

**FOREIGN AID AND
DEVELOPMENT IN
PALESTINE**



Jerusalem Media & Communication Centre

COPYRIGHT

© Jerusalem Media & Communication Centre
March 1999

All Rights Reserved

**WRITTEN BY
RESEARCH ASSISTANT**

Dr. Adel Zagha
Manal Jamal
Fadi Harb
Rose Marie-Barbeau & Nina Sovich
Samar Hawari
National Computers Printer

**EDITED BY
DESIGN
PRINT**

The following is the Phase III report of the project
Foreign Aid and Development in Palestine

ACKNOWLEDGEMENTS

PECDAR, Mohammed Shteya, Samir Abdullah, Dr. Adnan Al-'Amad, Chalres Shammass, Mopic, World Bank, UNSCO, participants of JMCC's Donors Conferences, The *Netherlands Organization for International Development Cooperation NOVIB* for Financial support.

Information in this report may be quoted providing full credit is given to the Jerusalem Media & Communication Centre (JMCC). No part of this report may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, or stored in any retrieval system of any nature, without the prior written permission of the JMCC.

مركز القدس للإعلام والاتصال

JMCC

POB 25047, East Jerusalem

Tel 02-5819777 Fax 02-5829534

email jmcc@jmcc.org

WebPage <http://www.jmcc.org>



**FOREIGN AID AND
DEVELOPMENT IN
PALESTINE**

Jerusalem Media & Communication Centre





Table of Contents:

Introduction	5
Chapter I - Data	9
I. Pledges	9
1.1 The Arab World	10
1.2 Europe	10
1.3 Japan	11
1.4 North America	11
1.5 Other Countries	12
2. The Flow of Donor Pledges 1993-1998	13
2.1 The Arab World	14
2.2 Europe	15
2.3 Japan	16
2.4 North America	16
2.5 Other Donor Countries	17
2.6 International Agencies	17
3. Sectoral Profile of Donors' Assistance	19
3.1 Sectoral Profile	19
<i>Agriculture</i>	19
<i>Democracy Development</i>	20
<i>Detainees/Returnees</i>	21
<i>Education</i>	21
<i>Energy</i>	22
<i>Environment</i>	22
<i>Health</i>	23
<i>Housing</i>	23
<i>Human and Social Development</i>	24
<i>Humanitarian Aid</i>	25



<i>Industrial Development</i>	26
<i>Infrastructure</i>	26
<i>Institution Building</i>	27
<i>Legal Affairs</i>	28
<i>Multiple Sectors</i>	28
<i>Police</i>	29
<i>Private Sector Development</i>	30
<i>Solid Waste</i>	31
<i>Telecommunications</i>	31
<i>Tourism and Cultural Resources</i>	31
<i>Transportation</i>	32
<i>Undefined</i>	33
<i>Water and Sanitation</i>	33
<i>Women</i>	34
Chapter II - Analysis	35
1. Core Factors in Effective Foreign Aid	35
1.1 Structural Issues	36
1.2 Political Questions	36
1.3 Management Factors	37
2. Situation Assessment	38
3. Structure of Foreign Aid Mechanism in the Palestinian Context	42
4. Foreign Aid in the Palestinian Context: An Assessment	46
4.1 Problems in Coordination	46
4.2 Problems Stemming From Israeli Policies	67
4.3 Problems Stemming from the Transitional Nature of the Palestinian Economy, Government and Society	71
5. Economic Growth in the WBGs 1992-1996	76
Chapter III - Discussion and recommendations	79
Recommendations	91
Conclusions and Implications	93





Introduction

The two parties view the economic domain as one of the cornerstones in their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace. Both parties shall cooperate in this field in order to establish a sound economic base for these relations, which will be governed in various economic spheres by principles of mutual respect of each other's economic interest, reciprocity, equity and fairness.

Preamble of the Protocol on Economic Relations between the Government of Israel and the PLO, representing the Palestinian people.

After the euphoria brought on by the signing of the Israeli and Palestinian agreement on the Declaration of Principles on Interim Self-Government (DOP) in 1993, and Israeli redeployment from major Palestinian towns, Palestinians quickly realized that the peace process and return of the Palestine Liberation Organization (PLO) created little more than an ambiguous political and economic future. Despite the slow pace of negotiations and shattered expectations, however, both Palestinians and Israelis continue to place high hopes on a peace which rests upon a sound Palestinian economy that is supported, but not fueled, by international donations.

Improved living conditions, a strong infrastructure in the West Bank and Gaza Strip, and the necessary institutions are all elements vital to the peace envisaged by the DOP. With this in mind, the international community met in Washington on October 1, 1993 at the US-hosted Conference to Support Middle East Peace. This conference concluded with the donor community pledging US \$2,996,32 million¹ to the Palestinians, to be disbursed between 1994 and 1998. At the Donor Countries Conference in Washington DC on November 30, 1998, donors pledged a further US\$3.8 billion for the next five years, the US alone pledging to increase donations US\$500 million to US\$900 million.

Despite massive amounts of foreign aid, unemployment rates between 1993 and 1997 shot up, household incomes and expenditures declined, and public confidence in the peace agreements was fundamentally shaken. Since the signing of the Declaration of

¹ Based on the fifth revision, November 1996 "Matrix of Donor Assistance to the West Bank and Gaza Strip"



Principles in 1993, Palestinian living standards have fallen by over 30 percent and unemployment hovers between 15-20 percent, rising sharply during closures. An estimated 20 percent of the West Bank and 60 percent of Gaza lives on less than US\$650 per year.² A variety of factors contributed to the Palestinian economic decline. Israeli-imposed closures restrict the movement of goods and people, financial mismanagement and corruption on the part of the Palestine National Authority (PNA) channel wealth into the hands of a few, and a dearth of development projects focusing on industrial and agricultural development leave farmers and workers alike without the equipment or ability to make a decent living. The tension between increasing poverty and the massive inflow of funds led many to question the international development initiative, its framework and impact.

The West Bank and Gaza Strip remain in need of assistance. That assistance has been directly linked to perceived progress in the peace negotiations, to demands from donors for transparency and accountability from the PNA, and to the various priorities set by individual governments and multilateral organizations (e.g. World Bank, International Monetary Fund, United Nations).

Often contradictory priorities among the donor community, Israeli security and economic concerns and PNA emphasis on aid as opposed to development, brings an inconsistency to the development process, hampering economic growth. On one hand, the true state of the PNA's finances is unclear, and on the other levels of foreign assistance disbursed differ significantly from amounts initially pledged and committed. In addition, Israeli closures restrict the flow of goods in and out of Gaza and the West Bank. There is an urgent need to gain a greater understanding of this situation, as transitory structures become more permanent, and as a Palestinian development strategy materializes on the ground. Furthermore it is vital that the population feel confident that this development strategy is one that will not create mechanisms that actually prevent people equal access to wealth, education and health. If the peace process is to be successful, Palestinians must feel that the PNA is working with the donor community to raise their median standard of living, not splitting Palestinian society into the wealthy and the poor.

Within this context, the Jerusalem Media and Communications Centre (JMCC) initiated the "Foreign Aid and Development in Palestine" project, which is supported by NOVIB. This book represents the culmination of three studies the first of which

² MAS Economic Monitor, Issue No. 3, 1998.



was published in 1997 under the title *Foreign Aid and Development in Palestine*, and is included here with current figures as Chapter I. *Mortgaging Self-Reliance* was also published in 1997 and is added in its entirety to this book as Chapter II. The final study has not previously been published in any form and is presented here as Chapter III.

The aim of this project is to examine whether the donor community and Palestinians are distributing funds in a way that will help ensure sustainable development, or whether they are instead helping to create structural dependency. It is hoped that this information will serve as the first step in establishing a forum to discuss economic development and the role of the donor community in Palestine. Chapter I is not meant to be analytical in nature, but essentially a compilation of various materials pertaining to the donor community and the Palestinian economy, including pledges, commitments, disbursements, and sectoral concentrations for the period 1994-1998. Chapter II identifies and prioritizes the key issues relevant to the responsible use of funds received, through interviews, workshops, and other fora.

JMCC hopes that the discussion and analysis Chapter II will help to determine the respective roles of the PNA, NGOs and international donors and agencies within the development process, and encourage communication between all parties on how to strike a balance between short-term needs and long-term sustainability. Accordingly, Chapter III prioritizes the various components of the development process and formulates policy guidelines and recommendations. The project as a whole intends to establish a local, informal forum for discussion of the various development issues and priorities, with an eye to future policy-making.

Based on the knowledge gleaned in the first two project phases JMCC convened a conference in December 1997 to discuss alternatives to the current development process. The results, presented in Chapter III, stressed the Palestinian response to development divorced of Israeli interference in the Palestinian economy. Participants agreed that while Israeli policies such as border closures exacted a high price on Palestinian economic life much could be done by the PNA, the international community and Palestinian civil society to improve the effectiveness of aid. Recommendations to the PNA addressed their poor hiring practices and information systems as well as a dearth of transparency and lack of accountability. Recommendations also address the role of the Palestinian Diaspora in stimulating the economy and ways in which the donor community could play a more active political role in development.



While the Palestinians face similar challenges to other developing countries, their education and relatively generous levels of foreign assistance also offer the hope of true prosperity. Israeli economic policies towards the Palestinians, however, make it difficult for Palestinian producers and consumers alike. JMCC hopes that donors and Palestinian officials use the observations and recommendations presented here to develop a comprehensive development strategy designed to bring the Palestinian economy in line with the developed world.

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 haattempted, however, to provide an opportunity for input from individuals involved directly and indirectly in Palestinian development. It should be noted, however, that since interviews and discussions were a main source of information, the accuracy of information could not always be confirmed.





Chapter I

DATA

This chapter presents data on the flow of donor pledges between 1993 and 1998. Section I details initial pledges offered by the Arab World, Europe, North America, Japan and other countries. Section II looks at the percentage of pledges and commitments donor countries disbursed. Section III looks at donations by sector, as defined by the Ministry of Planning and International Cooperation (MOPIC), which countries donated to particular sectors and into which categories (technical assistance, equipment etc.) the money was channeled.

I. Pledges

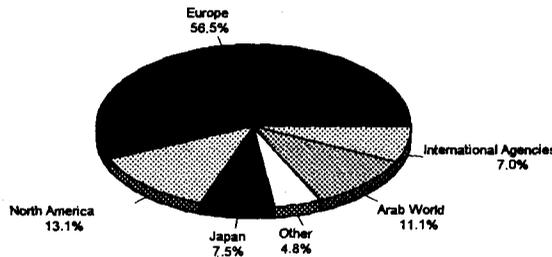
According to figures put out by Ministry of Planning and International Cooperation (MOPIC) in June 1998 pledges made in the period between 1993 and 1998 totaled US\$4,143,896 million with the US pledging 12%, EU 10% Germany 9%. Some countries may have contributed indirectly through other channels and hence their contributions are underestimated.

In looking at the donor community, countries are divided into five categories: the Arab World, Europe, Japan, North America, and Other Countries.

The following chart provides an overview of foreign per sector

Chart 1

Percentage of Foreign Aid 1994-1998 (pledges)
By region



Source: MOPIC





1.1 The Arab World

Total pledges of the Arab countries and the Arab fund amount to US\$458,421 million, approximately 11% of the total pledges for the period 1993-1998. Seven Arab countries, Algeria, Egypt, Jordan, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates and the Arab fund, pledged to financially assist the Palestinians. Of these countries, Saudi Arabia is the major Arab donor, accounting for approximately 44% of total Arab pledges. The second largest donor from this sector is the Arab fund with a pledge of US\$150 million, 23% of pledges made from the Arab world. Both UAE and Kuwait followed, each accounting for approximately 5.5% of total pledges.

1.2 Europe

The category of Europe includes both the western and eastern parts, including Russia.³ The total amount pledged by Europe as a region is US\$2,340,564 billion approximately half of all donor assistance pledged to the Palestinians between 1993 and 1998. Of this amount, the largest donor was the European Union contributing US\$421 million (18%), the EU investment bank contributing US\$300 million (13%). All the European countries that donate to Palestine, with the exception of Switzerland, the Czech Republic, Romania, and Russia are members of the European Union, hence they donated on two fronts: individually and through the EU.

Of the European countries, Germany was the largest donor pledging US\$355,422 million (15%) and the Norwegians following with the pledge of US\$244,021 million (10%), Italy pledged US\$156,837 million (6.7%) and the Netherlands pledged US\$154,166 million (6.6%) the United Kingdom pledged US\$128,656 million (5.5%).

The majority of donations have come from Western Europe; Eastern Europe's contributions to the donor effort have been minimal. The only two Eastern European countries from the former COMECON to pledge any assistance to the donor effort towards Palestine are the Czech republic and Romania, which together pledged US \$ 5,5 million less than 1% of the total amount pledged by European countries.

The EU's proposed plan of action has focused on three areas: political empowerment, institutional and economic empowerment. In terms of political empowerment, the EU has focused on drafting the electoral law, the establishment of national and district

³ This category includes Austria, Belgium, Czech Republic, Denmark, the EU investment bank, the EU, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Romania, Russia, Spain, Sweden, Switzerland and the United Kingdom.



election offices, the establishment of a press office, the designation of polling districts, civic education campaigns, training election officers and the provision of electoral equipment. Significant technical and financial support has also been given to the new administration of the PNA including considerable grant resources to the running costs and other recurrent expenses of the PNA, universities and community colleges, primary and secondary level education, the police force and the rehabilitation of ex-detainees. Additionally, the European Union introduced to the international community the idea of the Tripartite Action Plan (TAP) in order to help balance the PNA budget deficit. On April 25, 1995, the PNA, Israel, and the international donor community agreed on the TAP, which encourages all parties to actively address the structural deficits of the PNA.

1.3 Japan

Japan will be looked at as an individual country and not as part of the south and east Asian region, since it is the only country in the region playing a major role in the Middle East donor effort. Therefore, the contributions of Brunei, India, Indonesia, and the republic of Korea will be looked at in the category Other Countries. Japan pledged US\$312,023 million, 7.5% of total donor pledges.

Japan played a key role in formulating the Environmental Code of Conduct for promoting regional cooperation to protect the environment in the Middle East. Although Japan's contributions to the donor effort are significant, its delivery of international assistance was, *inter alia*, complicated by legal restrictions. Japan found itself bound by domestic legislation limiting its assistance to international organizations and recognized states, thus excluding the PNA. To overcome this restriction, the Japanese have had to channel assistance through UN agencies instead. Other donors have also faced the same problem of assistance delivery because the West Bank and Gaza Strip do not have nation-state status.⁴

1.4 North America

This category is comprised of the United States and Canada. The US has pledged US\$500 million and Canada US\$43,568 million, 13.1% of total pledges. US grants are administered through the United States Agency for International Development (USAID). As with Japan, the US legislation prohibits direct US assistance to the PNA, and mandates USAID support for the establishment of cross-border industrial

⁴ For more information on this see Rex Brynen, *The (Very) Political Economy of the West Bank and Gaza: Learning Lessons about Peace-building and Development Assistance* McGill University, 1996.



parks (despite a preexisting legislative ban on USAID projects that might result in competition with US manufacturers). Furthermore, congressional suspicion of the PLO meant that the assistance program was subject to periodic congressional review and a legislative requirement for periodic certification by the State Department of Palestinian compliance to the Oslo agreement. Another dimension to the US assistance program is the institutional challenge. Pre-Oslo US aid had been limited, and for domestic political reasons largely channeled through a select group of US private voluntary organizations rather than administered directly. "Scaling up" from previous levels is not a simple task. The USAID had to rapidly expand its infrastructure on the ground, with internal bureaucratic and political struggles arising over such issues as staffing levels. Location (East Jerusalem vs. Tel Aviv), and line authority.

Much of USAID's assistance has been directed to the start-up costs of the PNA's operations and high-priority infrastructure. Furthermore, "...the program, as part of an overall country team approach, addresses crucial US national interests in the Middle East by promoting market-oriented economic development and the emergence of democratic institutions. These efforts will help lay the groundwork for long-term economic stability, a sine qua non for the viability of the new Palestinian entity and its peaceful relation with Israel and its neighbors."⁵

1.5 Other Countries

This category includes Australia, Israel, Turkey and other Asian countries including - Brunei, China, India, Indonesia, Argentina and the Republic of Korea. Of these countries Israel and Turkey are the largest donors: Israel has pledged US\$102 million, Turkey US\$54,971 million. Pledges made by other Asian countries amount to US\$27,032 million. In total pledges from Other Countries represented 4.8% of total pledges.

⁵ USAID Congressional Presentation, 1997

2. The Flow of Donor Pledges 1993-1998

The following disbursement figures are based on figures put out by MOPIIC in July 1998⁶:

1. Donors' pledges for 1993-1998 amounted to US\$4,143,896 billion.
2. Total commitments for 1993-1998 amounted to US\$3,550,097 billion, 86% of the total pledged for 1993-1998. This amount has been allocated to specific projects and agreements that have been signed. Thus nearly 90% of total pledged assistance to the Palestinians has already been committed to specific projects.
3. As of July 1998, US\$2,451,643 billion had been disbursed, only 59% of the total pledges for the period between 1993 and 1998. This disbursement figure also represents only 70% of total commitments for the same period. Only some of these disbursements have translated to activities on the ground. Furthermore, these disbursements have been partially used for budget support and technical assistance.
4. Together, transitional and budgetary support and technical assistance have absorbed approximately 40% of the total disbursements. The remainder has been allocated for investment projects.

The pace of actual aid delivery, as opposed to pledges or commitments, raises critical questions regarding:

- whether there were problems in the identification of priorities, programs and projects,
- the ability of Palestinian institutions to implement and absorb funding.

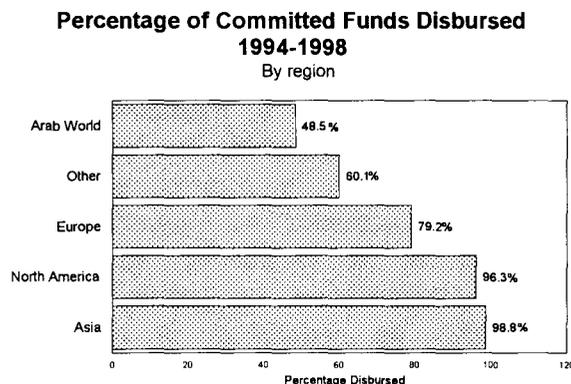
Attempting to answer these questions is not easy. Many claim that aid delivery has lagged despite the fact that the structure of aid coordination and delivery was enhanced to tackle this problem by the creation of the CG, the AHLC and its substructure, which includes the Local Aid Coordination Committee (LACC), Sectoral Working Groups (SWG), Joint Liaison Committee (JLC), the task Force on Project Implementation, and the UN Special Coordinator's Office (UNSCO). Brynen concludes that "as a consequence (of these problems), structure and programs have undergone significant modification over time, in an attempt to improve the pace of

⁶ The term "commitment" is defined as a firm allocation of pledge monies by a donor, i.e. an agreement was signed. The term "disbursement" represents monies transferred out of donor bank accounts against its commitments to the implementing agency. The figure therefore reflects what the donor has disbursed to date, but not necessarily the implementation stage of the project. Some disbursements may not be transferred to activities on the ground.

program delivery, target aid more effectively, and enhance coordination and local responsiveness."⁷

The chart below presents the percentage of committed funds disbursed between 1994 and 1998.

Chart 2



Source: MOPIC

In the remainder of this section, actual donor disbursements will be looked at regionally. The same categories will be used as in the previous section, namely the Arab World, Europe, Japan, North America and Other Countries.

2.1 The Arab World

Based on Mopic's July 1998 figures, of the US\$458,421 million pledged by the Arab countries and the Arab fund, US\$444,173 million has been committed and allocated to specific projects. Actual disbursements by Arab countries totaled US\$215,602 million and only 47% of Arab pledges and 49% of Arab commitments 8.8% of total disbursements.

With regard to specific Arab donor countries: Algeria has disbursed 40% of the aid it pledged, 100% of its total commitments thus far. Egypt has disbursed 90% of its pledges and commitments. Jordan has disbursed 81% of its pledges and commitments. Kuwait has disbursed 96% of its pledges and 100% of its pledges. Qatar has disbursed 83% of its pledges and 100% of its commitments. Saudi Arabia, the largest donor country among the Arab block with nearly two thirds of the total

⁷ Brynen, Ibid.



funds disbursed has disbursed 64% of its pledges and commitments. The United Arab Emirates disbursed 76% of its pledges and 100% of its commitments.

2.2 Europe

Of the total US\$2,340,564 billion pledged by Europe between 1993 and 1998, US\$2,078,564 billion or 89% of total European pledges, has been committed. European disbursements total approximately US\$1,389,322 billion or 59% of initial pledges and 67% of commitments. The Europeans made more than half of total disbursements.

Within the European domain, the EU is a major donor. The EU's total pledged amount of US\$421 million has been committed. EU disbursements represent 298,302 million, 71% of its commitments and disbursements. The EU disbursements represent 22% of all European donor disbursements and 12% of total disbursements among donors.

The EIB has pledged US\$300 million and committed US\$112,500 million, 38% of the amount pledged. Actual disbursements are very low for the EIB, only US\$5,682 million 1.9% of the amount pledged and only 5.1% of the amount committed.

1. Germany is the most prominent of the individual donor countries. Germany's disbursements total US\$270,797 million, 76% of that country's commitments and pledges. Germany's disbursements constitute 20% of total disbursements by the European donors and 11% of disbursements made thus far by all of the donors.
2. Norway is the second most prominent of the individual donor countries. Norway's disbursements total US\$221,382 million or 16% of European disbursements and 91% of that country pledges and commitments. Norway's disbursements constitute 9% of total disbursements made thus far by all of the donors.
3. The Netherlands disbursed \$105,626 million, 69% of its total pledges and commitments. Dutch disbursements represent 8% of EU disbursements.
4. Italy has disbursed 39% of its total pledges and commitments, 4.4% of European donor disbursements, and 2.5% of total donor disbursements.

- 
5. Switzerland has disbursed 6% of the total European disbursements and 93% of its total commitments and pledges. Swiss disbursements represent 3.3% of total disbursements.
 6. France has disbursed 3.6% of total European disbursements and 63% of its pledges and commitments.
 7. Denmark has disbursed 3.6% of the total European disbursements, and 98% of its commitments and disbursements.
 8. Spain has disbursed 5.3% of total European disbursements; it has disbursed 54% of total pledges and commitments.
 9. Sweden has disbursed 4.4% of total European disbursements; it has disbursed 66% of its pledges and commitments.
 10. Great Britain has disbursed 2.9% of total European disbursements. It has only disbursed 56% of its commitments and only 31% of its pledges.

The rest of the European donor countries (Austria, Belgium, Czech republic, Finland, Greece, Iceland, Ireland, Luxembourg, Portugal, Romania, and Russia) have committed 5.7% of total European commitments and disbursed 5.1% of total European disbursements.

2.3 Japan

Japan has committed 100% of its total pledges and disbursed 100% of its commitments, \$312,023 million. Japanese disbursements represent 13% of total disbursements made by the donor community and 8.8% of commitments made.

2.4 North America

Between 1993 and 1998, US commitments equaled US\$334,447 million, 67% of its pledges. Disbursements represented US\$329,052 million, 98% of commitments and 66% of pledges. US disbursements represent 13% of total donor disbursements.

Canada has pledged US\$43,568 million, committing 98% of that sum and disbursing 81%.



2.5 Other Donor Countries

Of the remaining donor countries, Israel has disbursed US\$10,500 million a mere 10% of its pledges, and 38% of commitments. Turkey has disbursed US\$3,955 million, 7.2% of its pledges and 80% of its commitments.

Australia has disbursed US\$8,836 million, 68% of its pledges and 95% of its commitments.

The other Asian and South American countries -- Argentina, Brunei, China, India, Indonesia, Korea -- together have disbursed US\$9,737 million. China and Indonesia made commitments but have not, as of July 1998, made any disbursements. Argentina and Brunei disbursed exactly what they pledged and committed US\$471 thousand and US\$6 million respectively; India pledged and committed twice as much as it actually disbursed, giving out US\$1 million. Korea disbursed 15% of what it pledged and 55% of what it committed, disbursing US\$2,266 million.

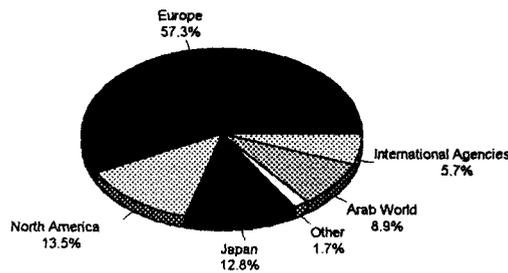
2.6 International Agencies

The World Bank and its affiliate the IFC (International Finance Corporation) pledged US\$273 million or 6.6% of total donor pledges. Their commitments total US\$260,800 million or 7.3% of total donor commitments. The World Bank and IFC disbursed US\$120,913 million but this figure only represents 48% of total commitments. UNDP disbursed US\$7,317 million, 79% of its pledges and commitments; the World Food Program disbursed US\$5,755 million, 62% of its pledges and commitments.

The chart below presents each percentage of disbursements by region between 1994 and 1998.

Chart 3

Percentage of Foreign Aid 1994-1998 (disbursements)
By region



Source MOPIC



3. Sectoral Profile of Donors' Assistance

General Profile

Status of Donor-funded Activities in the West Bank and Gaza Strip 1995-1998 (in \$ US million)

	Sector	Commitments	% Total Comm't	Disbursements	% Total Disb	D/C Ratio
1	Agriculture	59,445	1.7%	36,523	1.5%	61
2	Democracy/ Development	72,060	2.1%	69,978	2.8%	97
3	Detainees/Returnees	36,115	1.1%	23,590	1%	65
4	Education	376,797	11%	293,465	12%	78
5	Energy	82,646	2.4%	42,473	1.7%	51
6	Environment	9178	0.27%	6,802	0.3%	74
7	Health	280,315	8.2%	188,500	7.7%	67
8	Housing	164,326	4.8%	87,061	3.6%	53
9	Human & Social Development	60,137	1.8%	44,667	1.8%	74
10	Humanitarian Aid	122,534	3.5%	118,227	4.8%	97
11	Industrial	58,026	1.7%	7,985	0.33%	14
12	Development Infrastructure	107,364	3.1%	77,545	3.2%	72
13	Institution Building	325,677	9.5%	249,342	10%	77
14	Legal Affairs	10,741	0.31%	2,352	0.09%	22
15	Multiple Sectors	641,000	18.7%	593,077	24.2%	93
16	Police	101,815	3%	92,531	3.8%	91
17	Private Sector Development	187,306	5.5%	83,256	3.4%	45
18	Solid Waste	26,604	0.8%	17,129	0.7%	64
19	Telecommunications	5,506	0.2%	3,610	0.15%	66
20	Tourism & Cultural Resources	41,448	1.2%	22,771	0.93%	55
21	Transportation	157,454	4.5%	49,366	0.2%	31
22	Undefined	41,626	1.2%	22,591	0.92%	54
23	Water & Sanitation	453,904	13%	306,427	12%	68
24	Women	13,970	0.41%	12,273	0.5%	88
	Total	3,435,995		2,451,544		71



The Sectoral profile of aid commitments and disbursements as presented in Table indicate the following:

1. The public sector enjoys the lion's share in total commitments as well as disbursements, accounting for more than 97% of total disbursements
2. The greatest share of disbursements fall into the category "multiple sectors" as defined by MOPIC, followed by water and sanitation, education, institution building and health. Detainee rehabilitation received only 1% of disbursements, with industrial development, women, legal affairs and environmental disbursements receiving less than 1% of funding.
3. Between 1995 and 1998, roughly 70% of committed funds were disbursed. Industrial development, housing, and legal affairs disbursements fell well below the average at 14%, 33% and 22% respectively, while police, multiple sectors, democratic development and humanitarian aid were well over 90% of commitments.
4. The sectors that received the largest disbursements, multiple sectors, water and sanitation, education, institution building and health did not always receive large percentages of the original commitments. For example, multiple sectors received 93% of commitments, but water and sanitation only got 68%, education 78% and health 68%.

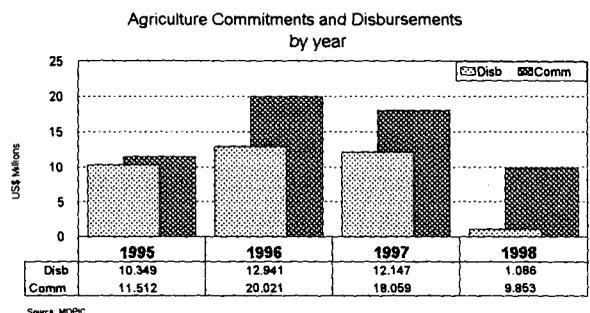
3.1 Sectoral profile

Agriculture

US\$59,445 million had been committed to agriculture of which US\$36,523 million has been disbursed (61%). In the agricultural sector Japan is the largest donor, committing and disbursing US\$14,340 million between 1995 and 1998. Japan channeled the majority of its funds through UNDP and the Ministry of Agriculture to technical assistance, equipment and employment generation. Spain follows Japan in expenditures to this sector, disbursing US\$5,190 million, 14% of total donations to agriculture. The majority of Spanish funds were used for equipment and technical assistance. The third largest donor to agriculture was the Netherlands, disbursing US\$3,860 million, 11% of the total. Other donor countries included the Austria which gave US\$ 2,212 million (6.1%) and Denmark which gave US\$1,826 million (5.1%). Argentina, Belgium, France, Luxembourg, Norway, UNDP and USA disbursed less than 5%. Australia, Germany, Ireland the EU disbursed less than 1%. The Arab fund committed but did not disburse.

The chart below shows the differences between commitments and actual disbursements to the agriculture sector by year.

Chart 4

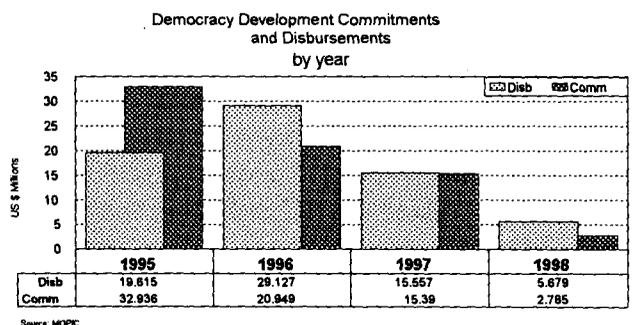


Democracy Development

Of the US\$72,060 million committed to this sector, US\$69,978 million has been disbursed (97%). The United States is the largest donor, disbursing US\$25,142 million, equal to 36% of the total disbursements in democratic development. The United States channeled all of its donations into technical assistance. After the United States, the European Union is the second largest donor, committing and disbursing US\$20,653 million (29%), channeling its donations to various and technical assistance. The third largest donor is Norway disbursing US\$18,688 million (26%) to technical assistance. Canada and Japan gave less than 5%. Spain, Denmark, Finland, France, Germany, and the Netherlands donated less than 1%. The overwhelming majority of funds earmarked for democracy development went to technical assistance with smaller percentages going to equipment and various.

The chart below shows the differences between commitments and actual disbursements to the democracy development sector by year.

Chart 5



Detainees/Returnees

Commitments to this sector totaled US\$36,115 million, of which 65% was disbursed, US\$23,590 million. The European Union was the largest donor, committing US\$11,364 million or 48% of total disbursements. The EU channeled its funds to transitional and budgetary support. Following the EU, Germany's disbursements totaled US\$7,333 million 30% of total disbursements; these funds went primarily to private sector support. Switzerland disbursed US\$2,689 million 7.6% of total commitments. Italy, Spain, the Netherlands, Italy and Australia all disbursed less than 5% of the total; Britain made minor commitments, but did not disburse them.

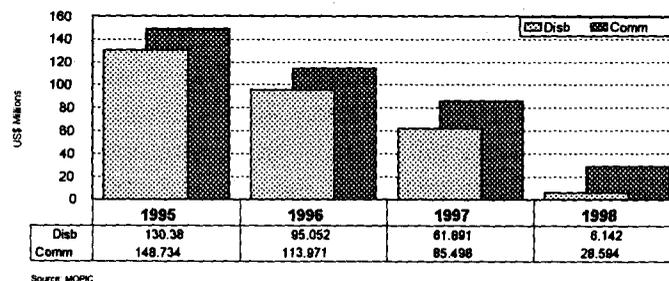
Education

US\$376,797 million has been committed to education with US\$293,465 million disbursed (78%). In this sector the European Union is the largest donor, giving US\$127,999 million, 44% of total donations. The majority of the European Union commitment went into public investment, technical assistance and transitional and budgetary support. The second largest donor is Japan with US\$54,675 million in disbursements, approximately 19% of total disbursements, channeling a significant amount of funds into public investment with one large donation to equipment. The third largest donor is the Netherlands disbursing US\$15,551 million (6.8%), channeling the majority of its donations into technical assistance and public investment. The United States, Algeria, Norway, Belgium, France, Germany, Italy, Saudi Arabia, Spain, Switzerland gave less than 5%. Australia, Czech Republic, Finland, Greece, Ireland, Portugal, Korea, Romania, Russia, Turkey, the UNDP gave less than 1%. The Arab Fund, China and India committed funds, but never disbursed them.

The chart below shows the differences between commitments and actual disbursements to the education sector by year.

Chart 6

Education Disbursements and Commitments
by year





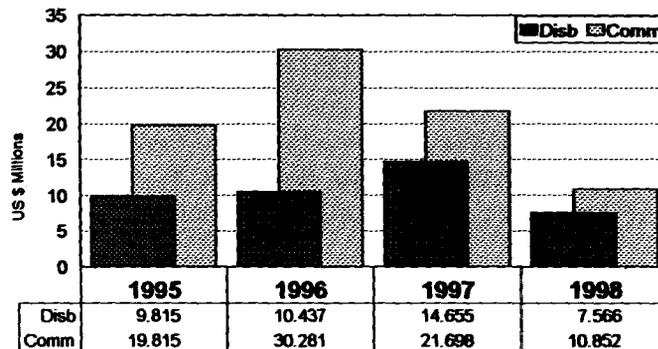
Energy

Commitments to the energy sector totaled US\$82,646 million of which US\$42,473 was disbursed, 51%. By far the largest donor to the energy sector was Norway disbursing US\$34,646 million with 82% of disbursements in this sector, giving the majority of funds to public investment with lesser amounts to technical assistance and transitional and budgetary support. France followed Norway, disbursing US\$3,952 million, 9.3% of the total, mainly to the purchase of equipment. The EU and the Czech republic disbursed less than 5%. Belgium, Ireland, Japan, the Netherlands and UNDP disbursed less than 1%. The Arab Fund made significant commitments in 1995 and 1996, but did not disburse the money.

The chart below shows the differences between commitments and actual disbursements to the energy sector by year.

Chart 7

Energy Commitments and Disbursements
by year



Source: MOPIC

Environment

Commitments in this sector totaled US\$9,178 million, disbursements US\$6,802 million (74%). The largest donor was the Netherlands disbursing US\$2,535 million, 37% of its commitments. Denmark disbursed US\$1,159 million (17%) followed by Japan with a disbursement of US\$800 thousand (12%). Austria gave with US\$637 thousand (9.7%). Italy, Luxembourg, Norway, Korea, Switzerland, UNDP and World Bank gave less than 5%. Canada and Spain made commitments but did not distribute them. The vast majority of disbursements in the environmental sectors went to technical support. All donations in this sector went to technical assistance, with the exception of Norway, which gave to transitional and budgetary support.



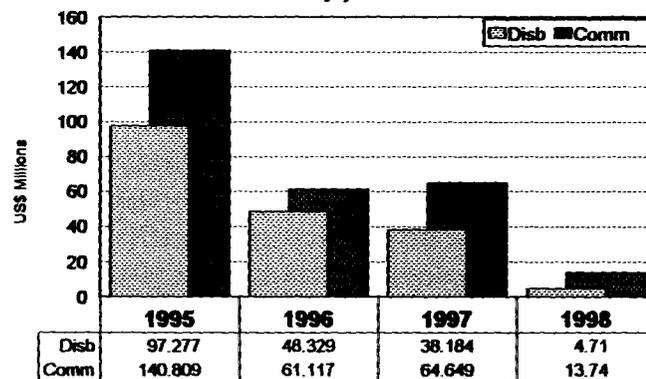
Health

Commitments in this sector totaled US\$280,315 million, disbursements, US\$188,500 million (67%.) The largest donor to the health sector was Japan, disbursing US\$62,150 million, 33% of total disbursements, and channeling the majority of its funds to public investment, with substantial donations to equipment and small disbursements to technical assistance. Following Japan, Spain is the second largest donor distributing US\$29,056 million, (15%) to equipment with smaller donations to public investment and technical assistance. Saudi Arabia disbursed US\$15,000 million (8%) to public investment; the EU disbursed US\$13,588 million, (7.2%); Denmark disbursed US\$13,218 million (7%.) Italy disbursed US\$12,209 million (6.5%) and Sweden disbursed 5.5% of the total, US\$10,286 million. Australia, Austria, Belgium, France, Greece, Switzerland, the UK and the US all donated less than 5%. Canada, Finland, Ireland, Jordan, the Netherlands, Norway, Korea and Turkey donated less than 1%. The Arab Fund and Germany made commitments but did not disburse funds.

The chart below shows the differences between commitments and actual disbursements to the health sector by year.

Chart 8

Health Commitments and Disbursements
by year



Source: MOPIC

Housing

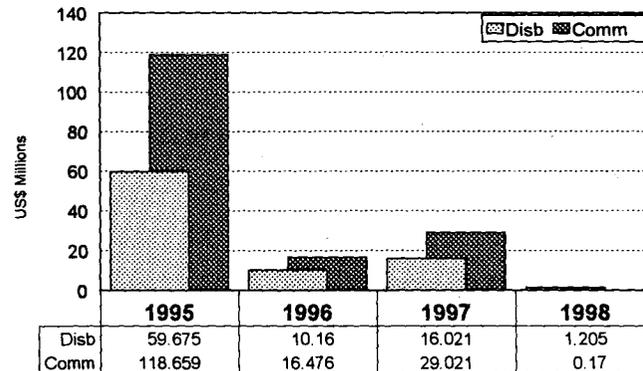
Total commitments to the housing sector totaled US\$16,326 million, disbursements roughly half of that at US\$8,061 million. The largest donor in this sector was the United States, committing and disbursing US\$36,493 million, 42% of total disbursements to housing. Following the US, Saudi Arabia disbursed US\$16,400

million, although it originally committed US\$60 million, nearly four times the amount disbursed. Japan disbursed US\$12,800 million, 15% of total disbursements. The EU disbursed US\$11,364 million (13%). Austria, Canada, Kuwait, the Netherlands all gave less than 5%; Spain, Sweden, UNDP gave less than 1%. Belgium, the World Bank and Finland made commitments but disbursed no funds. Over 95% funds in this sector went to public investment, with a slight percentage going to technical support.

The chart below shows the differences between commitments and actual disbursements to the housing sector by year.

Chart 9

Housing Commitments and Disbursements
by year



Source: MOPIC

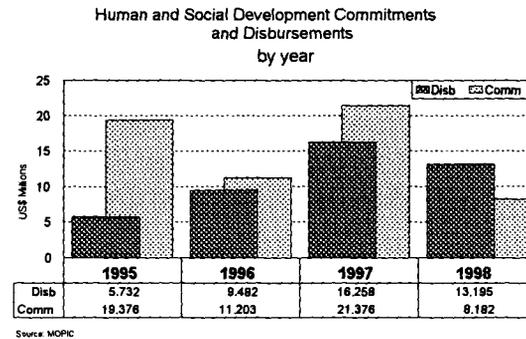
Human and Social Development

Commitments to this sector totaled US\$60,137 million; disbursements totaled US\$44,667 million (74%). The largest donors were Norway and Sweden, each donating 28% of the total disbursements (Norway gave US\$12,278 million and Sweden US\$12,305 million). Sweden and Norway gave to various, employment generation and technical assistance. The World Bank disbursed US\$6,914 million, 15.5% of the total; its entire donation went to public investment. Switzerland disbursed US\$3,419 million, 7.7% of the total disbursements; Japan US\$2,500 million (5.6%). Canada, Denmark, the Netherlands, UNDP and the United Kingdom all donated less than 5%; Australia and Finland donated less than 1%.



The chart below shows the differences between commitments and actual disbursements to the human and social development sector by year.

Chart 10

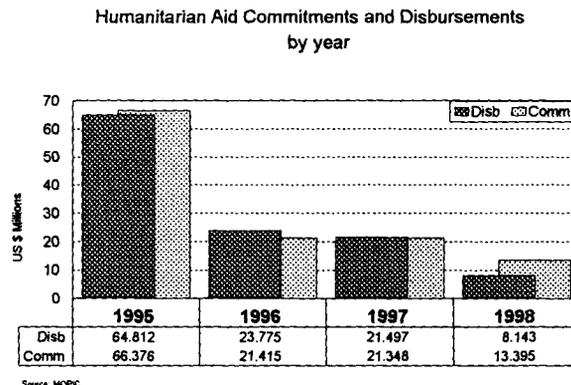


Humanitarian Aid

Total commitments to this sector totaled US\$122,534 million, disbursements US\$188,227 million (97%). The largest donor in this sector was Switzerland disbursing US\$38,843 million, 33% of total disbursements, giving to various. The second largest donor was Japan, with US\$33,480 million or 28% of disbursements in this sector donating to in kind. Following Japan, the EU was the third largest donor disbursing US\$15,909 million (14%) to in kind. Canada disbursed US\$7,138 million (6%) to technical assistance; Spain donated US\$5,960 million (5%). Australia, Belgium, Italy, Spain and the World Food Program gave less than 5%, India, Luxembourg, Turkey, UNDP and the US less than 1%.

The chart below shows the differences between commitments and actual disbursements to the humanitarian sector by year.

Chart 11





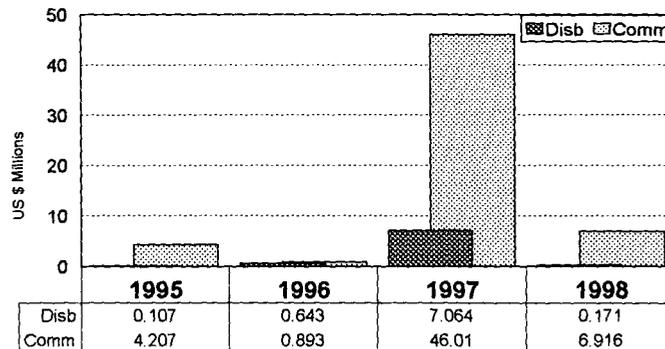
Industrial Development

Only 14% of funds committed in this sector were disbursed. Donors promised US\$58,026 million and gave out only US\$7,985 million. The United States committed and disbursed US\$6,275 million, 79% of disbursements in this sector. The US donated its funds to public investment and technical assistance in the Industrial Development Zones; Italy gave US\$1,600 million, 20% of disbursements for the sector, to private sector support in micro and small enterprise. UNDP and Greece gave less than 1%, Belgium the EU, the International Finance Corporation, Israel and the UK committed a total of US\$46,041 million and disbursed none of it.

The chart below shows the differences between commitments and actual disbursements to the industrial development sector by year.

Chart 12

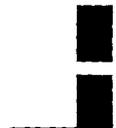
Industrial Development Commitments and Disbursements by year



Source: MOPIC

Infrastructure

In this sector, donors disbursed US\$77,545 million, 77% of the original commitment of US\$107,364. The largest donor to the sector was the World Bank with US\$23,165 million, 30% of disbursements for the sector. The second largest donor was the European Union, giving US\$19,654 million (25%). The World Bank and the European Union each gave the majority of their donations to public investment in municipal support programs. Japan followed with 22% of disbursements in this sector, US\$16,915 million. Japan gave to employment generation as well as public investment, focusing of the rehabilitation of neighborhoods in Gaza and Bethlehem. Norway gave US\$11,549 million (15%). Greece, the Netherlands, Spain, and Sweden each gave less than 5%.

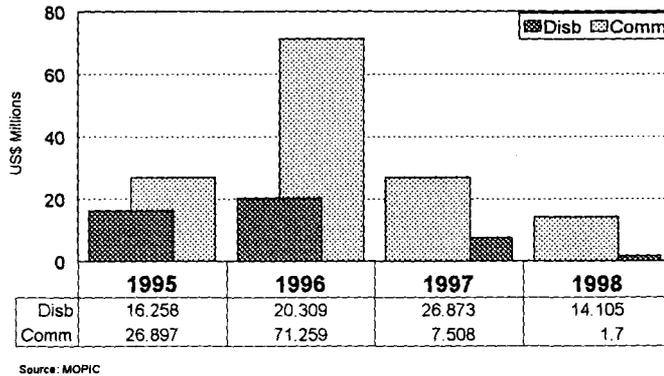




The chart below shows the differences between commitments and actual disbursements to the infrastructure sector by year.

Chart 13

Infrastructure Commitments and Disbursements
by year



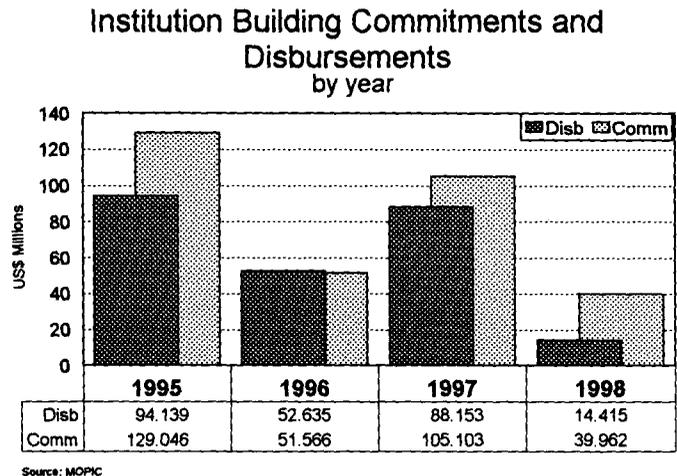
Institution Building

US\$325,677 million was committed to this sector, US\$249,342 million disbursed, 77%. Germany was the largest donor, disbursing US\$50,833 million, 20% of total funds disbursed in this sector, mostly to technical assistance in PNA ministries including the Central Bureau of Statistics and political foundations. Germany also gave to various, equipment and public investment. The second largest donor was Japan disbursing US\$41,730 million, 17% of total disbursements. Japan gave a third of its funds to technical assistance the rest the public investment, employment generation and equipment. Japan also gave a small amount to transitional and budgetary support and various. The European Union followed with 16% of disbursements US\$40,981 million. Norway followed with US\$19,742 million, 8% of disbursements and the US with US\$18,352 million (7.4%). The EU and Norway gave all disbursements to technical assistance. Canada, Egypt, France, Jordan, the Netherlands, Saudi Arabia, Spain, Sweden, Switzerland, Turkey, UNDP, The UAE, the UK gave less than 5%. Austria, Finland, Greece, Ireland, the Republic of Korea and the World Bank gave less than 1%. The Arab Fund, Belgium and Italy made commitments but did not disburse them.



The chart below shows the differences between commitments and actual disbursements to the institution building sector by year.

Chart 14



Legal Affairs

Of US\$10,741 million committed to this department, US\$2,352 million was disbursed, only 22%. Norway was the largest donor, handing over US\$1,473 million, 63% of total disbursements. Australia gave 23%, US\$528 thousand, and the World Bank US\$351 thousand, 15%. The UK made substantial commitments but did not disburse them. More than 95% of the money in this sector went to technical assistance.

Multiple Sectors

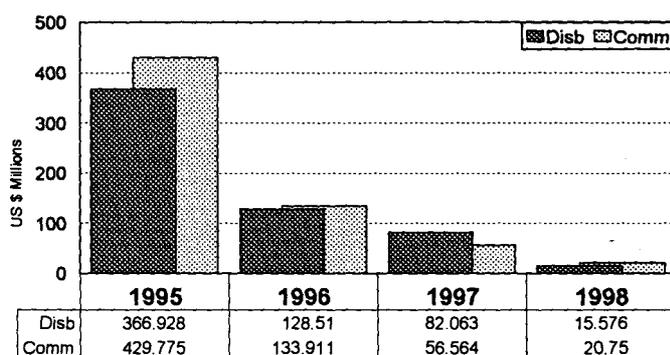
93% of commitments were distributed in this sector, a higher percentage than most other sectors. Donors committed US\$641 million and disbursed US\$593,077 million. Germany was the largest donor with US\$93,547 million, 16% of total disbursements, channeling the majority of funds into technical assistance and public investment. Following Germany, Norway gave US\$80,502 million, 14% of disbursements, Saudi Arabia gave US\$79,250 million, 13% of disbursements, channeling the money into transitional and budgetary support as well as various. The World Bank gave US\$68,668 million or 12% of disbursements; the majority of the money went to public investment. The USA gave US\$40,900 million (7%). Canada, Denmark, the EU, Israel, Italy, Japan, Kuwait, the Netherlands, Sweden, Switzerland, UAE, and UK gave less than 5%; Australia, Austria, Belgium, Brunei, Finland, France, Greece,

Iceland, Ireland, Luxembourg, Qatar, Spain and the UNDP gave less than 1%. The Arab fund committed a small amount and did not disburse it.

The chart below shows the differences between commitments and actual disbursements to the multiple sectors category by year.

Chart 15

**Multiple Sectors Commitments and Disbursements
by year**



Source: MOPIC

Police

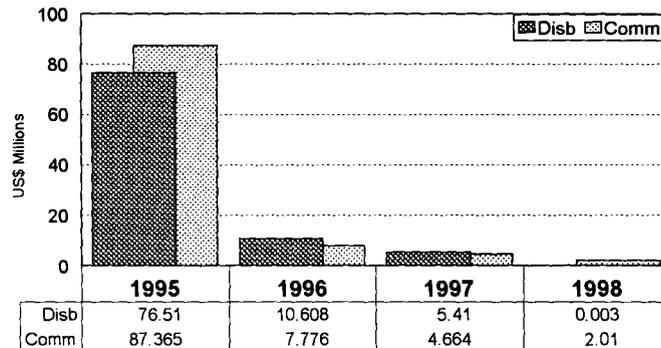
Donors committed US\$101,815 million to this sector, disbursing US\$92,531 million (91%). The largest donor was Japan, giving US\$16,030 million, 17% of total disbursements. The second largest donor was the EU, giving US\$11,364 million (12.3%). The Netherlands was the third largest donor with US\$8,240 million (9%); Norway gave US\$7,932 million (8.6%). Saudi Arabia gave US\$7,500 million (8.1%); Jordan gave US\$7,519 million (8.1%). The UK gave US\$7,345 million (8%). Denmark gave US\$6,650 million (7.2%), Egypt gave US\$5,300 million (5.7%). The US gave US\$5,100 million (5.5%). France, Russia, and Sweden all gave less than 5%. Belgium, Canada, Greece, Korea, Spain and Turkey all gave less than 1%. Germany and Finland committed small amounts but did not disburse them. Donor countries gave the majority of their funds to transitional and budgetary support, usually in the form of police salaries. Japan, however, gave the majority of its disbursements to public investment, followed by equipment. The EU, Norway, Saudi Arabia, Jordan and the Netherlands gave the vast majority, and in some cases all of their funds to transitional and budgetary support.



The chart below shows the differences between commitments and actual disbursements to the police sector by year.

Chart 16

Police Commitments and Disbursements
by year



Source: MOPIC

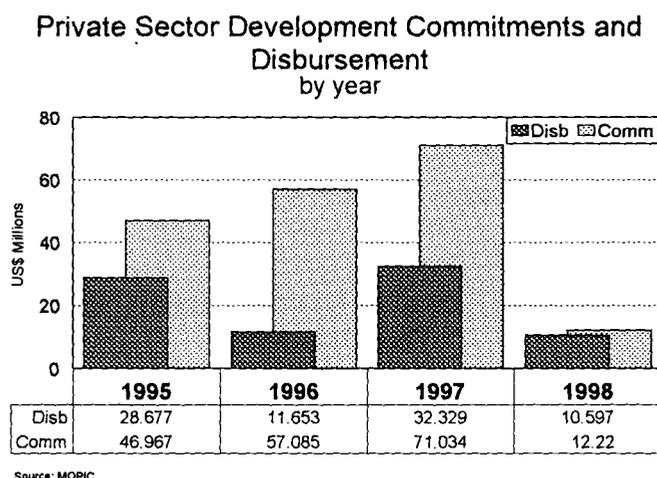
Private Sector Development

Of the US\$187,306 million committed to this sector, donor countries actually disbursed US\$83,256 million, 45%. The USA donated US\$28,568 million, 34% of total disbursements giving roughly half of its donation to technical assistance the other half to private sector support. Germany followed with a donation of US\$10,901 million, 13.1%. Germany gave roughly two thirds of its assistance to technical support, the rest to public sector support and a small amount to equipment. The European Union was the third largest donor with US\$10,698 million in disbursements, 13% of the total. The World Bank disbursed US\$10 million (12%), France US\$6,237 (7.5%). The World Bank and EU gave to public sector support. The EU investment bank gave US\$5,682 million (6.8%). The International Finance Corporation, the Netherlands and Norway all gave less than 5%. Australia, Canada, Greece, Ireland, Spain, UNDP the UK gave less than 1%. Finland made a minor commitment that it did not disburse.



The chart below shows the differences between commitments and actual disbursements to the private sector development category by year.

Chart 17



Solid Waste

Of the US\$26,604 million committed to this sector, donors disbursed US\$17,129 million (64%). Germany was the largest donor disbursing US\$6,236 million, (36%) to public investment with small donations to technical assistance. The EU followed, disbursing US\$6,012 million (35%) to public investment only. Spain disbursed US\$3,380 million, 20% of total disbursements, giving everything to equipment. Japan gave US\$1,100 million (6.4%) to public investment. Italy gave less than 5%.

Telecommunications

Of the US\$5,506 million committed in this sector, donors disbursed US\$3,610 million (66%). The largest donor was Italy with US\$1,500 million in disbursements, 42% of the total in this sector. Denmark followed with a disbursement of US\$707 thousand, 20% of total disbursements followed by the Netherlands with US\$260 thousand (7.2%) and Japan with US\$250 thousand (7%). Norway gave less than 1%. The majority of funds in this sector went to technical assistance with small allocation to equipment and various.

Tourism and Cultural Resources

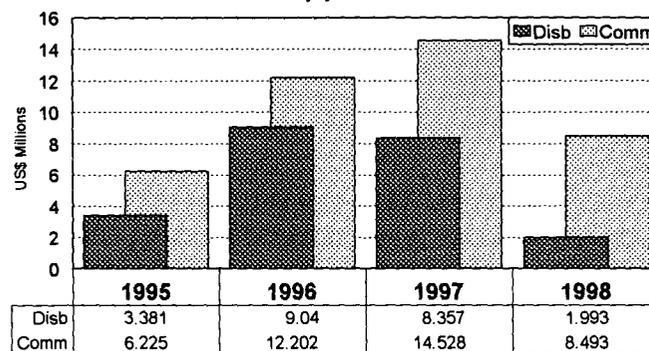
US\$41,448 million was committed in this sector, US\$22,771 million disbursed (55%). The UK was the largest donor offering US\$4,728 million in disbursements, 21% of the total, to technical assistance. Japan followed offering US\$4,535 million, 20% of

total disbursements to equipment and employment generation. Sweden gave US\$4,134 million (18%) to employment generation and various. France gave US\$2,779 million (12%) to technical assistance and various. Spain gave US\$2,210 million (9.7%); the Netherlands gave US\$1,972 million (8.7%). Germany US\$1,500 million (6.6%). Italy gave less than 5%. Finland, Greece Switzerland and the UNDP less than 1%. Austria and the EU made commitments but did not disburse them.

The chart below shows the differences between commitments and actual disbursements to the tourism and cultural resources sector by year.

Chart 18

Tourism and Cultural Resources Commitments and Disbursements by year



Source: MOPIC

Transportation

Only 31% of funds committed to this sector were actually disbursed, US\$49,366 million out of an original commitment of US\$157,454 million. The largest donor in this sector was the Netherlands disbursing US\$22,320 million 45% of total disbursements, giving the majority of its donations to equipment, with a modest donation to technical assistance. Germany followed with a disbursement of US\$8,994 million (18%). Germany also gave the majority of its donation to equipment with a small donation to in kind. Japan gave US\$6,640 million (13.5%) and Spain gave US\$5,385 million (11%). Japan gave to public investment and employment generation. Spain gave entirely to technical assistance. The USA donated US\$4 million (8%). The Arab fund and France gave less than 5%, Canada and Ireland less than 1%. The EU investment bank and Italy made commitments but did not disburse them.



Undefined

Of the original commitment US\$41,626 million, donors disbursed US\$22,591 million, 54%. The largest donor was the United States offering US\$12,415 million 55% of total disbursements. Norway followed the US with donations of US\$5,305 million, 24% of total disbursements. The Netherlands gave US\$3,400 million, 15.1%. Austria and Canada gave less than 5%. Belgium, Denmark, Egypt, Ireland, Luxembourg and Spain gave less than 1%. The Arab Fund, Germany, Indonesia made commitments but did not disburse them. Over 80% of donations in this category went to various, with small donations to public investment and transitional and budgetary support.

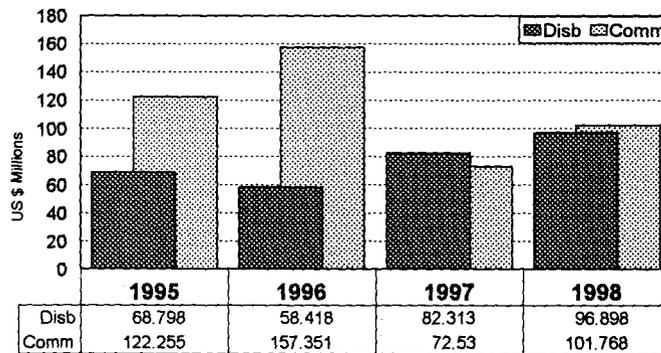
Water and Sanitation

Of the original commitment US\$453,904 million, donors disbursed US\$306,427 million (68%.) The largest donor was the USA, donating US\$133,471 million, 44% of the total disbursements. Following the US, Germany donated US\$81,910 million (27%). The United States and Germany gave the majority of its money to public investment with minimal donations to technical assistance. Japan gave US\$18,274 million (6%.) Japan gave the majority to public investment with small donations to technical assistance and employment generation. The World Bank, the United Kingdom, Norway, Italy, France and Belgium donated less than 5%; Australia, Austria, Canada Finland, the Netherlands, Spain, Sweden and UNDP less than 1%. The Arab fund made commitments but did not disburse them.

The chart below shows the differences between commitments and actual disbursements to the water and sanitation sector by year.

Chart 19

Water & Sanitation Commitments and Disbursements by year



Source: MOPIC





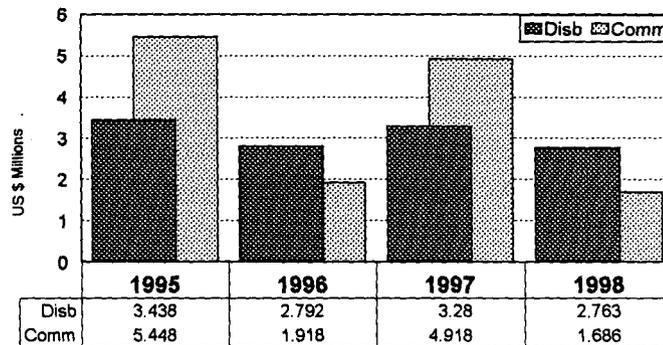
Women

Of the original commitment of US\$13,970 million, donors disbursed US\$12,270 million (88%.) The largest donor was the Netherlands with US\$3,030 million (25%). Following the Netherlands, Spain gave 18.7% with a donation of US\$2,290 million, Sweden gave US\$2,054 million at 17% of the total commitments, the UK US\$1,935 million, 16% of disbursements, Australia US\$1,004 million, 8.2% and Belgium US\$701 thousand, (5.7%). Canada, Ireland, Norway and UNDP gave less than 5%, the USA less than 1%. The Arab fund made commitments but did not disburse funds. The vast majority of funding in this sector was channeled to technical assistance, with smaller disbursements to public investment, various and transitional and budgetary support.

The chart below shows the differences between commitments and actual disbursements the women's sector by year.

Chart 20

Women Commitments and Disbursements
by year



Source: MOPIC





Chapter II

ANALYSIS

This chapter 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 chapter 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 WBSG 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 WBSG during the period 1992-1998; and Section VII sums up the report and concludes with some policy implications for both the PNA and the donor community.

I. 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)⁸ 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 that 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.

1.1 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 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 that are responsible for setting social and national development priorities and strategies.

1.2. 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 infrastructure 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 that declare their willingness to implement World Bank and

⁸ Glenn Brigaldino, "Effective Forms of Development Co-operation in Africa", *Economics*, Vol. 54, (1996), pp. 84-99.



IMF structural adjustment reforms.⁹ 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)¹⁰.

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 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 that 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.

1.3. 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

⁹ 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 infrastructure projects. The involvement of the state might be more desirable in the Palestinian case than otherwise indicated in other parts of the world.

¹⁰ C. J. Jepma, International Policy Co-ordination and Untying, of Aid, (Hants, 1994).



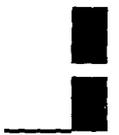
needs to be given to involving decision-makers to a greater extent (Madock 1992. 399 ff.)¹¹. In all phases of development cooperation, local participation levels—particularly of specific target groups—should be as high as possible. Such a participatory approach is not only desirable but is an important 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.

2. Situation Assessment

On 18-19 October 1995, representative of the PNA, 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 PLO. The agreement enshrined commitments to additional Israeli military redeployments, Palestinian elections, and an extension of PNA in the West Bank. The timing and focus of that meeting underscored the close connection that 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

¹¹ N. Maddock, "Local Management of Aid-funded Projects", *Public Administration and Development*, vol. 12, 1992.





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 marginalised.

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 PNA, UNRWA, the agency that provides services for Palestinian refugees from 1948 and 1967, has been suffering a chronic deficit. Hence, 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 that 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 WBS 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 that 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 17, 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.

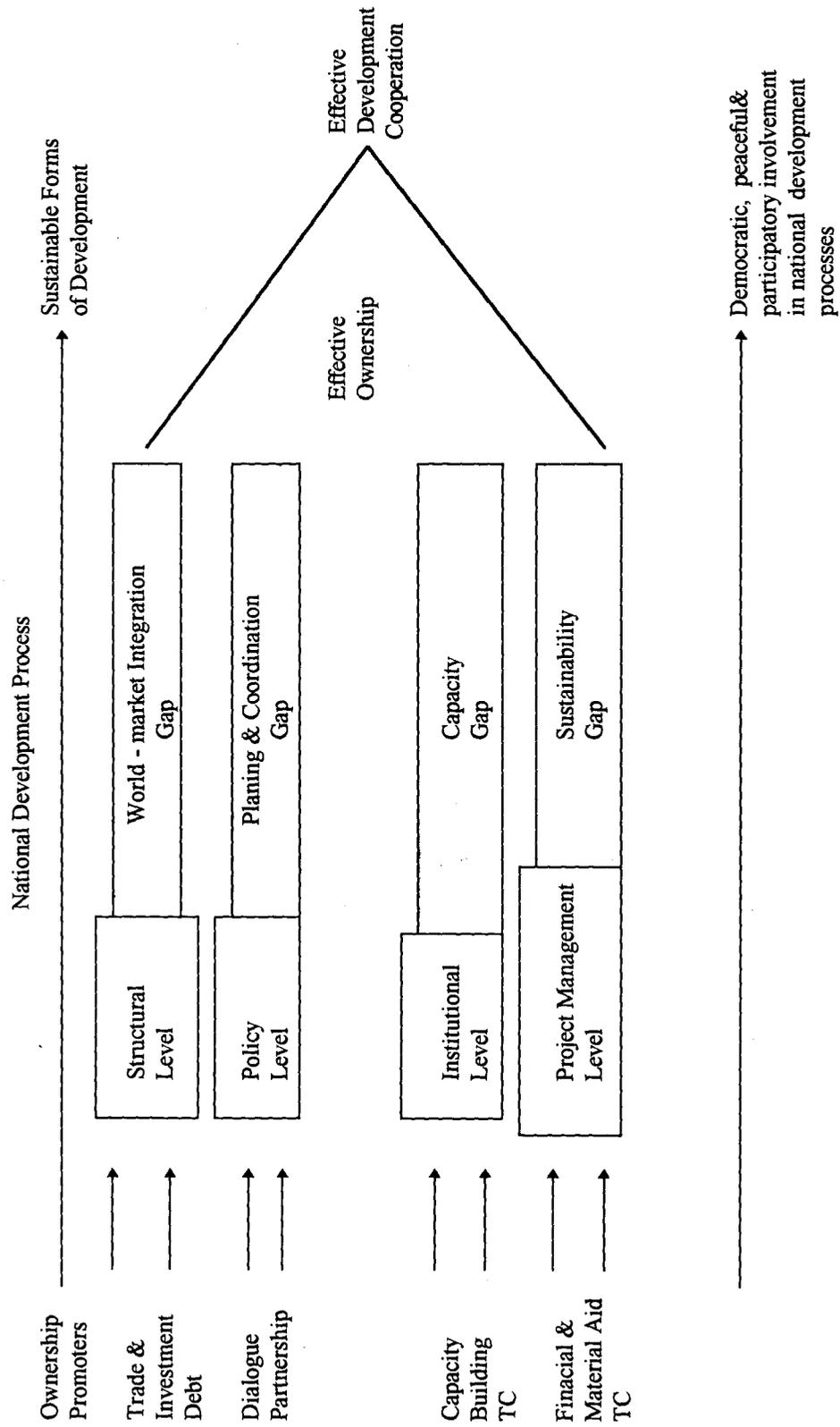
Clearly, if one of the primary goals of the international development initiative was to bolster support for the peace process, then that initiative can be said to have failed. This current failure could be attributed to the inconsistent nature of the "marriage" of politics and development goals on the 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 that 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.



Figure (1)

EFFECTIVENESS OF AID AS A MULTI-LEVEL PROCESS



3. 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)¹².

The **AHLC** was established by the Multilateral Steering Group of the multilateral talks on the Middle East peace process after 1 October 1993 a 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 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"¹³. Norway is the chair of the **AHLC** and the World Bank is the secretari.

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

¹² 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), pp. 3-6.

¹³ 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).¹⁴

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

¹⁴ The first Tripartite Action Plan on Revenues, Expenditures and Donor Funding for the PNA 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.



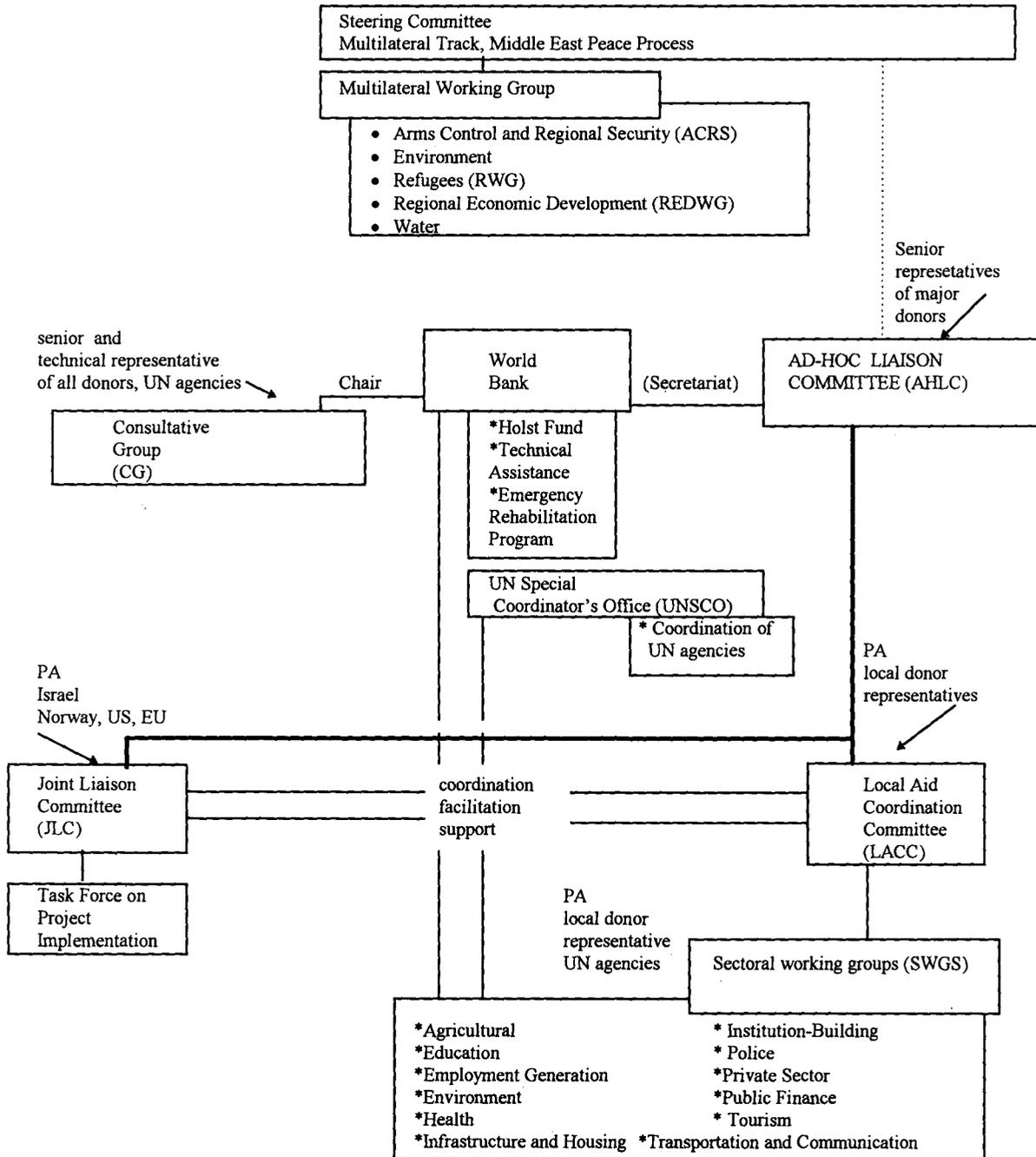
aid to the PNA has decreased. The problems pertaining to PECДАР will be discussed in the following section.

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 make long-term planning difficult.

Figure (2)

ORGANIZATIONAL SCHEMA OF ASSISTANCE PROGRAM



4. Foreign Aid in the Palestinian Context: An Assessment

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

4.1 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 Fund¹⁵ 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 countrywide planning?

Finding answers to these questions is not easy. However, discontent is widespread among Palestinians regarding the slow pace of funds, the low disbursements /

¹⁵ 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.



commitments ratios¹⁶, and above all the behind-the-scenes politics which undermine 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 marginalised. 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.¹⁷

Another ex-department head from PECNDAR, Samir Hileileh, echoed this sort of critique:

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

¹⁶ For more information on these ratios see chapter one. On legal problems of aid to the PNA see also Brynen (1995), *ibid.*, pp. 7-11.

¹⁷ Per conversation with Dr. Samir 'Abdallah on 8 May 1997.



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 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.¹⁸

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."¹⁹

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

¹⁸ Per conversation on 14 April 1997. Hileileh meant that the elected Palestinian Legislative Council has no say in loan matters.

¹⁹ "The Palestinian Economy: Three Years after Oslo: Development or Decay?" Forwarded to PALDEV, 7 February 1997.



(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 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.²⁰

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, the United Nations and other international agencies increased the number of background analyses and profiles on development in the WBGs.²¹ "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."²²

²⁰ Ishac Diwan and Michael Walton, "Palestine: From Dependent to Autonomous Growth", Working Paper 9409, World Bank, March 1994.

²¹ 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; 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.

²² Lisa Taraki, "Society and Gender in Palestine: International Agency Policy Documents", Women's Studies Program, Birzeit University, 1995.



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 WBS, 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 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 that the Palestinian NGOs played in the absence of 'state authority' in the past. They also acknowledge the current constraints they face under the PNA. None of these documents, however, 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."²³ 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."²⁴

- *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 infrastructure 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

²³ Ibid., pp. 48-49.

²⁴ Ibid., p. 50.



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 whose project proposals blithely state that in order to be sustainable, management responsibility (and costs) will be 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 WBS 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.²⁵

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

²⁵ 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).



natural resources is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.²⁶

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, PEC DAR 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 are. 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 parks²⁷ (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.

²⁶ “Our Common Future” — the report of the Brundtland Commission. World Commission on Environment and Development, (Oxford University Press, 1987).

²⁷ According to MOPIC’s First Quarterly Monitoring Report of Donor Assistance, 5 June 1997, \$7.06 million has been committed to Karnei Industrial Zone in Gaza and \$7.44 million to another, unspecified, zone in the West Bank.



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 PNA, Israel and the US, under the auspices of the World Bank are fostering the project for export-oriented industrial estates. While a total of 15 estates are to be built, exact locations of all 15 have not been determined; Karnei (Gaza), 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.”²⁸

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

²⁸ Op. Cit. Roy.

prioritised 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 had to commit itself to a political resolution of the Palestinian-Israeli conflict."²⁹ 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.³⁰

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,

²⁹ Op. Cit. Roy.

³⁰ Op. Cit. Roy.

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 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...³¹

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 cand 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,

³¹ Handbook sent out with NGO Request for Application, 1997.



... [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 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'.³²

Byrne also quotes Reema Hammami, “...it is a defeated and marginalised 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 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, co-chairs 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

³² Aisling Byrne, “Manufacturing Consent in Post-Oslo Palestine”, *News from Within*, Vol. XII, No. 11, December 1996.



Madeleine Albright, the two lawmakers stated that they would oppose US financial assistance to the Palestinians, unless this land sale law/policy was revoked.³³ 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 1996,³⁴ "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

³³ Hillel Kuttler, "Congressmen: Block PNA Aid over Land Sale Death Penalty", *Jerusalem Post*, 28 May 1997.

³⁴ 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.

companies interested in greater accessibility to regional, Gulf and European markets, and related exports of US products.³⁵

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 infrastructure development.

By contrast, Saudi Arabia's assistance program is not as comprehensive, 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

³⁵ Ibid.



for women; reintegration programs for Palestinian detainees; rule of law assistance project training; skillstraining; 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.³⁶

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.³⁷

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 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.

³⁶ Per conversation with Mohammad Said, 25 May 1997.

³⁷ Denise Commone and Eric Toussaint, *Globalization and Debt*, Notebooks for Study and Research, 1995.

- 
- 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 they are 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.

Inadequate assessment and coordination of development compound the problem of competition, 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, PECDAR, 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 1.5 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.³⁸

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.³⁹

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

³⁸ Per conversation with the Minister of Agriculture, 'Abdul Jawed Sale, 25 May 1997.

³⁹ Per conversation with Tom New, 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 donor that has taken the 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.⁴⁰

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.

⁴⁰ Op. Cit. Roy.

WORLD BANK	PERMACULTURE	COMMENTARY
<p>"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>)</p>	<p>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.</p>	<p>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).</p> <p>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.</p>
<p>"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>)</p>	<p>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.</p>	<p>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.</p> <p>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".</p>
<p>"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>)</p>	<p>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.</p>	<p>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.</p> <p>Economic development that involves increased unemployment in rural areas will depopulate the remainder of Palestine.</p>
<p>"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>)</p>	<p>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.</p>	<p>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.</p> <p>This approach to development will encourage the worst excesses of capital-intensive agribusiness, disrupting the already weakened community agriculture system.</p> <p>Private sector development, without control of natural resources, and with continuing restrictions, may prove a non-starter.</p>
<p>"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>)</p>	<p>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.</p>	<p>There are no realistic control mechanisms in existence to prevent the sudden influx of Israeli produce to the OT.</p> <p>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.</p>
<p>"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>)</p>	<p>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.</p>	<p>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.</p> <p>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.</p>

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.⁴¹

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

⁴¹ 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].⁴²

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.

4.2 Problems Stemming From Israeli Policies

The second type of problems with the foreign assistance initiative in the WBGS is 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

⁴² 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.⁴³

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, items that remain at the ports without being cleared for a given length of time are auctioned off.

When equipment is donated for more "sensitive" purposes, such as water projects, the joint Palestinian-Israeli subcommittees dealing with those subjects must also discuss the matter.⁴⁴

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

⁴³ The Dutch government is now considering cutting its aid to Israel by the amount of costs caused by such delays.

⁴⁴ 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*⁴⁵ 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.⁴⁶
- ◇ 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 workdays 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

⁴⁵ 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.

⁴⁶ The average monthly work permits to Israel was 34,794 permits of which only a monthly average of 22,251 workers was actually permitted to commute to Israel. See UNSCO, *ibid.*, p. 47.



potential workdays.⁴⁷ Thus, fully one-fifth of the normal income-generating time for 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 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."⁴⁸ 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.

⁴⁷ 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.

⁴⁸ UNSCO, *ibid.*



4.3 Problems Stemming From the Transitional Nature of the Palestinian Economy, Government and Society

The third type of problem that constitutes an obstacle to effective foreign aid cooperation stems 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 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.”⁴⁹

Members of the local PECDAR team wanted to make the scope of PECDAR’s responsibilities more practical by limiting its functions. Odin Knudsen, former deputy representative of the World Bank, said in an interview that donors have broken away from PECDAR because other governmental bodies such as ministries had become operational, and therefore the role of PECDAR as the World Bank counterpart was no longer necessary.⁵⁰ Members of the local team at the time, however, believe that other factors also resulted in the diminished role of PECDAR 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 PECDAR team’s main concern at the time was to push their World Bank counterpart to acknowledge that PECDAR 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 WBGS; coordinate international assistance; and supervise implementation of programs and projects. The established PECDAR process was to:

- 1) Conduct studies
- 2) Create lists of needed projects

⁴⁹ Per conversation with a member of the initial local team of PECDAR, 8 May 1997.

⁵⁰ ‘Abdel Raouf Arnaut, “Interview with Odin Knudsen”, *Jerusalem Times*, 4 July 1997.



- 
- 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 in. For example, Samir Hileileh 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 PECNDAR/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, Hileileh adds, the 1996 Palestinian Public Investment Plan was put together by three people: Terje Larsen, Odin Knudsen, 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:⁵¹

- ◇ **Objective criteria, though clearly defined, were not adhered to.** Subjective criteria were used instead, i.e., 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 Cooperati(MOPIC),

⁵¹ The discussion regarding the problems which emerged after the inception of PECNDAR is based on a number of conversations with members of the initial PECNDAR local team, held at various dates in Spring, 1997.



or working in other Ministries and Public Institutions.”⁵² 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 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

⁵² 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.



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.”⁵³

- ◇ **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 (PEA) 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.”⁵⁴

⁵³ 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.

⁵⁴ “Legislative Vacuums - Environmental Threats”, *Palestine Economic Pulse*, vol. II, no. 2, March-April 1997.

- 
- ◇ **As a result of the political imperatives, the most pressing economic developmental needs in the WBS 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 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.⁵⁵

 - ◇ 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 seaport 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

⁵⁵ MOPIC's First Quarterly Monitoring Report of Donor Assistance, 5 June 1997.



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 of February 1995. The most striking feature of the distribution of aid funds is this marginalisation 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 marginalised 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.

5. Economic Growth in the WBSG 1992-1996⁵⁶

This section provides an economic situation assessment in greater detail as one way of measuring the impact thufar of the foreign aid initiative in the WBSG. 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 WBSG 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

⁵⁶ 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).



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 was estimating that the latest closure-related losses totaled 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 less than 14 percent during the period 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 WBSG trade toward more tightly integrated West Bank-Israel and Gaza Strip-Israel trade, enhancing the vulnerability of the WBSG 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 WBSG.

The monthly average of estimated permitted WBSG 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 WBSG 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 WBSG 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.



Chapter III

DISCUSSION AND RECOMMENDATIONS

Between December 12 and 13, 1997 the JMCC sponsored a two-day workshop at the Grand Park Hotel in Ramallah to discuss Phases I and II, of this report (Chapters I and II). The opinions of workshop participants, representatives from the donor community, the World Bank, UNSCO, PECJAR, Palestinian NGOs, and Palestinian intellectuals, were used to draft recommendations to improve donor assistance to the Palestinian territories. These are presented here, as are the discussions surrounding each point.

The research, interviews and discussions which have taken place during the course of this project reveal a consensus that the record on Palestinian development efforts and the activities associated with the foreign assistance initiative is poor. Needless to say workshop participants from the donor community did not share in this opinion, although they agreed that much could be done to improve the practices of international cooperation and development aid in Palestine. Interviews and workshop exchanges revealed some of the main impediments to the Palestinian development process. These are presented below.

- *Role of Israeli Policies*

The problems experienced in the Palestinian development process can be correctly — but only partially — attributed to Israeli policies towards the Palestinians in general, and the continuation of the Israeli occupation over the majority of the Palestinian territories in particular. Israeli control over land use in Areas B and C has a negative impact on the development process in the West Bank and Gaza Strip. The “Israeli factor” in the de-development of the West Bank and Gaza Strip is a strong sign that at the core of Israeli policies towards the Palestinians, the mentality of occupier overrides other notions brought about by the Oslo agreement and the subsequent Cairo and Paris agreements.

Unless this mentality is abandoned, Israeli policies will continue to impede development efforts in the West Bank and Gaza Strip. There is much the donor community can do to try to ensure that its substantial investment in the Palestinian economy is not wasted, although ultimately it will be up to the Israeli people to bring about the required change.





However, it is again the Israeli factor which may tempt many observers and analysts into attributing all failure and inefficiency in the development efforts in the West Bank and Gaza Strip to the Israelis, as if other obstacles played only a minor role. By and large, this is a fallacy that our analysis rejects. It must be emphasized, however, that at least one Israeli obstacle, the closure policy, costs the Palestinian economy twice as much as foreign donors give to Palestine. The World Bank and other leading foreign aid actors have identified the closure as a serious impediment to development.

Overemphasis on Israel intervention in the Palestinian economy means that the approach to development has been “cantonized” or fragmented. Clearly this is not the appropriate strategy for the nation-building goals that Palestinians have been and still are striving for.

• ***Necessity of Comprehensive Development Planning***

Such fragmentation is evident in the view, held by some policy-makers, that there is no need for a comprehensive Palestinian development strategy. Mr. Hayel Fahoum, vice-chairman of the Committee for Funding and Investment, and a Palestinian official reporting directly to the President of the PNA, explained in an interview that there are three reasons for the belief that a comprehensive policy is impossible:

- 1) the cantonized territorial framework of the Palestinian territories, i.e. the separation between the West Bank and the Gaza Strip as well as the internal separation between areas of the West Bank;
- 2) the as yet unresolved question of whether Palestinians are still occupied or independent; and
- 3) the relative inexperience of the Palestinian leadership in state-building.

Fahoum would prefer that Palestinians strive for a number of small achievements rather than aim for a grand plan and end up achieving nothing. In his view, Palestinians did not need a comprehensive development program that could be hampered by Israeli officials for arbitrary reasons. The costs of engaging in such a program would have been too high, according to Fahoum.

This may well be true. However, the accumulation of trivial “achievements” that have no coherent underlying strategic framework or vision will ultimately add up to nothing, and exact a high price. Many who hold this view also carry the belief that development need not be transparent. However, a country’s development vision and activities should neither be secret nor controlled by a select few who decide what is best for an entire people. This is by and large a misplaced concept of development,

because it precludes community participation in the development process including planning, prioritizing, design and selection of projects. Exclusivist development has ultimately been proven unsuccessful for a variety of reasons.

Fahoum did agree that the Palestine Development Project (PDP) is no more than an assembly of information on the plans and aspirations of various ministries for presentation to the Consultative Group (CG) in Paris: "The PDP does not have a development strategy *per se*."⁵⁷ For example, the PDP does not envision or project a regional role for the Palestinian economy. In fact, the PDP does not express an integrated plan for development, but is a capital investment plan, presenting projects and the need for them. It does not draw real linkages between sectors or between underlying causal factors and economic conditions. While prioritizing various strategies, it does not present them as a comprehensive framework or strategic plan, but rather as programme areas comprised of specific projects.

The problem of strategic planning rests in the lack of political will among the upper echelons of the political regime. Dr. Samir 'Abdallah⁵⁸, former head of the Department of Economic Policy and Project Selection at PEC DAR and now general manager of the Palestinian Investment Bank, argues that there is an unwillingness in the PNA to undertake strategic planning. He believes the major reason for this is the lack of accountability and transparency within the Palestinian political structure. He also attributes it to (a) Israel's success in forcing the Palestinian governing apparatus, including the Palestinian Legislative Council (PLC), to focus on the creation of emergency units that deal with daily life and responses to Israeli actions and policies, i.e. the immediate needs caused by closure, etc., rather than planning ahead; and (b) the PNA's inability to link programming and development.

Samir 'Abdallah notes that a strategic plan does not exist to build the infrastructure badly needed by the Palestinian economy. Rehabilitation of the existing infrastructure will not create the impetus needed to boost the economy. In the educational system, the focus is still quantitative rather than qualitative (i.e. how many classrooms vs. what is being taught in them) although the school curriculum is obsolete and does not equip students to deal with the needs of Palestinian society. The inadequate legal system continues to impede the development of the private sector, despite the new

⁵⁷Per interview with Mr. Fahoum by Fadi Harb.

⁵⁸Per interview with Dr. 'Abdallah by Fadi Harb



Investment Promotion Law that has not yet been implemented and contains numerous flaws. The problem of land registration has also remained an obstacle to the development of the private sector. Land registration should be at the top on the PNA's agenda, yet it has not even begun. Even given limited sovereignty, the PNA has not used the authority that it does have to initiate concerted development efforts.

It is understandable that planning for development can be hampered by a lack of expertise as well as inadequate development vision. However, there are other policy-makers, including Dr. Hisham 'Awartani, deputy minister of finance, who argue that strategic development planning is equal to central planning, a concept that has been proven to be inefficient and has been abandoned by most planners. This rationale cannot be used as a reason for not adopting a clear development strategy — nor can the argument that developed countries do not have such strategies and that the trend in the world is “anti-planning”⁵⁹.

These arguments overlook the unique character of the Palestinian situation. There can be no comparison between a developed country and a country which has not attained political independence. Such a comparison ignores the fact that the developed nations needed strategies in order to develop and had centralized processes which guided program and project selection.

- *Palestinian Development Planning Needs*

- ◊ **Future Vision**

Strategic planning can take one of two approaches: (a) extrapolation, or (b) retroplation. Using the first approach, future planning is an extension of existing trends and practices. The future is an extension of today. By contrast, the retroplative approach begins with a vision of the future and works backward to formulate the plans and programs necessary to reach that point. In essence, this approach is a call to

⁵⁹ New theories of economic development imply a need to go beyond the “Washington consensus” of free trade, stable macro economic policy, and minimal government intervention. Policy must reflect the fact that markets may not emerge on their own and may be sub-optimal if they do. Trade liberalization, for example, will not result in low prices if monopolist distributors expropriate rents; privatization will not improve welfare if government monopolies are simply replaced with private ones. The Palestinian context is not an exception of this analysis. See World Bank Policy and Research Bulletin, Vol. 8, No. 4, (October-December 1997), p.1. Emerging issues in development economics were the focus of a five-day workshop of leading economists sponsored by the World Bank and the MacArthur Foundation, last summer in Washington DC.

divorce the future from today's unsustainable or inefficient trends. Therefore, and in spite of the fact that the Palestinians do not wholly control their present, at the very least a course of action should be planned which leads to a generally acceptable future.

Working within this framework, priorities could be identified which take into consideration the political environment in which we are trying to build a nation-state under conditions of military siege or, possibly, occupation. Programs and projects can be identified and designed in an integrated manner, so that achievements can create the momentum needed to make the future vision a reality.

Thus, the donor-Palestinian relationship must be based on clearly-defined Palestinian priorities. The time has come for the PNA to become more selective and accept donations according to Palestinian priorities, particularly given that levels of foreign assistance will decline in the future. The PNA should be ready with an integrated-program catalogue from which the donors can select the programs and projects they want to fund. This catalogue should represent the long-term vision of the Palestinians and present projects in order of importance. We should avoid the temptation of making development planning a mechanism intended to solicit donor money.⁶⁰

◇ **Opening the Development Process**

In terms of actual planning, openness is crucial to the success of the entire development process. In towns, villages and refugee camps, the PNA has put elections of representative councils on hold and installed councils by presidential decree. Justifications for the continued postponement of elections are unconvincing. While local council elections do not appear to be a priority for the international donor community, they are certainly a priority for Palestinians. Local authorities are key to development, and elections are an important part of opening up the planning and development process.

Public hearings are another mechanism to create greater openness. The Legislative Council could make it mandatory that government agencies hold at least one if not

⁶⁰To solicit aid in the framework of the Marshall Plan, the story is that the Turks first came up with balanced international accounts, believing that this would best impress the economically responsible Americans. They were rather sternly advised that under the new economic dispensation, the course of wisdom was not to seek such a balance but to show a persuasive deficit. In the course of a single night, the Turkish accounts were revised. See John Kenneth Galbraith, *A Journey through Economic Time: A Firsthand View*, (New York: Houghton Mifflin), 1994, p. 146.



more public hearings on any public project they are involved in. People's concerns could be heard, the hearing could field feedback on the prioritization of the project, and allow a forum for addressing complaints.

◇ **Participation and Consultation**

While the development needs of the Palestinian people are relatively simple, they require a different organizational set-up than the one in place, which is primarily geared to the disbursement of donor funds. At present, the development effort is carried out by government officials — i.e. administrators — from donor countries and in the West Bank and Gaza Strip. They are not entrepreneurs or innovators, nor do they possess specific technical knowledge of productive processes, commercial requirements, or communication problems. They have an essential role to play and no development planning could proceed without them, but they cannot act alone. They must consult with other sectors of Palestinian society, including people in industry, agriculture and commerce, as well as professionals, academics, researchers, journalists, educators, elected mayors and village council heads who can contribute their time, facilities, and expertise. Development work is far too difficult to be accomplished successfully by any one of these groups working in isolation. It is necessary to assemble what has been called in development literature the ABC combination, where (A) stands for administrators; (B) stands for business people; and (C) stands for communicators, that is intellectuals and professionals. When the ABC combination is effectively in place, an impact can be made on the complex challenges posed by development in the West Bank and Gaza.

It is crucial to find a mechanism that facilitates the relationship between NGOs and the PNA. Legislation defining this relationship should be developed from a dialogue involving both parties. Most observers and practitioners in the development scene have stressed the unique nature of the NGO sector in the Palestinian context, Palestinian NGOs have traditionally functioned as more than social welfare organizations. They play a key role in popular and community mobilization; they help raise awareness during a turbulent transitional phase. Therefore, a mechanism to integrate the views and the role of NGOs in the Palestinian development effort must be found. This role must not be defined and imposed from above; it must come from the grassroots level.

The development process in the West Bank and Gaza Strip is not something that started with foreign aid five years ago, and it will not end if donors cease funding Palestinian projects. The process is an ongoing one, impacting the entire society; for this reason, there should be broad-based discussions of development plans at the



grassroots, academic, and media levels before they emerge as final plans. Active participants in the ABC model discussed above should be from outside the government, i.e. they should be NGOs or other interested community groups. Schumacher summarized this idea over 20 years ago and it is valid when applied to the Palestinian context:

Economic development is something much wider and deeper than economics, let alone econometrics. Its roots lie outside the economic sphere, in education, organization, and discipline and, beyond that, in political independence and a national self-reliance. It cannot be 'produced' by skillful grafting operations carried out by foreign technicians or an indigenous elite that has lost contact with the ordinary people. It can succeed only if it is carried forward as a broad, popular 'movement of reconstruction' with primary emphasis on the full utilization of the drive, enthusiasm and intelligence and labor of everyone. Success cannot be obtained by some form of magic produced by scientists, technicians, or economic planners. It can come only through a process of growth involving the education, organization, and discipline of the whole population. Anything less than this must end in failure."⁶¹

◇ **Institutional and System Reorganization**

Charles Shammās⁶² of Mattin concentrated on the need to separate policy-making from project and strategic planning, project generation, and tactical execution. There exists no mechanism whereby those who generate implementation strategies have anybody to talk to in either the Palestinian, and to a lesser extent, international policy spheres. He argued for the need to distinguish between functions and powers in the development game.

Participants regarded the issue of transparency and accountability of PNA ministries and agencies as crucial. The Ministry of Finance and the financial departments must audit and control each ministry. The office of the Public Auditor should be staffed with qualified personnel whose appointments are independent of political affiliation.

⁶¹ E. F. Schumacher, *Small is Beautiful: Economics as if People Mattered*, (New York: Harper and Row Publishers, Inc.), 1973, pp. 204-205.

⁶² Per interview by Fadi Harb



⇒ ***Increased "Market" Influence***

There is also a need to "privatize" the development process, in the broadest sense of the word, meaning that the public sector and international agencies must open themselves up to ideas from the NGO and private sector. As yet, neither the donor community nor the Palestinian public sector has significantly responded to proposals and initiatives from the private sector. Judeh 'Abdallah of the Palestinian Agricultural Relief Committees, emphasized the fact that PARC's initiatives were always blocked by red tape in PEC DAR and other governmental agencies. There should be two-way cooperation, with the public sector helping the private sector to visualize policy and identify priorities and the private sector contributing their expertise to implementation and efficiency.

Market limitations must be recognized. Given imperfect information and incomplete markets, government intervention can be used, for example, to reallocate resources for the common good.

The process of development planning should not be a centralized one. Nor should the government replace the markets. The challenge in the next decade will be in "identifying and implementing policies that support the synergy between the two to accelerate development."⁶³

⇒ ***Cooperation on the Ground***

While a participatory approach is being encouraged between the government and the community, and between the government and donors, cooperation among donors themselves is also crucial to the success of foreign aid in the Palestinian development initiative. Cooperation is not simply information sharing. Information sharing is necessary but without real cooperation it is insignificant.

Information sharing lacks the power of obligation. When more than one donor is interested in a single project, why not consider joint projects which would avoid duplication of effort? Given the scarcity of foreign aid, such duplication is a waste of time and money. 'Abdul Rahim Tamimi, an engineer with the Palestinian Hydrology Group, provided a telling example of duplication in his field "On the ground, these projects deal with the same things [USAID's Master Plan for Water Resources (including Ramallah); the French Master Plan for Ramallah; the Norwegian/MOPIC

⁶³ World Bank Policy and Research Bulletin, *ibid*.



joint Master Plan for Water Supply in Jenin and Ramallah; the World Bank's Master Plan and Strategies for the Water Sector; and the GTZ (German) Master Plan and Development for Ramallah]... [this is] a huge duplication of effort from a technical point of view."⁶⁴

Cooperation on the ground avoids the problem of duplication of effort, while also preventing the emergence of imbalances, which create resentment. Foreign aid has been concentrated in certain sectors rather than others. In addition, there has been and continues to be a concentration of aid in Gaza and certain areas of the West Bank. Regional differences can be aggravated and national unity affected by the structure of aid and the skewed flow of funds.

⇒ ***Improving Investment Environment***

The mobilization of Palestinian funds in order to increase the level of self-reliance in the country is of intermediate concern for Palestinians. The not-so-distant future will witness a substantial decline in foreign aid as well as a shift from donations to loans. Dr. Adnan Amad of PECNDAR voiced this concern during the workshop. So far, foreign aid has not helped create self-reliance. In numerous projects donors were not concerned with operational expenses thus, some projects will ultimately become a burden when donations cease, particularly when not enough attention is paid to putting sustainable operating and financing mechanisms in place. For these and other reasons, it is important to stimulate the private sector in the West Bank and Gaza Strip and in the Palestinian Diaspora. Political democracy, openness of the legal systems, tax incentives and tax holidays, accessibility to world markets and freedom from the hegemony of power are all important factors without which the mobilization of Palestinian private funds, as well as direct foreign investment, will be almost impossible.

However, in the intermediate timeframe, political risks will remain high. Dr. Yousef Daoud stressed the viewpoint during the JMCC workshop that financial intervention and bank guarantees are very important defenses against possible investment failure. Establishing such arrangements either through the existing financial and banking systems or through an auxiliary system is important to encouraging private business.

It is also crucial to develop a legal framework that addresses the issue of international borrowing. Under what terms and conditions should the Palestinians be accepting loans? Indebtedness will become a serious problem for the PNA unless the generosity

⁶⁴ Per participation in the JMCC workshop during December 12-13/1997.



of the donor community can be guaranteed, which is highly improbable. While the international community bears responsibility for the Palestinians because the Palestinian problem came about as a result of the world's power conflict, there is a limit to the influence of this factor and it cannot be relied on indefinitely. An alternative course of action to borrowing would be to convince the donors to guarantee direct foreign investments.

⇒ *Ending Compartmentalization*

The second law of thermodynamics states that heat cannot by itself pass from a colder to a warmer body. In development terms, this means that material assistance being injected into a politically or socially "cold" environment will by and large be wasted. Schumacher summarized the need for a comprehensive approach as follows:

Development does not start with goods; it starts with people and their education, organization, and discipline. Without these three, all resources remain latent, untapped potential. There are prosperous societies with but the scantiest basis of natural wealth, and we have had plenty of opportunity to observe the primacy of the invisible factors after the war. Every country, no matter how devastated, which had a high level of education, organization, and discipline, produced an 'economic miracle'. In fact, these were miracles only for people whose attention is focused on the tip of the iceberg. The tip had been smashed to pieces, but the base, which is education, organization, and discipline, was still there ... If aid is given to introduce certain economic activities, these will be beneficial and viable only if they can be sustained by the already existing educational level of fairly broad groups of people, and they will be truly valuable only if they promote and spread advances in education, organization, and discipline. There can be a process of stretching never a process of jumping. If new economic activities are introduced which depend on special education, special organization, and special discipline, such as are in no way inherent in the recipient society, the activity will not promote healthy development but will be more likely to hinder it.⁶⁵

Thus, funds earmarked for development will go to waste if the context in which they are to be used is ignored. Recognizing the importance of the external political environment is equally as important as recognizing the role played by the domestic environment. Within the Palestinian context, then, the ultimate success of the international assistance effort and of the Palestinian developmental effort will rest on

⁶⁵ Schumacher, *ibid.*, pp. 168-169.





whether the donor community is willing to play a greater political role in putting an end to Israeli siege policies against the Palestinians. If not, international donations will effectively become a subsidy of Israeli policies themselves. Specifically, the role of the international community must be more active on two development-related issues affected by Israeli policies. The International community must push to establish:

- A. freedom of internal trade in the West Bank and Gaza Strip and between both areas; and,
- B. open access to world markets in order to globally integrate the Palestinian economy (i.e. allow free border crossings, open the airport and sea port in Gaza.)





Recommendations

Ideally, the recommendations put forward in this concluding section will be adopted by an ABC structured coalition which could put them on the agenda of policy-makers and work toward building public awareness about what must be done in order to achieve equitable and efficient development in Palestine. There are three important elements which must be thought about in relation to development.

- 1) Clearly, as information grows exponentially and as its incorporation into production processes becomes increasingly complex, the ability of both policy-makers and the public to acquire, adopt and adapt to new knowledge is crucial to economic development.
- 2) Secondly, given imperfect information and incomplete markets, government intervention should be geared toward improving any imbalances rather than creating them, i.e., if a reallocation of resources leaves someone better off, someone else is not worse off.
- 3) Finally, the function and performance of government institutions must be addressed. This is a crucial area, where much can be done to stimulate development and make obstacles surmountable.

Specific recommendations that emerged from this project are outlined below.

1. Improved Government Performance

Within government agencies and public institutions, four areas of improvement should be targeted: enhancing information systems; tightening procurement procedures; decentralizing operations; and improving staffing policies. Staffing public positions according to professional qualifications and experience rather than political affiliation and party loyalty is particularly important in ensuring greater governmental accountability and transparency.

2. Greater Transparency and Public Accountability

Appropriate mechanisms for ensuring public participation and public sector accountability and transparency must be installed. For example, public sector agencies should be regulated; public hearings or public announcements by each agency implementing development works should be made mandatory. Monitoring and evaluation procedures must be formalised and made mandatory. And the development process must be made public, “privatised” to a certain extent through the abolition of red tape that stands between the government and the public.





In addition, set criteria should be established by which development projects are assigned. This will reduce the frequency of disputes between communities and districts which often exacerbate frustration with the development process.

A legal and regulatory framework addressing the issue of international borrowing should be established. A set criterion, by which the PNA accepts loans, should be created, since the debt burden is, ultimately, borne by the public. The process of making loans rather than grants to the PNA has only just begun, as donor concerns and donor priorities restructure the type of assistance given. However, indebtedness will become a serious problem for the Palestinians unless they can ensure continued generosity on the part of the donor community. An alternative course of action would be to convince donors to extend guarantees to direct foreign investments.

The role of the Ministry of Finance and the financial departments in each ministry in auditing and financial controlling must be enhanced. The office of the Public Auditor must be equipped with qualified personnel who are appointed for merit and integrity.

3. Encouraging Private Investment

Bank guarantees and other financial interventions or systems could be useful in encouraging private investment. The establishment of such arrangements either through the existing financial and banking systems or through an auxiliary system is very important in encouraging private business.

All indicators are that Diaspora and other private investment could be stimulated by greater political democracy, openness of the legal system, greater tax incentives and tax holidays, greater accessibility to world markets and freedom from the hegemony of power.

4. Activating the Role of Donors

The success of the Palestinian development effort is dependent on the donor community playing a more political role to put an end to the Israeli siege policies. Otherwise, the foreign assistance being given will effectively continue to subsidise Israeli policies, and the funds being given will virtually go to waste. In particular, the donor community can be effective in freeing up internal trade and movement, in and between the West Bank and Gaza Strip, and opening up world markets to Palestinian producers -- i.e., by pushing for resolution of issues such as border crossings, airport operations and the sea port.



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 PNA; 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.⁶⁶

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

⁶⁶ Jerusalem Media and Communication Centre, public opinion poll conducted in April 1997.



both that there had been no improvements since the hand-over 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 is 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 culmination of this project was the JMCC conference in December that was designed to activate this forum and continue the debate on the current state of development. Hopefully the concrete guidelines and recommendations presented in this book address the problems of development in Palestine in a more realistic, participatory and sustainable manner.



