humanitarian projects the US is implementing on behalf of the Palestinian people. Following a recent media campaign that included TV, radio, billboards and newspaper ads, polling data demonstrated that USAID's outreach campaign led to an increase in public awareness of the contributions of the American people to the Palestinian people. Of the Palestinian population who saw the USAID outreach campaign, 50 percent regard USAID projects as important for their well-being and 58 percent believe that USAID is sincere about assisting the Palestinian people.

Vetting and other Anti-Terror Safeguards

Given the political and operational realities, managing the U.S. assistance program in the West Bank and Gaza has many challenges. As guardians of U.S. taxpayers' money, USAID takes seriously our responsibility to ensure the appropriate and secure use of foreign assistance funds. In order to minimize the risk that U.S. government resources

fall into terrorist hands, USAID has developed an extensive system of safeguards, monitoring, and evaluation to make sure the aid program in the West Bank and Gaza is completely transparent and accountable.

Since 2001, USAID has vetted recipients of U.S. assistance. The USAID Mission utilizes a comprehensive partner screening and vetting process. USAID has invested considerable resources to develop a more sophisticated database to collect information on foreign persons and organizations for vetting purposes. Under new procedures, USAID will require its contractors and grantees (as well as sub-contractors and sub-grantees) to provide an affirmative certification as to the accuracy of the information these entities provide for the purpose of vetting. The vetting process itself involves searches of databases maintained by U.S. intelligence and other U.S. sources. Among other things, this review also includes checking the list of parties excluded from federal procurement and non-procurement programs (suspended/debarred list) and checking the Office of Foreign Assets Control (OFAC) specially designated nationals and blocked persons lists. Before issuing assistance instruments, USAID also requires all U.S. and non-U.S. organizations to sign an "Anti-Terrorism Certification" stating that they do not provide material support or resources for terrorism.

Once an award has been made, USAID has established procedures to safeguard U.S. assistance and ensure its transparency and integrity. All NGOs are required to submit quarterly financial reports to USAID on how funds are spent. All significant grantees and contractors' local costs are audited annually by USAID's Inspector General, and access to this financial information by the US Comptroller General is also guaranteed.

Clearly, Mr. Chairman, the situation in West Bank and Gaza remains tense, particularly in Gaza where there has been a recent escalation in violence between rivals Fatah and Hamas. We salute the brave Foreign Service Nationals who remain dedicated to improving the lives of the Palestinians despite the great adversity they face. It is with these brave individuals that we remain committed to a more prosperous and hopeful future.

Mr. Chairman, thank you for allowing me this opportunity to share information about USAID's role in supporting US foreign policy goals with respect to the West Bank and Gaza. I look forward to your questions.