



# **MORTGAGING SELF-RELIANCE**

**Foreign Aid and  
Development in  
Palestine**

*Phase II Report*



**Jerusalem Media & Communication Centre**

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November 1997

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*Foreign Aid and Development in Palestine*

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We would like to thank the *Netherlands Organization for International Development Cooperation (NOVIB)*, whose continuing support for JMCC's work made this project possible.

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# Mortgaging Self-Reliance

## Foreign Aid and Development in Palestine *Phase II Report*<sup>1</sup>

### Abstract

Foreign aid is a multi-level process, the effectiveness of which can only be considered in the political and administrative context of the country in question. This study is an attempt to provide a preliminary assessment of the international aid to the Palestinian National Authority (PNA). In this sense, and because the study represents the views of analysts in an aid-recipient country, this study is unique. Although it is still too early for a full assessment of the impact and long-term consequences of the current donor initiative, some preliminary conclusions can be drawn at this stage. A close examination of the data confirms that one of *the most pressing immediate goals of foreign aid to Palestine is that of political survival*. This study highlights the *need to reconsider issues of sectoral priority, project selection and the choice of development strategy by both local and international policy-makers involved in the nation-building process ongoing in the West Bank and Gaza Strip*. These issues have become more complicated due, on the one hand, to the prolonged border closures of the Palestinian territories by Israel, most stringently since February 1996. On the other hand, the situation has been compounded by the failure of the PNA to follow a truly free market-oriented development strategy and to implement programs and projects in line with clearly defined priorities. *Finally, the interdependent relationship of the commitment to peace and the commitment to development is becoming rapidly more evident*. The current obstacles hindering Palestinian development will be viewed through the filter of the differing political agendas of various players, particularly the United States and Israel.

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<sup>1</sup> This is the second report of the Jerusalem Media & Communication Centre project "Foreign Aid and Development in Palestine". It represents the contributions of Dr. Adel Zagha (Chairperson of the Economics Department at Birzeit University) and Manal Jamal of the JMCC. Views in this report are those of the authors and do not necessarily represent those of the institutions to which they are affiliated.








## **I. Introduction**

This report represents the culmination of Phase II of the JMCC project entitled "Foreign Aid and Development in Palestine". The main aim of this project is to shed light on the current debate between the donor community and Palestinians on whether or not donors are fulfilling their commitments; and to examine whether the funds being given by the donor community are being used in a constructive way which will help ensure sustainable development, or whether they are instead helping to create structural dependency.

In the first phase of the project, information on the current status of the development initiative in the West Bank and Gaza Strip (WBGS), including the amounts being donated, by which donors, and to which sectors, was provided in a report published in June 1997. This, the second phase of the project, is intended to be analytical in nature, and to stimulate a discussion in the Palestinian arena on issues pertaining to the donor community and Palestinian economic development priorities in the WBGS. By examining — and questioning — the current development process, the objective is to provoke a debate which will serve as a launching pad to the third and final phase of this project, in which a local forum will be firmly established and, accordingly, various components of the development process can be prioritized and policy guidelines and recommendations formulated and published.

By no means is this a comprehensive study of the Palestinian economy and the donor community; the issues are far too numerous and complex. We have attempted, however, to provide an opportunity for input from several individuals involved directly and indirectly in the Palestinian economic development process. It is our hope that by the end of the third phase of this project, we will have succeeded in involving additional experts, academics and policy-makers. It should be noted, however, that since interviews and discussions were a main source of information in this phase, the accuracy of information cannot always be confirmed.

This report is an attempt to examine in some depth the role of foreign aid in the Palestinian development effort in order to understand the causes of failure, and to draw some implications for decision-makers both in the PNA and the donor community. The remainder of the report is organized as follows: Section II discusses the core factors contributing to effectiveness in foreign aid, drawing on the international experience; Section III provides a brief assessment of the current socio/economic and political situation in the WBGS in order to place the development debate in context; Section IV details the structure of the foreign aid mechanism in the



Palestinian context; Section V assesses the role of foreign aid in light of certain experiences in the Palestinian context; Section VI summarises economic progress (or lack thereof) in the WBS during the period 1992-1996; and Section VII sums up the report and concludes with some policy implications for both the PNA and the donor community.

## II. Core Factors in Effective Foreign Aid

Development cooperation through foreign aid can be thought of as a multi-level process that involves the filling of four types of gaps at four different levels. Ideally, it should serve as a catalyst for the stimulation of a sustainable national development process. These gaps, objectives and the different levels are shown in Figure 1. They are:

- [a] world-market integration gap,
- [b] planning and coordination gap,
- [c] capacity gap, and
- [d] sustainability gap.

The ownership “promoters” are trade and investment debt at the *structural level*, dialogue and partnership at the *policy level*, capacity development and technical cooperation at the *institutional level*, and financial and material aid and technical assistance at the *project management level*. A prerequisite for and outcome of effective development cooperation is thought to be democratic, peaceful and participatory involvement in national development processes.

Brigaldino (1996)<sup>1</sup> suggests three initial practical criteria for effective development cooperation. By emphasizing these criteria, it may be possible to find a basic approach to effective cooperation between developed and underdeveloped countries in general and to apply it specifically in the Palestinian context. In doing this, the issues which must be considered are diverse, so it can be complicated to try to forge more effective cooperation relations between the partners on the basis of a general approach. These three main categories are: structural issues; political questions; and management factors. Each of these categories is discussed briefly below.

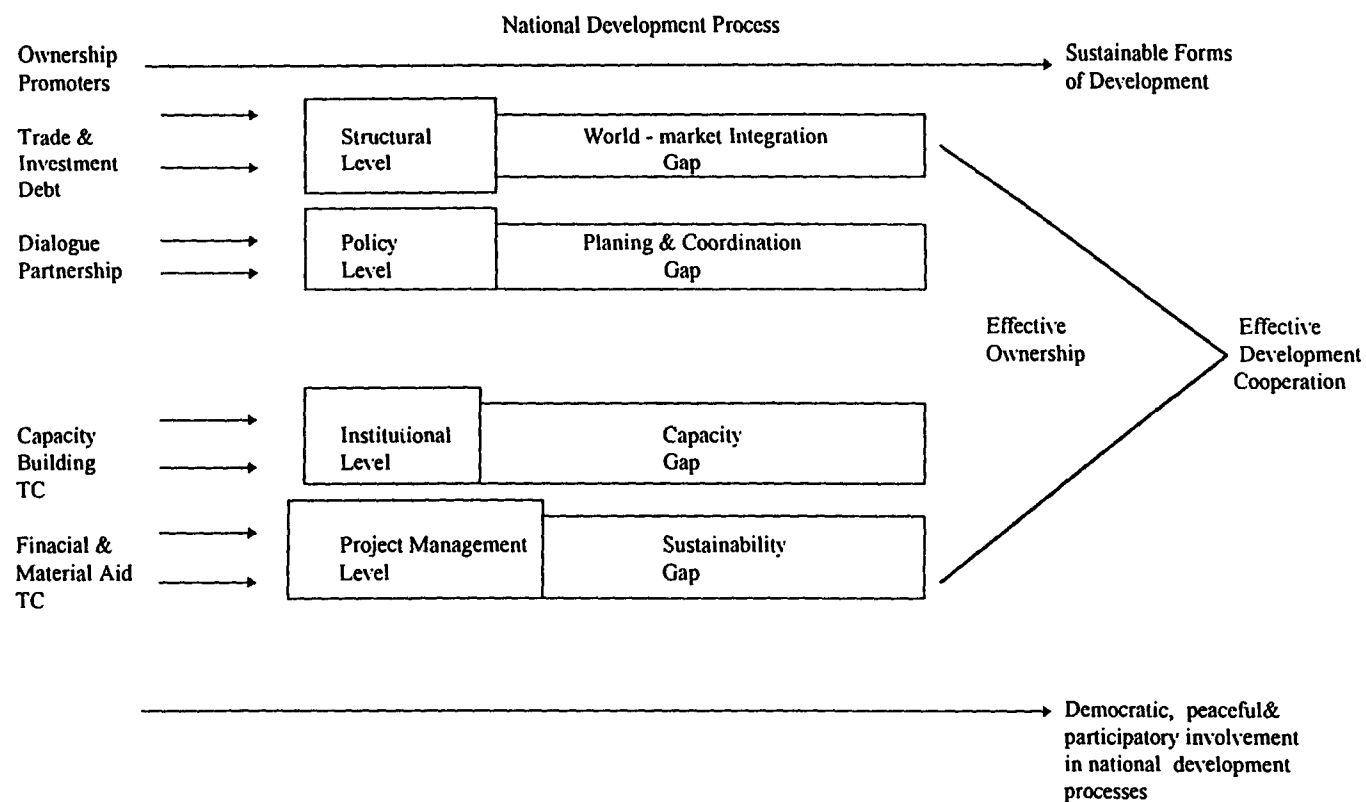
### II.A. STRUCTURAL ISSUES

The structural issues tend to be long-term in nature, and they frequently relate to the general political environment in the developing country. Obviously, without adequate political stability, even the best development cooperation is unlikely to bear fruit. For the most part, individual countries are not in a position to influence underlying international conditions, such as the terms of trade, debt, and trade and investment flows. A further important factor is the reinforcement of the institutional capacity of a

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<sup>1</sup> Glenn Brigaldino, “Effective Forms of Development Co-operation in Africa”, *Economics*, vol. 54, (1996), pp. 84-99.

Figure (1)

**EFFECTIVENESS OF AID AS A MULTI-LEVEL PROCESS**

developing country so that it is able to implement necessary social and economic reforms. In addition to questions of administrative and analytical capacity, an important factor will be to strengthen those government institutions which are responsible for setting social and national development priorities and strategies.

## **II.B. POLITICAL QUESTIONS**

Frequently, the resolution of political questions can contribute to improving the effectiveness of development cooperation. Determination of political priorities, therefore, is of vital importance. Any discussion of aid effectiveness cannot restrict itself to economic aspects. The decision to target support to education, health and infrastructural areas is also a political question, the response to which has a significant impact on medium- and long-term opportunities for improving the effectiveness of development resources. Questions surrounding the setting of political priorities in developing countries are by no means new, but rather have been the subject of intense debate for a long time. How effectively both sides — donor countries and aid recipients — are able to achieve their political objectives is something which is primarily determined by the framework and conditions for development cooperation.

It is now virtually general practice for bilateral donors to agree to extensive programs only with those countries which declare their willingness to implement World Bank and IMF structural adjustment reforms.<sup>2</sup> In most cases, this core condition is supplemented by a whole range of open and hidden conditionalities imposed by the donor countries on their “partners”. For the developing country, heavily dependent on these external sources, there are few, if any, alternatives to the dynamics of conditionality (Jepma 1994)<sup>3</sup>.

Certainly, sustainable development progress is not possible without democratic structures, the securing of comprehensive basic standards and respect for the rule of law. In many developing countries, furthermore, reforms of the economic system and the public sector are basic requirements for effective development cooperation. Yet it is just as important to free aid payments from commercial interests of the donor

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<sup>2</sup> The logic and practicality of an IMF-supported adjustment program is questionable under the conditions of a nation-building economy. The World Bank and the IMF are approaching the problems of the Palestinian economy from their traditional views. Although some of these views have been applicable to the Palestinian case (e.g., telecommunications), it is not yet clear how, for instance, the private sector would undertake infrastructural projects. The involvement of the state might be more desirable in the Palestinian case than otherwise indicated in other parts of the world.

<sup>3</sup> C. J. Jepma, International Policy Co-ordination and Untying of Aid, (Hants, 1994).



countries and to take effective initiatives to overcome the continuing lack of movement on the part of the developed countries on debt relief questions. Development could then be a cooperative effort between developed and developing countries based on partnership, and could prove far more successful at redressing weaknesses in the implementation of development policy tasks than programs which are strictly controlled by the donor countries. The willingness of the donor to risk additional partnership should be accompanied in each case by an intensive sponsorship of the personnel and material capacities in the individual developing countries. Thus, rather than specifying framework conditions for cooperation, it is of central importance that the donor and recipient sides enter into open dialogue to jointly define common interests and objectives of cooperation.

### **II.C. MANAGEMENT FACTORS**

Increased effectiveness can be most successfully achieved at the program and project levels of development cooperation. At the project management level in developing countries, it is possible to improve effectiveness relatively rapidly. In addition to the well-known demands for greater coordination of development activities, priority needs to be given to involving decision-makers to a greater extent (Maddock 1992, 399 ff.)<sup>4</sup>. In all phases of development cooperation, local participation levels — particularly of specific target groups — should be as high as possible. Such a participatory approach is not only desirable but is an important pre-condition for achieving maximum effectiveness. Even if adequately qualified staff are not available everywhere, it is often possible to train such staff, pay adequate remuneration and entrust them with responsibility. If this approach is not seriously pursued and supported, there is a risk that no change or progress will occur. The lack of effectiveness in development cooperation will be widely criticised, but there will be no changes to the established management system.

Preparation for such changes must involve the developing countries themselves. One possibility would be to more intensively decentralize project implementation and financial accounting responsibility. In many cases, this would contribute to greater transparency and more rapid implementation. A further step would be to establish employment criteria based on qualifications, at the same time ensuring sufficiently high earnings and greater delegation of decision-making responsibilities. Improvements in the budget system and rationalization of the budget allocations of the available resources could be tackled.

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<sup>4</sup> N. Maddock, "Local Management of Aid-funded Projects", Public Administration and Development, vol. 12, 1992.






### **III. Situation Assessment**

On 18-19 October 1995, representatives of the Palestinian National Authority, Israel, the World Bank, 29 donor countries and 10 international organizations met in Paris. The purpose of the meeting was to develop a renewed program of development assistance for the West Bank and Gaza Strip in the wake of the 28 September 1995 "Taba agreement" between Israel and the Palestine Liberation Organization (PLO) which enshrined commitments to additional Israeli military redeployments, Palestinian elections, and an extension of Palestinian authority in the West Bank. The timing and focus of that meeting underscored the close connection which has existed from the outset between the Palestinian-Israeli peace process and international financial assistance. The pledges by the international donor community (currently totaling approximately US\$2.9 billion) were intended to foster Palestinian economic and social development in the West Bank and Gaza Strip, as well as support the emergence of a Palestinian administrative infrastructure. Politically, the assistance efforts aims at strengthening the PNA and reinforcing popular support for the peace process by delivering tangible, "visible" benefits to Palestinians in the WBGS.

The rationale was that Palestinians would see the tangible results of the peace process in their villages, towns and refugee camps, and at the national level, with an improved economy, an efficient and democratic government, and participation in regional development. With an increase in prosperity, solid support for the peace process would be ensured and "anti-Oslo" opponents would be marginalized.

In the four years since the signing of the Declaration of Principles on 13 September 1993, about half of the total amount pledged has been assigned to projects on the ground. The United Nations, previously represented by three agencies in the field, has increased its presence -- now, 28 agencies, organizations and funds have representation in the West Bank and Gaza Strip, and in 1996 the United Nations project expenditures totaled over one quarter of a billion dollars. The figure for 1997 is expected to be even higher. The World Bank established a trust fund for NGOs with start-up capital of \$30 million. Significantly, consistent with this forward-looking support for the build-up of the Palestinian Authority, UNRWA, the agency which provides services for Palestinian refugees from 1948 and 1967, has been suffering a chronic deficit and there is little enthusiasm from donors for continued support for a sector of the population whose problems were to be resolved in final status negotiations.




Also in the four years since the signing of the DOP, the airport and sea port so crucial to Palestinian economic development have been blocked by Israel; likewise, the safe passage route which was to allow Palestinians territorial contiguity between the West Bank and Gaza has not been constructed. Nor have there been the extensive Israeli redeployments agreed to and reconfirmed later in the Hebron Protocol. Instead, a systematic policy of closures has become a fact of life for Palestinians. Since the inception of the peace process, the Palestinian economy has suffered increasing losses due to closure: in 1993, six percent of potential working and trading days were lost due to closure. This increased to 22 percent in 1994, 26 percent in 1995, 29 percent in 1996, and has reached almost 22 percent in just the first eight months of 1997. The standard of living for the population as a whole has fallen by 40 percent since the beginning of the Oslo process. Unemployment levels in refugee camps are estimated at around 70 percent. Meanwhile, the labor force increases by eight percent every year and with such a youthful population (over 60 percent under the age of 21), the numbers of young unemployed people with few future prospects is growing rapidly.

By May 1997, over 70 percent of Palestinians in the WBGS were saying that they felt the peace process had not been good for their economy. In the same period, support for the Oslo accords had fallen and 28 percent of people said they felt pessimistic or extremely pessimistic about the future. The anger and frustration which had been effectively put on hold since the Hebron massacre shortly after the signing of the DOP, broke out again in September 1996. The resultant clashes left 85 Palestinians dead, and the Israeli army had shown that it would not hesitate to move against a largely stone-throwing crowd with all its military might. By August 1997, almost one year after the clashes, strong support for Oslo had dropped to 10.5 percent and guarded support to 53.6 percent; levels of pessimism had risen to 37.3 percent, and 28.2 percent of people surveyed said they supported suicide operations.

Clearly, if one of the primary goals of the international development initiative was to bolster support for the peace process, then that initiative can be said to have failed. This current failure could be attributed to the inconsistent nature of the "marriage" of politics and development goals on the part of the international community. While endorsing the Israeli-Palestinian peace accords with substantial development money, donor countries have not matched their development initiative with the same level of political will. There has been relatively little pressure on Israel to implement its commitments under the peace accords, and it is the non-implementation of those commitments and the continued control by Israel of all vital sectors which has blocked many project implementation plans on the part of donors.





And, moreover, this lack of pressure has encouraged Israel to become even further entrenched in its positions, resulting in a political stagnation and sense of helplessness that has convinced many Palestinians that the peace process is a failure. This lack of political will from the international community also means that, while pumping funds into a “national infrastructure” they were simultaneously allowing the nation-building process to be undercut by Israeli policies. When it became evident that support for the peace process was falling — due to the lack of political progress - rather than keeping the political side of the “marital” vows, donors instead put extra effort and funds into the development side of the equation. But these extra funds could not further the development effort — and increase support for the peace process — because they were required to offset the tremendous losses caused by Israeli policies.



#### IV. Structure of Foreign Aid Mechanism in the Palestinian Context

A complex structure was established to administer and coordinate the increased foreign aid to the PNA. From the beginning, the two main bodies created by the donor community were the Ad Hoc Liaison Committee (AHLC) and the Consultative Group (CG). The CG is a typical World Bank mechanism used to coordinate donor programs. It includes both aid officials and technical experts, and in the Palestinian case has generally been used to win support (and funding) for detailed assistance plans (Brynen, 1996)<sup>5</sup>.

The AHLC was established by the Multilateral Steering Group of the multilateral talks on the Middle East peace process after 1 October 1993 donor conference in Washington, DC. This body is the principal coordination mechanism on policy and political matters related to the development effort. The members of the AHLC are Canada, the European Union, Japan, Norway, Russia, Saudi Arabia and the United States (UN and the World Bank Secretariat of the LACC, July 1996). Israel and the Palestine Liberation Organization (PLO), as well as Egypt, Jordan, Tunisia and the United Nations are associate members. Accordingly, the AHLC was established to coordinate and promote assistance; promote transparency; foster private investment; monitor the Palestinian economy as a whole; and encourage the implementation of the economic aspects of the Declaration of Principles. The AHLC, which technically reports back to the Steering Committee of the multilateral track of the Middle East peace process, "...has acted as a sort of political steering committee, responsible for the overall guidelines and policies of the aid process"<sup>6</sup>. Norway is the chair of the AHLC and the World Bank is the secretariat.

Other substructures have also been created to facilitate what was to be a coordinated mechanism of donor efforts. In November 1994 in Brussels, the AHLC established the Local Aid Coordination Committee (LACC) and the Joint Liaison Committee (JLC). Both these bodies were created to facilitate the coordination mechanism locally in the WBGS. The LACC is co-chaired by the World Bank, the United

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<sup>5</sup> Rex Brynen, "The (Very) Political Economy of the West Bank and Gaza: Learning Lessons about Peace-building and Development Assistance", ICAS-Montreal Papers in Contemporary Arab Studies (1995), p. 3-6.

<sup>6</sup> Brynen, "International Aid to the West Bank and Gaza Strip: A Primer", *Journal of Palestine Studies*, vol. XXV, no. 2 (Winter 1996), pp. 46-53.

Nations Special Coordinator's Office (UNSCO) and Norway. The LACC chair reports to the chair of the AHLC and to the CG through the World Bank. Accordingly, the PNA created a counterpart committee of three representatives at the ministerial level, one of which is from the Palestinian Economic Council for Reconstruction and Development (PECDAR). LACC meetings are held monthly and attended by a number of donors. The JLC is made up of the PNA as gavel-holder, Norway as shepherd, the World Bank as secretariat, and Israel, the United States, the European Union and the UN Special Coordinator's Office in the Occupied Territories (UNSCO). This body reviews the budgetary performance of the PNA and monitors the implementation of the Tripartite Action Plan (TAP).<sup>7</sup>


To further facilitate matters, the LACC created 12 sector working groups (SWGs): Agriculture, Education, Employment Creation, Environment, Health, Infrastructure and Housing, Institution-Building, Police, Private Sector, Public Finance, Tourism, and Transport and Communications. For each of the SWGs, a UN agency serves as secretariat, a particular donor serves as shepherd, and the relevant Palestinian ministry serves as gavel-holder. Other donors interested in that particular sector are also included in the group. These groups are thought of as an information exchange service among interested donors, the UN and the World Bank in order to avoid duplication of effort and to more effectively coordinate efforts to meet priority needs identified by the PNA.

Palestinian NGOs are, for the most part, excluded from the SWGs, despite their substantial contributions to development in the WBGS over the years prior to the establishment of the PNA. According to one UN source, this is due to the fact that a "satisfactory mechanism" for their inclusion has never been identified, although in certain SWGs, e.g., education and agriculture, one or two NGOs are represented.

PECDAR was established as the World Bank counterpart, although it has encountered changes in its sphere of involvement since its inception in 1994, and the importance of its role in overall planning, implementation and monitoring of foreign

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<sup>7</sup> The first Tripartite Action Plan on Revenues, Expenditures and Donor Funding for the Palestinian Authority was signed in Paris at the April 1995 AHLC meeting, and was revised in February 1996. The TAP incorporates new understanding on the part of the PNA, the government of Israel and the donor community, which aim to promote progress towards the balancing of the PNA recurrent budget; the expedition of disbursement of donations and reducing impediments to the free passage of goods and persons. The TAP has been ineffective largely due to Israel's overriding role on the ground.



aid to the PNA has decreased. The problems pertaining to PECDAR will be discussed in the following section.

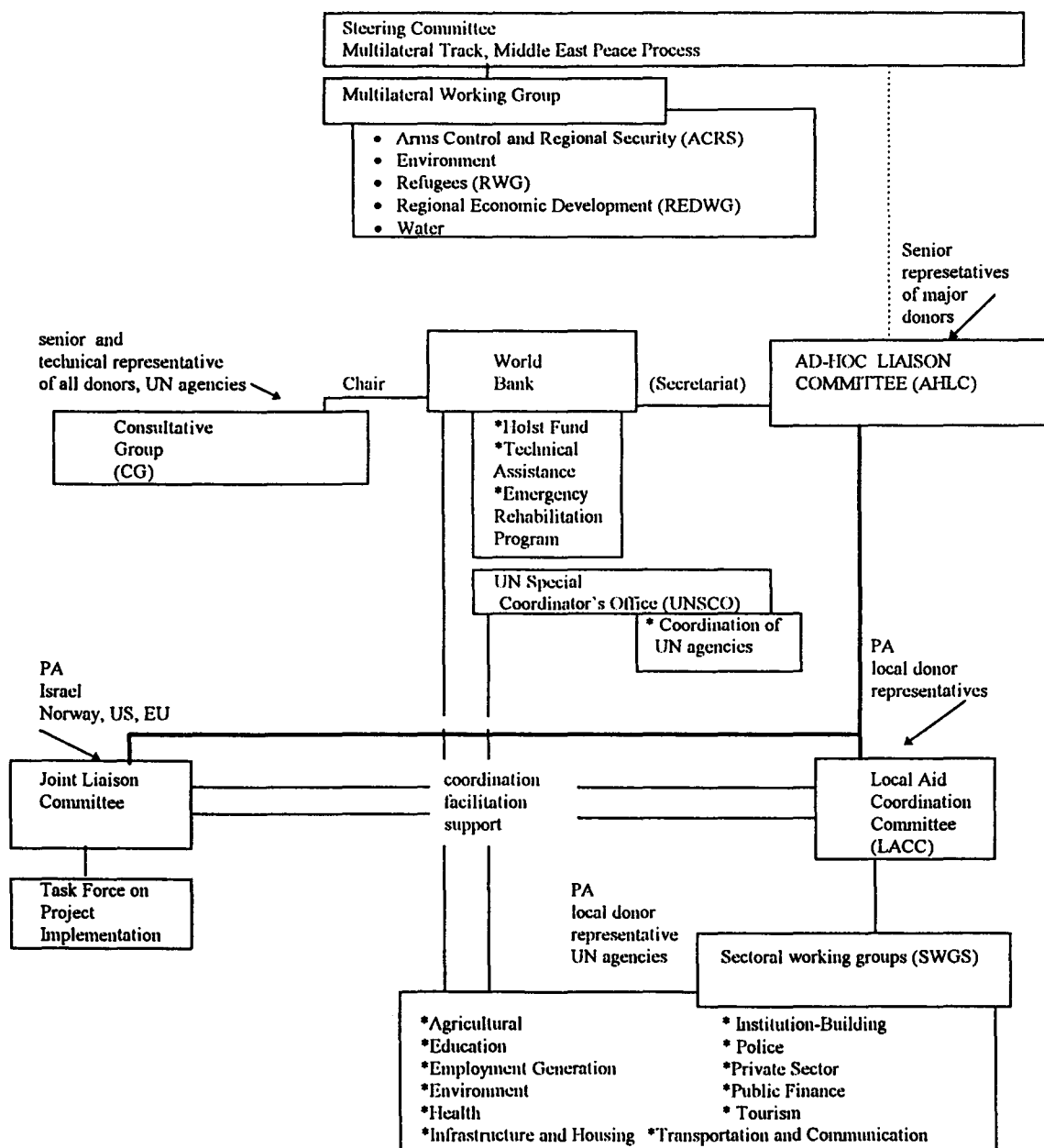
Figure 2 clarifies this structure of foreign aid mechanism in the Palestinian context.

A close examination of the experience of foreign aid to the PNA reveals that the origin of problems with the development cooperation in the Palestinian context is threefold:

- **Problems in coordination:** Coordination in the foreign aid initiative is inadequate and is more informative than collaborative in nature. This effort is still circumscribed with the commercial interests of the majority of the donors. The lack of coordination results in the duplication of efforts and the loss of the importance of prioritization.
- **Problems stemming from Israeli policies:** Israeli “security” demands are prioritised above peace with the Palestinians and development of the Palestinian economy. In truth, they serve more effectively as collective punishment than to ensure security. The Israeli border closure policy has not only contributed to drastic income losses for Palestinian workers and a decline in economic activities in the WBGS, but more importantly, this policy effectively bars the Palestinian economy from integrating into the world market. The foreign assistance being provided to the WBGS is becoming increasingly vulnerable to this policy and subsequently is losing its potential to act as a catalyst in the Palestinian national development processes.
- **Problems stemming from the transitional nature of the Palestinian economy, government and society:** The Palestinian administration lacks a clear vision of where to head in the future, because this future is increasingly uncertain. The Palestinian leadership is preoccupied with the ongoing crises of the destabilised peace process and lacks sufficient energy or expertise to formulate a coherent long-term development plan under these circumstances. In addition, the PNA is under enormous political pressure from Israel and the donor community, particularly the United States, and this pressure has been translated at times into financial pressure. Such a relationship and the uncertainty of the financial base of the country also makes long-term planning difficult

Figure (2)

**ORGANIZATIONAL SCHEMA OF ASSISTANCE PROGRAM**





## **V. Foreign Aid in the Palestinian Context: An Assessment**

This section discusses in detail the problems identified in the preceding section.

### **V.A. PROBLEMS IN COORDINATION**

There is much skepticism regarding the effectiveness of the mechanisms for donor coordination, and questions have arisen as to the underlying motivations:


1. Whose agendas are being implemented?
  - 1) Is there concerted effort to increase the implementing capacity of the PNA bodies?
  - 2) If so, how does this mechanism serve this purpose?
  - 3) Was there really a necessity for this complicated structure when the major donors work directly through other agencies? For example, the US works directly through USAID, private volunteer organizations (PVOs), the Holst Fund<sup>8</sup> or with the Palestinian police. The EU, which is the largest contributor of foreign assistance, coordinates its efforts directly through relevant Palestinian bodies. And Japan, which previously disbursed aid through UNDP, now coordinates and disburses aid directly through a relevant Palestinian body.
  - 4) What about donors who choose to operate outside of this mechanism, or the international and local NGOs who are not included in this mechanism? To what extent are their considerable efforts taken into consideration in the sectoral and country-wide planning?

Finding answers to these questions is not easy. However, discontent is widespread among Palestinians regarding the slow pace of funds, the low disbursements / commitments ratios<sup>9</sup>, and above all the behind-the-scenes politics which undermine

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<sup>8</sup> The Holst Fund, named after the late Norwegian Foreign Minister Johan Jurgen Holst, is used to support the start-up and recurrent costs of the PNA. Because Palestinian tax receipts are still not sufficient to cover recurrent costs, and are particularly affected by Israeli closures, and because the PNA would grind to a halt were civil service salaries and administrative costs to remain unpaid for any length of time, the Holst Fund has been of critical importance. It has also been chronically short of funds, forcing the World Bank and Norway to play the frequent role of emergency fund-raiser.

<sup>9</sup> For more information on these ratios see JMCC's Phase I report of this project. On legal problems of aid to the PNA see also Brynen (1995), *ibid.*, p. 7-11.



the Palestinians in the decision-making process. The ex-director of the Economic Policy and Project Selection Department at PECNDAR assesses this mechanism from his own experience:


The role of the Palestinians has generally been undermined in the overall donor effort and mechanism, which has been designed in such a way so that full control is given to the donors. Particular attention as to how the donor mechanism structure was set up is indicative of this. When the AHLC was established there was a lot of competition regarding the steering committee membership, and consequently, the World Bank became the body's secretariat. Then the CG was established and Israel became a member partner along with the PLO and the donors, on equal footing with the Palestinians. In the LACC, Israel is also on equal footing with the PLO or PNA. Then in the SWGs, the designated PNA body is playing the role of gavel-holder, [but the groups are] actually led by a particular UN agency as secretariat and a donor as shepherd. Furthermore, initially PECNDAR had rejected the TAP, which was considered at the time an American initiative. Eventually, PECNDAR consented to the document after a series of modifications were made. [The TAP] was never intended, however, to become a major signed document. In effect, [with the TAP] the role of the PNA was marginalized. But part of the problem was a lack of preparation on the part of the Palestinians. Therefore, the current donor mechanism has become a platform for the exchange of information on pledges, commitments and disbursements, rather than a mechanism where actual coordination is taking place.<sup>10</sup>

This sort of critique was echoed by another ex-department head from PECNDAR, Samir Hulaileh:

I have a big question mark in my head as to whether or not one [a mechanism] actually exists, and there are definitely several gaps in the efficiency of the mechanism. For example, there is always the question of who is putting projects forward and who makes the decisions on projects. In the beginning, PECNDAR did these things, but even then there were questions as to who in PECNDAR was making decisions: was it the board of directors or individual department heads? Also, when

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<sup>10</sup> Per conversation with Dr. Samir 'Abdallah on 8 May 1997.



projects are put forward by ministries, are those projects actual expressions of the ministry or personal expressions of those in charge? Furthermore, in the PNA, who is responsible for formulating a Palestinian development strategy and on what basis? For example, in many countries, loans cannot be taken at a national level without the approval of the elected council [parliament]; we have nothing of this nature.<sup>11</sup>

Criticism of the current foreign aid to the PNA does not come only from Palestinians. Key actors in the donor effort to Palestine have already questioned the nature and lack of a coherent vision in the development assistance being provided. Sara Roy quotes an internal report of the World Bank which states that "...the present situation is one of transition to an unknown destination."<sup>12</sup>

According to the IMF, during 1995-1996 donor assistance to the WBGS accounted for approximately 17 percent of GDP, which is high by any standards. Foreign assistance to any economy also entails certain risks, if the economy is not able to adjust to its future reduction. As Diwan and Walton (1994) explain:


Foreign assistance-led-growth also creates its own sources of vulnerability. Other countries in the world, and many in the Middle East, have experienced booms that ended up in busts. When booms are generated by foreign inflows, a reduction of such flows can play havoc with the domestic financial system, as well as with the social and economic well-being when the system in place is not flexible enough to adjust to a fall in foreign resources. Flexibility has many facets, such as the issue of public wage structure, the role of the NGOs during the transition, the tax collection effort during the transition, the extent of welfare function of the state (the issue of entitlement) and of its industrial policy (the sustainability of new industries), the effect of the inevitable rise in the prices on non-tradable (on competitiveness, and also on the implications for the needed safeguards in the banking system). On all these fronts, it would be crucial for a new government to attempt to put in place early on

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<sup>11</sup> Per conversation on 14 April 1999. Hulaileh meant that the elected Palestinian Legislative Council has no say in loan matters.

<sup>12</sup> The Palestinian Economy: Three Years after Oslo: Development or Decay?, Forwarded to PALDEV, 7 February 1997.





some mechanisms to avoid the dangers of excessive aid dependency. A key principle is that foreign official inflows should complement, not substitute for, the domestic tax effort. Unless there is progress on the domestic front to mobilize resources for development, the provision of external finance in the interim could set the West Bank and Gaza on a path of external dependency (and vulnerability to debt crises) and not of sustainable development.<sup>13</sup>

Some scholars are also critical of how the development needs of the Palestinian people are assessed and determined. Lisa Taraki of the Culture and Society Working Group Program of Women's Studies at Birzeit University explains that, following the signing of the Oslo Accords, there was a notable increase in the number of background analyses and profiles on development in the WBGS by the United Nations and other international agencies.<sup>14</sup> "These documents generally aimed to describe salient aspects of society and economy, assess development needs, identify policy interventions to promote 'sustainable development', and set funding priorities for international assistance programs... Many of these reports and papers are becoming standard references for the international aid consortium."<sup>15</sup>


However, there are a number of problems with these documents, the most salient being the reliability of the data cited. All the documents treat refugees as one unified body, without any distinction as to national domicile; and in the WBGS, refugees are not viewed as a body sharing the same fate as that of other Palestinians living there. Furthermore, the Palestinian national movement's undertaking to create an

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<sup>13</sup> Ishac Diwan and Michael Walton, "Palestine: From Dependent to Autonomous Growth", Working Paper 9409, the World Bank, March 1994.

<sup>14</sup> Some of these documents are: Lina Hamadeh-Banjeree, et al., *At the Crossroads: Challenges and Choices for Palestinian Women in the West Bank and Gaza Strip*, Gender in Development Program, UNDP, New York, 1994; International Labor Organization, *Capacity Building for Social Development: Program of Action for Transition in the Occupied Palestinian Territories*, Geneva, 1994; The World Bank, *Developing the Occupied Territories: An Investment in Peace*, vols. 1 (Overview) and 6 (Human Resources and Social Policy), Washington, DC., 1993; UNRWA Headquarters, *Human Resource Development and Social and Economic Infrastructure*, Vienna, 1992; Italian Association for Women in Development (AIDoS), *Gender Strategy Paper for the Occupied Palestinian Territories* (unedited draft), prepared for the WID Desk-DG 1 European Union Commission, 1994.

<sup>15</sup> Lisa Taraki, "Society and Gender in Palestine: International Agency Policy Documents", Women's Studies Program, Birzeit University, 1995.



infrastructure of mass organizations and national institutions providing education, health care and other social welfare services since the mid-1970s is hardly even acknowledged in these documents. Most of these documents do acknowledge the role of Palestinian NGOs in the absence of 'state authority' in the past, and the current constraints they face under the PNA; however, none of these documents situate this "NGO movement" within the historical framework of the political national movement of which they were intrinsically a part. These documents also present an unquestioning optimism concerning the fate of the Palestinian people and the political agreements reached so far. Taraki quotes the UNDP report as an example: "...the Palestinian people in the Occupied Territory are in the process of the most significant transition in their lives. For the first time in centuries, they will be participating in their own governance."<sup>16</sup> Although the ILO is more cautious in its approach, referring to "peace promises", none of the documents reflects to a greater degree a continuing dynamic of economic and political control by Israel. Furthermore, although some of the documents do touch on gender relations and development, the two World Bank documents make no reference to gender in their analysis or policy recommendations, "particularly in view of the 'gender sensitization' which all major international agencies have tried to incorporate in their programs."<sup>17</sup>

• *The Sustainability Argument*

Within the development arena created by the peace process, there is much discussion regarding sustainability and sustainable development. However, an evaluation of many of the projects underway indicates that the emphasis has been on large infrastructural projects, with little realistic planning or provision for future maintenance or sustainability. The European Hospital in the southern Gaza Strip is just one example of this shortsightedness. The facility, built at a cost of US\$25 million provided by the European Union and other donors for UNRWA, is slated for handover to the PNA Ministry of Health. However, running costs for the sophisticated and expensively-equipped health facility were not included in the original project proposals, and the cash-strapped PNA has made it clear that they cannot afford to run the hospital. It sits virtually non-functioning. And, while the European Hospital is an extreme example, there are numerous other projects which blithely include in their original plans the proposal that in order to be sustainable, management responsibility (and costs) will be

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<sup>16</sup> Ibid., pp. 48-49.

<sup>17</sup> Ibid., p. 50.

transferred to the community being served — although little practical training in fund-raising or realistic income generation is provided.

A review of project proposals or the current economic development literature pertaining to the WBGS confirms the impression that the now-fashionable term “sustainable” is being used rather rhetorically, with little awareness of the full implications of the concept of sustainability and the effort required to make something truly sustainable.

Furthermore, the distinctions between different concepts of sustainability appear to have escaped the development discourse in Palestine. In 1991, when new realities were forcing changes in development thinking at the international level, a multi-agency UN publication examined “sustainability”:

The term has been criticized as ambiguous and open to a wide range of interpretations, many of which are contradictory. The confusion has been caused because ‘sustainable development’, ‘sustainable growth’, and ‘sustainable economy’, have been used interchangeably, as if their meanings were the same...


- ⇒ **‘Sustainable growth’** is a contradiction in terms: nothing physical can grow indefinitely. ‘Sustainable use’ is applicable only to renewable resources: it means using them at rates within their capacity for renewal...
- ⇒ **‘Sustainable development’** is used in this strategy to mean: improving the quality of human life while living within the carrying capacity of supporting ecosystems.
- ⇒ A **‘sustainable economy’** is the product of sustainable development. It maintains its natural resource base.<sup>18</sup>

Perhaps the best definition of the term “sustainable development” which is most applicable in the Palestinian context of limited land, restricted water supplies, and few natural resources is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.<sup>19</sup>

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<sup>18</sup> The World Conservation Union, United Nations Environment Program, World Wide Fund for Nature, *Caring for the Earth. A Strategy for Sustainable Living*, (Switzerland, Gland, 1991).

<sup>19</sup> “Our Common Future” - the report of the Brundtland Commission. World Commission on Environment and Development, (Oxford University Press, 1987).



However, in addition to the inherent vagueness of the term and its use, it is doubtful to what extent both donors and Palestinian policy-makers are even seriously concerned with questions of sustainability. The Palestinian national development strategy papers issued annually since 1995 have been, for the most part, not locally-generated. The lack of a central planning body, or national forum in which issues pertaining to development are discussed, has created a situation of *ad hoc* decision-making which is compounded by a lack of internal coordination between national institutions and equally inadequate donor coordination and aid mechanisms.

- *Donors' Political Agendas*


The nature of donor assistance, compounded by the lack of a clear Palestinian development strategy or centralized planning mechanism, left donors in a vacuum. Initially, PECДАР was the designated counterpart, until PNA ministries and relevant bodies were operational, which put donors in a situation where "shopping around" for projects became quite feasible. Donor priorities, being political in nature (to varying degrees) become easier to implement in a situation where various Palestinian bodies are competing for the prestige, physical equipment or needed infrastructure and institutional capacity development which is tied to donor projects.

Some donor agendas are far more political than others. For example, Israel's donor assistance program is quite straightforward, in the sense that it is tied to Israeli economic interests in the region. Almost \$15 million has been committed to two industrial zones and parks<sup>20</sup> (out of the 15 planned) which, because they are touted as an alternative to working in Israel, effectively subsidize Israeli "security" policy. However, work on these zones and parks is rather slow, and Israeli industries appear reluctant to move their factories to these zones because of high relocation costs. In the meantime, when closures are in effect, the Israeli industrial sector is not short of labor, due to the large number of foreign workers, both legal and illegal, who were brought to Israel to substitute for Palestinians.

The development of industrial estates is seen as a key element in "jump-starting" the Palestinian industrialization process, leading to the modernization and economic growth levels which are envisioned for the West Bank and Gaza Strip. The project for export-oriented industrial estates is being fostered by the PNA, Israel and the US,

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<sup>20</sup> According to MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June 1997, \$7.06 million has been committed to Carni Industrial Zone in Gaza and \$7.44 million to another, unspecified, zone in the West Bank.



under the auspices of the World Bank. While a total of 15 estates are to be built, exact locations of all 15 have not been determined; Carni, Jenin and Nablus are the only locations definitely decided thus far. Critics of these estates suggest that Israel stands to profit far more than the Palestinians involved, and worry that the industrial estates will only serve to provide Israel with cheap labor within conveniently confined borders. Additionally, the Palestinians' comparative advantage in terms of cheap labor is being undermined within the regional framework; Palestinian wage price levels are comparable to Israeli levels, which are much higher than those of neighboring countries, specifically Jordan and Egypt. However, by allowing some unrestricted free trade to take place, industrial zones will "legitimize" Israeli closures by lessening the economic impact, at least in international public perception, and thus lessening the pressure to end this policy.

By far the most political of donor agendas is that of the United States. This is not restricted to the West Bank and Gaza Strip, but is the case with US assistance in general. The US has committed \$500 million to the West Bank and Gaza Strip; of this amount \$375 million is being administered by the US Agency for International Development (USAID) and \$125 million by Overseas Private Investment Corporation (OPIC) in the form of loans for American private investors wishing to invest in the region. Sara Roy notes, "The most important new actor was the White House... President Clinton's official and personal involvement made possible the heightened allocations that gave the US aid program a political weight it had never had before."<sup>21</sup> The political dimension of US assistance also gave the US State Department an increased role. Prior to the Oslo accords, USAID and the State Department competed for control of the assistance program; USAID is now subordinate to the State Department. Roy also observes that Dennis Ross, the State Department's coordinator of the Middle East peace process, is responsible for all policy decisions related to US assistance in the WBGS. The US Congress has also become a major actor in the aid program to the West Bank and Gaza Strip.

US assistance has always been political in nature, but this has become more overt in recent years. Historically, Israel's approval was required for projects to be funded, and in general, US assistance has served Israeli priorities first and foremost, and has prioritized the maintenance of Israel's occupation. Roy adds, "...[There was an] absence of a coherent framework of economic development for the West Bank and Gaza Strip. Development was never officially defined, nor were the criteria against which to measure it. The reason for this was political: the United States would have

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<sup>21</sup> Op. Cit. Roy.

had to commit itself to a political resolution of the Palestinian-Israeli conflict.”<sup>22</sup> One USAID official is quoted as saying:

...For political reasons, it is in our government’s interest to coordinate all aid with Israel. The embassy sees to it that Israeli interests are secured and that Israeli officials are involved in decision-making. That’s common knowledge here.<sup>23</sup>

For 1997, USAID has made it clear that it will only fund projects related to the promotion of the private sector and democracy, and water-related projects. Table 1 shows the concerns of the US as reflected in the distribution of its aid to the Palestinians.

**TABLE 1**  
***US Aid to the Palestinians***  
(US\$ millions)

Sector	Org/Fund Name	Project	Amount Committed 1997	Amount Disbursed 1997
Democracy Development	Cheoci/PALTECH	Democratic Develop. Executive Council	2.06	1.55
Industrial Development	Metcalf & Eddy	Industrial Zones Development	6.0	4.556
Institution Building	Save the Children Federation	Institutional Development	0.3	
Water & Sanitation	Camp Dresser & Mckee Inc.	Water Resources/ Municipal Services	1.55	1.2

Source: Based on MOPIC’s Quarterly Monitoring Report of Donor Assistance, 5 June, 1997.

According to one USAID document,

USAID seeks to contribute to the creation of a democratic and stable Palestinian society which is characterized by more responsive and accountable governance...Underlying the notion of democratic governance is that of shared participation in public decision-making as well as the implementation of those decisions...By broadening the participation in the Palestinian governance

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<sup>22</sup> Op. Cit. Roy.

<sup>23</sup> Op. Cit. Roy.

process, the nature of public decisions will more closely reflect citizen concerns, increasing citizen commitment to the peace process and contributing to positive improvements in social and economic life... Training programs for civil society leaders in policy analysis, strategic planning and developing communication skills will be conducted over the next two years...<sup>24</sup>

Other funders are also implementing democracy projects. USAID, however, is among the clearest in terms of its mandate. Furthermore, in terms of proportion of assistance allocated to democracy projects, USAID is the highest. It is important to note here that although the European Union is the largest absolute contributor to the Democracy Development sector, most of their contribution, over \$11 million, was for election observation during the first Palestinian elections. Table 2 shows commitments and disbursements for the development of democracy in the WBGS.

**TABLE 2**  
***Democracy Development Sector***  
(in US\$ millions)


Donor	1994-1997 Committed	1994-1997 Disbursed
Canada	2.17	1.292
Denmark	0.91	0.91
European Union	20.654	20.653
France	0.15	0.15
Japan	9.3	9.3
Netherlands	0.11	0.11
Norway	2.461	2.398
Spain	0.011	0.011
USA	18.854	14.487
Total	54.62	49.311

Source: MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June, 1997.

There is much skepticism as to how practical and beneficial these democracy projects actually are. As Aisling Byrne describes,

... [the] focus is on individual rights (vis-à-vis the Palestinian Legislative Council (PLC) and its members, the environment, garbage collection, the 'facts' of civil rights, roles and duties, etc.), yet little focus on organization around (democratic) issues that matter — the continuing physical, economic

<sup>24</sup> Handbook sent out with NGO Request for Application, 1997.



and social dispossession of that significant section of Palestinian society not in contact with most NGOs, yet who suffer and will suffer the most from the autocratic nature and practices of 'authority'.<sup>25</sup>

Byrne also quotes Reema Hammami, "...it is a defeated and marginalized Palestinian Left that has introduced the term civil society into political culture...as such, in the current context of Palestinian history, the discussion of civil society amounts to a discourse of defeat" (Race and Class, October-December, 1995). There is also much skepticism as to how many people are actually involved in these projects, and to what extent, in the current demobilized political context, the grassroots are actually addressed or included. The general belief is that funders such as USAID shop around for NGOs who will implement these projects and thus interested NGOs cater to these demands for whatever reasons, most notably prestige, or projects to maintain or facilitate their existence. (Largely due to speculation in the NGO community about a possible shift in funding away from NGOs to the newly-established PNA, many NGOs became almost totally donor-led in an effort to secure some of the additional funds which were pouring into the country, or to offset a possible reduction in support. In addition, certain donors were not above making it clear that only those NGOs who would express clear support for the Oslo process would be awarded project funds.)

The US Congress has also played an active and controlling role in American assistance to the PNA. USAID programs for the West Bank and Gaza Strip must be approved by Congress. Because of Congressional suspicion of the Palestine Liberation Organization (PLO) and of the PNA, legislation was introduced to ensure that the PLO and PNA are in line with US foreign policy objectives. In 1993, the PLO Commitments Compliance Act was introduced, followed by the Middle East Peace Facilitation Act of 1994. Both these laws stipulate that the PLO and PNA must comply with the Oslo Agreements and that their performance will be reviewed every six months and compliance certified by Congress. In May 1997, Jesse Helms and Benjamin Gilman, chairmen of the Senate foreign relations and House international relations committees, pledged to withhold assistance to the PNA to protest the death penalty which has been announced against Palestinians convicted of selling land to Jews. In a letter sent to US secretary of state Madeleine Albright, the two lawmakers stated that they would oppose US financial assistance to the Palestinians, unless this

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<sup>25</sup> Aisling Byrne, "Manufacturing Consent in Post-Oslo Palestine", *News from Within*, vol. XII, no. 11, December 1996.



land sale law/policy was revoked.<sup>26</sup> The American Jewish lobby also backed taking punitive measures against the PNA.

On August 13, at midnight, the Middle East Peace Facilitation Act expired and was not renewed. The PLO office in Washington was forced to close its doors, stop answering the telephone, and send its staff on vacation. And, while at the time of publication it is widely anticipated that some type of short-term renewal or other bridging mechanism will be initiated in the near future, the political message being transmitted to the Palestinians and the indication of the type of pressure that could be brought to bear, should they not toe the US political line, is clear.

OPIC's operations and the nature of the investment projects that they are willing to finance for American investors have also come under fire from some critics. According to the Commercial Guide for the West Bank and Gaza Strip, Fiscal Year 1996,<sup>27</sup> "political reconciliation between Israel and the Palestinians beginning with the signing of the Declaration of Principles in September 1993 has paved the way for expanded business opportunities for US companies in the West Bank and Gaza." The Guide to US Investors suggests:


The best manufacturing export opportunities for US companies exist in the sale of power, telecommunications, construction and refurbished factory and transportation equipment to support infrastructure and commercial development over the next five years...there is a growing middle/upper-middle class in the West Bank and Gaza, due in large part to the recent influx of diaspora Palestinian investors and technocrats who staff PNA ministries. This class seeks high quality consumer goods. American-made food and consumer items are popular, as is electronic equipment such as personal computers. Opportunities for US companies also exist in developing franchising, distributorship and sales relationships with West Bank and Gaza companies...they [industrial parks] may offer investment incentives for US companies interested in greater accessibility to regional, Gulf and European markets, and related exports of US products.<sup>28</sup>

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<sup>26</sup> Hillel Kuttler, "Congressmen: Block PA Aid over Land Sale Death Penalty", *Jerusalem Post*, 28 May 1997.

<sup>27</sup> US Department of State, *West Bank and Gaza Commercial Guide*, Office of the Coordinator for Business Affairs, prepared by the US Embassy, Tel Aviv and US Consulate, Jerusalem, July 1995.

<sup>28</sup> Ibid.



The agendas of other major donors, though definitely political, are not necessarily as clear or explicit in terms of policy orientation. The European Union is the largest donor in terms of dollar amount. The EU aid package is much more encompassing and covers several sectors: Agriculture; Democracy Development; Detainees/Returnees; Education; Energy; Health; Humanitarian Aid; Institution Building; Multiple Sectors; Police; Private Sector Development; Solid Waste; and Telecommunications. Much of this aid is in the form of technical assistance. Although the EU's political agenda is not necessarily as straightforward as that of the US, over the past few years, and particularly over the course of the last year, the EU has tried to increase its political weight in the overall peace process. The EC has now appointed a special envoy to the Middle East peace process, but officials acknowledge that the US is far ahead of the game. Dennis Ross, the United States' Middle East envoy, has been involved in the peace process since its inception.

Japan's program of assistance has also been fairly comprehensive, which is due in part to Japan's desire to enhance its political profile in global affairs, in accordance with its role as one of the world's economic leaders. Japan's assistance covers several sectors: Agriculture; Democracy Development; Education; Energy; Health; Housing; Human Rights and Civil Society; Humanitarian Aid; Institution-building; Multiple Sectors; Police; Telecommunications; Transportation; and Water and Sanitation. Assistance has primarily been through the provision of needed equipment and public investment in the form of infrastructural development.

By contrast, Saudi Arabia's assistance program is not as all-encompassing, being focused primarily on public investment projects. Saudi assistance has been used to support: Education; Unspecified World Bank/Holst Fund activity; miscellaneous activities in Housing and Health sectors; Education, Health, Rehabilitation Program (EHRP); and the Emergency Rehabilitation Program. Although its aid could have underlying political objectives, Saudi Arabia has not had a strong presence in the overall peace process.

- *The Issue of Technical Assistance*

Technical assistance in general has dominated international assistance programs in the WBGS. Such technical assistance has taken several forms, the most common being training. Among the sessions which have been implemented are: vocational training for women; reintegration programs for Palestinian detainees; rule of law assistance project training; skills training; democracy training projects; human rights training; "learning to live together" seminars; management training; police training; vocational


training for the private sector; master plan development for water network projects; diplomatic and protocol courses; training program for PNA officials; gender sensitivity courses; educational training; training for the Palestinian Central Bureau of Statistics (PCBS); and institutional development seminars.

Technical expertise has also been brought in from other countries for renovations, election support, rehabilitation projects, feasibility projects, the Gaza sea port design, etc. Technical assistance commitments for 1994-1997 amount to US\$442.238 million, or 16.29 percent of total commitments.

**TABLE 3**  
**Technical Assistance**  
(in US\$ millions)

Donor	1994-1997 Committed	1994-1997 Disbursed
Algeria	4	4
Arab Fund	160	12.69
Australia	4.228	3.69
Austria	3.228	2.498
Belgium	3.452	1.012
Canada	24.809	18.684
Denmark	21.546	21.546
European Union	31.542	14.819
Finland	1.048	1.048
France	19.370	12.190
Germany	42.145	0
Greece	0.5	0.5
Ireland	1.212	1.136
Italy	17.053	9.499
Japan	44.744	44.744
Luxembourg	0.17	0.17
Netherlands	24.236	14.453
Norway	43.799	29.494
Republic of Korea	0.14	0.6
Romania	2.88	1.8
Spain	4.951	3.151
Sweden	28.804	16.686
Switzerland	25.148	7.099
Turkey	0.2	0.2
UNDP	4.581	2.383
United Kingdom	20.167	14.571
USA	55.435	40.629
Total	589.388	279.292

Source: MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June, 1997.



The primary criticism of the plethora of technical assistance programs is that, in many instances, the required expertise *is* available in the West Bank and Gaza Strip, yet highly-paid experts (mostly non-Arabic speakers) are brought from the donor countries at great cost as part of donor assistance programs. In addition, due to the lack of coordination, there is a good deal of replication in technical assistance and training programs; this can be seen quite clearly in the democracy development sector, for example. As Mohammed Said from the Ministry of Planning and International Cooperation (MOPIC) explains,

‘Technical assistance’ is usually travel expenses. Capacity development involves training. In many cases, training is for individuals and not necessarily for institutions. Individuals in many instances have no intention of remaining in their present jobs. Therefore, what we have is individual capacity-building and not institutional capacity-building.<sup>29</sup>

Almost all projects appear to have a technical assistance component to them, and often the majority of funding to a particular project is allocated to technical assistance. Among the donors working in the environment sector, Italy is the most insistent about bringing in its own technical experts, and at times this is done with very little coordination with the concerned Palestinian body. As just one example, Italy is currently working on a Solid Waste Management Program the cost of which is estimated at US\$1.8 million. Of this amount, \$1.3 million is for technical assistance.


The “technical assistance” phenomenon becomes increasingly troubling given its global proportions. The countries at the lower end of the socio/economic scale receive only 46 percent of development aid and only 38 percent of technical assistance, according to a UNDP study. Furthermore, the study shows that out of the US\$12 billion spent each year on technical assistance, 90 percent is allocated to foreign experts who are paid between 10 and 40 times the amount a local expert would be paid.<sup>30</sup>

According to Dr. Rita Giacaman, in the current situation, a lot of the training lacks substantive content; in addition, training programs are formulated without a concrete

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<sup>29</sup> Per conversation with Mohammad Said, 25 May 1997.

<sup>30</sup> Denise Commone and Eric Toussaint, *Globalization and Debt*, Notebooks for Study and Research, 1995.



strategy or needs assessment. "Training cannot happen in a vacuum," she asserts and suggests the following:

- 1) Assess needs from within by talking to people who work in the respective fields and are familiar with the situation.
- 2) Guarantee or set as a firm goal that structural changes will take place, so that these training courses will actually have outcomes and results which materialize on the ground.
- 3) After training, projects, workshops, or other programs, concerned bodies *must* monitor, supervise and follow up, to ensure that knowledge and skills gained in training are being utilized and applied.

- ***Donor-PNA Competition***

There are other problems as well. Frequently, Palestinian bodies, primarily PNA ministries, have the capacity to implement certain projects, but find themselves competing with implementing agencies such as UNDP. UNDP's explanation is that, due to their in-house expertise — both local and expatriate Palestinian experts — they are able to implement many of these projects at much lower costs. Overhead costs for administrative and operational services for the UNDP/Programme of Assistance to the Palestinian People (PAPP) on bilateral donor contributions are approximately six percent. The amount can vary between six to ten percent according to the nature of the assistance.

The problem of competition is compounded by inadequate assessment and coordination of development, and the result is replication of effort and waste of resources. As just one example, Dr. Mohammad Said of MOPIC points to the environment sector, where at least four different studies in waste water were conducted by, respectively, PEC DAR, Sweden, UNDP and CDM (US).

- ***Case Study: the Agricultural Sector***

Donors enjoy a good deal flexibility in deciding the areas or sectors they would like to fund, and can thus tailor their assistance to political or economic agendas, as discussed previously. This has resulted in some sectors receiving more assistance than others, based on reasons of expediency or visibility, rather than any assessment of need. Moreover, some sectors which might appear political, or projects that might touch a political nerve, have basically been undermined. The clearest example of this is the lack of priority assigned to the Palestinian agricultural sector. This factor is

evident in both the PNA's development approach (or lack of) and the donor's. For the PNA, agriculture is not as politically expedient as transitional costs, budget support, emergency employment and institution building. And for the donors, this sector, also relating to issues of land reclamation and water, touches on a sensitive Israeli nerve.

Agriculture figures quite prominently in the Palestinian economy, employing 30 percent of the labor force. Well over 50 percent of the population rely on farming to feed their families, as their primary or a supplementary source of income. As a sector agriculture generates about 33 percent of Palestinian GDP and 25 percent of its exports.

In the overall donor effort, however, this sector is seriously underrepresented, receiving some 1.2 percent of donor disbursements, according to MOPIC. PNA Minister of Agriculture 'Abdel Jawwad Saleh notes that Spain is one of the few donors willing to contribute most if not all of its assistance to the agricultural sector.<sup>31</sup> Tom Nue of ANERA (American Near-east Refugee Aid) questions the lack of priority given to the sector:

Currently donors have very little interest in this sector. This is extremely puzzling since the activities carried out in agriculture over the years, many of which are not high technology innovations, can be disseminated and encouraged using the existing state of knowledge, and using available land and water resources. At the operational level, there is still much to be done without tripping out political minds. There are existing permits which can be utilized. There is also much to be done in terms of the efficiency of that which currently exists. There is a set of water projects which needs to be implemented and there are existing permits for these projects. For example, there is an irrigation system in Jericho to be [implemented] by IFAD [International Fund for Agricultural Development], the main purpose of which is water conservation....And [much] could also be done [with] dryland agriculture.<sup>32</sup>

Table 4 shows the commitments and disbursements to the agricultural sector by donor country.

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<sup>31</sup> Per conversation with the Minister of Agriculture, 'Abdul Jawwad Saleh, 25 May 1997.

<sup>32</sup> Per conversation with Tom Nue, 6 May 1997.

**TABLE 4**  
***Commitments and Disbursements to the Agricultural Sector***  
***Classified by Donor Country (in US\$ millions)***

Donor	1994-1997 Committed	1994-1997 Disbursed
Arab Fund	5	.99
Australia	0.14	0.7
Austria	1.29	0.841
Belgium	1.214	1.214
Denmark	1.825	1.825
European Union	1.705	
France	1.327	1.140
Ireland	0.76	0.76
Italy	2.5	
Japan	4.5	4.5
Luxembourg	3.3	
Netherlands	4.207	2.24
Norway	1.966	1.966
Spain	7.72	2.72
UNDP	0.593	0.459
USA	1.022	1.022
Total	39.069	8.407

Source: MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June, 1997.

USAID is one of the donors that has taken a decision to disengage from the agriculture sector from 1997 on. USAID's disengagement from the sector, according to some PVO, USAID, and World Bank officials, is due to the fact that agricultural activities would involve reclaiming and securing land for Palestinian use, extending advanced technology to Arab agriculture, and appropriating large amounts of water to the Palestinian agriculture sector, all of which Israel has continuously refused to do.<sup>33</sup>

Part of the problem lies in the initial assessments made by the World Bank concerning the agricultural sector, which appear to be based on reasoning structured around Israeli-oriented economic and political concerns. Below, Allan Howard highlights the flaws in the World Bank's original assessments of the sector, by comparing the Bank's economic development assessment with a Permaculture approach (an alternative sustainable agriculture-based economic development strategy which is gaining widespread support in development circles). This table illustrates the need to examine alternative approaches to those endorsed by the donor community in general and the World Bank, USAID and others in particular.

<sup>33</sup> Op. Cit. Roy.

WORLD BANK	PERMACULTURE	COMMENTARY
"The upswing since 1986 presents a paradox in that agricultural production has been expanding despite an environment of declining external markets, a constrained regulatory framework, a declining level of public services available to the sector, and restricted access to natural resources" (pg. 2, Chap. 1, <i>Importance of the Agricultural Sector</i> )	The Permaculture development model is an alternative development model — "bottom-up" as opposed to "top-down" community-oriented to self-reliance and self-help, and with the additional features of regional development opportunities. It compares fully with the intifada models, but benefits from international contribution in diversification theory and regional cooperative organizations; to produce long-term sustainable development models particularly suited to traditional community agricultural systems.	The "paradox" of the intifada and its success provides an important international case study for a "people's alternative" to "top-down" economic exploitation (in this case involving military-backed exploitation).  Free market economies — particularly in agriculture — are presently threatening the way of life of traditional agricultural communities worldwide. The Palestinian model of the intifada is an important alternative development model.
"The guiding principle in agriculture, as in the rest of the economy, should be that production should take place only if farmers in the OT can grow and sell crops as competitively as others" (pg. 26, Chap. 4, <i>Future Outlook and Strategy</i> )	Permaculture (and the intifada) identify with the 2,000-year-old tradition of Palestinian community agriculture and self-reliance as the fundamental basis of community social and economic development. Diversification in the village model, utilizing the richness of the natural environment, with new environmentally appropriate crop systems and secondary stage processing at the village level, will create further employment and strengthen the weakened communities.	Israel remains in control of all fundamental inputs for successful agricultural production in the OT, including control over produce movements within the territories and between the West Bank and Gaza Strip.  Israel is the first competitor facing the Palestinian agriculture sector; its agriculture enjoys a high level of public subsidy, and with full control over Palestinian production there is no "level playing field".
"If rapid restructuring of those operations (local production) is unavoidable, temporary support may be contemplated to allow the decline in employment to take place gradually. It is recommended that such assistance not distort market price, resource use or the restructuring process" (pg. 29, Chap. 4, <i>Future Outlook and Strategy</i> )	Utilizing the seven micro-climates of the region, with production coordinated and diversified through Permaculture projects in the West Bank, Gaza Strip and within Israel (Palestinian communities), the traditional domestic market of Palestine is a rich and self-reliant community market. With increased diversification and development oriented to secondary-stage processing for new export crops (i.e., medicinal herbs), the traditional Palestinian socio-economic model (once based primarily on olive oil exports) can be restored.	A restructuring process that does not take into account 30 years of development restriction (land seizure/60 percent West Bank and 40 percent Gaza Strip); the continued presence of Israeli settlements on Palestinian land; the control of fundamental resources (i.e., water), or the de facto seizure of the Palestinian economic center (East Jerusalem), ignores the primary issues.  Economic development that involves increased unemployment in rural areas will depopulate the remainder of Palestine.
"Therefore, a future financial policy framework should allow banks to charge more for rural loans, while enhancing their ability to recover loans, particularly through the implementation of a proper legal framework to facilitate the mortgaging of land and crops, foreclosures, and informal means to exclude farmers with poor repayment habits" (pg. 19, Chap. 3, <i>Key Determinants of Sector Performance</i> )	How can a community emerging from 30 years of military occupation (comparable to a natural disaster) and continuing social and economic restrictions be expected to step straight into the marketplace of regional economic competition? A repair stage is required wherein Permaculture would advocate subsidized aid delivered to the local community level, strengthening the damaged resource base (i.e., land reclamation, village water systems, and local infrastructure projects), restoring community diversity and encouraging new diversity (research and development) at the local level to fill the "development vacuum" of 30 years.	Private sector development in agriculture that is dependent on commercial loan systems (where borrowers will require capital security) ignores the immediate needs of the majority of Palestinian rural society.  This approach to development will encourage the worst excesses of capital-intensive agribusiness, disrupting the already weakened community agriculture system.  Private sector development, without control of natural resources, and with continuing restrictions, may prove a non-starter.
"If unrestricted imports would commence before the OT has had time to enhance the competitiveness of its own production, the impact on local employment may be serious" (pg. 28, Chap. 4, <i>Future Outlook and Strategy</i> )	Permaculture (and the intifada) promote local market self-reliance for the community to the regional level as the first priority, in development terms, to be attained before export-led development is encouraged. In the present desperate situation of the OT, with high unemployment, a huge drive for local production and consumption is required (creating employment) at the local level, with international pressure to allow free Palestinian movement between the West Bank and Gaza Strip.	There are no realistic control mechanisms in existence to prevent the sudden influx of Israeli produce to the OT.  With the closure of the OT, a control has been placed on Palestinian produce moving within the territories, and to Israel, and the largest Palestinian export (day labor to Israel) has all but stopped completely compared with previous levels.
"Particularly young people in the OT may have expectations which the sector may not satisfy, and they will look for alternatives. Even if they do not find them, they may still be reluctant to go [back] to the farm. Maintaining agricultural employment may be difficult, as many Palestinians may want to leave for 'greener pastures'" (pg. 24, Chap. 3, <i>Key Determinants of Sector Performance</i> )	Permaculture is a system for long-term sustainable development in community agriculture, acknowledging economic realities, but also, through the use of intelligence and the new scientific understanding of ecological agriculture, creates sufficiently diverse agriculture systems that provide social and economic stability in today's world. Permaculture advocates development for the next generation (the basis of all traditional systems) and in today's world of increased unemployment and poverty, seeks to include the younger generations in development the stable economy systems that will be necessary for the future.	Unemployment is the most destructive byproduct of free market economics in the world today and an international problem, which in the first world is creating "have" and "have not" two-tier societies, and in the third world is creating poverty, famine and war.  To promote a development approach which creates "economic migrants" out of a traditional self-reliant community with a 2,000-year-old history of settled existence is stupid at best, and politically criminal in a situation where those seeking a "greater Israel" have for the last 50 years advocated the complete removal of Palestinians from their land.

by Allan Howard / 1994

All World Bank quotes from *Developing the Occupied Territories: An Investment in Peace* / No. 4: Agriculture (September 1993)



• **Case Study: The Women's Sector**

Another sector undermined in the overall development effort is the women's sector. Although, there has been an attempt to address gender issues, this has taken place haphazardly, with a focus on quick implementation, rather than a comprehensive program which addresses women's socio-economic needs in a multi-faceted manner.<sup>34</sup>

Table 5 shows the commitments and disbursements for this sector.

**TABLE 5**  
**Aid to the Women's Sector**  
(in US\$ millions)

Donor	1994-1997 Committed	1994-1997 Disbursed
Arab Fund	0.16	
Australia	1.093	0.882
Belgium	0.909	0.909
Canada	0.356	0.284
Ireland	0.258	0.258
Japan	0.6	0.6
Netherlands	4.905	1.85
Norway	0.346	0.346
Spain	1.170	1.170
UNDP	0.675	0.163
United Kingdom	0.661	0.445
USA	8	8
Total	19.133	14.907

Source: MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June 1997.

The majority of these funds are targeted towards vocational training for women and reproductive health services. Secondary areas covered include skills training; health education; support for the empowerment of women; establishment of a gender planning department in MOPIC; construction of women's program centers; promotion of the role of women; gender sensitivity courses; and a marginal amount in the form of a loan scheme for women and support to women's agricultural projects.

As with technical assistance in general, many of these training programs do not translate to changes on the ground and are formulated within a vacuum. Dr. Rita Giacaman explains that the main problem is that the needs of Palestinian development are defined by the agencies; therefore, what gets implemented are donor-led initiatives

<sup>34</sup> Allan Howard, commentary on World Bank report, "Developing the Occupied Territories," 1994.

pertaining to gender, with little indication showing that there is a systematic effort on behalf of the PNA to address these issues. She adds:

Contradictory messages are given regarding donor's and PNA concerns with women. There is no policy on women, and many problems exist. Additionally, there is no linkage between existing programs. For example, women's health is supposedly a big issue these days. Now, we are for women's health, but not in isolation of other socio-economic dimensions such as employment, legal age for marriage, and other factors... The PNA Ministry of Health has established a women's department within the ministry, but several problems exist with this: there is no clear policy regarding women's health; and very often it relates to reproductive health which translates to family planning. We are for family planning, but these issues need to be tied to the socio-economic reality. Family planning, however, is expedient and easy [for donors to fund].<sup>35</sup>

Although there are no quick fixes, women's issues could be better addressed if serious changes in laws and policies concerning women were put in place and an operational mechanism was established which promoted women's needs and interests. These needs should include areas such as early marriage, women's education, and employment.

#### **V.B. *PROBLEMS STEMMING FROM ISRAELI POLICIES***

The second type of problems with the foreign assistance initiative in the WBGS are the direct result of Israeli government policies. The mechanism of the foreign donor program, weakened as it is by political agendas, has proved to be extremely vulnerable to the Israeli border control policy. The military closures of the WBGS, which have been ongoing since 1991, and have reached unprecedented harshness in this post-Oslo accord period, are the most striking example of Israeli policies blocking Palestinian development. Israel is routinely unwilling to cooperate with donors when assistance to the Palestinians is involved, especially in terms of the delivery of supplies and equipment destined for the Gaza Strip. Clearance at the Ashdod port, Ben Gurion airport or the Rafah border crossing from Egypt is a lengthy and complicated process, resulting in added storage fees for materials held up for arbitrary logistical or security-related justifications, including items for humanitarian purposes, i.e., ambulances, or

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<sup>35</sup> Per conversation with Dr. Rita Giacaman, 3 May 1997.

medical supplies. Diplomats have estimated that delay-induced costs add an average of 20 percent to the initial cost of the goods/equipment being donated.<sup>36</sup>

The process of obtaining an Israeli-issued security clearance is a complex one. One example is that of medical supplies destined for the West Bank:

- ⇒ The company in the donor country first contacts the hospital;
- ⇒ The hospital then must contact the office of Jamil Tarifi, PNA minister for civil affairs and head of the PNA Liaison Committee with Israel;
- ⇒ Tarifi in turn informs Israel's coordinator of government activities in the WBGS and customs officials;
- ⇒ Customs security clearance and a Health Ministry confirmation that the medicines meet Israeli standards must then be obtained;
- ⇒ Then, import licenses and tax exemption permits are also needed;
- ⇒ Finally, uncleared items which remain at the ports over a given length of time are auctioned off.

When equipment is donated for more "sensitive" purposes, such as water projects, the matter must also be discussed by the joint Palestinian-Israeli subcommittees dealing with those subjects.<sup>37</sup>

Even after all these procedures are followed, some items never receive the required security clearance. For example, lab supplies for Palestinian universities have been consistently blocked, and broadcasting equipment for the Palestinian Broadcasting Corporation (PBC) is in storage because some Israeli officials fear that it can be used to tune into Israeli army frequencies. But since no specifications are published (and it is doubtful that any have been drawn up) as to what constitutes a "security threat", Israeli judgments of what constitutes a threat to security are allowed to be extremely wide-ranging.

International organizations and donors have been, until recently, reluctant to challenge Israel's "requests" arising from security. When UN organizations were requested not to transport their Palestinian staff members in UN cars, during the spring 1996 comprehensive closure, out of respect for Israeli security measures, they did not. Only recently, in a LACC meeting, did donors criticize Israeli measures, such as the

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<sup>36</sup> The Dutch government is now considering cutting its aid to Israel by the amount of costs caused by such delays.

<sup>37</sup> Peter Hirschberg, "The Grief of Giving", *Jerusalem Report*, vol. vii, no. 26 (1 May 1997), p. 29.

withholding of tax revenues due to the PNA, as counterproductive and not justified by Israeli security needs.

Israeli policy regarding the security-based military closure of the WBGS has had and will continue to have huge ramifications for the Palestinian economy and the overall development effort, especially when the closures are lengthy and recurring. The question which begs asking is: how can development take place and be sustained in a cantonized region, where individuals and goods in many instances cannot move between one area and another, sometimes even from one village to a neighboring town? According to UNSCO's second *Quarterly Report*<sup>38</sup> the various closures imposed on the WBGS can be differentiated into three distinct categories:

- ◇ The first is the *general closure* — which is a policy of distinct separation between the populations of Israel and East Jerusalem and the WBGS. This closure has been in effect since March 1993 and only permits obtained from the Israeli military authorities provide exemption.<sup>39</sup>
- ◇ Then, there is the *comprehensive closure* in which all permits become obsolete and mobility is completely halted between the areas. According to UNSCO, between 30 March 1993 and the end of 1996, there were approximately 329 calendar days of comprehensive closure.
- ◇ Then, there is the *internal closure* which was imposed on the West Bank for the first time during 1996; during this closure all mobility is halted between areas designated as Area A and the rest of the West Bank, Areas B and C. During 1996, there were 27 days of internal closure imposed on the West Bank.


Effective closure days have eliminated a larger portion of potential work days each year: six percent in 1993, 22 percent in 1994, 26 percent in 1995 and 29 percent in 1996. For the period as a whole, effective closures have consumed 21 percent of all potential work days.<sup>40</sup> Thus, fully one-fifth of the normal income-generating time for

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<sup>38</sup> UNSCO, the Economic and Social Monitoring Unit, "*Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report, Winter-Spring 1997*", Gaza, 1 April 1997, pp. 54-47.

<sup>39</sup> The average monthly work permits to Israel was 34,794 permits of which only a monthly average of 22,251 workers were actually permitted to commute to Israel. See UNSCO, *ibid.*, p. 47.

<sup>40</sup> The outlook for 1997 is very depressing since 145 days of effective calendar closure days have been imposed since the beginning of the year up to 12 September 1997.



Palestinians working in, exporting to, or to a lower extent importing from Israel were eliminated during this period. And even after the lifting of comprehensive closures, labor and commodity flows do not return to their pre-closure levels immediately. Israeli policy has been to cancel (or not honor) issued permits and to reissue new ones after rescinding a closure. Thus there is a lag time, sometimes quite significant, between formal cancellation of a comprehensive closure and the restoration of the level of pre-closure labor and commodity flows.

These closures disrupt the work of PNA bodies, donor countries, United Nations agencies, as well as the Palestinian private sector. UNSCO's report adds that, "while international diplomatic and United Nations staff mobility was hindered, the mobility of Palestinian employees of these agencies to Jerusalem, to Gaza, and to the West Bank and within the West Bank was nearly paralyzed during much of the year [1996]... in contravention of the 1946 Convention on Privileges and Immunities of the United Nations."<sup>41</sup> It is within these objective conditions that economic development of the WBGS is supposed to take place and be sustained.

An account of the repercussions of this policy upon the economic growth of the WBGS and other macroeconomic aggregates will be discussed in the following section. But we must remember that this policy is countervailing any positive and promising project opportunities on the part of the Palestinian private sector, and thus will have devastating effects on the long-term growth and development potentials of the WBGS. Israeli policies on the Gaza airport, the Gaza sea port and border control in general will not help the integration of the Palestinian economy in the world markets and will perpetuate its dependency of the Israeli economy; therefore such policy is clearly not conducive to international assistance catalyzing the socio/economic and national development processes of Palestinians.

#### ***V. C. PROBLEMS STEMMING FROM THE TRANSITIONAL NATURE OF THE PALESTINIAN ECONOMY, GOVERNMENT AND SOCIETY***

The third kind of problems that constitute an obstacle to effective foreign aid cooperation stem from the transitional nature of the Palestinian economy, government and society.

PECDAR — the original designated counterpart agency for international donors — was first established by the Economic Department of the PLO. "Initially it was

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<sup>41</sup> UNSCO, *ibid.*

designed or expected to become the 'Ministry of all Ministries', and the central body that will do everything; not only in terms of economic planning, but also in the areas of social planning, etc."<sup>42</sup>

Members of the local PECNDAR team wanted to make the scope of PECNDAR's responsibilities more practical by limiting its functions. Odin Knudson, former deputy representative of the World Bank, said in an interview that donors have broken away from PECNDAR because other governmental bodies such as ministries had become operational, and therefore the role of PECNDAR as the World Bank counterpart was no longer necessary.<sup>43</sup> Members of the local team at the time, however, believe that other factors also resulted in the diminished role of PECNDAR in the overall donor effort. Objective problems did exist, such as lack of experience; lack of commitment; bad management; and a competitive relationship with other Palestinian bodies, namely the Ministry of Finance and MOPIC.

Other conflicts, however, began to emerge. The local PECNDAR team's main concern at the time was to push their World Bank counterpart to acknowledge that PECNDAR should move towards the direction of becoming a "dynamic, planning and implementation body; not in the strict sense of being an actual implementing body, but a supervisory body". The goals were straightforward: to effect dynamic planning; make an inventory of the social and economic needs in the WBSG; coordinate international assistance; and supervise implementation of programs and projects. The established PECNDAR process was to:

- 1) Conduct studies
- 2) Create lists of needed projects
- 3) Invite for tender
- 4) Conduct needed assessments/analysis
- 5) Grant tender to most competent and reasonably priced body

Despite the semblance of clearly established goals and processes, procedures were not so straightforward. Some of the problems in the context of PECNDAR will be discussed below. But at the outset, the Palestinians were not ready to absorb the international aid in a strategic manner that was conducive to the sustainability of national development processes. And the international community was eager to step

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<sup>42</sup> Per conversation with a member of the initial local team of PECNDAR, 8 May 1997.

<sup>43</sup> 'Abdel Raouf Arnaout, "Interview with Odin Knudson", *Jerusalem Times*, 4 July 1997.

in. For example, Samir Hulaileh explains that the Preliminary Palestinian Development Strategy was put together in a matter of hours by Terje Larsen, then head of UNSCO, 'Abdel Rahman Hamad from PECDAR/Gaza and Majdi al-Khaldi from MOPIC. There was never any Palestinian consensus on the document, and both the World Bank and donors refused the distribution of the document because needed studies were never carried out. Similarly, Hulaileh adds, the 1996 Palestinian Public Investment Plan was put together by three people: Terje Larsen, Odin Knudson, then World Bank Deputy Representative, and 'Abdel Rahman Hamad. Under the PPIP, the UN presented projects worth US\$200 million; the PNA presented projects worth US\$400 million; and the World Bank presented projects worth US\$400 million. The 1996 Investment Plan was put together in a matter of five hours, and various PNA ministries played no role in putting together the plan.


There were problems of prioritization and transparency:<sup>44</sup>

- ◇ **Objective criteria, though clearly defined, were not adhered to.** Subjective criteria were used instead, ie., the residence of a certain individual became a determining factor in deciding a project location. For instance, it was not a coincidence that project implementation of street rehabilitation started in front of the residences of certain mayors, deputies and other officials.
- ◇ **There were cases whereby tenders were invited for projects that had already prepared and negotiated with certain firms and contractors.** According to a study by the Financial Affairs Committee of the Palestinian Legislative Council there is "no clear and accurate control for a tendering and awarding process. In most cases, tenders are awarded to companies owned by senior officials in the Ministry of Planning and International Cooperation (MOPIC), or working in other Ministries and Public Institutions."<sup>45</sup> Many engineers complained that their offices were excluded from reconstruction programs because they were accused of having little or no knowledge of English although they had degrees from universities in the US. In this way, they were excluded from bidding for tenders by PECDAR. In other cases, when some offices were able to win a bid they were given a hard time because

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<sup>44</sup> The discussion regarding the problems which emerged after the inception of PECDAR is based on a number of conversations with members of the initial PECDAR local team, held at various dates in Spring, 1997.

<sup>45</sup> Report of the Budget and Financial Affairs Committee on the General Budget Law of the Palestinian National Authority for the Fiscal Year 1997, p. 10.



PECDAR officials, working through other offices, had been in effect bidding for the same tender and had not won it.

- ◇ **Inside many ministries and departments, political affiliation played a leading role instead of qualifications and expertise.** For example, the role of those who are not Fateh-affiliated (the political party headed by Yasser Arafat) was often undermined.
- ◇ **The role of PECDAR has become precarious,** as other ministries took over responsibilities which originally were within PECDAR's mandate, and this lack of clarity has been reflected in various donor forums. For example, during the last CG meeting in Paris, PECDAR presented one proposal with a number of projects that required funding, while MOPIC presented another list of project proposals; both lists were quite different in content. This was not the first time that such a display of lack of coordination was revealed by the Palestinians. When the donor effort first started, Palestinians were asked to prioritize a list of projects that had initially been assembled by economist Yousef Sayegh. Once the list was submitted to PECDAR, there was much complaining about "who are these people to determine the priorities of certain towns and villages?" This reflected the lack of local input into the 1996 Investment Plan and the Preliminary Palestinian Development Strategy.
- ◇ **Neither the Ministry of Finance nor the financial department of the concerned ministry plays any role in controlling and auditing the expenditures of the projects** put forth in the 1997 Palestinian Investment Program. Based on a study by the Financial Affairs Committee of the Legislative Council, the following was found: "[1] the Ministry of Finance plays no role in controlling and auditing the expenditures of these projects [projects put forth in the 1997 Palestinian Investment Plan]; [2] the financial department of the concerned Ministry does not have any role in controlling and auditing the expenditures of these projects; [3] there are several senior ministry officials, particularly from MOPIC, who receive high additional salaries in return for position titles related to these projects; [4] there are employees who are assigned to these projects who receive salaries much less than what was initially allocated to them in contracts they signed; [5] there is no clear and accurate control for the tendering and awarding process. In most cases, tenders are



awarded to companies owned by senior officials in MOPIC, or working in other Ministries and Public Institutions.”<sup>46</sup>

- ◊ **There are rivalries between various ministries and other Palestinian bodies and responsibilities or spheres of control are not always clearly delineated.** For example, MOPIC’s Environmental Planning Directorate (EPD) has been the most prominent Palestinian body involved in this sector. This, however, will no longer be the case since the Palestinian Environmental Authority (PEnA) was established (in accordance with the Oslo Agreements) in December 1996. Little has been decided regarding how tasks will be divided and what responsibilities will be transferred to the new authority. Until tasks and mandates are decided on, much of EPD’s work is put on hold. According to the *Palestine Economic Pulse*, “...this is especially the case now that the EPD is in the process of refining its institutional structure with more specialized technical departments and improved capacity, including the establishment of a Water Resource Protection Department, an Environmental Impact Assessment Department, a Biodiversity Department, and a Solid Waste Data Collection Department.”<sup>47</sup>
- ◊ **As a result of the political imperatives, the most pressing economic developmental needs in the WBGS have been pushed to the back burner.** Worse, there has been no real assessment and prioritization process because of a prevailing notion that in this transitional period everything is a priority. Because of this and the overwhelming lack of a unified vision, the emphasis has

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<sup>46</sup> Ibid, p. 10. As a result, the Committee recommended the following: [a] Limit the role of MOPIC in the planning and preparation of studies for these projects, rendering necessary technical consultations, and following up with Donor or Financing Countries to obtain necessary financing for these projects; [b] Projects shall be executed in cooperation between the concerned Ministry and the Ministry of Finance. The Ministry of Finance shall control the payment and spending on these projects in accordance with appropriate standards, while the concerned Ministry shall supervise the technical aspects of the project; [c] All foreign aid and grants shall be paid to a special account in the general treasury of the Ministry of Finance. Spending and payment shall be in accordance with contracts made with the donor countries for each project, based on financial orders certified by the Ministry of Finance; [d] All foreign loans to the PNA shall be in accordance with a resolution issued by the Council of Ministers, based on a recommendation from the Minister of Finance, and approved by the Palestinian Legislative Council (PLC). Contracts shall be entered with the Minister of Finance; [e] Personnel in governmental positions shall not work as consultants or employees for any projects, whatsoever.” Ibid. pp. 10-11.


<sup>47</sup> “Legislative Vacuums - Environmental Threats”, *Palestine Economic Pulse*, vol. II, no. 2, March-April 1997.

been on quick fixes, such as short-term job creation and public finance, i.e. activities the sustainability of which either does not exist or is not guaranteed. In the overall donor effort, emergency employment accounts for approximately US\$62.3 million for the years 1994-March 1997, which is only 4.08 percent of total disbursements. The labor content in these projects ranges from 20-35 percent of the value of the project depending on its nature. Additionally, the US made a disbursement of US\$3.3 million to one NGO for employment creation activities. Transitional and budgetary support accounts for US\$452.9 million, or almost 30 percent of total disbursements for this period.<sup>48</sup>

- ◇ Additionally, IMF, UN and World Bank documents, in addition to statements made by PNA officials, stress the importance of generating future employment through the creation of an export-oriented economy for both goods and services. This will require an environment that is conducive to private sector investment and sustainable growth. Consequently, the PNA, with the help of the World Bank has been working on improving the regulatory environment, including the improvement of existing laws. **The underlying assumption here is that the PNA will have the freedom to export products, goods and services without Israeli restrictions or controls. There is no discussion of an alternative course of action should Israel not choose to be so “well-intentioned”.** The PNA went on with its plan to build the Gaza airport to accommodate short-haul jet aircraft and a terminal at a cost of US\$25 million funded by European donors. It continues also the efforts to build a sea port in Gaza, the first phase of which will cost US\$60 million and has been pledged by France and the Netherlands. These plans have been heavily subject to Israeli obstacles. It is not clear yet how these projects would contribute to the integration of the Palestinian economy with the world economy should the Israeli obstacles remain in place.
- ◇ Capacity development, which involves institution-building and personnel training, as well as development of democracy in the Palestinian society, has been prioritized by donors, especially the US, whereas the building of industrial zones or the development of the agricultural sector appears to be of marginal importance. Certain sectors such as these, which could generate locally-based employment, have been ignored, thus contributing to a serious and recurrent unemployment problem, which has steadily worsened since the border closures

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<sup>48</sup> MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June 1997.



of February 1995. The most striking feature of the distribution of aid funds is this marginalization of important sectors. Industry has been left totally to the private sector, following the model of IMF-supported adjustment programs. Nevertheless, the private sector has received only a very minor share of total disbursements, as shown above. And, as discussed earlier, sectors which appear to be politically sensitive, such as agriculture, are marginalized in order not to offend Israeli interests.

All in all, the mechanism, structure and priorities of the foreign aid effort in the Palestinian context are not in line with the development aspirations and needs of the Palestinian population in the West Bank and Gaza Strip. This development initiative has not as yet contributed to filling the socio/economic gaps left after years of military occupation; it has not been able to create the impetus required to generate sustainable forms of economic development; and a real partnership approach to development cooperation between the PNA and the donor community does not exist.

## **VI. Economic Growth in the WBGS 1992-1996<sup>49</sup>**

This section provides an economic situation assessment in greater detail as one way of measuring the impact thus far of the foreign aid initiative in the WBGS. This section in particular examines some macro aggregates to see if the foreign aid effort and development cooperation have succeeded in creating the basis for sustainable development.



The most recent estimates indicate that real GNP, the broadest measure of national income, in the WBGS has declined by 18.4 percent between end 1992 and end-1996. Measured in constant 1995 US\$, the real GNP declined from about \$5,000 to about \$4,100 million during this period. The decline is mainly attributable to the loss of employment in Israel and the decline in trade flows due to the Israeli closure policy. Current estimates also indicate that real GDP, which is GNP minus the incomes earned by Palestinian workers in Israel, rose by 4.4 percent during the same period. In constant dollars, the GDP rose from about \$3,725 to \$3,900 during this same period. Construction activity and public sector expenditure have been the main sources of GDP growth.

Real GNP per capita, a measure of potential living levels, according to the updated estimates, has declined 36.1 percent between 1992 and 1996, this being the combined effect of falling aggregate incomes and robust population growth. With end-1992 real GNP at about \$5,000, and the WBGS population estimated at 1,865,000, per capita GNP was about \$2,700 in constant US dollars. At the end of 1996, real GNP was about \$4,100 with a total population of about 2,383,000, yielding a per capita GNP of about \$1,700.

Recent estimates indicate that in 1996 the real GNP and real GDP for the WBGS declined by about 3 percent and 1.5 percent respectively, per capita GNP and GDP by an estimated 8.5 and 7.5 percent respectively. Despite relative improvements in the first quarter 1997, nominal and real wages for employed workers continued on their steady decline, with real average daily wages down by 9.3 percent over 1996 figures. On July 30, following a double suicide bombing in Jerusalem, the Israeli government imposed an extended comprehensive closure on the WBGS, the full economic impact of which has not yet been fully assessed. However, in early October 1997, UNSCO

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<sup>49</sup> This section draws heavily on UNSCO's Quarterly Report (Winter-Spring 1997) on the Economic and Social Conditions in the West Bank and Gaza Strip, (Gaza, 1 April 1997) and Quarterly Report (Advance Copy, Summer 1997) (Gaza, 4 October 1997).




was estimating that the latest closure-related losses totalled almost twice the amount disbursed by donors to the WBGS in 1997 to date.

In regional terms, the decline has been worse in the West Bank more than in the Gaza Strip. The disparity has been especially large in real and per capita GDP levels, the result of the West Bank's loss of normal access to Jerusalem, the main center of West Bank commercial activity prior to 1993. Another factor is the greater than average economic weight of the private sector in the West Bank, a sector whose relative output and employment have declined since 1993. On the other hand, the public sector, which is disproportionately large in the Gaza Strip, has expanded significantly since 1994. Gaza has also received a disproportionate share of donor assistance.

Private investment as a proportion of GDP averaged 24 percent in real terms in the WBGS in the period 1988-1992, but fell to under 14 percent during 1992-1995. In absolute terms, GDP fell by 75 percent in 1992-1996, contributing to a fall in the gross domestic investment by 52 percent in the same period. Mobilizing local capital resources and attracting foreign investment require political and economic stability and an appropriate legal framework, something not likely under a regime of closures and in an unclear legal and institutional environment. Exports as a percentage of GDP averaged 13 percent during 1988-1992 but fell to less than 10 percent during 1992-1995. In absolute terms, exports fell by almost 23 percent during 1992-1996. Moreover, closure-related obstacles have apparently shifted the interregional flow of WBGS trade toward more tightly integrated West Bank-Israel and Gaza Strip-Israel trade, enhancing the vulnerability of the WBGS economy and its dependency on the Israeli economy. Thus from the point of view of long-term private sector and export growth prospects, the last four years have been the worst in recent history for the WBGS.

The monthly average of estimated permitted WBGS labor flows to Israel in 1996 was 22,251 workers, compared with pre-intifada estimates from 1987 of 120,000 workers. Unemployment is becoming a chronic symptom of the post-1992 economic depression, and is accompanied by serious negative social implications. Average unemployment rates in the WBGS during the 1980s were generally under 5 percent of the labor force. After 1992 Israeli closures limited Palestinian access to jobs in Israel, and average unemployment rates surged to around 10-15 percent in 1993 and 1994. By late 1995 and early 1996, the overall unemployment rate was nearly 20 percent (over four times the 1980s average) with as much as one-fifth of those employed reporting some amount of underemployment. Official figures indicate that unemployment rate was 19.3% in 1996 as compared to 19.1% in 1995.



Underemployment is about 10% according to official figures in 1996. However, if unemployment is used in a broader context, comprising the unemployed, the underemployed and the severely discouraged, the Palestinian Central Bureau of Statistics was estimating that prior to the 30 July 1997 closures, unemployment was possibly as high as 49.1 percent.

All in all, the WBGS remain facing the same challenges of development, compounded by seriously declining socio/economic conditions. Almost five years of international development cooperation has fallen far short of its original goals. The Singaporean model remains a distant mirage. Perhaps most seriously, the factors required for successful development and progress are lacking. Israel is not willing to commit itself to peace and Palestine is not able to commit itself to development. Therefore, international efforts should be re-focused toward promoting the willingness and ability of the parties to make the respective commitments necessary to move forward.



## VII. Conclusions and Implications

Outlined above are some of the most pressing issues pertaining to the donor effort to Palestine. The obstacles are substantial, and the gravity of the situation should not be underestimated. One thing is clear: more coordination is needed — at every level — and a more participatory approach in general is required.

Given that delivering “visible” benefits of the peace process to Palestinians in the WBGS and thereby reinforcing popular support for the peace process has been central objective of the majority of foreign donors, public perceptions of the post-Oslo accord foreign assistance are an equally valid indicator of the success of the initiative.


According to a poll conducted by JMCC in April 1997, Palestinians are dissatisfied with the donor initiative overall. Only one fifth, 20.2 percent of those polled, felt that services and infrastructure had improved greatly since the arrival of the Palestinian Authority; slightly over half felt there had been a little improvement, while 14.3 percent felt there had been no change, and just over 10 percent felt that things were either worse or much worse than before.<sup>50</sup>

Cynicism about foreign aid and its distribution was evident in the survey. One third, 33.8 percent, of those polled felt that foreign aid was used randomly, and 26.8 percent felt that donor funds were not going to those most in need. Regional differences in opinions were sharply defined, reflecting the impact of donors’ political agendas. Only 3.3 percent of Palestinians in East Jerusalem felt that there had been a big improvement in services and infrastructure, compared with 15.2 percent in the West Bank and 31.3 percent of residents in Gaza. In addition, of those polled who felt that things *had* improved, only 31.8 percent of those living in Jerusalem attributed the positive change to foreign aid, compared with 87.8 percent of Gazans and 74.3 percent of West Bank residents. This sharp difference in perceptions reflects the discrepancies in donor funding; many donors have stayed away from Jerusalem-based projects because of Israeli sensitivities.

The popular impression of the PNA’s performance within the development context appears to be better than that of the international donor community. Just over one third, 34.5 percent of those polled, felt that the PNA was doing a good job in implementing development policy; 48 percent felt that they were doing an average job; and only 13.8 percent a poor job. Of all the respondents, only 6.7 percent felt

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<sup>50</sup> Jerusalem Media and Communication Centre, public opinion poll conducted in April 1997.



both that there had been no improvements since the handover to the PNA and that this was the fault of PNA actions or lack of action.

In general, the results of the survey indicate a lack of general awareness regarding the current situation of the Palestinian economy and the role of the donor community; it would appear that many people feel removed from the overall socio/economic development process. And, as the link between development and the peace process has been reinforced repeatedly, it is perhaps not surprising that the levels of satisfaction with the peace process mirror the declining popular disillusionment with the development initiative.

Clearly, as far as the overall population of the WBGS are concerned, the peace process — and the parallel development initiative — have yet to deliver significant benefits. This study, and this project in general, has attempted to highlight some of the major issues surrounding the international community's expanded development program, to raise some key questions for further debate, and to lay the groundwork of a locally-based forum for that future debate. The next phase of the project will concentrate on activating this forum to continue the debate on the current state of development, and to formulate concrete guidelines and recommendations for addressing the problems in a more realistic, participatory and sustainable manner.





