The Role of International Funding in Society Building and Empowerment of the Palestinian People

This chapter of the Human Development Report deals with the role of international funding in the process of development and empowerment in Palestine. It acknowledges the important role this funding plays in the development of Palestinian infrastructure and a functioning relief network while at the same time recognizing the limitations concerning the consolidation of a systematic national framework for development and construction. Moreover, a substantial portion of this funding is tied to the peace process. Thus, the role of international assistance in the development of Palestinian society and in strengthening its internal capabilities in the face of chronic and acute challenges has been limited.
Introduction

Following the signing of the Oslo Accords (the Declaration of Principles) between the PLO and the Israeli government in September 1993, in October of that same year the donor countries held a conference in which 42 nations and institutions took part. The purpose of the conference was to adopt a specific strategy for providing financial and technical assistance to the new Palestinian National Authority, which was established within the framework of the Oslo Accords. This donor conference sought to empower the PNA to administer the Palestinian areas, implement projects for restoring infrastructure, establish facilities and institutions, and to manage the funding of the comprehensive development process. The speed with which the international community took action bestowed significant economic credibility on the Oslo Accords among Palestinian citizens, who were at first hesitant to support the agreement’s political and security arrangements. The international community’s action was based on the premise that it was imperative to garner all financial resources needed to make the agreement successful, and with a full understanding that in order for the Accords to stand in the face of daily challenges on the ground, ordinary Palestinians needed to perceive positive change in their lives.

This initial financial initiative was subsequently developed even further, and came to be referred to as the “peace dividend” in the literature of supporters of a peaceful settlement to the Arab-Israeli conflict and regional coexistence. And, in fact, contribution commitments totaled $2.4 billion only three months after the conference that created the “peace dividend” — the five-year funding plan for reconstructing and developing the Palestinian economy and infrastructure. Thereafter, international assistance for the Palestinian people began pouring in from multiple sources and through numerous channels. Financial pledges took various forms, came with substantial conditions, and were funneled in to the PNA in a disorganized manner. Assistance funds totaled more than $6 billion at the end of the first half of 2004, resulting in an average annual per capita assistance level of $310 per person, considered one of the highest levels of aid in the world.

These large amounts of foreign assistance played an important role in upgrading Palestinian infrastructure facilities and reducing the destructive impact of the Israeli policies and practices during the ten years following the Oslo Accords. However, this assistance was not made part of a systematic national plan for development and reconstruction. A substantial portion of it has gone toward covering the fees of foreign advisers and experts. Further, much of the assistance is hostage to the advance of the peace process, and a large portion of it has been directed toward preventing this process from collapse. These factors have limited the role of international assistance in the development of Palestinian society and the strengthening of its internal capacities in the face of chronic and acute challenges. In addition, there have been numerous doubts and questions raised by local and international observers regarding the efficacy of this assistance in promoting the Palestinian economy’s opportunities for emancipation from severe dependency on its Israeli counterpart and in empowering Palestinian society to achieve comprehensive, sustainable development.¹

¹ The data and figures contained in this chapter rely primarily on reports issued by the Ministry of Planning and on information provided by the Ministry of Finance.
Section One: General Background on Current Economic Conditions

There is no doubt that the present economic situation and indicators in the Palestinian territories are the joint, interconnected responsibility of all parties that impact the development process and manage the course of Palestinian’s daily life (albeit to varying degrees). The economic situation may be discussed in terms of three factors: the internal factor, the Israeli factor, and the international aid factor. Israeli actions in the Palestinian territories, especially since the beginning of the Al-Aqsa Intifada, have caused extensive disruption to the Palestinian economic infrastructure. These measures not only doomed Palestinian attempts to rehabilitate their economy and correct the structural deficiencies plaguing it from the time of Israeli occupation, but also reduced public and private production levels, investment in the Palestinian territories and created distortions in the Palestinian labor market. This new economic reality is plagued by numerous gaps and imbalances, which can be summarized in terms of three main gaps.

**The financial resources gap:** The PNA suffers most heavily from this gap as a result of a substantial decline in its financial resources during the past three years. Financial revenue was lost in three areas: a decline in tax revenue accruing from economic activities in the Palestinian region; a decline in returns from customs duties due to a decrease in trade with Israel; and the Israeli seizure of a large portion of tax and duties revenues as a punitive measure against the Palestinians.

**The continuing Palestinian trade deficit gap:** This gap is particularly significant vis-à-vis Israel. The data show that this deficit reached approximately $2,081 million during 2003. And despite the trade deficit’s decline immediately prior to the outbreak of the intifada, what is disturbing is that the decline was the result of a complete reversal in imports and exports at an almost equal rate. This volatility demonstrates the sensitivity of Palestinian exports to external factors.

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**Box 5-1: The Decrease in Domestic Product and Rise in Prices**

Accompanying the aforementioned gaps are new economic statistics, which may be summed up as follows:

- GDP during 2003 was approximately $4,143.3 million, 10.3 percent less than in 2000. Moreover, GDP per capita declined by approximately 24.4 percent during the same period.

- Economic indicators for Palestinian productive sectors showed a reversal in general. For the majority of these sectors, the contribution to domestic product declined. Moreover, their employment capacity declined, and these sectors also suffered direct material losses.

- The general consumer price index has risen steeply in recent years. Prices have increased more than 37.7 percent as compared to the year 1996. Steadily rising prices have affected the living standards of many Palestinian families.

- Compounding the problem, unemployment levels in the Palestinian territories have also increased during the present period, even as the disposable income of most Palestinian families has declined. Among these families, 72.3 percent depend on earned income to cover expenses.

- These factors have led to the spread of poverty among Palestinians; the data show that 67.7 percent of Palestinian families (62.6 percent in the West Bank and 77.5 percent in the Gaza Strip) were living under the poverty line (as defined by income) in 2003. The median poverty line for families composed of six members was approximately 1,800 NIS in 2003, or about $395 per month.

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The Palestinian trade deficit gap reached approximately $2,081 million in 2003.

The unemployment rate in the Palestinian territories rose to more than 40 percent in 2002.

Sixty-seven percent of Palestinian families were living under the poverty line in 2003.
The employment gap: Israeli siege and closure have cut off more than 125,000 Palestinian workers from jobs inside the Green Line, causing the unemployment rate in the Palestinian territories to rise to more than 40 percent during 2002. This rate fell to approximately 25 percent in 2003.

Section Two: The Main Characteristics of International Funding

This portion of the chapter examines the various sources of international funding, distribution of this funding by sector, and the manner of distribution. The period during which assistance was provided to Palestinians will be divided into three main stages. The first stage, extending from 1994 until the end of 1997, was characterized by continuous reversal in most economic indicators, along with rising unemployment and poverty rates as a result of the Israeli authority’s closure policy at that time. The second stage, from 1998 through 2000, was, in contrast to the previous stage, characterized by tangible improvement in a number of economic and social indicators in the Palestinian territories, as seen in a rise in Palestinian GDP and declining rates of unemployment and poverty among Palestinians. The third stage, which began with the outbreak of the Al-Aqsa Intifada, with the accompanying Israeli policies, inflicted excessive damages on the infrastructure and superstructure of all sectors within the Palestinian territories. The impact of these measures became readily apparent in early 2001 and continued to escalate through the time of writing this report. However, the data on which this report relies cover only through the end of 2003 and parts of 2004.

5-2-1 The Nations and Institutions that Provide Assistance

At their first meeting in Washington, DC, in October 1993, the donor parties (nations and institutions) pledged to provide approximately $2.4 billion to the Palestinians over the course of the next five years. This sum continued to increase regularly during subsequent years as a result of the faltering peace process and accompanying instability in conditions prevailing in the Palestinian territories, along with the increase in needs and consequent increase in the assistance necessary for Palestinians to survive. The value of pledges had risen to approximately $3,420 million as of the end of October 1997, and by mid-2003 total pledges since 1994 had reached $7,365 million. During this period, the share of the United States was the largest among the donors and amounted to approximately $1,450 million, or 19.7 percent of total pledges. This was followed by the European Union, with 13.1 percent of total pledges. The Arab countries pledged approximately $911.7 million during that period. The pledge of the United Arab Emirates (amounting to $310 million) comprised the largest share of total pledges by Arab countries, followed by Saudi Arabia (which pledged $300 million).

Notwithstanding the importance of donors’ pledges of assistance, these parties did not disclose whether they intended to provide monetary or in-kind assistance, and they specified the value of this assistance without providing any official commitment or delving into details related to the mechanism of assistance provision or end objectives. The analysis will thus be limited to the two stages subsequent to the donor parties’ pledges; the commitment stage and the actual disbursement stage.

Between 1994 and mid-2003, donor parties’ total commitments amounted to approximately $6,703 million.

This does not include assistance provided through the Jerusalem and Al-Aqsa Funds managed by the Islamic Development Bank, or assistance provided specifically to support the budget of the PNA.
During the commitment stage, a commitment to provide assistance was made through an agreement or memorandum of understanding specifying the amount, the objective, and the provision mechanism. This stage is regarded as an important advance step that precedes the actual transfer of assistance funding. If the assistance that the donor parties committed to provide was transferred, this meant moving on to the third and final stage—the disbursement stage. International institutions operating in the Palestinian territories, especially the World Bank, oversaw this stage, and occasionally some countries preferred to provide assistance directly, by opening special accounts in banks from which withdrawals were made for expenditure on agreed upon projects.

PNA Ministry of Planning data indicate that between 1994 and mid-2003, donor parties’ total commitments amounted to approximately $6,708 million, at an annual rate of approximately $670 million. These commitments comprised approximately 91 percent of total pledges made during the previous period, and these parties had actually provided approximately $6,552.6 million in assistance as of the end of 2003 (at an annual rate of approximately $655.3 million), or 97.6 percent of total commitments and 89 percent of total pledges. The year 2001 saw the highest amount of assistance disbursement, amounting to approximately $1,045.8 million, whereas the lowest amount was in 1998 (i.e., the beginning of the second stage), a year when the value of actual assistance did not exceed $420.1 million.

Returning to distribution of assistance according to the time-based stages, total commitments during the first stage amounted to $2,858.9 million, as compared to $2,269.2 and $1,580.2 million in the second and third stages, respectively. As for actual disbursement, it amounted to approximately $2,029.3 million (71 percent of commitments) during the first stage, as compared to $1,465.9 million disbursed during the second stage (64.6 percent of commitments). The highest amount of assistance was disbursed during the third stage (i.e., the stage of the Al-Aqsa Intifada), when approximately $3,057.4 million was disbursed as a result of the difficult conditions in the Palestinian territories during that time, in addition to a change in the forms and sources of assistance (to be dealt with subsequently in this chapter).

With regards to the entities that have provided assistance, here, for the sake of analysis, they are categorized into seven groups: the Arab nations, the European Union, the United States, Japan, international institutions, European countries, and other nations. The data indicate that the European countries were the largest contributor, both in terms of commitments and actual disbursement. During that period, they committed to provide approximately $1,107.6 million, of which approximately $810.9 million, or 73.2 percent, was disbursed. If what was provided by the European Union is included, then total assistance provided by the European continent to the Palestinians exceeded $1 billion, or more than 50 percent of total aid provided during the first stage. The problem with the European Union, however, is failure to honor agreed upon commitments; no more than 42.1 percent of total commitments have been disbursed, and this percentage is extremely low compared to the overall average disbursement percentage for the first stage, which was 71 percent. With regard to the Arab nations, they ranked third in terms of commitments.

The data indicate that the European countries were the largest contributor of foreign assistance to the Palestinians.

3 There is not an exact figure for the total of these commitments.
and fifth in terms of actual disbursement. Saudi Arabia’s contribution was the largest throughout the stage. The extent to which Japan has honored its commitments is worth noting, in that its actual disbursements have exceeded its commitments (103 percent); this brings Japan’s total actual assistance to approximately $308.3 million, making it second after the European nations in this regard. It is joined in this by the United States, which ranked fifth in terms of commitments and third in terms of disbursement, providing more than $285 million during the first stage, or 97 percent of its total commitments.

The second stage, from 1998 through 2000, saw a decline in all assistance indicators. Total commitments fell by approximately 20 percent compared with the previous stage, amounting to approximately $2,269.2 million. Likewise, the percentage of disbursal of commitments fell to 64.6 percent. This means that actual assistance in the second stage declined approximately 27.8 percent compared with the previous stage; it amounted to $1,465.9 million with an annual average of approximately $488.6 million (as compared to $507.3 million in the first stage), taking into account that there were three years in this stage and four years in the first stage.

Of the nations that provided assistance, there was a rise in the amount and percentage of assistance committed by the United States out of total commitments during this stage; it rose to approximately 35.5 percent, occupying third place after the European nations and the European Union. However, the United States surpassed the European Union in terms of actual disbursement, as the percentage of actual disbursement by the European Union remained low (approximately 46.3 percent of its total commitments).

The Arab nations’ contribution fell substantially during this stage, both on the level of commitments and on the level of actual disbursement; these indicators fell by 67.5 percent and 45.4 percent, respectively. Nonetheless, there was improvement in the percentage of actual disbursement of Arab assistance, which exceeded 104 percent. This is primarily attributed to the outbreak of the Al-Aqsa Intifada and the Arab nations’ provision of $30 million during its first year, following the Arab summit held in Cairo in October 2000.

Indicators for Japanese assistance fell as well, with its commitments declining by approximately 44 percent and its actual assistance declining by approximately 57 percent. There was also a change in Japan’s disbursement percentage, which dropped to 79 percent (after having been 103 percent during the first stage). As for international institutions, they began to play a bigger role in the international funding process, coming to occupy fourth place in terms of commitments and actual disbursement. This is in spite of the decline in the absolute value of these institutions’ total commitments. A number of factors contributed to this development, including the drop in total commitments during this stage and the setting of these institutions’ actual assistance at around $140 million (nearly equal to their contribution during the previous stage), which elevated disbursement to 78 percent.

The third stage, reflecting developments in international assistance during the present Intifada, saw numerous changes in the structure, forms, objectives, and even sources of assistance. A new factor came into play, which was the nature of assistance provided by the Arab nations and the allocation of the largest portion of that assistance to emergency relief programs and job creation programs, in addition to support for the PNA’s current budget.
There will not be a comparison between all of the figures and indicators related to commitments during the third stage and those of the previous stages, because the data on total commitments during this stage are limited to two and one-half years. Thus, comparison will be limited to indicators related to the size of actual assistance and the ranking of donor parties in terms of actual disbursement.

There was a large increase in total actual assistance provided by the Arab nations, whereby these nations decided at the Arab summit held in Cairo in 2000 to establish the Jerusalem Fund, with $200 million in capital, and the Al-Aqsa Fund, with $800 million in capital. Each Arab country’s contribution to these two funds was delineated, and some Arab nations—such as Saudi Arabia, the United Arab Emirates, and Kuwait—honored their commitments, whereas others—such as Libya—did not pay off their commitments. The outcome was that together the Arab nations provided more than $890 million during the third stage, whether directly or through the funds they established. This in and of itself multiplied the amount of actual assistance during the stage as a whole (approximately 108.5 percent) as compared with the previous stage, as actual assistance during the third stage totaled approximately $3,057.4 million.

This also affected donor rankings in terms of actual assistance provided, whereby the Arab group, in providing more than $903.4 million, ranked first among the donors. The amount of assistance provided by the European Union increased, especially that supporting the PNA’s current budget and employee salaries. The total amount provided by the European Union reached more than $787.3 million, bringing it to second place among the donors. The United States came in fourth, behind the European nations, despite the increase in the absolute value of its assistance as compared to the previous stage; it provided $482.3 million (as compared to $260.4 million in the previous stage), but its share of total actual assistance dropped from 17.8 percent to 15.8 percent.

**Distribution of Assistance by Sector**

In the interest of following the course of international assistance in an attempt

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**Table 5-1: Donor Contributions to International Assistance (1994-2003), in millions of USD$**

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<td>312.3</td>
<td>193.8</td>
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<td>482.3</td>
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<td>41.3</td>
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<td>International Institutions</td>
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<td>154.7</td>
<td>460.4</td>
<td>434.7</td>
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<td>European Nations</td>
<td>1107.6</td>
<td>810.9</td>
<td>858.6</td>
<td>533.4</td>
<td>519.3</td>
<td>669.5</td>
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<td>Other Nations</td>
<td>101.5</td>
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<td>57.2</td>
<td>57.9</td>
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<td>18.9</td>
<td>175.4</td>
<td>149.4</td>
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<td>Total</td>
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<td>2269.2</td>
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<td>3057.4</td>
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<td>6552.5</td>
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4 Table data based on information provided by the Ministry of Planning and Ministry of Finance.
to identify its various directions and its distribution by sector, the Palestinian Ministry of Planning’s distribution diagram was employed. This distribution diagram categorizes assistance in terms of five main usage areas: infrastructure, productive sectors, social sectors, institution building, and miscellaneous sectors.

The reports issued by the Ministry of Planning point to the social sectors as having absorbed the largest portion of actual assistance to Palestinians during the last ten years, whereby their share was approximately 31 percent of total assistance. The social sectors encompass numerous branch sectors, including education, health, youth, children, women, and humanitarian assistance. Despite the importance of these sectors to the Palestinians, they are not ranked first in terms of Palestinian priorities and needs or the extent of their impact on Palestinians’ economic and social well-being.

The social sectors are followed by the infrastructure sector, which encompasses energy, housing, hard currency, communications, transportation, and others. This sector ranked second, accounting for approximately 30 percent of assistance disbursed. The infrastructure sector is considered vital to the Palestinian economy. Growth in the infrastructure sector can instigate growth in numerous other economic and social areas, such as job creation and thereby mitigate problems of unemployment and poverty. It can also help jumpstart the Palestinian economy due to its forward and backward linkages with various sectors—in addition to the role played by a healthy infrastructure in attracting local and foreign investment by reducing investors’ overall investment costs. This sector had ranked first among commitments, but a decrease in the percentage of disbursements to it, which did not exceed 53 percent, made it second.

**Institution-building** occupied third place, with expenditures accounting for 27 percent of actual assistance. There was a clear decline in the share of the productive sectors in total assistance, as it did not exceed 11 percent of total commitments, and that dropped to 9 percent of total disbursement. Moreover, there was a decrease in the percentage of disbursement for these sectors in a manner similar to that in the infrastructure sector, as this percentage did not exceed 53 percent. The miscellaneous sectors, or those falling outside of the previous categories, ranked last, accounting for no more than 3 percent of total commitments and disbursement alike. These groups encompass numerous sectors that cannot be categorized within the previous groups due to their multiplicity and the differences between them, or because they came into being in response to the emergency conditions during the previous stage.

With regards to distribution by sector during the three stages discussed in the introduction to this part of the chapter, the three main sectors (infrastructure, the social sectors, and institution building) benefited equally from actual assistance during the first stage, with each accounting for 30 percent. This is in spite of the disparity between these sectors in terms of commitments (35 percent, 28.5 percent, and 24.4 percent, respectively). This highlights the differences in the percentage of disbursement vis-à-vis commitment for these sectors.

As for the second stage, it was shaken by shifts in distribution of assistance by sector. The infrastructure sector came to account for 37.6 percent of total actual assistance, followed at considerable distance by the social sectors absorbed the largest portion of actual assistance to the Palestinians during the last ten years – approximately 31 percent of total assistance.

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5 The data contained in these reports cover from 1994 through mid-2003 and do not include assistance provided by the donors to support the PNA’s current budget.
sectors, at 29.2 percent. The decline in the social sectors' share is attributed to the relative easing up in the political negotiation process during this stage and thus the severity of Israeli closures, which meant a decrease in the amount of relief and emergency assistance and job creation programs, which fall within the purview of the social sectors. The productive sectors ranked fourth at 13.1 percent; that percentage continued to be low and still failed to reflect Palestinian development priorities and requirements despite its increase over the previous stage.

In looking at total assistance to the Palestinians since the outbreak of the present Intifada, or during the third stage, the social sectors accounted for 68.5 percent. This is attributed to the swelling of emergency humanitarian and relief assistance, which falls within the social sectors. The PNA's diminished capacity to collect returns also contributed, as did the deterioration of general conditions in the Palestinian territories due to the Israeli policy of repeated closures and the prevention of Palestinian workers from reaching their workplaces in Israel. All of this encouraged donors to support the PNA budget in order to prevent the collapse of the PNA—and the entire political process as a result.

As for the infrastructure sector, its share of total assistance declined in this stage to approximately 10 percent (as compared to 37.6 percent in the previous stage). This is in spite of the extensive destruction wrought on infrastructure and public facilities as a result of Israeli escalation of hostilities against the Palestinians during this period, and in spite of the consequent pressing need for reconstruction and restoration of that which had been destroyed. As for the share of the productive sectors, it did not exceed $98.5 million, or less than 3.2 percent of actual assistance, despite the importance of these sectors in strengthening the Palestinians and promoting their capacity for perseverance.

With regards to distribution of assistance according to its various uses, Ministry of Planning data indicate that public investment accounted for 32 percent of total actual assistance during the previous years, whereby approximately $1,393 million was disbursed for this purpose. Twenty-eight percent of assistance was allocated to technical investments and experts; the donor parties relied heavily on these investments to ensure that assistance was disbursed in a competent manner and directed toward the necessary goals. Notwithstanding the importance of this type of assistance, its exaggeration is often at the expense of the value of real assistance to recipient countries, consequently affecting the effectiveness and capacity of international assistance to achieve the desired goals.

The main uses for assistance include supporting the PNA's general budget, especially the development budget, whose share of actual assistance was approximately 12 percent. If the grants for supporting the current budget are added, contributions earmarked for development increase substantially; since the outbreak of the Al-Aqsa Intifada, the donor parties have provided more than $1,300 million for this use. As for in-kind assistance provided to the Palestinians in the form of equipment, it comprised approximately 8 percent of total actual assistance, and approximately 5 percent of assistance was disbursed through job creation programs for the unemployed. Only 3 percent was disbursed to support the private sector.

6 The World Bank estimated that infrastructure damages resulting from Israeli escalation during the present Intifada totaled approximately $251 million.
7 Based on total actual assistance in the amount of $4,447.6 million, as stated in the Ministry of Planning's report.
8 These figures are limited to the data provided by the Ministry of Planning, which covers 1994 through June 2003. Moreover, they do not include assistance that nations have provided to support the PNA budget since the beginning of the present Intifada.
Forms of Assistance

Ministry of Planning data indicate that the international assistance donors committed to provide during the previous period was not all in the form of grants and donations. More than 14 percent of this assistance was in the form of loans, the largest portion of which comprised liberal loans with extended repayment periods. However, some loans provided to the PNA have trade conditions, and the conditions go up to an interest rate of 15 percent upon actual repayment of that assistance. It should be pointed out that most assistance provided by the United States and Japan during the previous period was in the form of grants and donations. During the first stage (1994-1997), loans comprised approximately 6.8 percent of total assistance. In terms of the donor parties, most actual assistance provided by the European Union and Arab nations was in the form of grants and donations. International institutions provided only 23.5 percent of their assistance in the form of grants and donations, while the remainder was in the form of loans. The percentage of loans provided by the European nations was only approximately 3.7 percent of their total assistance.

During the second stage, there was a significant shift in the forms of assistance provided, whereby the percentage of loans increased to approximately 19 percent of total actual assistance. That increase resulted from a policy shift on the part of the European Union and the Arab nations in favor of lending at the expense of grant provision. The percentage of loans out of the assistance they provided thus reached 24.6 percent and 37 percent, respectively. This also was reflected in the amount of loans taken by the PNA, wherein loans doubled during the second stage as compared to the first stage, rising from $138.6 million to $278.4 million.

With regards to the third stage, the data in Table 3 show a rise in the percentage of loans out of total actual assistance during that stage, reaching approximately 18.8 percent. This is primarily ascribed to the loan provided by the Arab nations through the Islamic Development Bank in the amount of $480 million. This increase occurred in spite of the substantial deterioration of conditions in the Palestinian territories during that period—at a time when, in view of those conditions, along with a drop in the PNA’s

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Table 5-2: Distribution of International Assistance by Sector (1994-2003), in millions of USD$  

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<td>Commitments</td>
<td>Disbursement</td>
<td>Commitments</td>
<td>Disbursement</td>
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<td>Productive Sectors</td>
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<td>Social Sectors</td>
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<td>Institution Building</td>
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<td>Miscellaneous Sectors</td>
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<td>2858.9</td>
<td>2029.3</td>
<td>2269.2</td>
<td>1465.9</td>
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9 Table data based on information provided by the Ministry of Planning and Ministry of Finance.
revenues and consequent decline in its capacity to meet Palestinian needs, the donor parties should not have placed additional burdens on the Palestinians. What is notable in that stage is the increase in the percentage of loans granted by the Arab nations out of the total assistance they provided, even as the percentage of loans provided by the European Union and European nations fell to less than 2 percent and 1.7 percent of their total assistance, respectively—as was apt given the PNA’s financial resources gap and the difficult conditions in the Palestinian territories. It would have been fitting for the Arab nations to act in this manner rather than the European Union and the European nations.

Distribution of Assistance According to Recipient Parties

Distribution of assistance among different recipient parties can be divided into three main classes: the first class was provided to the various agencies of the PNA; the second class was directed to NGOs; and the third class was provided through UNRWA. In total, international donors have provided more than $6,552.6 million during the last ten years.

If the emergency assistance provided through UNRWA from the outbreak of the Al-Aqsa Intifada through the end of 2003 is added (amounting to approximately $324 million), the total amount of assistance increases to more than $6,876.6 million. Ministry of Planning data indicate that the various executive agencies of the PNA (including ministries, authorities, and public institutions) received 87 percent of total assistance provided to the Palestinians during this period, whereas NGOs received 8 percent. The percentage of actual disbursement of assistance to NGOs, at approximately 80 percent, was higher than that for assistance to the PNA, which did not exceed 65 percent.

With regards to actual assistance provided through UNRWA, there is substantial variation in the amount reported due to discrepancies among data sources and methodological differences in calculating that amount. Ministry of Planning data indicate that assistance provided through UNRWA amounted to approximately $337.2 million since 1994 (with an annual average of 33.7 million), comprising about 5 percent of total assistance. This sum is relatively small compared to the data issued by UNRWA itself, which indicate that funds disbursed by UNRWA during one year alone (2003) totaled approximately $259 million.

This discrepancy between the two sources is attributed primarily to the fact that the ministry only factors in funds that UNRWA disburses for regular development projects and budgets, excluding the emergency and relief assistance that UNRWA began providing after the outbreak of the present Intifada. This latter type of assistance comprised the largest portion of UNRWA’s total expenditures in the Palestinian territories from 2001 through preparation of this report, totaling $324 million. When this sum is added to the regular assistance, UNRWA’s share of total assistance increases to more than 9.6 percent (an amount that seems more logical and representative of the extent of services provided through UNRWA), and the share of the PNA as a recipient party falls to approximately 77.4 percent of total assistance. That percentage is in accord with the World Bank’s estimates in its report related to assessment of the economic effects of unilateral Israeli disengagement from the Palestinian territories, prepared in June 2004.

The PNA received 87 percent of the total assistance provided to the Palestinians, whereas NGOs received 8 percent.
Section Three: Impact of International Funding

This section of the report will identify the impact of international funding on Palestinian development efforts in general and on the empowerment of Palestinian individuals and society in particular. A general background summary of the prevailing economic and social conditions for individuals and society in the Palestinian territories will be presented. It will be followed by an examination of the most important outcomes of international funding at the level of individuals and the role of assistance in empowering Palestinian individuals and promoting the ingredients for perseverance. It will also examine the ability of international funding to empower and strengthen Palestinian society and to promote its capacity for emancipation from dependency on external factors, and will attempt to measure the scope of the impact of this funding in that regard.

5-3-1: The Ability of the PNA to Manage International Assistance

Any funding process involves two main components: the funding party and the environment into which assistance is channeled. The role of the system or apparatus that manages the assistance is central to this process. This is highly applicable to the international funding situation in the Palestinian territories. The ability of the Palestinian economic and social system to manage international assistance and respond to developments in international funding patterns is a central element governing the efficacy of that assistance and its ability to achieve the desired goals.

The procedures these ministries follow in implementing projects funded through international assistance pass through several stages. Each ministry on its own conducts the necessary studies to determine the needs of the sector it represents and then submits these needs to the Palestinian parties responsible for coordinating with the donor parties so as to obtain the funding required to fulfill those needs. Those needs are then put before the donor parties, who dispatch a delegation to affirm them, and the first stage ends with funding approval by the donor party. Upon conclusion of the first stage, the second stage—connected to technical-engineering project design—commences, usually involving the committee that made the presentations to the representative of the concerned ministry. The third stage is the process of selecting the establishment that will implement the funded projects. As regards the process through which the funding party dispenses funds and fees to the implementing establishment, this is usually carried out without intermediaries, whereby payments are transferred directly to the establishment’s accounts in Palestine.

It is likely that the PNA’s limited track record in managing donor funds, along with oft-repeated accusations of widespread financial, administrative and political corruption in PNA institutions contribute to the declining levels of public trust in the PNA’s ability to manage international assistance. The results of an opinion poll conducted by Birzeit University’s DSP show that only 24 percent of those polled said international funding should be directed
Box 5-2: Outcomes of a Workshop on International Funding

The DSP held specialized focus groups to discuss the issues concerning international funding that were raised by this report. Attendees concluded that despite some progress in the coordination of international funding through the Ministry of Planning, the various PNA ministries were still working separately from one another. The oversight and management of financial assistance that passes through the PNA is poorly coordinated. This perception was reinforced during a discussion seminar held by the DSP, at which Palestinian parties concerned with the international funding process met. Participants at this meeting were in nearly unanimous agreement as to the low levels of coordination between the central authority responsible for planning and coordinating assistance, the ministries, and representatives of organizations from different Palestinian sectors. In most cases, the central authority was not party to agreements signed between ministries and donor agencies, with the exception of those agreements which entailed a financial obligation. In those instances, the Ministry of Finance or the Ministry of Planning did become involved.

Some of the discussion group attendees pointed out that the Palestinian private sector was also excluded from the processes of strategic planning and decision-making during the creation of development plans prepared by the PNA. Although public/private sector coordinating bodies were established, their participation in the decision-making process was nominal and infrequent.

Another important conclusion reached was that the Palestinian public and private sectors possess the capacity to absorb large sums of international assistance, even in excess of the present amount. Most production facilities in the private sector are working at less than full capacity for reasons too numerous to mention here. Added to this, there are large reserves of unutilized human capital, due to high unemployment rates in the Palestinian territories. As for the public sector, a case study of one of the projects funded by outside assistance demonstrated that PNA institutions and their administrative staff are fully prepared to absorb any anticipated expansion in the activities of the donor parties in the Palestinian territories. Perhaps one significant indicator of this untapped potential is the list of projects prepared previously by various PNA ministries and the readiness to implement them pending provision of the necessary funding. This list contains the most pressing needs within the sectors these ministries represent, but the lack of financial resources provided through international assistance is slowing the pace of implementation.

to PNA institutions, whereas 56 percent believed that this funding should be directed to the private sector.

5-3-2 The Role of International Funding in Building Palestinian Institutions and Strengthening their Capacity

The term “Palestinian institutions” as used in this section refers to both official government institutions and NGOs. Approximately 60 institutions and ministries fall within the category of official institutions. These can be divided into two main groups based on the services they provide: institutions that provide social services (such as education, health,
The PNA has been trying to reintroduce planning through preparation of a medium-term development plan.

The World Bank estimates that the Palestinian NGO community includes approximately 1,200 Palestinian institutions and approximately 200 international institutions working in the Palestinian territories. The activities of these institutions are usually categorized into three groups according to the type of activity they perform.

The first group engages in charitable and social welfare activities designed to serve needy segments of the population. The second group engages in development activities that build individual and group capacity through education, training, and organizational consulting, such as developing marketing skills. The third group works to prepare individuals and groups to assume positive decision-making roles in local, national, and international institutions. This group usually engages directly in the political activity of the state and local governmental bodies.

The donor countries play a central role in building institutional capacity within the government. They support these institutions with material and in-kind assistance as long as the institutions successfully fulfill their mandated tasks and provide basic levels of service to the citizenry. During the past three years, the role of donor countries providing funding in this area increased substantially, as the PNA progressively weakened and failed to carry out its responsibilities. Huge sums of international assistance (approximately $1,225 million) were given to shore up the PNA budget. However, World Bank estimates indicate that the level of services provided by the PNA have continually declined, specifically evidenced by the lack of environmental protection and preventive health services provided by the PNA in the Palestinian territories. As result, all international funding to these two areas was cut off.

In connection to activating the role of international funding, the PHDR finds the majority of government institutions suffer from numerous problems (covered in detail in Chapter Three). The first problem is the absence of well-developed management structures and employee job descriptions, resulting in the staffing redundancies that plague most of these institutions. The second problem is the need for a central body to coordinate among these institutions and to prevent duplication of work across institutions resulting in squandered efforts and money. The central coordinating body is also needed to ensure standards of transparency and accountability are adhered to within these institutions. The third problem is the absence of a strategic vision or clearly defined development plan for work of the PNA.

The government’s planning process has passed through four main phases. The first phase (1994-1997) had no development plan to speak of, but the second phase (1998-2000) was characterized by existence of a partial plan. Planning again ceased with the outbreak of the Al-Aqsa Intifada through last year, which comprised the third phase. And, during the fourth and current phase, the PNA has been trying to reintroduce planning through preparation of a medium-term development plan. Certainly, a government with little or no strategic development planning activity limits the role that assistance is able to play, since in receiving external assistance PNA institutions depend—for the most part—on the disparate efforts of individual ministries.

International assistance has also played an important role with NGOs in...
the Palestinian territories, as it provides them with necessary funding and in-kind technical support which helps the NGOs comply with the inflexible, complicated financial and administrative requirements imposed by donors on the management and implementation of NGO programs. World Bank estimates indicate that approximately 60 percent of primary health care services for Palestinians are provided through NGOs. NGOs also play significant roles in the areas of education, agriculture, provision of support and assistance to persons with special needs, housing programs for limited income families, and lending programs for small-scale projects. As with official PNA institutions, however, among these NGOs there is a lack of a strategic vision and a tendency
diverge from their goals, as well as poor coordination with the PNA. The NGOs are limited in their capacity to negotiate with donor agencies to identify the definitive areas of support that best serve Palestinians and meet their basic needs. Finally, the restrictions imposed by the Israeli occupation further complicate a lengthy set of operational obstacles.

**Box 5-3: Assessment of the Benefit of International Funding**

A public opinion poll conducted by Birzeit University’s DSP in June 2004 indicated that 78 percent of respondents’ families did not benefit directly from international support, whereas 49 percent of them felt that international assistance alleviated Palestinians’ suffering. Among respondents, 48 percent suggested focusing international support on job creation, whereas 65 percent suggested directing the support toward civil society organizations. Opinions differed as to the degree to which international support contributes to Palestinian development. In the same context, and on the political level, 55 percent of respondents believe that international support reinforces Israel’s hold on the Palestinian territories.

Direct financial assistance in the social sectors provides relief for many Palestinian families. However, it does not incorporate any development priorities and it is not linked to a strategic plan or central vision.

**5-3-3 The Extent to Which International Funding Reflects Palestinian Priorities**

The extent to which international funding reflects Palestinian priorities is regarded as one of the most important criteria used to measure the impact of international assistance in empowering Palestinian society and to determine whether or not that assistance has achieved its desired goals. The impact of international assistance on empowerment is judged by the extent to which the assistance is effectively allocated across sectors in order to address the maximum number of development priorities and to meet the needs of the Palestinian people. Measuring the benefits of donor funding is extremely challenging, as it is not delivered through one central body with a harmonized set of goals, objectives and priorities via a single set of processes.

As shown previously in this chapter, the social sectors absorbed approximately 47.6 percent of assistance to Palestinians from 1994 through the end of 2003. This percentage was not steady throughout the period; it did not exceed 30 percent until 2000, yet it has exceeded 68 percent since the outbreak of the Al-Aqsa Intifada. As also seen previously, the rise in the social sectors’ share of funding was due to an increase in the amount of emergency
humanitarian and relief assistance and the grants provided to support the current budget, which fall within this area. This type of assistance provides relief for many Palestinian families and creates jobs for a large number of unemployed\textsuperscript{10}—in addition to its role in preventing the collapse of the PNA by supporting its current budget and payment of its employees. However, it does not incorporate any development priorities and is not linked to a strategic plan or central vision; rather, its role is limited to relief aid. In addition to emergency assistance, the social sectors also received assistance for democracy-strengthening initiatives, rehabilitation programs for persons with disabilities, the environment, human rights, and other areas. These sectors are among the most important priorities of the donor countries. Yet despite their importance, they are less capable than other productive sectors of achieving economic and social well-being that is long-term and sustainable.\textsuperscript{11}

The infrastructure sector ranked second among donors’ priorities, as these countries directed 22.3 percent of their total assistance for projects to rehabilitate and develop infrastructure in Palestine. The past three years have seen a perceptible reversal in the amount of assistance directed toward this sector, where the funds it was allocated did not exceed $307 million, or 10 percent of total assistance provided during this period. This is in spite of the extensive destruction inflicted on Palestinian infrastructure facilities as a result of repeated Israeli assaults, which called for greater focus on this sector than was given. The donors, in their expenditures, relied on World Bank estimates for the costs of rehabilitation infrastructure, and these were far less than the Palestinian estimates.

This sector is considered one of the priorities on the Palestinian agenda due to its forward and backward linkages within the Palestinian economy, in addition to its role in employing workers and encouraging local and foreign investment in the Palestinian territories.

The third-ranking sector among donors’ priorities was institutional capacity building. It was natural for the donors to focus on this sector, especially during the beginning of the transitional stage and after the establishment of the PNA and its institutions. The donor nations spend approximately $1,193 million, or 18.2 percent, of assistance on this sector. Once again, in providing assistance the donor parties are failing to align with Palestinian society’s priorities and needs. The results of one poll\textsuperscript{12} showed that building societal institutions is not considered a priority area among Palestinians, as this sector earned only 7.2 percent on the ranking of respondents’ priorities.

5-3-4 The Contribution of International Funding to Emancipation of Palestinian Society

A number of internal and external factors influence the basic characteristics of economic and social conditions in the Palestinian territories. These influences helped shape the Palestinian economic profile during the previous stage, since the Palestinian economy depended on its Israeli counterpart and there were multiple forms and channels of inter-linkage between them in the areas of labor, trade relations, and tax revenues.

In terms of labor, the Israeli economy absorbed surplus Palestinian labor; statistics indicate that more than...
145,000 Palestinian workers were employed in Israel just before the present Intifada began. In terms of Palestinian-Israeli trade relations, trade with Israel comprised 77 percent of Palestinian foreign trade. And in terms of tax revenue, the PNA depends on customs returns and duties on trade with Israel in funding its treasury, as together these duties comprise approximately 60 percent of total public revenue in the Palestinian budget. The danger of this inter-linkage between the two economies lies in the Israeli side’s systematic continuation of its current policy, which is based on thwarting any Palestinian attempt at emancipation and liberation from Israeli domination and on countering Palestinian attempts to revive their economy and govern their natural resources.

The second indicator is external assistance, which covers more than 80 percent of funds needed for the overall investment program in the Palestinian territories, in addition to its role in funding the PNA current budget. However, there are a number of questions surrounding the continuity of this assistance during the forthcoming period, which in turn significantly increases the level of risk and vulnerability to external factors. These questions surround a number of factors related to this assistance, such as the link between assistance and developments in the political process, inconsistency in the level of compatibility with Palestinian priorities, and changes taking place during the past three years, as more than 83 percent of this assistance was directed toward humanitarian relief programs.

13 The donor parties sometimes recover 50 percent of the aid they provide through technical assistance and sales of materials and equipment to the aid recipient.
14 Those meeting at the Rome Conference on the Palestinian Economy in October 2003 pointed out that lack of clarity in terms of the political horizons will make it difficult to speak about higher and continual levels of assistance in the Palestinian territories.
funding the PNA treasury, and repairing damages resulting from Israeli incursions. More than 87 percent of assistance passes through PNA institutions and approximately 8 percent passes through NGOs, as shown previously in this chapter.

The period during which the international funding process began coincided with Israeli policies of closure and siege. These policies inflicted immense damages on the Palestinians and also affected the international funding process, since they limited the freedom of movement of employees and representatives of local and international institutions overseeing and implementing the funded programs. Moreover, they obstructed the arrival of the raw materials and equipment necessary to implement these programs and projects, and the Israeli authorities deliberately placed obstacles and difficulties before implementation of funded projects in the Palestinian population centers located in Area B. Israeli influence continued to be the main determinant of Palestinian economic and social conditions.

Since the launching of the peace process and the signing of the Oslo Accords, the Israeli government has continued its policies, measures, and practices in a systematic, uninterrupted fashion, which thwarted Palestinian and international efforts aimed at reviving the Palestinian economy. Nor did the matter stop there; Israeli succeeded in transforming the West Bank and Gaza Strip into a consumer market for Israeli goods and services, however corrupted, and a source of cheap labor. These policies have created structural distortions in the local economy, where service-based and marginal activities have expanded at the expense of development-oriented and productive activities. This has weakened the Palestinian economy’s productive capacity and hindered its natural growth.

Despite obstacles posed by the Israeli authorities, international assistance has been successful in several fields and has made significant achievements in some areas. Here, it will suffice to mention some of them, as they will be addressed in detail in the discussion on the impact of assistance in providing the Palestinian development process with ingredients of success.

A report issued by the World Bank, in discussing the achievements of international assistance in the Palestinian territories, pointed out that such assistance has helped improve health services by building and improving a number of hospitals and health centers. Between 1994 and 1998, approximately 7.7 percent of total assistance was provided to this sector, as reflected in the increase in the number of health care centers from 207 in 1994 to 369 in 1998. This also affected the number of center beds and the quantity and quality of health services provided to Palestinians during that period.

Likewise, assistance brought important achievements in the education sector. During the first year alone, six schools were constructed and furnished with the necessary materials in the West Bank and Gaza Strip. And during the next five years, more than 76 schools were improved and renovated through PECDAR alone, thereby increasing the number of classrooms to approximately 2,068. Further, approximately $1,156.5 million, or 33 percent of total assistance between 1994 and 2000, was spent on infrastructure. More than 112 water and sewage projects were implemented, and hundreds of kilometers of main and side roads were paved, which contributed significantly to the development of infrastructure services in the Palestinian territories. Added to this is international assistance’s contribution—however limited—in supporting the Palestinian economy’s productive capacity and hindered its natural growth.

During the past three years, more than 83 percent of assistance was directed towards humanitarian relief programs, funding the PNA treasury and repairing damages resulting from Israeli incursions.

More than 76 schools were renovated by PECDAR alone.

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economic sectors. Within the industrial sector, the donor entities realized the importance of coherent export strategies and their impact on increasing employment in the Palestinian territories and in growth of the domestic product. Toward this ends, the donors worked to establish a number of industrial areas, perhaps the most important of which is the industrial area in the Gaza Strip. In addition, donor assistance played a role in the Palestinian banking sector through training programs prepared for the banks. And it has funded numerous lending programs for small-scale projects, thereby expanding the lending base of the Palestinian banking system.

**Point of Light 52: CARE’s Initiative to Evaluate its Work**

Like many international institutions, CARE exerts substantial efforts toward reevaluating its vision, programs, and modes of operation so that it can overcome new and difficult conditions in the Palestinian territories and respond to local community needs. Beginning in 2001, it has provided emergency assistance in addition to its development programs. The institution has faced three main challenges in carrying out its work: first, the deteriorating security situation and the siege to which the Palestinian areas have been subjected (which has frequently obstructed assistance from reaching those areas); second, the decline in donor support for development efforts in Palestine; and finally, the state of ever-increasing poverty in the Palestinian territories. CARE has confronted these challenges in a number of ways, including:

- Partnership with NGOs and local authorities.
- Strategic planning in the following areas:
  - Evaluating the institution’s work and tasks in the Palestinian territories in order to reformulate its programs and priorities.
  - Revamping the institution’s performance standards and activating its branch offices in order to reach the various Palestinian areas.
  - Initiating coordination with other institutions working in the same field, in order to exchange information and expertise.

5-3-5 The Contribution of International Funding to Providing Ingredients of Success for the Palestinian Development Process

It is relatively complicated to assess international assistance in terms of its direct impact on the development process in the Palestinian territories, as the lifespan of this assistance thus far is relatively short, not exceeding ten years. Therefore, it is difficult to build an economic model for measuring this impact. Furthermore, no definitive relationship can be found between international assistance and changes taking place in the development indicators in Palestine. The PHDR therefore examines the indirect implications of international funding and its linkage with the macroeconomic and social indicators in the Palestinian territories. These conclusions, while not definitive, may offer some indications and evidence as to the importance of this assistance and its role in bringing about economic and social development and in empowering Palestinian society.
These indicators can be of benefit in activating the role of assistance and reinforcing its positive aspects, at the same time exposing the mistakes and negative aspects that marred the funding process during the previous stage.

Observers of the international funding process and its implementation in Palestine are able to note changes in the macro indicators. It is possible to track several of these indicators during the duration of the funding process along the following lines:

- **Domestic product**: Reports indicate that the gross national product (GNP) for the Palestinian territories has grown at negative rates of 3.5 percent, 10.1 percent, and 2.9 percent in the years 1993, 1995, and 1996, respectively. Positive GNP growth rates were recorded in 1998 and 1999, reaching 18 percent and 8.2 percent, respectively. The growth rate then dropped in subsequent years, especially since the outbreak of the Al-Aqsa Intifada and the accompanying Israeli measures. During the first year of the Intifada, GNP declined approximately 11.2 percent. Moreover, consecutive declines in gross domestic product have been recorded since 2001, and the growth rates were negative during the last three years at 9.4 percent, 3.6 percent, and 1 percent, consecutively.

- **Unemployment rates**: The unemployment rate increased to more than 30 percent after 1993, compared to only 5 percent prior to that year. There has been variation in these rates, which have risen and fallen under the influence of Israeli policies in the Palestinian territories, reaching their highest level in 2002, at 31.3 percent.

- **Living standards**: There was a significant decline in Palestinian living standards after 1993, as the per capita gross domestic product (GDP) dropped by 14.2 percent between 1993 and 1995. Poverty rates have reached record levels since September 2000, with reports indicating that more than 60 percent of Palestinians have suffered from poverty during recent years. The overall level of prices rose by more than 37.7 percent in comparison with prices in 1996.

**Box 5-5: World Bank Report**

While pointing to international assistance’s difficulty during the previous period in achieving the desired goals and empowering Palestinian society, a report issued by the World Bank notes an increase in the amount of international assistance at $500 million per year between 2004 and 2006 (thus reaching $1,500 million annually) will bring about some improvement in the per capita income rate, while unemployment rates will fall to the prevailing pre-Intifada level of 14 percent—but only if Israel removes barriers and ends internal and border closures blocking the movement of people and goods. However, the disturbing matter lies in the continuation of high poverty rates among Palestinians during the forthcoming period, despite an increase in assistance. If economic and social conditions are expected to be as indicated above even with extensive assistance totaling $1,500 million, it is difficult to imagine what conditions would prevail in the absence of such assistance.

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17 The Economic Observer, No. 1, March 1997.
18 The Palestinian Central Bureau of Statistics, National Accounts, various years.
20 The Economic Observer, No. 1, March 1997.
International assistance has contributed to the promotion of the principle of participation to a certain extent.

Community participation: International assistance has contributed to the promotion of the principle of participation to a certain extent. However, it has not fully integrated this concept into the projects it supports in order for the beneficiaries to become full partners in formulating and taking decisions related to their communities. A case study of a Palestinian village was conducted for the purposes of this report. A meeting held between a number of representatives of institutions and activities from the women and youth sectors reveals the existence of some effective mechanisms and means for strengthening the principle of community participation.

The first of these mechanisms is the use of town meetings held by NGOs wherein individuals can take part in determining how assistance is spent by expressing their opinions and needs. The second mechanism is the regular meetings that the village municipal council has held with different groups in the village (educators, influencers, youth, women, and others), combining their views and identifying their demands and needs. These meetings usually succeed in forming a specific conceptualization of the directions of these groups, which are of benefit during negotiations with funding parties regarding village needs and priorities.

Further, a unique, groundbreaking instance of citizen involvement in determining needs and priorities was seen in the preparation of a survey through cooperation between the municipal council and the donor party. This case involved the Palestinian Hydrologists Group and the World Food program. The survey had one part related to services provided in the village and another for determining village needs based on priorities. However, most of these experiences were not generalized among residential areas or recipients of international assistance. Thus, community participation (on the level of individuals and groups) in deciding how international assistance was spent remained weak and below the level required.

The relief role: Results of an opinion poll conducted by the DSP showed that 56 percent of respondents answered “yes” to the question of whether international funding has helped alleviate Palestinians’ humanitarian suffering, while 30.3 percent answered “to some extent.” This is an indication of the perceived benefit from assistance in this field.

The development role: When respondents were asked about the contribution of international assistance to the development of Palestinian society, the percentage of responses were 43.6 percent (“yes”) and 35.9 percent (“yes to some extent”), respectively. It is also important to point out the role of this assistance in supporting democratic processes and Palestinian institution-building. Of total assistance, 18.2 percent has been spent in this field. This percentage reached its height during the first, or construction, stage, when it totaled approximately 30 percent. This assistance has funded payments within a number of PNA ministries and the Legislative Council, and it has also played a role in funding activities of the Palestinian Central Bureau of Statistics. Moreover, in the field of building in institutions and activating their role in Palestinian society, the donors have greatly supported the local authorities in the West Bank and Gaza Strip.

Seventeen percent of Palestinian families are almost fully dependent on external assistance.

5-3-6 The Role of International Funding in Strengthening and Empowering Marginalized Groups

The definitions dealing with the subject of empowerment vary in the literature, but most definitions encompass a set of essential elements. These may be...
summarized as freedom of access to information, guaranteed opportunities to participate in decision-making, and the ability to question officials within the authority and at official sites. These elements may be considered one of the fundamental bases through which the strength and empowerment of society can be measured. Despite society’s need in its entirety (individuals and groups) for empowerment with its various political, economic, and social facets, there are specific social groups and sectors that need more than others to be provided with the ingredients for empowerment in order to expand their options and develop their abilities. These groups include women, the poor, workers, and youth. This section will touch on the role of international funding in empowering marginalized groups and helping them to integrate within Palestinian society.

The Palestinian territories suffer from high poverty rates. As shown previously, 67.7 percent of Palestinian families were suffering from poverty according to their income in 2003 (broken down as 62.6 percent in the West Bank and 77.5 percent in the Gaza Strip). International assistance helps provide support to this segment of society through numerous institutions working in the Palestinian territories. Estimates of the United Nations Office of Coordination of Humanitarian Affairs (OCHA) indicate that about 17 percent of Palestinians are almost fully dependent on external assistance. Institutions providing loans for small-scale projects are among the major institutions offering support and a major income source for Palestinians. However, the relative importance of these institutions has declined since 1993 in favor of the banks. Assistance through micro lending programs has made some achievements. The results of a study on the effects of programs offering loans to small-scale projects implemented by UNRWA in the Palestinian territories indicate that these programs have contributed to increasing the income of their beneficiaries, in addition to increasing community participation on the part of program users, improving their ability to manage in the future and to negotiate with other parties, and increasing their well-being. In addition, these programs have helped to increase beneficiary’s control over their income sources and to raise their level of self-confidence.21

Box 5-6: The Contribution of International Funding

Despite all of the controversy surrounding assessment of the role of international funding, there have been achievements and contributions carried out through the funding of donor nations, including the Arab countries. Most important among them:

- Building schools and hospitals.
- Paving roads and restoring infrastructure, especially the sewage system in numerous residential areas.
- Training thousands of PNA and NGO employees.
- Employing the unemployed.
- Covering the costs of voter registration and the Palestinian elections.
- Organizing psychological support programs for children and women.
- Covering the salaries of PNA and NGO employees.

As shown previously, social indicators reveal a higher percentage of poverty among women than men in Palestine. One study related to Palestinian women found that an important resource lacking among women in several economic fields is provision of a lending network and financial network, and that women could benefit greatly from increased sources of credit. The study also found women’s marginalization and alienation from trade and agricultural unions played a significant role in limiting their access to sources of information and material support. Further, the lending programs and institutions working in this field were incapable of delivering their services to wide sectors of women; the percentage of women ranged between 2 and 5 percent for institutions that lend to men and women, while the number of women borrowers receiving loans from institutions specializing in loans to women ranged between 150 and 200. The study attributed this to reasons related to the inability of these institutions to design lending programs and services suitable for the needs and conditions of these women.

Further, a qualitative study of micro credit to Palestinian refugee women in Lebanon indicates that micro credit can often help raise a family’s income level and improve the family’s ability to meet basic needs. However, the same study points out that the majority of these loans neglect stereotypical social relationships and roles, and rather than help to raise the level of women, they place additional burdens on them. At the same time, it is possible that women will withdraw from public and community life, and it is uncertain whether they will have control over project income or the properties related to project work. And most of these projects do not work toward changing men’s mores and conventions or work to gain their approval for altering stereotypical roles, leading to a doubling of the financial and psychological burden on women in the family. Moreover, not all micro credit programs take into account training needs in the fields of marketing and project management, and they have not sought to change market mechanisms or laws governing women and men’s work or the discrimination against Palestinians in general within the Lebanese market.

Moreover, a report issued by the World Bank indicates that the assistance provided through the Community Development Project (CDP) (as an example of institutions that support local authorities and small villages) has helped to develop the economic and social infrastructure of the targeted population centers in a tangible way, through implementation of more than 200 projects in these centers. Some achievements have also been made in the area of rehabilitating freed prisoners, which is to some extent a groundbreaking, successful undertaking. The deputy of the Ministry of Prisoners’ Affairs, during a meeting that included various parties connected to international funding, pointed out the importance and role of internationally-funded programs for rehabilitating freed prisoners in training centers.

23 Fatin, Loans in Palestine and Poor Women with Micro Projects: A Case Study.
24 Munira Khalil and Sana’ Hussein, Micro Loans to Palestinian Women Refugees in Lebanon, Case Studies, Social Aid Institute, 2004.
and rehabilitating this segment of Palestinian society, thereby enabling them to reintegrate within their communities. The European Union, Switzerland, and the Italians have funded most of these programs, whereas the United States has rejected numerous proposals to fund such programs.

International assistance (along with Palestinian institutions themselves) has also failed to ensure the active participation of marginalized groups in making decisions related to them. Perhaps the best example of this is seen in the PNA’s general budget, which is supposed to meet the needs of all segments and groups within Palestinian society. The manner in which the public budget is prepared, approved, implemented, and monitored precludes involvement by these groups. What is disturbing in this regard is the failure of the donor parties to ensure active participation of these groups during the various budget stages through their support for Palestinian official institutions and NGOs. Donor institutions have not played a tangible role in heightening marginalized groups’ awareness of their rights and of the importance of the budget in affecting their conditions. PNA budgets have not been published except in 2003 and 2004, and that was only after substantial foreign pressure was exerted on the PNA to take steps toward reform. It is also worth noting an example highlighting inadequate NGO concern with the budget: One NGO in Palestine held a workshop in late 2001 to discuss the general budget after the Legislative Council had approved the budget in the beginning of that year.

Conclusion

It may be said that international assistance over the past ten years did not lead to achievement of Palestinian aspirations or fulfillment of Palestinian needs. Doing so would have meant empowering Palestinian society to attain independence and self-determination and laying the foundations for sustainable human development. It appears that the source of this weakness in performance stems from the main goals for providing assistance, which are supporting the Palestinian-Israeli political process and giving it the required thrust by bolstering the Palestinian economy, eliminating tensions and violence in the region and containing their causes, and spreading democratic principles and human rights among Palestinians.

These objectives have been pursued at the expense of bringing about the real development sought by Palestinians. Indeed, this assistance may have unintentionally exempted Israeli authorities from assuming economic and service-related burdens upon reoccupation of most Palestinian areas for most of the past three years, since the assistance has enabled the PNA institutions and agencies and NGOs to continue providing basic services to citizens.

At the same time, just because provision of international assistance has coincided with negative changes in a number of economic and social indicators in the Palestinian territories does not mean that the assistance is the direct cause for these changes. However, it may be ascertained from the previous information that this assistance has not provided a lasting solution to the crises and negative developments afflicting the Palestinian territories during the past ten years. And although international assistance has brought some achievements, especially

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25 Among those polled, 62 percent believe that the donor nations and funding institutions operate according to their own political agendas, not within the framework of the needs and priorities of Palestinian society.

26 One World Bank report indicates that total assistance spent in the Palestinian territories between 1994 and 1996 amounted to approximately $1.49 billion, whereas the extent of losses stemming from the Israeli closure policy during that same period was approximately $2.8 billion.
in developing infrastructure, providing basic social services, and helping to strengthen marginalized groups, these achievements were unable to bring about actual empowerment of these groups, as was seen with women. Moreover, they did not utilize all means at their disposal to help promote the principle of community involvement for marginalized groups in the general budget and the Palestinian development plan.

The above notwithstanding, the effectiveness and impact of international assistance did not fully meet Palestinian aspirations and expectations. It did not develop the Palestinian economy nor reduce its vulnerability to and dependence on external factors, as this assistance did not limit the negative affects of the Israeli occupation. Throughout the course of the previous years, the assistance failed to compensate for the losses and damages inflicted on Palestinian society and individuals by Israeli practices and policies. Further, this assistance did not succeed in reducing Palestinian dependency on a second external factor—the assistance itself. Perhaps the best example of that is the continuing reliance of the PNA’s general budget in funding its development expenditures with external assistance, as has been the case from the establishment of the PNA through the present. Likewise, numerous Palestinian ministries and institutions depend on donor parties to fund their activities, as exemplified by the Legislative Council and the Palestinian Central Bureau of Statistics.