



PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Background Paper Round Table (3)



Resumption of US Aid to Palestine under the Biden Administration: Old Wine in Old Bottles?

The Palestine Economic Policy Research Institute (MAS) regularly publishes applied and scientific studies, in addition to summary research papers, as part of an annual series of roundtable meetings on important economic topics of interest to the public and decision-makers. The policy briefs outline the most prominent recommendations of selected scholastic activities, in order to disseminate this information and maximize the benefits derived from these series. This Brief is based on the background paper prepared for the second MAS 2022 roundtable session and subsequent discussion by experts.

<http://www.mas.ps>

MAY 2022



MAS

**PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)**

Tel: +972 (2) 298 7053/4 | Fax: +972 (2) 298 7055
info@mas.ps | www.mas.ps

Resumption of US Aid to Palestine under the Biden Administration: Old Wine in Old Bottles?

Prepared by: Palestine Economic Policy Research Institute (MAS)

Round Table (3) - Background Paper

May 2022

This document was prepared with sponsorship from:



صندوق الاستثمار الفلسطيني
Palestine Investment Fund

نستثمر ونؤثر

The views expressed herein are those of the author(s) and do not necessarily reflect the opinion of the sponsor.

Neither do men put new wine into old bottles: else the bottles break, and the wine runneth out, and the bottles perish: but they put new wine into new bottles, and both are preserved.

Parable of Jesus, Matthew 9:17, King James Version

1. Background: Monitoring US Aid to Palestine

MAS has closely followed developments in the past five years related to the seismic shifts in the shape and policy determinants of United States aid to Palestine, especially compared to patterns established up to and including the Obama Administration. The end of longstanding US direct assistance to the Palestinian National Authority (PNA), under stringent anti-terrorism legislation (even for counterterrorism cooperation), was compounded by the Trump Administration's termination of humanitarian and development aid to the Palestinian people under Israeli occupation, including to the UN agency responsible for the plight of millions of Palestine refugees (MAS 2019). Adding insult to injury, the US floated in 2019 its infamous vision of "peace to prosperity" for the economic future of Palestine and the region. Inspired by a neo-liberal, neo-colonial political and economic view of Palestinians' best interests designed in Tel Aviv, the "Deal" would have entailed naturalisation of the permanent Israeli occupation of Palestine and an end to the Palestinian people's century old struggle for national self-determination (MAS 2020). This unprecedented twist in US policy ultimately floundered on rocks of stiff PLO rejection and its own innate flaws, not to mention the departure of its US and Israeli proponents from the political scene.

In early 2021, a new US Administration promised to not only reverse some of the worst political backsliding of the Trump era regarding the Palestine question, but to also be proactive in its support of the Palestinian people economically and socially. At the time, MAS suggested that the new Administration could demonstrate its political commitment to Palestine through a "New Deal" on economic and development aid to Palestine, even without taking political or diplomatic steps that it may not have the political capital or interest for (MAS 2021). A year later, USAID has re-entered the local donor arena, US funding to UNRWA has been resumed, but US law and DC lobbies ensure that no US assistance in any way goes to or supports the PNA. One new component of US aid that has been deployed under the Middle East Partnership for Peace (also known as the Nita Lowey Act) envisages promoting partnerships between US, Palestinian and Israeli businesses, adding yet another dimension to the post-Trump configuration of US engagement in Palestine.

There is no systematic Palestinian monitoring or independent evaluation of aid effectiveness in Palestine, while recent years have witnessed the gradual abandonment of most local aid coordination fora. This has left aid flows subject more than ever to the interplay between political agendas and aid modalities, something that will only be more complex with the resumption of US aid. The agendas of a significant player like the US will undoubtedly influence other donors' activities, as well as pose challenges to a Palestinian business and NGO community that has its own visions and agendas. Hence, MAS updates in this paper prepared for its 2022 Roundtable Discussion Series, its periodic evaluation of the key trends in US aid to Palestine, and the policy implications that government, private sector and civil society might wish to consider in future engagements with this and other donors.

In particular, it is important for Palestinian policy makers and businesses to appreciate the extent to which aid may be "weaponized" to "shrink the conflict" and induce Palestinians into acquiesc-

ing to deeper or new forms of colonial dependence. A first analysis of the design of resumed US aid indicates some of the same forms of aid that even prior to 2016 were of increasingly dubious effectiveness. Meanwhile, the Trump-era concepts of preventing aid from supporting the PNA and ties resources for Palestinian private sector growth to buying into “peace building” programmes with Israeli capital and business, remind us of previous failed economic peace carrots of the early Oslo period. They further substitute the principles of equal regional multilateral economic cooperation of the Madrid Peace process with a new stick of normalisation of Arab-Israeli political and economic relations as a pathway to pressuring the Palestinians to submit - “shrinking the conflict” “from outside in”.

The big problem with the new US aid is not so much in its scale or the legal ban on supporting PNA programmes, nor in that it is equally timid as the tentative US political re-engagement with Palestine that has fallen well below PNA expectations and Biden campaign promises. Of greater concern from a Palestinian development angle, is that it recycles obsolete concepts aimed at pacifying the Palestinian people through crude economic inducements. At a stage when “disengagement from colonial economic dependency” is a central tenet of government policy, the new programmes retain some of the Trump-era policies. These were designed to bypass the PNA and engage the Palestinian private sector directly, with new aid conditioned on cooperation with Israeli enterprises and expertise as a supposed path to building confidence and peaceful relations. Hence the reappearance of USAID on the donor scene in Palestine appears, from a Palestinian vantage point at least, as little more than “old wine” in “old bottles”.

2. Recap: US Aid to Palestine 2001-2018

Since the 1948 Nakba and the Palestinian refugee crisis, the US has been the largest donor to the Palestinian people and a major political player in the region. The American assistance to Palestine began with the formation of the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA) in 1949. Until the Trump Administration halted all funding to Palestine, US funding to UNRWA was continuously active for approximately 70 years – the funding has now been restored under the Biden Administration. Since the 1980s, USAID has also been funding humanitarian and social assistance programs in Palestine through US non-governmental organizations. Since the late 1990s, USAID started implementing programs in various sectors in the West Bank and Gaza Strip directly. Lastly, since 2007, US aid broadened in scope and size to include various areas of governance, nonlethal security, emergency relief, social services, economic development and infrastructure.

As previously mentioned, US funding to the Palestinian people which had endured over 12 Republican and Democratic administrations was dealt a significant blow by Trump’s decision to cease all US aid to the Palestinian people (including UNRWA, USAID programs, and other bilateral economic assistance). A swathe of social relief, private sector, governance, infrastructure and other projects were abruptly abandoned. Following this decision, Trump announced the “Deal of the Century” – his plan to end the Palestinian-Israeli conflict by creating regional economic ties. This plan was largely viewed as one-sided and overwhelmingly to the benefit of Israel, while it was clear that Palestinian needs and priorities were ignored in the design of this plan.

However, no Palestinians were willing to accept such a unilateral move by the Trump administra-

tion to overturn and redesign a decades long process of peace talks and state building. Indeed, US aid officials today appear to view that period as an unfortunate episode to be best forgotten, and to let bygones be bygones, with no apparent sense of a need to redress the hurt inflicted on Palestinian aspirations. Socioeconomic and local Palestinian political implications of this “Deal” aside, Trump’s policies and the failure of the new Administration to make a clean break with them, shed light on what many Palestinians already knew about US intentions towards the Palestinian peace process, Palestinian-Israeli ties, and the role that the Israeli lobby in Washington DC play in shaping US foreign policy towards Israel and Palestine.

The following sections provide a summary of US aid to Palestine until Trump’s decision to sever all ties, an update of the shape that US aid to Palestine has taken under the Biden Administration, what has been done so far, and current planning for the next few years. US assistance previously focused on three main areas: support to UNRWA through multilateral funding mechanisms/ programs, bilateral humanitarian and development aid through USAID, and foreign and security policy programs bilateral assistance delivered through government agencies (especially the Department of State).

UNRWA

Since 1950 (and until 2018), the US has contributed a total of \$6.25 billion to UNRWA, which peaked in 2014 at \$400 million before plummeting to \$65 million in 2018 and ultimately ceasing in 2019. It should be recalled that this aid contributed to programs that educate over 500,000 Palestinian (refugee) students, provide food assistance to approximately one million refugees in the Gaza Strip, and also supported public health services for the refugee population in Palestine, Jordan, Syria, and Lebanon. (MAS, 2019)

Bilateral (direct) Assistance

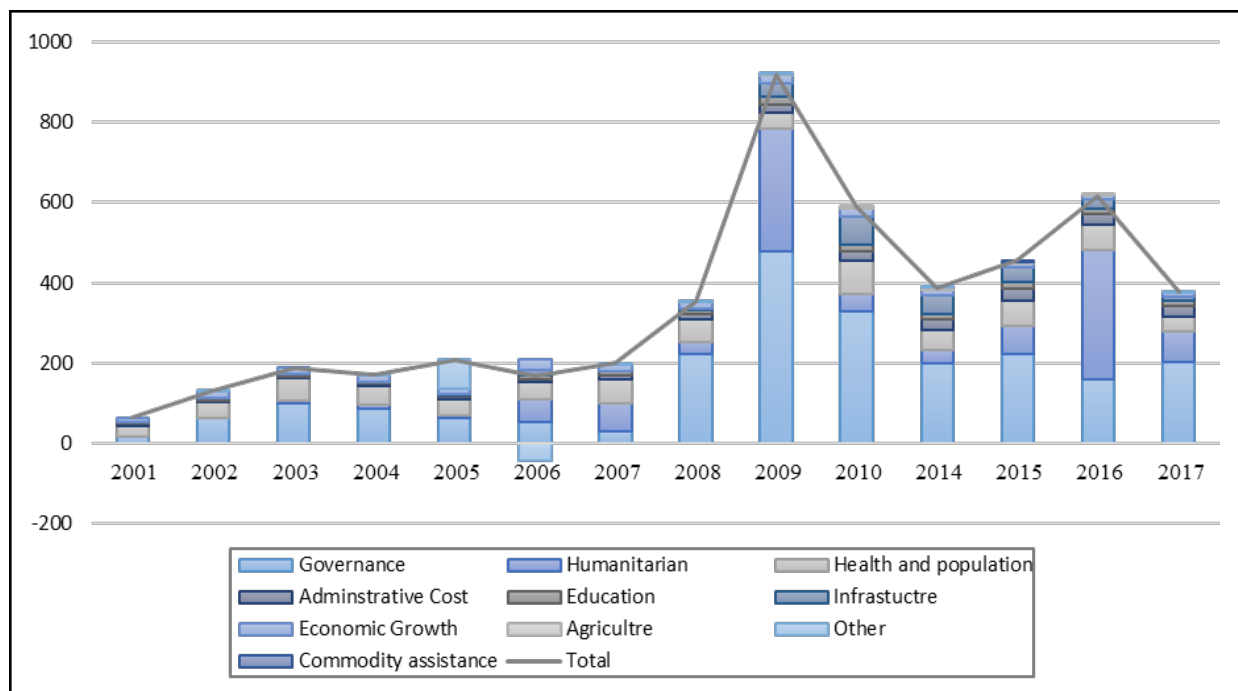
According to USAID data (2019), the US provided a total of \$6.9 billion in aid to Palestinian people in the occupied territory between 2001 and 2018. This type of funding was not consistent however, as fluctuations mimicked the volatile political and security events (the intifada, the internal divide, the reform stage, etc.), the PNA’s limited absorptive capacity, and the different political approaches of US administrations to the Palestine question. Under the Obama administration, assistance to the Palestinian people totaled \$4.9 billion or an impressive 71% of total US aid since 2001, compared to Bush’s 8-years in office during which total aid constituted only 21% (MAS 2019).

Sectoral Allocation of Aid

By FY2017 (the last year prior of programmed aid to the beginning of the cut-off), US aid was structured according to the priorities of the US foreign policy focusing on good governance, humanitarian aid and economic development. The heavy emphasis on institution building is reflected in the fact that approximately 54% of funding in 2017 was for governance programs, whereas 20% was humanitarian (the second largest category). This pattern had been relatively constant throughout the years prior to the funding in 2018. The one category that saw an in-

crease is that of administrative costs which increased from 2% in 2009 to 8% 2017. This is even though US aid to Palestine decreased from approximately \$1 billion in 2009 to approximately \$400 million in 2017 (MAS, 2019)

Figure 1: Direct US Aid to the West Bank and Gaza Strip,
By Major Sector, 2001-2017 (\$ million)



Source: USAID Database (accessed at <https://explorer.usaid.gov/aid-dashboard.html>), 2019

3. Aid Resumes under the Biden Administration

In 2020, under the Biden administration, congress enacted the Nita M. Lowey Middle East Partnership for Peace Act (MEPPA) , a bipartisan initiative designed under the preceding Administration, to “advance peaceful co-existence between Israelis and Palestinians to enable a sustainable two-state solution”. MEPPA includes two funds which amount to \$250 million in aid over five years. While the Act has the merit of aiming to support the Palestinian right to statehood, it is flawed in its core assumption that peaceful economic relations might enable such a solution, rather than being an outcome of a just peace.

The three main programs of MEPPA that will be implemented through USAID and the U.S. International Development Finance Corporation (DFC) aim to promote economic cooperation between Palestinians and Israelis, people-to-people peacebuilding programs, and advance shared community building, peaceful coexistence, dialogue, and reconciliation. The three programs are: People-to-People Partnership for Peace Grants Activity, Building Regional economic Bridges (BREB), and the Joint Investment for Peace Initiative. Needless to say, with the current hand-off political stance of the Administration towards Palestine, the PNA has been ignored in establishing the “new” aid priorities.

3-1 Bilateral Aid and UNRWA Regular Budget Funding

Bilateral aid announced in April 2021 included funds available in FY2020: \$75 million under Economic Support Fund (ESF), plus some \$40 million available for PNA security and justice sector funding (CRS Reports, 2021). Data on actual disbursements since then are not yet available in detail, but according to available sources, in 2021, the US channeled approximately \$130 million in funding to benefit the Palestinian people, bilaterally and multilaterally (USAID, 2022). The largest portion of that first tranche of funding went to UNRWA (\$90 million) for its 2021 program budget. The US State Department through its Bureau of Population, Refugees, and Migration also provided significant multilateral funding to UNRWA amounting to \$181 million in 2021. Under the ESF, the World Food Programme (WFP) received approximately \$30 million for its food assistance-vouchers program, the Catholic Relief Services (CRS) received \$6 million for its health programs, International Medical Corps received \$3 million for its health program in Gaza, and Mercy Corps received \$2.5 million for its programs in Gaza as well, while Jerusalem hospitals were also supported with \$10 million and suspended funding for some infrastructure projects was resumed (USAID, 2022) .

By April 2022, UNRWA had received \$10 million towards its 2022 program budget bringing the total amount of US disbursed aid to the Palestinian people since its resumption in 2021 to date to around \$320 million, including for UNRWA, even though that is actually funding of a UN agency. The US has conditioned its resumed funding to UNRWA within an onerous “framework of cooperation” intended to ensure that the Agency programmes comply with various US policies and laws, under the watchdog slogan of “strengthened accountability, transparency, and consistency with UN principles, including neutrality” (State.gov, 2021). As for FY2022, bilateral aid is budgeted at around \$220 million under ESF funding in addition to around \$100 million available annually for the below programmes premised on Israeli-Palestinian cooperation, private sector led growth and the growing trend (among many donors) of shifting aid flows from grants to loans. (USAID, 2022)

3-2 The Joint Investment for Peace Initiative

In 2021, the DFC announced the launch of the Joint Investment for Peace Initiative, a new program that will aim to increase cooperation between Israelis and Palestinian by promoting investments and financial tools that advance the development of the Palestinian private sector economy. Investments are planned to focus on increasing investment in small and medium-sized enterprises (SMEs) owned by Palestinians in high value-added or emerging industries like technology and agriculture. As one of the main programs under MEPPA, the initiative aims to attract private investment that promotes Palestinian economic development, increase economic cooperation between Palestinians and Israelis and between Palestinians and Americans, and contribute to greater integration of the Palestinian economy into the international rules-based business system.

While this may seem like a new and even laudable initiative that the US is implementing in the region, history shows us otherwise. Firstly, this initiative is similar to the Investment Initiative of 1995-1996 which extended the US-Israeli Free Trade Agreement to the West Bank and Gaza in order to bolster Palestinian economic development and regional trade, but instead resulted in Israeli settlement goods receiving preferential treatment in the US, further undermining Palestinian and Arab resolve to end Israeli occupation. Such measures never provided guarantees

that Palestinian goods will move unhindered at ports and crossings controlled by Israel, nor that Palestinians will have access to their natural resources and land to even produce goods for the marketplace. Instead, the US program allows Israeli settlers to participate or benefit, thus incentivizing the expansion of settlements and settler enterprises. If the US was genuine in its support for integration of Palestine in the “international rules based business system”, the Biden Administration could push for acceptance of the long-pending Palestinian request for observer status at the World Trade Organization (MAS, 2021).

The same can be said about the new Joint Investment for Peace Initiative which has a loophole that allows Israeli settlers operating businesses in and exploiting the natural resources of the West Bank to obtain US financial backing through the DFC. US policymakers and bureaucrats argue that allowing possible benefits for Israeli settlers in the initiative is the only way to get bipartisan support on such a bill, on the dubious proposition that it is better than no assistance for Palestinians at all (Carnegie, 2020). However, time has shown that these programs tend to strengthen any pre-existing power dynamics and imbalances between Palestinians and Israelis, while benefiting only a handful of Palestinian businesses that arguably do not need that support to begin with.

Secondly, this initiative will not be administered by USAID but rather by the DFC, a new government agency originally headed by Adam Bohler, who has no development experience and who has since gone on with his business associate Jared Kushner to establish a financial equity fund with Arab and Israeli partners. This further drives home that in the absence of any political commitment to Palestinian rights and sovereignty, and having endorsed its predecessor’s recognition of Israeli unilateral steps regarding the occupied city of Jerusalem and Golan Heights as well as the Abraham Accords the Biden Administration’s default position is to effectively enable Trump’s “deal of the century”, but through a rebranded image that they hope would be better accepted by the Palestinians and their Arab allies.

3-3 People to People Partnership for Peace Fund

A complimentary program to the Joint Investment for Peace Fund is the People-to-People Partnership for Peace Fund which will be administered by USAID. This Fund supports Israeli-Palestinian partnerships that build on a proven record of solving common economic and social development challenges. USAID will award funding through two initiatives: the People-to-People Partnership for Peace Fund Grant Activity and the Building Regional Economic Bridges (BREB) activity which is discussed in the following section.

The programmatic goal of the Peace Fund is to promote greater understanding, mutual trust, and cooperation through Israeli and Palestinian partnerships that foster a grassroots effort to affect policy change and foster tolerance while strengthening engagement between Palestinians and Israelis. Additional objectives include to support peacebuilding and stabilization through increased economic ties (between Palestinians and Israelis) by empowering entrepreneurs, growing the middle class, and mitigating unemployment. The theory of change on which this is based is that shared community building will promote peaceful co-existence, dialogue, and reconciliation across borders between Israelis and Palestinians and between Arab and Jewish Israelis. Such lofty goals notwithstanding, they signal a clear disconnect with the harsh realities on the ground of ongoing Palestinian resistance in the occupied Palestinian territory and violent Israeli responses, alongside growing demands by Palestinian citizens in Israel for equal rights,

Since September 2nd, 2021, USAID has posted a solicitation for grants for this Fund which is accepting applications and making awards on a rolling basis. According to the application, the award ceiling is \$5 million, however it is not known if anyone has already received such funding yet. What is clear however, is the endurance of the same theme of “economics to peace” resurrected in the Biden’s administration “kinder and gentler” version of US policy that has been generally more hostile than friendly to Palestinian legitimate rights .

3-4 Building Regional Economic Bridges (BREB)

Another component of revived US aid is the BREB which also aims to build the foundations of peace through economic linkages. It is rooted in the Nita Lowey Act, which was designed to manifest in law bipartisan Congressional support for the two-state solution, especially through yet more Palestinian-Israeli-USA cooperation. The activity aims to overcome barriers between Palestinian and Israeli private sector and promote joint economic and applied research opportunities at individual and institutional levels. Mutually beneficial partnerships between Israelis and Palestinians should increase economic growth and joint prosperity by building trust between buyers and sellers in the region through information sharing and joint participation in economic growth and knowledge sharing activities. While the exact amount dedicated to this activity is unclear, it is expected to disburse up to \$50 million annually for five years.

The main objectives of this funding are to:

1. facilitate cooperative exchanges among businesses, trade association, research institutes, and individuals through support for technology transfers, joint ventures, shared research and internships/mentoring.
2. Assist businesses to access the DFC’s Joint Investment for Peace Initiative and engage in cooperative exchanges
3. Foster trade opportunities through increases access to new markets and improved export support services.

According to the Request for Proposal (RFP) for this activity, USAID has set specific expected outcomes for each of its objectives. These figures, based on unknown hypothetical models perhaps, include:

1. Economic relations strengthened at the regional level through a \$350 million increase in exports for firms participating in BREB
2. 75 Partnerships/alliances for technology transfers and knowledge sharing
3. New market linkages between Israelis and Palestinians with at least 75 new Palestinian firms exporting into new markets
4. Develop a \$50 million pipeline for the DFC
5. 1,500 internships for Palestinian students or recent graduates

The submission deadline for the RFP was on May 13th, 2022, and until today it is still unclear how many DC-based consultancy firms may have submitted proposals, or who will be in charge of implementing the program and what it will look like exactly. Nor is it known whether any Palestinian or Israeli consultancy firms or business associations may be affiliated with the programme. However, the theory of change for the program as designed by USAID reflects yet another version of rebranding old ideas by the Biden administration. It presumes that if USAID enhances economic collaboration between Israelis and Palestinians, benefiting them both through economic growth and development, then this will create cross-border linkages and a more conducive environment for peace between Israelis and Palestinians. However, just as previous initiatives by the US have failed to take into consideration the complex context and power dynamics of the Palestinian and Israeli political economy, this initiative along with the Peace Fund and the Joint Investment for Peace Initiative have also distanced themselves from political and economic realities. Planners in DC appear to have opted for the “rose-tinted” view of development aid, the default position when politics and national interests prevail, and any narrative goes.

With or without Palestinian private sector engagement, it is more likely than not that such a program could result in benefit the Israeli counterparts more than the Palestinians as they have access to greater resources, information, investment, human capital, and international markets, thus leaving the Palestinians dependent on their Israeli counterparts to provide them with such access. As opposed to creating a mutually beneficial and equal relationship, this will likely create further dependencies for the Palestinian economy which already suffers from a brain-drain into the Israeli labor market and struggles to compete with Israeli products in the Palestinian local market. While there is no escape for Palestinian businesses and workers having to depend on Israel as a trade channel, market and contractor under imposed conditions of prolonged occupation, aid should surely aim not to intensify, but instead to break or lessen those dependencies and build greater Palestinian self-reliance and resilience.

Furthermore, certain assumptions in the design of this project raise legitimate questions about the extent into which the USAID planners are aware of the Palestinian context. One example are the ties that are expected to be built within this programme between Palestinian academic and research institutions and their Israeli counterparts. It is well known that Palestinian students and academic institutions are some of the most politically active members of Palestinian society and can be expected to passionately refuse any such collaborations.

4. Implications and Policy Responses

The preceding update of an old story does not provide anything to encourage Palestinian policy makers or business leaders that anything has changed substantially in Washington DC when it comes to Palestine, be it politically or otherwise. But considering the bitter experience of the failed peace process, good intentions and kind words are no longer credible and simply too little, too late. Beyond the obvious political implications that might be drawn from this situation, there are several lessons that seem pertinent to reflect upon going forward, especially from a Palestinian development and economic policy making angle.

4-1 From Developmental Effectiveness to Political Expediency of Aid

In 2005, the developed economies of the world covering all major aid donors, adopted the Paris Declaration on Aid Effectiveness intended as a “practical, action-oriented roadmap to improve the quality of aid and its impact on development.” It provides a series of specific implementation measures and establishes a monitoring system to assess progress and ensure that donors and recipients hold each other accountable for their commitments. The Paris Declaration outlines the following five fundamental principles for making aid more effective:

- **Ownership:** Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- **Alignment:** Donor countries align behind these objectives and use local systems.
- **Harmonisation:** Donor countries coordinate, simplify procedures and share information to avoid duplication.
- **Results:** Developing countries and donors shift focus to development results and results get measured.
- **Mutual accountability:** Donors and partners are accountable for development results

Unfortunately, there has been no comprehensive assessment of aid effectiveness in Palestine according to such criteria as proposed by the donors themselves. Nor have Palestinian research or government institutions established effectiveness monitoring and evaluation of US, EU or other donor aid. Hence, there is little accountability for aid effectiveness except by taxpayers and political lobbies in donor capitals.

Indeed, the numerous restrictions placed on US aid by pro-Israel lobbies, and more recently on EU aid, has placed the issue of effectiveness under greater scrutiny than before. The suspension of Arab Gulf countries bilateral aid to Palestine since the Trump era further points to the explicit politicization of aid to Palestine by even the most sympathetic donors. After 25 years of political stalemate, political agendas have hijacked the development purpose of aid, distorted targeting and delivery modalities, and instead focused on political expediency of aid. Just as US aid seeks to oblige Palestinian business to intensify interaction with the dominant economy of the occupier, so has EU aid been delayed by scurrilous pro-Zionist demands to alter Palestinian textbooks in line with the Israeli narrative of the century old struggle.

So, even when assessing new US aid in terms of the five core principles above, it would seem that it has failed on all counts: Palestinian ownership was never contemplated, the US is bypassing local systems and ignoring Palestinian development objectives, little is known about what USAID plans to be doing in Palestine, even a year after resumption of engagement, development results appear to be secondary to political (peacebuilding) results, and clearly US aid is immune to any accountability by recipients.

4-2 The Political Economy of US Aid to Palestine

Much has been written and said over the past decade about the dubious, indeed widely rejected, concept of economic peace as coined by the former Israeli Prime Minister Netanyahu (UNCTAD 2009). Whereas the Oslo Accords were based on the Madrid principle of “land for peace”, today

the best that Israel and its allies have to offer Palestine is “shrinking the conflict”. Regrettably, Biden Aid has fallen in line with that mantra. One of the only possible forms of direct US aid to the PNA that might be possible under new legal restrictions is that allocated to cooperation on global anti-terrorism and related security issues. So, there is little more to add to emphasize how unacceptable the concept remains, even while Palestinian business and workers naturally remain obliged to “keep the peace” and continue to interact with Israel and its systems of control so they can survive. Resilience should not be confused with submission.

On the other hand, the growing pro-Palestinian forces in the Democratic Party and in Congress should exercise their voices not only in defense of Palestinian human and political rights, but also in shaping a more real-world vision of US aid to Palestine that at least strives to uphold the criteria of aid effectiveness. A new political economy of US aid should emphasize enabling and empowering the Palestinian economy to lessen colonial economic dependencies, pursue pro-poor policies and build the domestic productive economy, as an economic pathway to a just and viable peace with equal dividends for both parties.

4-3 Blended Aid - Beyond Aid?

There is a long history, not to be recounted here, about Official Development Assistance (ODA), the required scale to be effective, the moral imperative, purposes and impacts as well as changing modalities, between grants, loans and technical assistance. The debate has changed over the years, in line with growing capacities of developing countries, prevailing economic ideologies about what sort of aid works best, changing emphasis on concerns influencing donor agendas (governance, human rights, gender balance, etc) and North-South relations in general. The Palestinian context has witnessed all these twists and turns and like most developing countries has been on the receiving end of the changing whims and fancies of donors.

One of the most recent trends in the changing development cooperation landscape, including in Palestine and in new US aid programmes, is the gradual replacement of grant-based aid with loan based financing, in addition to increased promotion of direct investment flows from advanced to developing economies, part of the much-hyped “beyond aid” paradigm. Indeed, this shift is noticeable in the huge amount of EU aid (approximately \$1.4 billion) that is currently dedicated to such “blended financing”, combining donor grants, loans, guarantees for private sector financial institutions and engagement of other market participants.

There are at least two problematic aspects of this trend. To begin with, aid to Palestine is not a usual matter of “development cooperation” between rich and poor countries. Aid should be an international, unconditional obligation to the non-sovereign Palestinian people denied their national and human rights despite the injunctions of international law to the contrary. So, the proposition that Palestine must “repay” donor states or banks for financial aid devoted to helping its economy to survive is somewhat audacious. The whole discussion of “aid-dependency” has a different meaning and criteria than in the usual North-South narrative.

However, from a developmental viewpoint, there are issues inherent in the trend toward loan based aid regarding the profits obtained by financial institutions from market aid funding, the degree of financialization of an otherwise fragile and structurally malformed economy, not to mention the general lack of any pro-poor purposes of such aid at a juncture where Palestine’s social de-

velopment is faring no better than its economic development. While these issues deserve greater scrutiny in the Palestinian context, new US funding programmed for Palestine appears to reflect a Wall Street vision of Palestinian economic needs rather than development best practices, lessons learned or any real political will to improve prospects for Palestine.

4-4 What Palestinian Vision for Aid?

In principle, donor programmes and projects usually proclaim adherence to PNA development plans and strategies, most recently the 2021 updated “National Policy Agenda (NPA)” and its 25-odd sectoral development strategies. Most donor projects mandatorily include a reference to this or that PNA planning document, which are broad and generic enough to provide some sort of apparent linkage between donor and national agendas. However, for planning purposes the NPA is not a Palestinian vision for allocating donor aid, so much as a checklist of a range of pre-vetted development needs that donors may (or may not) respond to in their programming. In the end, donors end up doing what they think needs to be done with more or less Palestinian official or other ownership. Increasingly, the main Palestinian input to most donor projects is through staffing agencies offices, expert contributions, and services to international project teams, or being consulted as targeted beneficiaries of one or another donor programme.

For a country that has absorbed well over \$30 billion in donor funds over 25 years, such a state of affairs calls for action by Palestinian stakeholders above all to rectify relations with the donor community and indeed launch a new period of “development cooperation”. This could include re-activating moribund PNA-donor coordination mechanisms, encouraging systematic stakeholder evaluation of aid effectiveness and engaging in an open dialogue between donors and beneficiaries about strategic purposes and modalities of aid. Above all, PNA development policy planning capacities need to be vigorously rebuilt, and reintegrated with donor coordination and medium term forecasting functions so that policy and funding move in tandem and reinforce each other, and hence strengthen Palestinian ownership and benefit from aid.

Furthermore, the PNA position towards the resumed US aid and its various problematic aspects with regard to Palestinian-Israeli partnerships needs to be made explicit and clear, both to guide national actors and to inform donors of PNA priorities and insistence on better alignment with strategic development needs, not only short-term market opportunities.

4-5 A Private Sector Between A Rock and a Hard Place

With special reference to the new US aid flows linking Palestinian, Israeli and US business sectors, the Palestinian private sector (both its representative institutions and potentially concerned enterprises) needs to consider its own priorities and vision. Opinions may differ among different sectors of the business community as to the pros and cons of trying to enhance interaction with Israeli markets, or the likelihood of building Palestinian economic power not dependent on Israeli capital, importers, brokers and Israeli Civil Administration officials. However, without the PNA demonstrating the potential of alternatives to yet more unbalanced integration with the Israeli market, through channeling investment to building autonomous productive capacity, the private sector should not be expected to carry the banner of “disengagement” alone. Nor should Palestin-

ian enterprises be called upon to shun certain business partnerships with Israeli businesses that provide clear and unequivocal benefits to the Palestinian side, rather than “common benefits” as sought by USAID.

Regardless of the political commitment of the private sector to national goals and priorities, and its full awareness (and rejection of) the risks of even appearing to acquiesce to economic peace, it is incumbent on government to provide feasible alternatives to continued dependence on Israel. This calls for a more explicit policy and vigorous PNA effort to invest in, nurture and promote Palestinian industrial, agricultural and services productive capacity, to enable not only less commercial dependency on Israeli intermediaries, but also absorption of part of the labour force dependent on jobs in Israel.

Discussion Questions

- To what degree does US aid, and donor aid to Palestine in general uphold the core principles of aid effectiveness? What can Palestinians do to better monitor, evaluate and influence these flows?
- How can US and other donor aid be de-weaponized, i.e.e not used as either an economic painkiller or a counter-insurgency tool?
- How appropriate, effective and reasonable is it for aid flows to Palestine to increasingly be in the form of loans to enterprises struggling to survive and grow in a structurally adverse market? Who are the winners and losers in this privatization of development aid?
- What could the PNA and the private sector do to better elaborate their priorities, strategies and programmes in a coherent and coordinated manner that better links planning to funding to medium term development?
- Should the private sector engage with US aid programmes conditioned on cooperation with Israeli business without deepening dependencies or creating new one and with what theory of change in mind?



References

- Hassan, Zaha, 2020: “How a Proposed New Fund to Bolster the Palestinian Economy Stands to Benefit Israeli Settlers.” Carnegie Endowment for International Peace, 2 Sept. 2020, <https://carnegieendowment.org/2020/09/02/how-proposed-new-fund-to-bolster-palestinian-economy-stands-to-benefit-israeli-settlers-pub-82640>.
- MAS, 2019: Palestine Economic Policy Research Institute “Termination of US Aid to Palestine: Economic and Social Repercussions and Ways Forward.”, MAS, Ramallah, (https://mas.ps/cached_uploads/download/migrated_files/20191803101233-1-1640017397.pdf.)
- MAS, 2020: Palestine Economic Policy Research Institute, “The American-Israeli Vision to Terminate the Question of Palestine: Economic Dimensions and Potential Consequences of Implementation”, MAS, Ramallah. (https://mas.ps/cached_uploads/download/migrated_files/20202705091727-1-1640017483.pdf)
- MAS, 2021: Palestine Economic Policy Research Institute, “A “New Deal” for United States Aid to Palestine”, MAS, Ramallah, https://mas.ps/cached_uploads/download/migrated_files/20210305095321-1-1640017583.pdf
- UNCTAD, 2009: The economic dimensions of prolonged occupation: Continuity and change in Israeli policy towards the Palestinian economy, United Nations, Geneva, 2009.
- USAID, 2022: “West Bank and Gaza – Complex Emergency - Fact Sheet #1.” USAID.gov, 4 Feb. 2022, https://www.usaid.gov/sites/default/files/documents/2022-02-04_USG_West_Bank_and_Gaza_Complex_Emergency_Fact_Sheet_1.pdf.
- US Congressional Research Service, 2021: “U.S. Resumption of Foreign Aid to the Palestinians.” Crsreports.congress.gov, US Congress, 14 Apr. 2021, <https://crsreports.congress.gov/product/pdf/IN/IN11649>.
- U.S. Department of State, “2021-2022 U.S.-UNRWA Framework for Cooperation - United States Department of State.” 13 Apr. 2022, <https://www.state.gov/2021-2022-u-s-unrwa-framework-for-cooperation/>.