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FACULTEIT POLITIEKE EN SOCIALE WETENSCHAPPEN

**POLITICAL ECONOMY OF BELGIAN ASSISTANCE  
TO THE OCCUPIED PALESTINIAN TERRITORIES**

**POLICY RECOMMENDATIONS FOR THE BELGIAN DEVELOPMENT COMMUNITY**

Beleidsrapport

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In de loop van de voorbije twee decennia, namen de hulpstromen naar de bezette Palestijnse gebieden (oPt) constant toe, om enkel in 2008 de kaap van \$2.6 miljard te bereiken (World Bank, 2010, p. 14). Op een per capita basis, ontvangen de oPt zelfs het hoogste niveau van hulp in de wereld. Nochtans geven deze getallen de diepgaande veranderingen niet weer die de ontwikkelingssamenwerking in Palestina gekend heeft sinds het afsluiten van de Oslo akkoorden.

In de jaren 90, teneinde de fysieke fundamenten te leggen voor de jonge Palestijnse Autoriteit (PA), investeerden donors zwaar in infrastructuur. Met de komst van de tweede Intifada in 2001, verschoof de ontwikkelingshulp van donoren plotseling naar humanitaire noodhulp op korte termijn en, om de PA in leven te houden, budgetondersteuning. In een algemene sfeer waarin aantijgingen van corruptie aan het adres van de PA geuit werden, wonnen hervormingen van de PA in de domeinen 'goed bestuur' en 'capaciteitsopbouw' aan belang. Deze verschuiving in focus bood de donoren eveneens een goede mogelijkheid om politieke voorwaarden aan hun ondersteuning te koppelen. Deze voorwaarden waren echter niet altijd in lijn met de Palestijnse langetermijnbelangen; diplomatieke invloed in het kader van een internationaal uiterst zichtbaar vredesproces en donors hun politieke eigenbelang speelden een niet verwaarloosbare rol.

In de nasleep van de verkiezingsoverwinning van Hamas in 2006, kwam de politieke natuur van hulp in de oPt duidelijk naar voren. Ondanks de organisatie van internationaal bejubelde verkiezingen, werd de democratisch verkozen Hamas regering geboycot door internationale donoren, die prompt hun financiële steun aan de nieuwe regering stopzetten. Nieuwe manieren werden verkend om de Hamas regering te omzeilen of om hulp direct naar de Palestijnse bevolking te kanaliseren. Deze manier van werken wakkerde de rivaliteit tussen de twee voornaamste Palestijnse politieke facties, Hamas en Fatah, aan. Uiteindelijk zou dit in 2007 leiden tot de gewelddadige machtsovername van de Gazastrook door Hamas en het uiteenvallen van een Palestijnse eenheidsregering die daardoor slechts een kort leven beschoren was. Tot vandaag, ondanks manifeste verklaringen, is men er niet in geslaagd deze tweespalt binnen de Palestijnse samenleving te overwinnen. Een internationale

blokkade van Gaza heeft de economie daar op zijn knieën gebracht en een humanitaire catastrofe veroorzaakt. Tegelijkertijd slaagt de door het Westen gesteunde regering van Salam Fayyad er in de Westelijke Jordaanoever in om meer (budget) hulp dan ooit te voren veilig te stellen wat ironisch genoeg een toenemende hulpafhankelijkheid van de oPt tot gevolg heeft.

Deze disproportioneel hoge niveaus aan hulp zijn niet enkel verantwoordelijk voor een chronische toestand van hulpafhankelijkheid – zonder hulp zou de PA immers niet kunnen overleven –, erger nog, ze weerhouden de Palestijnse economie er van zich op de lange termijn te ontwikkelen en versterken of onderhouden zodoende minstens de Israëlische bezetting en het politieke *status quo*. Het bovenstaande impliceert dat donoren hun hoge niveaus aan ontwikkelingshulp, die ze momenteel in de oPt spenderen, dienen te heroverwegen. Daarom is het uiterst belangrijk dat de huidige hulpstructuur herzien wordt teneinde haar meer responsief te maken voor de politieke realiteiten en evoluties op het terrein. Dit impliceert dat donoren de politiek terug naar de voorgrond dienen te brengen en een gecoördineerde en omvattende langetermijnstrategie dienen te uit te werken die als uiteindelijk doel – zoals reeds door de meeste donoren officieel onderschreven werd – de oprichting van een onafhankelijke en leefbare Palestijnse staat voor ogen heeft. Dit zal natuurlijk enkel mogelijk zijn wanneer donoren bereid zijn hun eigen politieke en diplomatieke agenda's, die niet noodzakelijk overeenstemmen met de Palestijnse langetermijnbelangen, willen bijsturen.

Het bijwerken van de Palestijnse hulpstructuur, teneinde die af te stemmen op en responsief te maken aan een omvattende onderhandelingsstrategie voor de lange termijn, zal niet op één dag gebeuren. De Palestijnse hulparchitectuur kan immers moeilijk vergeleken worden met die van eender welk ander land. De zeer specifieke en complexe aard van die architectuur is immers intrinsiek verbonden met het Palestijns-Israëlische vredesproces van de jaren '90, dat zijn concrete vorm en neerslag vond in de Oslo akkoorden. Tot vandaag accepteert de internationale gemeenschap deze akkoorden als het legale kader dat de basis vormt voor hun relaties met zowel Palestijnen als Israëli's in de oPt. Ondanks het feit dat deze akkoorden duidelijk de mogelijkheden voor internationale donoren beperken om hun hulpinspanning op een efficiënte, effectieve en duurzame manier te organiseren, lijken

weinig onder hen, waaronder België, geneigd ze in vraag te stellen of aan te vechten. Desalniettemin is het formeel verklaarde doel van de meeste donoren de oprichting van een onafhankelijke en leefbare Palestijnse staat. Wanneer men evenwel de feiten analyseert, kan men enkel tot de conclusie komen dat de realiteit van zulk een staat verder weg dan ooit is. In het beste geval is het beleid van donoren in de oPt inadequaat en onvoldoende aangepast om dit doel effectief na te streven, in het slechtste geval, is het beleid van donoren echter contraproductief en bevordert het zelfs de Israëlische belangen.

Door aan de ene kant theoretische en praktische inzichten uit de gespecialiseerde literatuur rond de politieke economie van hulp aan Palestina samen te brengen met, aan de andere kant, eerstelijnservaring van de auteur en ontwikkelingswerkers uit de oPt, tracht dit rapport een perspectief van beneden naar boven aan te rijken m.b.t. de huidige stand van zaken van de ontwikkelingssector in de uiterst complexe en gepolitiseerde context van de oPt. Dit rapport heeft hoegenaamd niet de intentie een alomvattende evaluatie van meer dan een decennium aan internationale en Belgische hulp aan de oPt te zijn. Vertrekkend van de vaststelling dat bijna twee decennia van hulp aan de Palestijnen – op een geaggregeerd niveau – slechts beperkte resultaten heeft weten te realiseren, zoekt dit rapport op kritische wijze naar verklaringen voor dit klaarblijkelijk falen. Door dit te doen kunnen lessen getrokken worden en vervolgens kunnen, gebaseerd op die lessen, aanbevelingen geformuleerd worden die hopelijk in overweging genomen zullen worden door Belgische beleidsmakers en de ontwikkelingsgemeenschap (zowel in Brussel als in de oPt) in het algemeen. Op deze manier kunnen de Belgische ontwikkelingsinspanningen in de oPt geoptimaliseerd worden op zulk een wijze dat ze uiteindelijk het Palestijnse volk ten goede zullen komen in hun zoektocht naar een onafhankelijke staat.



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## **ABBREVIATIONS**

AHLC	Ad Hoc Liaison Committee
BTC	Belgian Technical Cooperation
CACs	Conflict Affected Countries
CEC	Central Election Commission
COGAT	Coordinator of Government Activities in the Territories
DAC	Development Assistance Committee
DGDC	Directorate General of Development Cooperation
DPGs	Development Policy Grants
EC	European Commission
EEAS	European External Action Service
EU	European Union
FPS	Federal Public Service
GDP	Gross Domestic Product
GOI	Government of Israel
ICP	Indicative Co-operation Program
IDF	Israeli Defense Forces
IEG	Independent Evaluation Group
IFI	International Financial Institution
IDF	Israeli Defence Forces
ICP	Indicative Co-operation Program
JLC	Joint Liaison Committee
JSCPD	Joint Service Council for Planning and Development
LACC	Local Aid Coordination Committee
LACS	Local Aid Coordination Secretariat
LDF	Local Development Forum
LGU	Local Government Unit
LICP	Local Infrastructure and Capacity-building Project
MDG	Millennium Development Goal
MEP	Member of the European Parliament
MoF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation

MOPAD	Ministry of Planning and Administrative Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
oPt	occupied Palestinian territories
PEGASE	Palestinian-European Socio-Economic Management Assistance Mechanism / Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique
PLC	Palestinian Legislative Council
PLO	Palestinian Liberation Organisation
P(N)A	Palestinian (National) Authority
PNC	Palestinian National Council
PNDP	Palestinian National Development Plan
PRDP	Palestinian Reform and Development Plan
PRDP-TF	Palestinian Reform and Development Multi-Donor Trust Fund
PRSP	Poverty Reduction Strategy Paper
PFM	Public Financial Management
SG	Strategy Group
SWG	Sector Working Group
TFPI	Task Force on Project Implementation
TIM	Temporary International Mechanism
USAID	United States Agency for International Development
WB(&)G	West-Bank and Gaza strip

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## 1. EXECUTIVE SUMMARY

In the course of the past two decades, aid flows to the oPt have consistently been on the rise, reaching \$2.6 billion in 2008 alone (World Bank, 2010, p. 14). On a per capita basis, the occupied Palestinian territories (oPt) receive the highest level of aid in the world. These numbers alone, however, do not reflect the profound transformations development aid in Palestine has known since the Oslo accords were signed on the White House lawn in 1993.

In the nineties, establishing the physical foundations of the young Palestinian Authority (PA), donors invested heavily in infrastructure. With the advent of the second Intifada in 2001, donors' development aid abruptly shifted to short-term humanitarian assistance and, in order to keep the PA alive, budget support. In a general atmosphere of corruption allegations, PA reform in the fields of 'good governance' and 'capacity building' won in importance. This shift in focus also provided donors with a good opportunity to attach political conditionalities to their assistance. These conditionalities were not necessarily in line with Palestinian long-term interests; diplomatic influence in the highly visible peace process and donors' political self-interest, by contrast, played a major role.

After the 2006 Hamas election victory, the political nature of aid in the oPt came to the fore. Despite the organization of internationally lauded elections, the democratically elected Hamas government was boycotted by international donors, who promptly cut off direct funding to the new government. New ways were explored in order to bypass the Hamas government or to channel aid directly to the Palestinian people. This course of action stirred up rivalry between the two main Palestinian political factions, Hamas and Fatah, which would in 2007 eventually result in the violent takeover of power in the Gaza strip by Hamas and the break up of a short lived Palestinian unity government. To this day, in spite of declaratory statements, this rift in Palestinian society has not been overcome. An international blockade of Gaza, crippled the economy and caused a humanitarian catastrophe. Meanwhile, the Western backed Fayyad government in the West Bank secured more (budget) aid than ever, ironically causing an ever increasing dependence of the oPt on aid.

These disproportionate high levels of aid, as will become clear in the following chapters, are not only responsible for a chronic state of aid dependence – without aid the PA would not be

able to survive –, worse yet, they inhibit long-term economic development and reinforce or at least maintain the Israeli occupation and political *status quo*. The above implies donors should reconsider the high levels of aid they are currently spending in the oPt. Therefore, it is of utmost importance to revise the current aid structure in order to make it more responsive to the political realities and evolutions on the ground. This implies donors have to bring politics back to the fore, elaborating a coordinated and comprehensive long-term strategy, of which the ultimate goal – as already officially endorsed by most donors – is the establishment of an independent and viable Palestinian state. This, off course, will only be possible when donors are willing to adjust their own political and diplomatic agendas, agendas that are not necessarily in line with Palestinian long-term interests.

Updating the current Palestinian aid structure, in order to bring it in line with and make it responsive to a long-term, comprehensive negotiations strategy, is not something that will happen overnight. The Palestinian aid architecture can hardly be compared with that of any other country. The very specific and complex nature of that architecture is intrinsically linked with the Israeli-Palestinian peace process of the nineties, which found its concrete shape in the Oslo accords. To this day, the international community accepts these accords as the legal framework and basis for relations with both Palestinians and Israelis in the oPt. Despite the fact that these accords, as will be illustrated in the second chapter of this report, clearly limit the possibilities for international donors to organize their aid efforts in an efficient, effective and sustainable manner, few donors, including Belgium, seem tempted to put them into question or challenge them. Nevertheless, the stated goal of most donors is the establishment of an independent and viable Palestinian state. Analysing the facts, however, makes one come to the conclusion that the reality of such a state is further away than ever. At best, donor's policies in the oPt are inadequate and not sufficiently adapted to pursue this goal, at worst, however, they are counterproductive and even advancing Israeli interests.

By bringing together, on the one hand, theoretical and practical insights from specialized literature on the political economy of aid in Palestine and, on the other hand, first hand experience of the author and aid workers in the oPt, this report aims to offer a bottom-up perspective on the current state of play of the development sector in the highly complex and politicized setting of the oPt. This report, nevertheless, does not have the intention to be a comprehensive evaluation of over a decade of international and Belgian aid to the oPt. Starting from the observation that almost two decades of aid the Palestinians – on an

aggregate level – achieved only limited results, this report critically examines into some detail the reasons behind this apparent failure. By doing so, lessons are being learned and based on those lessons, recommendations formulated that will hopefully be considered by Belgian policy makers and the development community (both in Brussels and the oPt) at large. This way, Belgian development efforts in the oPt can be optimized in such a way that they will eventually benefit the Palestinian people in their quest for an independent state.



## 2. INTRODUCTION

Belgian bilateral development assistance has been active in the occupied Palestinian territories (oPt) since the end of the nineties. The first meeting of the Belgo-Palestinian Cooperation Joint Committee was held in Ramallah on 4 November 1998. The “Specific Agreement between the Kingdom of Belgium and the Palestinian Liberation Organisation (PLO) for the benefit of the Palestinian National Authority (PNA)” was signed on 12 November 2001 for a period of three years, but was only able to effectively start its operations in December 2002. The lapse of time in between the agreement to cooperate and the effective deployment of personnel and means on the ground is no coincidence. Apart from the obvious constraints with regard to human resources and material procurement, political constraints can be pointed out to have had an enormous impact on the slow establishment of Belgian development assistance on the ground. After all, whilst in 1998 many still had high hopes of a positive outcome of the Oslo Peace process, by September 2000 the situation had drastically changed and the second intifada erupted with great violence.

Despite many diplomatic efforts to put the peace process back on track, the political situation effectively deteriorated in the subsequent years to a *de facto* point of no return. Nevertheless the international community accepted the Oslo accords as being the framework within which negotiations ought to be carried on. In line with this stance, official (bilateral) development assistance of many international donors – amongst which Belgium – continued to operate within the legal framework of the Oslo accords and the respective responsibilities resulting from them. One of the consequences of such a policy choice obviously is that bilateral aid is bound by both the geographical and legal boundaries as laid down in the Oslo accords.

Although general practices in development cooperation tend to emphasize political neutrality and unbiased technicality, it is hard to keep up the claim that projects and programmes within the oPt have no political implications at all<sup>1</sup>. Exactly because of the overtly political nature of the Israeli-Palestinian conflict, this is also true the other way around. As will be illustrated in subsequent chapters, political and/or military developments within the conflict have a direct impact on all levels of technical cooperation<sup>2</sup>.

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<sup>1</sup> E.g. the international aid disbursed for the construction of Yasser Arafat International airport (also known as Gaza airport) was symbolically important for the Palestinians. The airport was subsequently destroyed by the Israeli Defence Forces (IDF) in 2001 – 2002 without any overt combat taking place at the premises at the time.

<sup>2</sup> E.g. the Hamas election victory in 2006 and the subsequent suspension of international aid.

Whereas it is common practice in project design and project cycle management to categorize political factors in a 'logframe matrix'<sup>3</sup> as 'external factors', this bottom-up examination of over a decade of international and Belgian bilateral assistance to the Palestinian people explicitly chooses to highlight the complex interaction between politics and development assistance. What are in other words the political consequences and determinants of at first sight technical interventions. Indeed, this analysis will openly try to bring into the equation the political implications of aid as well as the (in)direct effects of political or diplomatic manoeuvres of Israelis, Palestinians and the international community on exactly the disbursement of that aid.

Last but not least, this report will look into the possibility of a more straightforward Belgian development assistance which explicitly acknowledges the political nature of the conflict setting within which it operates and the potential of such an assistance to become a positive catalyst within the political and diplomatic processes of the Israeli-Palestinian asymmetrical conflict. The question will be asked whether or not humanitarian assistance and development aid within a context of military occupation makes sense. This implies a thorough analysis of the divergent motivations behind international (and Belgian) ODA, its impact, effectiveness and sustainability on an aggregate level.

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<sup>3</sup> A logframe or logical framework matrix is a management tool frequently used in (international) aid organizations for the systematic and goals oriented planning, follow-up and evaluation of development projects.

### 3. OBJECTIVES

As a new Indicative Cooperation Programme (ICP) 2012-2015 was signed between the PA and Belgium on 23 November 2011, the time is now for the Belgian development community to make informed decisions – especially with regard to those projects that are in the process of formulation – as to whether or not they are in line with the goals of Belgian government and diplomacy and whether or not Belgian ODA can be optimized in such a way that overall Belgian policy towards the oPt is all encompassing and as coherent as possible.

The first objective of this report is therefore to *inform the Belgian development and diplomatic community* – and more specifically the people working on the oPt within the Belgian Technical Cooperation (BTC), the Directorate General of Development Cooperation (DGDC) and the Federal Public Service Foreign Affairs – on the interaction between politics, diplomacy and aid in the oPt and the implications of their dynamics on the effectiveness and efficiency of Belgian aid being disbursed in the oPt. An analysis on the aggregate level of existing data/literature on the political economy of the oPt will be the starting point from which this report will try to shed some light on the micro level in which BTC has to work in the oPt on a daily basis.

Secondly, this report will *take a critical look at the strengths and weaknesses of Belgian ODA in the oPt*, taking into account the impediments resulting from the (political) economy of conflict that condition and limit the possibilities available to donors on the terrain. In this regard it is important to offer a bottom-up perspective from experiences of local and international personnel working within the specific development context of the oPt. An attempt will be made to answer the question how Belgian ODA deals with these impediments. A specific BTC project will be highlighted as a case study of good and/or bad practice, *not* with regard to its specific goals and criteria as set out in its logical framework, but rather within the context of the overall goals of the Belgian development, political and diplomatic community.

Finally, based on the aforementioned critical examination of Belgian ODA, this report will *formulate lessons and recommendations* in order to optimize assistance to the Palestinians in line with the internationally accepted paradigm of the two state solution. On the one hand

strategic recommendations will be formulated to be taken into account during the process of devising an overall policy regarding the Israeli-Palestinian conflict and the long-term development of the oPt. On the other hand practical recommendations in the field of programme design and aid effectiveness will be brought forward. These recommendations can be useful during project formulation, implementation and/or evaluation (DGDC and BTC). Finally some recommendations regarding donor coordination and policy coherence will be presented.

#### 4. METHODOLOGY

The author of current report worked previously in BTC's headquarters in East-Jerusalem and BTC's Local Infrastructure and Capacity Building Project (LICP), of which the offices were<sup>4</sup> located in Al-Bireh, Ramallah. Both formal and informal contacts with members of the development and diplomatic community led to a better understanding of the complicated context within which the aid effort takes place in the oPt. Many ideas developed in this report emanate first and foremost from the professional experience of the author. This report aims to be the expression of this accumulated experience and therefore a *lessons learned* from the perspective of someone working within a bilateral development aid organisation.

Obviously, this report is not limited whatsoever to the mere subjective experience of the author; this experience should rather be regarded as a starting point. Building on this experience, a study of existing literature will lay the foundations for a thorough theoretical understanding of the dynamics of aid and politics in the oPt. The next chapter will therefore examine into some detail academic and technical literature on the subject of the political economy of conflict and aid in the oPt. Wherever possible theoretical concepts will be illustrated by everyday examples.

*Off the record* international aid workers and diplomats alike agree on the implicit political dynamics that inform international aid being disbursed in the oPt. Exactly because of the political sensitivity of this subject many people hesitate to talk *on the record* about the politics of aid. The same is true with regard to the language used in official documents from international organisations, bilateral aid agencies and to a lesser extent NGO's. All avoid to use words that have an explicit political connotation, let alone explicit language that emphasizes the political dynamics of the aid effort in the oPt. Even documents drafted by the Palestinian Authority seem to show political self-censorship to some degree. Ordinary Palestinians, on the other hand, were keen to ventilate their thoughts on the current state of affairs with regard to international aid. Nevertheless the author had during his professional contacts many informal opportunities to discuss this subject with locals and internationals that are employed on all levels and within different aid organizations.

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<sup>4</sup> LICP came to an end in the autumn of 2009.

Furthermore, several interviews have been conducted during two visits to the region. These interviews took place with members of the Belgian development and diplomatic community – in Jerusalem, Ramallah and Brussels – and were conducted with the specific aim of gathering a certain amount of qualitative data to be used as an input for this report. That is, off course, not to forget the valuable information on the topic of this report the author got through conversations with internationals and Palestinian men and women, from all levels off society and with different backgrounds, during his time in the oPt. In the end, critically examining international or Belgian aid – in the spirit of a participatory approach – is and should in no way be a sterile exercise that values the opinion of some over the other.

Most quantitative data mentioned in this report is from official sources. Because of the early involvement of the international community in the oPt, a vast amount of data is available on Palestinian development. Nevertheless one should be aware of relying too closely on statistics concerning Palestinian development and international aid since different sources often contradict one another. Often this has to do with the exact way in which certain numbers are compiled and a lack of clear definitions concerning e.g. which kind of aid belongs to which category. Indeed, development aid is not always clear-cut and often one project spans different fields of development<sup>5</sup> which does not make it easy for statisticians to categorize and quantify the aid being disbursed in the oPt in a uniform way. Apart from that, statistics concerning economic development, land and land-use, trade, customs, etc. are politically sensitive in themselves and different sources have different interests in presenting a certain situation in a certain way. Although some organisations do an effort to gather quantitative information as unbiased as possible, sometimes one has to rely on data provided by parties involved in the conflict, simply by lack of other sources<sup>6</sup>. It is a matter of course that whenever data is being presented, the source of the data in question will be clearly mentioned.

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<sup>5</sup> E.g. the LICP project had an infrastructure and a capacity building component.

<sup>6</sup> The whole discussion with regard to the data on Palestinian and Israeli water use during the Oslo negotiations can be mentioned as a good example of the divergent views on statistics and the political use of them.

## 5. THE POLITICAL ECONOMY OF INTERNATIONAL ASSISTANCE TO THE PALESTINIAN AUTHORITY

Political and economic institutions don't function within a vacuum, but are influenced by a wide range of social, political, economic and financial factors and processes, both on a macro and a micro level, not only with regard to its current form and functioning, but also with regard to its prospects of future development. Political and economic development of a country is therefore a function of the environment in which it operates and the internal and external conditions imposed by a multifaceted environment on the developmental processes that are taking place within a specific country. This is even more true for conflict affected countries (CACs). Taghdisi-Rad (2011, p. 43) argues that “[w]hen aid is given in the context of conflict and violence, it becomes *part of* that context; hence, its effect on conflict does not remain neutral – despite what most donors like to claim. Aid can exacerbate the conflict if it is not well-targeted, but it can also reduce the local severity of conflict by strengthening local capacities.”

From this point of view it is of utmost importance for international donors in the oPt to (1) thoroughly understand the interaction of conflict and violence with the socio-economic and political fabric of Palestinian society, explicitly acknowledging that their development efforts take place within the setting of a *conflict economy*<sup>7</sup>, and (2) pro-actively take into account the potential impact of their interventions on, on the one hand, the conflict economy and, on the other hand, the dynamics of the political conflict and the resulting balance of power.

In order to facilitate the analysis of Belgian aid policy and practice in the next chapter, the following sections of this chapter will first of all chronologically study the lessons learned from donor's assistance to the oPt starting from the signing of the Oslo accords. A general overview of the theoretical and practical framework within which international assistance has been (and is being) disbursed to the PA can provide some insight into the reasons why international assistance – despite some of the highest per capita spending of aid in the world (cf. *infra*) – doesn't seem to be able to achieve one of its main stated goals, i.e. reducing overall poverty in Palestine<sup>8</sup> and improving the lives of ordinary Palestinians.

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<sup>7</sup> Only recently OECD and IFI's have started to acknowledge the specificity of (economic) development in conflict situations, nevertheless – as will be pointed out in the next sections – many of the proposed solutions are still heavily indebted to neoclassical economic theory.

## 5.1 FRAMEWORK OF INTERNATIONAL ASSISTANCE TO THE PA

Different estimations of the magnitude of international aid disbursed since the signing of the Oslo accords agree that on a per capita basis, the occupied Palestinian territories are receiving more international assistance than any country in the world (Brynen, 2000; Keating, Le More & Lowe, 2005; Worldbank, 2004; Taghdisi-Rad, 2011). Since the first funds were disbursed in the aftermath of Oslo, different trends in spending can be discerned. These trends roughly coincide with important evolutions in the political arena. Events that triggered a change in the pattern of disbursements were often accompanied by an intensification of violence. Nevertheless, donors (technical) agencies in the oPt were not thoroughly prepared, nor properly equipped to deal effectively with these outbursts of violence, as will be pointed out below.

In the aftermath of the Oslo agreement (signed on September 13<sup>th</sup> 1993), the international community pledged considerable amounts of aid to the Palestinians. The Washington conference of October 1993 was the first major pledging conference in which the donor community gathered to express its financial and political support to the peace process. Calculations<sup>9</sup> made by Brynen (2000, p. 75) estimate that initial donor pledges of \$2 billion, would easily reach \$4.1 billion by 1998. Of this \$4.1 billion of pledged funds<sup>10</sup>, Brynen (2000, p. 117, 161) estimates that by 1998 \$3.8 billion had been committed for specific projects and \$2.6 billion (or some 67,5%) effectively disbursed. Data from the World Bank (1999, p. xxi) is comparable with respectively \$4.7 billion pledged, \$4.2 billion committed and \$2.5 billion disbursed by mid-1999. Taghdisi-Rad's (2011, p. 68) calculations<sup>11</sup>, on the other hand, assert that before the outbreak of the second intifada (1994-2000), the cumulated commitments of the major donors amount to \$1.8 billion, of which effective disbursements are limited to \$0.89 billion (ca. 50%). Contradicting his own calculations Taghdisi-Rad

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<sup>8</sup> In line with the Millennium Development Goals (MDGs) that have been endorsed by the international community and the Belgian government. The MDGs are overarching goals that inform Belgian aid policy and hence all Belgian development programmes aim to fulfill them. The Indicative Co-operation Program (ICP) 2012 – 2015 between Belgium and the PA states: “The guiding principle is to contribute as effectively as possible to the implementation of both the *poverty reduction* driven National Development Plan and the *long-term development vision* adopted by the Palestinian Authority.” (Government of Belgium, 2011, p. 1, italics added)

<sup>9</sup> Based on data from the Palestinian Ministry of Planning and International Cooperation (MOPIC). This ministry is now called Ministry of Planning and Administrative Development (MOPAD).

<sup>10</sup> Based on MOPIC and AHLIC data, Brynen (2000, p. 75) also points out that ca. ¼ of the pledges made by donors in the 1994-1998 period were in the form of hard or soft loans, which have different (negative) financial implications in the long run.

<sup>11</sup> Based on 2007 data from the Ministry of Planning



subsequently mentions that “between 1994 and 2000, *annual* donor disbursements averaged around \$500 million” (2011, p. 69, italics added), which is in line with World Bank data (1999, p. xxi; 2004, p. 65). The outbreak of the second intifada in September 2000 will increase the amount of annual donor disbursements to approximately \$869 million in 2001 and peak at \$1.61 billion in 2002 (World Bank, 2011, p. 14). It is worth mentioning though that this sharp rise in donor aid to the oPt in 2001 and 2002 is not only due to increased levels of aid from DAC<sup>12</sup> members, but also due to Arab countries' increased financial support of the Palestinians in the aftermath of the second intifada<sup>13</sup>. Without substantial official aid from Arab countries in the subsequent years, the overall total of aid stabilizes in the period 2003-2005 around one billion dollar a year. Political events<sup>14</sup> unfolding in 2006 revive the international communities' interest in the Palestinian-Israeli conflict and trigger additional disbursements to the oPt, reaching some \$1.5 billion that year. With the internationally backed government of Salaam Fayyad coming into power in 2007, assistance to the PA sky-rockets to over \$2.5 billion in 2008 alone<sup>15</sup>. For more details on the yearly totals of aid disbursements to the oPt (2001-2008) and an overview of the different sources of aid (countries and organisations), please refer to Annex one. On a per capita basis, between 1994 and 2000, annual donor disbursements averaged around \$150 per capita. After the outbreak of the second intifada the level of aid disbursed in the West Bank and Gaza Strip reached \$308 per capita in 2001-2002, \$258 per capita in 2003 (Keating et al., 2005, p. 218) and some \$700 per capita in 2009 (OECD/DAC, 2011, p.1). To put these levels into perspective, the net global ODA disbursement average stood at \$13 per capita in 2005 (Keating et al., 2005, p. 218).

As shown above, a trend of rising aid flows to the oPt can be observed throughout the past two decades. Nevertheless, its composition changed radically at several instances. Before assessing the evolution and the impact of these high levels of aid, it is crucial to get some more insight in the theoretical and ideological basis of development aid in the oPt. In what follows, assumptions that laid the foundation of the international assistance to the Palestinians in the nineties, and arguably until this very day, will be critically examined. In a

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<sup>12</sup> Development Assistance Committee, a sub-organisation of the Organisation for Economic Co-operation and Development (OECD), responsible for development issues and development policies.

<sup>13</sup> Respectively \$246,6 million in 2001 and \$775,8 million in 2002.

<sup>14</sup> Mainly Hamas' victory in the January 2006 general elections and the subsequent coming into power of a short-lived Hamas-led government. Most donors decided at the time to suspend their aid to this government, but found other ways to disburse aid to the Palestinian people.

<sup>15</sup> See part 5.1.3 of this chapter for more details.

chronological way, the economy of aid to the Palestinians will be objectively described and subsequently put into perspective by making the often underlying political motives more explicit.

## 5.2 THE OPTIMISM OF OSLO (1994 – 2000): NEOLIBERAL DEVELOPMENT ASSISTANCE AS A CATALYST FOR PEACE

### 5.2.1 THE WASHINGTON CONSENSUS

The dominant policy framework within which aid to the oPt was disbursed in the nineties has become commonly known as the Washington-consensus. This in essence liberal approach<sup>16</sup>, promoted by the International Financial Institutions (IFIs) and practised by the majority of bilateral donors, puts the focus of international assistance amongst others on the promotion of private enterprise, trade liberalisation, fiscal discipline and minimal state interference<sup>17</sup>. In neo-classical economic theory, strict adherence to these policy prescriptions will ultimately lead to improved economic performance and by consequence to increased economic growth, with Gross Domestic Product (GDP) as the ultimate indicator of the level of development. Many of the theoretical assumptions underlying this approach to development assistance can be put into question, especially with regard to their *insensitivity* to the specific dimensions of each individual developing country and in particular those developing countries undergoing conflict. For example, one of the main assumptions within a (neo-)liberal approach is that economic institutions and policies are the main determinants of long term economic growth. Although Taghdisi-Rad (2011, p. 33) acknowledges the importance of well functioning state institutions in CACs, he claims that it is insufficient to solely focus on them in order to achieve successful economic performance:

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<sup>16</sup> In response to criticisms of the Washington consensus, the post-Washington consensus came into existence in the new millennium. Although fundamentally still within a liberal ideological framework, the post-Washington consensus has more attention for social issues and tries to (1) manage liberalized trade, finance and monetary systems; (2) include the creation of enforceable codes and standards, and concessions to social welfare through targeted social safety nets; (3) create vertical and horizontal policy coherence and (4) include businesses and firms in a Global Compact for Development and the PRSP process. (WHO, 2012)

<sup>17</sup> The set of policies known as the Washington consensus are (1) fiscal discipline; (2) a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; (3) tax reform (to lower marginal rates and broaden the tax base); (4) interest rate liberalization; (5) a competitive exchange rate; (6) trade liberalization; (7) liberalization of inflows of foreign direct investment; (8) privatization; (9) deregulation (to abolish barriers to entry and exit) and (10) secure property rights (Center for International Development, 2003)

In conflict settings, there are numerous conflict-related forces which dominate the current and future growth and development prospects of the economy. Assumptions of competitive factor markets, perfect credit markets, no exogenous technical progress and constant population growth (...) are of great *irrelevance* to most developing economies, especially those undergoing conflict where the functioning of markets are subject to substantial disruptions as a direct (e.g. physical destruction) or indirect (e.g. increased risk and uncertainty) result of conflict. For example, it is irrelevant to assume competitive factor markets in Palestine where exports and imports, as well as internal markets, are subject to restrictive measures imposed by the Government of Israel (GoI) which reduce the competitiveness of these markets.

Referring to the work of Doornbos (2001) and Cramer (2003), Taghdisi-Rad (2011, pp. 35-36) also criticizes the closely related 'good governance' agenda that goes hand in hand with current neoliberal development assistance. Several contradictions can be identified:

1. A paradox between an increasing focus on channelling aid towards government reforms and budgets while, simultaneously, calling for a reduction in the size of the government (in line with neoliberal economic thought).
2. A paradox between the apolitical image that donors would like to radiate and their direct involvement in creating the political and institutional structures of the recipient economies.
3. The 'universality' and 'one-fits-all' approach attached by multilateral donors to good governance measures and policies has not only undermined the role of the state and the recipient country's ownership of the development process, but also replaced country-specific policies with inconsistent and vague universal 'values'.

Above observations are not just theoretical, but have practical and far reaching implications with regard to the effects aid delivery to CACs has: “[a]n incomplete and partial democratisation and economic liberalisation according to 'universal' (and not national) values and objectives can in fact *increase* the risk of further conflict by undermining the country's institutions and political and developmental priorities.” In the same line of thought, Cramer puts it as follows: “[t]he neoliberal intervention in the recipient countries' socio-political affairs through 'good governance' and reform conditionalities, suffers from an 'ideological gap' which makes it devoid of the historical content and specific balances of (national and global) class elements and political groups that in reality influence the functioning of a country's institutions and development trajectory of a given country.” (Taghdisi-Rad, 2011, p. 35-36)

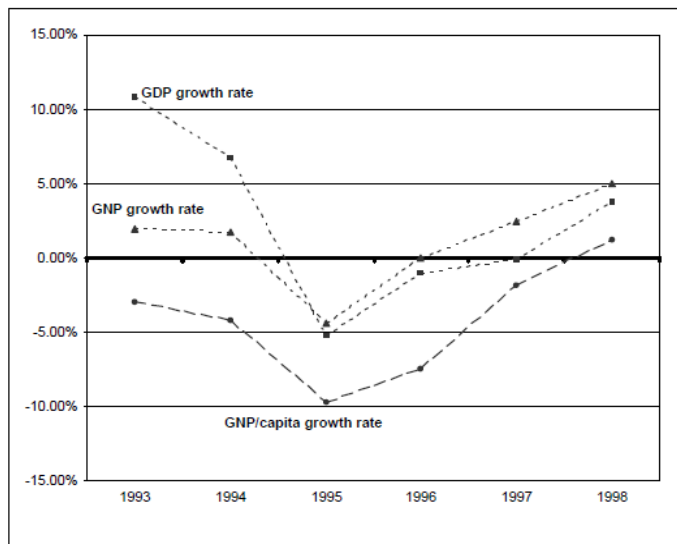
## 5.2.2 MACRO-ECONOMIC TRENDS IN THE AFTERMATH OF OSLO

In contrast to the widespread political optimism in the aftermath of Oslo, the hoped for 'peace dividend' – that would accompany the Oslo accords and the massive inflow of aid resulting from it – in effect did not materialize. As noted in a World Bank (1999, p. iv) report on aid effectiveness in the oPt: “Overall Palestinian economic performance through 1994-97 was weak, characterized by declining per capita incomes and rising unemployment. A variety of factors – most notably closure and other restrictions – accounted for this.” Although economic performance improved slightly from 1998 on, this trend came to an abrupt end in 2000, following the outbreak of the second Intifada.

Figure one below shows that on a per capita basis, Gross National Product<sup>18</sup> (GNP) only started to marginally grow in 1998. It also shows that after a declining Gross Domestic Product (GDP) growth rate in the period 1993 – 1995, Palestinian economy actually shrank in the period 1995 – 1997 (negative growth rate), to start growing again during the years 1998 – 1999, reaching 8,8% in 1999. Nevertheless, this growth should not be overestimated, since because of demographic reasons, GDP on a per capita basis in 1995 and 1999 are almost on a par (\$1400 and \$1493 respectively) (UNCTAD, 2011, p. 4). Please refer to annex one for

more detailed indicators of the state of affairs of the Palestinian economy from 1995 to 2010.

**Figure 1: Economic Performance 1993 – 1998**



Source: World Bank, 1999, p. xvi

Although aggregate information on economic development is useful in order to make comparisons on an international level or to get a general overview of trends in the macroeconomic situation of a country, one should not forget that economic growth as measured by growth in GDP, doesn't tell anything about actual developments within

<sup>18</sup> GNP = GDP plus total capital gains from overseas investment - income earned by foreign nationals domestically.

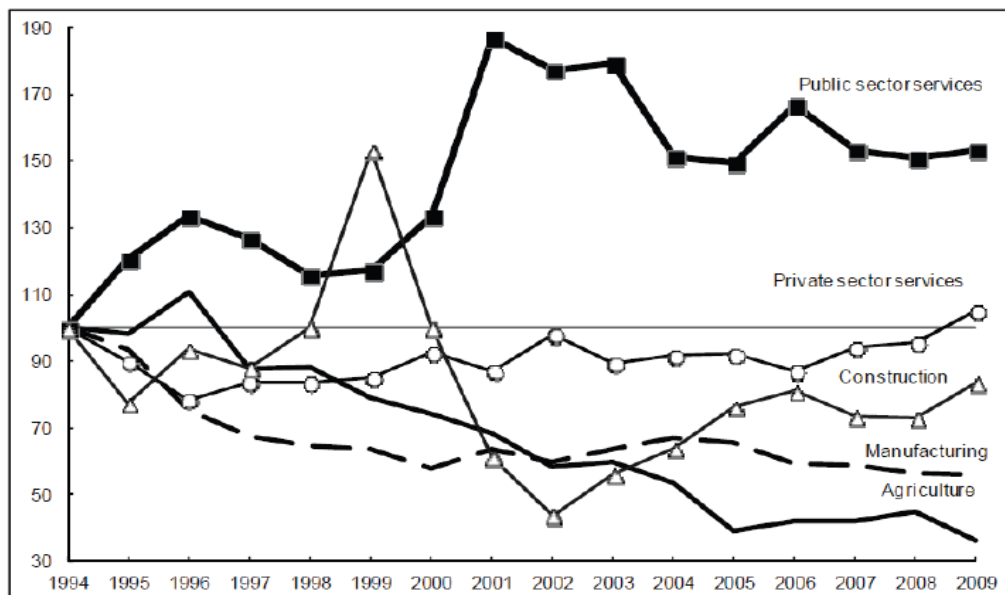
the different sectors of an economy. Nor does data based on GDP provide us with any information about the beneficiaries of economic growth or the distribution of wealth. Solely focusing on economic growth as an indicator of success or failure, as often happens in donor's economic evaluations, minimizes the importance of other relevant targets as poverty reduction, income equality or employment, which might actually be more genuine indicators of true economic and human development. The use of GDP as an indicator of development is even more problematic in the case of CACs. As Taghdisi-Rad (2011, p. 38-39) points out:

The use of GDP growth rates as an indicator of economic development is particularly problematic in the case of conflict countries where, despite the commonly held belief, the process of development does not come to a halt during conflict, but instead it takes numerous forms which are not necessarily reflected in the GDP growth rate. (...) In such a situation, it will then become irrelevant to focus on a limited number of policies (that is fiscal, monetary and trade policies) as the main channels through which aid can affect economic growth. By focusing on *growth rates* alone one cannot draw implications for economic *development* of the country.

### 5.2.3 SECTORAL DEVELOPMENTS IN THE PALESTINIAN ECONOMY

A glance at the development of the different sectors of the Palestinian economy, gives more in depth information about real economic evolutions than mere aggregate GDP/GNP growth

**Figure 2: Shares in GDP of sectoral output relative to 1994 (index; 1994=100)**



Source: Palestinian Central Bureau of Statistics and International Monetary Fund.

Source: World Bank, 2010, p. 32

rates. Figure two shows the evolution of different sectors of the Palestinian economy relative to their share in the Palestinian economy in 1994. Several trends can be discerned.

Until just before the start of the second Intifada (2000), the **construction sector** was peaking as the main private sector in the Palestinian economy to ca. 150% of its size in 1994. This can be explained by the predominant emphasis of donors' development projects on the construction of much needed infrastructure. This infrastructure was supposed to be the backbone of economic growth, which in its turn would consolidate peace. In the aftermath of the second Intifada, in 2001-2002, the share of the construction sector in the Palestinian economy plummeted to some 50% of its 1994 share. After 2002, the sector recovered partially, but because of shifting donor priorities (cf. infra), it would never reach the levels of pre-Intifada investment.

Historically the Palestinian economy used to be an agricultural economy. However the **agricultural sector**, according to Brynen (2000, p. 184) “(...) is representative of an important sector that has largely been ignored by donors”. Data from the Palestinian MoP (Taghdisi-Rad, 2011, pp. 70-71) confirms that between 1994 and 2000, only 1,4% of all disbursed aid went to the agricultural sector.<sup>19</sup> This lack of interest of the donor community for the agricultural sector didn't improve after 2000. On the contrary, between 2000 and 2006 a meagre 0,74% of all disbursed aid went to agriculture. In addition to these numbers, figure two clearly illustrates that the share of the agricultural sector in the Palestinian economy declined almost constantly ever since the Oslo accords were signed. For the first time in over a decade, the agricultural sector witnessed a growth of 22% in 2010, “[h]owever the growth rate for agriculture came after continuous decline for a decade, whereby the level of value added in the sector in 2009 was 47 per cent of the level a decade earlier.” (UNCTAD, 2011, p. 2). Figure three below shows that nearly two decades of neglect led the Palestinian agricultural sector to lose much of its productivity<sup>20</sup> (UNCTAD, 2010, p. 12):

The structural deformation [of the Palestinian economy] has been combined with a precipitous decline in agricultural and industrial productivity evidenced by the rise in the share of the agricultural sector in total employment from 12 per cent in 1995 to 18 per cent in 2008 in spite of the decline in its relative contribution to total output.

Brynen (2000, pp. 184-185) points out that politics plays an important role in the reticence of donors to invest in the agricultural sector:

[t]he agricultural sector – bound up as it is with issues of both land use and water consumption – is potentially sensitive. Although agricultural production generally increased under occupation [i.e. in the

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<sup>19</sup> In absolute terms, \$14.870.389 of all grants and loans to the oPt in the period 1994-2000 was allocated to the agricultural sector. This contrasts sharply with the \$28.520.362 donors committed to this sector. Only 52% of all committed aid to the agricultural sector was effectively disbursed by 2000.

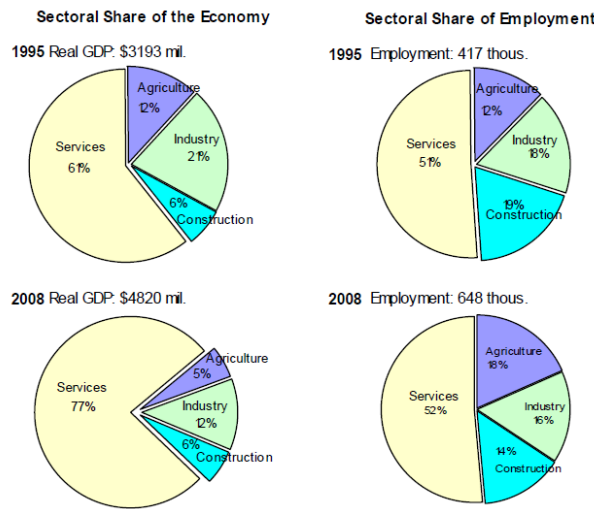
<sup>20</sup> Similar conclusions can be drawn regarding the industrial sector and productivity of this sector.

pre-Oslo period of Israeli occupation], development of the sector was largely ignored by the Israeli authorities, excepting those aspects of modernization (such as greenhouse production) that used less land and water. Subsequent to the Oslo and Interim Agreements, development of this sector continued to be constrained by limits on water usage<sup>21</sup> and by the fact that much agricultural land fell within area C, beyond the administrative control of the PA.

According to Le More (2008, p. 133-134), another reason for the cool attitude of donors towards this sector might be – as explained above – the traditional emphasis of IFI's on market economics. Nevertheless, it is important for donors to be fully aware of the critical cushioning role (food and income security) of the agricultural sector in case of intensifying conflict or a worsening economic climate, which can never be excluded in the volatile context of the Palestinian-Israeli conflict.

The **services sector**, in contrast to the decline in the productive activities in the tradable goods sector<sup>22</sup>, grew from 61% in 1995 to 77% in 2008, employing roughly the same percentage of people (UNCTAD, 2010, p. 12). According to UNCTAD this might indicate

**Figure 3: Economic and employment structural changes in the Palestinian economy**



Source: UNCTAD, 2010, p. 12.

that the services sector could be less vulnerable to the Israeli closure policy. By splitting up the services sector in public sector services on the one hand and private sector services on the other hand, as shown in figure two, the overall growth of this sector can be nuanced. Figure

<sup>21</sup> Article 40 of the 'Protocol on Civil Affairs' of the Oslo accord deals with water usage. Paragraph 3a stipulates the principle that the existing quantities of utilization from the water resources should be maintained by both parties. Because Israeli levels of water utilization were many times higher at the time of signing, in practice the Oslo accords officialized an asymmetrical situation, without redistributing the scarce water resources available in the region and without taking into account population growth. Le More (2008, p. 134) notes that under Oslo, 82% of all West-Bank's ground water resources were allocated to Israel.

<sup>22</sup> Represented by manufacturing and to a lesser degree construction in figure two.

two shows clearly that public sector services skyrocketed after the second Intifada, almost doubling its share in overall GDP in 2001 relative to 1994. The share of private sector services in the Palestinian economy on the other hand, stayed relatively stable between 1994 and 2009. As will be examined in some more detail in the next section, this sudden growth of the public sector can to a large degree be explained by a shift in policy of the donor community in the OPT in the aftermath of the second Intifada, putting more emphasis on institution and capacity building of the PA, in combination with governance reforms.

### **5.3 THE PESSIMISM OF THE PEOPLE (2001 – 2006): SECOND INTIFADA AND THE SHIFT FROM DEVELOPMENT AID TOWARDS HUMANITARIAN ASSISTANCE AND CONDITIONAL BUDGET SUPPORT**

Within overall donor support to the PA in the pre-Intifada era, budget support has been declining ever since 1994, in favour of spending on development assistance. World Bank (1999, p. xxii) data indicates that “(...) a dramatic reduction is evident in transitional and budget support for the PA, from 31.3% of all assistance in 1994-95, to 20.2% in 1996-97, to only 3.5% in 1998-99 QII”<sup>23</sup>. By 1999-2000, budget support to the PA would reach an all time low of 2.6%, with the share of development assistance reaching 88.1% and emergency support 9.4%. After 2000 and the outbreak of the second Intifada this ratio was totally reversed. The average spending on development assistance between 2001 and 2004 declines to 28.4%<sup>24</sup>, whilst budget and emergency support increases to an unprecedented 42.6% and 29.0% (Taghdisi-Rad, 2011, p. 71).

#### **5.3.1 THE PALESTINIAN FINANCIAL BALANCE**

One of the apparent reasons for the declining importance of budget support in the pre-Intifada period, was the improving financial balance of the PA. Nevertheless, this balance was heavily dependent on the timely transfer of taxes, collected on behalf of the PA by the Israeli authorities, to the PA<sup>25</sup>. Le More (2008, p. 143) warns for the irregular nature of this flow of

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<sup>23</sup> This World Bank data actually contradicts calculations (based on MoP data) from Taghdisi-Rad (2011, p. 70) suggesting that pre-Intifada (1994-2000) budget support levels are marginally low at less than 1% of overall assistance to the PA.

<sup>24</sup> This represents a decrease of almost 70% in development assistance.

<sup>25</sup> The Paris Protocol [this is originally an Annex to the Gaza-Jericho Agreement between the PA and Israel, later incorporated into the Oslo II accords under Chapter IV 'Cooperation' and detailed in Annex V] grants Israel the right to collect taxes, on behalf of the Palestinian Authority, on customs duties and VAT imposed on Palestinian imports from or via Israel. The clearance of these revenues to the Palestinian Authority has been very irregular since the outbreak of the second intifada in 2000. The Protocol also allows Israel to collect taxes and other deductions on the incomes of Palestinians working in Israel. However, the assessment of the



public income and the dangers this poses for budgetary stability and even viability of the PA, as its financial survival is conditional on Israeli political goodwill:

Through the taxes it collected on the PA's behalf, Israel provided between 60 per cent and two-thirds of the Palestinian total revenue on a monthly basis. According to IMF, by 1998, the PA recurrent budget was broadly in balance. From then on, donors ceased to finance PA recurrent costs (...) partly as the result of the improved budget situation, but also because of growing concern regarding PA financial accountability and transparency. Nonetheless, after the ascension of Israeli Prime Minister Netanyahu in 1996 and warnings that Israel might cease to remit tax revenues to the Palestinians, transfers were actually frozen for a few months in the summer of 1997; the EC established a Special Cash Facility in 1997 which could be activated rapidly in the event of a future freeze of tax transfers, which did not happen again until after the beginning of the *intifada* in December 2000.

Indeed, the second Intifada pointed out that the PA was extremely susceptible to exertion of Israeli political pressure exactly because of its (budgetary) reliance on the transfer of funds to the PA through the Israeli authorities. From this point of view, although the Paris protocol – the legal framework in which the procedures of this transfer mechanism are outlined – figures under chapter IV entitled 'Cooperation' of the Oslo II accords, in practice this protocol rather consolidated the asymmetrical power relations between the PLO and Israel during (and after) the Oslo negotiations. Le More (2008, p. 146) calculates that between December 2000 and 2002 “(...) the PA was able to collect an average of US\$21 million per month, compared to around US\$88 million per month in 2000 and monthly budget needs in 2001 estimated at US\$90 million under the austerity plan, enacted following the outbreak of the crisis.” Only in January 2003 “(...) in an atmosphere of overall donor fatigue and a mounting humanitarian crisis and after American intervention, Israel resumed the regular transfer of PA tax revenues and also rebated part of the revenues it had withheld since 2000, which by the end of 2002, was estimated to be about US\$480 million.” Donor fatigue also explains why after the resumption of Israeli tax transfers to the PA in January 2003 – as mentioned in the introduction of this chapter – overall international assistance to the PA drops from \$1.61 billion in 2002 to ca. one billion dollar a year in the period 2003 – 2005. Only renewed political turmoil in the oPt in 2006, seems to motivate donors to increase their aid spending in the oPt once again, be it in new and creative ways and this in order to bypass the short-lived Hamas coalition government.

The sudden drop of Israeli tax transfers after the outbreak of the second Intifada in 2000 did not only endanger the very survival of the PA (due to a lack of sufficient revenues), it also meant a turning point in the policy on international assistance of many donors in the oPt. As

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magnitude and clearance of these funds has not been considered until now (UNCTAD, 2009, p. 11). See Annex 3 to this report for the full text of the Oslo II accords.

mentioned before, between 2001 and 2004 roughly one dollar out of four went to development projects, whereas three out of four dollars went to budget and emergency support. On the one hand, this was an obvious response to the changing circumstances in which the donors had to operate. As a consequence, the budgetary deficit the PA faced in the light of the Israeli policy to withhold tax transfers had to be paid by donors. The combined spending of mainly EC and Arab countries in 2001 and 2002 prevented the total collapse of the PA and prevented many thousands of Palestinian households from falling into poverty<sup>26</sup>. On the other hand, the sudden shift to high levels of budget support also provided an opportunity for the EC to attach new conditionalities to its support. These conditionalities were a response to the persistent political pressure being exerted on the EC in order to provide an answer to serious allegations of corruption within the PA. Le More (2008, pp. 147-148) points out that:

[i]n addition to a difference in scale, and to the fact that donors in the 2000s sent their money directly to the MoF (as opposed to individual ministries, as with the Holst Fund<sup>27</sup>), there was another fundamental distinction between the provision of direct budget support in the 1990s, and during the *intifada*. The EC (...) attached conditionality to its support. (...) [T]his should be contextualized within the broader reform effort, initiated by the donor community in the mid-2002 and on which the EU had begun to focus in the late 1990s well before the widespread interest of the US and other donors. However conditionality became a necessity, given the numerous allegations by the GOI, pro-Israeli groups in Europe, and MEPs concerning Arafat's misuse of EU funds to finance terrorism. The European Anti-Fraud Office (OLAF) investigated those allegations between February 2003 and March 2005. In August 2004, its intermediary assessment was that there was 'no evidence that the EU non-targeted direct budget assistance was used to finance illegal activities, including the financing of terrorism', a conclusion which was confirmed in 2005.

### 5.3.2 CONDITIONALITIES, BUDGET SUPPORT AND CORRUPTION IN THE oPt

Within the framework of the Post-Washington consensus (cf. section 5.1.1. *supra*), IFIs and most international donors supported the attachment of conditionalities in the fields of 'good governance' and capacity-building to their budget support. The PA – a bureaucracy that came into existence only a few years earlier as a result of the Oslo negotiations – was called on by international donors to carry out 'much needed reforms'. Ironically, the very existence, the creation and institutional structure of the PA was the result of the financial and technical support of those same donors throughout the 1990s.<sup>28</sup>

<sup>26</sup> In this context, it is interesting to note that in between 1996 and 2002 no US assistance went to the PA directly (Le More, 2008, p. 147).

<sup>27</sup> “[The] multilateral Holst Peace Fund was created [by the World Bank] to funnel donor contributions to start-up and recurrent budgetary expenditures for the new Palestinian administration. The Holst Fund eventually became a conduit for donor-funded emergency job creation initiatives to deal with the socioeconomic impact of closures. (World Bank, 1999b, p. 4)

<sup>28</sup> Criticism of many of the Washington consensus policies, including evidence of their detrimental impact on health, led to the development of the post-Washington consensus. This package of ideas and policies aims to (1) Manage liberalized trade, finance and monetary systems; (2) Include the creation of enforceable codes and

Nevertheless, during and after the second Intifada, the importance of international budget support for the financial balance of the PA can not be underestimated. After all, for internal political reasons, Palestinian leaders could not afford not to be able to pay the monthly wages<sup>29</sup> of their civil servants and security personnel and therefore, at the time, the PA did not have much of a choice with regard to the conditionalities demanded from donors. Indeed, ever since the creation of the PA, public sector employment became a major source of employment in the oPt (see figure two above and figure four below). A World Bank (2011, pp. 58-59) report on corruption and governance in the oPt acknowledges a certain degree of public hiring, salary increases and promotions for political and/or nepotist reasons. Although, from a 'good governance' perspective this can never be justified, the same study clearly explains which external and internal factors pushed the PA to make this choice:

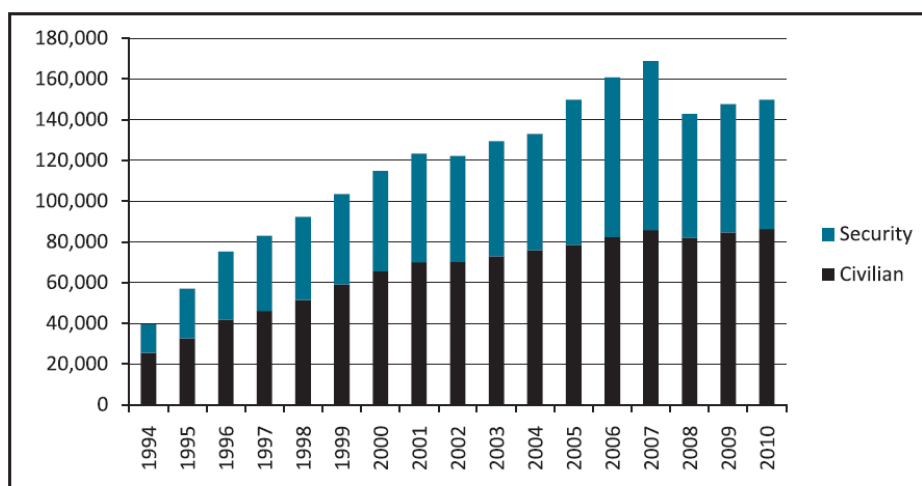
On the one hand, economic deterioration in WB&G due to closures and movement restrictions led to a decline in private sector employment by 25 percent. Moreover, while before September 2000 there were around 146,000 Palestinians working in Israel (23 percent of the workforce), this number declined by 90 percent. In response to these events, the PA further increased public employment to cushion the fall of private sector employment. (...) By the end of 2005, (...) salary increases and hiring prior to the 2006 elections resulted in the PA being unable to remain within the targets set by the Wage Bill Containment Plan that had been agreed with donors providing budget support. At this point 150,000 people were on the PA payroll, an increase of almost 50,000 in five years – 17,000 of them in 2005 alone. Over the five-year period the average annual growth was 4.7 percent. (...) By the end of 2005, the wage bill exceeded US\$1 billion. Public sector hiring continued to rise after the 2006 elections, with a further wave of recruitment in the public sector – the security sector in particular expanded to include recruits and new trainees. As a result, total employment grew to almost 170,000 by mid-2007.

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standards, and concessions to social welfare through targeted social safety nets; (3) Create vertical and horizontal policy coherence and (4) Include businesses and firms in a Global Compact for Development and the PRSP process. For many supporters, the post-Washington consensus differs fundamentally from the original. While the Washington consensus made economic growth the main goal of development, the new consensus moves away from the neo-liberal, market-friendly approach and places sustainable, egalitarian and democratic development at the heart of the agenda. It includes a more poverty-focused approach that protects and supports the poor and prioritizes social spending on education and health. Others argue that the original neo-liberal agenda still underpins the post-Washington consensus, saying that the social safety net aspects of the new policies are put in place as an add-on to deal with market failure. (WHO, 2012)

<sup>29</sup> Most of the budget support to the PA is used to finance recurrent costs. Of those recurrent costs, the wages of PA personnel are the major post. The aid dependency resulting from that, has been heavily criticized by many authors.

**Figure 4: Growth in Public Sector Employment**



Source: World Bank, 2011, p.59

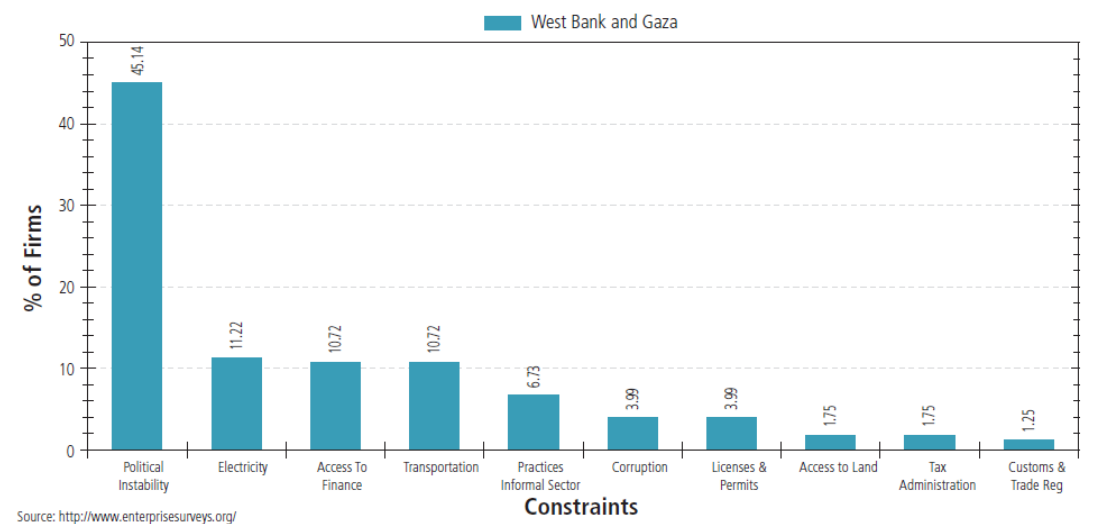
According to the same World Bank study (2011, p. 13), 97,5% of households and 98,5% of public officials responding consider “a person [that] obtains a job, for which *other applicants better qualified* had applied, thanks to a family relationship with a public official [italics added]” as an act of corruption. Although still a majority, only 67,8% of households and 61,6% of public officials consider “a person [that] obtains a job, for which *s/he is well qualified*, thanks to a family relationship with a PA official [italics added]” as an act of corruption. These (and other) numbers indicate a general consensus condemning 'hard corruption', but in the same time they reveal divergent views on 'soft corruption' within Palestinian society. Besides, when enquiring private businesses about the constraints they face in the oPt, corruption seems to be a minor issue with only 4% of businesses citing it among their top three business problems (cf. figure five below). It speaks volumes that the number one business environment constrain, identified as such by 45% of businesses, is the political instability in the West-Bank and Gaza strip.

Looking back at a decade of reforms in a variety of fields (for a comprehensive list and timeline of PA reforms in the field of public financial management, please refer to annex four), the World Bank (2011, p. vii) study confirms the relativity of corruption for the Palestinian people within the overall context of violent conflict with Israel and the more recent (2006-2007) split of the PNA into two different polities, both considering themselves to be the true representatives of the Palestinian people:

Consistent with the improvements in Palestinian government institutions are the report’s survey results, showing that public sector corruption is not viewed as among the most serious problems facing

Palestinians. Moreover, while previous surveys have documented perceptions of corruption in the West Bank and Gaza (WB&G), this study compares perceptions with actual experience. The results show that very few Palestinians experienced corruption when accessing public services. However, perceptions of corruption with respect to these same services are relatively high.

**Figure 5: Top 10 Business Environment Constraints for Firms in WB&G**



Source: World Bank, 2011, p.30

### 5.3.3 BUDGET SUPPORT AND PALESTINIAN PUBLIC EMPLOYMENT: A CATCH-22

Furthermore, when looking into the responsibilities for instances of 'soft corruption' and dubious human resources management, one can ask the question why donor agencies did not intervene earlier in order to prevent their funds being used for political (or nepotist) recruitment. In any case, most major donors have been active in the oPt ever since the PA came into existence in 1994. In that respect Le More (2008, pp. 143-144) estimates other, mainly political, reasons lay at the basis of donors consenting tacitly<sup>30</sup> to the use of funds for public and not always transparent hirings:

With regard to the Palestinians, the donor community did not weigh in more forcefully on the side of sound, long-term fiscal and institutional development because of immediate pressures to prevent any interruption in the flow of financial support, and because of the political and socio-economic functions of aid. As mentioned, patronage – through public hiring and the provision of 'walking money' – was seen as necessary to ensure the stability of Arafat's regime, even if simultaneously – and in a somewhat contradictory manner – donors repeatedly stated that the consolidation of all public accounts under the control of the Palestinian Ministry of Finance (MoF) 'should be given utmost priority'.

<sup>30</sup> Or at least not taking action beyond declaratory condemnations of the unsustainable budgetary situation of the PA.

The donor community was effectively confronted with a catch-22 when it comes down to the political use of aid in the Palestinian context. On the one hand, the welfare function<sup>31</sup> of public employment in the distorted economic environment of the oPt, especially during the second Intifada, could not be ignored. On the other hand, accepting such practices inevitably meant throwing overboard to some degree the principles of 'good governance', principles central to the conditionality donors attached to their budget support in the first place. A World Bank official recalls this catch-22 (Le More, 2008, p. 144):

Very rapidly, it became clear that there would be no real economic opportunity because of closure and a continuation of the occupation. At the same time, the personnel of the PA grew dramatically, diverting money away from investment, but sustaining a patronage system and acting as a job-creation machine. I remember arguing with Arafat about why he was absorbing more and more funds. His reply was: when you see an 18-year old in the street, do you prefer to let him go to Hamas or enrol him in the police? ... This was a huge issue in 1996/1997? We discussed it at LACC, JLC, etc., but donors decided that it was important to stabilize the situation. There was a sense that there was not much of an alternative. But once you allow this principle and let recruitment of the PA be used as a political and social instrument, then you give up on the notion of professional civil service and police. It became too politicized. In this context, there is no way you could have had an efficient civil service structure.

This individual's subjective perception of the situation in the oPt is representative of a defeatist feeling commonly expressed in private circles within the international donor community. It also partially explains why budget support<sup>32</sup> – despite its obvious shortcomings such as the resulting aid dependency – remains the main vehicle of aid delivery to the Palestinians. It is worth mentioning though that the donor reform agenda, as launched from the outset of the past decade, predominantly focused (and still focuses) on maximizing the efficiency of Palestinian public finances by putting its focus on the expenditure side of the budget (cf. annex four), avoiding to tackle the politically sensitive shortcomings on the revenue side of the equation<sup>33</sup>. Furthermore, as already mentioned above, the increased importance of PA fiscal reform on the donor agenda also was a response to strong corruption allegations and the resulting public attention: “The identification of weaknesses and the subsequent reform agenda has focused on expenditures rather than revenues. This largely reflects a judgement that in general the revenue systems were in better shape, but also the greater priority the PA gave to expenditure issues because of the importance of these reforms for donors providing budget support.” (World Bank, 2011, p. 49).

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<sup>31</sup> See also the World Bank report "Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza" (September 2011) in this regard. This report highlights that public sector employment is increasingly playing the role of a safety net in combating poverty, especially in Gaza.

<sup>32</sup> Especially when a large percentage of this budget support is being used to fund recurrent costs, such as the wages of civil servants.

<sup>33</sup> The limited access of the PA to own revenues is directly related to the aforementioned tax transfer mechanism that subordinates the effective collection of PA tax revenues to GOI political goodwill. Another example of a flaw deriving from Oslo II is the lack of power of the PA to actively enforce Palestinian tax laws in Area C.

#### 5.3.4 THE AMBIGUOUS ROLE OF DONOR SUPPORT IN THE oPt

The policy of international donors to attach 'good governance' conditionalities to their aid and their explicit choice to focus on capacity-building and institutional reform has been criticized by many development experts and institutions. Firstly, a predominant focus on the development of PA institutions in the nineties, followed by a focus on their reform after the second Intifada, in combination with the financing of recurrent PA budgetary needs, indicates a short-term, unsustainable and deficient approach by donors to Palestinian development. Secondly, and in contradiction to its own liberal theoretical underpinnings, the current use of budget support in the oPt inevitably diverts funds away from private sector development, especially in economic sectors that matter to the Palestinian conflict economy. Notwithstanding the observation that the political context of conflict and Israeli occupation is the main impediment to long-term, sustainable economic development, donors ought to plan their interventions starting from this country specific context, not just working around the conflict and ignoring the facts on the ground, but pro-actively trying to design projects in such a way that they enhance long-term Palestinian administrative, economic and financial resilience and viability. As a matter of fact, several indicators point to the likelihood that the effects of the post Oslo aid architecture on the Palestinian economy and administration, are not positive nor neutral, but rather negative, reinforcing or at least perpetuating the current impasse on the political level (Taghdisi-Rad, 2011, p. 86):

[A] shift in donor activities after the Intifada [can be observed], from developmental and infrastructural projects towards humanitarian and capacity-building activities – a shift which is in the opposite direction to the deepening sectoral needs of the Palestinian economy and the process of 'de-development' which has taken place in the territories. Even the pre-Intifada 'development' projects, due to their treatment of Palestine as a *post*-conflict territory, had little linkage to various sectors of the economy and were hardly part of a coherent development programme. By not taking into account the intensifying and expanding structures of occupation during the post-Oslo years, these programmes were sure to fail to achieve any developmental outcomes, or, at best, could only have a short-term lifespan. The post-Intifada shift to emergency and capacity-building support not only suffered from theoretical inconsistencies, but also lacked co-ordination and a comprehensive framework aimed at 'supporting the construction of an independent Palestinian state', the seemingly stated objective of many donors including USAID and the EU. The range of institutions- and capacity-building projects of donors are clearly not in line with the sectoral, developmental and infrastructural needs of the Palestinian economy (...). Areas such as agriculture, long-term employment generation, export diversification and domestic industries have received little, if any, attention in donor activities after the Intifada.

The United Nations Conference on Trade and Development (UNCTAD, 2010, p. 10) acknowledges the welfare function of donor's budget support and the limited influence of donors on the policies of Israel. Nevertheless it warns donors in clear terms for the counterproductive effects of their aid on the Palestinian economy. More than that, UNCTAD

suggests that indirectly, due to the structural dependency of the Palestinian economy on Israeli imports, international aid being disbursed in the oPt – to some degree – ends up flowing back to the Israeli economy, which, cynically enough, means that Israel might have an (economic) interest in keeping the current *status quo*:

While donor assistance is critical for cushioning the impact of the Israeli measures, the focus on budget support and emergency interventions risks further aggravating the structural distortion of the economy. However, in the case of oPt, where the economy is under prolonged closure, which sustains the systematic erosion of the productive base, any injection of funds to finance an increase in domestic demand will be fulfilled by an increase in imports rather than an increase in the much-neglected domestic production. Even when funds are allocated for reconstruction and economic rehabilitation, the blockade and closures will continue to undermine the economic impact of these funds. Again, most of the impact will be reflected in higher imports, which mainly come from Israel.

Above findings obviously imply that the time is now for the donor community to look at one's own heart with regard to the development policy they are practising in the oPt. Against the backdrop of the current political stalemate in the Israeli-Palestinian conflict, an independent, thorough evaluation<sup>34</sup> of individual donor's diplomatic and development policies vis-à-vis the PA *and* the GOI might prove to be instrumental to understand why almost 20 years of international assistance to the oPt actually failed to deliver sustainable results to the Palestinian people.

Although it is beyond the scope of this report to provide a detailed account of those donor's that already embarked upon this path, given the particular importance and weight of the World Bank Group in the development community<sup>35</sup>, it is worth citing some of the responses of it's management to recommendations regarding the limited responsiveness of World Bank interventions to some of the above-mentioned concerns. A comprehensive 2010 Independent Evaluation Group (IEG) report evaluates World Bank Group programmes in the West Bank and Gaza from 2001 – 2009. Although it doesn't do justice to the excellent work of the IEG to quote but two of their recommendations, the management responses to those two specific recommendations are directly relevant for a better understanding of the position of the World Bank on the development of the PA and the Palestinian economy under military occupation

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<sup>34</sup> Please refer to the next chapter of this report for a preliminary evaluation of over a decade of Belgian bilateral assistance to the PA. The end of this report lists some recommendations the Belgian (and international) development community might find useful to consider when evaluating or formulating aid policy or projects in the specific context of the oPt.

<sup>35</sup> Firstly because of it's position as an authority in the theoretical and ideological underpinnings of development policy. Secondly because of the prominent positions the World Bank holds in the international aid structure in the oPt. Thirdly because of it's important contributions to the PA institutional and financial reforms and last but not least because of it's management of the Palestinian Reform and Development Multi-Donor Trust Fund (PRDP-TF).



and the multi-faceted constraints resulting therefrom (World Bank, 2010, p. xxx, italics added):

**IEG Recommendation:** Gradually moving the bulk of the Bank Group’s program from budget support to investment and other, preferably productive, sectors.

**World Bank Management response:** Given the current fiscal situation facing the Palestinian Authority (PA), budget support is critical to developing country systems and building institutions. It is also fully consistent with the objectives of aid effectiveness allowing resource planning to be coordinated through the budget. Management questions this recommendation given the positive results, noted in the report, regarding the role of the Development Policy Grants<sup>36</sup> (DPGs) in providing incentives for reform. Furthermore management thinks this recommendation should take into account the totality of engagement in West Bank and Gaza. Compared to the Development Policy Grants (DPGs) – relatively smaller amounts are dedicated to investments. However those investments leverage significant amounts of donor resources through parallel and cofinancing – resulting in a significant investment program as well as enhancing donor coordination. *Should the environment change substantially, the Bank would remain open to revisiting the mix of instruments and use of resources to respond accordingly*, though we note that DPGs can play a vital role in supporting reform even in countries where the recurrent budget needs are not so critical.

**IEG Recommendation:** Providing advice to the Palestinian Authority on developing a long-term strategy to reduce dependence on aid.

**World Bank Management response:** The Bank’s DPGs are specifically aimed at fiscal strengthening, thereby reducing the PA’s dependence on aid. The focus on controlling the wage bill, ending net lending, and increasing domestic revenues are specifically designed to reduce aid dependency. Management proposes to continue this successful line of support *recognizing that, ultimately, aid dependence is contingent upon the potential for real private sector led growth, which is currently constrained primarily due to political and security (not policy or economic) factors*.

Defending its policy of conditional budget support, World Bank management points to the positive incentive provided by DPGs for the PA to reform in the fields of fiscal discipline and public financial management. World Bank management acknowledges “relatively smaller amounts are dedicated to investments” (in productive sectors), but continues it “would remain open to revisiting the mix of instruments and use of resources” in case the “environment” would change. These diplomatic terms basically mean that unless progress can be achieved on the political level and the direct and indirect effects of the Israeli occupation on the Palestinian economy mitigated, there is no viable alternative for budget support. Even in case donors would decide to invest more in productive sectors (as suggested by UNCTAD, cf. supra), World Bank management sees little “potential for real private sector led growth, which is currently constrained primarily due to political and security (not policy or economic) factors”. Those political and security constraints to genuine private sector development are explained by the World Bank (2012, p. 6) into some more detail:

<sup>36</sup> DPG is the name used by the World Bank for its mechanism of conditional budget support. Upon satisfactory completion of prior actions (reform and good governance conditionalities), the grant is disbursed to the PA. DPG IV was agreed upon in February 2012 and amounts to a total of \$40 million. DPG IV focuses on (1) strengthening the PA's fiscal position and (2) improving public financial management. Previously, DPG I, II and III were disbursed by the World Bank in respectively 2008, 2009 and 2010.

The PA is making efforts to help revive the private sector, but sustained private sector growth will require a takeoff in investment, which will only happen when Palestinian enterprises have better access to markets in Israel, East Jerusalem, and elsewhere, as well as have access to land and resources in Area C, the area restricted from Palestinian use for reasons of GOI security concerns. The GoI still prevents all exports from Gaza except for a limited amount of agricultural goods. These goods are not allowed to be shipped to the West Bank or Israel but must be directly exported beyond.

These down-to-earth conclusions of the World Bank (management), soberly observe the current political deadlock, acknowledging the fact that in the oPt, more often than not, the success of aid programmes is conditional on events unfolding in the political sphere.

In its 2012 DPG IV program document (see annex five for DPG IV grant and program summary) the World Bank recognizes that, although conditionalities with regard to reform are solely laid on the PA, the PA is not the only actor responsible for success or failure (World Bank, 2012, p. 37): “NDP’s<sup>37</sup> success depends on parallel actions by the PA, GOI and the donor community”. Indeed, the main impediments to sustainable economic growth in the oPt are not to be found in deficient PA policies, but they are to be found in Israeli policies that hinder the free movement of good and persons (cf. supra). World Bank (2012, p. 38) claims though that “[t]he issues of movement and access and economic restrictions are fundamentally political issues that the Bank has little influence over.” Nevertheless, given the enormous impact these political issues have on Palestinian development prospects, it is disappointing to find that only two out of 71 pages of the DPG IV program document deal with the potential risks arising from negative political developments. Even more worrying is that no real strategy is put forward to protect the programme from such eventualities. Neither does DPG IV seem to start from a context specific analysis, that takes into account the conflict related limitations with which the PA administration has to deal on a daily basis. Last but not least, despite the rather critical IEG evaluation in 2010, the World Bank does not seem to be convinced of the potential harmful effects of its budget support on not only the Palestinian economy, but also on the conflict itself. On the contrary, the World Bank (2012, pp. 37-38) considers budget support to the PA as a prerequisite for the PA to “achieve the popular support required to undertake most politically difficult actions”:

The PA is striving to improve its fiscal position, but for the foreseeable future they will remain dependent upon high levels of aid. Specifically, it will require large amounts of untied budget support that will enable it to pay wages and the other basic operational costs. Without such support the PA will not be able to deliver basic services let alone achieve the popular support required to undertake the most politically difficult actions.

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<sup>37</sup> The Palestinian National Development Plan (PNDP) sets forth the strategic development objectives of the PA for the period 2011 – 2013. This policy document was preceded by the Palestinian Recovery and Development Plan (PRDP) for the period 2008-2010.

The above means that, although the World Bank claims to be apolitical, the World Bank sincerely hopes that its budget support will help to rally support from ordinary citizens for Palestinian decision-makers when taking difficult political decisions. It is not specified whether these decisions refer to possible Palestinian concessions to be made during peace negotiations, but it is clear that through its support, the World Bank hopes to have an influence on the likelihood of political progress to take place. This, of course, stands in sharp contrast to the “fundamentally political issues that the Bank has little influence over” when referring to movement and access restrictions enforced by the IDF in the oPt.

Although one has to acknowledge that the direct influence of donors on Israeli policies is limited, this does not mean they cannot try to influence these issues in other ways. Inaction and defeatism resulting from a belief that one has no grip whatsoever on (political) events that have an effect on the delivery of aid to the oPt, will exactly lead to the loss of influence on those events. This obviously is a self-fulfilling prophecy. Many years of seemingly pointless efforts, have made donors desperate and seems to have led to a vicious and auto-destructive circle of dis-empowerment. This in return has led to donors trying to work around the conflict, ignoring or minimizing their own impact on the course of events, avoiding to take explicit political goals (such as the creation of a Palestinian state) into the overall policy objectives of their programs and projects. As Brynen (2005, p. 141) puts it: “[S]ome way must be found to address and explore, in a fuller and more frank way, the intersection of patronage, politics and aid. To ignore it, as the aid community tends to do at present, increases rather than decreases the probability of distorted development.” The overwhelming victory of Hamas in the 2006 elections, in any case, served as a wake-up call for the international community, forcing donors to take a political position on the future of Palestine. The next section will explore this into some more detail.

#### **5.4 THE POLITICS OF THE P(L)AYERS (2006 - ... ): CONDITIONAL ASSISTANCE WITHIN A FRAGMENTED SOCIETY**

##### **5.4.1 THE ELECTORAL VICTORY OF HAMAS IN THE 2006 ELECTIONS**

On 25 January 2006, Palestinian voters had the opportunity to express their preference for different candidates and political parties during the elections for the Palestinian Legislative

Council (PLC), the legislature of the PNA. This was the first time since 1996 PLC elections were organized. Stakes were high, especially since, unlike the 1996 elections that were boycotted by Hamas, Hamas decided to take part in the political process by presenting their candidates to the electorate under the banner of the List of Change and Reform. The results were not in line with what Western donors had hoped for. Hamas won a landslide victory, securing 74 out of 132 seats, an absolute majority, with Fatah only able to take 45 seats, the remainder of the seats going to smaller political parties (Central Elections Commission (CEC), 2006). The overwhelming victory of Hamas in the elections should not have come as a surprise though. The preceding years, as evidenced by Hamas' results in the 2005 municipal elections, saw an increasing popularity of Hamas. Meanwhile, criticism of the PA – widely seen as an instrument of Fatah's elite and their interests – and discontent with their policies, was voiced openly in Palestinian streets (Taghdisi-Rad, 2011, p. 163):

This was mainly due to the increasing cases of corruption within, and inefficiency of, the Fatah-run PA, the latter's increasing alliance with Western donors while making no progress on a peace settlement, and also, the PA's increasing inability and inefficiency in reaching the neediest of the Palestinian population – a gap which was often filled with efforts of grassroots organisations such as Hamas. (...) By 2006, the Palestinians had become, on the one hand frustrated with the failure of international donors to make any real progress in the peace process while allowing and enabling Israel to continue its occupational policies, and on the other hand, disillusioned with the Palestinian Authority, a donor-funded entity which had failed its very task of representing and protecting the Palestinians.

This posed a substantial dilemma for donors. On the one hand they could accept the outcome of the elections, a process generally welcomed by the EU and other observers as fair, transparent and even “(...) a model for the wider Arab region” (McMillan-Scott, 2006). Accepting those results inevitably also meant accepting that the Palestinian population gave a democratic mandate to Hamas, an organization labeled by many Western countries (amongst others the EU and the US) as a terrorist organization. On the other hand, rejecting the outcome of the elections would undermine donor's own credibility, since, in the end, they were themselves the main driving force behind a process of reform, calling for democratization and transparency in Palestinian society, of which elections were supposed to be the final piece.

#### 5.4.2 THE POLITICS OF AID: DONOR BOYCOTT AND BYPASSING OF THE HAMAS GOVERNMENT

In spite of warnings from Western countries, given Hamas' overwhelming victory, president Mahmoud Abbas did not have much of a choice, but to ask Hamas' leader, Ismail Haniyeh, to form a government. On 29 March 2006 Haniyeh presented his cabinet, fully consisting of

Hamas members and some independents. Haniyeh himself would become the new prime minister of the PA. Immediately after this announcement, as was the case during the second Intifada (cf. supra), Israel stopped the transfer of all tax and customs revenues to the PA. A week later, on 7 April 2006, the two largest donors to the oPt, the EU and the US, announced the suspension of their direct aid to the Hamas led government. Other donors would soon follow their example, leading to the total (financial and political) isolation of the democratically elected Hamas government. Somewhat naively, many countries hoped that such a financial and diplomatic boycott of the Hamas controlled PA would directly lead to Hamas' acceptance of the political conditions as set out by the Quartet on the Middle East<sup>38</sup>. This move, however, should not be underestimated. It basically was a clear case of and created a precedent for the explicit use of aid as a political tool. By linking the resumption of aid to the compliance of Hamas with the political conditions brought forward by the international community (in the form of the Quartet), aid in fact was used as a leverage to pressure the Hamas government into accepting donors' political points of view. This obviously had far reaching consequences.

As early as April 2006, public sector employees no longer received their wages. Whereas in 2001, during the second Intifada, the EU, followed by other donors, engaged in budget support exactly to avoid a humanitarian catastrophe, in 2006, the end (to oust the Hamas government), seemed to justify the means (cutting all direct aid to the PA). The first victims of this policy, off course, were the ca. 167.000 civil servants and their families, who depended directly from the PA for the payment of their monthly wages (Taghdisi-Rad, 2011, pp. 165-166):

These people operate 62 per cent of primary health clinics, all the major general hospitals, and 75 per cent of primary and secondary schools in Palestine, with their salaries supporting approximately one million people, or 25 per cent of the Palestinian population. In April 2006, Oxfam warned that, given the already weak state of the Palestinian economy, this is 'the worst possible time to cut funding. Whatever the politics of such a decision, it would be ordinary people who suffer the consequences' (Oxfam, 2006). In the same month, the UN also warned that, a weakened PA 'raises the prospect of higher death rates through rising insecurity, crumbling health systems, and public health threats emanating from the breakdown of utilities such as solid waste disposal and sewage services' (OCHA, 2006a).

Le More (2008, p. 175) clearly describes the politics going on behind the scenes in the aftermath of the January 2006 elections:

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<sup>38</sup> There are three conditions that Hamas needs to comply with in order to engage in a political dialogue with the international community. Hamas needs to (1) recognize Israel's right to exist, (2) respect previous agreements and obligations entered into by the PLO, and (3) be committed to non-violence.

Yet, despite the newness of the situation, the discussions which took place at the diplomatic and donor levels sounded remarkably familiar. They have revolved, as most donor discussions had over the previous 12 years, around how the international community could continue to channel funds to the WBGs regardless of the legal and the political challenges facing donor countries who were directly or indirectly involved in the 'war on terror'. In the post-January 2006 situation, the trick became how to assist the Palestinian *people* while by-passing the democratically elected Palestinian *government* in order to circumvent donors' own legislation. Several ideas were floated. In the early months of 2006, there were talks about how to boost the role of the President's Office so as to disempower the authority of the office of the Hamas Prime Minister Ismail Haniyeh – the very same office the PA had been pressurized to establish three years earlier as one of the conditions for continuing international aid flows. A proposal for establishing a multilateral funding mechanism, such as a Bank-administered Trust Fund akin to the Holst Fund of the early 1990s, was also considered. Finally, donors pondered the option of substantially increasing the funding of UN agencies and NGOs.

One of the results of these discussions was the proposal of the European Commission in May 2006 to establish the so-called Temporary International Mechanism (TIM)<sup>39</sup>. The main goal of this mechanism was to ensure direct delivery of assistance to the Palestinians, bypassing the Hamas controlled PA. This aid was channeled through its three windows (EC, 2007):

1. Supplies for the health, education and social services, through the Emergency Services Support Programme (ESSP) of the World Bank.
2. Fuel delivery to the Gaza power station which ensures electricity to households, schools, hospitals and public services in the Strip (approximately 40% of the total electricity used in Gaza).
3. Direct financial relief to vulnerable and poor Palestinians, including public service providers.

Initially established for a period of three months, the TIM's mandate was extended several times and ended on 31 March 2008, when it was succeeded by the Palestinian-European Socio-Economic Management Assistance Mechanism (PEGASE). Le More (2008, pp. 175-176) “ (...) estimate[s] that despite Western donors suspending direct financial assistance to the PA, an unprecedented US\$1.2 billion<sup>40</sup> was disbursed to the WBGs for the year 2006. Out of this total, some \$700 million transited directly through the office of President Abbas, the rest through international agencies, whether the United Nations or non-governmental organizations.” Although the modalities of disbursement changed, in practice, total disbursed aid to the oPt in 2006 increased by some 50 per cent. Most important, however, was not the mere increase in amount, but the fact that this aid was consciously being used by donors as a political tool, aiming to influence the domestic balance of power, by reinforcing the position of Fatah within the oPt at the expense of Hamas. It shouldn't come as a surprise that this stirred the rivalry between the two main political factions.

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<sup>39</sup> TIM was effectively established in June 2006. The European Commission, 15 EU Member States, Norway, Switzerland, Australia and Canada contributed to the TIM (EC, 2007).

<sup>40</sup> According to OECD estimates, the total amount of aid disbursed in 2006 might be up to \$1.45 billion, cf. Annex 2.

### 5.4.3 DO NO HARM? ADVERSE EFFECTS OF POLITICAL AID

The foregoing is a clear example of the impact international assistance has on the dynamics of conflict in the oPt. It also reinforces the position – as put forward in the beginning of this chapter – that international assistance shouldn't be regarded as taking place in a political vacuum. To quote Taghdisi-Rad (2011, p. 43) once again: “When aid is given in the context of conflict and violence, it becomes *part of* that context; hence, its effect on conflict does not remain neutral – despite what most donors like to claim.” In this context, Mary B. Anderson (2004) applied her 'Do No Harm' framework to the conflict in the oPt (cf. annex six for her full analysis). Through this framework, she tries to make the (negative) impact of donor aid on the conflict more explicit, in order to suggest positive 'donor programming options' that avoid worsening the situation, hence the name 'Do No Harm'. According to Anderson (2004, p. 1) “[i]t became clear that donor impacts on conflict in this region occur at two levels – on the Palestinian/Israeli conflict and on the divisions that currently exist, or that threaten to emerge, between Palestinian groups within Palestinian society.”<sup>41</sup> Although written before the 2006 Hamas election victory, Anderson's (2004, p. 9) observations with regard to the position of different groups within Palestinian society and more specifically donors' conflict reinforcing approach to Hamas, proved to be forward-looking:

Donor decisions (or the processes by which such decisions are made) about who to hire (and not to hire), with which organizations to partner (and not to partner) and about who shall receive aid (and who will not) have impacts on relations between those who are included and those who are not. Further, differences in which beneficiaries receive which kinds of resources, over what time span and in what order also have such effects. When the aid process benefits some groups whose identity exactly overlaps with the identity of one of the subgroups who are in conflict, the distributional impacts of aid reinforce the divisions between these subgroups. In Palestinian society, for example, decisions (in some cases formalized) to refuse aid to anyone connected to Hamas reinforces the division between all those who are in anyway connected to this group and other groups in society. Because no group is completely monolithic, and Hamas meets many of the humanitarian needs of significant populations, this kind of labeled exclusion builds a dynamic into the current social processes that may pose problems for a cohesive future state. In short, policies that exclude Hamas from beneficiary groups worsen dividers and undermine connectors. Similar impacts can be traced in relation to local NGOs with whom donors partner. Who is selected and how, and who is left out and why, all affect relations among these groups within the Palestinian community, negatively or positively.

Indeed, instead of getting Hamas to accept the conditions of the Quartet, isolating the organization that was supported by a vast majority of Palestinians only reinforced the rift with the Western-backed Fatah. At the same time, it strengthened Hamas' followers in their

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<sup>41</sup> Anderson (2004) identifies seven principal ways through which donor assistance has had a negative impact on the Israeli-Palestinian conflict: (1) Donor Structures; (2) “Routinization” of the Occupation; (3) Relations to the PA and other Aspects of Palestinian Society; (4) Non-Coordination; (5) Attitudes; (6) Word and Labels and (7) Use of History. She also identifies three ways through which donor assistance has had a negative impact on the conflicts within Palestinian society: (1) Distributional impacts; (2) Legitimization/ De-legitimization and Substitution Impacts and (3) Incentives. See Annex 6 for more details.

conviction that the Fatah elite only served Western and Israeli interests and this to the detriment of the Palestinian people. In an attempt to overcome mounting rivalries between Fatah and Hamas, negotiations under the auspices of Saudi-Arabia led, on 8 February 2007, to the so called 'Mecca agreement', in which both parties agreed to form a unity government and overcome their differences in order 'to achieve Palestinian national goals'. Subsequently, in March 2007, the PLC voted a national unity government, consisting of Hamas, Fatah and some third party ministers, into power. Despite some (Western) countries<sup>42</sup> normalizing relations with this government, she was only granted a short life.

Continued political infighting between Hamas and Fatah, led in June 2007 to a short but fierce military confrontation in the Gaza strip. After a week of armed struggle, Hamas eventually took over control of the Gaza strip, forcing out Fatah officials and effectively bringing the unity government to an end. In response to these events, president Abbas announced the dissolution of the March 2007 unity government and asked Salam Fayyad, at that time Minister of Finance, to form an emergency government; a move which, for obvious reasons, was not recognized by Hamas. This course of events sealed the definitive split of the oPt into two territories: on the one hand the Gaza strip that was under *de facto* Hamas control and on the other hand the West Bank under the authority of a Fatah-controlled PA. The international community, from its side, was quick to recognize the newly formed Fayyad government as the sole representative of the Palestinian people. Donors confirmed their support of the PA and resorted to 'business as usual', pledging billions of dollars in support of PA, which would lead to the highest support for the PA since its establishment in 1994, reaching ca. \$2.6 billion in 2008 (World Bank, 2010, p. 14). Unfortunately, the drastic changes in the political scene of the oPt in the period 2006 – 2007, didn't lead to a critical introspection of donors with regard to their activities in the oPt and the goals they are trying to achieve. Le More (2008, p. 176) regrets that:

(...) donors did not use the opportunity brought about by the new Palestinian political configuration to fundamentally reassess their failed 'aid for peace' strategy. The story of the previous 12 years, and especially the surreal situation in which they found themselves on the eve of Palestinian elections in 2006 – providing short-term, unsustainable emergency assistance and pumping large sums of money into an ever more aid-dependent territory which was becoming steadily less viable, politically, economically and geographically – could have acted as a cautious reminder. Instead, third-party actors chose to continue with the well-trodden path of humanitarian and socio-economic 'stop-gap' solutions.

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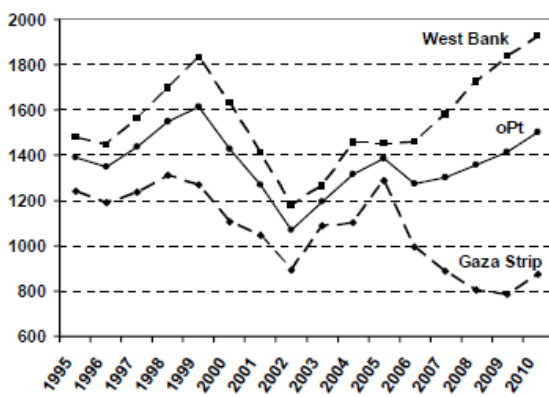
<sup>42</sup> Norway, Switzerland, Turkey, Russia and all the Arab countries gave their support to the unity government. Many countries in the EU also had close contact with representatives of the unity government. (Norway Ministry of Foreign Affairs, 2009)



#### 5.4.4 ECONOMIC AND HUMANITARIAN EFFECTS OF THE GAZA BLOCKADE

Although donors resumed their assistance to the PA in June 2007, the situation in Gaza remained worrisome. Following the Hamas take-over of power, both Israeli and Egyptian governments decided to deny permission of almost all kinds of goods into the Gaza-strip, including humanitarian and medical supplies. For 'security reasons', Israel severed the movement restrictions it had already put in place and sealed off all land, air and sea access to the strip. In parallel, due to political and practical reasons, most donors suspended their projects and aid programmes in Gaza, with only a few international organizations, as

**Figure 6: Real GDP per capita in 2004 US\$**



Source: UNCTAD, 2011, p. 3

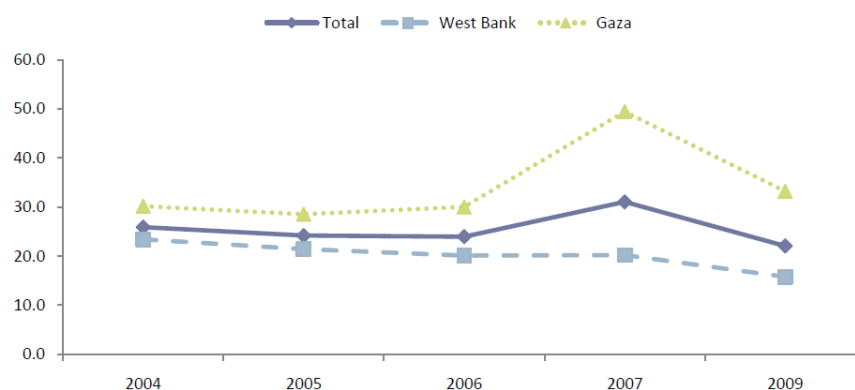
UNRWA, remaining active in the Gaza-strip. In practice, this blockade of Gaza, lead to the total destruction of the already weak economy in Gaza. Whereas economic growth in the West-Bank and Gaza strip ran parallel in the years before 2006, figure six clearly shows that, in contrast to the economic growth realized in the West-Bank, real GDP in Gaza plummeted after 2006, reaching an all time low of ca. \$800 per capita in 2009,

in the aftermath of 'Operation Cast Lead', a three week armed conflict between Hamas and Israel. In relative terms, by 2010, GDP per capita in the West-Bank (ca. \$1900/capita) was twice as high as that in Gaza (ca. \$900/capita). Nevertheless, as already mentioned before, the growth realized in the West-Bank during the last couple of years should not be overestimated. This growth is largely artificial, relying mainly on the unsustainable growth of public sector services, which in its turn is based on a growing inflow of donor funds.

Although the encompassing blockade of the Gaza-strip brought its economy to its knees, the hoped for political consequences did not materialize. Despite material problems, partially remedied by a thriving black market economy based on an extensive network of smuggling tunnels under the Gaza-Egyptian border, Hamas managed to organize society in a relatively efficient manner. Notwithstanding the fact that ordinary Gazans were the primary victims of this indiscriminate blockade, they had other things to worry about than standing up against their new rulers. By 2007, many families in Gaza were hardly able to make ends meet. Daily

survival became priority number one. Figure seven shows that in between 2006 and 2007, poverty in Gaza increased by some 20 per cent, with one in two (!) Gazans living below the poverty line. Those already living in precarious conditions, were most likely to end up living in deep poverty.

**Figure 7: Poverty Incidence Across the West Bank and Gaza**



*Source: World Bank, 2011, p. 14*

Although the situation improved slightly by 2009, with 'only' 34 per cent of Gazans living in poverty, the overall trend is clear (World Bank, 2011, p. 14):

The principal poverty narrative of this period is of the prevailing and widening poverty divide across the regions of Gaza and the West Bank. In 2009, poverty incidence in Gaza was twice as high as that in the West Bank (33.7 vis-à-vis 16 percent). In fact, since 2004, disparities in poverty incidence between the two regions have increased. Between 2004 and 2009, poverty in the West Bank fell from 23 percent to 16 percent. Conversely, during that time, Gaza witnessed an increase in poverty from 30 to 33.7 percent. Furthermore, this increase in Gaza conceals considerable volatility in the interim years.

Following the break-up of the oPt into two political entities in 2007, two different realities emerged on the terrain. On the one hand, the West-Bank under the Fayyad government – heavily supported by Western donors – knew economic growth and a slight decline in poverty, whereas, on the other hand, the Hamas run Gaza-strip – consciously isolated by Western countries – slipped further into poverty and saw a humanitarian catastrophe grow worse. Meanwhile, bitter political rivalry between both Palestinian factions lead to a crackdown on Hamas militants in the West-Bank and vice versa in the Gaza-strip.

#### 5.4.5 TOWARDS A NEW UNITY GOVERNMENT?

It was not until April 2011 that Hamas and Fatah announced they reached an agreement<sup>43</sup> to form an interim unity government. This agreement, that took many by surprise, was the result

<sup>43</sup> Please refer to Annex seven for the full text of the Cairo Declaration of 27 April 2011 and Annex eight for the follow-up Doha declaration of 5 February 2012.

of secret negotiations brokered by the Egyptian caretaker government and stipulated – in general terms – how 'a new chapter in the Palestinian struggle for independence' should be realized. Below the main issues Fatah and Hamas agreed on (Information Clearing House, 2011):

1. The organisation of Legislative, Presidential, and Palestinian National Council (PNC) elections exactly one year after the signing of the agreement.
2. Changes in the interim leadership of the PLO. (Currently the PLO excludes Hamas).
3. A 'Higher Security Committee' will be formed in order to exercise oversight and regulate security matters.
4. The formation of a unity government. The prime minister and the ministers would be appointed in consensus. Press reports indicate both sides agreed a unity government would exclude current prime minister Salam Fayyad.
5. Reactivation of the PLC.

Initial reactions of Western countries were in line with the position they took five years earlier, in the aftermath of Hamas' 2006 election victory: they would in no way support a government in which Hamas takes part. Hamas' acceptance of the conditions put forward by the Quartet were (and are) a *conditio sine qua non* for a political dialogue. Most outspoken, off course, were the reactions of Israel and the US (New York Times, 2011):

Israel (...) denounced the unity deal as dooming future peace talks since Hamas seeks its destruction. "The Palestinian Authority has to choose between peace with Israel and peace with Hamas," Prime Minister Benjamin Netanyahu declared in a televised statement. The Obama administration warned that Hamas was a terrorist organization unfit for peacemaking.

The deal brings with it the risk of alienating the Western support that the Palestinian Authority has enjoyed. Azzam al-Ahmad, the Fatah negotiator, said that Salam Fayyad, the prime minister in the West Bank who is despised by Hamas, would not be part of the interim government. It is partly because of Mr. Fayyad, and the trust he inspires in Washington, that hundreds of millions of dollars are provided annually to the Palestinian Authority by Congress. Without that aid, the Palestinian Authority would face great difficulties.

Despite renewing their intentions to overcome their differences in the Doha Declaration of 5 February 2012 (cf. Annex eight), the lack of detail on how to exactly do this does not seem to be a coincidence. To this date, Palestinian reconciliation – although widely supported by the Palestinian public – seems not to go much further than declaratory statements, expressing an emotional wish of national unity, rather than a concrete project indicating how to get there. Indeed, deep rooted differences between Hamas and Fatah prevented progress on the practical implementation of the measures both sides publicly agreed on. General elections, for example, were already postponed several times since the Cairo declaration, due to both

parties' disagreement on the practicalities of the organisation of such elections. Nevertheless, in spite of Hamas' warnings that it will boycott the organisation of elections in Gaza, the PA decided to push through its Cabinet decision to organise 'nation wide' local council elections on 20 October 2012 (CEC, 2012). As yet, it is not clear how Palestinians living in the Gaza strip will be able to cast their votes. Questions also remain with regard to the position of the international community in case Hamas would emerge victorious from those elections or in case Hamas and Fatah would – against all odds – succeed in forming a unity government. It would be advisable for donors though, to already start planning for the eventuality this would happen.

## **6. THE POLITICAL ECONOMY OF BELGIAN BILATERAL ASSISTANCE TO THE PA**

All the observations made in the previous chapter generally referred to the aid community as a whole. By consequence, they are relevant for individual donors, such as Belgium, too. In what follows, Belgian development policy will be critically examined and held against the light of some of the conclusions that have been drawn in the previous chapter. Finally, a detailed case study in the field of capacity development will be presented. What were its strengths and weaknesses and which lessons can be learned in order to improve future Belgian capacity development initiatives?

This report, however, is not meant to be a comprehensive evaluation of over a decade of Belgian aid to the oPt. It rather aims to be a critical reflection on (parts of) Belgian assistance to the oPt and the reasons why overall achievements – on an aggregate level – seem to have been limited.

### **6.1 BELGIAN DEVELOPMENT POLICY**

#### **6.1.1 GENERAL POLICY OF THE MINISTER OF DEVELOPMENT COOPERATION**

The current Belgian minister of development aid, Paul Magnette (PS – Parti Socialiste), took office in December 2011 and presented his policy to the Chamber of Deputies on 23 December 2011. His choice to focus more on the social aspects of development represents a departure from the more liberal policy under his predecessors. This led, for example, to a more critical stance towards the neo-liberal development policies – focusing on private sector development as the main motor of growth – of the IFIs. In the same time minister Magnette chose to give more attention to development actors that have generally been in the background of the international development scene, such as UN related organizations and conferences as UNCTAD and the United Nations conference on sustainable development (Rio+20). Some basic principles are relevant for the delivery of aid to the oPt and will be commented on below. For the specifics of the Belgian Indicative Co-operation Program (ICP) 2012 – 2015 between the government of Belgium and the PA, please refer to the next section.

One of the major weaknesses of international assistance to the oPt is the lack of coherence, or sometimes outright contradiction, between countries' diplomatic and political goals on the one hand and development efforts on the other hand. This is also true with regard to foreign and development policies of Belgium in the oPt. DAC reviews regarding Belgian development assistance have consequently criticized a lack of policy coherence between different departments that have an impact on development policy in one way or another. In this regard, the 2001 and 2005 conclusions were very straightforward (Kamer van Volksvertegenwoordigers, 2011, p. 36, italics added):

[O]nvoldoende voorspelbaarheid en continuïteit; onvoldoende geografische en sectorale concentratie; versnippering van actoren en hulpinstrumenten; onduidelijke taakverdeling tussen DGD en BTC; ontoereikend reglementair kader voor de humanitaire hulp; *te weinig coherentie tussen het ontwikkelingsbeleid en het regeringsbeleid in het algemeen en tussen diplomatie, defensie en ontwikkelingsamenwerking in het bijzonder.*

Although initial steps were taken to remedy some of the issues mentioned above, the 2010 DAC peer review identified policy coherence once again as a priority area for action (Kamer van Volksvertegenwoordigers, 2011, p. 39, italics added):

De belangrijkste aanbevelingen hebben betrekking op de nood aan een gezamenlijke strategie voor DGD, BTC, BIO en het Belgische Fonds voor Voedselzekerheid; meer synergie tussen de activiteiten van de Belgische ontwikkelingsactoren; *grotere coherentie tussen het ontwikkelingsbeleid en het algemene regeringsbeleid*; meer strategische benadering van de fragiele staten; duidelijker taakverdeling tussen beleidscel en administratie; rationalisering van de vele kleine programma's; vereenvoudiging van de procedures; decentralisatie naar het terrein; beter personeelsbeleid.

In the policy note of the minister, this lack of an interdepartmental policy framework is explicitly acknowledged as one of the major shortcomings of Belgian development assistance. In order to address the problem, an interministerial conference on policy coherence will be organized in the course of the current legislature (Kamer van Volksvertegenwoordigers, 2011, p. 30):

België beschikt momenteel niet over een algemeen beleidskader voor de coherentie tussen het ontwikkelingsbeleid en andere beleidsdomeinen van de federale overheid en de deelstaten. Volgens de OESO-DAC peer review is dit een van de belangrijkste minpunten van de Belgische ontwikkelingsamenwerking en verwarren al te veel beleidsmakers beleidscoherentie met beleidscoördinatie. De Belgische regering is van plan om een interministeriële conferentie over beleidscoherentie op te richten.

On the initiative of the minister of development aid, the Council of Ministers adopted on 13 July 2012 a bill that aims to update the 1999 Belgian law on international cooperation. This law is a laudable first step in an effort to bring Belgian development aid in line with contemporary good practices. Furthermore, the need for more policy coherence is stated as one of the principal motives behind its conception (Magnetite, 2012):

Ontwikkelingssamenwerking is een bevoegdheid die niet langer losgekoppeld kan worden van de andere beleidsdomeinen van de federale regering. Ons beleid inzake o.a. economie, landbouw, buitenlandse handel, migratie, milieu, duurzame ontwikkeling of energie maakt of kraakt ontwikkelingskansen in het Zuiden. Er moet op al deze vlakken een coherent beleid gevoerd worden, om te vermijden dat maatregelen uit verschillende bevoegdheden op het terrein tegenstrijdige gevolgen hebben. (...) Er zal een institutioneel mechanisme uitgewerkt worden rond een interministeriële conferentie over coherentie ten gunste van ontwikkeling. De oprichting van zo'n interministeriële conferentie is voorzien in het regeerakkoord van 1 december 2011 en de minister van Ontwikkelingssamenwerking zal hierover een voorstel voorleggen aan de Ministerraad.

Although there is no lack of good intentions, much, off course, depends on the exact modalities of the proposed 'institutional mechanism'. The question remains whether the relatively small department of Development Cooperation is able to convince its larger brothers to align their policies. Departments as Foreign Affairs and Defense in the end have their own priorities and interests. For example: one can question the likelihood of Belgian diplomats in Tel Aviv lobbying Israeli officials to reduce movement and access restrictions in order to advance Palestinian development projects, whilst in the same time trying to stimulate Belgian-Israeli economic relations. Although from a development perspective this would be desirable, political reality might prove to be much more complex and challenging. Nonetheless, a mechanism that institutionalizes regular consultations between different departments – even if it was only for the sake of mutual understanding and awareness – could lay the foundations for a closer future collaboration, hopefully not only in Brussels, but also in the field. Such a mechanism could identify potential policy inconsistencies between different actors and hopefully lead to the prevention of outright policy contradictions.

The following section will try to shed some light on the priorities of Belgian development assistance in the oPt and the policy choices that have been made.

### **6.1.2 BELGIAN DEVELOPMENT POLICY IN THE oPt: ICP 2012-2015**

The Indicative Co-operation Program (ICP) 2012-2015, concluded on 23 November 2011 between Belgium and the PA, provides the general framework for Belgian development assistance to the oPt. The ICP 2012-2015 builds further on the ICP 2008-2011 and, on the whole, can be seen as a continuation of previous policy. The ICP 2012-2015 specifies the priorities of the Belgo-Palestinian partnership and distributes development funds over different sectors. A logframe matrix at the end of the document summarizes the commitments, the results to be obtained and potential risks related to the different sectors of intervention. The stated purpose of the document (Government of Belgium, 2011, p. 1):

(...) is to describe the bilateral Indicative Co-operation Program for the period 2012-2015, as well as the main principles of its implementation. The guiding principle is to contribute as effectively as possible to the implementation of both the poverty reduction driven National Development Plan and the long-term development vision adopted by the Palestinian Authority.

Although Belgian aid is being disbursed in the framework of the PA National Development Plan (NDP), the conditionalities that are being put forward in the remainder of the document are clearly donor-driven. In order to analyze the ICP 2012-2015 into some more detail, an overview of the Belgian funding and priorities is indispensable.

In the period 2012-2015 Belgium will disburse some €71,6 million through its bilateral cooperation programme with the PA (Government of Belgium, 2011, p. 25). Since the budget of the ICP 2008-2011 only amounted to a total of €50 million (Government of Belgium, 2008, p. 7), this effectively signifies an increase of some 43% in Belgian bilateral cooperation with the oPt. Within a context of worldwide budget cuts in development assistance, this increase is remarkable and shows commitment of the Belgian authorities in their support of the PA. On the other hand, as has been pointed out before, the mere spending of high levels of aid in the oPt is not sustainable as long as that aid is not coupled with a genuine political and diplomatic engagement. As has been acknowledged by the World Bank and other major donors (cf. supra), the root cause prohibiting sustainable Palestinian development is not so much a lack of donor funds, but rather the numerous access and movement restrictions imposed by the Israeli occupier. This problem, off course, cannot be solved just by spending more aid in the oPt. A just solution to this problem requires concerted international efforts in the political and diplomatic scene. Worse still, the injudicious and uncritical spending of high amounts of aid in the oPt, without taking into account the specific conflict related context of the oPt, can worsen the situation by increasing aid dependency and/or preserving the current *status quo* in the conflict. Whether the above mentioned concerns have been discussed within the Joint Commission between Belgium and the PA is not clear.

Nevertheless, the increase in Belgian development aid to the oPt, might be explained by Belgium's intention to take donor lead in its priority sectors (Government of Belgium, 2011, pp. 17-18):

In line with the EU Code of Conduct on Complementarity and Division of Labor in Development Policy, Belgium will restrict its activities within the framework of this ICP to the sectors of Education and Local Government paying due attention to the cross-cutting issues of gender equality, environment and good governance. Belgium is available for taking donor lead in its priority sectors. (...) Belgium has the objective to sustain the support to the priority sectors for 12 year-cycles.



Within these two priority sectors, aid will be channeled through several components (Government of Belgium, 2011, pp. 20-22, italics added):

**1. Priority sector one: education sector (€33 million)**

- Component I: Construction and rehabilitation of schools, and their equipment. (€16 million)  
As a continuation of the positive Palestinian Belgian co-operation in school construction in the past two bilateral agreements (phases I – II – III), and observing the excellent results, more schools will be built and equipped, with careful consideration to fill in possible gaps at geographical level (*school building in Gaza and area C will be considered in function of the security and political situation*). Special attention will be paid to interactions between schools and communities, to gender, and to energy efficiency and other environment-related aspects. Maintenance of buildings will also be considered. (...)
- Component II: Support to the Joint Financing Agreement (JFA). (€12 million)  
The Ministry of Education and Higher Education searches to better align the funding of the donors with the national plan in the education sector. Therefore they set up, in 2010 the pooled fund of the Joint Financing Agreement which is based on the Education Development Strategic Plan and fully compliant with the NDP and the Palestinian budget. (...)
- Component III: “Enhancing Capacities” for institution building program. (€5 million)  
In compliance with the state building objectives of the NDP, this component dedicated to capacity building, will pursue as main objectives: poverty reduction, economic development, institution building. The focus will mainly be put on the two priority sectors or complementary activities, and on the transversal themes. (...)

**2. Priority sector two: Local Government Sector (€20 million)**

- Component I: Contribution to the Local Government Reform and Development Program (LGRDP) including the support to the Municipal Development Program (MDP). (€12 million)  
The Palestinian Belgian co-operation projects in this field (Local Infrastructure and Capacity Building Project” and “LGRDP I”) had positive outcomes. Through the extension of this support (“LGRDP II”) Belgium will contribute to the first and second specific objective. This extension will increase the geographic coverage, continue its special attention for amalgamation, and improve the integrated capacity development approach for all actors in this field: MOLG, MDLF, village councils, Local Government Units, and municipalities. For the municipalities the intervention will be aligned as much as possible with the Municipal Development Program (MDP)
- Component II: Economic regeneration of local entities. (€8 million)  
This component aims at revitalizing historical centers of municipalities through stimulating local economic, social and cultural development. (...) To be consistent with the LGRDP approach, the target group will be amalgamating or recently amalgamated municipalities, and the regeneration program should also be integrated in their development plans. (...)

The remainder of the ICP 2012-2015 budget, does not concern direct bilateral aid. Nevertheless, some of the projects that are being delegated to other actors are very significant, since they deal directly with the politically sensitive areas of Gaza and East-Jerusalem. More specifically it concerns (Government of Belgium, 2011, pp. 22-23, italics added):

**3. Delegated co-operation (€14 million):**

- With EU - PEGASE system (€9 million)  
The PEGASE system mainly delivers direct financial support to the running costs of the Palestinian Authority, which is done on a fully agreed, earmarked and controlled basis. The contribution to

PEGASE will be directed to the quarterly payment of social allowances to the most vulnerable Palestinian families (VPF) in the West-Bank and Gaza. *More than 50% of the contributions are destined to Gaza.*

- With the World Bank: contribution to the North Gaza Emergency Sewage Treatment (€2 million)  
In 2005 Belgium already contributed, together with other donors, 4 M€ to this project of industrial sewage treatment in the North of the Gaza-strip. The program is very useful, *visible* and environmentally important. This new contribution is important to further advance works.
- With UNDP/PAPP: environment/ Climate change (€1,5 million)  
Taking into account that rain fall is decreasing in Palestine and temperatures are rising, mainstreaming climate problems becomes increasingly important. (...)
- With UN Habitat: Urban Planning Support Programme for the Palestinian Communities in East Jerusalem (€1,5 million)  
This intervention aims at protecting and supporting the living conditions of Palestinian communities in East Jerusalem through *sustaining their urban planning and construction rights and opportunities in order to improve the living conditions and ease displacement pressures, and at the same time securing growth opportunities for the Palestinian communities in East Jerusalem.* Because of the impossibility for the PA to operate in East Jerusalem, UN-HABITAT is the most adequate international institution to take charge of this intervention, in view of their agreement with the offices of the President of the PLO.

It is interesting to note that Belgian direct bilateral assistance in practice geographically limits itself to projects in area A (and B) in the West-Bank. Only in the context of component I of the education sector (construction and rehabilitation of schools, and their equipment), reference is made to area C and Gaza: “school building in Gaza and area C will be considered in function of the security and political situation” (Government of Belgium, 2011, pp. 20). No further details are given as to which conditions regarding the 'security and political situation' need to be met in order to engage in school construction in area C<sup>44</sup> and Gaza.

Whereas it is clear that in Gaza, 'the political situation' refers to the Hamas regime and the related blockade, to this day, the main impediment to construction in area C is the complex, prohibitive administrative procedure when applying for a building permit. This application has to be approved by the Israeli Civil Administration, part of a larger body known as the Coordinator of Government Activities in the Territories (COGAT), which is a unit of the Israeli military that deals with civilian affairs in the occupied territories. Obviously COGAT has conflicting interests when it comes to construction in the oPt. As a consequence, an application for a building permit in area C often gets caught up in a long administrative procedure which seldom results in an approval. Because of this low approval rate, many Palestinians – often by necessity, for example because of additions to the family – start

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<sup>44</sup> The Oslo accords divided the West-Bank in different areas of responsibility. Area A: full Palestinian civil and security control. Area B: full Palestinian civil control and joint Israeli-Palestinian security control. Area C: full Israeli control over security, planning and construction. Area C constitutes over 60% of the West-Bank; 70% of Area C is off-limits to Palestinian construction; 29% is heavily restricted. (OCHA, 2011)

building without a permit. By doing this, they risk facing a demolition order or outright demolition of the new construction by the IDF.

International donors face similar problems in case they want to engage in construction projects in area C. Although the need for new infrastructure in area C is high, and a priority for the PA, in order to avoid complications – or diplomatic incidents –, many donors prefer not to fund projects in area C at all. By not challenging or even questioning the Israeli authorities in this regard, in practice, this comes down to donor's tacit consent of Israeli practices of obstruction. Not only does this favour Israeli strategic long-term interests by allowing them to continue their policy of creating 'facts on the ground', worse yet, in the long run this acceptance of Israeli practices might prove to make the very effort of building a viable Palestinian state impossible. Le More (2008, p. 138):

By accommodating territorial constraints, the choices made by donors at the project level thus also contributes to reinforcing Israeli policy of fragmentation and dispossession. While Israel expanded its territorial and demographic control over key strategic areas of the West Bank, Palestinian presence and use of the land diminished, especially in Jerusalem and the areas along the Green Line and the Jordan Valley.

The reticence of donors to invest in projects that risk being destroyed, can also partially be explained by the negative historical experience of donors. Indeed, many infrastructure projects that were constructed throughout the nineties were damaged or destroyed by the IDF during the second Intifada, with the destruction in 2001 of the newly built Gaza airport (total estimated financial loss of some \$16 million) being one of the most infamous examples. The education sector was also badly hit (Taghdisi-Rad, 2011, p. 76):

In the case of education, the bulk of the total commitment during this period [the pre-intifada period], amounting to \$ 14 million, went towards construction and equipping of basic and secondary schools, with a much smaller budget dedicated to development of libraries, laboratories and vocational training courses. There were also sums of money committed to construction of schools, but the disbursements here fell far short of commitments due to the destruction of many school units by IDF which prevented donors from further engaging in that sector.

The risk of destruction of their projects was one of the factors that pushed donors, including Belgium to some degree, in the post-Intifada era from the infrastructure sector to 'low risk' sectors as capacity building and budget support. Nevertheless, even after the second Intifada, donor's regularly saw their projects damaged or destroyed by the IDF. Calculations of the European Commission regarding the physical damage inflicted by IDF attacks to EU funded development projects (for the period May 2001 – October 2011) are revealing. Without claiming to be comprehensive, total losses are put at €49.1 million, with €29.3 million

attributed to EU funding (Davies, 2012). Please refer to annex nine for an overview<sup>45</sup>. Two Belgian projects are listed in the file:

1. Project of the government of Flanders (€135.000)  
Housing projects in Rafah (Gaza) and Beit Jala (Bethlehem, West Bank): damages by IDF plus further damages by army after rehabilitation had occurred with full demolition.
2. Project of the government of Belgium (€11.000)  
Ain el Sultan (Jericho, West Bank) Irrigation Scheme: IDF armoured vehicles ran over and destroyed parts of the irrigation network in Ain El Sultan near Jericho. The 300 mm PVC pipe needs to be replaced over 60 metres. Steel cover of one hydrant box needs replacement. Some 200 meters of the other 200 mm PVC pipe along line (D) needs replacement.

Although it is not clear whether the Belgian authorities ever raised the issue with the competent Israeli authorities, it would only be logical to ask for some form of compensation for this loss of taxpayers money. Not reacting at all, as is the case with construction permits, equals to the silent acceptance of such practices. Nevertheless, it is well known that most cases of damage or destruction by IDF interventions are never compensated at all. When the EC was enquired about the actions it had taken *vis-à-vis* the GoI in relation to the destruction of a €64.000 EU funded project, the EC had to admit they came away empty handed, despite representatives putting it on the agenda at several instances (Davies, 2012):

The letter makes clear that Commission representatives raised the matter (...) both in letter after letter and in person at routine meetings with COGAT (Israel's 'Coordinator of Government Activities in the (occupied) Territories). The Director admitted that, more than a year after the destruction had taken place, no written response had been provided.

The answer to the question why the Government of Belgium is hesitant to directly fund projects in politically sensitive areas such as area C, East-Jerusalem or the Gaza strip is probably related to the uncertainty and high level of (political) risk this involves. On the other hand, Belgium's choice to support these areas indirectly under its 'delegated cooperation' programme (cf. supra) – by funding the EU Pegase mechanism, UN Habitat and the World Bank – signifies the Belgian state considers these areas as being an integral part of a future Palestinian state, which is in line with its official policy of supporting a Palestinian state within the 1967 borders. Sadly – as has already been pointed out at several instances –, humanitarian, direct impact projects, such as the provision of social allowances through the Pegase mechanism, only target symptoms and do not remedy underlying causes, which in the Palestinian case are of a political nature. Worse still, there is a real risk such interventions,

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<sup>45</sup> The complete spreadsheet lists 82 instances of damage inflicted by Israeli Defence Force attacks to EU funded development projects, together with the Member States that provided the money for each, and the date of the attack (from May 2001 through to October 2011). This document, on which annex nine is based, can be downloaded from the webpage of MEP Chris Davies. The direct URL is listed in the bibliography.

when not coupled with political and diplomatic action, only exacerbate the problem and prolong the conflict.

## 6.2 CAPACITY DEVELOPMENT AND ITS LIMITS: CASE STUDY

### 6.2.1 THE LOCAL INFRASTRUCTURE AND CAPACITY BUILDING PROJECT (LICP)

The *Local Infrastructure and Capacity Building Project* (LICP) was already identified as a priority project concept at the first meeting of the 'Belgo-Palestinian Cooperation Joint Committee', held in Ramallah on 4 November 1998. The 'Specific Agreement' between Belgium and the PLO was signed on 12 November 2001 for a period of three years and started operations in December 2002. The initial budget allocated by the Belgian government for LICP was € 6.355.296.

The first phase of LICP (LICP I) consisted of two components:

1. *Component one*: to support investments in a number of pre-identified local/rural infrastructure facilities for an immediate improvement in the provision of related services in 23 participating Local Government Units (LGUs) of the West Bank.
2. *Component two*: to provide budget support and capacity building activities to a selected number of municipalities and village councils. This component has two sub-components:
  - A fiscal transfer mechanism (Capacity Building Fund - CBF) to provide modest but predictable annual financing of municipal investment programmes, and act as incentive for local institutional strengthening.
  - Training and other capacity building activities in order to improve the municipal planning, programming and budgeting functions and procedures as well as improved local financial management and transparent revenue and expenditures reporting systems.

Because of serious delays in programme implementation, amongst other things due to the second Intifada and its impact on all ongoing operations in the oPt, the LICP was extended. At the end of 2005, a Mid-Term Review (MTR) took place resulting in a series of steps to improve the overall project implementation, output and impact on the ground. Consequently,

a final evaluation of the LICP took place in November 2007. This final evaluation concluded that despite the lack of a ‘decentralisation roadmap’ and the lack of donor coordination within a national framework, a second phase of the LICP should be considered (Belgian Technical Cooperation, 2007a, p. 5) :

The Project was formulated relevant to the national priorities within local governance (...) [D]ecentralisation in terms of local needs, working with LGU capacity building [and] infrastructure development are all very relevant areas in terms of addressing service delivery gaps in local governments. Therefore, the issue of relevance is rather linked to real needs at LGU level but not necessarily to a comprehensive decentralisation policy and strategy. In this sense the LICP has fulfilled its intentions of addressing infrastructure needs at local level with relevant trainings to address capacity gaps.

Pending a final decision on a follow-up of the LICP, by the end of 2007 agreement was reached on the continuation of LICP during a one year transition phase. Point of departure were the good practices as identified in the evaluation report of the first phase of LICP (LICP I). Taking into account the recommendations formulated in the 2007 evaluation report, it was decided that, during this transition phase, LICP would focus on the same areas of intervention as was the case during LICP I. Given the fact that the capacity building component of LICP I only really took off after the re-launch workshop organized in February 2006 (cf. infra), priority during the transition phase would be given to capacity development efforts. Indeed, bearing in mind that the capacity development component had only been put into practice for some fifteen months by the time the final evaluation was carried out, the additional technical and financial file for the LICP transition phase rightly mentioned that “(...) LICP has only scratched the surface in terms of capacity building.” (Belgian Technical Cooperation, 2007b, p. 5). LICP transition phase officially commenced in April 2008 and – due to delays in the identification and formulation of a follow-up of the LICP – ended its operation in the fourth quarter of 2009.

The programmatic focus in terms of key areas of intervention, as described in the additional technical and financial file for the transition phase of LICP, comprise the following areas:

**1. Municipal capacity building:**

The prime focus of the Transition Phase will continue to be on building municipal capacities as a key development objective of LICP that will be further pursued. In addition to governance, (strategic) planning and financial management, municipal staff will be (further) trained in areas such as town and regional planning, development planning, local economic development, women participation and ICT in direct cooperation with MoLG and in coordination with MDF to ensure the highest impact;

**2. Building infrastructure for socio-economic development:**

Small scale infrastructure building will be retained as a major programme focus aimed at improving general conditions and amenities for socio-economic development; at the same time, it can serve as a

concrete starting point for developing a more comprehensive municipal development plan, in direct cooperation with MoLG and in coordination with MDF to ensure the highest impact;

### 3. **Internally Developed Local government database:**

The need to keep track of documents, products and services in the field of local governance capacity building; the envisaged database will be developed in coordination with the MoLG in order to make the materials accessible to LGU, JSCPD and MoLG staff. The intervention will also be coordinated with the MDF in order to avoid any duplication.

As mentioned above, LICP has had a strong focus on local government capacity development ever since its conception. Although external (political) and internal (organizational) circumstances impeded a swift take-off of the capacity building component during the first phase of LICP, the organization of a LICP re-launch workshop in February 2006 laid solid foundations for the development of a strong capacity development component within LICP I and its consequent transitional phase. This 'capacity building workshop' was conducted in a participative manner and involved all stakeholders (LICP, 2006, p. 6). Following this workshop, LICP staff had gained insight in the human resources needs of involved stakeholders. Accordingly a work plan was developed that focused mainly on the *organization of training* in the fields of (1) technical skills (water and electricity), (2) computer skills (MS Access, MS Project, AutoCAD, GIS, etc.), (3) financial skills (accounting, financial management, budgeting, etc.) and (4) administrative skills (planning, leadership, communication, etc.). The bulk of these trainings took place in between May 2006 and August 2007. The main target audience of these training courses was relevant LGU, JSCPD, and MoLG staff. After LICP I moved into its Transition Phase during the first semester of 2008 and after renewed consultations with involved stakeholders, it was decided that the main focus of LICP's capacity development component should stay on aforementioned themes. The TFF of the LICP Transition Phase notes that LGU's and other stakeholders showed strong interest for training and professional development in areas such as (1) physical/spatial planning/zoning (town and regional planning), (2) development planning, (3) local economic development, (4) English language, (5) gender issues and (6) ICT (Belgian Technical Cooperation, 2007b, p. 21). Due consideration was given to these preferences and starting from August 2008, a new round of training workshops was organized.

Within the capacity development component of LICP I, a second priority was the installation of a *fiscal transfer mechanism* – the so called Capacity Building Fund (CBF). This fund was a pilot – LICP being the first one to organize such a mechanism – that intended to provide

smaller LGU's with incentives for the adoption of improved municipal planning and financing practices. Annual financing of municipal investment programs (in support of socio-economic development) would be channelled through the Ministry of Finance (MoF) by means of a '14 step transfer mechanism'. In combination with the parallel organization of workshops aiming to improve financial skills (financial management, budgeting, etc.), the capacity development component of LICP I would have been a comprehensive one, operating both on a structural and on an individual level. In total three transfers were made by means of the CBF in September 2005. Despite its potential, however, the transfer mechanism – developed by a committee that included representatives of MoF, MoLG, BTC and LICP – was only briefly put into practice and abandoned after three additional direct transfers to concerning LGUs were completed in October 2006. Indeed, after Hamas' 2006 election victory, in order not to jeopardize the planned support for the 11 concerning LGU's, it was decided to abandon the transfer mechanism in favour of direct budget support to those LGU's that were found to be eligible<sup>46</sup>. Consequently, the 11 eligible LGU's were invited to file applications for the funding of projects benefiting the local community at large. In the end, 32 projects were financed under the CBF (for a total amount of € 1.569.069,51), ranging from the construction of roads and the installation of street lighting to the supply of excavators.

In line with LICP's support for sound financial management through the organization of training in this field (cf. supra), LICP further pioneered by computerizing the financial management of 11 LGUs throughout Westbank. Based on the MoLG's goal to have a unified accounting system, LICP developed in coordination with the MoLG a *financial management system (FMS)* for LGUs. The development of this FMS was carried out after an extensive assessment of LGU's current financial management capacities (by means of workshops, a survey and site visits).

Building on the three years of experience LICP gathered during the process of formulation, selection, implementation and evaluation of the FMS, and taking into account the positive track record of local LICP partners, it goes without saying that a continuation of this successful partnership was no more than self-evident. Therefore LICP took the initiative to deepen the relationship with a selected number of local authorities with whom a strong and

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<sup>46</sup> Based on a set of preliminary activities (establishing eligibility criteria, capacity assessments, formulation of guidelines for proposals, allocation of available resources, design format for financial agreement, formulation approval procedure), the budget support (or later named capacity building) process began. In the end, the capacity assessment (of basic administration and financial capacity) of all 11 LGU's was favourable.



positive relationship of mutual trust grew during the past couple of years of close cooperation. In order to further strengthen the administrative and institutional capacity of six selected local authorities<sup>47</sup>, LICP – in line with its previous support – engaged to supply a fully functional *Human Resources and Payroll System*. Obviously this system was to supplement the existing FMS and the development of a tailor made solution was initiated in order to respond to the HR needs of relatively small sized local authorities. After intensive training for involved municipal civil servants, by June 2009, the HR system was up and running and being used on a daily basis by the beneficiaries.

The last initiative taken by LICP in the field of capacity development is aiming to directly support the MoLG Headquarters and its 12 regional District Offices. Capacity development in Palestine should be working on different geographical (local, regional, national) and operational (individual, organisational, institutional) levels. By supplying the central Palestinian institution responsible for local authorities with an integrated *Human Resources Management of Information System* (HR MIS), LICP tried to supplement and reinforce its efforts on the local level (cf. supra). The main goal of the HR MIS is to facilitate, improve and streamline the everyday management of HR related operations within the MoLG.<sup>48</sup> Improved HR management at the MoLG and its 12 district offices, in its turn, will have a direct effect on the quality of services provided to local authorities.

### 6.2.2 CAPACITY DEVELOPMENT IN THE PALESTINIAN CONTEXT: PRELIMINARY REMARKS

'Capacity development' or 'capacity building' is an expression all too often used in general terms, outside a practical framework based on a contextual definition. Without proper understanding of the Palestinian context and the true contents of the term capacity development, the risk is real that 'capacity development' becomes more of an umbrella expression covering all sorts of actions loosely related to HR development and support to the

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<sup>47</sup> These are the municipalities of Attil, Deir Ghoson and Illar in the Al Shariweya/Tulkarem area; Al-Zawiya municipality in West Salfet and Abu Deis and Al-Izariya in East-Jerusalem.

<sup>48</sup> The main HR MIS elements and functionalities are: to manage the organizational structure (MoLG Org Chart); manage recruitment processes and open vacancies; HR profiling; attendance & time management; vacations management; managing payroll related information; transportation compensation; penalties; retirement and severance; employee evaluation and promotion; training and capacity building; HR workflow processes (Workflow System); knowledge management; laws and rules; integration with other applications; reports and forms; HR e-Services.

development of organisations. As the previous section showed, LICP was not always immune for this risk.

Some of the basic questions that are to be raised in the process of formulating a capacity development strategy and programme concern (amongst others) *external developmental and political processes*: what is the impact of and role of politics and (the politics of) donor development aid on efforts to support the development of Palestinian capacity in the local governance sector?; *internal capacity development processes*: what is capacity development in the Palestinian context?; which capacity is to be developed: the capacity to do what?; which capacity is present and how does it operate?; *local power politics and the broader institutional setting*: what are the power configurations in the Palestinian local governance sector and who are the main players?; how can vested institutions and organizational culture be challenged and influenced? Raising questions like these is not an end in itself, but by acknowledging and understanding the local context, the foundations are being laid on which a responsive capacity development strategy and capacity development programme can be built.

Although all of the above questions are crucial, they are often not easily answered. This report neither aims to do so. An ‘institutional analysis’, ‘power analysis’ or ‘drivers of change analysis’ of the Palestinian local governance sector would be highly recommended, but doesn’t fall within the scope of this report. It is important to point out that without a proper understanding of, on the one hand, theoretical concepts related to capacity development and, on the other hand, the local Palestinian context, all capacity development initiatives are severely hampered, if not doomed to fail or operate in the margins. Some of the ideas touched upon above, will be further developed in the following sections.

### 6.2.3 CAPACITY DEVELOPMENT: STRATEGY AND GOOD PRACTICES

The Organization for Economic Co-operation and Development (OECD) identifies three main analytical levels on which capacity development may need to be pursued, i.e. (1) the individual level, (2) the organisational level and (3) the level of the enabling environment (OECD Development Co-operation Directorate (DCD-DAC), 2006, p. 13):

Understood as the ability of people, organisations and society to manage their affairs successfully, capacity obviously depends on more than the experience, knowledge and technical skills of individuals. Capacity development at the individual level, although important, depends crucially on the

organisations in which people work. In turn, the operation of particular organisations is influenced by the enabling environment – including the institutional framework and the structures of power and influence – in which they are embedded. Power structures and institutions (regular patterns of behaviour governed by social norms, or “the formal and informal rules of the game in a society”) shape and constrain the functioning of particular organisations (“groups of individuals bound by some common purpose”)

Even though, on a project level, it might be easier to tackle capacity development needs on one level than on another (e.g. it is easier to tackle individual needs than organizational needs, which in its turn is more straightforward than influencing the overarching enabling environment), it has to be clear that capacity development – on whatever level that may be – is never happening in a vacuum. Nevertheless, this very basic point of departure is often overlooked during the formulation phase of projects. One could effectively say that a project’s success or failure is at least partially determined by the ability of a certain programme to adapt to, take into account and respond to local realities. Indeed, plenty of examples can be given of projects that fail to attain their goals by neglecting local societal institutions and (political) power relations. Afterwards, 'lack of political will' is often blamed and/or used as a whitewash for project failure whereas an in-depth analysis during project formulation could have foreseen at least some of the power play that inevitably will be part of any project. *A proper understanding of the incentives and disincentives created by the enabling environment* in which a certain organization, individual or capacity development initiative has to operate is a *conditio sine qua non* for successful project formulation and implementation.

Whilst constructing a definition of capacity development, genuine country ownership of capacity development processes is another key factor with a view to successful project formulation and implementation. As is the case with donor coordination and cooperation, there is a fundamental difference between consulting and informing partner country organisations and (pro-)actively involving them during the different phases of project management. *Pro forma* partner involvement and approval of a proposed programme or intervention does not imply country ownership. True country ownership is not static, grows from within and – by definition – cannot be imposed. In line with the rich meaning and contents of the concept of capacity development, ownership is often mistakenly thought of as an umbrella concept without truly grasping all the layers of meaning that encompass it. Country ownership is a dynamic concept that is not necessarily present or absent at all levels of an organization at the same time (ECDPM, 2008, p. 3):

It follows that ownership is key to building and sustaining capacity. It is a function of both the willingness and ability of stakeholders to engage in and lead change. But ownership can be elusive, ebbing and flowing over the life of any intervention. Ownership can exist at the highest levels of an organisation (where negotiations and planning takes place) but may be absent lower down, and vice-versa. Interests can change and supporters at the outset may become detractors later on. Those who have the ability to exercise their ownership may not share the same interests and objectives as other stakeholders with less voice. In politically unstable environments, ownership can quickly shift as alliances and allegiances form and reform.

In line with the above it may become clear that both capacity development and the interrelated concept of country ownership are subject to various outside and inside pressures operating in different ways on different levels. In the highly politicized context of Palestine, it is important to realize that individuals within organizations and organizations as such all respond to dynamic push and pull forces within the political sphere. In contrast to current donor practices, it may be advisable to explicitly acknowledge these forces and at the very least be aware of them during project formulation and execution. One should also keep in mind that behind the apparent technical nature of capacity development, capacity development itself directly influences power distribution in organizations and in society. Capacity development as such is not politically neutral. Therefore, optimally, project architecture does more than just responding to the existing state of affairs. During project formulation, and whilst donor programs are being designed in collaboration with the partner country, one should inform project design by understanding the (political) reasoning behind a partner's (strategic) choices for the development of capacity of certain organizations over others. In the same time *all involved parties ought to contemplate on a just, efficient and effective distribution of power*. In close collaboration with the partner country and other donors, the assessment should be made as to what such an optimal power distribution looks like and whether or not it is line with accepted and set strategic development objectives.

In this respect – and especially in the field of local governance – it is of utmost importance to closely involve and listen to the stakeholders and actors at the lowest levels of government. Indeed, all too often it is forgotten that in the power play between and within different levels of government, the lower the level of government and the smaller the player, the less power and capacity to influence strategic processes and policy choices on a higher level, which happens to be the level which decides on the future structure and configuration of the local government sector. This is not to say donors should privilege local actors over more centralized actors or vice versa – each level has got its own merits and its own agenda –, but in the context of project formulation and/or strategic policy development, donors,

respectively partner countries, should make their choices and state their preferences on an informed basis.

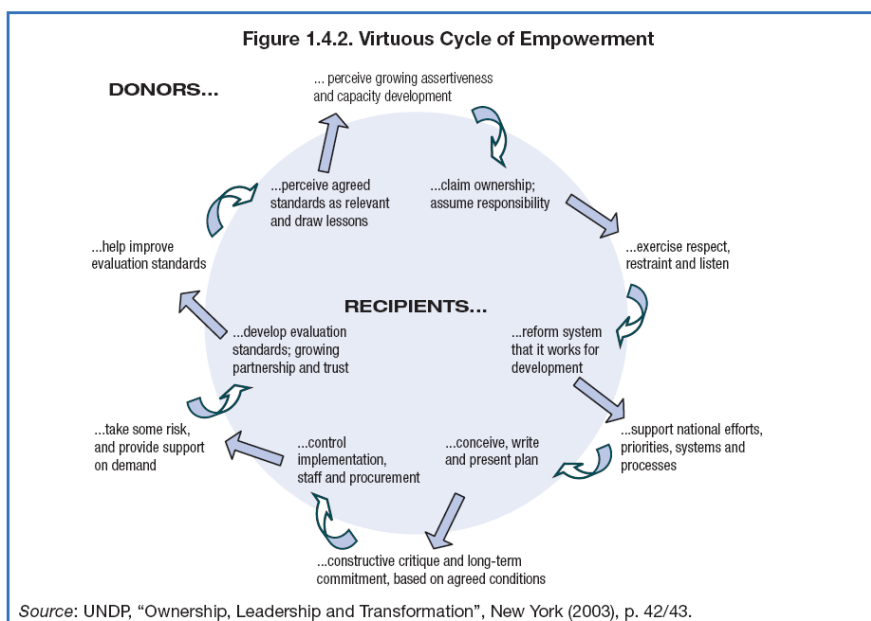
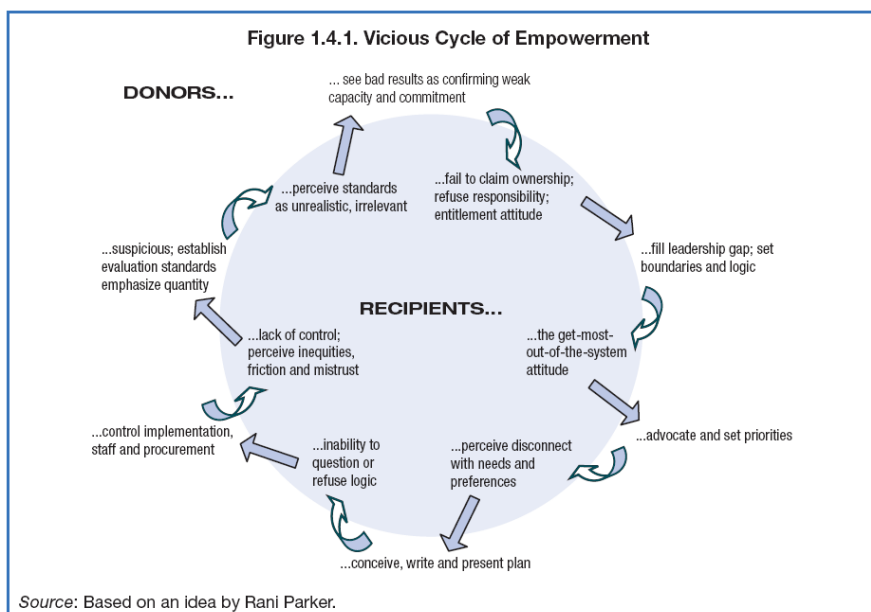
This takes us directly to another important nuance in the context of country ownership. The thin line between donor aid and genuine country ownership (ECDPM, 2008, p. 3):

The 'aid relationship' has an in-built tendency to undermine ownership. Imbalances in resources, power and knowledge can give a feeling of mastery to the helper and dependence to the helped. It can confer 'expert' status on the helper that may be justified in terms of technical knowledge but is usually unwarranted in terms of process skills or country knowledge. It is likely to focus attention on gaps and weaknesses that can further add to the feelings of dependence and disempowerment of country actors. External initiatives quickly become "owned" by development agencies.

In this context the importance of sound project identification and formulation cannot be underestimated. In order to reflect real partner priorities (as opposed to donor preferences) in the logical framework of a project, local stakeholders (at all relevant levels of government and/or civil society) should be heavily involved from the outset. Practically speaking, this means for example that *country leadership during project formulation is desirable*. In addition to local stakeholders, donor agencies should also be regarded as stakeholders. After all, donor projects operating in the same sector might be directly influenced by whatever action will be decided on during project formulation and vice versa. As mentioned before, synergy and cooperation in between different donor's actions should be pursued where possible.

Although it cannot be denied that partner's weaknesses and lack of capacity to assess ones own (capacity development) needs pose real risks and potentially undermine a project's viability, donors should exactly focus on trying to overcome these potential risks by positively identifying, facilitating, supporting and strengthening those capacities that are readily available (although not perfect) within partner organizations. In this respect one can effectively talk about a vicious and a virtuous cycle of empowerment (OECD, 2006, p. 43). Figure eight below clearly shows that a vicious cycle of empowerment (and capacity development) can be turned into a virtuous cycle by radically changing the mindset both

**Figure 8: Vicious and virtuous cycle of empowerment.**



Source: OECD, 2006, p. 43.

donors and recipients have and the lens through which they look at the issue of (capacity) development.

Even though there are many other issues to consider whilst theorizing about capacity development and related concepts, this section will last but not least briefly touch upon the recent trend in capacity development literature to emphasize *capacity development as an end in itself* and not necessarily as a means to an end (e.g. good governance). Indeed, why wouldn't capacity development – understood as the ability of a country to choose and implement its own development path – be a valid development and project result? In this context ECDPM identifies five core capabilities of which the development in partner organizations should be particularly stimulated. It is stressed however that “(...) all are necessary, yet none is sufficient by itself. A key challenge therefore is for an organization to balance and integrate these five core capabilities” (ECDPM, 2008, p. 3):

1. *to commit and engage*: volition, empowerment, motivation, attitude, confidence
2. *to carry out technical, service delivery & logistical tasks*: core functions directed at the implementation of mandated goals
3. *to relate and attract resources & support*: manage relationships, resource mobilisation, networking, legitimacy building, protecting space
4. *to adapt and self-renew*: learning, strategising, adaptation, repositioning, managing change
5. *to balance coherence and diversity*: encourage innovation and stability, control fragmentation, manage complexity, balance capability mix

It may be clear that embracing this approach entails a substantial added value to traditional donor views and practices that tend to overemphasize the importance of ‘hard skills’ by organizing trainings and workshops in various fields of technical knowledge or practical skills. *Informal and often less tangible aspects of capacity* (as (political) power, affiliations (network), ownership, identity, legitimacy, values, etc.) *are often neglected in project design*, due to the fact that the development of capacity in these fields is more of a process and is far from easily quantified and fitted into a logical framework. Besides, and maybe even more important in this regard, is the restraint donors traditionally show when it comes to tackling political and power aspects of change (that are closely related to many of these informal skills). Nevertheless it is fair enough to say that without tackling exactly these intangibles, capacity development initiatives may fail to live up to the demanding expectations (of change) of the general public.

## 7. CONCLUSIONS

As has been demonstrated throughout this report, aid in the Palestinian context has often been used as a political instrument. On the other hand, donors have sometimes been overtaken by the rapid succession of political events in Israeli-Palestinian or intra-Palestinian relations, which – as has been extensively illustrated in the first chapter – lead to remarkable changes in the modalities and amounts of disbursed aid over time. From this point of view, the oPt poses a challenging environment for donors to be active in, sometimes forcing them to work in a rather reactive than proactive manner. Nonetheless, after almost two decades of international assistance to the oPt, it is sobering to find that many donors, including Belgium (cf. supra), still consider political events to be 'external factors' that have an impact on the outcome of projects and programmes, whilst in the same time not explicitly addressing those factors in programme design. Few agencies actually engage in contingency planning in order to minimise risks related to political eventualities emanating from the conflict related context in which they have to operate. Even fewer donors explicitly target those political factors that inhibit real development in the oPt (Taghdisi-Rad, 2011, p. 170-171):

While (...) the Palestinian agriculture, industrial and trade sectors are the main victims of Israeli crossing closures, none of the donor projects have made any effort at targeting these closures through economic, political, or strategic means. (...) There is not a single line in any of the donor projects (...) indicating their willingness to 'address the access problem'. Given the nature of the situation, this should have been an obvious starting point. This, as donors would agree, is *not* a stretching of their mandate, since most donors are associated with the political and economic agendas of one government or another, with significant leverage over the politics of the conflict. In addition, their existence in the territories in the first place is a political sign and an indication of political interest in the region's affairs; many of the donor reform programmes are inherently political projects, interfering with and reorganising countries' political, legal and institutional structures. In addition, donors' reactions to various developments in the territories, such as the election of Hamas, are often highly political moves. (...) [B]y virtue of operating in such a politically-charged environment, aid cannot avoid becoming a political instrument, far from its desired image as 'a development instrument'. However, the continued refusal of donors to deal with such obvious constraints on Palestinian economic and trade activity is a sign of their *political* stance and interest (*vis-à-vis* Israel and the Middle East in general) and that aid cannot be expected to act as an instrument of economic development in the first place.

Evaluating World Bank programmes in the oPt, similar conclusions are drawn by the IEG, explicitly advising the World Bank to “tie its financial support much more closely to politically-driven developments, notably in Israeli-Palestinian relations and progress towards the two-state solution” (World Bank, 2010, pp. xxvi). The above implies donors should reconsider the high levels of aid they are currently spending in the oPt. As has been pointed out before, these disproportionate high levels of aid are not only responsible for a chronic state of aid dependence – without aid the PA would not be able to survive –, worse yet, they inhibit long-term economic development and reinforce or at least maintain the Israeli



occupation and political *status quo*. Therefore, it is of utmost importance to revise the current aid structure in order to make it more responsive to the political realities and evolutions on the ground. This implies donors have to bring politics back to the fore, elaborating a coordinated and comprehensive long-term strategy, of which the ultimate goal – as already officially endorsed by most donors – is the establishment of an independent and viable Palestinian state. “It means an integrated and coherent international peace and negotiations strategy linking economic assistance to a clear set of security, political and human rights goals leading to a permanent status agreement and an end to the conflict but, more importantly, an evenly balanced incentive structure towards *both* parties, rather than solely the Palestinians” (Le More, 2008, p. 177). This, off course, will only be possible when donors are willing to adjust their own political and diplomatic agendas, agendas that are not necessarily in line with Palestinian long-term interests, but rather with overarching considerations of regional Realpolitik and political self-interest, for example by securing a seat at the table of the diplomatically significant Middle East peace process.

Updating the current Palestinian aid structure, in order to bring it in line with and make it responsive to a long-term, comprehensive negotiations strategy as proposed above, is not something that will happen overnight. The Palestinian aid architecture can hardly be compared with that of any other country. The very specific and complex nature of that architecture is intrinsically linked with the Israeli-Palestinian peace process of the nineties, which found its concrete shape in the 'Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip', better known as the Oslo accords. To this day, the international community accepts these accords as the legal framework and basis for relations with both Palestinians and Israelis in the oPt. Despite the fact that these accords, as has been illustrated in the second chapter of this report, clearly limit the possibilities for international donors to organize their aid efforts in an efficient, effective and sustainable manner, few donors, including Belgium, seem tempted to put them into question or challenge them. Israeli authorities, on the other hand, quickly understood how to use the terms of the Oslo accords to their advantage. Under the pretext of security, Israel manages to get away with actions – such as the destruction of infrastructure or the expansion of settlements – that flagrantly violate the terms of the Oslo accords. Apart from a declaratory statement condemning such acts every once in a while, not a single country has taken political or diplomatic actions, suiting the action to the word. Obviously, in such a climate, with quasi no political pressure being exerted, the GoI is not hindered in pursuing its long-term strategic interests in the region,

even when this comes at the expense of the Palestinians. Nevertheless, the stated goal of most donors, including Belgium and the EU, is the establishment of an independent and viable Palestinian state. Analysing the facts, however, makes one come to the conclusion that the reality of such a state is further away than ever. At best, donor's policies in the oPt are inadequate and not sufficiently adapted to pursue this goal<sup>49</sup>, at worst, however, they are counterproductive and even advancing Israeli interests.

International good practices nowadays acknowledge the potential risks of uncritical and unmeditated aid giving, especially in CACs. OECD (2007, pp. 1-4) formulated a set of 'Principles for Good International Engagement in Fragile States' (please refer to annex ten for a more detailed account). These principles, without a doubt applicable to the situation in the oPt, recognise the importance of a country specific and 'no harm' approach, paying due attention to the interrelated nature of politics, development and security.

Belgian policy makers recently took on the job to bring the Belgian legal framework regarding aid in line with the challenges and practices of 21<sup>st</sup> century development aid. The relations between the different Belgian development actors are in the process of being redefined. In this context, the importance of interdepartmental policy coherence has been recognized and is currently the subject of deliberation within the Belgian government. After all, within the oPt, a lack of policy coherence between the departments of Foreign Affairs and Development Cooperation – both of which do not necessarily share the same interests – undermine the long-term sustainability of Belgian efforts in the region. Furthermore, since Belgian development policy explicitly aims at concentrating on the least developed and fragile states in the next couple of years (Kamer van Volksvertegenwoordigers, 2011, p. 27), due attention should be paid to the particular needs of those countries, acknowledging the specific, often conflict related, context in which their development takes place. Taking the above mentioned 'Principles for Good International Engagement in Fragile States' carefully into account, may prove to be a good starting point in this respect.

This report, as has been pointed out before, is not meant to be a comprehensive evaluation of over a decade of Belgian aid to the oPt and should therefore not be regarded as such. When reading, one should be aware of its limited scope and put it into perspective. This report

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<sup>49</sup> This might be the case, as illustrated in the previous chapter, with regard to the capacity building component of LICP. Lack of a clear definition and understanding of the concept of capacity development undermined the coherence and sustainability of LICP interventions.

rather aimed to be a critical reflection on (parts of) international and Belgian assistance to the oPt and the reasons why overall achievements – on an aggregate level – have been limited so far. In what follows, based on the conclusions that have been drawn in this report, recommendations will be formulated to the Belgian development community in order to optimize Belgian development efforts in the oPt.

## 8. LESSONS AND RECOMMENDATIONS

Based on the findings of this report, it is recommended that Belgian development actors focus their attention on the following areas and fields of action (non-exhaustive) :

### STRATEGIC CONSIDERATIONS

1. **Accept and acknowledge the inherent political nature of aid, especially in a conflict and violence related context.** Aid that is being disbursed in the politically charged setting of a conflict affected country, cannot avoid being influenced by and having an impact on this context. Under these circumstances, aid effectively becomes part of that context and – opposite to the claims of many donors –, aid does not remain a politically neutral 'development instrument'.
2. **Development aid is not be used as a substitute for genuine political and diplomatic engagement.** Simple augmenting the amount of aid spent in the oPt, without tackling the root causes of conflict, makes no sense. As has been pointed out, uncritical aid giving can even have counterproductive effects on the development prospects of the oPt. The point therefore is not the mere spending of aid in the oPt, the point, first and foremost, is to optimize the use of current available budgets.
3. **Target the root causes responsible for the lack of economic and human development.** There is general agreement amongst donors that Israeli access and movement restrictions are the main impediment to sustainable development of the Palestinian economy. Recognize this and do not work around the conflict by ignoring these consequences, rather try to tackle them.
4. **Devise a coherent and encompassing negotiations strategy** that links economic and development assistance to a clearly defined set of security, political and human rights goals, mindful of the long term objective to bring an end to the Israeli-Palestinian conflict.
5. **Create an evenly balanced incentive structure towards both parties**, rather than solely the Palestinians. This implies positive and/or negative conditionalities should not only be used in the context of aid to the Palestinians, but also in the context of donor's commercial, financial and diplomatic relations with Israel (e.g. by making an upgrade in EU-Israel trade relations conditional on progress in peace negotiations).

6. **Renegotiate the Paris Economic Protocol (PEP).** The PEP gives Israel the right to collect taxes, on behalf of the PA, on customs duties and VAT imposed on Palestinian imports from or via Israel. Therefore, the PA budget relies to a large degree on Israeli transfers of money, which can be withheld at any time. This is problematic for the budgetary stability and even viability of the PA, since its financial survival is conditional on Israeli political goodwill.
7. **Avoid working in a “business as usual” mindset.** Almost two decades after donors engaged themselves in the oPt, no definitive peace settlement has been reached between the Israelis and the Palestinians. This sometimes leads to a feeling of defeatism, in which the occupation is dealt with in a 'business as usual' manner. The use of 'sanitized' language<sup>50</sup> reinforces this mindset and should therefore be avoided.

#### **PROGRAM ISSUES AND OVERALL AID EFFECTIVENESS**

8. **Do not abandon the Gaza strip, East-Jerusalem and area C in the West-Bank.** Although political reality complicates efforts to implement development projects in these areas, leaving them aside simply because it is easier to work in area A, boils down to the implicit acceptance of the Israeli policy of 'creating facts on the ground'. Nor is this in line with the commonly accepted political paradigm of a two state solution, which seeks to create – in line with international law – a contiguous and viable Palestinian state within the boundaries of 1967.
9. **Reduce Palestinian aid dependency.** Currently, the PA almost completely depends on donor funding in order to finance its recurrent budgetary needs. These funds are mainly used to pay civil servant wages. In the long run, however, this is not sustainable. Donors should consider investing in productive sectors of the Palestinian economy in order to create qualitative and sustainable employment.
10. **Don't leave Israeli damage and destruction of Palestinian property and projects unquestioned.** International donors and Palestinian alike, are entitled to ask for financial or other compensation from the Israeli authorities in case of damage or destruction. Insist on this fundamental right. When no sufficient answer is being provided, take the matter into court.

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<sup>50</sup> For example the use of words as: 'security barrier' for the wall the separates the oPt from Israel, 'incursion' for violent military entries, 'disputed territories' instead of 'occupied territories', etc.

11. **Make sure that every development intervention does not make the situation worse.** Every new project, when being formulated or evaluated, should be subjected to a 'No Harm' analysis (annex six). The minimum that can be expected from a donor intervention is that it does not run counter Palestinian interests.
12. **Focus aid on sectors that matter.** Donor investments in the agricultural and industrial sector have been minimal (and declining) throughout the past two decades. Although these sectors have the potential to (1) boost production in the oPt, (2) reduce the reliance on foreign (Israeli) imports, (3) increase food security and therefore serve as a buffer in case of intensifying conflict and (4) create employment, different (political) reasons stop donors from doing so. This donor reticence should be overcome.
13. **Evaluation of aid projects and programmes should happen in terms relative to the conflict and obstacles posed to development by the conflict.** Whereas evaluations currently are done within a framework in which conflict is treated as an external factor, a conflict sensitive evaluation, evaluates an aid project based on whether it has managed to alter any of the negative legacies of the conflict which continue to affect the Palestinian economy to this day (such as the PEP), and whether it has managed to effectively alter or remove some of the obstacles that the conflict is currently placing upon the economic and trading activities in the oPt.
14. **Acknowledge that up to 60% of the Palestinian refugees actually live outside the oPt** (UNRWA, 2011, p. 5). These Palestinian refugees are often neglected in donor's development programmes. When devising a long-term development strategy for the oPt, Palestinian refugees should be recognized as an essential part of the Palestinian population.

#### COOPERATION AND COLLABORATION

15. **Improve interdepartmental policy coherence both within the Belgian institutions and in the representations on the field.** Politics, diplomacy and development are intertwined in the oPt. A consistent and comprehensive Belgian policy towards the Israeli-Palestinian conflict is of utmost importance in order to achieve results. The already existing interdepartmental working group on central Africa can serve as an example in this regard. In the field, regular consultations need to be organized between the Belgian diplomatic representations in East-Jerusalem and Tel Aviv,

involving BTC when necessary. This in order to create a mutual understanding of each others concerns and overcome the separation between on the one hand a branch that deals exclusively with Palestinian and development issues (East-Jerusalem) and on the other hand a diplomatic branch that deals with activities related to the peace process and bilateral collaboration (Tel Aviv).

16. **Support stronger donor coordination mechanisms.** Although an elaborate donor aid coordination structure already exists in the oPt, it is believed coordination should be intensified in order to reach a level of genuine and proactive cooperation. This cooperation should be pursued in all stages of project management.

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## ANNEXES

### ANNEX 1

**Table 1: Economy of the occupied Palestinian territory: key indicators<sup>a</sup>**

	1995	1999	2002	2004	2006	2008 <sup>est.</sup>	2009 <sup>est.</sup>	2010 <sup>est.</sup>
<b>Macroeconomic performance</b>								
Real GDP growth (%)	6.0	8.8	-13.3	12.0	-5.2	7.1	7.4	9.3
GDP (\$ mil.)	3,220	4,179	3,433	4,198	4,619	6,247	6,764	7,575
Gross national income (\$ mil.)	3,699	4,932	3,656	4,430	5,047	6,884	7,311	8,166
Gross national disposable income (\$ mil.)	4,099	5,306	4,708	5,151	6,323	10,057	9,437	10,227
GDP per capita (\$)	1,400	1,493	1,125	1,317	1,363	1,737	1,827	1,987
GNI per capita (\$)	1,608	1,763	1,199	1,390	1,489	1,914	1,975	2,142
Real GNI per capita growth (%)	0.7	4.1	-16.7	9.1	-6.5	5.2	2.7	4.9
<b>Population and labour</b>								
Population (mil.) <sup>a</sup>	2.34	2.96	3.23	3.41	3.61	3.83	3.94	4.05
Unemployment (%) <sup>b</sup>	32.6	21.7	41.2	32.5	29.8	32.4	30.1	30.0
Total employment (thousands)	417	588	452	551	636	667	718	744
In public sector	51	103	125	131	148	161	181	179
In Israel and settlements	68	135	42	45	55	67	73	78
<b>Fiscal balance (% of GDP)</b>								
Revenue net of arrears/clearance withheld	13.2	23.9	8.5	25.0	25.0	25.7	25.9	26.1
Current expenditure	15.3	22.6	29.0	36.4	49.3	47.2	51.9	41.6
Total expenditure	25.6	29.9	35.4	37.1	55.0	50.7	58.4	45.3
Overall balance – cash basis	-12.3	-6.1	-27.0	-12.1	-30.0	-25.0	-32.5	-19.2
<b>External trade</b>								
Net current transfers (\$ mil.)	400	399	1,096	734	1,491	3,230	3,219	2,697
Exports of goods and services (\$ mil.)	499	684	380	484	678	960	919	992
Imports of goods and services (\$ mil.)	2,176	3,353	2,519	2,909	3,202	4,086	4,363	4,954
Trade balance (% of GDP)	-52.1	-63.9	-62.3	-57.8	-54.6	-50.0	-50.9	-52.3
Trade balance with Israel (\$ mil.)	-922	-1,598	-886	-1,500	-1,887	-2,888	-2,558	-2,840
Trade balance with Israel (% of GDP)	-28.6	-38.2	-25.8	-35.7	-40.9	-46.2	-37.8	-37.5
PA trade with Israel/total PA trade (%) <sup>c</sup>	92.3	69.7	56.3	72.1	74.1	89.7	74.4	73.6
PA trade with Israel/total Israeli trade (%) <sup>c</sup>	4.3	3.9	2.1	2.4	2.4	2.8	3.0	2.8

Sources: Palestinian Central Bureau of Statistics (PCBS), World Bank, IMF, International Labour Organization (ILO), and Israel Central Bureau of Statistics.

<sup>a</sup> Due to PCBS inability to access East Jerusalem, the data exclude East Jerusalem, with the exception of population figures.

<sup>b</sup> ILO's "relaxed definition" of unemployment includes discouraged workers.

<sup>c</sup> Palestinian and Israeli trade data refer to goods, and non-factor and factor services.

Source: UNCTAD, 2011, p. 4

**Table 2: Selected Economic Indicators, 2008-2014**

	2008	2009	2010	Estimated 2011	Projections		
					2012	2013	2014
<b>Output and prices</b>							
	(Annual percentage change)						
Real GDP (2004 market prices)	7.1	7.4	9.3	7.0	7.0	10.0	10.0
West Bank	12.0	9.5	7.6	4.0	5.0	8.0	8.0
Gaza	-6.1	0.7	15.2	17.0	12.0	15.0	15.0
CPI inflation rate (end-of-period)	7.0	4.3	2.8	3.8	2.7	2.3	2.5
CPI inflation rate (period average)	9.9	2.8	3.7	4.0	3.1	2.3	2.4
<b>Investment and saving</b>							
	(In percent of GDP)						
Gross capital formation, <i>of which:</i>	19.3	18.9	16.5	16.9	19.0	25.8	29.9
Public	4.1	6.1	3.5	4.3	5.8	9.5	10.1
Private	15.2	12.8	12.9	12.7	13.2	16.3	19.9
Gross national savings, <i>of which:</i>	30.2	7.5	0.6	4.3	8.8	12.5	13.3
Public	3.9	9.4	4.0	0.1	5.7	9.3	10.0
Private	26.3	-2.0	-3.5	4.2	3.1	3.2	3.3
Saving-investment balance	10.9	-11.4	-15.9	-12.6	-10.2	-13.3	-16.6
<b>Public Finances 1/</b>							
	(In percent of GDP)						
Revenues	25.1	23.6	23.7	21.7	22.3	23.3	24.0
Recurrent expenditures and net lending	46.2	47.2	37.9	33.9	31.4	29.2	27.0
Wage expenditures	23.3	21.7	19.9	19.5	18.5	17.6	16.7
Nonwage expenditures	15.8	19.9	15.1	12.7	11.9	10.9	10.0
Net lending	7.2	5.5	2.9	1.7	0.9	0.7	0.3
Recurrent balance (commitment, before external support)	-21.1	-23.5	-14.1	-12.1	-9.1	-5.9	-3.0
Recurrent balance, cash (before external support)	-27.1	-20.3	-13.3	-11.5	-9.6	-6.3	-3.4
Development expenditures	3.4	5.9	3.4	4.1	5.7	9.3	10.0
(In millions of U.S. dollars)	215	400	275	400	600	1,095	1,295
Overall balance (before external support)	-24.5	-29.5	-17.5	-15.7	-14.7	-15.2	-13.0
External recurrent budgetary support (in billions of U.S. dollars)	1.8	1.4	1.1	0.8	1.0	0.7	0.4
Total external support, including for development expenditures	31.7	25.9	15.7	10.5	15.2	15.6	13.3
(In billions of U.S. dollars)	2.0	1.8	1.3	1.0	1.6	1.8	1.7
Domestic Financing (in billions of U.S. dollars)	...	...	...	0.5	...	...	...
<b>Monetary sector 2/</b>							
	(Annual percentage change)						
Credit to the private sector	-3.4	22.9	31.2	32.2	21.5	23.8	23.6
Private sector deposits	14.0	5.7	9.9	19.2	14.0	16.8	16.6
<b>External sector</b>							
	(In percent of GDP)						
Exports of good and nonfactor services	15.4	13.6	14.3	17.0	22.1	24.4	27.0
Import of goods and nonfactor services	65.4	64.5	62.5	63.5	69.5	75.0	78.4
Net factor income	10.2	8.1	7.4	6.9	6.7	6.4	6.1
Net current transfers	50.8	31.4	24.9	26.9	30.5	31.0	28.7
Official transfers	31.7	25.9	15.7	11.5	15.2	15.6	13.3
Current account balance (excluding official transfers)	-20.7	-37.3	-31.6	-24.2	-25.5	-28.9	-30.0
Current account balance (including official transfers)	10.9	-11.4	-15.9	-12.6	-10.2	-13.3	-16.6
<b>Memorandum items:</b>							
Nominal GDP (in millions of U.S. dollars)	6,247	6,764	8,124	9,686	10,608	11,751	13,001
Per capita nominal GDP (U.S. dollars)	1,633	1,719	2,007	2,323	2,471	2,658	2,857
Unemployment rate (average in percent of labor force)	27	25	24	21	18	15	13
Al Quds stock market index (annual percentage change)	-16.2	11.6	-0.7	...	...	...	...

Sources: Palestinian authorities and IMF staff estimates.

<sup>1</sup>Commitment Basis

<sup>2</sup>End-of-period; in U.S. dollar terms.

Source: World Bank, 2012, p. 6.



## ANNEX 2

**Table 3: Total Net disbursements of Official Development Assistance (ODA) and Official Aid, 2001 – 2008**

Development partner	Total net ODA disbursements, US\$ million								Cumulative 2001–08	% of total
	2001	2002	2003	2004	2005	2006	2007	2008		
<b>All donors, total</b>	<b>869.4</b>	<b>1,616.4</b>	<b>971.6</b>	<b>1,115.2</b>	<b>1,116.1</b>	<b>1,450.2</b>	<b>1,872.3</b>	<b>2,592.8</b>	<b>11,603.9</b>	<b>100.0</b>
<b>DAC countries</b>	<b>280.2</b>	<b>410.6</b>	<b>491.5</b>	<b>609.0</b>	<b>570.6</b>	<b>755.6</b>	<b>833.9</b>	<b>1,384.7</b>	<b>5,336.1</b>	<b>46.0</b>
United States	84.3	138.1	194.1	273.9	180.6	205.5	212.3	490.6	1,779.3	15.3
Arab countries	246.6	775.8	23.8	20.1	7.4	..	3.9	..	1,077.7	9.3
Norway	37.5	50.9	53.5	53.8	74.0	87.8	106.2	115.8	579.5	5.0
Germany	17.9	37.9	35.3	31.2	39.8	67.7	75.2	77.4	382.4	3.3
Sweden	21.9	28.0	35.2	39.4	36.9	51.0	54.3	71.8	338.5	2.9
Spain	10.1	11.3	14.2	23.8	39.4	40.0	72.7	103.2	314.5	2.7
United Kingdom	17.0	23.8	31.1	29.5	23.5	35.1	22.5	102.6	285.0	2.5
France	12.7	15.6	22.2	25.2	29.9	40.0	55.9	74.2	275.6	2.4
Netherlands	14.0	13.9	13.1	20.9	29.9	32.2	30.3	75.1	229.4	2.0
Japan	21.5	12.8	4.5	9.0	5.8	78.2	48.7	30.3	210.7	1.8
<b>Multilaterals, total</b>	<b>342.2</b>	<b>429.3</b>	<b>455.4</b>	<b>480.8</b>	<b>526.4</b>	<b>672.9</b>	<b>1,017.4</b>	<b>1,179.8</b>	<b>5,104.1</b>	<b>44.0</b>
UNRWA	211.0	237.6	263.5	273.5	306.7	402.0	463.3	496.6	2,654.2	22.9
EC	118.5	170.9	181.1	186.7	206.7	257.9	540.9	661.3	2,324.0	20.0
<b>World Bank</b>	<b>25.1</b>	<b>23.8</b>	<b>33.7</b>	<b>59.2</b>	<b>21.6</b>	<b>12.5</b>	<b>23.8</b>	<b>103.8</b>	<b>303.5</b>	<b>2.6</b>

Source: OECD Development Assistance Committee Database as of July, 2010.

Note: DAC= Development Assistance Committee of OECD; EC= European Commission; ODA= official development assistance; OECD= Organisation for Economic Co-operation and Development; UNRWA= United Nations Relief and Works Agency.

Source: World Bank, 2010, p. 14

## ANNEX 3

### **Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip Washington, D.C., September 28, 1995**

The Government of the State of Israel and the Palestine Liberation Organization (hereinafter "the PLO"), the representative of the Palestinian people;

#### **PREAMBLE**

**WITHIN** the framework of the Middle East peace process initiated at Madrid in October 1991;

**REAFFIRMING** their determination to put an end to decades of confrontation and to live in peaceful coexistence, mutual dignity and security, while recognizing their mutual legitimate and political rights;

**REAFFIRMING** their desire to achieve a just, lasting and comprehensive peace settlement and historic reconciliation through the agreed political process;

**RECOGNIZING** that the peace process and the new era that it has created, as well as the new relationship established between the two Parties as described above, are irreversible, and the determination of the two Parties to maintain, sustain and continue the peace process;

**RECOGNIZING** that the aim of the Israeli-Palestinian negotiations within the current Middle East peace process is, among other things, to establish a Palestinian Interim Self-Government Authority, i.e. the elected Council (hereinafter "the Council" or "the Palestinian Council"), and the elected Ra'ees of the Executive Authority, for the Palestinian people in the West Bank and the Gaza Strip, for a transitional period not exceeding five years from the date of signing the Agreement on the Gaza Strip and the Jericho Area (hereinafter "the Gaza-Jericho Agreement") on May 4, 1994, leading to a permanent settlement based on Security Council Resolutions 242 and 338;

**REAFFIRMING** their understanding that the interim self-government arrangements contained in this Agreement are an integral part of the whole peace process, that the negotiations on the permanent status, that will start as soon as possible but not later than May 4, 1996, will lead to the implementation of Security Council Resolutions 242 and 338, and that the Interim Agreement shall settle all the issues of the interim period and that no such issues will be deferred to the agenda of the permanent status negotiations;

**REAFFIRMING** their adherence to the mutual recognition and commitments expressed in the letters dated September 9, 1993, signed by and exchanged between the Prime Minister of Israel and the Chairman of the PLO;

**DESIROUS** of putting into effect the [Declaration of Principles on Interim Self-Government Arrangements](#) signed at Washington, D.C. on September 13, 1993, and the Agreed Minutes thereto (hereinafter "the DOP") and in particular Article III and Annex I concerning the holding of direct, free and general political elections for the Council and the Ra'ees of the Executive Authority in order that the Palestinian people in the West Bank, Jerusalem and the Gaza Strip may democratically elect accountable representatives;

**RECOGNIZING** that these elections will constitute a significant interim preparatory step toward the realization of the legitimate rights of the Palestinian people and their just

requirements and will provide a democratic basis for the establishment of Palestinian institutions;

**REAFFIRMING** their mutual commitment to act, in accordance with this Agreement, immediately, efficiently and effectively against acts or threats of terrorism, violence or incitement, whether committed by Palestinians or Israelis;

**FOLLOWING** the [Gaza-Jericho Agreement](#); the [Agreement on Preparatory Transfer of Powers and Responsibilities](#) signed at Erez on August 29, 1994 (hereinafter "the Preparatory Transfer Agreement"); and the Protocol on Further Transfer of Powers and Responsibilities signed at Cairo on August 27, 1995 (hereinafter "the Further Transfer Protocol"); which three agreements will be superseded by this Agreement;

**HEREBY AGREE** as follows:

## **CHAPTER I - THE COUNCIL**

### **ARTICLE I**

#### **Transfer of Authority**

1. Israel shall transfer powers and responsibilities as specified in this Agreement from the Israeli military government and its Civil Administration to the Council in accordance with this Agreement. Israel shall continue to exercise powers and responsibilities not so transferred.
2. Pending the inauguration of the Council, the powers and responsibilities transferred to the Council shall be exercised by the Palestinian Authority established in accordance with the Gaza-Jericho Agreement, which shall also have all the rights, liabilities and obligations to be assumed by the Council in this regard. Accordingly, the term "Council" throughout this Agreement shall, pending the inauguration of the Council, be construed as meaning the Palestinian Authority.
3. The transfer of powers and responsibilities to the police force established by the Palestinian Council in accordance with Article XIV below (hereinafter "the Palestinian Police") shall be accomplished in a phased manner, as detailed in this Agreement and in the Protocol concerning Redeployment and Security Arrangements attached as [Annex I](#) to this Agreement (hereinafter "Annex I").
4. As regards the transfer and assumption of authority in civil spheres, powers and responsibilities shall be transferred and assumed as set out in the Protocol Concerning Civil Affairs attached as [Annex III](#) to this Agreement (hereinafter "Annex III").
5. After the inauguration of the Council, the Civil Administration in the West Bank will be dissolved, and the Israeli military government shall be withdrawn. The withdrawal of the military government shall not prevent it from exercising the powers and responsibilities not transferred to the Council.
6. A Joint Civil Affairs Coordination and Cooperation Committee (hereinafter "the CAC"), Joint Regional Civil Affairs Subcommittees, one for the Gaza Strip and the other for the West Bank, and District Civil Liaison Offices in the West Bank shall be established in order to provide for coordination and cooperation in civil affairs between the Council and Israel, as detailed in Annex III.
7. The offices of the Council, and the offices of its Ra'ees and its Executive Authority and

other committees, shall be located in areas under Palestinian territorial jurisdiction in the West Bank and the Gaza Strip.

## **ARTICLE II**

### **Elections**

1. In order that the Palestinian people of the West Bank and the Gaza Strip may govern themselves according to democratic principles, direct, free and general political elections will be held for the Council and the Ra'ees of the Executive Authority of the Council in accordance with the provisions set out in the Protocol concerning Elections attached as [Annex II](#) to this Agreement (hereinafter "Annex II").
2. These elections will constitute a significant interim preparatory step towards the realization of the legitimate rights of the Palestinian people and their just requirements and will provide a democratic basis for the establishment of Palestinian institutions.
3. Palestinians of Jerusalem who live there may participate in the election process in accordance with the provisions contained in this Article and in [Article VI of Annex II](#) (Election Arrangements concerning Jerusalem).
4. The elections shall be called by the Chairman of the Palestinian Authority immediately following the signing of this Agreement to take place at the earliest practicable date following the redeployment of Israeli forces in accordance with [Annex I](#), and consistent with the requirements of the election timetable as provided in [Annex II](#), the Election Law and the Election Regulations, as defined in Article I of Annex II.

## **ARTICLE III**

### **Structure of the Palestinian Council**

1. The Palestinian Council and the Ra'ees of the Executive Authority of the Council constitute the Palestinian Interim Self-Government Authority, which will be elected by the Palestinian people of the West Bank, Jerusalem and the Gaza Strip for the transitional period agreed in Article I of the [DOP](#).
2. The Council shall possess both legislative power and executive power, in accordance with Articles VII and IX of the [DOP](#). The Council shall carry out and be responsible for all the legislative and executive powers and responsibilities transferred to it under this Agreement. The exercise of legislative powers shall be in accordance with [Article XVIII](#) of this Agreement (Legislative Powers of the Council).
3. The Council and the Ra'ees of the Executive Authority of the Council shall be directly and simultaneously elected by the Palestinian people of the West Bank, Jerusalem and the Gaza Strip, in accordance with the provisions of this Agreement and the Election Law and Regulations, which shall not be contrary to the provisions of this Agreement.
4. The Council and the Ra'ees of the Executive Authority of the Council shall be elected for a transitional period not exceeding five years from the signing of the Gaza-Jericho Agreement on May 4, 1994.
5. Immediately upon its inauguration, the Council will elect from among its members a Speaker. The Speaker will preside over the meetings of the Council, administer the Council and its committees, decide on the agenda of each meeting, and lay before the Council proposals for voting and declare their results.
6. The jurisdiction of the Council shall be as determined in [Article XVII](#) of this Agreement (Jurisdiction).

7. The organization, structure and functioning of the Council shall be in accordance with this Agreement and the Basic Law for the Palestinian Interim Self-government Authority, which Law shall be adopted by the Council. The Basic Law and any regulations made under it shall not be contrary to the provisions of this Agreement.

8. The Council shall be responsible under its executive powers for the offices, services and departments transferred to it and may establish, within its jurisdiction, ministries and subordinate bodies, as necessary for the fulfillment of its responsibilities.

9. The Speaker will present for the Council's approval proposed internal procedures that will regulate, among other things, the decision-making processes of the Council.

#### **ARTICLE IV**

##### **Size of the Council**

The Palestinian Council shall be composed of 82 representatives and the Ra'ees of the Executive Authority, who will be directly and simultaneously elected by the Palestinian people of the West Bank, Jerusalem and the Gaza Strip.

#### **ARTICLE V**

##### **The Executive Authority of the Council**

1. The Council will have a committee that will exercise the executive authority of the Council, formed in accordance with paragraph 4 below (hereinafter "the Executive Authority").

2. The Executive Authority shall be bestowed with the executive authority of the Council and will exercise it on behalf of the Council. It shall determine its own internal procedures and decision making processes.

3. The Council will publish the names of the members of the Executive Authority immediately upon their initial appointment and subsequent to any changes.

4. a. The Ra'ees of the Executive Authority shall be an ex officio member of the Executive Authority.

b. All of the other members of the Executive Authority, except as provided in subparagraph c. below, shall be members of the Council, chosen and proposed to the Council by the Ra'ees of the Executive Authority and approved by the Council.

c. The Ra'ees of the Executive Authority shall have the right to appoint some persons, in number not exceeding twenty percent of the total membership of the Executive Authority, who are not members of the Council, to exercise executive authority and participate in government tasks. Such appointed members may not vote in meetings of the Council.

d. Non-elected members of the Executive Authority must have a valid address in an area under the jurisdiction of the Council.

#### **ARTICLE VI**

##### **Other Committees of the Council**

1. The Council may form small committees to simplify the proceedings of the Council and to assist in controlling the activity of its Executive Authority.

2. Each committee shall establish its own decision-making processes within the general framework of the organization and structure of the Council.

#### **ARTICLE VII**

##### **Open Government**

1. All meetings of the Council and of its committees, other than the Executive Authority, shall be open to the public, except upon a resolution of the Council or the relevant committee on the grounds of security, or commercial or personal confidentiality.
2. Participation in the deliberations of the Council, its committees and the Executive Authority shall be limited to their respective members only. Experts may be invited to such meetings to address specific issues on an ad hoc basis.

## **ARTICLE VIII**

### **Judicial Review**

Any person or organization affected by any act or decision of the Ra'ees of the Executive Authority of the Council or of any member of the Executive Authority, who believes that such act or decision exceeds the authority of the Ra'ees or of such member, or is otherwise incorrect in law or procedure, may apply to the relevant Palestinian Court of Justice for a review of such activity or decision.

## **ARTICLE IX**

### **Powers and Responsibilities of the Council**

1. Subject to the provisions of this Agreement, the Council will, within its jurisdiction, have legislative powers as set out in Article XVIII of this Agreement, as well as executive powers.
2. The executive power of the Palestinian Council shall extend to all matters within its jurisdiction under this Agreement or any future agreement that may be reached between the two Parties during the interim period. It shall include the power to formulate and conduct Palestinian policies and to supervise their implementation, to issue any rule or regulation under powers given in approved legislation and administrative decisions necessary for the realization of Palestinian self-government, the power to employ staff, sue and be sued and conclude contracts, and the power to keep and administer registers and records of the population, and issue certificates, licenses and documents.
3. The Palestinian Council's executive decisions and acts shall be consistent with the provisions of this Agreement.
4. The Palestinian Council may adopt all necessary measures in order to enforce the law and any of its decisions, and bring proceedings before the Palestinian courts and tribunals.
5. a. In accordance with the DOP, the Council will not have powers and responsibilities in the sphere of foreign relations, which sphere includes the establishment abroad of embassies, consulates or other types of foreign missions and posts or permitting their establishment in the West Bank or the Gaza Strip, the appointment of or admission of diplomatic and consular staff, and the exercise of diplomatic functions.  
b. Notwithstanding the provisions of this paragraph, the PLO may conduct negotiations and sign agreements with states or international organizations for the benefit of the Council in the following cases only:
  - (1) economic agreements, as specifically provided in [Annex V](#) of this Agreement;
  - (2) agreements with donor countries for the purpose of implementing arrangements for the provision of assistance to the Council,
  - (3) agreements for the purpose of implementing the regional development plans detailed in Annex IV of the [DOP](#) or in agreements entered into in the framework of the multilateral negotiations, and

(4) cultural, scientific and educational agreements. Dealings between the Council and representatives of foreign states and international organizations, as well as the establishment in the West Bank and the Gaza Strip of representative offices other than those described in subparagraph 5.a above, for the purpose of implementing the agreements referred to in subparagraph 5.b above, shall not be considered foreign relations.

6. Subject to the provisions of this Agreement, the Council shall, within its jurisdiction, have an independent judicial system composed of independent Palestinian courts and tribunals.

## **CHAPTER 2 - REDEPLOYMENT AND SECURITY ARRANGEMENTS**

### **ARTICLE X**

#### **Redeployment of Israeli Military Forces**

1. The first phase of the Israeli military forces redeployment will cover populated areas in the West Bank - cities, towns, villages, refugee camps and hamlets - as set out in [Annex I](#), and will be completed prior to the eve of the Palestinian elections, i. e., 22 days before the day of the elections.

2. Further redeployments of Israeli military forces to specified military locations will commence after the inauguration of the Council and will be gradually implemented commensurate with the assumption of responsibility for public order and internal security by the Palestinian Police, to be completed within 18 months from the date of the inauguration of the Council as detailed in [Articles XI \(Land\)](#) and [XIII \(Security\)](#), below and in [Annex I](#).

3. The Palestinian Police shall be deployed and shall assume responsibility for public order and internal security for Palestinians in a phased manner in accordance with [XIII \(Security\)](#) below and [Annex I](#).

4. Israel shall continue to carry the responsibility for external security, as well as the responsibility for overall security of Israelis for the purpose of safeguarding their internal security and public order.

5. For the purpose of this Agreement, "Israeli military forces" includes Israel Police and other Israeli security forces.

### **ARTICLE XI**

#### **Land**

1. The two sides view the West Bank and the Gaza Strip as a single territorial unit, the integrity and status of which will be preserved during the interim period.

2. The two sides agree that West Bank and Gaza Strip territory, except for issues that will be negotiated in the permanent status negotiations, will come under the jurisdiction of the Palestinian Council in a phased manner, to be completed within 18 months from the date of the inauguration of the Council, as specified below:

a. Land in populated areas (Areas A and B), including government and Al Waqf land, will come under the jurisdiction of the Council during the first phase of redeployment.

b. All civil powers and responsibilities, including planning and zoning, in Areas A and B, set out in [Annex III](#), will be transferred to and assumed by the Council during the first phase of redeployment.

c. In Area C, during the first phase of redeployment Israel will transfer to the Council civil powers and responsibilities not relating to territory, as set out in [Annex III](#).

- d. The further redeployments of Israeli military forces to specified military locations will be gradually implemented in accordance with the DOP in three phases, each to take place after an interval of six months, after the inauguration of the Council, to be completed within 18 months from the date of the inauguration of the Council.
- e. During the further redeployment phases to be completed within 18 months from the date of the inauguration of the Council, powers and responsibilities relating to territory will be transferred gradually to Palestinian jurisdiction that will cover West Bank and Gaza Strip territory, except for the issues that will be negotiated in the permanent status negotiations.
- f. The specified military locations referred to in Article X, paragraph 2 above will be determined in the further redeployment phases, within the specified time-frame ending not later than 18 months from the date of the inauguration of the Council, and will be negotiated in the permanent status negotiations.
3. For the purpose of this Agreement and until the completion of the first phase of the further redeployments:
- a. "Area A" means the populated areas delineated by a red line and shaded in brown on attached [map No. 1](#);
- b. "Area B" means the populated areas delineated by a red line and shaded in yellow on attached [map No. 1](#), and the built-up area of the hamlets listed in [Appendix 6 to Annex I](#), and
- c. "Area C" means areas of the West Bank outside Areas A and B, which, except for the issues that will be negotiated in the permanent status negotiations, will be gradually transferred to Palestinian jurisdiction in accordance with this Agreement.

## **ARTICLE XII**

### **Arrangements for Security and Public Order**

1. In order to guarantee public order and internal security for the Palestinians of the West Bank and the Gaza Strip, the Council shall establish a strong police force as set out in Article XIV below. Israel shall continue to carry the responsibility for defense against external threats, including the responsibility for protecting the Egyptian and Jordanian borders, and for defense against external threats from the sea and from the air, as well as the responsibility for overall security of Israelis and Settlements, for the purpose of safeguarding their internal security and public order, and will have all the powers to take the steps necessary to meet this responsibility.
2. Agreed security arrangements and coordination mechanisms are specified in [Annex I](#).
3. A Joint Coordination and Cooperation Committee for Mutual Security Purposes (hereinafter "the JSC"), as well as Joint Regional Security Committees (hereinafter "RSCs") and Joint District Coordination Offices (hereinafter "DCOs"), are hereby established as provided for in [Annex I](#).
4. The security arrangements provided for in this Agreement and in Annex I may be reviewed at the request of either Party and may be amended by mutual agreement of the Parties. Specific review arrangements are included in Annex I.
5. For the purpose of this Agreement, "the Settlements" means, in the West Bank the settlements in Area C; and in the Gaza Strip - the Gush Katif and Erez settlement areas, as well as the other settlements in the Gaza Strip, as shown on attached [map No. 2](#).



## ARTICLE XIII

### Security

1. The Council will, upon completion of the redeployment of Israeli military forces in each district, as set out in [Appendix 1 to Annex I](#), assume the powers and responsibilities for internal security and public order in Area A in that district.
2. a. There will be a complete redeployment of Israeli military forces from Area B. Israel will transfer to the Council and the Council will assume responsibility for public order for Palestinians. Israel shall have the overriding responsibility for security for the purpose of protecting Israelis and confronting the threat of terrorism.  
b. In Area B the Palestinian Police shall assume the responsibility for public order for Palestinians and shall be deployed in order to accommodate the Palestinian needs and requirements in the following manner:
  - (1) The Palestinian Police shall establish 25 police stations and posts in towns, villages, and other places listed in [Appendix 2 to Annex I](#) and as delineated on map No. 3. The West Bank RSC may agree on the establishment of additional police stations and posts, if required.
  - (2) The Palestinian Police shall be responsible for handling public order incidents in which only Palestinians are involved.
  - (3) The Palestinian Police shall operate freely in populated places where police stations and posts are located, as set out in paragraph b(1) above.
  - (4) While the movement of uniformed Palestinian policemen in Area B outside places where there is a Palestinian police station or post will be carried out after coordination and confirmation through the relevant DCO, three months after the completion of redeployment from Area B, the DCOs may decide that movement of Palestinian policemen from the police stations in Area B to Palestinian towns and villages in Area B on roads that are used only by Palestinian traffic will take place after notifying the DCO.
  - (5) The coordination of such planned movement prior to confirmation through the relevant DCO shall include a scheduled plan, including the number of policemen, as well as the type and number of weapons and vehicles intended to take part. It shall also include details of arrangements for ensuring continued coordination through appropriate communication links, the exact schedule of movement to the area of the planned operation, including the destination and routes thereto, its proposed duration and the schedule for returning to the police station or post.  
The Israeli side of the DCO will provide the Palestinian side with its response, following a request for movement of policemen in accordance with this paragraph, in normal or routine cases within one day and in emergency cases no later than 2 hours.
  - (6) The Palestinian Police and the Israeli military forces will conduct joint security activities on the main roads as set out in [Annex I](#).
  - (7) The Palestinian Police will notify the West Bank RSC of the names of the policemen, number plates of police vehicles and serial numbers of weapons, with respect to each police station and post in Area B.
  - (8) Further redeployments from Area C and transfer of internal security responsibility to the Palestinian Police in Areas B and C will be carried out in three phases, each to take place after an interval of six months, to be completed 18 months after the inauguration of the

Council, except for the issues of permanent status negotiations and of Israel's overall responsibility for Israelis and borders.

(9) The procedures detailed in this paragraph will be reviewed within six months of the completion of the first phase of redeployment.

#### **ARTICLE XIV**

##### **The Palestinian Police**

1. The Council shall establish a strong police force. The duties, functions, structure, deployment and composition of the Palestinian Police, together with provisions regarding its equipment and operation, as well as rules of conduct, are set out in [Annex I](#).
2. The Palestinian police force established under the Gaza-Jericho Agreement will be fully integrated into the Palestinian Police and will be subject to the provisions of this Agreement.
3. Except for the Palestinian Police and the Israeli military forces, no other armed forces shall be established or operate in the West Bank and the Gaza Strip.
4. Except for the arms, ammunition and equipment of the Palestinian Police described in [Annex I](#), and those of the Israeli military forces, no organization, group or individual in the West Bank and the Gaza Strip shall manufacture, sell, acquire, possess, import or otherwise introduce into the West Bank or the Gaza Strip any firearms, ammunition, weapons, explosives, gunpowder or any related equipment, unless otherwise provided for in Annex I.

#### **ARTICLE XV**

##### **Prevention of Hostile Acts**

1. Both sides shall take all measures necessary in order to prevent acts of terrorism, crime and hostilities directed against each other, against individuals falling under the other's authority and against their property and shall take legal measures against offenders.
2. Specific provisions for the implementation of this Article are set out in [Annex I](#).

#### **ARTICLE XVI**

##### **Confidence Building Measures**

With a view to fostering a positive and supportive public atmosphere to accompany the implementation of this Agreement, to establish a solid basis of mutual trust and good faith, and in order to facilitate the anticipated cooperation and new relations between the two peoples, both Parties agree to carry out confidence building measures as detailed herewith:

1. Israel will release or turn over to the Palestinian side, Palestinian detainees and prisoners, residents of the West Bank and the Gaza Strip. The first stage of release of these prisoners and detainees will take place on the signing of this Agreement and the second stage will take place prior to the date of the elections. There will be a third stage of release of detainees and prisoners. Detainees and prisoners will be released from among categories detailed in [Annex VII](#) (Release of Palestinian Prisoners and Detainees). Those released will be free to return to their homes in the West Bank and the Gaza Strip.
2. Palestinians who have maintained contact with the Israeli authorities will not be subjected to acts of harassment, violence, retribution or prosecution. Appropriate ongoing measures will be taken, in coordination with Israel, in order to ensure their protection.

3. Palestinians from abroad whose entry into the West Bank and the Gaza Strip is approved pursuant to this Agreement, and to whom the provisions of this Article are applicable, will not be prosecuted for offenses committed prior to September 13, 1993.

## **CHAPTER 3 - LEGAL AFFAIRS**

### **ARTICLE XVII**

#### **Jurisdiction**

1. In accordance with the DOP, the jurisdiction of the Council will cover West Bank and Gaza Strip territory as a single territorial unit, except for:

a. issues that will be negotiated in the permanent status negotiations: Jerusalem, settlements, specified military locations, Palestinian refugees, borders, foreign relations and Israelis; and

b. powers and responsibilities not transferred to the Council.

2. Accordingly, the authority of the Council encompasses all matters that fall within its territorial, functional and personal jurisdiction, as follows:

a. The territorial jurisdiction of the Council shall encompass Gaza Strip territory, except for the Settlements and the Military Installation Area shown on [map No. 2](#), and West Bank territory, except for Area C which, except for the issues that will be negotiated in the permanent status negotiations, will be gradually transferred to Palestinian jurisdiction in three phases, each to take place after an interval of six months, to be completed 18 months after the inauguration of the Council. At this time, the jurisdiction of the Council will cover West Bank and Gaza Strip territory, except for the issues that will be negotiated in the permanent status negotiations.

Territorial jurisdiction includes land, subsoil and territorial waters, in accordance with the provisions of this Agreement.

b. The functional jurisdiction of the Council extends to all powers and responsibilities transferred to the Council, as specified in this Agreement or in any future agreements that may be reached between the Parties during the interim period.

c. The territorial and functional jurisdiction of the Council will apply to all persons, except for Israelis, unless otherwise provided in this Agreement.

d. Notwithstanding subparagraph a. above, the Council shall have functional jurisdiction in Area C, as detailed in [Article IV of Annex III](#).

3. The Council has, within its authority, legislative, executive and judicial powers and responsibilities, as provided for in this Agreement.

4. a. Israel, through its military government, has the authority over areas that are not under the territorial jurisdiction of the Council, powers and responsibilities not transferred to the Council and Israelis.

b. To this end, the Israeli military government shall retain the necessary legislative, judicial and executive powers and responsibilities, in accordance with international law. This provision shall not derogate from Israel's applicable legislation over Israelis in personam.

5. The exercise of authority with regard to the electromagnetic sphere and air space shall be in accordance with the provisions of this Agreement.

6. Without derogating from the provisions of this Article, legal arrangements detailed in the Protocol Concerning Legal Matters attached as [Annex IV](#) to this Agreement (hereinafter

"Annex IV") shall be observed. Israel and the Council may negotiate further legal arrangements.

7. Israel and the Council shall cooperate on matters of legal assistance in criminal and civil matters through a legal committee (hereinafter "the Legal Committee"), hereby established.

8. The Council's jurisdiction will extend gradually to cover West Bank and Gaza Strip territory, except for the issues to be negotiated in the permanent status negotiations, through a series of redeployments of the Israeli military forces. The first phase of the redeployment of Israeli military forces will cover populated areas in the West Bank - cities, towns, refugee camps and hamlets, as set out in [Annex I](#) - and will be completed prior to the eve of the Palestinian elections, i.e. 22 days before the day of the elections. Further redeployments of Israeli military forces to specified military locations will commence immediately upon the inauguration of the Council and will be effected in three phases, each to take place after an interval of six months, to be concluded no later than eighteen months from the date of the inauguration of the Council.

## **ARTICLE XVIII**

### **Legislative Powers of the Council**

1. For the purposes of this Article, legislation shall mean any primary and secondary legislation, including basic laws, laws, regulations and other legislative acts.

2. The Council has the power, within its jurisdiction as defined in Article XVII of this Agreement, to adopt legislation.

3. While the primary legislative power shall lie in the hands of the Council as a whole, the Ra'ees of the Executive Authority of the Council shall have the following legislative powers

a. the power to initiate legislation or to present proposed legislation to the Council;

b. the power to promulgate legislation adopted by the Council; and

c. the power to issue secondary legislation, including regulations, relating to any matters specified and within the scope laid down in any primary legislation adopted by the Council.

4. a. Legislation, including legislation which amends or abrogates existing laws or military orders, which exceeds the jurisdiction of the Council or which is otherwise inconsistent with the provisions of the DOP, this Agreement, or of any other agreement that may be reached between the two sides during the interim period, shall have no effect and shall be void ab initio.

b. The Ra'ees of the Executive Authority of the Council shall not promulgate legislation adopted by the Council if such legislation falls under the provisions of this paragraph.

5. All legislation shall be communicated to the Israeli side of the Legal Committee.

6. Without derogating from the provisions of paragraph 4 above, the Israeli side of the Legal Committee may refer for the attention of the Committee any legislation regarding which Israel considers the provisions of paragraph 4 apply, in order to discuss issues arising from such legislation. The Legal Committee will consider the legislation referred to it at the earliest opportunity.

## **ARTICLE XIX**

### **Human Rights and the Rule of Law**

Israel and the Council shall exercise their powers and responsibilities pursuant to this Agreement with due regard to internationally-accepted norms and principles of human rights and the rule of law.

## **ARTICLE XX**

### **Rights, Liabilities and Obligations**

1. a. The transfer of powers and responsibilities from the Israeli military government and its civil administration to the Council, as detailed in [Annex III](#), includes all related rights, liabilities and obligations arising with regard to acts or omissions which occurred prior to such transfer. Israel will cease to bear any financial responsibility regarding such acts or omissions and the Council will bear all financial responsibility for these and for its own functioning.
  - b. Any financial claim made in this regard against Israel will be referred to the Council.
  - c. Israel shall provide the Council with the information it has regarding pending and anticipated claims brought before any court or tribunal against Israel in this regard.
  - d. Where legal proceedings are brought in respect of such a claim, Israel will notify the Council and enable it to participate in defending the claim and raise any arguments on its behalf.
  - e. In the event that an award is made against Israel by any court or tribunal in respect of such a claim, the Council shall immediately reimburse Israel the full amount of the award.
  - f. Without prejudice to the above, where a court or tribunal hearing such a claim finds that liability rests solely with an employee or agent who acted beyond the scope of the powers assigned to him or her, unlawfully or with willful malfeasance, the Council shall not bear financial responsibility.
2. a. Notwithstanding the provisions of paragraphs 1.d through 1.f above, each side may take the necessary measures, including promulgation of legislation, in order to ensure that such claims by Palestinians including pending claims in which the hearing of evidence has not yet begun, are brought only before Palestinian courts or tribunals in the West Bank and the Gaza Strip, and are not brought before or heard by Israeli courts or tribunals.
  - b. Where a new claim has been brought before a Palestinian court or tribunal subsequent to the dismissal of the claim pursuant to subparagraph a. above, the Council shall defend it and, in accordance with subparagraph 1.a above, in the event that an award is made for the plaintiff, shall pay the amount of the award.
  - c. The Legal Committee shall agree on arrangements for the transfer of all materials and information needed to enable the Palestinian courts or tribunals to hear such claims as referred to in subparagraph b. above, and, when necessary, for the provision of legal assistance by Israel to the Council in defending such claims.
3. The transfer of authority in itself shall not affect rights, liabilities and obligations of any person or legal entity, in existence at the date of signing of this Agreement.
  4. The Council, upon its inauguration, will assume all the rights, liabilities and obligations of the Palestinian Authority.
  5. For the purpose of this Agreement, "Israelis" also includes Israeli statutory agencies and corporations registered in Israel.

## **ARTICLE XXI**

### **Settlement of Differences and Disputes**

Any difference relating to the application of this Agreement shall be referred to the appropriate coordination and cooperation mechanism established under this Agreement. The provisions of Article XV of the DOP shall apply to any such difference which is not settled through the appropriate coordination and cooperation mechanism, namely:

1. Disputes arising out of the application or interpretation of this Agreement or any related agreements pertaining to the interim period shall be settled through the Liaison Committee.
2. Disputes which cannot be settled by negotiations may be settled by a mechanism of conciliation to be agreed between the Parties.
3. The Parties may agree to submit to arbitration disputes relating to the interim period, which cannot be settled through conciliation. To this end, upon the agreement of both Parties, the Parties will establish an Arbitration Committee.

## **CHAPTER 4 - COOPERATION**

### **ARTICLE XXII**

#### **Relations between Israel and the Council**

1. Israel and the Council shall seek to foster mutual understanding and tolerance and shall accordingly abstain from incitement, including hostile propaganda, against each other and, without derogating from the principle of freedom of expression, shall take legal measures to prevent such incitement by any organizations, groups or individuals within their jurisdiction.
2. Israel and the Council will ensure that their respective educational systems contribute to the peace between the Israeli and Palestinian peoples and to peace in the entire region, and will refrain from the introduction of any motifs that could adversely affect the process of reconciliation.
3. Without derogating from the other provisions of this Agreement, Israel and the Council shall cooperate in combating criminal activity which may affect both sides, including offenses related to trafficking in illegal drugs and psychotropic substances, smuggling, and offenses against property, including offenses related to vehicles.

### **ARTICLE XXIII**

#### **Cooperation with Regard to Transfer of Powers and Responsibilities**

In order to ensure a smooth, peaceful and orderly transfer of powers and responsibilities, the two sides will cooperate with regard to the transfer of security powers and responsibilities in accordance with the provisions of [Annex I](#), and the transfer of civil powers and responsibilities in accordance with the provisions of [Annex III](#).

### **ARTICLE XXIV**

#### **Economic Relations**

The economic relations between the two sides are set out in the Protocol on Economic Relations signed in Paris on April 29, 1994, and the Appendices thereto, and the Supplement to the Protocol on Economic Relations all attached as [Annex V](#), and will be governed by the relevant provisions of this Agreement and its Annexes.

### **ARTICLE XXV**

#### **Cooperation Programs**

1. The Parties agree to establish a mechanism to develop programs of cooperation between them. Details of such cooperation are set out in [Annex VI](#).
2. A Standing Cooperation Committee to deal with issues arising in the context of this cooperation is hereby established as provided for in Annex VI.

#### **ARTICLE XXVI**

##### **The Joint Israeli-Palestinian Liaison Committee**

1. The Liaison Committee established pursuant to Article X of the DOP shall ensure the smooth implementation of this Agreement. It shall deal with issues requiring coordination, other issues of common interest and disputes.
2. The Liaison Committee shall be composed of an equal number of members from each Party. It may add other technicians and experts as necessary.
3. The Liaison Committee shall adopt its rules of procedures, including the frequency and place or places of its meetings.
4. The Liaison Committee shall reach its decisions by agreement.
5. The Liaison Committee shall establish a subcommittee that will monitor and steer the implementation of this Agreement (hereinafter "the Monitoring and Steering Committee"). It will function as follows:
  - a. The Monitoring and Steering Committee will, on an ongoing basis, monitor the implementation of this Agreement, with a view to enhancing the cooperation and fostering the peaceful relations between the two sides.
  - b. The Monitoring and Steering Committee will steer the activities of the various joint committees established in this Agreement (the JSC, the CAC, the Legal Committee, the Joint Economic Committee and the Standing Cooperation Committee) concerning the ongoing implementation of the Agreement, and will report to the Liaison Committee.
  - c. The Monitoring and Steering Committee will be composed of the heads of the various committees mentioned above.
  - d. The two heads of the Monitoring and Steering Committee will establish its rules of procedures, including the frequency and places of its meetings.

#### **ARTICLE XXVII**

##### **Liaison and Cooperation with Jordan and Egypt**

1. Pursuant to Article XII of the DOP, the two Parties have invited the Governments of Jordan and Egypt to participate in establishing further liaison and cooperation arrangements between the Government of Israel and the Palestinian representatives on the one hand, and the Governments of Jordan and Egypt on the other hand, to promote cooperation between them. As part of these arrangements a Continuing Committee has been constituted and has commenced its deliberations.
2. The Continuing Committee shall decide by agreement on the modalities of admission of persons displaced from the West Bank and the Gaza Strip in 1967, together with necessary measures to prevent disruption and disorder.
3. The Continuing Committee shall also deal with other matters of common concern.

#### **ARTICLE XXVIII**

##### **Missing Persons**

1. Israel and the Council shall cooperate by providing each other with all necessary assistance in the conduct of searches for missing persons and bodies of persons which have not been recovered, as well as by providing information about missing persons.
2. The PLO undertakes to cooperate with Israel and to assist it in its efforts to locate and to return to Israel Israeli soldiers who are missing in action and the bodies of soldiers which have not been recovered.

## **CHAPTER 5 - MISCELLANEOUS PROVISIONS**

### **ARTICLE XXIX**

#### **Safe Passage between the West Bank and the Gaza Strip**

Arrangements for safe passage of persons and transportation between the West Bank and the Gaza Strip are set out in [Annex I](#).

### **ARTICLE XXX**

#### **Passages**

Arrangements for coordination between Israel and the Council regarding passage to and from Egypt and Jordan, as well as any other agreed international crossings, are set out in [Annex I](#).

### **ARTICLE XXXI**

#### **Final Clauses**

1. This Agreement shall enter into force on the date of its signing.
2. The Gaza-Jericho Agreement, except for Article XX (Confidence-Building Measures), the Preparatory Transfer Agreement and the Further Transfer Protocol will be superseded by this Agreement.
3. The Council, upon its inauguration, shall replace the Palestinian Authority and shall assume all the undertakings and obligations of the Palestinian Authority under the Gaza-Jericho Agreement, the Preparatory Transfer Agreement, and the Further Transfer Protocol.
4. The two sides shall pass all necessary legislation to implement this Agreement.
5. Permanent status negotiations will commence as soon as possible, but not later than May 4, 1996, between the Parties. It is understood that these negotiations shall cover remaining issues, including: Jerusalem, refugees, settlements, security arrangements, borders, relations and cooperation with other neighbors, and other issues of common interest.
6. Nothing in this Agreement shall prejudice or preempt the outcome of the negotiations on the permanent status to be conducted pursuant to the DOP. Neither Party shall be deemed, by virtue of having entered into this Agreement, to have renounced or waived any of its existing rights, claims or positions.
7. Neither side shall initiate or take any step that will change the status of the West Bank and the Gaza Strip pending the outcome of the permanent status negotiations.
8. The two Parties view the West Bank and the Gaza Strip as a single territorial unit, the integrity and status of which will be preserved during the interim period.
9. The PLO undertakes that, within two months of the date of the inauguration of the Council, the Palestinian National Council will convene and formally approve the necessary changes in regard to the Palestinian Covenant, as undertaken in the letters signed by the Chairman of the



PLO and addressed to the Prime Minister of Israel, dated September 9, 1993 and May 4, 1994.

10. Pursuant to [Annex I, Article IX](#) of this Agreement, Israel confirms that the permanent checkpoints on the roads leading to and from the Jericho Area (except those related to the access road leading from Mousa Alami to the Allenby Bridge) will be removed upon the completion of the first phase of redeployment.

11. Prisoners who, pursuant to the Gaza-Jericho Agreement, were turned over to the Palestinian Authority on the condition that they remain in the Jericho Area for the remainder of their sentence, will be free to return to their homes in the West Bank and the Gaza Strip upon the completion of the first phase of redeployment.

12. As regards relations between Israel and the PLO, and without derogating from the commitments contained in the letters signed by and exchanged between the Prime Minister of Israel and the Chairman of the PLO, dated September 9, 1993 and May 4, 1994, the two sides will apply between them the provisions contained in Article XXII, paragraph 1, with the necessary changes.

13. a. The Preamble to this Agreement, and all Annexes, Appendices and maps attached hereto, shall constitute an integral part hereof.

b. The Parties agree that the maps attached to the [Gaza-Jericho Agreement](#) as:

a. map No. 1 (The Gaza Strip), an exact copy of which is attached to this Agreement as [map No.](#) (in this Agreement "map No. 2");

b. map No. 4 (Deployment of Palestinian Police in the Gaza Strip), an exact copy of which is attached to this Agreement as [map No. 5](#) (in this Agreement "map No. 5"); and

c. map No. 6 (Maritime Activity Zones), an exact copy of which is attached to this Agreement as [map No. 8](#) (in this Agreement "map No. 8"; are an integral part hereof and will remain in effect for the duration of this Agreement.

14. While the Jiftlik area will come under the functional and personal jurisdiction of the Council in the first phase of redeployment, the area's transfer to the territorial jurisdiction of the Council will be considered by the Israeli side in the first phase of the further redeployment phases.

**Done at Washington DC, this 28th day of September, 1995.**

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*For the Government of  
the State of Israel*

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*For the PLO*

**Witnessed by:**

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*The United States of America*

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*The Russian Federation*

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*The Arab Republic of Egypt*

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*The Hashemite Kingdom of Jordan*

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*The Kingdom of Norway*

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*The European Union*

*Source:* Israel Ministry of Foreign Affairs, 2008

## ANNEX 4

**Table 4: A Timeline of Key PFM reforms 2002 - 2010.**

Period	Reforms Introduced
June 2002 -2003	<ul style="list-style-type: none"> <li>• Consolidation of all PA revenues into CTA</li> <li>• Transfer of income / dividends from PA commercial activities into CTA</li> <li>• Consolidation of all PA commercial activities into PIF</li> <li>• Consolidation of expenditure management in WB&amp;G: unifying the accounting system, treasury, and submitting West Bank expenditures to budgetary approval</li> <li>• System of quarterly and then monthly fiscal reports was introduced – although the information in the reports was collected from disparate sources.</li> <li>• Steps taken to prohibit ministries from incurring advances from commercial banks.</li> <li>• Shift to direct deposits into bank accounts for some security personnel salaries instead of cash payments – although payroll remained with the security services.</li> <li>• Donor financed activities included in the presentation of the PA budget</li> <li>• Limit set for net public employment</li> <li>• Enhanced transparency by meeting the budget calendar and including supplementary fiscal information with the budget</li> </ul>
2004	<ul style="list-style-type: none"> <li>• Salary payments of PA security personnel directly deposited into individual bank accounts instead of being paid in cash – although the payroll remained with security service</li> <li>• The first annual report of the PIF was published</li> <li>• A procurement department—the Department of Supplies and Tenders—was established at the MoF assuming full jurisdiction over all purchases made by PA ministries and agencies, including the security.</li> <li>• A new Internal Audit Department (IAD) was established at the MoF.</li> <li>• Financial controllers reporting to the MoF were appointed to each cost center – although minimal expenditures were executed outside MoF at this time.</li> <li>• preliminary statements of the 2003 budget accounts were approved by the Council of Ministers and submitted to the PLC</li> <li>• PLC passed law creating a new national audit institution, the State Audit and Administrative Control Bureau (SAACB) – to ensure independence, submission of regular reports to the PLC, and comprehensive coverage of all PA institutions</li> </ul>
2005	<ul style="list-style-type: none"> <li>• New financial regulations for ministries and public establishments approved based on Law No. 7 of 1998</li> <li>• Payroll for security personnel shifted to the MoF</li> </ul>

Period	Reforms Introduced
July 2007 – 2008	<ul style="list-style-type: none"> <li>• Palestinian Reform and Development Plan prepared</li> <li>• New MoF budget department established in Ramallah</li> <li>• Accountant General’s department established bringing together the treasury, accounting, and payments departments</li> <li>• New PA accounting system developed by MoF in Ramallah – first time that budget control, payments and accounting are integrated into a single system</li> <li>• CTA for revenues re-established</li> <li>• Monthly reports on fiscal performance resume based directly on data from the accounting system.</li> <li>• Payroll database of civilian and security personnel integrated and linked to the accounting system.</li> <li>• Financial controllers become responsible for checking the payroll</li> <li>• Access controls and separation of duties upgraded for the accounting system</li> </ul>
2009	<ul style="list-style-type: none"> <li>• Program structure introduced for budget presentation</li> <li>• Budget preparation involves MoF and Ministry of Planning and Administrative Development working with line ministries in integrated teams</li> <li>• Line ministries are linked to the accounting system and responsibility for payment processing starts to be devolved from MoF</li> <li>• CTA extended to cover expenditure accounts through the use of zero balance accounts for line ministries, and the closure of all other accounts except if required by donors.</li> <li>• Line ministry expenditure from donor resources are subject to same controls as budgetary expenditures.</li> <li>• Cash planning and debt management department established in MoF</li> <li>• Petroleum commission linked to the accounting system using an accrual based module</li> <li>• Donor financed activities increasingly executed through treasury system</li> <li>• 2008 Financial Statements prepared using cash based International Public Sector Accounting Standards (IPSAS) as a base</li> <li>• Bank reconciliation process regularized in the course of preparing the financial statements.</li> <li>• Procedures manuals developed for the budget execution functions linked to the accounting system.</li> </ul>

- 2010
- Palestinian National Plan prepared
  - Budget module developed as a component of the accounting system
  - A new chart of accounts was introduced for preparation of 2011 Budget based on international standards
  - Full devolution of the responsibility for the payments process to line ministries
  - Commitment control module introduced in accounting system to control expenditures on the basis of quarterly financial orders
  - Internal audit function devolved to line ministries on a pilot basis
  - New procurement law prepared that brings legal framework into line with international practice
  - New web based donor reporting system introduced
  - Debt management records included in regular monthly reports
  - Start made on building a comprehensive register of PA assets
  - 2008 Financial Statements audited by the SAACB
- 

*Source:* World Bank, 2011, pp. 49-51.

## ANNEX 5

**Table 5: Development Policy Grant IV. Grant and program summary.**

### GRANT AND PROGRAM SUMMARY

#### WEST BANK AND GAZA

#### PALESTINIAN NATIONAL DEVELOPMENT PLAN DEVELOPMENT POLICY GRANT IV

Borrower	Palestine Liberation Organization (PLO) (for the benefit of the Palestinian Authority (PA))
Implementing Agency	Ministry of Finance (MOF) of the Palestinian Authority
Financing Data	Terms: Grant from the Trust Fund for Gaza and West Bank (TFGWB) Amount: US\$40 million
Operation Type	The proposed operation is for budget support and is a follow-up to three previous Palestinian Reform and Development Plan Development Policy Grant (PRDP DPGs) approved by the Board on June 5, 2008, April 28, 2009 and September 14, 2010. The proposed grant would be disbursed in a single tranche upon satisfactory completion of the prior actions.
Main Policy Areas	The PNDP DPG IV will support the PA as it implements the National Development Plan (NDP) 2011-2013. The PNDP DPG IV continues to focus support on two areas: (i) strengthening the PA's fiscal position; and (ii) improving public financial management.
KeyResults Indicators	The PNDP DPG IV is designed to help the PA strengthen its fiscal position by increasing domestic revenues to about 24 percent of Gross Domestic Product (GDP) by 2012 and managing the share of the public sector wage bill to keep it in line at about 20 percent of GDP. The PNDP DPG IV also supports the PA's efforts to improve public financial management. Key indicators for this are greater transparency in budget reporting of development and transfer spending, stronger oversight for public procurement through new and better-trained institutions, and publicly available audited accounts.
Program Development Objectives and Contribution to CAS	The proposed operation will help the PA to implement the new National Development Plan. Like the PRDP DPGs I-III, the PNDP DPG- IV will specifically support efforts to improve the fiscal position and increase government transparency and accountability.
Risks and Risk Mitigation	The NDP's success depends on parallel actions by the PA, the Government of Israel (GOI) and the donor community. The key risks are:  (i) The highly volatile political situation could deteriorate, with the consequence of stalled reforms. If the security situation deteriorates, private sector confidence and investment will decline, public revenues will fall and government reforms may stall. What is

	<p>critical at this juncture is that the PA has continued to implement structural reforms despite the highly difficult economic environment and fiscal pressures, and remains committed to continued reforms. The PA has successfully mobilized popular support for its actions in the West Bank through its extensive consultations on the development of the NDP.</p> <p>(ii) The PA is striving to improve its fiscal position, but for the foreseeable future they will remain dependent upon high levels of aid. While the PA has charted a course toward lesser dependence on external aid and is actively undertaking the relevant reforms, it will take many years for the PA to achieve fiscal sustainability and that will only be possible if there is a political settlement that allows the economy to flourish.</p> <p>(iii) The PA will not be able to meet its fiscal goals without substantial economic growth. However, under the recent political uncertainties, the relaxation of movement restrictions slowed down – whereas this relaxation had proved vital to fostering new economic growth in 2010 – as did disbursements of donor commitments. The international donor community is continuing to monitor the closure system and its economic impact. The Bank and other development partners will continue to monitor progress in the reform agenda, and the transparency of public expenditures.</p> <p>This proposed fourth DPG sends a strong signal to donors that the World Bank places great importance on progress on the NDP and that donors should continue to support it.</p>
Operation ID	P123437

Source: World Bank, 2012, pp. 1-2.

## ANNEX 6

# “DO NO HARM” REFLECTIONS ON THE IMPACTS OF INTERNATIONAL ASSISTANCE PROVIDED TO THE OCCUPIED PALESTINIAN TERRITORIES

### **Section I: Brief Introduction to Do No Harm Lessons**

Four findings from the DNH project have direct relevance to donor assistance provided to oPt:

1. Even as international donors maintain political neutrality, aid given in conflict settings cannot and does not have a neutral impact on the conflicts where it is provided.
2. The resources provided by donors, and the manner in which these resources are organized and delivered, play into and reinforce the relationships between contending groups in recipient societies.
3. In all societies, groups in contention are both “divided” by some factors (such as contending interests, structures, histories or competition over limited resources) and “connected” by other factors (shared interests, interdependent structures, some values, aspects of history, etc.)
4. The impacts of donor assistance on conflicts occur as the resources provided (and the systems of provision) *either* reinforce and exacerbate the dividers between groups (thus having a negative impact in that they worsen the conflict) *or* lessen dividers (positive impacts). Likewise, impacts are *either* negative if donors ignore, undermine and weaken the connectors *or* positive if they recognize, build on and reinforce the connectors. Experience shows that the impacts on dividers and connectors between groups in conflict are never neutral.

### **Section II: Impacts of Donor Assistance on the Palestinian/Israeli Conflict.**

#### **Introduction**

Everyone with whom I spoke, without exception (international, Palestinian, Israeli), agreed that donor assistance to the oPt plays into and reinforces the Israeli Occupation of Palestine. People noted that aid “relieves Israel of its obligations as an occupier,” that it “rebuilds whatever Israel destroys” and “enables” the continuation of such actions, that currently it simply “maintains” levels of poverty resulting from a strict closure regime and other aspects of Israeli control by providing major financial resources for food, employment, etc.

With this agreement, however, there was widely shared discomfort over its implications. Most people felt that they faced two extreme options – either to continue to provide assistance and, thus, support the Occupation or pull out altogether. No one liked these two bad options.

#### **Do No Harm Analysis**

Dividers: Occupation clearly divides Palestinians and Israelis. Daily interactions and prospects for the future are directly affected. As one person said, “Virtually all interactions between Palestinians and Israelis now occur either through press reports about violence or at checkpoints in the presence of guns.” This reinforces attitudes of mistrust, fear, and cynicism on both sides, further feeding separation and its likely continuation.



Connectors: On the other hand, polls consistently show that the majority of each population would agree to a two-state solution under certain security assurances, showing that, at some level, there is a broad degree of shared interest between Palestinians and Israelis in moving away from the constant violence. Polls also show that, within each society, the groups who favor total rejection of the “other” are considered “extreme” by their own co-nationals who resent being held “hostage” to these extreme views. (The demonstration of 150,000 Israelis on May 15 in Tel Aviv in support of withdrawal from Gaza conveyed this kind of resentment by many Israelis of the dominance of the extreme settler attitudes on political decisions).

Further, the direct and indirect economic costs to both societies of the continued Occupation could form the basis for additional “connectedness.” Although dividers between Israelis and Palestinians clearly outnumber connectors, there are nonetheless some important points of common interest that deserve donor attention.

### **How does donor assistance play into and reinforce (or reduce) these dividers and weaken (or strengthen) these connectors?**

From the experiences told to me, the conclusion has to be that, currently, the patterns of donor assistance have more negative than positive impacts on the ongoing conflict. This is not inevitable! Below under “Options” we discuss some ideas for reversing these impacts. First, we outline how negative, divider-reinforcing and/or connector-weakening impacts occur.

1. Donor Structures. In the capital cities of Europe, decisions have been made that representatives of the donor processes should work only on the Palestinian side (based in East Jerusalem, or Ramallah for those who have not had a Consulate in East Jerusalem except for UNRWA whose HQ was moved from Vienna to Gaza City during 1995-6) with interactions concerning Palestinian Affairs and Aid issues for West Bank and Gaza with Israel mainly carried out through the Consul Generals represented in East Jerusalem, the UN Special Coordinator, The World Bank and the Norwegian Representative. Other diplomatic activities in relation to the peace process are taken care of by diplomatic representatives based in Tel Aviv or at capital level. This multifaceted separation between the assistance and the diplomatic branches of donor governments reinforces separation between the two communities with whom they relate. Consequently, the interactions between the donor community and Israelis often mirror the interactions of Palestinians and Israelis in their negativity.
2. “Routinization” of the Occupation. In many conversations, it seemed that the ongoing, daily interactions with the Occupation (closure, check-points, barrier/wall locations, applications for visas and other permissions, etc., etc.) have become so “normal” (and take so much time and attention) that staff of donor agencies develop an almost routine attitude toward them. Further, these difficulties are dealt with in an *ad hoc* way, varying from agency to agency and, often, addressing one issue, then another, then another.

The results of this *ad hoc-ism* are two-fold. First, people get caught up in particular battles and enjoy small “victories” (such as success in getting a portion of the barrier moved by ten meters) rather than remaining focused on the larger issue (the fact that the barrier is separating two peoples and reinforcing an illegal domination of one

group over the other). Second, people lose sight of the cumulative effects of separate decisions. However, it is the accumulation of many “small” actions that constitute the Occupation and reinforce dividers between the two groups.

3. Relations to the PA and other Aspects of Palestinian Society. The refusal by one donor to provide any support to the PA reinforces (intentionally) the Israeli claim that “ there is no one with whom to negotiate.” More problematic for other donors is the parallel fact that their emphasis on and support to reform of the PA unintentionally also plays into this Israeli claim in that, without strong interpretations to offset this implication, the focus on reform stresses failure, rather than success, of newly formed and still embryonic governmental or public administration structures. Here we also need to underline that Palestinians never had a state and were largely lacking the administrative culture for a state. Over 90% of the public administration/governmental functions in Gaza and West Bank were created after the signing of the so-called Oslo Agreement between 1994 and 2000. A prevailing emphasis on weaknesses in Palestinian society seems to reinforce Israeli feelings that Palestinians are “ not ready” to be peace partners. This judgment has not always held; between Oslo (1993) and Camp David (2000), the working assumption of the international community was that there was an effective peace partner on the Palestinian side.
4. Non-Coordination. Donor unwillingness or inability to coordinate certain important aspects of their work reinforces the ability of Israel to move ahead with various aspects of the Occupation. When donors use disagreement as the excuse for not cooperating, they convey the implicit message that it is legitimate not to cooperate with people with whom you disagree (an attitude that pervades I/P relations).
5. Attitudes. Donor expressions of cynicism, frustration, powerlessness, distrust and even of hatred mirror and, thereby, possibly reinforce Palestinian feelings that perpetuate and worsen intergroup dividers. Because much of the programming work with Palestinians is undertaken to ameliorate the impacts of actions by Israelis, donor staff often feel the same antipathy toward Israeli policies and practices that Palestinians feel. These feelings toward policy are often translated into feelings specifically toward the Israelis who carry out the policies and, by extension, generalized to all Israelis. (Of course, the policies and enactors of those policies deserve such feelings. The point here is not that these are inappropriate reactions but, rather, that donors by adopting and mirroring these reactions reinforce dividers between the two societies rather than reducing them.
6. Word and Labels. Acceptance and use of the language of Occupation can reinforce, in some ways, its “ legitimacy.” Words that sanitize actions (such as “ incursion” to describe dangerous, military entries to Palestinian areas where, at best, people are threatened and, worse, people die) reinforce the “ business as usual” feelings on which Israeli policy depends.

Further, labels that apply to entire groups of individuals without differentiating among them (such as “ terrorists” or “ settlers” ) accentuate dividers. Clearly not all members of Hamas are committed to terror and, while some settlers are driven by ideological zeal, others are living in occupied territories as inexpensive “ suburban” neighborhoods and would, if politics demanded it, be more easily moved back into

Israel proper. Political solutions become more possible with recognition of differences within seemingly intransigent groups.

7. Use of History. Many Israelis and Palestinians engage in recitations of history as one way of describing their victimization and explaining/excusing their present actions. I sometimes heard donors also recite histories as a way of explaining why nothing new can happen, possibly reinforcing the likelihood that, indeed, nothing will happen.

### **Donor Programming Options**

How can donors change or adjust programming to ensure that they avoid worsening dividers and that they recognize and encourage connectors?

**Note Well:** Even though all agreed that international donor assistance in some ways supports the Occupation, respondents also agreed that withdrawal of aid is *not* an option. Palestinians offered four reasons why they did not favor withdrawal: a) possible physical costs to people who lose support; b) loss of solidarity, c) loss of international witnesses to events in the oPt, and d) loss of hope by conveying the sense that the international community considers the situation hopeless. In addition, experience in other places suggests that withdrawal could increase desperation, and desperate people are not good peace-makers.

**In DNH terms, withdrawal makes no sense because it would neither weaken dividers nor strengthen connectors.**

A number of good ideas about options emerged in my conversations.

1. Humanitarian Emphasis on Protection. Many of the daily experiences of closure and Occupation threaten the physical well being of Palestinians. For this reason, programming around issues of legal protections (applying, Israeli law, and International Human Rights Law) is well within an appropriate humanitarian assistance mandate. Some NGOs have conducted legal aid programmes for Palestinians over many years, working closely with Israeli human rights lawyers to take cases all the way up to the Israeli Supreme Court/High Court of Justice.

Donor programming to encourage and expand such legal assistance would provide direct linkages between Palestinians and Israelis who are both concerned about protection, would (when successful – which such cases have often been in the past) demonstrate some of the positive aspects of Israeli society to counter current Palestinian disgust, and would reduce the dividers that are regularly reinforced by negative encounters with unlawful actions undertaken in support of Occupation.

2. Research and Data Gathering on Economic Costs of Occupation. From what I could learn, a good deal of work on the economic costs of Occupation has been and is being done. However, I could not locate a full study that showed the direct, secondary and tertiary net costs to both Israeli and Palestinian societies. Such numbers, assembled over a period of the past ten years and projected into the future decade could demonstrate, I suspect, a strong argument for a number of Israelis to object to Occupation continuation.

These data, assembled to show the costs in both directions, could form the basis for recognition of shared interests and, perhaps, encourage Israelis who suffer directly from the national budget squeeze to be more open to exploration of peace options. If well packaged, these data could constitute the basis for a large public relations/education campaign.

3. Regular Meetings of Donor Community with Palestinian and Israeli Official Representatives. As noted in the analysis section above, the structures under which the international donor community operates separate them largely from Israeli officialdom as they pursue a development and humanitarian agenda. A regularly scheduled, annual meeting of donor community representatives, Israeli authorities and Palestinian authorities could negotiate the terms for delivery of humanitarian assistance, specify the expectations and obligations of each party, set priorities that need to be jointly addressed, etc. This could result in a MOU signed by all parties which would form the basis for complaints about violations of IHL and agreed-to terms of assistance programming. It would also provide a regular venue in which individuals from the three groups, tasked with making appropriate humanitarian response arrangements could, over time, develop additional common analysis and commitment.
4. Transparency/Outreach Campaign. There are a few programmatic attempts by the donors to reach into Israeli society in terms that would highlight and reinforce their common interests with Palestinian society (and vice versa). Without any real attempts to cross this information barrier, there is no way to test whether there is, within broader parts of Israeli society (beyond the “peace” groups), a willingness to face and end the impacts of the Occupation on children, families, workers, etc. – i.e. “people like us.” Few donor publications are translated into Arabic; none, so far as I could learn, is translated into Hebrew.

Perhaps, donors could develop broad outreach programmes to inform Israeli society about the humanitarian assistance enterprise and about Palestinian positive efforts to address their own futures. I do not believe that such “messaging” will make a fundamental shift in Israeli society; however, experience elsewhere shows that failure to address and correct prevalent social stereotyping does reinforce dividers among groups. Regular appearances on Israeli talk shows, coverage of events other than violence, conveying the results of polls among Palestinian public, all of these could contribute to a more realistic view of Palestinians among Israelis who, now, gain most of their information from highly biased news sources.

5. Lexicography Initiative (Or the “Spade is a Spade Project” !) To address and lessen the dividers that are exacerbated by labeling of groups and/or “sanitized” descriptors of violent events, donors might undertake a direct effort to identify accurate words by which to discuss and describe events with which they deal. The effort should not replace sanitized words with inflammatory language but strive to find accurate, descriptive language that clarifies issues and events. (It may be possible to draw on experiences elsewhere to speed this effort along.)
6. Programmers Seminar. For those in the donor community who are interested, someone could organize a bi-monthly “seminar” in which a group of Palestinian, Israeli and donor “thinkers” meet to re-examine and re-assess donor impacts on the

conflict and to continue to explore options for new approaches and programmes that could help reduce tensions and support connections.

7. Engage More with the Arab Donor Community. Finally, I realize that I am not clear about the degree to which European and Arab donors actually interact and plan together. The fact that I did not hear much about this may mean that the occasions for doing so are limited such as the AHLC (or it could mean that I missed it). If there is now little interaction, taking steps to overcome this division among donors could both improve the overall analysis of donor impacts and options and also model how people coming from divergent backgrounds can work together on shared interests.

### **Section III: Impacts of Donor Assistance on Conflicts within the Palestinian Society**

#### **Introduction**

Very few donors or recipients of aid had considered the impacts of assistance resources and approaches on dividers and connectors within Palestinian society. Yet it is very clear that the allocation of resources to various Palestinian groups, the distributional effects of choices made by donors about who to target (or not), the incentives that are encouraged by sizable resource transfers, etc. all play into the dynamics of intergroup relations among Palestinians.

#### **Do No Harm Analysis**

My brief visit does not qualify me to outline in any detail the dividers and connectors among Palestinian subgroups. However, in every conversation with donors and Palestinians in the oPt, I heard a variety of remarks about differences in NGOs, other civil society groups, between civil society and the PA, etc. People described intergroup rivalries and mistrust, competition among groups and “factions” within groups. Furthermore, many described a dynamic, changing picture in which former allies have become competitors or in which “movements” have become “institutions.”

At the same time, many of these same people reiterate the common desires of all Palestinians to have an independent state, to end Occupation, to be free to move, to be able to plan for the future and to engage in productive economic activities that will last and grow. Strategies for achieving these ends differ, but the goals and loyalty to certain principles and personages are, apparently, still strong connectors. To trace the real impacts of donor assistance on dividers and connectors within Palestinian society, one would need to take the time and engage the groups in a more thorough and specific outline of dividers and connectors than the brief sketch above. However, knowing that both forces exist within the community, we can outline below how donor activities interact with these and either feed into fragmentation of Palestinian society or reinforce its common progress toward a shared and healthy future.

#### **How does donor assistance play into and reinforce (or reduce) dividers and weaken (or strengthen) these connectors?**

1. Distributional Impacts. Donor decisions (or the processes by which such decisions are made) about who to hire (and not to hire), with which organizations to partner (and not to partner) and about who shall receive aid (and who will not) have impacts on relations between those who are included and those who are not. Further, differences in which beneficiaries receive which kinds of resources, over what time span and in

what order also have such effects. When the aid process benefits some groups whose identity exactly overlaps with the identity of one of the subgroups who are in conflict, the distributional impacts of aid reinforce the divisions between these subgroups. In Palestinian society, for example, decisions (in some cases formalized) to refuse aid to anyone connected to Hamas reinforces the division between all those who are in anyway connected to this group and other groups in society. Because no group is completely monolithic, and Hamas meets many of the humanitarian needs of significant populations, this kind of labeled exclusion builds a dynamic into the current social processes that may pose problems for a cohesive future state. In short, policies that exclude Hamas from beneficiary groups worsen dividers and undermine connectors. Similar impacts can be traced in relation to local NGOs with whom donors partner. Who is selected and how, and who is left out and why, all affect relations among these groups within the Palestinian community, negatively or positively.

2. Legitimization/de-legitimization and Substitution Impacts. Donor emphasis on reform of the PA was often cited in cynical terms by Palestinians with whom I talked. It appeared that the judgments of the international community that corruption was a problem fed into already existing cynicism among Palestinians and perhaps contributed to the de-legitimization of the PA among some groups. As the Ministry of Finance has instituted systems for broad transparency and accountability, donors have supported this financially and with commendations. Similarly, some donor supported programmes substitute for government by assuming responsibility for civilian support that should be carried out by government. This can undermine and weaken the development of effective state and municipal institutions and, by doing so, weaken the connections among groups who depend on these authorities. Approaches that encourage cynicism and undermine the legitimacy of governance structures reinforce dividers; approaches that build on strengths and support systems that serve all of society reinforce connectors.
3. Incentives. Experience shows that, in conflicts, donor assistance can be the only, or a major, source of income. Employment in the oPt has suffered greatly under closure so that UNRWA and the PA, as conduits of donor funds, constitute the major employers and many families depend on them for survival. Unless specific measures are taken to assure people that there will be employment and income when peace is achieved, current donor support can become (inadvertently) a disincentive for taking the risks associated with peace. I did not hear anyone stress this as important in the oPt, but it would be surprising if there were no issues to be dealt with on this front, after over fifty years of institutionalized support for Palestinian refugees. What will the employees of UNWRA do if/when that agency is no longer needed?

### **Donor Programming Options**

Because the focus of my conversations was, largely, on the Israeli/Palestinian conflict, I did not adequately explore programming options for reducing dividers and strengthening connectors within Palestinian society. However, a few ideas and principles of operation became clear.

1. Identify Specific Connectors. Above I outlined the most general connectors that were clear in my conversations—namely, the goal of ending Occupation and establishing an independent State. For effective assistance programming, however, it would be

important for donor staff to work with Palestinians to identify specific, often more localized, common purposes and shared interests around which to develop programmes. With some effort to do this, ideas would likely emerge (if experience elsewhere is repeated here) where groups that currently disagree and /or compete with each other could agree on some common efforts. The idea is not to create a disagreement-free society. (That would be dull!) Rather, the responsibility of donor assistance is to ensure that, where its resources are channeled supports cohesion and the development of joint efforts across the schisms in societies, rather than ignoring these and inadvertently feeding into them.

2. Develop Strategies for Encouraging Public Accountability. Addressing corruption and weaknesses in societies without, at the same time, encouraging cynicism and internal divisive criticism (as discussed above) is a challenge for donors in all conflict areas. It would be foolish to ignore corruption and failure. The issue is *how* to work on these issues. Several strategies have been tried and worked elsewhere.

First, when donors model transparency and accountability, themselves, this sets a standard for operations that are seen to work. In Palestine, one immediate way to demonstrate transparency is to ensure that all major public donor documents (such as evaluations, reports, etc.) are translated into Arabic. So long as all donor documents remain only in English, this means that only some segments of society can be fully informed about operations.

Second, engaging in open discussion about decisions that need to be made, ensuring Palestinian representatives are included in making decisions that affect them, publicizing both information about processes and criteria for decision-making as well as final decisions once they are made, all help develop the systems and institutional approaches for accountability.

Finally, in many areas, donors have effectively developed forums where authorities and civil society interact on issues of common concern. In this situation, an annual meeting in which donors meet with PA and/or municipal authorities that are open to public attendance and that encourage public participation could be one option.

3. Training of staff and partners in Do No Harm analysis. Experience elsewhere shows that when people become aware of the patterns by which aid can either worsen dividers or reduce them, and either weaken connectors or strengthen them, then they can carry out the appropriate analysis in the circumstances where they work and find appropriate programming options to improve impacts. Training in how to do this analysis has proven helpful to the staff of donor agencies who work in other conflict areas; it like would be useful for those working directly with communities in oPt.

#### **Section IV: Conclusion**

In many of my conversations, people stressed the fact that the Occupation is “ the problem” and that there is very little they can do about that. Of course, humanitarian assistance is not the instrument for ending conflict and bringing peace. However, where divisions exist among conflicting groups and international assistance is provided, the impacts of the latter on the former are undeniable. **International donor aid does not create conflicts, but it does influence whether they worsen or abate**, the likelihood that they continue unchanged or

that some new steps can be found. With this recognition, donors can stop feeling as if they must always react to volatile and unpredictable circumstances and, instead, get out “in front” of the way they handle the interactions of their assistance with the conflict. They can clarify how impacts occur and they can find opportunities to change the space in which they operate and, perhaps also, the space in which political actors must operate. Politicians are responsive to events and constituencies. If donors can create new modes of engaging people in giving and receiving assistance, and by doing so get agreement on humanitarian space that expands their effectiveness, they can change the political space to which political actors have to respond. Will this bring peace? Unlikely. Will it contribute positively rather than negatively? Yes. It is that simple.

A Word on Donor Coordination. While donor coordination is certainly preferable and could significantly reduce the control of Israel on donors’ support of the Occupation, it is not necessary before anything else can happen. That is, if one or two or three donors were to be able to agree today that they would start setting up an annual review process which includes Israelis and Palestinians along with donors to establish an MOU regarding humanitarian assistance, they could do so without waiting for all donors to have to agree. If this first step proved useful, others could be welcome to join at any time.

If OCHA were to include a programming area concerned with legal protection for Palestinians, donors could each decide how much to contribute to this area and how, best, to organize an effective programme. Coordination could enhance positive impacts, but it is not essential for getting started.

Each donor has power to shape the impacts of its aid. To spend time developing complex systems for coordination could, inadvertently, sidetrack individual action and delay efforts to adjust programmes. Coordination should only be pursued as it becomes the logical next step and there is sufficient agreement that this makes sense. Then it also becomes easy.

A Word on Impact Assessments. The focus of this Report is not on the direct impacts of donor assistance in oPt (such as nutritional status, morbidity and mortality, shelter provision, etc.). Rather, is in on the “side-effects” that occur in the social and political realm even as donors address fundamental human needs.

It may seem difficult to assess political or social impacts of aid deliveries. They are intangible and immeasurable. In complex settings, how can one trace what actions are responsible for which outcomes?

Experience in many settings shows that this is not as difficult as it may at first appear. Identification of context-specific dividers and connectors is intended to focus attention on real, observable factors that, within that context, reinforce socio/political fragmentation or socio/political cohesion. Once these are identified, it is possible to observe whether they are worsening or abating, weakening or strengthening and it is possible to see where donor actions play into these tendencies, negatively or positively. With this awareness, impact assessment becomes quite do-able. Again, one or two donors could take this on in the contexts where their work is concentrated and demonstrate, to others, their improving ability to identify, analyze, trace and assess their impacts in these areas.

*Source: Anderson, M.B., 2004*



**Fatah-Hamas Reconciliation Agreement**  
**Palestinian National Initiative Signed in Cairo April 27, 2011**

**1. Elections**

A) Election Committee:

Both Fatah and Hamas agree to identify the names of the members of the Central Election Commission in agreement with the Palestinian factions. This list will then be submitted to the Palestinian President who will issue a decree of the reformation of the committee.

B) Electoral Court:

Both Fatah and Hamas agree on the nomination of no more than twelve judges to be members of the Electoral Court. This list will then be submitted to the Palestinian President in order to take the necessary legal actions to form the Electoral Court in agreement with the Palestinian factions.

C) Timing of Elections:

The Legislative, Presidential, and the Palestinian National Council elections will be conducted at the same time exactly one year after the signing of the Palestinian National Reconciliation Agreement.

**2. Palestine Liberation Organization**

The political parties of both Fatah and Hamas agree that the tasks and decisions of the provisional interim leadership cannot be hindered or obstructed, but in a manner that is not conflicting with the authorities of the Executive Committee of the Palestine Liberation Organization.

**3. Security**

It was emphasized that the formation of the Higher Security Committee which will be formed by a decree of the Palestinian President and will consist of professional officers in consensus.

**4. Government**

A) Formation of the Government:

Both Fatah and Hamas agree to form a Palestinian government and to appoint the Prime Minister and Ministers in consensus between them.

B) Functions of the Government:

- i. Preparation of necessary condition for the conduction of Presidential, Legislative and the Palestinian National Council elections.
- ii. Supervising and addressing the prevalent issues regarding the internal Palestinian reconciliation resulting from the state of division.

- iii. Follow-up of the reconstruction operations in the Gaza Strip and the efforts to end the siege and blockade that is imposed on it.
- iv. Continuation of the implementation of the provisions of the Palestinian National Accord.
- v. To resolve the civil and administrative problems that resulted from the division.
- vi. Unification of the Palestinian National Authority institutions in the West Bank, Gaza Strip and Jerusalem.
- vii. To fix the status of the associations, Non-Governmental Organizations and charities.

#### **5. Legislative Council:**

Both Fatah and Hamas agree to reactivate the Palestinian Legislative Council in accordance to the Basic Law.

*Source:* Information Clearing House (ICH), 2011

## ANNEX 8

### **Doha Declaration signed between Hamas and Fatah February 5, 2012**

Under the auspices of His Highness Sheikh Hamad bin Khalifa Al Thani, Emir of Qatar, and based on the reconciliation agreement that was reached in Cairo under the auspices of the Arab Republic of Egypt between the Palestinian President Mahmoud Abbas (the President of the Executive Committee of the Palestinian Liberation Organization) and Khaled Meshaal, the Political Bureau Chief of the Palestinian Islamic Resistance Movement, Hamas, a meeting was held between them in Doha, on February 5, 2012, where they reviewed the steps that have been taken so far so as to implement the reconciliation agreement's mechanisms, and the obstacles that hindered its implementation; and the need to overcome those obstacles was stressed.

And with a spirit of responsibility, frankness, transparency, and insistence on the honest and accurate implementation of the reconciliation agreement and all its articles, the following has been agreed on:

**First:** Affirms the need to continue the steps of activating and developing the Palestinian Liberation Organization through the reformation of the Palestinian National Council simultaneously with the presidential and legislative elections. It was also agreed to hold the second meeting of the committee on revitalizing and developing the Palestinian Liberation Organization in Cairo on 18 February 2012.

**Second:** Forming the Palestinian National Reconciliation Government of independent technocrats under President Mahmoud Abbas and which will be in charge of facilitating the presidential and legislative elections and starting the reconstruction of Gaza.

**Third:** Stresses the need to continue the works of the committees that were formed, namely the General Freedoms Committee, assigned to addressing the issues of detainees, institutions, and the freedom to travel, the return of the national staff to the Gaza Strip, the passports, and the freedom to work; and the Community Reconciliation Committee.

In this context, President Mahmoud Abbas informed the meeting's attendees that 64 detainees were released within the framework of the accord on releasing all the detainees.

**Fourth:** Asserting the implementation of what was agreed upon in Cairo to begin the work of the Central Election Committee of the West Bank, the Gaza Strip, and Jerusalem.

President Mahmoud Abbas and Khaled Meshaal expressed their deep thanks and appreciation of the efforts exerted by His Highness Sheikh Tamim bin Hamid Al Thani, the Crown Prince, toward the completion of the reconciliation agreement and ending the the state of division in the Palestinian arena, so as to reinforce Palestinian national unity for maintaining resolve and ending the Occupation, and for the Palestinian people to restore their legitimate rights, including the establishment of their independent Palestinian state with Jerusalem as its capital.

Signatories:

Mahmoud Abbas / President of the State of Palestine, President of the Executive Committee of the Palestine Liberation Organization, President of the Palestinian National Authority

Khaled Meshaal / Head of the Political Bureau of Hamas

Witness / Hamad bin Khalifa Al Thani, the Emir of Qatar

*Source:* Middle East Monitor, 2012

## ANNEX 9

### Table 6: Physical Damages Inflicted by IDF Attacks to EU Funded Development Projects (May 2011 - October 2011)

	Project	EU Donors	Location	Date	Estimated Financial Loss in EURO	Estimated EU-funded share in the loss
1	International Gaza Airport	Spain, Germany, Sweden (the runway's larmac was financed by Egypt for some 6 million Euro)	Rafah, Gaza Strip	4 & 15 Dec 2001, 10 Jan 2002	16.160.000 €	€9.500.000
2	Palestinian Broadcasting Corporation	Germany, Denmark, France, European Commission	Ramallah, West Bank	19 Jan 2002	10.000.000 €	€3.000.000
3	Palestinian Civil Police Camps	European Commission	Gaza Strip	Aug - Dec 2001	4.580.000 €	€4.580.000
4	Jacir Palace Inter-Continental Hotel	European Investment Bank	Bethlehem, West Bank	19-29 Oct 2001, 8-18 March 2002	950.000 €	€200.000
5	Counter-Terrorism Programme, Forensic Laboratory	EU: France, Greece, Sweden	Gaza City	8-7, 12 and 13 Dec 2001	700.000 €	€700.000
6	Gaza Seaport	France, The Netherlands, European Investment Bank	Gaza Strip, south of Gaza City	17-18 Sep 2001	650.000 €	€535.000
7	Palestinian Central Bureau of Statistics – PCBS	Germany, Sweden, European Commission	Ramallah, West Bank	5 Dec 2001	300.000 €	€300.000
8	Civil Police Anti-Riot Gear	The Netherlands	Gaza Strip and West Bank	Throughout the Intifada	300.000 €	€300.000
9	Red Crescent Ambulances	European Commission/ECHO	Jenin, West Bank	4 March 2002	42.500 €	€42.500
10	Green Palestine Forestry Project	The Netherlands	Beit Lahia, Gaza Strip	3 Oct 2001	718.000 €	€53.000
11	UNRWA schools and clinics	European Commission and Member States	West Bank	March 2002	110.000 €	€60.000
12	Gaza Solid Waste Landfill Site	Germany	Deir El-Balah, Gaza Strip	13 Aug 2001	51.850 €	€51.850
13	Multisector Review Project	European Commission	East-Jerusalem	8 Feb 2002	45.000 €	€45.000
14	Schools - Construction & Equipment	European Commission	Tulkarem & Jenin, West Bank	8 May 2001, Oct 2001	43.000 €	€43.000
15	Peace Project - Cooperation North - Jenin: cross-border partnership of Palestinian and Israeli cities	European Commission, Germany	Jenin, West Bank	2 Dec 2001	38.000 €	€38.000
16	Municipal Infrastructure Development Project	Greece	Qalqilya, West Bank	Dec 2001	38.000 €	€38.000
17	Ex-Detainees Retraining Project	European Commission	Ramallah, West Bank	Dec 2001-Feb 2002	35.000 €	€25.000
18	Al Bireh Upper North Sewerage and Pumping Station	Germany	Al Bireh, West Bank	18 Oct - 6 Nov 2001 and March-April 2002	40.000 €	€40.000
19	Municipal Support Programme	European Commission	Rafah, Gaza Strip	Jan 2002	17.500 €	€17.500
20	The Austrian Housing Project	Austria	Khan Younis, Gaza Strip	Throughout the Intifada	100.000 €	€100.000
21	Halhoul Road Rehabilitation	Italy	Halhoul near Hebron, West Bank	May 2001	11.000 €	€11.000
22	Ain el Sultan Irrigation Scheme	Belgium	Jericho, West Bank	12 Sep 2001	11.000 €	€11.000
23	Jabalia Sewerage & Water Project	Sweden	Gaza Strip	14 Sep 2001	11.000 €	€11.000
24	Water Supply Jenin & Waste Water Disposal Tulkarem	Germany	West Bank (Jenin)	1-23 April 2002	126.221 €	€126.221
25	Al Bireh Wastewater Management	Germany	Al Bireh, West Bank	29 March-21 April 2002	76.500 €	€76.500
26	Housing projects in Rafah and Beit Jalaa	Belgium (Gvt of Vlanderen)	Gaza Strip and West Bank	30/12/1999	135.000 €	€135.000
27	Ramallah presidential compound	France	West Bank	29 March-18 May 2002	142.000 €	€142.000
28	Bethlehem municipality	France, Sweden	West Bank	April 2002	250.000 €	€250.000
29	Gaza Electricity network	Sweden	Gaza Strip	30/12/1999	1.100.000 €	€1.100.000
30	Jenin Southern entrance road	Denmark	West Bank	30/12/1999	1.500.000 €	€1.500.000
31	Salfet Wastewater Management	Germany	West Bank	2-4 April 2002	5.000 €	€5.000
32	Several municipalities	France	West Bank and Gaza Strip	30/12/1999	942.000 €	€942.000
33	Bethlehem cultural center	Finland	West Bank	April 2002	55.000 €	€55.000
34	Ministry of Education	Finland	West Bank and Gaza Strip	March/April 2002	20.000 €	€20.000
35	Employment Generation Programme V	Germany	Gaza Strip (Khan Yunis)	April 2002	9.800 €	€9.800
36	Solid Waste Management in the Gaza Strip	Germany	Gaza Strip (Khan Yunis & Deir El-Balah)	17 Sept 2002	1.524 €	€1.524
37	Jabalia Ministry of Social Affairs Storehouse	EC, Sweden	Gaza Strip	30 Nov 2002 at 23.00	265.000 €	€265.000
38	Employment Generation Programme	Germany	Gaza Strip (Beit Hanoun)	May 2003	62.066 €	€62.066
39	Falameh Integrated Agricultural Project	France	West Bank (Qalqilya)	2003	600.000 €	€600.000
40	Damage Assessment and Reconstruction Management (IMG)	EC	West Bank (Jenin)	18-22 September 2003	3.200 €	€1.410
41	Municipal Support Programme Phase III	EC	West Bank (Dura)	27 September 2003	6.269 €	€6.269

42	Nablus West Sewerage Project	Germany	West Bank (Nablus)	December 2003 - January 2004	50.000 €	€50.000
43	Beit Lahia Solid Waste Management Council	Germany	Gaza Strip (Beit Lahia)	21 April 2004 at 11.00 until 23 April 2004 at 7.00	6.466 €	€6.466
44	Housing project in Rafah	The Netherlands / Norway	Gaza Strip (Rafah)	May 2004	214.781 €	€107.391
45	Austrian Housing Project in Khan Yunis	Austria	Gaza Strip (Khan Yunis)	1st September and 24 October 2004	1.149.836 €	€390.327
46	Land rehabilitation in Beit Hanoun Farms – Phases I and II	Italy	Gaza Strip (Beit Hanoun)	From 2003 to September 2004	242.528 €	€242.528
47	Optimisation of intensive agriculture under variable water quality conditions (Al-Azhar University)	Luxembourg	Gaza Strip (Beit Hanoun)	25 October 2004	1.209.121 €	€749.000
48	Beit Hanoun Main Entrance Bridge (under Emergency Municipal Support Programme)	European Commission	Gaza Strip (Beit Hanoun)	27 September 2005	250.000 €	€250.000
49	Food Security and Job Creation in the Gaza Strip	Spanish Agency for International Cooperation	All Gaza Strip	26th June to 20th July 2006	56.000 €	€56.000
50	Khaili Al Wazier Road (under Emergency Municipal Support Programme)	European Commission	Gaza Strip (Beit Hanoun)	1st November 2006	290.400 €	€290.400
51	Support to Municipal Development and Management (SMDM)	Denmark	Gaza Strip-Middle Area Municipalities	25th June 2006 to the beginning of December 2006.	65.000 €	€65.000
52	Development of Marginal Land and Water Resources in the West Bank	European Commission	West Bank (Beit Ula - Hebron District)	15/01/2008	60.400 €	€60.400
53	Remedial Education Centre	EC / France	Gaza Strip (East of Jabalia)	mars 2, 2008	23.197 €	€23.197
54	Support to Municipal Development and Management (SMDM)	Denmark	Gaza Strip-Middle Area Municipalities	December 2008/January 2009	102.000 €	€102.000
55	TEP project in Gaza	EC	Gaza strip	December 2008/January 2009	46.775 €	€23.387
56	TEP project in Gaza	EC	Gaza strip	December 2008/January 2009	26.482 €	€13.241
57	Beit Lahia Solid Waste Management Council	Germany	Gaza Strip (Beit Lahia)	27th December 2008 to 18th January 2009	168.362 €	€168.362
58	Gaza Solid Waste Landfill Site	Germany	Deir El-Balah, Gaza Strip	27th December 2008 to 18th January 2009	10.928 €	€10.928
59	Solid Waste Management in the Gaza Strip	Germany	Gaza Strip (Khan Yunis & Deir El-Balah)	27th December 2008 to 18th January 2009	14.440 €	€14.440
60	Solid Waste Management in the Gaza Strip	Germany	Gaza Strip (Khan Yunis & Deir El-Balah)	27th December 2008 to 18th January 2009	14.440 €	€14.440
61	Poverty Oriented Employment Generation Programme (EGP) I	Germany	North Gaza, Gaza	27th December 2008 to 18th January 2009	13.141 €	€0
62	Poverty Oriented Employment Generation Programme (EGP) II	Germany	North Gaza, Gaza	27th December 2008 to 18th January 2009	3.865 €	€0
63	Poverty Oriented Employment Generation Programme (EGP) IV	Germany	North Gaza, Rafah, Beit Hanoun, Gaza	27th December 2008 to 18th January 2009	588.676 €	€0
64	Poverty Oriented Employment Generation Programme (EGP) V	Germany	Gaza	27th December 2008 to 18th January 2009	64.936 €	€0
65	EGP School Construction I	Germany	North Gaza, West Gaza, East Gaza, Rafah, Middle Area	27th December 2008 to 18th January 2009	210.099 €	€0
66	EGP School Construction II	Germany	North, East, West Gaza, Khan Younis, Rafah, Middle Area	27th December 2008 to 18th January 2009	74.807 €	€0
67	EGP School Construction III	Germany	North, East, West Gaza, Middle Area	27th December 2008 to 18th January 2009	154.300 €	€0
68	EGP School Construction V	Germany	North, East, West Gaza, Khan Younis, Rafah, Middle Area	27th December 2008 to 18th January 2009	133.262 €	€0
69	EGP School Construction VI	Germany	North, East, West Gaza, Rafah	26th December 2008 to 18th January 2009	31.478 €	€0
70	Elementary & Secondary School for Boys – Al Awda	Spain	Gaza exact location tbd	27th December 2008 to 18th January 2009	35.300 €	€0
71	Hispanic/Palestinian Institute	Spain	Gaza exact location tbd	28th December 2008 to 18th January 2009	67.400 €	€0
72	Al Karameh Orphanage	Spain	Gaza exact location tbd	29th December 2008 to 18th January 2009	620.000 €	€0
73	Emergency support and employment generation for female-headed households through backyard farming and cottage industry in the West Bank and Gaza Strip - FAO	Spain	Gaza exact location tbd	30th December 2008 to 18th January 2009	N/K	€0
74	Improving the livelihoods of farming households through diversification of vegetable and medicinal plant production in the West Bank and Gaza Strip - FAO	Spain	Gaza exact location tbd	31st December 2008 to 18th January 2009	N/K	€0
75	QHIPA I and QHIPA II ("Quick and High Impact Poverty Alleviation Programme", Phase I and II) – Job Creation Programme – Office of the President	Spain	Gaza exact location tbd	32nd December 2008 to 18th January 2009	€ 1,164,000	€0
76	Middle East Regional Programme for the Sustainable Management of Natural Resources, QHIPA I and QHIPA II	Spain	Gaza exact location tbd	33rd December 2008 to 18th January 2009	N/K	€0
77	QHIPA I and QHIPA II ("Quick and High Impact Poverty Alleviation Programme", Phase I and II) – Job Creation Programme – Office of the President	Spain	Gaza exact location tbd	34th December 2008 to 18th January 2009	1.164.000 €	€0
78	Middle East Regional Programme for the Sustainable Management of Natural Resources,	Spain	Gaza exact location tbd	35th December 2008 to 18th January 2009	N/K	€0
79	Agricultural projects implemented by PARC	Netherlands	Gaza (all governorates)	2008/09	1.730.586 €	€1.730.586
80	Rehabilitation of fifty one (51) ancient cistern systems to collect seasonal rainwater in Eastern Bethlehem District	European Commission/ECHO	Rashaydeh and Kisan	30/11/10 and 15/6/11	2.200 €	€1.760
81	Response to improve the socio-economic situation of vulnerable families affected by the current crisis in the Palestinian Territory	European Commission/ECHO	Beir Al'Idd community-Road 317 cluster / Southern	20/06/2011	2.100 €	€2.100
82	Emergency response to contribute to the humanitarian needs in the water and sanitation sector of the most vulnerable segments of the population of the occupied Palestinian Territory, affected by the conflict.	European Commission/ECHO	Al Muntar community- East Jerusalem Bedouin	04/10/2011	2.100 €	€2.100
<b>TOTAL:</b>					<b>€49.150.836</b>	<b>€29.373.691</b>

Source: Davies, 2012

## ANNEX 10

### PREAMBLE

A durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, but the adoption of the following shared Principles can help maximise the positive impact of engagement and minimise unintentional harm. The Principles are intended to help international actors foster constructive engagement between national and international stakeholders in countries with problems of weak governance and conflict, and during episodes of temporary fragility in the stronger performing countries. They are designed to support existing dialogue and coordination processes, not to generate new ones. In particular, they aim to complement the partnership commitments set out in the Paris Declaration on Aid Effectiveness. As experience deepens, the Principles will be reviewed periodically and adjusted as necessary.

The long-term vision for international engagement in fragile states is to help national reformers to build effective, legitimate, and resilient state institutions, capable of engaging productively with their people to promote sustained development. Realisation of this objective requires taking account of, and acting according to, the following Principles:

### THE BASICS

1. **Take context as the starting point.** It is essential for international actors to understand the specific context in each country, and develop a shared view of the strategic response that is required. It is particularly important to recognise the different constraints of capacity, political will and legitimacy, and the differences between: (i) post-conflict/crisis or political transition situations; (ii) deteriorating governance environments, (iii) gradual improvement, and; (iv) prolonged crisis or impasse. Sound political analysis is needed to adapt international responses to country and regional context, beyond quantitative indicators of conflict, governance or institutional strength. International actors should mix and sequence their aid instruments according to context, and avoid blue-print approaches.
2. **Do no harm.** International interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards. In each case, international decisions to suspend or continue aid-financed activities following serious cases of corruption or human rights violations must be carefully judged for their impact on domestic reform, conflict, poverty and insecurity. Harmonised and graduated responses should be agreed, taking into account overall governance trends and the potential to adjust aid modalities as well as levels of aid. Aid budget cuts in-year should only be considered as a last resort for the most serious situations. Donor countries also have specific responsibilities at home in addressing corruption, in areas such as asset recovery, anti-money laundering measures and banking transparency. Increased transparency concerning transactions between partner governments and companies, often based in OECD countries, in the extractive industries sector is a priority.

### THE ROLE OF STATE-BUILDING & PEACEBUILDING

3. **Focus on state-building as the central objective.** States are fragile when state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations. International engagement will need to be concerted, sustained, and focused on building the relationship between state and society, through engagement in two main areas. Firstly, supporting the legitimacy and accountability of states by addressing issues of democratic governance, human rights, civil society engagement and peacebuilding. Secondly, strengthening the capability of states to fulfil their core functions is essential in order to reduce poverty. Priority functions include: ensuring security and justice; mobilizing revenue; establishing an enabling environment for basic service delivery, strong economic performance and employment generation. Support to these areas will in turn strengthen citizens' confidence, trust and engagement with state institutions. Civil society has a key role both in demanding good governance and in service delivery.
4. **Prioritise prevention.** Action today can reduce fragility, lower the risk of future conflict and other types of crises, and contribute to long-term global development and security. International actors must be prepared to take rapid action where the risk of conflict and instability is highest. A greater emphasis on prevention will also include sharing risk analyses; looking beyond quick-fix solutions to address the root causes of state fragility; strengthening indigenous capacities, especially those of women, to prevent and resolve conflicts; supporting the peacebuilding capabilities of regional organisations, and undertaking joint missions to consider measures to help avert crises.
5. **Recognise the links between political, security and development objectives.** The challenges faced by fragile states are multi-dimensional. The political, security, economic and social spheres are inter-dependent. Importantly, there may be tensions and trade-offs between objectives, particularly in the short-term, which must be addressed when reaching consensus on strategy and priorities. For example, international objectives in some fragile states may need to focus on peacebuilding in the short-term, to lay the foundations for progress against the MDGs in the longer-term. This underlines the need for international actors to set clear measures of progress in fragile states. Within donor governments, a "whole of government" approach is needed, involving those responsible for security, political and economic affairs, as well as those responsible for development aid and humanitarian assistance. This should aim for policy coherence and joined-up strategies where possible, while preserving the independence, neutrality and impartiality of humanitarian aid. Partner governments also need to ensure coherence between ministries in the priorities they convey to the international community.
6. Promote non-discrimination as a basis for inclusive and stable societies. Real or perceived discrimination is associated with fragility and conflict, and can lead to service delivery failures. International interventions in fragile states should consistently promote gender equity, social inclusion and human rights. These are important elements that underpin the relationship between state and citizen, and form part of long-term strategies to prevent fragility. Measures to promote the voice and participation of women, youth, minorities and other excluded groups should be included in state-building and service delivery strategies from the outset.



## THE PRACTICALITIES

7. **Align with local priorities in different ways in different contexts.** Where governments demonstrate political will to foster development, but lack capacity, international actors should seek to align assistance behind government strategies. Where capacity is limited, the use of alternative aid instruments —such as international compacts or multi-donor trust funds— can facilitate shared priorities and responsibility for execution between national and international institutions. Where alignment behind government-led strategies is not possible due to particularly weak governance or violent conflict, international actors should consult with a range of national stakeholders in the partner country, and seek opportunities for partial alignment at the sectoral or regional level. Where possible, international actors should seek to avoid activities which undermine national institution-building, such as developing parallel systems without thought to transition mechanisms and long term capacity development. It is important to identify functioning systems within existing local institutions, and work to strengthen these.
8. **Agree on practical coordination mechanisms between international actors.** This can happen even in the absence of strong government leadership. Where possible, it is important to work together on: upstream analysis; joint assessments; shared strategies; and coordination of political engagement. Practical initiatives can take the form of joint donor offices, an agreed division of labour among donors, delegated co-operation arrangements, multi-donor trust funds and common reporting and financial requirements. Wherever possible, international actors should work jointly with national reformers in government and civil society to develop a shared analysis of challenges and priorities. In the case of countries in transition from conflict or international disengagement, the use of simple integrated planning tools, such as the transitional results matrix, can help set and monitor realistic priorities.
9. **Act fast ... but stay engaged long enough to give success a chance.** Assistance to fragile states must be flexible enough to take advantage of windows of opportunity and respond to changing conditions on the ground. At the same time, given low capacity and the extent of the challenges facing fragile states, international engagement may need to be of longer-duration than in other low-income countries. Capacity development in core institutions will normally require an engagement of at least ten years. Since volatility of engagement (not only aid volumes, but also diplomatic engagement and field presence) is potentially destabilising for fragile states, international actors must improve aid predictability in these countries, and ensure mutual consultation and co-ordination prior to any significant changes to aid programming.
10. **Avoid pockets of exclusion.** International actors need to address the problem of “aid orphans” – states where there are no significant political barriers to engagement, but few international actors are engaged and aid volumes are low. This also applies to neglected geographical regions within a country, as well as neglected sectors and groups within societies. When international actors make resource allocation decisions about the partner countries and focus areas for their aid programs, they should seek to avoid unintentional exclusionary effects. In this respect, coordination of field presence, determination of aid flows in relation to absorptive capacity and mechanisms to respond to positive developments in these countries, are therefore

essential. In some instances, delegated assistance strategies and leadership arrangements among donors may help to address the problem of aid orphans.

*Source:* OECD, 2007, pp. 1-4.