

Helpdesk Research Report: Role of Aid in the Occupied Palestinian Territories

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Query: What is the role of aid in the Occupied Palestinian Territories, and what are donors currently doing?

Enquirer: AusAID

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1. Overview

Aid has played a significant and complex role in the occupied Palestinian territories (oPt). Total foreign aid stood at \$2.6 billion in 2008, which represented a 1,350 per cent increase on 1993 levels. The literature focuses on the following areas: the role of aid in fostering development, the complex political effects of humanitarian aid, the impact of aid on the peace process and conflict, and the effect of aid on civil society. While there is clear evidence that aid has had some positive short-term effects such as saving lives and bolstering support for the peace process, there is consensus in the literature that aid has been unable to foster sustainable development and that without addressing the fundamental barriers to development (Israeli blockades, military incursions and settlements), this will be difficult to achieve (CIDSE 2008, World Bank 2008, UNCTAD 2009, Le More 2008, Tartir 2008, Taghdisi-Rad 2010). There is also consensus in the critical literature that international aid has caused a variety of unintended negative consequences, which include legitimising and facilitating Israel's occupation and its unlawful actions against the Palestinian people, fostering division amongst Palestinian political parties, depoliticising Palestinian civil society and the Palestinian cause, and creating a culture of dependency (CIDSE 2008, Le More 2008, Wake 2008, Taghdisi-Rad 2010).

Background

The role of aid in the oPt has fluctuated significantly over the last twenty years. In the run up to the Oslo Accords signed in 1994, aid was used to encourage both sides to the peace table. In the years following the signing of the Accords, it was largely successful in averting the collapse of the Palestinian Authority (PA), which was a vital pre-cursor to the continuation of the peace process. In the period up to 2000 the PA's fiscal position gradually improved, and donors were able to provide more resources to infrastructure development as opposed to supporting government salaries and building institutions. Donor funding increased after the second *intafada* in 2000 to meet the considerable humanitarian and rehabilitation costs. After Hamas won control of Gaza in 2006, most bilateral donors stopped supporting the PA in an attempt to erode Hamas' popular support. The EU established a 'temporary international mechanism' (TIM) to channel money directly to the Palestinian people. Funding to NGOs increased rapidly during this period.

The Paris donor conference of 2007 led to pledges of \$7.7 billion in support of the PA's Palestinian Reform and Development Programme (PRDP), to be implemented between 2008 and 2010. The EU moved from the TIM mechanism to the PEGASE, which allows funds to be transferred directly to the PA in support of the PRDP. After the Paris conference the EU and the World Bank sought to reduce the PA's budget deficit and contain spending through fiscal reforms. The PRDP also focused on public investment (improving governance, social service delivery, economic development and infrastructure) and on reforming the PA's security services (CIDSE 2008, 9). Despite these commitments, funding remains insufficient and there are frequent shortfalls, which makes it difficult for the PA to plan beyond the short term. The PRDP has been successful in implementing some reforms and re-establishing law and order outside of Gaza, although some argue that this regional discrepancy has widened the gap between Fatah and Hamas (Le More 2008, Wake 2008). The PRDP's strategy was disrupted by the Gaza war of 2008-9. In 2009, another donor conference took place in Egypt where donors pledged \$4.5 billion for the reconstruction of Gaza, with funds bypassing Hamas.

The PA currently has a large budget deficit - estimated at \$1.2 billion in 2010. The slow arrival of funds has caused Prime Minister Fayyad to adopt austerity measures. Foreign aid continues to bolster the economy. Real economic growth in the West Bank and Gaza is forecast to hit 8% in 2010, compared with 6.8% in 2009, according to the IMF. Most of this growth can be attributed to foreign aid. Salaries paid to 150,000 PA employees, which are mainly supported by aid, now constitute a major source of revenue. More than 80% of the population of Gaza are now impoverished and 43% are unemployed (UNCTAD 2009a).

The main vehicle for donor coordination is the Ad Hoc Liaison Committee, which was established in 1993. At its latest meeting, held in September 2010, the Committee reasserted its overall aim of 'mobilising sustained support for Palestinian state building'. The chair of the meeting, Norwegian Foreign Minister Jonas Gahr Støre, emphasised that in a recent report, the World Bank stated that 'if the PA maintains its current performance in institution-building and delivery of public services, it is well-positioned for the establishment of a state at any point in the near future'. He also expressed concerns at the shortfall in funding to the PA's budget and appealed to donors to meet the pledges made at the Paris conference. It was stressed that Prime Minister Fayyad had been successful in exploiting the growth potential of the Palestinian economy and that it was becoming 'increasingly obvious that further economic development is being directly impeded by the roadblocks and the administrative and political obstacles stemming from the occupation'. The committee stated that it is important to send a 'clear message to the Government of Israel...to continue easing restrictions on goods and materials allowed into Gaza, and to take urgent steps to expand Palestinian access to Area C, the Jordan Valley and East Jerusalem, as well as to allow Palestinian exports in order to support and sustain value creation'.¹

Aid Flows

As the graph below (Figure One) illustrates, donor aid to the oPt grew steadily after 2000, but spiked after the second *intafada* of 2000 and the Gaza war of 2008, to meet the significant humanitarian and reconstruction needs during these periods. The most recent comprehensive picture of aid allocations shows that the biggest contributors are the EC (\$602 million), United Nations Relief and Works Agency UNRWA (\$480 million) and the US (\$351 million).² Non-DAC donors (particularly the Gulf states) have become increasingly influential in Palestine in recent years (ESCWA 2007), although levels of aid from Saudi Arabia and the United Arab Emirates have slowed in recent years.³

Most of the main donors have funded a range of governance and development-related activities. In response to outbreaks of violence over the last ten years, donor focus has shifted from infra-structure development and institution building towards emergency relief and recovery activities (ESCWA 2007).

¹ For full statement see:

http://www.regjeringen.no/en/dep/ud/aktuelt/taler_artikler/utenriksministeren/2010/orientering_ahlc.html?id=620544

² The EC and the US are the main funders of the UNRWA.

³ See: http://www.americantaskforce.org/daily_news_article/2010/08/20/1282276800_2. Saudi Arabia, however, has recently committed \$100 million to help alleviate the budget deficit: <http://www.haaretz.com/news/international/fayyad-100-million-saudi-pledge-eases-palestinian-financial-crisis-1.320881>

Between 1990 and 2004 most aid went to transport, storage and communications, followed by banking and business, and agriculture and industry (ESCWA 2007). Most of the largest donors, which include the US, the EU, the World Bank, the UK, Germany and Norway, have adopted a broad focus, funding governance and institution building, infrastructure development and service provision.

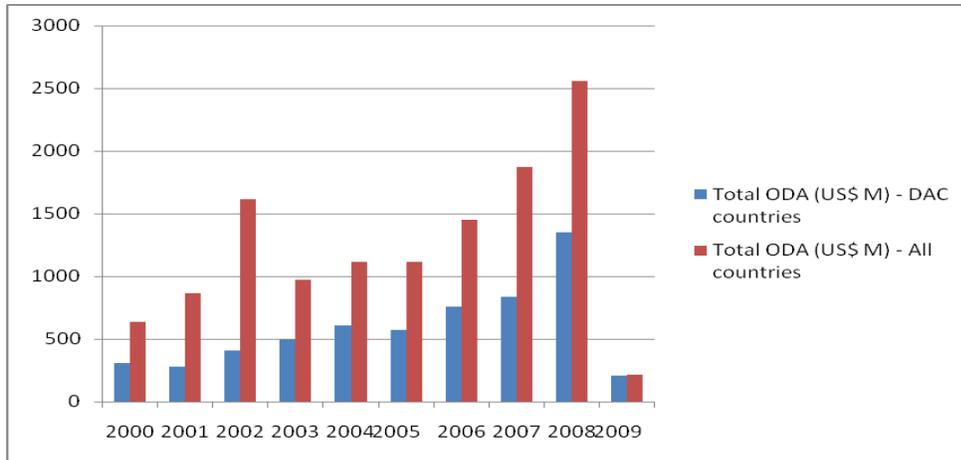


Figure One: Total ODA disbursed to Palestine (2000-2009) OECD DAC (data available from <http://bit.ly/a0Uoin>). Data for 2009 is only partially available.

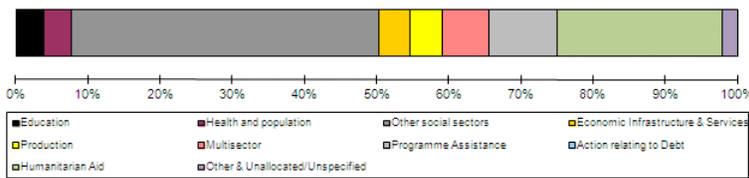
Palestinian Adm. Areas

Receipts	2006	2007	2008
Net ODA (USD million)	1 450	1 873	2 593
Bilateral share (gross ODA)	54%	46%	54%
Net ODA / GNI
Net Private flows (USD million)	- 6	- 8	3

Top Ten Donors of gross ODA (2007-08 average) (USD m)	(USD m)
1 EC	602
2 UNRWA	480
3 United States	351
4 Norway	111
5 Spain	88
6 Germany	77
7 France	65
8 Sweden	63
9 United Kingdom	63
10 Netherlands	53

For reference	2006	2007	2008
Population (million)	3.6	3.7	3.8
GNI per capita (Atlas USD)

Bilateral ODA by Sector (2007-08)



Sources: OECD, World Bank. www.oecd.org/dac/stats

Figure Two: Palestinian Administered Areas – Aid at a Glance (OECD)

Aid and development

There is some dispute in the literature regarding the degree to which aid has fostered economic growth and development in the oPt. While some argue that oPt has had a positive impact on economic growth and human development (ESCWA 2007) or that donor assistance is ‘vital for encouraging economic growth and reform’ (CIDSE 2008, 9), others argue that its impact on economic growth and living standards has been limited (Tartir 2008). The main question mark surrounding the development impact of aid in the

oPt is its sustainability, given constraints placed on development caused by Israeli blockades and military conflict. Roy also argues that the 'seven year period that was the Oslo peace process, when conditions in Gaza and the West Bank, relatively speaking, were better than they are today, acutely illustrate the futility of pursuing economic change in the absence of a viable political agreement' (CIDSE 2008, 9). She concludes that donors cannot succeed in pushing through an ambitious state-building and institutional reform programme without also dealing with underlying political issues. Several authors recommend that donors adopt a more robust stance towards Israel's measures against the oPt underpinned by respect for human rights (Weber 2008, CIDSE 2008, Emerson et al 2009, Youngs 2010). There are some signs that donors may be adopting a more robust stance: some are increasingly working to help the PA put pressure on Israel by supporting development projects in Area C (ICG 2010).

Even generally positive appraisals of the development potential of foreign aid, such as UNCTAD's recent paper (2009), argue that an effective strategy is dependent upon the end of the occupation and Israel's closure policy. UNCTAD (2009, 2009a) stresses the importance of an integrated economic reform strategy where donors can support growth by focusing on 'investment in higher productivity' and targeting 'the structural problems of the economy and in particular its weakened productivity' (UNCTAD 2009a, 2).

Humanitarian aid

Most authors agree that humanitarian aid has saved lives, but are critical of its long-term political effects. It is argued that humanitarian aid has 'let Israel off the hook' by alleviating the most serious consequences of its actions and creating a culture of dependency (Le More 2008, Weber 2009, Al-Botmeh comments). Critics charge that donors have neglected the root causes of food insecurity (prolonged physical restriction on movements and the loss of export markets) and instead focused on its symptoms (Kanafani & Al-Botmeh 2008). Humanitarian aid legitimises Israel's occupation by rebuilding what Israel has destroyed (Weber 2009).

Conflict and peacebuilding

Aid has been successful in facilitating the signing and rolling out of the Oslo Peace Accords, but has also been responsible for a series of unintended long-term consequences which have undermined peace (Wake 2008). Foreign aid was 'almost single-handedly' responsible for funding the creation of the PA and establishing a functioning security service in Gaza (Wake 2008). There is some debate about whether or not this last achievement has supported peace: one expert argued that aid for security issues benefits Israel (Al-Botmeh comments). Aid has been used as a tool for patronage by Yasser Arafat's government, which promoted political stability in the long term, but also marginalised a large number of Palestinians, particularly in Gaza, facilitating the rise of Hamas (Wake 2008). Wake (2008) concludes that aid cannot make up for the fundamental flaws in the Oslo Accords.

Several authors have been critical of the EU's policy, which sought to support peace by fostering sustainable and transforming the PA into a credible partner for peace, but has arguably had little impact on Israel's strategy (Emerson et al 2009, Youngs 2010). To resolve these shortcomings, some authors have recommended that donors should prioritise gaining full access to Gaza and adopt a harder line of Israeli measures against the oPt (CIDSE 2008, 2009). Stotsky (2008) represents a more critical perspective in the literature. He argues that aid has supported a culture of corruption and fuelled terrorism.

Aid and civil society

Aid has had a significant impact on civil society. The total income received from foreign donors by Palestinian NGOs rose from \$112.7 million in 1999 to \$223.6 million in 2006. A large body of research critiques the professionalization and de-politicisation of Palestinian civil society that has accompanied the rise in donor funding since the 1990s (Jad 2007, Wake 2008, Challand 2009, GSDRC 2010). A recent GSDRC (2010) report summarises most of the relevant literature, identifying some consensus that Palestinian NGOs have become more pre-occupied with funding, reduced accountability to communities and led to a failure to articulate a common strategic vision. The report also presents evidence that

foreign-funded NGOs have been effective in providing services and contributing to a variety of social, rural and private-sector development goals.

Donor opportunities

According to the latest OCHA statistics, a number of sectors identified in the 2009 CAP appeal are currently experiencing funding shortfalls. The most serious shortfalls are in support for agriculture (where 81% of needs have not been met), education (where there is a 74% gap), cash for work and cash assistance (71%) and water, sanitation and hygiene (66%) (see Figure 3). UNRWA has experienced persistent funding gaps, which have recently prompted staff strikes (Jad comments). UNCTAD (2009a) argues more donor funding should be allocated towards the private sector and more specific aid committed to reconstructing Gaza. It also argues that more focus should be placed on strengthening productivity in the oPt.

There is a clear tension in the literature and amongst experts between what donors should do and what it is politically feasible for them to support, given domestic and international political constraints. One expert argued that supporting the PRDP can result in beneficial outcomes in the short term, but such a plan will continue to legitimise the occupation (Al-Botmeh comments). The same expert stated that there is a shortfall in funding for infrastructure and social services and that more aid should go to Gaza, but acknowledged that the latter recommendation is unlikely to be realised (Al-Botmeh comments). Another expert stressed that the process of priority-setting should be largely determined by the PA (Brynen comments).

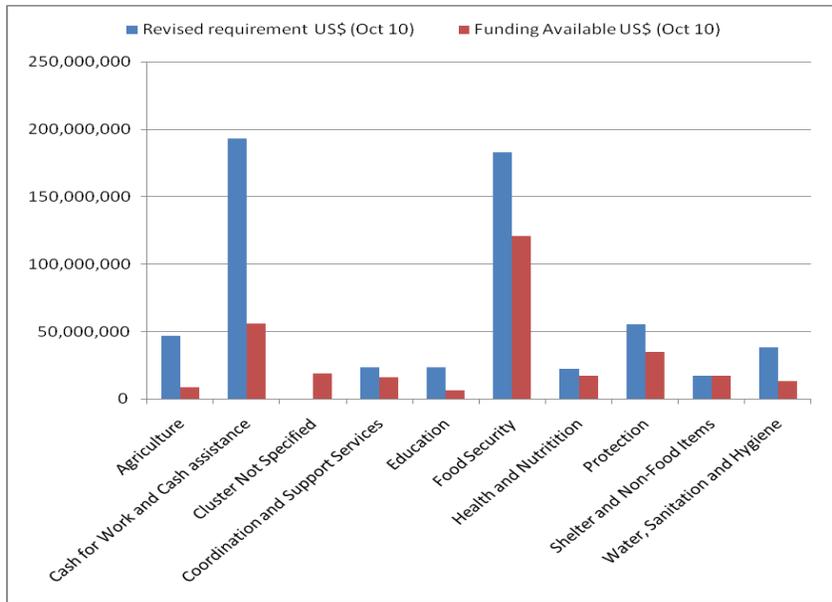


Figure 3: Requirements vs. Commitments for CAP latest appeal (launched in November 2009)⁴

⁴ For full data on the appeal see Reliefweb: <http://www.reliefweb.int/rw/fts.nsf/doc105?OpenForm&rc=3&cc=pse>. A mid-term review from July 2010 is available from the OCHA website: <http://ochaonline.un.org/humanitarianappeal/webpage.asp?Page=1875>.

2. General Literature

Taghdisi-Rad, S., 2010, 'The Political Economy of Aid in Palestine: Relief from Conflict or Development Delayed?' <http://www.routledge.com/books/details/9780415563253/> (this book is forthcoming and not currently available)

This book examines the nature of donor engagement in the oPt, highlighting the political and ideological determinants of aid. It focuses on the trade-related donor assistance in Palestine (known as 'Aid for Trade'). It argues that this constitutes another way in which donors work 'around' conflict, and stresses that aid to Palestine will be unable to foster sustainable development as long as the Palestinian economy is affected by the Israeli occupation, settlements and blockade. It argues that aid needs to be restructured and more carefully targeted. It also highlights several areas within the Palestinian territories that are in need of development and require significant and immediate attention at both the national and international levels.

Le More, A., 2008, 'International Assistance To The Palestinians After Oslo', Routledge, London. Partially available from Google Books: <http://bit.ly/cX1eOg>

Aid to the Palestinians after Oslo had three main goals: to support the peace process leading to a two-state solution, to foster economic and social development and to promote institution-building. Despite almost \$8 billion of aid disbursed between 1994 and 2006, Palestinians are poorer and further from statehood than ever before. The national institutions are also more dysfunctional and face an unprecedented crisis of legitimacy. This book argues that aid functioned not as a catalyst for political development, but as a substitute for politics. The book shows that uncritical delivery of aid in a conflict situation can exacerbate conflict.

Donor policies were driven primarily by their own interests and their relations with Israel, rather than on Palestinian needs. Donors failed to adjust their policies as conditions changed on the ground (particularly after the *intafada* in 2000). 'Supporting the "peace process" had become the dominant, immovable paradigm, to the point of tautology' (p. 14), which meant a growing focus on providing short-term emergency aid. The EU hoped that 'the provision of assistance and funds to the Palestinians would in turn give donors ammunition to influence American unilateral mediation efforts and Israeli policies on the ground' (p.173). Instead, aid became a fig leaf in the absence of a political process for the absence of a political process to resolve the root causes of conflict. Donor support for Fatah led to growing popular support for Hamas. Their support for development also depoliticised the Palestinian cause. International aid has served to enable Israeli occupation by minimising its most serious effects. The book concludes by arguing that a sustainable solution to the conflict requires a critical re-examination of both the Palestinian and the Israeli national narratives. It will require addressing Palestinian grievances and national aspirations as well as Israel's deep seated feeling of insecurity in the Middle East.

ICG, 2010, 'Tipping Point? Palestinians and The Search for a New Strategy', Middle East Report N°95 – 26 April 2010. <http://bit.ly/bzn9Fg>

This report assesses the current state of negotiations between Israel and Palestine and assesses the Palestinian strategy. It touches on the role of aid in reference to Area C (the 60% of the West Bank in which Israel has exclusive civil and military authority). The PA aims to extend its geographic and political reach in this area 'even in the absence of an agreement' (p.22). The report finds that 'despite often onerous Israeli restrictions, a significant number of small development projects already completed are in Area C. Donors, who formerly often avoided the area for fear of running afoul of Israeli concerns – ...now are volunteering to fund projects there and helping the PA pressure Israel to obtain necessary permissions' (p.22).

Literature on specific donors

Emerson, M., Tocci, N., Youngs, R., 2009, 'Gaza's hell: Why the EU must change its policy', CEPS Commentary/13 January 2009. www.fride.org/download/RYoungs-Gaza-CEPS.pdf

Written in the aftermath of the humanitarian crisis in Gaza towards the end of 2008, this paper calls for the EU to change what it describes as its 'failed strategy' towards Israel/Palestine. It argues that the strategy of "defeating Hamas" in Gaza while pursuing peace talks only with a Fatah-controlled West Bank has made the situation worse' (p.1). It states that the EU is likely to pursue the same set of policies once the humanitarian crisis subsides. It argues that Hamas must be engaged and that the EU must provide more long-term aid to the oPt, which is not so biased towards the Fatah government. Aid should support the democratic process. The paper argues that the various 'trilateral forums set up by the EU to foster transport, trade and infrastructure links between Israel, the Occupied Territories and the EU have had little impact' (p.2). The paper concludes by arguing that the EU should seriously reassess its bilateral relations with Israel. The EU should end its 'blind eye' approach to Israel's actions and 'introduce the logic of international law and human rights as the cornerstone of its 'political' approach to Israel and Palestine' (p.3). Continuing with the status quo will only result in worsening conditions in Gaza.

Youngs, R., 2010, 'Europe should rethink its aid to Palestine', Financial Times, March 18. <http://www.ft.com/cms/s/0/c7967fce-32c7-11df-a767-00144feabdc0.html>

This article assesses the EU's aid to Palestine. It states that EU aid to the oPt increased dramatically after the election of Hamas. Since the EU refuses to channel funding through Hamas, all of these funds are channelled through Fatah in the West Bank. There has also been a recent shift away from longer-term governance reform towards short-term emergency help. It argues that the EU's aid has been un-transparent and has conceived of reform as supporting President Mahmoud Abbas. The EU's support for Fatah security bodies has empowered them against forces under Hamas' control; this has the effect of increasing divisions between Palestinian factions. The paper recommends that the EU should take aid out of the hands of elites and assist in 'the bottom-up democratic capacity of Palestinian society, by routing aid to grassroots organisations. Only this can give citizens a sense of ownership and the incentive to overcome factionalism, as a necessary first step to negotiating terms with Israel' (no page number).

CIDSE, 2008, 'The EU's aid to the occupied Palestinian territory: How to improve coherence and effectiveness in line with international law? An expert seminar', Brussels, 7 November 2008. [http://www.cidse.org/uploadedFiles/Regions/Israel - Palestine/CIDSE%20seminar%20report-09.11.08.pdf](http://www.cidse.org/uploadedFiles/Regions/Israel_-_Palestine/CIDSE%20seminar%20report-09.11.08.pdf)

This forum reviewed the EU's aid programme to the Palestinian Territories. It included a presentation from Dr. Sara Roy, who focused on the issue of aid and de-development in the oPt. 'De-development' refers to the systematic undermining of development in the oPt by Israel – an unusual phenomenon that lies outside of existing development paradigms. Roy argues: 'Foreign aid, while essential, cannot compensate for the absence of, or deficiencies in, the political process. Economic development cannot occur until Palestinians can exercise genuine sovereignty over a state of their own. The seven-year period that was the Oslo peace process, when conditions in Gaza and the West Bank, relatively speaking, were better than they are today, acutely illustrate the futility of pursuing economic change in the absence of a viable political agreement. This is not to say that aid does not have a role. Donor assistance and investment are vital for encouraging economic growth and reform' (p.9).

Roy criticises the efforts of donors after the Paris conference and the attempt to push through a state-building and institutional reform programme whilst neglecting the occupation. She argues that donor commitments were based on long-standing faulty assumptions, which included the idea that pre-existing structures of occupation will be mitigated or dismantled by institutional reform; the idea that the priorities of the protagonists will shift from the political issues of territory and security to economic interests; and the idea that political stability and peaceful co-existence will only take place by encouraging economic

change. She argues that aid has been poured into the West Bank and Gaza 'as a substitute for the donors' lack of real diplomatic engagement' (p.10). The EU in particular failed to challenge Israel's measures against the oPt based on the belief that they should not put any pressure on Israel for fear that this may lead to a breakdown in the peace process. By allowing this situation to continue, donors allowed the West Bank and Gaza to become more economically and politically fragmented. As conditions deteriorated, donors reluctantly switched from supporting development to providing humanitarian aid.

A key lesson that emerged from the discussion was that without respect for human rights and protection of civilians, conflict will continue. The EU should develop clear policies that respect the rule of law and refuse to participate in unlawful measures such as settlements.

CIDSE, 2009, 'The EU's aid to the occupied Palestinian territory (II). The deepening crisis in Gaza', June 2009, Policy Note. <http://bit.ly/9qwDKH>

This policy brief, compiled by the CIDSE Working Group on Palestine/Israel, examines the EU's response to the Gaza crisis. It states that the EU's policy of non-engagement with Hamas and robust support for the PA 'reduces the EU's effectiveness in addressing problems related to the abuse of aid for political purposes and undermines the sustainability of the aid efforts' (p.3). It argues that '[i]n order to keep the PA in the saddle, the EU is currently considering the reallocation of funds earmarked for development and is insisting less on good governance programmes. Despite criticism from civil society, the PA's reconstruction plan for Gaza received full EU support' (p.3). The report makes the following recommendations to the EU:

- 'Consider full access to Gaza as an EU foreign policy priority and exhaust all available means to end the Israeli blockade.
- Ensure that the manner in which EU aid is provided does not exacerbate the intra-Palestinian conflict and that basic principles of humanitarian aid are respected.
- Formally suspend the EU-Israel upgrade process and take measures to prevent accommodation and recognition of Israel's unlawful policies.
- Continue to invest in sustainable development projects and to ensure the active participation of civil society and the private sector in Gaza' (p.3-4).

Sharp, J., 2010, 'US Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2011 Request', Congressional Research Service, June 15, 2010. <http://www.fas.org/sqp/crs/mideast/RL32260.pdf>

This paper reviews US assistance in the Middle East. It states that the US provides support to strengthen Palestinian institutions and to ensure that the West Bank and Gaza are not 'diverted to terrorist groups' (p.i). Since the signing of the Oslo Accord in 1993, the US government has committed more than \$3.8 billion in bilateral economic assistance to the Palestinians, of which more than \$2.3 billion has been provided since the 2004 financial year. The US is unable to provide direct support to the Palestinian Authority unless it receives a waiver from Congress citing national security interests. If Hamas forms a unity government with the PA in the West Bank, the US could provide aid to this power-sharing government if 'the President certifies that such a government, including all of its ministers, acknowledges Israel's right to exist and commits and adheres to previous international agreements, including the 2003 Roadmap' (p.10).

'Since the death of Yasser Arafat in November 2004, U.S. assistance to the Palestinians has averaged about \$388 million a year. During the 1990s, U.S. foreign aid to the Palestinians averaged approximately \$75 million per year. Most U.S. assistance to the Palestinians is provided through USAID's West Bank and Gaza program. USAID allocates funds for projects in sectors such as humanitarian assistance, economic development, democratic reform, improving water access and other infrastructure, health care, education, and vocational training (currently most, if not all, funds for the Gaza Strip are dedicated to humanitarian assistance and economic recovery

needs). By law, U.S. assistance to the West Bank and Gaza Strip, as well as for all other aid recipients, must be vetted and audited to ensure that no U.S. funds are provided to or through any individual, private or government entity, or educational institution that advocates, plans, sponsors, engages in, or has engaged in, terrorist activity. Lawmakers usually include funds in annual foreign operations legislation providing for audits and inspections of USAID projects in the West Bank and Gaza Strip. U.S. assistance also reaches Palestinians through contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which provides humanitarian relief and basic services to Palestinian refugees living in the West Bank, Gaza Strip, Jordan, Syria, and Lebanon' (p.10).

The paper provides details of US contributions to UNRWA. 'The US contribution to UNRWA usually covers 20 to 25% of the UNRWA total budget. The United States is the largest bilateral donor to the UNRWA and second only to the European Commission as a contributor. U.S. support for UNRWA is not treated as bilateral economic aid to the Palestinians. With Hamas in control of the entire Gaza Strip, some lawmakers are concerned that U.S. contributions to UNRWA could inadvertently be used to support Hamas activities in Gaza' (p.10-11).

'In June 2010, the Obama Administration announced that it would provide an additional \$400 million in economic aid to Palestinians in the West Bank and Gaza Strip, though only about \$70 million represented a new U.S. commitment. According to the U.S. State Department, U.S. funds will be disbursed as follows:

- \$240 million investment by the Overseas Private Investment Corporation (OPIC) in the AMAL mortgage finance program in the West Bank.
- \$75 million in funding through USAID for infrastructure development in the West Bank and Gaza.
- \$10 million in USAID-funded activities aimed at enhancing the private sector.
- \$40 million to support UNRWA's Emergency Appeal for Gaza and the West Bank.
- \$14.5 million in USAID projects for school rehabilitation, small-scale agriculture, the repair of a hospital facility and other community infrastructure in Gaza.
- \$10 million for the construction of five new UNRWA schools in Gaza.
- \$5 million to complete nine USAID-funded projects to repair water distribution and wastewater collection systems in Gaza' (p.11-12).

3. Aid and Development

ESCWA, 2007, 'Economic Trends and Impacts: Foreign Aid and Development in the Arab Region', Issue No. 4, United Nations, New York.

<http://www.pogar.org/publications/other/escwa/ead-07-1-e.pdf>

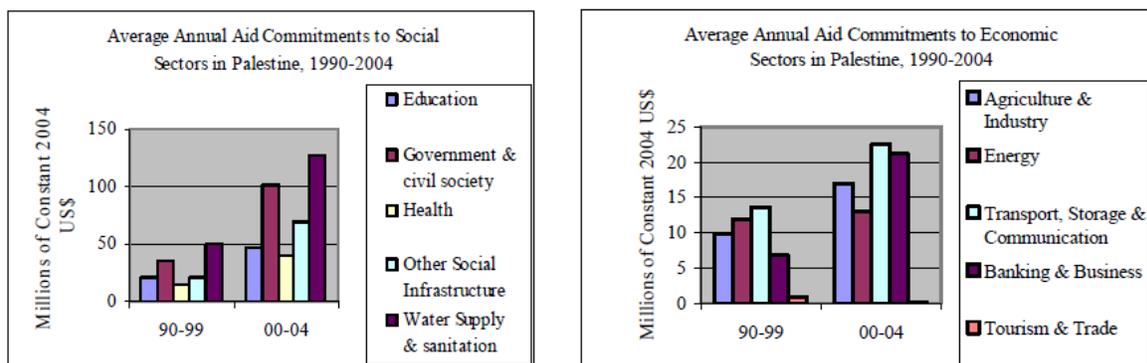
This paper examines the role of foreign aid in the Arab region, with a particular focus on four countries: Egypt, Jordan, Palestine and Yemen. It examines the impact of aid in these countries and presents some policy recommendations.

The share of tied aid to Arab countries has declined significantly over the last two decades, which has possibly led to higher aid effectiveness. A growing proportion of aid has gone to education and health at the expense of agriculture and industry. Panel data presented in the report suggest that, on average, aid 'has had a positive impact on economic growth in Arab countries through both capital accumulation and increased productivity' (p. vix). It also finds that 'no evidence was found for the hypothesis that aid works only in good policy environments and that major absorptive capacity constraints exist in the Arab region. Moreover, an assessment of the impact of aid on social indicators reveals a positive effect on life expectancy, albeit not on literacy rates (p. vix). The report recommends a steadier and more predictable flow of aid resources and that donors provide a greater focus on economic growth, particularly on generating jobs for young people.

The report notes that the two largest Arab donors are Saudi Arabia and Kuwait, who provided \$214 million and \$209 million annually (based on figures from 2005 and 2004 respectively). Most of this aid came in the form of soft loans and was channelled to economic and social infrastructure projects. In Palestine, almost half of its aid has come from multilateral agencies, notably UNRWA. Aid from multilateral agencies tends to be more development-oriented, with a broader focus on governance and social service provision. Palestine has become increasingly aid-dependent since 2000. Between 2000 and 2004, the ODA to GNI ratio reached 30% and is likely to have increased further since. ODA to Palestine grew in 2002 from around \$200 per capita in 2000 to nearly \$600. There was a shift from development to humanitarian aid during this period. It is argued that more aid was used to 'prop up' the PNA.

Aid to Palestine has mainly come in the form of grants. This is due to the fact that the PNA has very limited capacity to repay loans and the fact that most foreign aid is spent on consumptive activities rather than productive investment. The proportion of tied or partially tied aid to Palestine has decreased from around 64% between 1990 and 1999 to 37% between 2000 and 2005. The paper argues that '[t]his undermines its efficiency, increases the costs for recipient countries and channels some of the benefits back to specific sectors in the donor country' (p.24). While net ODA to Palestine increased between 1990 and 2004, the share of technical assistance declined. This is largely because of the renewal of hostilities, which resulted in higher levels of emergency aid and hampered the work of foreign agencies. The sectoral allocation of aid between 1990 and 2004 are summarised in the table below. There have been growing efforts by donors to address diminishing water resources and desertification in the country and growing efforts to transport, storage and communication as donors gave priority to infrastructure rehabilitation and reconstruction activities.

Figure 13. Sectoral allocation of aid commitments to Palestine, 1990-2004
(Millions of United States dollars constant 2004)



Source: Calculated by ESCWA, based on data from the Creditor Reporting System (CRS) of OECD.

UNCTAD, 2009, 'Policy Alternatives for Sustained Palestinian Development and State Formation', United Nations Conference on Trade and Development, /GDS/APP/2008/1.
http://www.unctad.org/en/docs/gdsapp20081_en.pdf

This study aims to contribute to the debate on the nature of the economic policies required for the recovery and long-term growth of the Palestinian economy. It is based on simulations of UNCTAD's macro-economic model (the Integrated Simulation Framework). The report states that the cost of the closure to the Palestinian economy has been substantial and that the economy has lost more jobs between 2000 and 2005 than it has actually been able to produce in 2005. The loss of GDP during the same period is estimated at \$8.4 billion, twice the size of the economy in 1999. It estimates that the Palestinian economy has not replaced a third of its pre-2000 physical capital. 'This has further intensified the structural distortion of the economy and contracted its domestic supply capacity, not only in the short term but more significantly in the long term' (p.1).

The paper argues that there is a critical need to 'empower Palestinian policymakers with a full range of economic policy instruments to realize the Palestinian development vision' (p.1). It argues that '[p]olicy simulations of alternative fiscal, monetary, exchange rate (national currency), trade and labour policies predict better economic results than the baseline policy framework'. The simulation suggests that integrating all these policies into one package would lead to full employment by 2012' (p.1). A wider range of instruments for designing and implementing economic policy would enable the PA to support long-term development.

The full implementation of this kind of integrated policy package requires an end to occupation, beginning with the lifting of the Israeli closure policy and mobility restrictions and the movement towards the establishment of a sovereign Palestinian state with full ownership of economic policy. It concludes that international donors can contribute by directing financial and technical aid to the PA in ways that ensure the expansion of its policy options as well as the correction of the pervasive structural distortions. International actors can also help to bring to an end Israeli occupation and restrictive measures that 'render long-term development in the occupied Palestinian territory extremely difficult, and short-term gains easily reversible' (p.2).

UNCTAD, 2009a, 'The Palestinian Economy: Towards Recovery And Sustained Growth', United Nations Conference on Trade and Development, Policy Briefs, No. 18, December 2009.

http://www.unctad.org/en/docs/presspb20095_en.pdf

In this policy brief UNCTAD outlines its strategy for reconstruction of the Palestinian economy. It argues that this requires not only large amounts of foreign aid, but 'renewed development efforts to link emergency relief interventions with long-term development objectives' (p.1). At the same time it argues that 'the foundations must be laid for Palestinian sovereignty and statehood' (p.1). In order to succeed 'development policies...will have to deviate from economic orthodoxy, favouring growth through investment in higher productivity over trade-led liberalisation' (p.1). It states that aid effectiveness must be improved 'to ensure greater investment in crucial infrastructure and a vibrant private sector', to bring about 'genuine structural transformation of the economy' (p.1).

One year since the end of the Israeli military operation in Gaza, the region remains isolated, with all but the most basic humanitarian goods suspended. 'The result has been an almost total collapse of Gaza's productive sector and the expansion of informal subsistence activities. Gaza's private sector, which once employed over 50% of the labour force, has lost most of its 3,900 registered enterprises, while agriculture's share of employment has plummeted to single-digit levels. More than 80% of the population are now impoverished; 43% are unemployed; and 75% lack food security' (p.2). Poverty is likely to increase unless reconstruction can begin. Indirect losses from the military operations are estimated at around \$4 billion.

The effectiveness of international aid can be increased greatly for three reasons:

- Pledges at donor conferences often turn out to be double pledges: it is difficult to discern which pledges constitute new funds and which are a reiteration of old commitments.
- It is difficult to identify resources committed specifically for Gaza's reconstruction.
- The bulk of commitments are for budget support (64%). This risks prolonging the historic trend of channelling only modest aid (10% or less) to the private sector.

The economic recovery of the oPt is in doubt for three reasons:

- The recovery of the oPt requires a comprehensive development strategy, which targets the structural problems of the economy and in particular its weakened productivity.
- There are concerns about the amount of aid pledged and the speed with which it will be disbursed.

- Any lasting impact will be difficult to maintain with the existing meagre levels of investment in productive capacity development. 'While budget support is obviously vital for enabling the Palestinian Authority (PA) to provide basic services and employment, it is also important that adequate resources are earmarked for investment in infrastructure projects and private sector development' (p.2).

The challenges facing the oPt are not just the result of recent military operations, but 'are rooted in prolonged occupation, protracted conflict and isolation. The combined effect of these factors has been the subjection of the economy, especially Gaza, to conditions reflecting a devastating and recurrent reversal of hard-won development gains' (p.2).

The Policy Brief concludes by advocating a multi-pronged strategy for sustained recovery focusing on the following aspects:

- Revitalizing and expanding the eroded productive capacity, and investing in trade logistics.
- Re-establishing financial and trade links and facilitating trade flows between the oPt, Arab countries and the rest of the world.
- Restoring the severed commercial and production networks between Gaza and the West Bank.
- Empowering Palestinian policymakers with a full range of related economic policy instruments.
- Reconsidering the existing economic and trade regime. Trade policy is just one policy tool, and its impact depends on the extent to which it is synergistically integrated with other policy tools to address the economy's structural weaknesses' (p.2).

Tartir, A., 2008, 'The Role of International Aid in Development: The Case of Palestine 1994-2008', A Dissertation Submitted to the University of Manchester for the Degree of MSc in Development Finance in the Faculty of Humanities (see attached file – Tartir08)

This dissertation assesses the role of international aid in promoting development and economic growth in the oPt. It demonstrates that 'the overall impact of international aid has been limited in promoting economic growth, improving people's living standards, and ending the conflict and achieving peace. Moreover, these aid flows helped in creating structural dependency rather than sustainable development, due to its failure to supplement the scarce local resources to enhance savings and investments, increase productivity levels, and decrease unemployment' (p.10). It argues that 'for aid to be effective, parallel actions should be taken by donors, Israel, and Palestine to change the facts on the ground' (p.10).

4. Humanitarian Aid

Kanafani, N. and S. Al-Botmeh, 2008, 'The Political Economy of Food Aid to Palestine', The Economics of Peace and Security Journal

http://www.epsjournal.org.uk/pdfs/eps_v3n2_Kanafani_Al-Botmeh.pdf

This article examines the deterioration in food security in the West Bank and Gaza since the outbreak of the second *intafada* in 2000. It argues that this insecurity is largely due to lack of access to food caused by the severe restrictions of movement of people and goods by the Israeli army, which take the form of closures, curfews, construction of a separation wall, and land confiscation. Food aid is being used to mitigate some of the worst effects of food insecurity, but the poverty alleviation effects of food aid programmes are limited. Food aid only treats the symptoms of food insecurity and not its roots. 'Prolonged physical restriction on movements, with all that this entails for market fragmentation, severe price distortion, the shortage of imported inputs, and loss of export markets threatens to irreversibly destroy Palestinians' domestic productive capacities. This will make the WBGS's [West Bank and Gaza Strip] dependency on food aid permanent and turn a whole nation, otherwise capable to a great extent of fending for itself, into isolated communities permanently dependent on the charity of others' (p.39). The paper criticises international donors for treating the food crisis as a technical dysfunction. It argues that

what is needed is to allow people to move about and work. Humanitarian aid has saved lives, but it cannot be a sustainable solution to alleviate poverty and foster dignity.

Weber, W., 2009, 'The Dilemmas of Humanitarian Action in the Occupied Palestinian Territories', Macalester International Vol. 23.

<http://digitalcommons.macalester.edu/cgi/viewcontent.cgi?article=1221&context=macintl>

This paper provides an overview of the current closure regime and its impact on the oPt. It assesses the dilemmas of humanitarian aid in the oPt, focusing on the way in which aid can legitimise Israel's occupation. Humanitarian aid can relieve Israel of its obligations to protect and ensure the well-being of the Palestinian population. There is a danger that 'aid helps to sustain the occupation by enabling the continuation of Israel's repressive policies and practices—that aid rebuilds what Israel destroys and that it simply "maintains" levels of poverty that have resulted from current restrictions on mobility and access and other forms of Israeli control' (p.261). There is also a danger that humanitarian aid can legitimise Israel's authority over the Palestinian population and territory.

The paper concludes by suggesting how humanitarian agencies can minimise some of the potential negative effects of humanitarian aid. It argues that 'organizations must insist that Israel fulfil its responsibilities under international law and ensure, as well, that humanitarian aid is provided in compliance with international law. It also contends that all organizations, but especially those organizations that combine humanitarian and political work, must resist the framing of their activities in humanitarian terms' (p.254-5).

5. Aid and Civil Society

GSDRC, 2010, 'Helpdesk Research Report: NGOs in the Palestinian Territories', 20.08.2010.

<http://www.gsdrc.org/docs/open/HD707.pdf>

This report summarises the existing literature on NGOs in the Palestinian Territories. From the small number of evaluations available, there is evidence to suggest that Palestinian NGOs (PNGOs) have been effective in providing services and contributing to a variety of social, rural and private-sector development goals. Although smaller, locally-oriented organisations tended to be more effective at reaching the most marginalised groups and were deemed to be more legitimate in the eyes of their constituencies; their impact was often constrained by poor capacity and governance issues. The sector's impact has been limited by internal competition and coordination issues, which have been partly addressed by the World Bank's support to umbrella bodies and initiatives such as the NGO Code of Conduct.

The rise in foreign aid for NGOs since the 1990s has had a significant impact on the character and orientation of the sector. NGOs have become more pre-occupied with funding and have become increasingly distant both from the communities they purport to serve and political parties. Donor efforts to support civil society have de-politicised and divided the sector. Some authors argue that rather than de-politicising the sector, donor aid has generated a new 'globalised elite', which is politically oriented towards western donors and European forms of social organisation. There is a general consensus in the literature that increased aid to PNGOs has had a number of negative effects including increased internal competition, reduced accountability to communities and an inability to articulate a common strategic vision. The un-coordinated and short-term nature of donor engagement with NGOs has undermined its effectiveness.

Jad, I., 2007, 'NGOs: between buzzwords and social movements', Development In Practice, Vol. 17, No. 4-5. www.informaworld.com/index/780817803.pdf

This article argues that the rise of NGOs in Palestine has demobilised Palestinian civil society. Processes of professionalisation and projectisation which have accompanied donor efforts to promote 'civil society'

have led to a de-politicisation of the women's movement, creating a vacuum which has been increasingly filled by Hamas. The article argues that rather than taking the democratising impact of NGOs for granted, donors should adopt a more critical approach, which takes greater account of the specific contexts and dynamics of institutionalisation.

Challand, B., 2009, 'Palestinian Civil Society: Foreign Donors and the Power to Promote and Exclude', Routledge, New York. (Parts of this book are available at Google Books: <http://bit.ly/cp1K1Z>)

This book provides a comprehensive overview of civil society in Palestine. The author's main argument is that both the discursive performances of NGOs and the demands of NGOs exclude Palestinians from participatory processes and exacerbate the lack of autonomy forced on Palestinians by Israeli occupation. Challand focuses on health-provision and advocacy NGOs. He criticizes donors' focus on projects aimed at supporting the 'peace process', arguing instead that more focus should be placed on meeting local needs and demands. He argues that the professionalization of NGO leadership has not been depoliticizing, but rather has created a distinct kind of homogenous politics. This has created a 'globalised elite', which is more responsive to international donors than to Palestinian constituencies and a Eurocentric hierarchy that privileges certain familiar NGO organizational structures over more indigenous civil society forms.

MAS (Palestine Economic Policy Research Unit), 2007, 'Mapping Palestinian Non-Governmental Organizations in the West Bank and the Gaza Strip' http://www.pal-econ.org/index.php?option=com_docman&task=doc_view&gid=136

This study provides background information on the NGO sector in the Palestinian Territories. It provides details of their numbers, geographical distribution, sectoral allocation and financing. It finds that 1,495 NGOs were working in the West Bank and Gaza Strip in early 2007 – a 61.5% increase on the number in 2000. 68.5% of these were based in the West Bank (with 31.5% operating in the Gaza Strip). 30.3% of these organisations worked in rural areas. The beneficiaries of PNGOs' work increased from about 4.5 million in 2000 to 11 million in 2007. The percentage of PNGOs receiving external funding increased from 38.9% in 2000 to 46.8% in 2007: total income of PNGOs increased from \$112.7 million in 1999 to \$223.6 million in 2006.

The report generates a number of additional findings:

- **Fundraising is the main preoccupation of most NGOs.**
- **Donors and the Israeli occupation are the main sources of restrictions for PNGOs.** A majority (58.6%, compared to 43.5% in 2000) considered donors to be their main source of restrictions. Some directors of NGOs complained openly of donors treating NGOs receiving funds as "employees for the implementation of donors' demands".
- **There has been a decline of the number of NGOs active in East Jerusalem:** The decline in funding to PNGOs in East Jerusalem (especially foreign funding) reflects the process of judaization of the city and the building of the Separation Wall around it, which has increased its isolation from the rest of the West Bank.

6. Aid, Conflict and Peacebuilding

Wake, C., 2008, 'An Unaided Peace? The (unintended) consequences of international aid on the Oslo Peace Process'. Conflict, Security and Development, Vol. 8, No. 1, p.109-131
<http://www.informaworld.com/smpp/section?content=a791806950&fulltext=713240928>

This paper reviews the impact of aid on the inception and the implementation of the Oslo Accords between 1993 and 2000. It finds that aid was successful in facilitating the signing and rolling out of the peace process, but that it was also responsible for a series of unintended consequences which

undermined the short-term objectives of the Accords and prospects for peace in the long run. '[D]onors also declined to make their financial assistance conditional on the performance of the signatories, which allowed signatories to engage in activities detrimental to the legitimacy of the Palestinian Authority (PA) and the peace agreement itself' (p. 109). The paper concludes by reflecting on a number of missed opportunities for aid to support a strategy of conditionality.

International aid was intended to provide a helping hand to the implementation of the Oslo Accords. In practice aid played a number of functions 'to preserve support for the peace process on both sides; to encourage the execution of the Oslo Accords at regular intervals; to prepare the way for Palestinian statehood; and to help build a Palestinian administration that would be an effective partner for peace' (p.110). The paper finds that '[i]nternational assistance was, for example, almost single handedly responsible for providing the start-up costs of the PA and funding the creation of its ministries, communication systems, offices, and so on' (p.112). Other positive outcomes associated with foreign aid included the establishment of a functioning security service in Gaza and the West Bank, which was a crucial step in transforming the PA into a genuine partner for peace.

Despite these positive impacts, aid has arguably undermined the peace process by being used as a tool for patronage, 'intended to consolidate support for the PA and disempower potential political rivals' (p.113). In the short term, this did result in a small degree of political stability, but it also marginalised a large number of Palestinians and fuelled opposition to Arafat's government. In Gaza especially, young men were encouraged to support groups that were opposed to the peace process. Aid led to the stifling of non-Fatah oriented organisations, which 'contributed to a politically authoritarian atmosphere in which smaller factions were no longer able to function as independent political actors. Community associations, NGOs and committees found themselves under pressure to align themselves with the state in order to continue to procure funding, which undermined independence of action and longer-term processes of democratisation at grassroots levels. Consequently, political space in the Palestinian territories became increasingly less pluralistic, causing politics to be divided up into two main camps: Fatah and Hamas' (p.115). 'Donors' preference to channel funds through the PA, along with their tendency to fund more efficient 'mega' NGOs over smaller local organisations, helped create an NGO sector, that in many ways was more accountable to Arafat and to Western donors than to the Palestinians themselves' (p.115). The growing reliance of refugees on UNRWA funded health clinics and on other donors for short-term job opportunities encouraged dependency and did not foster self-reliance or a sustainable base for sustainable economic development.

The paper stresses that aid could not make up for fundamental flaws in the Oslo Accords, and that any failures associated with the aid strategy cannot be divorced from inherent failures in the peace process. It does argue, however, that donors failed to 'use its potential clout to ensure that the implementation of the Oslo Accords was a broadly beneficial and popular process' (p.116). International donors preferred to use carrots rather than sticks to bring about reform. They were unwilling to withhold aid, most notably in response to the PA's failure to curb levels of corruption. The private sector suffered as a result of the PA's deliberate centralisation of the Palestinian economy. The provision of humanitarian aid from international actors served to let Israel off the hook, allowing it to delay progress in the peace process without prompting a humanitarian crisis. Withdrawing aid might have put Israel under heavy pressure to acquiesce in the peace process. The key factor in the failure of the Oslo Accords was its incapacity to preserve popular support for the peace process – the peace dividend associated with the peace process failed to improve living standards or stem rising unemployment. The period up to 2000 also saw declining public confidence in the PA institutions. The paper concludes with several policy recommendations:

- Aid can play a central role in oiling the wheels of a peace process, but donors must tread carefully to avoid adverse effects.
- Aid can and should be used to help conflict affected states to develop functioning infrastructures and bureaucracies, and to stimulate the economy through the creation of jobs.
- Aid should not be used as a tool for patronage.
- Aid should not be used as part of a divide and rule strategy to undermine political opponents of the signatories.

- Aid conditionality should be used as a tool to help implement a peace agreement that is conducive to a popular peace on the ground.
- Ultimately, aid cannot be separated from the peace process it is supporting.

Stotsky, S., 2008, 'Does Foreign Aid Fuel Palestinian Violence?', Middle East Quarterly, Summer 2008, pp. 23-30

<http://www.meforum.org/1926/does-foreign-aid-fuel-palestinian-violence>

This paper argues that there is a distinct correlation between foreign aid and violence in the oPt. 'Perhaps aid itself does not cause violence, but there is strong evidence that it contributes to a culture of corruption, government malfeasance, and terrorism that has had lethal consequences for both Israelis and Palestinians over the past decade' (no page number). The report states that in 2005, aid per capita was \$304, second only to the Democratic Republic of Congo. Between 1999 and 2001 there was a dramatic rise in foreign aid to Palestine and a rapid expansion of assistance to the PA: in 1999 no aid went directly to the PA, in 2001 aid made up 56% of its budget, with less than 20% going to development programmes. In 2007, it was estimated that 70% of donor commitments made at the Paris aid conference would go to paying the wages and pensions of Palestinian employees. The payroll of the PA has grown from 98,500 in 1999 to 168,319 in 2007. The report provides evidence that Palestinian security forces have colluded with terrorist groups.

7. Current Donor Activities

This section provides details of the main activities of multi-lateral and bi-lateral donors, with a particular focus on those organisations who have committed the largest amount of resources in recent years.

UN Agencies

UNRWA

UNRWA (the United Nations Relief and Works Agency for Palestine Refugees in the Near East) provides assistance, protection and advocacy for 4.7 million registered Palestine refugees in Jordan, Lebanon, Syria and the oPt. It is the main provider of basic services including education, health and relief to these people. In 2010-11, its budget was \$1.23 billion. Its main donors are the US, the EC, the UK, Norway and Sweden. In 2009 it reached only 86% of its funding target. It works in six areas:

- Emergency Programmes in Gaza, the West Bank and Lebanon
- Infrastructure and Camp Improvement (improving conditions, ensuring community involvement)
- Microfinance (credit and financial services to small businesses and entrepreneurs)
- Relief and Social Services (providing food and cash subsidies, emergency relief, providing education programmes for refugee children, women's programmes)
- Health (providing health centres and dental clinics, employing health and dental workers)
- Education (activities include human rights promotion, teacher training, university scholarships, vocational training centres)

For more details see the UNRWA website: <http://www.unrwa.org/index.php>

UNDP

The UNDP Programme of Assistance to the Palestinian People (PAPP) is different from UNDP operations in other countries: it only receives a small amount of core funding and relies on direct support from international donors for the rest. Its largest donors include IDA, Japan and Germany. UNDP/PAPP focuses on areas vital to Palestinian well-being and social and economic development, such as water,

health and education facilities, social services, infrastructure and road building and rehabilitation, agriculture and rural development. Many of these activities are developed from a participatory community-based prioritization of local needs. UNDP is engaged in over 100 projects in oPt.

Early Recovery

UNDP helped to provide cash assistance to those affected by the Israeli military incursions in 2008 and 2009 and to remove rubble. The UNDP's early recovery work also involved providing work, psychosocial support, rehabilitating the electricity network and supporting agriculture and fishing. Around 20,000 Gazans are receiving training from civil society organisations organizations as part of UNDP's Rapid Support to Livelihoods and Social Services and Advanced Planning for Early Recovery Project. In another project, UNDP has supported farmers by providing 6,060 food baskets, cultivating 400 dunams of land and rehabilitating and providing seedlings for 220 dunams of greenhouses as well as providing training for 1,000 farmers.

Poverty Reduction

UNDP's poverty reduction work focuses on creating job opportunities and promoting entrepreneurship. It also involves influencing policy and the kinds of services available to poor people. It has worked to build the capacity of micro-finance institutions. One of the most important projects in this area is the Deprived Families Economic Empowerment Programme which has targeted 3,500 families with the aim of helping them graduate from poverty. In agriculture, UNDP assists farmers to improve their livelihoods by fighting disease such as Brucellosis, improving irrigation to safeguard water resources and reduce costs, and improve the value of crops focusing on crops which are better suited to the environment or have a higher market value. In recent years, UNDP has worked in 260 out of the Palestinian territory's 400 villages, planting 1.8 million trees, creating 210,000 short term job opportunities and developing 33,000 dunams.

Environment

The UNDP works to give Palestinians as much control over natural resources as possible in spite of complications caused by the occupation. UNDP has also contributed to improving the lives of around 500,000 residents of the West Bank by providing rubbish collection disposal equipment. Work is currently underway to upgrade Hebron's water network which will increase the amount of water available to residents to more than 100 litres per day and reduce the price.

Governance

UNDP's work in governance is guided by the principle that 'good governance and the rule of law at the national and international levels are essential for sustained economic growth, sustainable development and human development'. UNDP provides support to all three branches of Palestinian government; executive, judicial and legislative as well as local government and civil society. UNDP is working to develop the capacities of the Prime Minister's Office, the Ministry of Justice, the Ministry of Labour, and several other ministries as well and has created a leadership training programme for senior civil servants. The Support to Local Property Tax Reform project has examined ways to modernise property taxation to increase revenue for local government to help them provide better services for their constituents.

For more information see UNDP/PAPP website (<http://www.undp.ps/en/index.html>) and UNDP/PAPP, 2010, 'Annual Report 2009-10'. Available from <http://www.undp.ps/en/newsroom/publications/pdf/other/annual09.pdf>

UNICEF

UNICEF concentrates most of its efforts on contributing to alleviating the direct consequences of violence, maintaining basic services for Palestinian children, mainly basic health services, immunization, education and recreational activities as a response to the children's psycho-social distress.

UNICEF works with the Palestinian Authority and a broad range of partners to protect children and women from the impact of violence, and to prevent further deterioration in their conditions and well-being. UNICEF's programmes target the most vulnerable children and women, focusing on health and nutrition, water and sanitation, education, protection and participation. UNICEF works to strengthen institutional capacity for delivering on the goals and principles enshrined in the Convention on the Rights of the Child, the World Fit for Children Declaration and the Millennium Development Goals through support for policy development, monitoring and advocacy.

For more information see UNICEF's country website: <http://www.unicef.org/oPt/overview.html>

World Food Programme (WFP)

The WFP meets the consumption needs of the poorest people, creates lasting assets through support to an agricultural food-for-work project and enables people to participate in training activities. In the Gaza Strip, WFP launched in January 2009 a one-year emergency operation in order to meet the immediate needs of 365,000 conflict-affected people and to improve the food consumption of families in need through the following activities:

- Food assistance to destitute families, including institutional feeding;
- Food assistance to vulnerable groups, in support of the most food-insecure households;
- School feeding;
- Urban voucher project.

A 3-year relief and recovery operation, in its last year in 2010, provides food assistance to 413,000 of the most vulnerable non-refugee population in the West Bank. Current WFP activities include:

- Food assistance to destitute families
- Food assistance to vulnerable groups
- School feeding
- Food-for-work / food-for-training

To respond to the impact of the global high food price crisis, WFP launched a food voucher emergency operation in April 2009 for some 30,000 beneficiaries in urban areas of the West Bank. Food vouchers allow WFP to address hunger when food is available but people are unable to afford it. This scheme also injects money into the local economy and support local producers.

For more information see WFP Country website: <http://www.wfp.org/countries/occupied-palestinian-territory>

UNSCO

The United Nations Special Coordination (UNSCO) coordinates the work of the UN system in support of the peace process to ensure an adequate response to the needs of the Palestinian people, to the priorities of the PA, and to mobilise financial, technical, economic and other assistance.

For more information see: <http://www.unsco.org/about.asp>

World Bank

The World Bank works to support the Palestinian Government's 'Palestinian Reform and Development Plan' (PRDP) for 2008-10. It seeks to bring the PA back to financial sustainability and to link policy-making, planning and budgeting to deliver a Palestinian-owned plan for allocating financial resources. The Bank's portfolio consists of 14 projects designed to tackle both immediate service delivery and medium-term reforms:

- Social Safety Net Reform Project
- North Gaza Emergency Sewage Treatment Project
- Tertiary Education Project
- Teacher Education Improvement Project
- Gaza II Emergency Water Project
- Second Emergency Municipal Services and Rehabilitation Project
- Third Palestinian NGO Project
- Fourth Palestinian NGO Project
- Emergency Services Support Program III
- Village and Neighbourhood Development Project
- Electric Utility Management Project
- Southern West Bank Solid Waste Management
- Municipal Development Program
- Economic/Regulatory Institutions Building Project.

The Bank's agenda is focused on the following sectors:

- Education (4.9%)
- Energy (5%)
- Finance and private sector (3.2%)
- Health (1.3%),
- Public sector governance (25%)
- Social protection (20%)
- Transport (1.7%)
- Urban development (28.4%)
- Water and sanitation (10.5%)

A Third Development Policy Grant in the amount of \$40 million was approved by the Board of Executive Directors on September 16, 2010. Project implementation is largely on schedule although 50% of the portfolio (implemented in Gaza) is facing logistical constraints due to restrictions on flows of material into Gaza.

The Bank has a strong advisory and analytical program. Recent analytical work has focused on water resources management, the health sector, gender and social inclusion, trade facilitation, municipal finance, transportation, the financial sector, and governance and anticorruption. Additional advisory work is tackling poverty and inclusion, sources of growth, the NGO sector, the higher education student loan system, and the energy sector.

For more information see West Bank & Gaza Country Brief (Available from <http://bit.ly/de4bwc>).

World Bank, 2008, 'Interim Strategy For West Bank and Gaza For The Period FY08-FY10 And The Request For Replenishment Of The Trust Fund For Gaza And West Bank', March 25, 2008.

<http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WBGStrategyFY08-FY10.pdf>

This document outlines the World Bank's strategy for engagement in the oPt between 2008 and 2010. It describes how the World Bank will support the priorities of the PRDP. The World Bank's efforts are being conducted in a context where poverty is increasing. Unemployment is up 23% in the oPt, up from 10% at the time of the second *intafada* in 2000. The PRDP has the following key aims:

- 'Stabilize the fiscal situation of the PA by containing recurrent spending and, as the economy improves, shifting resources towards development spending'.
- 'Controlling the largest spending categories, including the public sector wage bill and net lending'.

- 'The development agenda contains priority investments in governance, social, economic and private sector, and infrastructure development worth \$1.644 billion over three years. The development budget increases progressively over this three year period (from \$427 million in 2008 to \$667 in 2010), reflecting pragmatic assumptions by the PA of its own absorptive capacity and expected progress of the recurrent budget containment program'.

The Bank's overarching goal is to support the PRDP and to bring about Palestine's economic recovery. Its work is organised into four pillars to support the PA's efforts:

- Improve governance and support fiscal reform.
- Support human development in health, education and social safety nets.
- Support economic and private sector development.
- Support public infrastructure development.

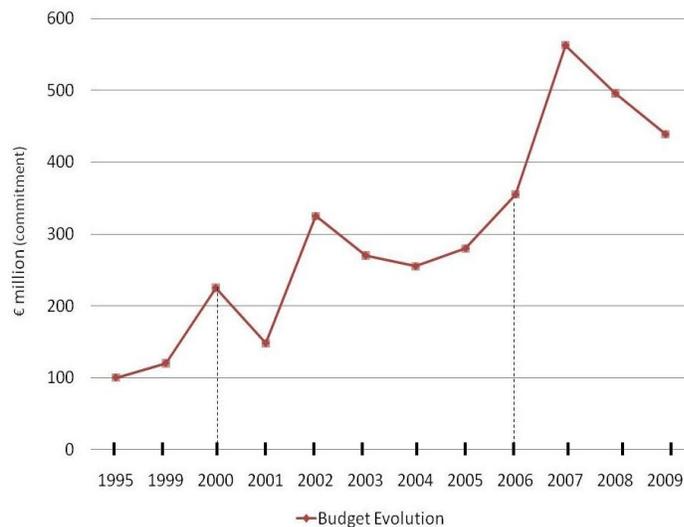
The Bank emphasises policy reform and institutional development in all four areas, using analytical and advisory work and resources from the Trust Fund for Gaza and the West Bank (TFGWB), Multi-Lateral Investment Guarantee Agency (MIGA) and the International Financial Corporation (IFC).

The following table summarises some of the Bank's key activities:

Overarching Objective: Palestinian Economic Recovery			
Economic & Private Sector Development	Governance/Fiscal Reforms	Social Development	Infrastructure
<p>Projects</p> <ul style="list-style-type: none"> • Several IFC investments in the private sector under consideration • Joint Financing and Support with DfID on Enterprise Learning Fund • MIGA Guarantee Restructuring 	<p>Projects</p> <ul style="list-style-type: none"> • Multi Donor Trust Fund for Budget Support (PRDP-TF) • Budget Support for Economic Recovery (PRDP-DPG) • Land Administration II Project 	<p>Projects</p> <ul style="list-style-type: none"> • Village and Neighborhood Development Project • Social Safety Net Reform Project (Additional Financing) • Emergency Service Support Program 	<p>Projects</p> <ul style="list-style-type: none"> • North Gaza Sewage Treatment Project (Additional Financing) • Electric Utility Management Project • Gaza Water II Emergency Project (Additional Financing) • Southern West Bank Solid Waste Management Project
<p>Policy and Technical Assistance</p> <ul style="list-style-type: none"> • Trade Facilitation • Movement & Access • Secondment/Support to the Blair Team • Housing TA • Advisory services to PIF 	<p>Policy and Technical Assistance</p> <ul style="list-style-type: none"> • Economic Monitoring • Electricity Net Lending • Pension Reform TA • Payment Systems TA • Public Sector Mgmt • Country Procurement Assessment follow-up • Financial Sector Review 	<p>Policy and Technical Assistance</p> <ul style="list-style-type: none"> • Social Inclusion and Gender • Health Financing, Pharmaceutical Reform and Equity Studies • Student Revolving Fund TA 	<p>Policy and Technical Assistance</p> <ul style="list-style-type: none"> • Transport Sector TA • Water Resource Management TA

EU

Between 1994 and 2002, the EU committed around €1 billion in grants and loans, and a further €500 million in contributions to UNRWA. Bilateral EU member state assistance is estimated to amount to €2.5 billion over the same period (Al-Fattal 2010a). Based on Official Development Assistance figures, from 2000-2007, the EC allocated €2.4 billion to the Palestinians. During the period 2000-2004 the average annual EC support amounted to €245 million (Al-Fattal 2010a).



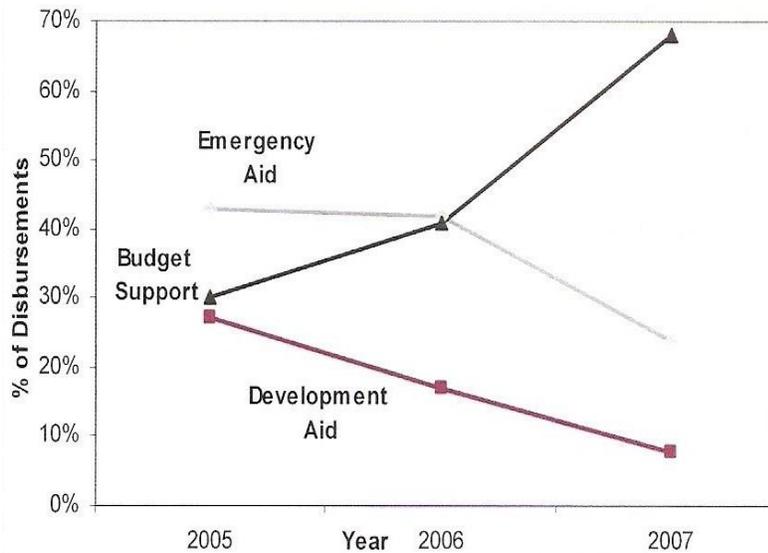
EC Budget Commitment to the oPt (Source: Al-Fattal (2010))

In 2006 and 2007, most EC assistance was channelled through the Temporary International Mechanism (TIM) for direct assistance to the Palestinian people. On February 1 2008, the EC launched a new mechanism, PEGASE (Mécánisme Palestino-Européen de Gestion de l'Aide Socio-Economique), which channels assistance in support of the reform and development priorities of the Palestinian Authority. This includes funding for the recurrent expenditures of the PA as well as for investment programmes, reflecting a desire to shift from emergency support to longer-term priorities.

PEGASE seeks to support a broad array of activities in the four priority sectors of the PRDP:

- **Governance:** fiscal reform, rule of law, justice, accountability, security
- **Social Development:** social protection, health, education (including vocational education and training), employment schemes and the provision of basic supplies such as fuel
- **Economic and Private Sector Development:** trade facilitation, small and medium enterprises guarantee and financing, and business centres
- **Public Infrastructure Development** in areas such as water, environment or energy

The graph below highlights the shift in emphasis from development and emergency aid to more long-term budget support:



(Source Al-Fattal 2010).

Sources:

Al-Fattal, R., 2010, European Union Foreign Policy In the Occupied Palestinian Territory. Jerusalem: PASSIA, 2010 (not available online)

U.S.

The U.S. government has provided \$3.9 billion in bilateral economic assistance to the Palestinians, of which 2.3 billion has been provided since 2004 (Sharp 2010). The US is unable to provide direct funding to the PA, because of the proscription of Hamas in the US.

Since 1994, \$2.9 billion of this funding has been channelled through USAID. It has committed most funding to water resources and infrastructure and economic growth activities. Democracy and Governance programmes constitute a small part of total US funding, but the proportion of funding they receive is increasing (Al Fattal 2010). In a recent speech, Secretary of State Clinton reiterated the US's commitment to promoting sustainable economic growth in the Palestinian territories 'by increasing foreign investment, not just more aid, making it easier for people and goods to move in and out of the territories'. She stated that the US had sponsored an investment conference in Bethlehem that generated \$655 million in pledges targeted at high-growth sectors.⁵ U.S funding is currently supporting programmes in the following areas:

Water resources and infrastructure (\$1 billion committed since 1994)

Activities in this area include:

- **Infrastructure Needs Program (INP)** which aims to construct and rehabilitate critical infrastructure which promotes economic growth and improves the quality of life for Palestinians in the West Bank.
- **Emergency Jobs Program (EJP)** which provides targeted, skilled and unskilled emergency employment opportunities to Palestinian workers throughout the West Bank.
- **Emergency Water and Sanitation and Other Infrastructure Program (EWASII)** is designed to provide rapid response and emergency relief primarily in the water and sanitation sectors, and in other sectors as needed, to the Palestinian people.

⁵ <http://www.state.gov/secretary/rm/2010/10/149766.htm>

Economic growth (\$325 million committed since 1994)

- **Trade Facilitation Project (TFP)** which aims to stimulate trade in the West Bank and Gaza and facilitate cargo movement through crossing points by supporting facility and equipment upgrades on the Palestinian side of selected crossing points.
- **Enterprise Development And Investment Promotion (EDIP)** which provides support to industries and associations that promote state-of-the-art technology, improvements in product quality, and market opportunities for Palestinian products throughout the world. Focus sectors include agriculture/agribusiness; information technology (IT); stone and marble; and tourism.
- **Expanded And Sustained Access To Financial Services (ESAF)** which aims to improve access to financial services for Palestinian households and micro, small, and medium enterprises.
- **Modernizing Financial Institutions (MFI)** which provides technical assistance and capacity building to the Palestinian Monetary Authority (PMA) and other financial institutions in anti-money laundering and combating other financial crimes.
- **Palestinian Integrated Trade Arrangement (PITA)** which provides both technical assistance and security technology to address supply-chain management and movement issues through critical trade corridors of the West Bank.

Health and Humanitarian Assistance (\$262 million committed since 1994)

USAID provides cash support to the World Food Programme. Most humanitarian assistance to Gaza is implemented by UNRWA and NGOs. USAID also runs the **A2Z Micronutrient Project**, which addresses micronutrient deficiencies and improves the nutritional status of the Palestinian population by promoting fortification of wheat flour and other food products. It runs the **Flagship Project** which seeks to strengthen the capacity of the Palestinian Ministry of Health and the **Holy Family Hospital Project** which supports a Bethlehem hospital as a centre of excellence in maternal and baby care.

Youth and Education (\$131 million committed since 1994)

Activities in this area include:

- **Palestinian Youth Empowerment Programme (RUWAAD)** which builds the leadership capabilities of Palestinian youth by engaging them in four types of community service learning
- The **Model Schools Network** (an institutional capacity building initiative focused on improving the quality of basic education (grades 1-9) in Palestine;
- **Technical and Vocational Education & Training (TVET) Program** (which seeks to improve non-governmental technical and vocational education and training in the West Bank
- **Palestinian Faculty Development Program** (which aims to increase the capacity of higher education faculty in the West Bank and Gaza by addressing the long-term issues of reform in teaching and learning practices)
- **Shara'a Simsim Project (Sesame Street)** (which builds local capacity to provide quality educational television and radio programming).

Democracy and Governance (budget for 2009 is \$70 million)

Work in this area pursues the following goals:

- Selected Palestinian Authority (PA) institutions delivering high quality services to the public on a sustainable basis
- Enhanced linkages between the PA, local governments and democratic civil society
- Promote peace and mutual understanding by building ties between Israelis and Palestinians through people-to-people projects

Programmes in this area include:

- **Palestinian Authority Capacity Enhancement (PACE)** – This program aims to strengthen the institutional capacity of targeted PA ministries and institutions in the delivery of key services to their constituents.
- **Rule of Law (Netham)** – Netham mainly works with the Ministry of Justice and High Judicial Council to provide for the rule of law, thereby increasing public confidence in the justice sector.
- **Local Democratic Reform (LDR)** – The LDR Program works with the Ministry of Local Government to improve service provision among partner municipalities and to build participation in government at the local level.
- **Civic Engagement Program (CEP)** – Through dozens of community-focused grants, the program aims to improve the quality of life for Palestinians and to increase confidence in the peace process.
- **Palestinian Independent Media Development (Aswatona)** – Aswatona's raises citizen awareness of and involvement in community issues by supporting independent local television and radio stations.
- **Palestinian Electoral Assistance Program (PEAP)** – Through PEAP, USAID strengthens the Central Elections Commission's ability to carry out free and fair elections.
- **Peace and Reconciliation Program** – Through several small grant programs, USAID brings together individuals of different ethnic, religious, or political backgrounds to address the causes of tension and instability.

For more information see USAID's West Bank/Gaza website: <http://www.usaid.gov/wbg/home.html>

Sources:

Al-Fattal, R., 2010. "Instrumentalising Democracy in Foreign Policy: A Comparison of EU, US and Canada Democracy Promotion Policies in the Palestinian Territories". PhD Thesis, University of Leuven, 2010 (not available online).

Norway

Norway became the first country to resume direct funding to the Hamas-led coalition in 2007. In a 2008 annual report it stated that its development cooperation aimed 'to promote state building as part of a peace process leading to a two-state solution'. In 2007, it provided around \$100 million in the areas of economic development and trade (c. \$38 million), good governance (c. \$27 million) and emergency relief (c. \$25 million). It also provided more limited support to health, education and other social sectors and to environment and energy projects. Its governance assistance was mainly focused on the Economic Affairs Department and the Ministry of Planning. Total funding grew to around \$137 million in 2008.

For more information see:

<http://www.norad.no/en/Tools+and+publications/Publications/Publication+Page?key=119241>

See also:

NORAD, 2009, 'Review of Norwegian Support to Palestine through NGOs' (Available from <http://www.norad.no/en/Tools+and+publications/Publications/Publication+Page?key=125125>)

Germany

In 2009, the German government committed 47 million euros to the oPt. This formed part of Germany's 200 million euro commitment to the PRDP between 2008 and 2010. Because of the political instability, Germany has placed increasing focus on supporting programmes that can be rapidly implemented to create jobs and develop the social infrastructure.

Germany focuses on three priority areas:

Water supply and sanitation, solid waste management

'German support aims to improve the population's drinking water supply and, at the same time, to conserve resources by improving plant efficiency. Germany is advising the Palestinian territories on water management and is supporting the repair and construction of the water supply network and treatment plants... With the German contribution, capacities for wastewater collection and treatment in Gaza and the West Bank will be expanded substantially by 2015. Around 1.2 million people will benefit from these measures, which also make an important contribution to protecting coastal waters, rivers and groundwater resources'.

Sustainable economic development and employment promotion

'In order to achieve lasting improvements in living conditions for the population, Germany and its Palestinian partners have initiated comprehensive job creation schemes. One of the programmes, for example, aims to construct and modernise more than 100 schools for around 80,000 students. All the building contracts are awarded locally, so that small and medium-sized Palestinian companies benefit, creating more than 5,000 temporary jobs. At the same time, a better learning environment is created for children and young people. A programme to promote vocational training aims to ensure that young people from all sections of society benefit from better access to qualified training. As a result of the German contribution, education and training provision in the Palestinian territories will be expanded substantially by 2015. Around 1.1 million students and some 30,000 teachers will directly benefit from this'.

Institution building and strengthening civil society (governance)

'German support is provided mainly at municipal level. Advisory services are being provided to municipalities on issues of financial administration, municipal service delivery and citizen participation.

Non-governmental organisations are also receiving support with a view to strengthening civil society in the Palestinian territories. Furthermore, a Municipal Development and Lending Fund (MDLF) has been established as the main financing mechanism for municipalities and local entities, making it possible to deliver policy and reform advisory services to key Palestinian institutions.

For more information see Federal Ministry for Economic Cooperation and Development Palestinian Territories: <http://bit.ly/9GTLoz>

GTZ Palestinian Territories: <http://www.gtz.de/en/weltweit/maghreb-naher-osten/679.htm>

United Kingdom

The UK provided £41.3 million to the oPt in 2008/9. Most of this was allocated to governance programmes (67%), followed by humanitarian assistance (30%) and Growth programmes (2%). The UK supports the World Bank's Medium Term Development Fund and has contributed to recent UNRWA humanitarian appeals. The two largest recent projects are the **Governance Support Facility** (2007-10, budget £5.3 million), which aimed 'to provide effective and accountable governance and service delivery

for Palestinian citizens' and the **Palestinian Affordable Housing Project** (2010-15, budget £14 million). The Governance Support Facility 'provides technical and financial assistance to strengthen the capacity of the Palestinian Authority (PA) to deliver its reform and development programmes more effectively. It engages with a broad range of PA institutions, particularly the Ministries of Planning and Finance and the Prime Minister's Office. The facility is shaped around three work streams: institutionalisation of the Palestinian Reform and Development Plan (PRDP) and performance measurement framework; organisational restructuring of the public sector; and strengthening of reform management institutions'.⁶

More information about DFID-funded projects in oPt is available here:

<http://projects.dfid.gov.uk/Default.aspx?countrySelect=WB-West%20Bank%20and%20Gaza>

8. Additional information

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Experts consulted

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Rex Brynen, McGill University
Victoria Bruce, Donor Relations Consultant, OCHA
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Selected websites visited

Birzeit University – Centre for Development Studies, BMZ, CIDSE, DFID, Economics of Peace and Security Journal, FAS, FAO, Financial Times, Google, Google Scholar, GSDRC, GTZ, International Crisis Group, ILO, Informaworld, JSTOR, LACS – Local Development Forum, Macalaster University, MAS, Ministry of Planning and Administrative Development, NORAD, Norwegian Embassy in oPt, OECD-DAC, ReliefWeb, Routledge, UNCTAD, UNDP, UNESCWA, UNICEF, UNOCHA, UNRWA, UNSCO, USAID, WFP, WHO, World Bank

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⁶ DFID Practice Paper, March 2010: <http://www.gsdrc.org/docs/open/CON81.pdf>.