



Palestine Economic Policy Research Institute (MAS)

Background Paper

Roundtable (3)

A “New Deal” for United States Aid to Palestine

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1. Introduction

The United States has been a significant political player in the region and donor to the Palestinian people since 1948. US support to Palestine began with the formation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in 1949. In addition to funding UNRWA, the US Agency for International Development (USAID) began to implement humanitarian and social assistance programs in Palestine in the 1980s via US NGOs. Since the second intifada, the United States also started providing direct support to the Palestinian National Authority (PNA) programmes. Following the 2007 Palestinian internal divide, American aid broadened in scope and size to include areas such as governance, nonlethal security, emergency relief, social services, economic development and infrastructure.

This relatively consistent policy of providing aid to the Palestinian people (however much it varied across different presidential administrations) was dealt a strong blow by Donald Trump's 2018 decision to cease all aid to the Palestinian people. Trump's cessation of aid was unprecedented in the history of US-Palestinian relations and constituted a significant escalation of a hostile policy stance not only towards the PNA, but also towards the Palestinian people's legitimate political aspirations, and even the basic needs of the most vulnerable social groups. Only in recent weeks with the announcement of the re-engagement of the US in assistance to the Palestinian people, has the Biden Administration shown that it might indeed repudiate some of the most adverse and perverse features of the preceding four years of US policy on Palestine. Yet a simple return to the pre-2016 configuration seems woefully inadequate in light of developments in recent years.

This paper examines the prospects for new US aid to Palestine, in the light of the experience of the pre-2018 period, the recent decision to resume funding of some previous and new aid programs to Palestine and potential consequences, the various political restrictions placed on aid beneficiaries, a proposed set of new principles and modalities for US aid, and some useful interventions that focus on urgent COVID-19 socio-economic response and recovery priorities that are in line with USAID's traditional aid orientations.

2. US Aid to Palestine 2001-2018

US aid has always been primarily focused on three areas: UNRWA support through multilateral funding mechanisms/programs, bilateral humanitarian and development aid through USAID, and foreign and security policy programs delivered through government agencies, particularly the Department of State.¹

Multilateral Assistance (UNRWA): As the largest donor to UNRWA, the United States had contributed a total of \$6.25 billion since 1950. The contribution peaked at \$400 million in 2014, before declining to \$360 million in 2016 and 2017, and winding down to only \$65 million in 2018, before it was completely stopped in 2019.² American funding to UNRWA was used for programs that educate 525,000 Palestinian refugee students, provide food assistance to approximately one million refugees in the Gaza Strip, and contribute to public health services for the refugee population in Palestine, Jordan, Syria, and Lebanon. The US decision to end funding for UNRWA, after approximately 70 years of support, came in August 2018 under the pretext that the US was no longer willing to bare the disproportionate share of the burden of UNRWA's operations because "the fundamental business model and fiscal practices that have marked UNRWA for years – tied to UNRWA's endlessly and exponentially expanding community of entitled beneficiaries – is simply unsustainable and has been in crisis mode for many years" (ibid). What is, however, not explicit in the official US statements is the belief that UNRWA's very existence reinforces the issue of refugees and their right to return to their homes, which has been problematic in the administration's "deal of the century" agenda (ibid; Feldman, 2018).

¹ Information in this section is drawn from "Termination of US Aid to Palestine :Economic and Social Repercussions and Ways Forward " MAS Background Paper 2019 Roundtable (2) <http://mas.ps/files/server/20191803101233-1.pdf>

² "U.S. Foreign Aid to the Palestinians " Congressional Research Service, 2018
<https://crsreports.congress.gov/product/pdf/RS/RS22967/59>

Bilateral (direct) assistance: According to USAID data (2019), the United States provided via its different channels a total of \$6.9 billion in aid to Palestinians in the occupied territory between 2001 and 2018 (an average annual rate of \$385 million). Prior to 2001, the aid had never exceeded \$100 million annually. Since then, however, it grew, reaching \$200 million in 2007, due to the humanitarian crisis in the aftermath of the second intifada. By 2009, it reached an all-time high of \$890 million, before declining slightly to \$830 million by 2011, in support of the PNA programmes in building state institutions during that period. Aid fluctuations were not only due to political and security events (the intifada, the internal divide, etc.), but also due to the PNA's limited absorptive capacity, US-Palestinian bilateral agreements, as well the selectivity and disparity between humanitarian, social, economic and security priorities.

Apart from these determinants of US aid, each administration's change in the scope and scale of financial assistance reflected the differences in the approaches of each respective US administration to the Palestine question. In the first three years of Obama's term, US aid reached \$2.3 billion, and throughout his two terms, assistance to the Palestinian people totaled \$4.9 billion, or 71% of the US total aid since 2001, while aid during Bush's 8 years in office constituted 21% of total aid in the same period. In stark contrast, overall financial assistance during Trump's first two years was hardly \$522 million, the majority of which was planned prior to his assumption of power.

A range of US government agencies have administered the process of planning and spending of bilateral aid provided under the Economic Support Fund (ESF) account, especially via USAID, the Department of State, the Department of Defense, the Department of Agriculture, the Department of Treasury, and some other agencies, most critically the Overseas Private Investment Corporation (OPIC) now called the Development Finance Corporation (DFC). Some assistance to the Palestinian people was administered through global or regional security and political programs such as the Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) and International Narcotics Control and Law Enforcement (INCLE). USAID administered the largest share of US aid (more than 90% between 2001 and 2006). However, as of 2007, other agencies began funding PNA governance programs, and carrying out projects in institutional development, rule of law, local government and establishing security. USAID's contribution since then remained steady at 60-80%, peaking in 2009-2013, with a total of \$2.3 billion spent during that period. Since US agencies (primarily the Department of State and Department of Agriculture) started spending significantly on particular programs in Palestine (\$70 million in 2007), allocations for these programs rapidly increased to \$360 million in 2009 and \$332 million in the last year of Obama's presidency.

Through these developments in US aid, over half of the remaining aid became concentrated in the governance sector, reflecting the US's shifting priorities and response to changing Palestinian conditions. Funding for governance in 2009 (the year in which aid reached its peak) and 2017 (the last year of US aid before cutoff) accounted for 52% and 54%, respectively. Out of the 11 programs under the "government and civil society" category (which covers legal, civil, informational and institutional areas of governance), the largest share was for legal and judicial reform (\$116 million and \$83 million in 2009 and 2017, respectively), in addition to municipal capacity building and institutional reform, as well as service improvement (including small scale infrastructure related to basic services like water, education, municipal roads and community facilities).

There was a notable shift away from humanitarian aid after 2010, with in-kind assistance and food amounting to 33% of total aid in 2009, to becoming 20% in 2017. The same applied to infrastructure, falling to less than 9% in 2017. Agriculture also received little American funding, where over 18 years, American aid to agricultural totaled 0.4% of total US aid since 2001. Overall, the change in allocation of aid between 2009 and 2017 shows two constants; a commitment to building PNA institutions, local governance, and a recognition of the humanitarian and social suffering of the Palestinian people. This is in line with the broader American liberal economic ideology that development arises from

institutional reform, good governance, and welfare of the poor; while decisions on economic activity are purely driven by the markets.

3. Biden Administration Resumption of Aid and Conditions of Compliance

It was recently announced that the Biden administration will restore over \$200 million in aid to Palestine. The proposed aid, still to be approved by Congress, includes \$75 million for economic and development assistance, \$10 million for peace building programmes carried out via USAID, and \$150 million in aid for UNRWA. The US will also resume security assistance programmes for the PNA and provide \$15 million in a limited response to the impact of COVID-19 and food insecurity in Palestine.³ For the first time, the traditional US funding streams (Multilateral and bilateral – ESF and NADR/INCL security components) have been supplemented by a Middle East Peace Partnership Fund (ALLMEP). This will entail funding of \$50 million annually for five years benefitting Palestinian-Israeli peace building projects (including for Palestinian Arab citizens of Israel) and Palestinian private sector economy development finance, to be administered largely through DFC.⁴ The latter component allows for prioritizing projects that encourage Palestinian-Israeli-US private sector cooperation.

Despite the positive impact of the announcement of resumption of US commitment to UNRWA and assistance to the Palestinian people, it remains to be seen how this will be affected by political conditionalities, especially the Taylor Force Act passed in 2018. The law was passed under the Trump Administration in a politically charged environment in 2018, and targets PNA payments to the families of martyrs and political prisoners. The law prohibits American financial support to the PNA, unless the Department of State can certify that the PNA “are taking steps to end acts of violence against US and Israeli citizens”, “have revoked any law [...] implementing a system of compensation for imprisoned individuals”, “have terminated payments for acts of terrorism against US and Israeli citizens to any individual who has been [...] imprisoned for such acts, [...] and to family members of such an individual”. The law did not apply to the East Jerusalem Hospital Network, wastewater projects, and child vaccination projects.⁵

Other congressional restrictions prohibit aid to the PNA if Hamas has “undue influence” on its operations, if the PNA seeks membership in UN agencies, or if the PNA engages in action with the ICC, which it is currently trying to pursue. Moreover, the Taylor Force Act is also reinforced by the Anti-Terrorism Clarification Act, that makes foreign recipients of US foreign aid subject to US lawsuits related to international terrorism. The law was amended, where foreign recipients can only be subject to lawsuits if the recipients carry out payments related to a “terrorist” that kills or injures an American citizen.⁶ The PNA is currently under constant threat of spurious litigation in US courts that could endanger its public finance management achievements.

Since the announcement of resumption of aid, claims have been made by pro-Israel lobbyists and members of Congress that this violates the Taylor Force Act. Ned Price, a US government spokesperson, stated that the aid will not break the Taylor Force Act, where the assistance is provided through “independent partners on the ground” who distribute the aid to those in need, rather than through the PNA. The distribution of aid will also consider whether the PNA is a direct recipient, whether the aid involves payments to PNA creditors, to what extent the PNA owns or controls an entity benefiting from the aid, and whether the aid provided directly replaces aid otherwise provided by the PNA.⁷ This new direction of US funding reverses the past trends and implies prospects for further funding for humanitarian aid rather than governance and institution building.

The three activities excluded in the Taylor Force Act could be continued under the new assistance programme, and since humanitarian assistance programs are not included in the Act, the \$15 million

³ <https://www.bbc.com/news/world-middle-east-56665199>

⁴ H.R.3104 - Partnership Fund for Peace Act of 2019

⁵ <https://www.congress.gov/bill/115th-congress/house-bill/1164>

⁶ <https://www.congress.gov/bill/115th-congress/senate-bill/2946/text>

⁷ <https://www.state.gov/briefings/department-press-briefing-april-7-2021/>

for COVID relief could be transferred. Community service projects and small-scale infrastructure projects would likely still be able to benefit, as well as social development programmes aimed at women, marginalized communities, lower-income families, etc., provided they are not administered by the PNA.

USAID also applies its own counter-terrorism compliance conditions for the West Bank and Gaza, where there are three requirements for recipients of aid from the Economic Support Fund (ESF): extensive vetting for non-American recipients, certifications of antiterrorism for recipients, and compulsory provisions aimed at preventing financial aid for terrorism for all prime awards, as well as subawards. For 2015-2019, USAID complied with all these requirements for prime awards, but did not consistently carry out due diligence when it came to subawards, according to the US Government Accountability Office (GAO). A recent GAO report stated that if ESF funding will continue, prime awardees need to carry out more frequent and efficient compliance reviews for sub-awardees to reduce the risk of “providing assistance to entities or individuals associated with terrorism”. GAO recommended that USAID create a process for verifying that prime awardees have mechanisms in place that comply with the anti-terrorism policies, before allowing them to make subawards. USAID should also carry out compliance reviews of awardees and subawards post-award.⁸

One significant, if generally unspoken of, conditionality of US aid to Palestine is that with one exception (hospitals), it has always excluded assistance to Palestinians in East Jerusalem, in a tacit recognition of Israeli sovereign role for socio-economic wellbeing of its population. Even though, until the Trump Administration, US diplomatic policy and representation upheld the separate, unresolved, status of occupied East Jerusalem. Regardless of the eventual configuration of US diplomatic and USAID representation to Palestine that might rectify the imbalance created by the US recognition of Jerusalem as Israel’s capital, it is to be expected that the Biden Administration maybe yet held accountable to the historic US position that the permanent status of Jerusalem is a matter to be resolved between the parties. In the meantime, USAID could usefully review whether there is any political or legal restriction on supporting Palestinian social, economic and cultural programs in East Jerusalem, if nothing else from the ALLMEP.

The resumption of US engagement in Palestine, at least through the initial steps within the Administration’s immediate reach, was to be expected and sends a positive message to the Palestinian people after four years of mutual hostility and recrimination. However, the absence of any short-term political horizon that might help to shape aid priorities and programming, as well as the legacy of onerous, politically motivated conditionalities, indeed their strengthening in the last few years, implies that there will be clear limits on how effectively deployed resumed funding might be. It also calls for further scrutiny of whether a simple re-set is enough in the changed political circumstances of the 2020s and the real socio-economic conditions on the ground. Hence, some introspection by US policy makers seems to be in order, and elaboration of a new purpose of US development aid for Palestine, consistent with the progressive global policies of this Administration, is no less urgent.

4. Lessons from past experience: some issues for soul searching by policy-makers and the aid community

The current juncture is an appropriate moment for a candid evaluation of a number of issues that were evident to Palestinian beneficiaries, the aid community and US aid professional themselves, however difficult political factors have prevented an open discussion of them.

The effectiveness of the 2010-2016 focus on governance and the gradual abandonment of support to productive sectors and social welfare should be carefully analysed. This should especially consider the degree to which US development aid priorities for Palestine that might be resurrected in a simple “re-set” to channel newly available funds (and which reflect at best the Obama era vision), face up to 2021 Palestinian development needs.

⁸ <https://www.gao.gov/assets/gao-21-332.pdf>

US aid to Palestine has not always been conditional on a political process being in place, yet it is not obviously clearly powered by its declared purpose of assistance to the Palestinian people, so much as the changing political climate in Washington DC. It would be helpful to consider how US aid to Palestine could be de-linked from political peace processes as well as the pursuit of overtly partisan policy objectives. If anything, a recent Gallup public opinion poll, which revealed a significant shift towards pro-Palestinian sympathies as well as almost half of those polled agreeing that US policy should exert more pressure on Israel, implies a new domestic political constituency for more than a back-to-business-as-usual policy.⁹

Notwithstanding the objectionable political purpose and stringent interpretation of the different compliance provisions affecting US aid, if the PNA cannot be considered an aid recipient, it is not clear whether it has any distinct stakeholder or agenda setting role. While informal PNA engagement might be preferred by US officials, the PNA cannot be considered or treated as just one (indirect) part of the beneficiary community, akin to the corporate sector, the poor, the health sector, etc. It has legitimacy in the eyes of the Palestinian people that cannot be ignored.

While letting bygones be bygones might be the only course of action for the Palestinian people, surely some lessons should be drawn from the brutal 4-year cutoff of US aid to vital Palestinian social and economic issues, especially refugees, the poor, hospitals in Jerusalem, infrastructure in Area C, etc. This should not be simply accepted as one of the costs of political change in the USA to be put behind us, indeed this bitter episode may also be seen as an offense to be mended, to the legitimate Palestinian expectations from the declared leader of the free world and key arbiter of the fate of the Palestinian cause.

From a Palestinian perspective, with extremely constrained and highly monitored fiscal space, trade and local markets super-dependent on Israel, denied access to natural resources, the monthly salary injection into the market appears to be the only fiscal stimulus tool available to the PNA. If heretofore neglected public investment needs are to be catered to by the PNA, it is worth considering what catalytic role might be envisaged for resumed \$350-\$500 million annually in US aid (average of recent years).

There is a legitimate critique that, in the absence of a political process or settlement, economic aid and cooperation, and “improving the quality of life” as advocated some 35 years ago by George Schultz and reinvented by Netanyahu in 2009, becomes a long-term substitute for just peace.¹⁰ Other scholars have framed international aid to Palestine “Peacebuilding as counterinsurgency”.¹¹ It is difficult to explain the past decade’s status quo without considering such paradoxes. USAID has played its role in that deception, or at best in funding that sometimes facilitated Palestinian accommodation and acquiescence in prolonged Israeli occupation, through most notably the “fabric of life” principle that underpinned its important contribution to improving the Palestinian road network in parts of the occupied territory under direct Israeli jurisdiction in a manner that bypassed Israeli settlements.¹² Not to mention that infamous concept of “transport contiguity”.¹³

It has been widely argued that aid has had the effect of enabling the Palestinian people to acquiesce in, or accommodate to, indefinite Israeli occupation and denial of sovereignty.¹⁴ This appears to be an opportune moment to re-vision aid as a tool to empower the Palestinian people beyond the passive-reactive concept of resilience to achieve their right to national self-determination, strengthened by a productive, self-reliant, viable market economy.

⁹ <https://news.gallup.com/poll/340331/americans-favor-israel-warming-palestinians.aspx>

¹⁰ https://unctad.org/system/files/official-document/gds20092_en.pdf

¹¹ TURNER, M. (2015). Peacebuilding as counterinsurgency in the occupied Palestinian territory. *Review of International Studies*, 41(1), 73-98. doi:10.1017/S0260210514000072

¹² <https://www.rosalux.ps/wp-content/uploads/2015/03/Omar-Jabary-Salamanca.pdf>

¹³ https://www.arij.org/files/arijadmin/2019/mobility_2019.pdf

¹⁴ <https://al-shabaka.org/op-eds/us-security-aid-pa-sustains-israels-occupation/>

The problematic paradigm of “prosperity to peace” that the previous US Administration attempted to resurrect, hence needs to be repudiated explicitly in the strategizing of future US economic interventions in Palestine if the reengagement in aid processes is to be more than simply a traditional tool of soft diplomacy. Therefore, if it may be agreed that economic peace is neither the premise nor the purpose of future aid, even in the absence of a credible political process, then what political message could US economic aid to Palestine carry, what concrete impact on creating the conditions for Palestinian independence can it have?

For one thing, the (non-humanitarian) suspension of US funding of UNRWA needed to resume as it has. but hopefully without new conditionalities before any other funding streams are activated. All reasonable people agree that this is the *sine qua non* for a successful baseline reset of US aid. However, it is important to flag probable Congressional push-back and attempts to resume the anti-UNRWA “hacking” and dubious arguments about its management and finances that the pro-Israel lobby has championed in Washington DC, which are politically motivated to negate the rights of some 5 million Palestine refugees, and reveal ignorance of their real conditions and plight.¹⁵ Indeed, the moment is also timely for US engagement in discussions about the sustainable and innovative financing of UNRWA, a subject to be pursued by MAS in the context of its 2021 research activities.

While the new ALLMEP funding portfolio will proceed as a positive manifestation of the US commitment to the two-state solution and the first funding to explicitly promote its achievement, its economic component should avoid being manipulated by any parties as a political tool to create a façade of economic cooperation between Israeli and Palestinian business that masks structural dependencies. There is a firm Palestinian political and private sector reluctance to cooperate in projects that imply subservience to Israeli political or economic entities or that create new channels of Palestinian “incorporation without integration” into the dominant Israeli economy. However, as trade between the two sides attests, there are billions of dollars annually worth of goods and services traded by the two sides that underline an enduring relation, however skewed and imbalanced, between the two economies. This comes at a policy moment when Palestine is seeking to reduce colonial economic dependency channels through the “disengagement” vision and the cluster-based economic development strategy.¹⁶ Hence, any US development finance for private sector development should aim to support the alleviation of deformations in the external trade sector, industrialization, agricultural technology and other structural weaknesses. This could include, as appropriate, cooperation with Israeli corporate counterparts (shippers, logistics, tourism hi-tech), without official intermediation, that aims to boost Palestinian economic self-reliance and productivity. Guidelines for such engagement should be elaborated by the Palestinian private sector if it is to benefit from such assistance in line with national development goals and strategies.

In short, US and Palestinian policy makers should be considering what political framing could be elaborated that does not prejudice political outcomes, does not prolong a tolerable - but unacceptable - socio-economic and political status quo, and that manifests a serious and unwavering commitment to a two-state solution.

US policy makers have a chance to elaborate a new theory of change if US aid to Palestine is to be more than a simple reset to a basically unattractive pre-2016 configuration. They will need to carefully examine what sort of US aid could be most effective, in what sectors, through which modalities and working with which stakeholders. They also should consider how their renewed engagement could both address legitimate Palestinian development needs and aspirations, as well as reflect the economic policy preferences of the new US administration and its careful, but inevitable re-engagement in either managing or possibly trying to end, a century of Palestinian-Israeli war and strife.

5. Principles for a New Deal for the Palestinian economy

¹⁵ <https://aclj.org/israel/is-the-biden-administration-planning-on-violating-the-taylor-force-act-as-the-pa-continues-its-despicable-anti-israel-anti-america-pay-for-slay-policy>

¹⁶ <http://www.mas.ps/files/server/2020/Clusters%202020.pdf> and <http://www.mas.ps/files/server/20190404095841-1.pdf>

The basic legal, institutional and structural requirements for the creation of a viable national economy for the State of Palestine have always been crystal-clear, if more or less unattainable at different moments when a political process may have ensued in such an outcome, be it at Camp David in 2000, or when the PNA embarked in 2009 on the state-building process, or even when the PNA requested a full UN membership in 2012.

The key principles of national economic security, national economic development goals and a feasible strategy to achieve those goals, an appreciation of the role of the state in development, as well as the priority agenda for sovereign economic institutions and policies have been clear for many years and are regularly updated and further elaborated by the PNA through its various sectoral and national development plans. The end-game must ensure the achievement of such strategic goals, and certainly it is Palestine's responsibility to elaborate its own development principles, goals, regulatory framework, strategies and policies.

However, the actual exercise of sovereign economic functions, even absent statehood, requires acquiescence and cooperation by decisive parties, especially Israel, but also the international community. A bold revisioning of both what constitutes "development" as well what economic tools can enable independence is expected from the new US Administration, consistent with its progressive economic and political ideals and its willingness to upturn decades of the economic orthodoxy that had prevailed in Washington. A new angle of engagement need not prejudice political outcomes and need not be accompanied by a political process if that is not on the horizon.

Here we suggest three such "sovereign" economic policy initiatives that could go far in providing a durable reference framework, as well as eventual resources, for sustained growth and development. Such initiatives could also create a climate of investment and business security rather than prolonged and recurrent volatility and uncertainty. However, their feasibility is dependent on international support to convince Israel that it is in all parties' interests to allow such a "New Deal" for Palestine to proceed:

- Approve Palestine's (the PLO on behalf of the PNA) application to be granted observer member status at the WTO in acknowledgement of its status as a separate customs territory", to enable it to build a national economy and trade regime compatible and integrated with the multilateral trading system. Such a status implies no diplomatic or other political implications of statehood that US policy contests.
- Ensure the full application of the 2013 WTO Trade Facilitation Agreement to the Palestinian external trade sector, which would require fair and equal Israeli treatment of Palestinian shippers and go some way to establishing an institutional and procedural framework for Palestinian control over its international trade.
- Given the satisfactory fiscal performance of the PNA, and its ability to manage a state budget and regulate a sophisticated and healthy banking and finance sector, it surely can be considered a credible and potentially reliable sovereign borrower from international financial institutions. Innovative lending arrangements could be considered through the IMF, such as allocation of friendly Arab states SDRs to fund Palestinian strategic development or post-Covid recovery measures, or even extension to the PMA of a Bank of Israel "credit line" guaranteed by international financial institutions.¹⁷

6. From the short to the medium term: attending to the essentials first

Until a reframing of the economic policy horizon might be possible, in the short term there are both traditional and innovative proposals that will be forthcoming regarding available funding for 2021. However, from the vantage point of MAS, addressing the most evident and immediate socio-economic fallout of the 2020 pandemic seems at this stage more than adequate, indeed much needed, to demonstrate a new direction in DC. If the new Administration is to be coherent and consistent in its international and domestic policy, and between its progressive economic ideology and its liberal

¹⁷ <http://www.mas.ps/files/server/2019/Financing%20of%20Government%20ActivityPMACLEAN.pdf>

political ideals, then surely the Palestine economy deserves a better deal than either the previous Administration was offering, or than the US has historically provided, all the while professing to be an honest broker in the region.

Indeed, the Biden economic policy demonstrates a deep appreciation of the role of public spending and investment in recovering from the pandemic impacts and embodies a re-embracing of Keynesian economic policy in an updated and politically feasible model. The Biden programmes launched this year, reminiscent of the New Deal of the Roosevelt Presidency and the Johnson Great Society programmes of the 1960s imply a sea-change in conventional economic wisdom that policy makers in Palestine should keenly follow but can hardly emulate yet. The PNA's fiscal inability to provide substantial post-covid relief and recovery financing to a range of otherwise viable, but now battered, SMEs, tourism sector, and struggling industrial enterprises the new poor, small scale agricultural producers, has left a major gap in the enabling environment to power a recovery from the recession.

Hence the aid principle of "do no harm" could surely be assured if all available resources for 2021 were packaged in a pandemic socio-economic relief and recovery programme targeting the above mentioned most adversely sectors, while avoiding reengagement in any governance or infrastructure programmes for the moment. This is something that USAID could easily design and has ample experience in managing in Palestine. It could be rapidly delivered, with concrete results and a politically visible and popular set of projects and funding lines that would demonstrate that the US re-engagement is responsive to immediate Palestinian needs. This could allow time over the year for adequate expert and public consideration, as well as within the Administration, of proposals that will be submitted by various parties, especially Palestinian stakeholders, so that a 4 (and possibly, 8)-year programming horizon could be developed in line with whatever diplomatic renewal might be envisaged.

Some specific areas for intervention in these most adversely affected areas from the pandemic have emerged from MAS research over the year, eg: MSMEs including industrial and tourism, youth and women, social protection for marginalized groups, access to key services, governance, and the Gaza Strip. They are summarized here:

6.1 Private economy relief

For MSMEs, there are a number of potential US aid-funded interventions. This includes support programs for the most affected MSMEs, financial support for raw materials for small-scale businesses, technical support in crisis management, grants to bridge MSME liquidity gaps, creating mechanisms to reduce losses for livestock breeders and small-scale farmers, and improving access of small-scale producers to regional and global markets. For supporting youth and women, aid could focus on support for technical colleges to create programmes for women that match labour market requirements, training programs for women in digital marketing, investment in youth-led business in the field of technology, or launching programmes promoting self-employment among youth. Trade logistics infrastructure, such as bonded areas, are also important to enabling sustained private economic growth¹⁸

Special attention should also be paid to the tourism sector, arguably the worst affected part of the economy in the pandemic. The sector can be supported through training hotel owners and workers to create networks with neighboring countries, investing in e-marketing for local tourism products in global markets, promoting investment in tourism activities especially in East Jerusalem, training workers and chefs in the hospitality sector, and encouraging domestic tourism. Traditional handicrafts MSMEs also need support in marketing and integration into the tourism sector infrastructure, including through loan guarantee facilities specifically earmarked for the tourism sector to encourage and underwrite the risks to the banking sector from lending to such enterprises in a unpredictable environment.

¹⁸ <http://www.mas.ps/files/server/20212702132039-1.pdf>

6.2 Social protection for the most vulnerable

In regards to providing social protection for marginalized groups, potential interventions include supporting food insecure families through cash assistance and support for women-led agricultural businesses, investing in psychosocial services targeting women, financial aid to associations and shelters working with people with disabilities that struggled with sustainability during the pandemic, aiding employment programmes for new graduates, and creating an emergency plan that strengthens the resilience of residents of the Jordan Valley and the Covid-battered Gaza Strip.¹⁹

6.3 Community access to services and local economies

For access to key services, proposed interventions could comprise of aiding in coordination between electricity companies and municipalities to ensure electricity reaches remote areas, providing the poor without access to drinking water with means to store and pump water to ensure water reaches their homes, investment in renewable energy projects, support farmers in digging artesian wells to cope with water shortages, developing digital tools to ensure equal access to education, and supporting teachers' capacities in using ICT for education. Other interventions include support for village healthcare centers in expanding the range of services offered, creating electronic tools for healthcare guidance, and in agriculture, grants or interest-free loans for small-scale farmers who faced losses due to price fluctuations and increase in production input costs, and supporting livestock breeders in Bedouin communities.²⁰

As for making governance more inclusive, USAID will be limited by the Taylor Force Act and the Anti-Terrorism Clarification Act, but it could potentially support local authorities and municipalities. This could be through financial and technical support aimed at strengthening local authorities' crisis management, supporting public-private partnerships between municipalities and private sector actors, cooperating with village councils to determine urgent needs or required interventions, etc.²¹

6.4 Averting collapse in Gaza Strip

In order to address the impact of the pandemic in the Gaza Strip, US aid could focus on support for MSMEs through emergency financial assistance and training programmes, cash assistance for women-headed families and people with disabilities, temporary employment programmes for vulnerable groups such as women and micro-enterprises, financial support for psychological counseling programmes, capacity building for shelters for women and the elderly, and financial and technical support to organizations providing care for victims of sexual and gender-based violence. Renewed American funding can also target primary healthcare facilities, capacity building for medical staff, and training in distance learning for teachers.²²

All the above suggested intervention axes are clearly linked to relief and recovery from the pandemic and any international aid devoted to filling some of the gaps between such urgent needs and a fiscally strapped public treasury would be responsive to immediate Palestinian socio-economic needs and help buttress the viability of the Palestinian economy.

Questions for Discussion:

1. What is the Palestinian assessment of the effectiveness, allocation and management of US aid to Palestine until the Trump Administration?
2. What Palestinian "push-back" can be exercised against strict political conditionality of US aid to counter expected pro-Israel lobbying against the resumption of US aid?

¹⁹ <http://www.mas.ps/files/server/20212702132615-1.pdf>

²⁰ <http://www.mas.ps/files/server/2021/2021SERR3En.pdf>

²¹ <http://www.mas.ps/files/server/2021/2021SERR4En.pdf>

²² <http://www.mas.ps/files/server/2021/2021SERR5En.pdf>

3. What Palestinian diplomatic and public information strategy is required to promote an international consensus on the upgrade of the status of the Palestinian economy without linkage to the statehood diplomatic and legal strategy?
4. What does Palestine need, and expect from resumed US aid to Palestine in the coming 4-8 years?
5. How can the ALLMEP be utilized to the benefit of the growth of the Palestinian economy while alleviating structural dependencies on Israel (disengagement)?
6. Could US aid to East Jerusalem help to reinforce a message that the US still considers its final status to be resolved?
7. What are the priority short term (2021), and medium term (2022-2024) programme areas that international and US aid should focus on?