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RESEARCH ARTICLE

Political Economy of Aid in Conflict: An Analysis of Pre- and Post-Intifada Donor Behaviour in the Occupied Palestinian Territories

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Despite conflict-affected economies being among the largest recipients of aid worldwide, the theoretical frameworks and the political inclinations of donors make it very unlikely for their assistance programmes to have a lasting developmental impact in conflict zones. This paper highlights the key shortcomings in donors' theoretical frameworks, policies and approaches when dealing with a situation of conflict – suggesting that such shortcomings in some cases could even contribute towards a prolonging of the conflict itself. A pre- and post-Intifada analysis of donor activities in the occupied Palestinian territories is presented in order to demonstrate the stark shifts in donor funding in response to the rise of conflict: from development spending to institution building and governance reforms. It is argued that this shift was not only out of tune with the emerging needs of the Palestinian economy, but also, in some cases, helped worsen the impact of the conflict on the Palestinian economy – yet, nevertheless, it helped to justify the donors' continued presence in one of the most politically-charged conflicts in the world.

Introduction

Despite being amongst the largest recipients of foreign aid, conflict-affected countries have often failed to achieve significant medium- or long-term developmental outcomes. Aid has often been allocated to irrelevant, non-developmental projects, which have proven unsustainable in the face of conflict or have disappeared at the hands of the recipient countries or the donor agencies – as we will see in this paper's case study. At worst, aid has in some cases resulted in the prolonging or deepening of conflict[1]. Donors' current areas of focus, including institution building, governance and judicial reforms, democracy promotion, and private sector development, though potentially valuable under 'normal' circumstances, are unlikely to contribute to the economic revival of a conflict-affected economy. Moreover, it is estimated that up to 60 per cent of the total aid money allocated to each programme or project ends up staying in the donor country itself to cover 'donor expenses' (Europa 2005).

This contradictory relationship between high levels of aid and the ineffectiveness of such flows implies that higher quantities of aid are not necessarily an answer to ailing conflict economies. Furthermore, this

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contradiction signals the mismatch between the economic needs of a conflict-affected country and the nature of donor programmes devised for that country. This paper argues that this mismatch originates from the donors' lack of understanding of the interaction between conflict and the socio-economic structures of a country, and the ways in which this interaction alters the latter's development needs, priorities, and policy options.

A political economy study of aid as a 'development instrument' shows that donors' failure to effectively incorporate conflict into their frameworks and approaches is due to two major factors: first, the *inability* of the neoclassical macroeconomic framework embraced by most donors to incorporate a comprehensive analysis of conflict economies within its confined boundaries and assumptions; and second, the *unwillingness* of donors to take effective account of the conflict stemming from their political, strategic and ideological interests and alliances in the conflict. To demonstrate the above, this paper examines the nature of donor operations in the occupied Palestinian territories (oPt) in the period prior to (1994–2000) and immediately after (2000–2006) the second Intifada of 2000. The second Intifada is chosen as a point of heightened intensity of conflict, which provides a needed threshold for an analysis of the changes to donor behaviour and allocation patterns in response to an outbreak or intensification of conflict. Through this, the paper highlights the political and ideological determinants of donor aid policies, and the ways in which their aid is often structured 'around' the conflict as opposed to taking account of it. The paper argues that aid to the oPt cannot bring about significant socio-economic development as long as it does not confront Israel's policies of occupation, which affect every sphere of social, economic and political life in the Palestinian territories. Furthermore, it argues that apart from the lack of political will on the part of donors to constructively engage with the conflict, the aid policies and frameworks that they deploy in conflict zones are not able to fully understand and address the issue of development under conflict. This is demonstrated most clearly by an analysis of donor activities in the oPt in the period before and immediately after the year 2000, showing that the share of development assistance dropped from 88 per cent of total international aid before the Intifada to only 26 per cent after 2000. The donors' post-Intifada focus on governance and institutional reforms, the paper argues, is an indication of their (theoretical) inability and (political) unwillingness to engage with 'conflict' – which in turn gives rise to assistance programmes which 'work around the conflict' that fulfil the donors' desire to maintain a presence in one of the most important geopolitical conflicts in the world.

Aid Effectiveness Debate

Recent decades have witnessed a surge in international aid flows. These flows, particularly when channelled to conflict-affected countries, have been not only assigned the task of post-conflict reconstruction but also the more ambitious task of ending the conflict by creating socio-economic conditions conducive to peace. For example, referring to its 1993 white paper on economic development in the occupied Palestinian territory (oPt), *Developing the Occupied Territories: An Investment in Peace*, the World Bank announced 'how often does it happen that world peace depends on an economic development program' (World Bank 1993). This perspective has, in turn, left much space for donor policy-conditionality aimed at devising policies in the recipient country ostensibly essential not only for post-conflict reconstruction but also to help end the conflict itself.

The 'Aid Effectiveness Debate,' as it has come to be known since the latter half of the 1990s, centres on the role of aid in economic development and emerged in response to the growing discontent with the 'achievements' of aid in developing countries. In the 1960s, the impact of aid on growth was seen as straightforward: a lump-sum addition to the capital stock of the recipient economy leading to higher levels of savings, investment and growth.[2] Apart from ignoring the risks of aid dependency, this view also assumed that low investment levels are simply due to lack of savings and capital. Indeed large foreign capital inflows may negatively impact the levels of domestic savings by reducing the incentive to save, for both households and the government.[3] According to Griffin *et al.* (1970), aid could negatively impact a government's tax revenues or change the composition of its expenditure thus becoming a 'substitute' for saving. In addition, the increase in foreign private capital flows that follows increased levels of foreign assistance reduces the profit rates of domestic investors, reducing their private saving rates and frustrating the emergence of an indigenous entrepreneurial class. In addition, the conditions attached to aid undermined the national sovereignty of the recipient country, as well as straining its economic resources and developmental priorities.[4]

Mounting concerns over the apparent failure of aid to deliver development and the inability of the dominant frameworks to explain the reasons behind it resulted in a major shift in the aid debate in the 1990s. The parallel rise of the neo-liberal economic framework and the ambitious expansion of its analytical framework to the realms of governance and institution building set the tone for the new aid debate. According to the neoclassical framework, the workings of aid was dependent on a host of 'other' factors Initially defined in environmental and geographical terms, they soon expanded to include institutions, policies and forms of governance of the recipient country. The new debate, led most prominently by Boone (1994, 1995) and Burnside and Dollar (1997, 2000), argued that the ineffectiveness of aid is due to the failure of the *recipient* governments to create the right policy environment. By arguing that 'bad policies' of the state are responsible for the ineffectiveness of foreign aid, the debate called for more policy conditions that would bring about the desired 'good governance' and 'good policies' required to enhance the effectiveness of foreign aid and stimulate growth in the recipient country.[5] A number of indicators and measures, including low inflation, high exports and imports, and small budget deficits were recommended. However, the definitions of 'good policy' and 'good governance' were vague and broad enough to allow donors to develop a 'new chapter of conditionality' (Doornbos 2001: 97) aimed at encouraging policies conducive to the long-term dominance of market forces and private actors in the economy. This approach has formed the basis of many of the aid programmes and policies of multilateral and bilateral donors since the late 1990s.

The relatively small body of critique which emerged in the following years,[6] focused primarily on the methodological and sample-related weaknesses in the Burnside and Dollar-type analyses. Many of these studies, however, did not depart from the latter's quantitative framework, left many of the neoclassical assumptions about the role and workings of aid unquestioned, and made no viable attempts to incorporate the internal and external political economy and conflict-related factors. Due to these shortcomings most current debates do not enable a full analysis of the workings of aid in conflict zones.

One of the major assumptions underlying much of the debate is that economic institutions and policies are the main determinants of long-term economic growth – a theoretically weak and empirically unrealistic assumption. This is particularly true in the case of conflict-affected countries where the existence of well-functioning state institutions is important but insufficient for successful economic performance. Numerous conflict-related forces dominate the current and future growth and development prospects of conflict-affected economies.

Assumptions of competitive factor markets, perfect credit markets, no exogenous technical progress and constant population growth, which underlie much of the aid literature, are largely irrelevant to most developing economies experiencing 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 the oPt where exports and imports, as well as internal markets, are subject to restrictive measures imposed by the Government of Israel (GoI) that reduce the competitiveness of these markets.

In addition, although the recent aid debate discusses inherently political variables such as governance reforms, it calls for a *depoliticisation* of the development process (Taghdisi-Rad 2011). While the debate endorses channelling more aid towards government reforms and budgets, it simultaneously calls for a reduction in the size of the government (in line with neoliberal economic thought). The 'apolitical' image that donors would like to project also does not sit well with their direct involvement in creating the political and institutional structures of recipient economies. 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' (Doornbos 2001). An incomplete and partial democratisation and economic liberalisation according to 'universal' values can in fact *increase* the risk of further conflict by undermining the country's institutions and political and development priorities.

Aid and Conflict

Rather than taking the conflict and its interaction with the socio-economic structures of the country as the *starting point* of an analysis of the workings of foreign aid in conflict regions, the aid effectiveness debate has consistently treated conflict as an external factor to be taken into account only at a much later stage in such analysis. Much of the literature on the economics of conflict and peace is concerned with the question of whether the *existence* of conflict or peace affects the growth rates of the economy. This, however, ignores the *mechanisms* through which a conflict affects economic performance and growth. Conflict countries are often treated as countries 'subject to exogenous developments which take them outside the normal realm of analysis' (Stewart et al. 2001: 2). By focusing on economic incentives as the main stimulants of conflict (Collier and Hoeffler 2000; 2004), mainstream economic analysis treats war as an essentially chaotic and irrational eruption of violence.

Neoclassical economics treats conflict as a temporary, exogenous factor, whose intensity is measured by the number of battle-related deaths, and which, in turn, is 'too exceptional' to deserve a separate frame of economic analysis. It is assumed that conflict implies a postponement of 'normal' economic activities, an abnormal operation of institutions, and a halt to the process of capital accumulation; therefore, any concrete economic analysis of the situation is postponed for the 'post-conflict' phase. Such a view, which tends to equate the cases of conflict and non-conflict countries, not only has an extremely limited explanatory power, but also gives little insight into the context of the dynamic relations between conflict and economy. In line with this, donors often hurry, following the signing of a peace agreement, to define a conflict situation as 'post-conflict,' since the latter allows them to implement their standard programmes (Taghdisi-Rad 2011).

Shaky political agreements and unstable peace deals are taken as an end to conflict, despite the fact that violence and destruction might continue well after the signing of the peace deal, and that the economy might continue to suffer from the legacies of conflict for a considerable time after its official end. Following the signing of the Oslo Peace Accords, much of the economic analysis of the oPt treated the situation as post-conflict. However, it was during this time that the Israeli policies of closure expanded throughout the West Bank and the number of checkpoints increased steadily. The newly created Palestinian National Authority (PNA) was also struggling to establish its legitimacy during this period. Yet, much of the literature analysed the Palestinian economy in this period based on the assumptions of an end to Israeli military incursions and interventions as well as re-instated Palestinian economic, political and government institutions. These conditions clearly do not apply to the case of post-Oslo oPt, especially since the second Intifada.

Understanding the nature of the conflict and the ideological forces behind its continuation are essential in order to construct a framework for the analysis of economic performance under any given conflict. In order to assess the relevance and applicability of various economic policy options, including aid, in a conflict-affected country, it is crucial to have a clear idea of the true socio-economic costs that have been inflicted on the economy as a result of the conflict. Within the neoclassical economic approach, the cost of conflict has often been confined to its humanitarian costs – the number of battle-related deaths per annum. It is according to this criterion that conflicts have been classified in terms of their 'severity,' and, in turn, been prescribed policy options. This measure does not represent the short-term and long-term social, economic, infrastructural and political costs of conflict. For instance, in the case of the oPt, as Tania Reinhart has demonstrated, the military policies of the Government of Israel are aimed at increasing the number of injuries rather than deaths in order to minimise international pressure (Reinhart 2002). Such injuries can result in disability and loss of life-time employment which leads to reduction in incomes and an increase in poverty, but also means a long-term loss of Palestinian human capital, all of which needs to be taken into account in any analysis of the economic performance and labour market operations in the Palestinian territory.

It is important to acknowledge the ways in which economies are affected as a result of conflict and how this *changes* the behaviour and the role of economic agents including the state. The major changes in economic performance as a result of conflict come from destruction of capital, transport infrastructure, international markets, fragmentation or destruction of the labour-market, increased investment risk (and an increased liquidity preference), a reduction in foreign exchange reserves as a result of loss of export incomes, and an overall increase in transaction costs which damage the developmental process of the economy. These are in addition to the micro- and meso-level economic difficulties, which range from widespread loss of entitlements and government expenditure moving away from economic and social spending towards conflict-related expenditures. Coming on top of fiscal constraints already triggered as a result of conflict-induced distortions to the tax system, for instance, all of this further intensifies the levels of poverty, increase in non-tradable and subsistence production, and the expansion of the informal sector. These changes at various economic levels require new developmental approaches, increasing utilisation of local capacities and the 'emergence of new forms of social capital,' led by firm and constructive government action (Stewart et al. 2001: 11).

Consideration of such economic changes can result in unexpected, non-mainstream policy choices. For example, in a conflict-affected country, counter-inflationary measures can depress purchasing power and economic growth in an already-weak economy; privatisation can bring benefits only to a small elite of entrepreneurs; import liberalisation can intensify the process of conflict-induced capital flight; and deregulation can reduce the power of a strong central government needed to maintain stability and manage the process of primitive accumulation. A transformed process of primitive accumulation, which continues during the course of war and conflict, may result in difficult and unusual policy choices and outcomes (Pugh et al. 2004). In this situation the informal economy, for example, may benefit the process of accumulation and development in line with what Mark Chingono describes as being a 'barefoot economy' and a vibrant capitalism from below (Pugh et al. 2004: 65). Controllers of black markets and other informal and even shadow economies may, given the right incentives and a secure environment provided by a strong state, contribute indirectly and through unfamiliar mechanisms to employment creation or provision of welfare structures and services which would benefit the neediest parts of the population – those left outside the reach of international agencies. An across-the-board marginalisation of such informal groups can lead to a slow-down of the process of primitive accumulation during the course of conflict.

When disbursed in the context of conflict and violence, aid becomes an inevitable part of that context; hence, its effects on conflict do not remain neutral. 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. As Sogge (2002) argues, aid managers are keen on demonstrating an apolitical image of aid, 'a branch of applied rationality inspired by humanitarianism…aid is supposed to be free of [the unfortunate] "impurities" spread by meddlesome non-professionals, such as politicians and NGOs' (Sogge 2002: 113). Despite James Ferguson's claim that the aid system is able to 'suspend politics from even the most sensitive political operation' and thus to operate as an 'anti-politics machine,' the record of donor interventions in global conflict settings prove otherwise (Sogge 2002: 122). In 1989–90, when officials from Washington were assembling a new aid package for Yugoslavia, they may have believed that the conditions they demanded in exchange for aid were merely self-evident economic truths. Whatever their intentions, their prescriptions took no account of the fears Yugoslav citizens had about their livelihoods and well-being. Indeed, aid officials ignored clear warnings about the inflammable state of politics in the Balkans. Claiming 'apolitical intentions,' they insisted on wholesale public sector cutbacks, mass sacking of enterprise workforces, reduced pay for the armed forces, and radical de-centralisation. Predictably, these policies helped trigger a violent backlash by ethnic-nationalist forces bent on breaking up the country. So began Yugoslavia's descent into the abyss of warlord rule, upheaval and mass murder (Sogge 2002: 113).

The aid effectiveness debate blames the ineffectiveness of aid on the lack of political transformation and state reform. This concern with internal reform of the recipient country is in line with concerns with globalisation and international security, developed by major International Finance Institutions (IFIs) which follow the interest of selected Western governments, leading to a decline in the ownership of aid programmes and raising fundamental questions such as 'according to which principle and under whose authority' are decisions made by the IFIs? (Macrae and Harmer 2004: 3). In addition, the increasing focus of the IFIs on preventing future conflicts, rather than eliminating the current ones, is an indicator of their unwillingness and inability to deal with the challenging environment facing countries already engaged in conflict and war. Such challenges, as stated before, are beyond the IFIs' commitment to 'universality of policy and uniformity of treatment' (Macrae and Harmer 2004: 41).

Aid in the Palestinian territories

As the highest per capita recipient of non-military aid worldwide for many consecutive years, one would expect the small economy of the oPt to be, at least, in 'good shape' after more than 20 years of massive aid inflows. However, contrary to expectations, the Palestinian economy has deteriorated sharply since the emergence of donor presence in 1993. It is currently an undiversified economy, still heavily dependent on the Israeli economy and donor finance, a far cry from the post-Oslo stated donor objective of an independent Palestinian economy. The high levels of aid since the signing of the Oslo Accords were not sufficient to prevent the near collapse of the economy following the second Intifada (hereafter Intifada) in 2001 when the territories were suddenly cut off from the world economy and had to function on their own.

Entry of the donor community into the Palestinian political and economic arena coincided with the height of the neoclassical Post-Washington Consensus (and the latter's focus on 'good governance') in the 1990s and its subsequent domination of the aid effectiveness debate. In addition, the Middle East peace process has always been of international strategic and geo-political importance to the countries associated with some of the largest active donors in the oPt, implying that the donor involvements in the Palestinian territories has had strong political routes. From the World Bank's 1993 publication of *Investment in Peace,* which became the blueprint for much of the donor allocation behaviour in the post-Oslo era, to the Paris Economic Protocol (PEP), as well as the choice of donor projects in the post-Intifada period, all indicate how the political agendas of donors and their associated governments, and *not* the economic needs of the recipient Palestinian economy, have determined the donor behaviour in the territories over the past 15 years. This vital aspect of donor involvement in the oPt supports the argument of this paper that not only does aid become a political tool by the fact of being disbursed in the politically-charged settings of a conflict zone, but also, and more importantly, in the political context of conflict countries, donors' political agendas inevitably determine their behaviour, programmes and policies.

Major macroeconomic indicators of the Palestinian economy

The post-Oslo years witnessed the weakest state of the Palestinian economy since the beginning of the occupation in 1967. During the period 1993–8, the cumulative total of financial donations to the Palestinian Authority (PA) was US$3.55 billion in pledges and US$2.45 billion in disbursement, yet GNP dropped by 3.4 per cent, 10.1 per cent and 2.9 per cent for the years 1993, 1995 and 1996 respectively (Samara 2000: 6). After seven year of 'peace,' and five years after the establishment of the PA, per capita income in the West Bank and Gaza was estimated to be 10 per cent below the pre-Oslo levels. Despite considerable external assistance (almost US$4 billion for 1994–2000), living standards were lower than before, while 'on a per capita basis and holding the prices constant, Palestinians [we]re estimated to be earning an average of 40 per cent less in 2002 relative to 1999' (Ajluni 2003: 66–7).

As demonstrated in the table below, the Intifada struck yet another powerful blow to the Palestinian economy, leading to sharp declines in domestic product as well as income levels. Comparing the pre-Intifada growth expectations with the actual figures, in constant 1997 prices, 'the cumulative lost income-earning opportunities in the oPt during the first 27 months of the Intifada are estimated at US$4.8 billion, or more than 70 per cent of what the GNI might have been in 2002 in the no crisis scenario' (Ajluni 2003: 69). A direct result of decline in Palestinian employment in Israel as well as the intense closure of the oPt, this had wide implications for the levels and patterns of consumption in the territories. The Palestinian GDP declined by an estimated 12.9 per cent between 1999 and 2004 (with per capita GDP declining by 25.6 per cent during this period) (PCBS 2005: 41). Per capita incomes also fell sharply, especially as the percentage of paid employees

Economic Sectors	***1999***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008****
Agriculture and fishing	10.4	9.9	7.9	7.1	5.2	5.6	5.6	4.6
Mining, manufacturing, electricity and water	14.5	15.2	17	17.1	17	15	13.8	13.6
Construction	13.7	2.3	5	5.7	6.8	7.2	6.2	4.9
Wholesale and retail trade	11	10.9	9.8	9.8	9.4	9.6	9.2	10.8
Transport	5.9	9.9	4.6	6.1	5.8	6.6	7.5	8.9
Other services	19.5	22.8	22.8	22.8	23	19.6	22.2	25.2
Public administration and defence	11	13.6	16.9	14.3	14.1	15.7	13.9	13.9

Table 1: Share of GDP by selected activities: remaining West Bank and Gaza Strip. Source: MAS: 2007, 2009.

and waged earners continued to fall among Palestinian workers, constituting 57.3 per cent of total workers in 2003 (MAS 2004: 9).

These developments have had a major impact on the structure of the economy, as demonstrated in **Table 1** below, with sectors such as agriculture, manufacturing and construction losing significance, while activities related to transportation experienced a surge. Apart from a general neglect of these sectors by donors and the PA, the decline in agriculture and industry may be attributed to a range of factors including lack of access to inputs and trade markets, and the decline in purchasing power of Palestinians.

The determinants of the economy: elements and legacies of prolonged conflict

The trends witnessed in the Palestinian economy are the outcome of the legacies of Israel's long-term occupation of the Palestinian territories as well as the realities of the conflict and oppression imposed on all aspects of Palestinian economy and society.

Legacies of the conflict

The forced integrationist economic policies towards the Palestinian economy have been one of the dominant features of Israel's occupational policies over much of the last four decades. Israel opened its borders to trade and labour from the oPt following the 1967 war, in an act often described as 'imposed, impure, economic integration' (Arnon 1997). This one-sided integration was combined with existence of heavy Israeli taxes (customs, income tax and Value Added Tax), license requirements for Palestinian producers and traders, as well as high levels of protection for Israeli producers and exporters. The post-Oslo years demonstrated that despite an agreement, the Israeli government and its economic, political and military policies maintained, under the title of 'interdependence,' effective control over the economic affairs of the Palestinian territories. As Abed argues, this notion of interdependence 'provide[d] a convenient euphemism to sweep under the carpet the notorious aspects of dependence' (1988: 260). By raising the transaction costs for Palestinian exporters through various physical and regulatory barriers, and by hampering the possibilities of alternative destinations for Palestinian exports, the Israeli authorities undermined the competitiveness and efficiency of Palestinian production and export processes and 'contained' the Palestinian economy within controlled boundaries, denying it autonomous means of economic development.

Furthermore, by allowing Palestinians to 'exercise sovereignty' in their enclaves, the Israeli government maintained its control over them via asymmetric containment which would imply effective *external* control of Israel over these geographically isolated enclaves or *bantustans*[7] that is the oPt today. Hence, even after withdrawals from some of the Palestinian territories, Israel still retains effective control over the mechanisms, processes and strategic resources that shape the socio-economic life of the territories (for further details see Taghdisi-Rad 2014).

Elements of occupation

The structural relations between the occupier and the occupied, and the gross asymmetries in power that attended it, were not dismantled but reinforced by the Oslo Accords. Post-Oslo has witnessed an expansion of settlements, increased confiscation, fragmentation and cantonisation of Palestinian land, and the institutionalisation of the closure policies, all of which had devastating effects on the Palestinian economy. Ultimately the major flaw in the Paris Economic Protocol, and the Oslo process in general, was the failure to address the question of sovereignty that left an irreversible legacy for the economy of the oPt.

The intense Israeli-imposed systems of closures[8] and movement restrictions[9] coupled with settlement expansion has effectively stymied economic and commercial activities in the Palestinian localities, turning them instead into effective military zones. The long years of external and internal dispossession and fragmentation has deprived Palestinians of their national, collective, individual political, social and cultural rights and freedoms, denying them sovereignty and self-determination, and the ability to develop structures and sectors in line with their national interests. This deep-rooted deprivation extends beyond their *current* rights and freedoms, is inter-generational in nature and goes well beyond mere *economic* dispossession. After all, economic dispossession only becomes possible following political and socio-cultural dispossession, and it is the latter which explains the particularity of the Palestinian economic dependence on Israel.

In this 'dependence-cum-dispossession,' a meaningful or even 'dependent development' is not possible, since Israel's external-turned-internal colonialism blocks capitalist transformation which even mature capitalist industrial countries claim to promote in their relations with the developing countries (Abed 1988). The elements and legacies of the conflict are the fundamental factors shaping the economic, political and social relationships between the occupier and the occupied in the Palestinian territories, resulting in a weak and deteriorating economy with poor development prospects. Therefore, for development aid or any other external intervention to have *any* impact on the economies of the territories, they need to target these economic weaknesses and conflict-related obstacles to development, *as well as* the causes of these weaknesses and obstacles.

Aid allocation patterns in the oPt

Since the signing of the Oslo Accords in 1993, large sums of money have been pledged by both bilateral and multilateral donors, with the aim of assisting the peace process and the 'post-conflict' reconstruction in the Palestinian territories. This objective has, of course, been subject to change due to the volatile nature of the political scene in the region, particularly since the second Intifada. Yet, nearly two decades since their initial involvement, donors are still present in the oPt but their objectives and activities are very different from those of the early 1990s.

The largest donors to the territories since Oslo have been the European Community (EC), the United States, Saudi Arabia, and the European Union countries as a group. In the pre-Intifada period, the two large bilateral donors, namely the United States and the United Kingdom, dominated the donor scene. However, following the Intifada, the EC has dominated the scene, while the US has maintained second place. Compared to only 1.5 per cent in the early 1990s, by 2003–4 the EC allocated more than 2.2 per cent of its total aid worldwide to the oPt. For the US, by 2003–4, the oPt was receiving 1.2 per cent of its total foreign assistance (DAC 2007).

	1998	1999	2000	2001	2002	2003	2005
Regular (development) support	667	692	852	473	261	326	450
Emergency and budgetary support	0	0	121	755	1,266	1,078	850
Total commitment	667	692	973	1,228	1,527	1,404	1,300
Total disbursements	419	482	549	929	1,026	883	N/A

Note: These exclude support to UNRWA's regular budget.

Table 2: Donor Commitments and disbursements, 1998–2005 (US$ million). *Source: Adapted from World Bank (2004: 65), undated using MoP Database, 2007.*

During the pre-Intifada period, annual donor disbursements averaged around US$500 million (or US$150 per capita). At the onset of the second Intifada, this figure doubled to around US$1 billion per annum in 2001 and 2002, and at US$500 per capita, the donor disbursement in the West Bank and Gaza became the highest sustained rate of per capita disbursements to an aid recipient in the world since the Second World War (World Bank 2004: 64). The post-Oslo construction efforts and the hopes associated with the creation of an independent Palestinian economy led many donors to concentrate on *post-conflict* development assistance (see for example, World Bank 2004a, 2004b). However, over the years, regular (development) support has been increasingly replaced by short-term humanitarian aid and budget support, as demonstrated in the **Table 2** above.

The primary concern and target of most donor activities for most of the 1990s was 'development' assistance and construction of much-needed infrastructure in the Palestinian economy. This was based on the belief that economic development was vital for the establishment and consolidation of peace. Furthermore, it was believed that by creating backward and forward linkages, local employment opportunities, and encouraging local as well as international trade and investment, a strong infrastructure could be of enormous importance to the Palestinians economy. However, this sector has received decreasing donor attention in the post-Intifada period: from 22.3 per cent of total pre-Intifada assistance to less than 10 per cent of total post-Intifada assistance (DSP 2004: 127). During the pre-Intifada period, areas such as budget support to the Palestinian National Authority (PNA), gender and youth support constituted a very small proportion of total commitment and disbursement as seen in **Table 3** below.

In the post-Intifada period, however, these priorities were replaced by new ones. **Table 4** provides a detailed account of donors' *post-Intifada* activities in the oPt. This period, which witnessed a shift in donor attitude and focus from development to institution-building and governance reforms, combined with both the limited capacity of donors facing strict Israeli measures and obstacles and also the near collapse of the Palestinian economy and budget, shaped a new set of donor priorities. These priorities were not in line with the needs of the Palestinian economy, but rather more in line with the ideological developments underlying donor thinking and operations in the late-1990s, namely the Post-Washington Consensus. In line with the latter's emphasis on the role of the recipient government institutions in determining the impact of aid, this period witnessed mounting pressure on the PA to undergo wide-ranging reforms, even though these very donors were behind the design of the PA institutions only a few years earlier. Powerless in the face of the Intifada and the questions and challenges it posed to donor activities, Palestinian institutional reform

Sectors	***Total Committed***	***Total Disbursed***	***Disbursement as percentage of Commitment***
Agriculture	28,520,362	14,870,389	52
Budget Support	4,635,000	4,381,211	95
Education	114,779,769	89,310,207	78
Employment generation	2,232,000	10,704,387	480
Energy	86,465,560	79,440,278	92
Gender	11,133,366	5,187,156	47
Health	68,190,086	61,110,180	90
Human Rights /Civil Society /Democracy	118,619,815	73,091,456	62
Humanitarian Aid	68,325,199	45,765,059	67
Infrastructure	290,083,841	188,468,059	65
Institution-building	156,966,418	85,074,006	54
Multiple Sector	80,736,668	29,600,902	37
Private Sector Development	150,693,301	61,166,560	41
Solid Waste	21,681,968	9,560,921	44
Support to UNRWA	16,163,309	33,418,830	207
Tourism & Cultural Resources	27,261,839	24,695,559	91
Water and Sanitation	380,058,221	230,835,336	61
Youth	9,826,083	7,519,825	77
GRAND TOTAL	1,636,372,807	1,054,200,321	64

Table 3: Pre-Intifada sectoral allocation of grants and loans to the WBGS, 1994–2000. *Source: MoP database, 2007.*

suddenly became the new game in town as it provided donors with a means of survival and presence in the territories.

As a result, the share of development assistance dropped from 28 per cent of total international aid to only 26 per cent after 2000 – see **Table 5**. Within the category of development assistance, the share of productive sectors declined from 14 per cent to 9 per cent after 2000. Sectors such as the agricultural sector, despite their critical cushioning role in the face of worsening economic crisis received a meagre 1 per cent of total international support (UNCTAD 2004: 9).

Much of what remained and was categorised as development assistance during the post-Intifada period has been, in fact, emergency assistance in infrastructure and social sectors, especially health. Donor assistance towards budget support increased from 2.6 per cent of total assistance before the Intifada to more than 40 per cent in the following period. The main sources of the boost in budget support are the EC, the World Bank, and the Arab donors.

Institution-building and capacity-building (human rights, civil society, and democracy) also witnessed a doubling of budgets. Such institution-building projects included support for the Palestinian judicial system, reform of the tax system, Palestinian NGO projects, strengthening parliamentary democracy, and civil service reforms.

Sectors	***Total Committed***	***Total Disbursed***	***Disbursement as percentage of Commitment***
Agriculture	31,072,735	30,516,091	98
Budget Support	1,449,641,295	1,458,610,006	101
Education	222,711,009	89,133,165	40
Employment generation	185,748,448	74,290,189	40
Energy	283,241,624	39,308,404	14
Gender	13,867,740	7,985,260	58
Health	186,194,585	94,888,064	51
Human Rights /Civil Society /Democracy	305,582,588	152,355,992	50
Humanitarian Aid	226,754,783	177,682,447	78
Infrastructure	370,574,322	258,206,518	70
Institution-building	356,337,300	231,464,686	65
Multiple Sector	132,291,606	96,088,137	73
Private Sector Development	148,821,630	95,665,881	64
Solid Waste	38,264,001	15,653,642	41
Support to UNRWA	1,093,834,981	1,054,230,036	96
Tourism & Cultural Resources	41,953,927	25,247,827	60
Water and Sanitation	388,495,753	215,306,666	55
Youth	37,615,266	6,922,161	18
GRAND TOTAL	5,513,003,594	4,123,555,172	75

Table 4: Post-intifada sectoral allocation of grants and loans to the WBGS, 2000–2006. *Source: MoP database, 2007.*

Category	***1999–2000***			***2001–2004***		
	Total	***Annual average***	***Share in total (in per cent)***	***Total***	***Annual average***	***Share in total (in per cent)***
Development	930.5	465.2	88.1	1163.2	290.8	28.4
Emergency	99.0	49.5	9.4	1186.0	296.5	29.0
Budget support	24.2	13.6	2.6	1742.1	435.5	42.6
Total support	1056.6	528.3	100.0	4091.2	1022.8	100.0

Table 5: Donor support to the PA by major category (US$ million). *Source: UNCTAD 2006: 37.*

Increasing donor attention to such projects could be justified in 'normal' circumstances; however, given the nature of the Palestinian economy and the conflict-related constraints it faces, such policies and projects are far less capable of achieving sustainable economic and social development in the Palestinian context.

A comparison between the allocation patterns before and after the Intifada reveals the inconsistencies between donors' sectoral allocations and the emerging needs of the Palestinian economy, particularly after the Intifada. As mentioned earlier, after the Intifada, agriculture became a major shock absorber for the Palestinian economy, and its share in domestic employment increased from 12.6 per cent in 1999 to almost 16 per cent in 2004. However, this important sector received marginal attention from the donor community, its share in development assistance reached a low of 0.4 per cent in 2002, only increasing to 2 per cent in 2004. Similar trends, although of less intensity, can be seen in the case of the manufacturing sector. As UNCTAD argues, these inconsistencies were already a feature of donors' sectoral allocation before 2000, but became even more apparent after the switch to emergency and relief assistance following the Intifada (UNCTAD 2006: 38).

In addition, this increased budget support was combined with increasing donor influence on internal Palestinian budgetary decision-making and a wide range of economic and political conditionalities. The latter were justified on the basis of the economic orthodoxy that warned of the dangers of corruption at the receiving end.[10] This was despite the fact that, as Le More highlights, in August 2004 the European Anti-Fraud Office announced that there had been 'no evidence that the EU non-targeted budget assistance was used to finance illegal activities, including the financing of terrorism' – this conclusion was reaffirmed in their 2005 assessment (Le More 2008: 148). Nevertheless, driven by the fear of being blamed for financing illegal activities through their non-targeted budget support, donors established the Public Financial Management Reform Trust Fund in 2004, which was a multi-donor budget support mechanism administered by The World Bank. The Reform Trust Fund would disburse budget support against a series of reform benchmarks to be fulfilled by the PA.

In most cases, where the priorities and interests of donors do not correspond with the Palestinian development agenda and concerns, instead of taking the latter on board, donors have used their financial and political leverage to co-opt and coerce the domestic institutions into adopting donors' priorities and agendas, to the extent that the state becomes accountable to donors and not its own citizens. As stated clearly by Moore *et al.,* 'rather than have the state controlled by common people, [donors] would control the local state's withdrawal from the economy . . . tak[ing] resources away from the state and plac[ing] in the "market," where all citizens will supposedly have equal access to them' (Moore and Schmitz 1995: 17). This has been used to justify donors' notion of '*international* state,' while using neoliberalism as 'a form of governmentality'; an intervention, which at best deprives the recipient country from ownership of policies and donor-induced projects, and at worst, is a form of 'recolonisation' of the developing countries (Moore and Schmitz 1995: 17).

Although effective in providing some (and not even the neediest) Palestinian families with temporary relief and preventing the total collapse of the government budget, the donor shift towards budget and humanitarian support did not incorporate any developmental priorities and was not linked to any long-term strategic development plans for the future of the Palestinian economy. Although justified in its own rights, the increasing focus of donors on institution-building in the oPt was untimely because the *real* obstacles to the economic development of the oPt were not weak institutions but the intensifying occupation-related elements which donors refused to deal with. Therefore, although potentially effective under 'normal' circumstances, in the context of the oPt's conflict-affected economy these institutional reforms in the areas of trade, finance, law and civil society, were far less capable, compared to other productive sectors such as agriculture and industry, of achieving sustainable economic and social development.

In brief, by 'working around' the conflict, the actual donor behaviour on the ground does not take into account the forces of conflict *even after* the outbreak of the Intifada and intensification of the conflict elements. By failing to incorporate such significant considerations in donor programmes and projects, these programmes and projects fail to address the needs and weaknesses of the Palestinian economy and their origins, while creating a state of aid dependency and making the Israeli occupation less costly and more sustainable.

The 'de-development'[11] of the Palestinian economy during the post-Oslo years and donors' failure to recognise this process, have illustrated the 'futility of pursuing economic development in the absence of a viable political agreement' (Roy in Keating *et al.* 2005: 201). Economic growth and development are unlikely to precede political stability. Understanding the special nature of dispossession and dependency that the Palestinian economy has experienced over the prolonged period of occupation is an essential pre-requisite for any successful economic policy-making. This calls for a departure from frameworks that attempt to separate the politics of occupation from the economic realities of the Palestinian territories, confining the former to a brief descriptive footnote.

The refusal of the international donor agencies to exert any pressure on the Israeli government to end the occupation, choosing instead to work around it, has in fact only strengthened the elements of occupation, such as *bantustanisation,* which are responsible for the devastation of the Palestinian economic fabric. Donors have helped render the Israeli occupation less costly and, hence, more sustainable by focussing on provision of basic services inside the oPt and other projects with little or no developmental linkages to other sectors of the Palestinian economy, by exhausting the Palestinian resources due to high levels of conditionality and lack of donor co-ordination, and by creating a state of aid dependency in the oPt.

Even the 'humanitarian' activities of donors, although important in preventing a humanitarian catastrophe in the occupied territories have enabled 'Israel to impose a deluxe occupation in the West Bank – total military domination with no responsibility for running the life of the occupied population, and no price tag attached' (Le More 2008: 128). Donors' rush to set up 'reconstruction' and 'rehabilitation' programmes following each wave of Israeli military destructions in the oPt has not only helped to maintain the Israeli 'deluxe' occupation, but has also reduced the sense of urgency for a political settlement to the conflict, which is vital for any meaningful and effective economic recovery. In addition, aid has provided an avenue through which donors have supported a weakening peace process, and, by so doing established a role for themselves (see Taghdisi-Rad 2011 and 2012). An American official's analogy in this regard is refreshing, 'the Peace process was like a bicycle. Even if you pedalled slowly you had to move. Otherwise you fell over. Aid agenda has given other third-party actors the leeway to continue to "pedal"' (Le More 2008: 11). It is this which explains much of donors' 'crisis management' approach to the conflict: 'focusing on day-to-day problem solving and the latest peace move or plan ("new game in town"),' thereby, 'keeping the "peace process" alive politically, and most importantly their role within it' (Le More 2008: 15).

Concluding remarks

This paper argues that the workings of aid in conflict zones is determined by a combination of donors' political, diplomatic and ideological interests and alliances. At the macro-level, political interests, strategic alliances, and quest for diplomatic survival dictates the general direction of donor assistance. These political agendas manifest themselves in the ideological and economic frameworks and activities adopted or supported by donors at the micro, project level. Such policies and projects in the oPt have not only undermined Palestinian development prospects and territorial integrity but have normalised the occupation and reduced the urgency for a political settlement to the conflict.

The neoclassical framework, as reflected in the aid effectiveness debate, is far too limited to incorporate a comprehensive understanding of the interaction between conflict and the economy. Shaped by these ideological leanings and rigid frameworks donors projects are unable to effectively deal with the fact of conflict and its many complex interactions with the economy. This, however, enables 'hassle-free' donor involvement in conflict zones, providing them with the required international diplomatic credentials while relieving them of any responsibility and accountability for reproducing the economic and developmental outcomes of conflict. This, therefore, explains why after more than 22 years of massive aid flows into the oPt, donor assistance has failed to achieve any viable developmental outcomes, leaving the Palestinian economy in a constant state of crisis and collapse.

The failure of foreign aid in conflict-affected zones such as the oPt can no longer be explained by the failures of the recipient government to effectively implement donor-prescribed reforms. The highly political nature of donor interventions in conflict-affected countries mean that even a reshaping of donor programmes may not be sufficient since competing political and ideological interests will inevitably impede not only the effectiveness of aid but the prospects of ending the conflict itself. This highlights the importance of a viable political settlement to the conflict as a precondition for effectiveness of any aid and development agenda.

Notes

1 See, for example, Anderson 1996.

2 This was mainly based on the Harrod-Domar model which envisioned the role of foreign capital in minimising the savings gap in the economy. In this model the assumed excess supply of labour means that economic development is dependent on the levels of capital, which is the scarce factor of production. According to this framework, 'aid should continue not until a certain income level is reached in underdeveloped countries but only until those countries can mobilize a level of capital formation sufficient for self-sustaining growth' (Rosenstein-Rodan 1961: 107).

3 Including Griffin (1970); Griffin and Enos (1970); Rahman (1968); and Weiskopf (1972).

4 Later studies showed that aid has, in fact, an insignificant impact on saving rates. The two-gap model developed by Chenery and Strout (1966) argued that a country will receive aid either because it suffers from savings or foreign exchange gap, and that the effect of foreign aid will differ depending on which gap is binding in that country.

5 It argued, through econometric cross-country analysis, that aid will be effective only if it is disbursed in a 'good' financial, trade and fiscal policy environment.

6 For example, Easterly, Levine and Roodman (2003), Dalgaard and Hansen (2001), Hansen and Tarp (2001), Dayton-Johnson and Hoddinott (2003), Guillaumont and Chauvet (1999), and Beynon (2001).

7 The term Bantustan was first used in the context of South Africa under the Apartheid regime, where it referred to 'an area designated by the South African government as the native country of a given tribe of blacks' aimed at reducing their presence in the 'white areas' while declaring the Bantustans as 'independent' states (Hunter 1986: 53).

8 Closures, which intensified during the post-Oslo years, were both internal (within the oPt, including between the West Bank and the Gaza Strip) and external (between Israel and the oPt, and international crossings to the Gaza Strip). These became tighter following the introduction of the 'Operation Defensive Shield' by the Israeli Defence Forces (IDF) in 2002.

[9] Essentially an extensive and dense network of fixed and mobile, temporary and permanent checkpoints and border crossings.

[10] The financial pressures as well as pressure from the pro-Israeli lobby felt by the donors, particularly the EU as the second largest contributor to the Palestinian budget support, are also salient factors in this regard.

[11] A term coined by Sara Roy (1995) that refers to the 'deliberate, systematic destruction of an indigenous economy by a dominant power.'

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