Realities of Aid Practices in the Palestinian Territories and Suggested Strategies for Future Interventions

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Introduction

The signing of the Oslo Accord[1] in 1993 between the Palestinian Liberation Organisation (PLO) and the Israeli government brought hope of ending a conflict that has lasted for decades and of creating a sovereign Palestinian state. Out of a commitment to advance the peace process and provide financial and technical support for the newly established Palestinian National Authority (PNA), the donor countries held a conference in October of the same year to adopt a strategy for providing assistance that would create a viable Palestinian economy and institutions. The European Union, Japan, and the United States topped the list of 42 donor countries and institutions in terms of their pledged assistance contributions.[2]

Fourteen years later, the Palestinian economy is on the edge of collapse. An overview of the socio-economic conditions in the Palestinian Territories suggests that international donors' assistance has failed to achieve its promise to create a viable Palestinian economy. In 2004, and following the disbursement of nearly $6.5 billion in aid to the West Bank and Gaza Strip over the post-Oslo period – which is considered among the highest levels of aid per capita official development assistance in the world – it was found that nearly 70% of Palestinians living in areas to which aid was directed survive on less than $2 per day (Nakleh 2004:195). Approaching the end of 2007, statistics indicate that more than two million Palestinians – out of a total population of 3.7 million living in the West Bank and Gaza Strip – live in poverty. Half of them are reported to be living in extreme poverty (UNDP 2007). Moreover, this international aid has had no major impact on pushing forward the peace agenda and it has failed to sustain the economic recovery process and reduce the impact of political shocks and instability on the livelihoods of Palestinians.

Given the existing political and diplomatic climate in the Palestinian Territories and the ongoing attempts of the international community and the Quartet (the European Union, Russia, the United States and the United Nations) to resolve the conflict, a comprehensive review should be conducted to study the impact of aid intervention since the signing of the Oslo Accord in order to avoid similar disappointing socio-economic and political outcomes. This briefing discusses post-Oslo aid practices and related impacts on the Palestinian people, and the terms and conditions under which the assistance was distributed, and makes recommendations for future aid in support of recovery. It is argued that donors have not paid sufficient attention to private sector empowerment and development – a critical component of peaceful recovery in the Palestinian Territories.

Aid in the Palestinian Context

Criticism of the post-Oslo practices has focused mainly on the nature, timing, and distribution mechanisms of donors' assistance and questioned whether they were achieving the desired goals and outcomes in the face of the changing

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political and economic realities in the Palestinian Territories. Despite their awareness of this criticism, the donors continued to make technical and financial contributions to the Palestinian Authority with no evidence of having adopted new approaches that took these changing realities into account (Reigeluth 2005).

A major challenge for many developing countries receiving donor assistance is that the assistance often comes with preconditions and is attached to goals that serve donors' agendas – which may in fact conflict with the national agenda and interests of the recipient country. In order to secure and continue receiving the assistance, many developing countries find themselves obliged to reconsider approaches towards achieving their national agendas and to satisfy donors' conditions. This may affect the desirable outcomes of development assistance for both sides, but especially the recipients (Bryant & White 1982). It should be recognised that the aid process in Palestine is highly political. Fundamentally, the political agenda of each donor is markedly reflected in the timing and nature of the aid. This conditional aid is also strongly linked to progress in the peace process, and in many cases it has been used to achieve specific political goals instead of dealing with the real problems on the ground such as increasing unemployment, restrictions on movement, and downscaling of productive activities (Nakhleh 2004:187).

During the post-Oslo period, the reconstruction and economic rehabilitation processes took place under terms and conditions that were clearly and positively related to progress in the peace process. There were, however, no guarantees that the economic recovery achieved in a climate of peace would be sustained if the political process reached a deadlock. The cycles of violence since 1993 have derailed the negotiations between Israelis and Palestinians and the economic revival process was consistently undermined by Israeli security measures that were counterproductive to the economic environment on the ground. In spite of these circumstances, donors have continued to inject funds in support of some goals that have not addressed the ongoing changes in the conflict situation. For instance, following the eruption of the second *intifada*, or 'uprising', in September 2000, the Palestinian Territories received nearly $3 billion in international aid. The bulk went for emergency relief and job creation projects in an attempt to halt poverty and reduce severe unemployment which had occurred as a result of Israel's collective punishment policies against the Palestinian population. These policies took the form, among others, of curfews, closures, and denying work permits to Palestinian labour in Israeli markets. Some funding went on infrastructure reconstruction such as roads and hospitals. Some of these projects had been destroyed in Israeli military operations and are still a favourite target of Israeli military incursions. However, such actions did not discourage donors from either providing assistance or at least adapting new strategies for interventions; instead international assistance continued in unprecedented rates in spite of the fact that some of it might be wasted (Reigeluth 2005).

Under the Oslo Accord, the Palestinian economy had to perform in a situation in which Israel maintained the fundamentals of occupation. Israel kept its control over productive resources like land and water, movement of labour and capital flows. Its policy of unilaterally closing internal borders (between the West Bank and Gaza Strip) and external borders (with Egypt, Jordan, and the outside world) has served to paralyse the Palestinian economy and significantly reduce its productivity (Roy 2001). Palestinian policy makers found the terms of the peace agreement highly restrictive. The accord was implemented in a risky and fragile negotiation environ-ment in which the Israeli government used policies such as borders closures, restrictions of internal and external trade flows, and systematic destruction of basic infrastructure to put pressure on the Palestinians.

The post-Oslo environment is characterised by structural and physical constraints on the ground and a lack of pragmatic approaches in implementing development interventions. The main goals of the aid – primarily to create a viable Palestinian economy and build healthy institutions – have not been achieved. Instead, donors have found themselves financing relief and short-term employment creation programmes in addition to budgetary expenditure as the peace process continues to deteriorate.

Gisha, an Israeli legal centre promoting freedom of movement, notes:

> … 75% of Gaza's factories have shut down because of the closure of the borders. The rest of the factories are operating on a limited basis, on borrowed time, until the stocks of raw materials are exhausted … 85% of Gaza residents are already dependent on food aid … Approximately 30,000 factory workers stand to lose their jobs … factory employees constitute 10% of those working in Gaza, and on average, each worker supports a family of seven. In Gaza, unemployment stands at 35% …[3]

Bahour and Joudeh state that the processes of supporting and developing local capacities in the private and public sectors of the Palestinian economy are no longer treated as priorities, although such capacities have proved to be capable of absorbing economic and political shocks in the harsh economic and political climate. They argue that the viability of a future Palestinian state must come within the context of a sustainable private sector

> … one that can create sustainable job opportunities, develop competitive products and services for the local market first, and an export market as well. The Palestinian private sector must be able to absorb Palestinian university graduates and by establishing a knowledge-based thrust in [the] economy while also absorbing the tens of thousands of construction workers that Israel abruptly pushed into unemployment after forcing them to be linked to the Israeli economy for decades (Bahour & Joudeh 2007).

The Palestinian Private Sector: Role and Challenges

Engaging the private sector in the reconstruction process in countries where interstate and civil wars have occurred is extremely important. Employment and economic opportunities can play a critical role in fostering and sustaining fragile peace arrangements through private sector involvement. Creating arrangements and partnerships among international organisations like the World Bank and the United Nations, and the private sectors in these countries, is also crucial as such arrangements and efforts will serve peace arrangements and resolve conflicts by creating economic opportunities in conflict regions (Gerson 2000). The major peace process partners in the Middle East have acknowledged the importance of creating a viable Palestinian private sector to meet the emerging employment needs for the Palestinian economy. Both the United Nations Security Council and the Quartet have endorsed the establishment of the sector as a part of creating a functioning Palestinian economy (European Commission 2007).

The share of the private sector in the Palestinian GDP, estimated at 15.7% in 2004, declined from 21.3% in 1995 and 16.1% in 1999. The private sector provides 12.7% of the total employment in the West Bank and Gaza Strip, employing 257,581 workers of which 39,689 are women, and supplies the bulk of Palestinian produce for local and export markets (PASSIA 2006:305). Most of the private sector firms are engaged in labour-intensive and low-productivity enterprises which involve an increasing number of self-employed and unpaid family members. Despite the commitment of donors to private sector development, current economic indicators prove that empowering the private sector has not been prioritised, with the result that it has lost opportunities to stabilise the Palestinian economy in cooperation with Israeli and foreign markets. Two major interlinked obstacles have contributed to such outcomes:

A lack of donor financing: The support mechanisms failed to initiate economic growth that is based on the utilisation the private sector capacities. Out of the total donors' commitment to the PA, only about 2% was allocated to private sector development according to Palestinian Ministry of planning records in 2007.

Regulatory environment and structural constraints: One of the major obstacles to the development of a viable private sector is the nature of the economic agreements signed with Israel. In 1994, the PA and Israel signed the Paris economic protocol. In essence, the protocol was intended to open opportunities for Palestinian businesses to integrate with local, Israeli and foreign markets via Israel. In reality, however, the protocol created disastrous outcomes for Palestinian businesses in times of tensions and popular uprisings. Many of the protocol's provisions were not implemented due to the failure of negotiations and Israeli security measures. Palestinian businesses therefore had to perform in a multifaceted environment of uncertainty, extra costs and high risk of bankruptcy (World Bank 2006). Donors have made some efforts to improve the Palestinian business environment, but these measures have been cosmetic and limited to training and capacity building for local private institutions. It failed to change the complicated nature of the constraints on economic activities.

In the Palestinian context, donor assistance has been crucial to building governing and local institutions, rehabilitating a devastated basic infrastructure inherited from the prolonged Israeli occupation, and to providing job opportunities for thousands of Palestinians who work in public institutions and NGOs. It is also crucial in providing education, health, and social services to around 4.1 million Palestinian refugees living in the West Bank and Gaza Strip and neighbouring countries. Far from creating a viable private sector that could cope with the outcomes of the political conditions, donor assistance in post-Oslo era has instead contributed to the creation of a Palestinian economy highly dependent on foreign financing, with little potential to accommodate foreign budget cuts or political setbacks. In essence, the donors have helped to reinforce a counterproductive economic and business environment that has been created by Israeli military occupation of Palestinian land. They have failed to exploit their aid as a tool to pressure Israel into removing the physical and structural constraints which have held back the development of the Palestinian private and productive sectors.

Conclusions and Policy Recommendations

In the Palestinian-Israeli context, the establishment of a viable Palestinian business environment that is based on private and productive sector development will help to create economic opportunities, establishing an economic partnership that is built on mutual interests, and fostering economic cooperation through export/import activities with Israel and regional countries in the Arab world. Such arrangements are crucial in building a climate of trust and cooperation in support of peace interventions.

The present stand-off between Israel and Palestine indicates that the conflict will continue, at least in the short-run. This implies that any peace interventions must consider the potential impacts associated with their advocated and supported development agendas. Future development interventions should not repeat the mistakes made after the Oslo Accord.

Instead, peace and development interventions should:

- Eliminate regulatory obstacles and physical constraints that stand against developing a viable trade and business environment. This includes granting free movement for people and goods, developing a regulatory environment to encourage and protect private investments in the Palestinian territories, and creating a new legal framework in which donors can play a significant role to preserve their peace investments and assess outcomes;

- Shift to designing and implementing more effective, pragmatic and flexible aid approaches that can cope with developments on the ground and protect the peace dividend in case of political and security setbacks;

- Establish effective mechanisms for cooperation between donors and local authorities through which development agendas and emerging priorities would be fairly and effectively addressed;

- Invest in capacity-building projects that are built on the maximum utilisation of local productive human and capital resources;

- Invite regional and international players to participate in joint business and economic opportunities between Israelis and Palestinians.

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Endnotes

[1] The accords were finalised in Oslo, Norway, on 20 August 1993 and officially signed in Washington, D.C., on 13 September 1993. They provided for the creation of a Palestinian Authority and for the withdrawal of Israeli forces from parts of the Gaza Strip and West Bank. Two annexes provided for the establishment of an Israeli-Palestinian committee for economic cooperation and for the two sides to cooperate in the context of multilateral peace efforts in promoting a development programme for the region, including the West Bank and the Gaza Strip, to be initiated by the Group of Seven industrialised nations. It was anticipated that this arrangement would last for a five-year interim period during which a permanent agreement would be negotiated (beginning no later than May 1996). Permanent issues such as Jerusalem, refugees, Israeli settlements in the area, security and borders were deliberately left to be decided at a later stage. Interim self-government was to be granted in phases.

[2] The conference was held after the signing of Oslo Accord in October 1993 with the participation of 42 nations and institutions representing the donor community. The purpose of the conference was to adopt strategies for providing financial and technical assistance to the newly established Palestinian National Authority. The assistance aimed at empowering the Palestinian Authority and enhancing its performance in the areas of administration, institutional capacity building, and managing and implementing comprehensive development plans in the Palestinian areas.

[3] Cited in Bahour & Joudah 2007.

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