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University of  
Stavanger

## **The Price of Occupation**

How does international aid affect business development in Nablus?

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## Summary

This thesis will study how international aid affects business development. This has been studied through fieldwork in the West Bank city Nablus.

Our theoretical framework focuses on different aspects of the definition of development, the relief and development debate, and how politics influences aid. It also looks at the accessibility of aid through coordination and communication.

Coordination of aid distribution is not always an easy task. There are many actors, with different agendas and mandates (Kruke & Olsen, 2010). In order to get the best possible outcome it is essential that the beneficiaries are a part of the process and able to share their opinions.

To see how international aid affects business development the thesis has looked at how budget support to the PA affects the private business sector. In our opinion the budget support has an indirect effect on business development. It makes the private business sector vulnerable for outside pressure from donors holding back aid for political reasons. The consequence being that the PA cannot pay salaries to their employees. With the PA being a major employer in the oPt, this has consequences for the private sector.

When international aid is given over time and in large amounts, dependency can occur. For the society to recover from aid dependency it is essential for the private sector to grow. Businesses are also affected by the occupation from Israel, with a big problem being the restrictions on movement of goods and labor. Aid is also being used to finance the damages caused by the occupation, which indirectly makes them to pay for the destruction.

The thesis has also studied how local resources are included in the aid distributions process in private sector business development. The donors and INGO headquarters that decide how processes are implemented are far away from the conflict and the local context of the situation. It is our opinion that local resources are not taken in to consideration to the degree they should. This has an effect on the incentives for the recipients of aid, who receives aid and who doesn't. Consequently, aid is given in ways that could harm the private sector business development.

## **Acronyms**

<b>DFLP</b>	<b>Democratic Front for the Liberation of Palestine</b>
<b>FIDA</b>	<b>Palestinian Democratic Union</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>Gol</b>	<b>Government of Israel</b>
<b>HQ</b>	<b>Head Quarters</b>
<b>IDF</b>	<b>Israeli Defense Force</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>INGO</b>	<b>International Non Governmental Organization</b>
<b>LDC</b>	<b>Less Developed Countries</b>
<b>MAS</b>	<b>Palestine Economic Policy Institute</b>
<b>MoP</b>	<b>Ministry of Planning</b>
<b>NGO</b>	<b>Non Governmental Organization</b>
<b>NIS</b>	<b>New Israeli Shekel</b>
<b>OCHA</b>	<b>Office for the Coordination and Humanitarian Affairs</b>
<b>ODA</b>	<b>Official Development Assistance</b>
<b>oPt</b>	<b>Occupied Palestinian Territories</b>
<b>PA</b>	<b>Palestinian Authority</b>
<b>PCBS</b>	<b>Palestinian Central Bureau of Statistics</b>
<b>PFLP</b>	<b>Popular Front for the Liberation of Palestine</b>
<b>PNGO</b>	<b>Palestinian Non Governmental Organization</b>
<b>PLO</b>	<b>Palestinian Liberation Organization</b>

**SG**    **Strategy Group**

**SWGs**   **Sector Working Groups**

**UN**    **United Nations**

**VAT**   **Value Added Tax**

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## **1.0 Introduction**

When international assistance is given in the context of conflict, it becomes part of the context and thus also of the conflict (Anderson, 2008). Aid given in large amounts and over time could create dependency. Depending on donor assistance makes the receiving government vulnerable to outside political pressure, with aid being cut off (see p. 60). If donors cut the aid, the area depending on it could face a humanitarian crisis with a total collapse of the economy. To provide aid to an area in a complex emergency will be both problematic and difficult. Not only will you have many different actors with different mandates and agendas (Kruke & Olsen, 2010). In an area where you have a complex emergency, a collapse like this could have serious ramifications, which in turn could have an impact on the societal safety. The safety and security of the residents in the area could also be affected.

### **1.1 Background**

After the Oslo accords in 1994, the occupied Palestinian Territories (oPt), received a significant amount of foreign aid intended to help the Palestinians develop an independent economy. This aid has left a widespread imprint on the Palestinian economy, and is one of the central factors that have influenced the economy (Hever, 2006). The assumption was that Israel's eventual withdrawal from the oPt would leave the Palestinians unprepared to sustain themselves economically after decades of occupation. The financial aid was meant to make the transition from complete Israeli control to Palestinian autonomy and statehood easier. The aid was intended to develop an independent Palestinian economic sphere, without forcing the Israelis to compensate the Palestinians for damages inflicted during the occupation (Morli & Andrea, 2004, in Hever, 2006).

The 1994 Paris Protocol on Economic Relations was signed by representatives of Israel and the PLO. The protocol was meant to resolve the economic issues raised by the Oslo Accords. The accords themselves offered a tradeoff: until a final status agreement is reached, Israel would control customs and trade while the Palestinians would be allowed to enter Israel and work there. However, after the closures that Israel imposed on the oPt, only the customs-union remained in effect (Arnon et. al. in Hever, 2006). This limitation imposed on

Palestinian workers entering Israel created a serious decline in the Palestinian economy due to the loss of this central income source (Farsakh & Leila, in Hever, 2006).

In September 2000, the second intifada broke out, and the Israeli army escalated measures against the Palestinians. The Palestinian economy was effectively devastated. In two years between September 2000 and late 2002, the GDP per-capita (the annual domestic production per Palestinian) dropped by over 40% (World Bank in Hever, 2006). To help the Palestinians survive, the amount of foreign aid funneled to the oPt was almost doubled in 2001. Humanitarian aid grew, and the Palestinians own means for producing income diminished. The unemployment rate went up for two reasons. The first was the loss of jobs inside Israel. Between the third quarter of 2000 (just before the beginning of the second Intifada) and the end of 2003, the number of Palestinian workers from the West Bank permitted to enter and work in Israel diminished by 53%, and the number of workers from Gaza diminished by 86%. The second reason was the destruction of Palestinian infrastructure. Unemployment increased from 17% in the West Bank and 26% in Gaza prior to the Second Intifada to 27% and 37% at the end of 2003 (World Bank, in Hever, 2006).

## **1.2 Aid dependency**

Palestinian Authority (PA) received net official development aid (ODA) of US\$2.5 billion in 2010, with United States, European Union, UN and Arab countries the top donors. With ODA accounting for some 31 % of GDP, it's an indicator of the oPt's reliance on external funding. Palestinian Authority has been one of the highest recipients of per capita foreign aid in the World<sup>1</sup>. Almost half of all aid in 2009 came from the two top donors – the US and EU – historically it has come from a larger pool of over 40 donors. Given the diverse range of agencies and organizations involved, the management and coordination of aid is therefore a significant challenge for the PA (MAS, 2011). The PA would not be able to provide basic functions to the Palestinian people without foreign aid. Furthermore, the PA is the biggest employer in the oPt; without foreign aid they would not be able to pay salaries to approximately 90 000 Palestinians (World Bank, 2012).

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<sup>1</sup> Source: <http://www.aideffectiveness.org/busanhlf4/en/countries/middle-east/735.html>

Humanitarian aid to oPt increased from US\$863 million in 2008 to US\$1.3 billion in 2009. Economists and businessmen have warned that the PA's dependency on aid and vulnerability to external shocks could lead the entire West Bank economy to collapse, and consequently become a humanitarian crisis. Among the most vulnerable are the owners of small businesses and all those who depend on foreign aid through the PA (IRIN, 2012).

A report to the Ad Hoc Liaison committee from the World Bank says that a robust private sector growth is necessary for the PA to generate the revenues needed to sustain service delivery. The sustainability of growth in the West Bank and Gaza depends upon increasing private investment, and the numbers indicates that private investment is beginning to pick up in certain sectors, but they are still too low to be considered as sustainable (World Bank, 2010). The public sector and service sector is the sectors in growth (almost 40% of total activity). A report from the World Bank 2010 warned about the lack of productivity in private sector growth. As long as the private investments are low, it will not be able to replace aid as the driver of growth (MAS, 2010).

### **1.3 Research Question and limitations**

This leads us to the research question;

*How does international aid affect business development in Nablus?*

In this thesis we have looked at how international aid affects business development in Nablus, because of the city's previous status as economic center. Because of lack of data on area specific subjects we have looked at the conditions in the West Bank as a whole, which have an effect on business development. Gaza is not included in our thesis, because the situation is too different from the West Bank to be representative and comparable in our study; however, some statistics include numbers from Gaza as well. We have mainly focused on small private businesses (employees from 1 -5 persons), and how the medium and large businesses affect them; small businesses, because they are especially vulnerable to variations in the economic situation. We have not studied the public businesses, because we see the private sector as an important part for sustainable growth.

The thesis will first explain the background for the economic situation in the oPt. This is to give the readers an understanding of the situation today. Following the background is a contextual presentation of the city Nablus, which is our main focus area in this thesis.

The main sections of the thesis, the theoretical section, the findings and the discussion will answer two sub-questions that both lead to the answer of our main research question.

Part one of the thesis will focus on how budget support makes the small businesses vulnerable, how politics follows international aid, and how aid can make societies dependent and vulnerable. The second part focuses on the accessibility of aid, how local resources are used in coordination and communication of aid distribution and how this affects the way aid is given. It will also look at how the occupation affects the business environment.

### **1.5 Related Studies**

The Palestinian conflict has been going on for 60 years, and the situation is always changing. Numerous reports have been published over the years, but because of the sometimes very rapid changes, the content of these reports will not be relevant in the context of today. The Palestinian conflict is a well-documented conflict; the majority of recent publications, however, focus mainly on democracy and institution building, in our opinion.

The World Bank recently (March 2012) published the report; *Stagnation or Revival? Palestinian Economic Prospects. An Economic monitoring to the Ad Hoc Liaison Committee*. This report gives a thorough and up to date indication of the situation in numbers, and also a suggestion on how to improve the business climate. The International Monetary Fund also presented a similar report in March 2012, *Recent Experience and Prospects of the Economy of the West Bank and Gaza*. This report presents statistics and also gives insight into the current economic situation.

Studies that go more specific on the issues in Palestine are; *The Illusion of development under Israeli occupation* (Ibrahim, 2011), a study of the Palestinian development situation as it is affected by the occupation. This book also studies and discusses the political aspects of aid, and how the political situation plays a big role in the motivation of donor countries. Hanafi & Tabar (2005), *The Emergence of a Globalized Elite. Donors, International Organizations and Local NGOs* provide insights to the Palestinian context. It looks at how

external actors influence Palestinian NGOs in terms of their development policies, and how they can Palestinian NGOs contribute to the elaboration of global agendas through transnational activism and global conferences<sup>2</sup>.

The report, *Study of the Economic Opportunities in Nablus Governorate and the North (2011)*, prepared by the National Expert Optimum for Consultations and Training on behalf of the German organization GIZ by Hilal and Shallian, discusses challenges for economic growth in Nablus area. The report gives a thorough study of different sectors and possible strategies for further development.

The abovementioned literature helped us to gain insight on the topic for this thesis, as we did not find any research on our issue in particular. Little area-specific literature and reports were found on Nablus, so we had to widen our search for knowledge on the situation in the West Bank. As the West Bank is a very small area, we thought that reports covering the entire area would be useful and relevant in our research covering Nablus.

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<sup>2</sup> Source: <http://www.palestine-studies.org/books.aspx?id=579&href=details>

## 2.0 Context

### 2.2. General Information

#### 2.2.1. Geography

Figure 1: The West Bank & Gaza<sup>3</sup>



The oPt area is split in two areas; West Bank and Gaza. The West Bank is an area of 5,800 sq km – 130km long and 40 – 65km wide. It has borders to Jordan and Israel. The West Bank has an average elevation of 750m, but it also comprises Jericho and the shores of the Dead Sea which, at 390m below sea level, forms the lowest point on earth. Gaza is an area of 365 sq km - some 45km long and 5-12km wide. West Bank and Gaza together is 6,165 square km<sup>4</sup>. The main language is Arabic but English is also widely spoken.

The religion is Islam and a Christian minority of 3%. The currencies used are New Israeli Shekel, Jordanian Dinar (only in the West Bank). Because of the amount of foreign aid the US Dollar is also used.

#### 2.2.2. Political groups

The major political parties are: Fatah, Popular front for the liberation of Palestine (PFLP), Democratic front for the liberation of Palestine

<sup>3</sup> Source: <http://www.sdhpr.org/Countries/Palestine.html>

<sup>4</sup> Source: <http://www.fco.gov.uk/en/travel-and-living-abroad/travel-advice-by-country/country-profile/middle-east-north-africa/palestine-national-authority?profile=all>

(DFLP), Palestinian Democratic Union (FIDA), and Hamas (all except Hamas are members of the PLO). The Palestinian Legislative Council has 88 elected members. The President is Mahmoud Abbas, and the Prime Minister is Dr Salam Fayyad.

### **2.2.3. Population**

Numbers for The Palestinian Central Bureau of Statistics show that there are 11.22 million Palestinians. 4.23 million in the Palestinian Territories, 1.37 million in Israel, 4.99 millions in Arab countries and 636 thousand in other countries. There are 2.6 million in the West Bank and 1.6 million in the Gaza Strip. Of every 100 persons in the Palestinian Territories, about 44 are refugees: 42 per 100 in the West Bank and 58 per 100 in the Gaza Strip. The average household size in the oPt is 5.8 persons in 2011<sup>5</sup>. The population of the Palestinian territory is a young population; the percentage of individuals aged (0-14) constituted 41% of the total population at mid-2011 of which 39% in West Bank and 44% in Gaza Strip. The elderly population aged (65 years and over) constituted 3% of the total population of which 3% in the West Bank and 2% in Gaza Strip of mid-2011. Population density of The Palestinian territory is generally high at 693 persons/km particularly in Gaza Strip is 4,353 persons/km compared to lower population density in West Bank at 456 persons/km at mid-2011<sup>6</sup>.

### **2.2.4. Employment**

The Participation rate in labor force in 2011 increased to 43% compared with 41% in 2010. This increase in the participation rate is attributed to the increase in the size of the labor force that entered into the labor market. In 2011, the number of employees increased by 13% compared with 2010, as the number of employees in the Palestinian Territory reached 837 000 employees in 2011 compared to 744 000 employees in 2010. As a result, the unemployment rate in the Palestinian Territory decreased to 21% in 2011 compared with 24% in 2010 (PSCB, 2011a).

## **2.3 The Economic Situation for oPt**

In 2011, gross domestic revenues were at NIS2.6 billion. The 2011 budget called for domestic revenues to grow by almost 11 %, but they fell by 3 %. Domestic tax collections were

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<sup>5</sup> Source:[http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/palestineEnd2011E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palestineEnd2011E.pdf)

<sup>6</sup>Source:<http://www.pcbs.gov.ps/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=en&ItemID=1841&mid=12235>



projected to grow by 11 % in 2011. The income tax collections were lower by almost 9 % (World Bank, 2012). Value-added tax (VAT) collections increased by 6 %, and property tax receipts fell by almost 12 %. The biggest shortfall in domestic revenues was in non-tax revenues which were 18 % lower than budget projections and 9 % less than 2010 (Ibid). Clearance revenues totaled NIS 5.1 billion, 4 % below their 2011 budget target, but 9 % higher than 2010. When compared to 2010, customs and VAT receipts grew by 11% and 14% respectively. In May and November 2011, the GoI temporarily suspended the transfer of clearance revenues. Since clearance revenues account for over two thirds of total PA revenues and finance around 43 % of spending, the suspension greatly exacerbated the PA's fiscal crisis at the end of the year (Ibid). In 2010, 26 % of the population in the oPt lived in poverty, while 14% suffered from deep poverty<sup>7</sup> (PCBS, 2011a).

### **2.3.1. Budget Support**

In 2011, the PA required about US\$1.5 billion dollars in budget support, of which US\$200 million to cover development expenses not funded directly by donors. However, it only received about US\$814 million in budget support and US\$169 million in development financing, for a total of US\$983 million. The PA financed this gap by borrowing from the Palestinian banking sector and accumulating around US\$260 million in arrears to the private sector. It is unlikely that the banks and the private sector will allow the PA to continue to borrow so heavily (World Bank, 2012).

### **2.3.2. Trade**

Current account deficit in the Palestinian Territory increased during 2011 reaching USD 1,894.4 million which is the highest since 2000. Such deficit is attributed to the steady rise in the value of imports of goods and services to the oPt; while the Palestinian exports remained in its normal level which in return increased the trade balance deficit by 9.2% compared with 2010 (PCBS, 2011a).

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<sup>7</sup> As defined by the Ministry of Health, Annual report 2005-2010, Nablus: Palestine

## 2.4 Nablus Governorate

### 2.4.1 General

The governorate of Nablus is located in the northern half of Palestine and the West Bank. It lies south of Jenin and Tubas Governorates and north of Salfit and Ramallah/Al-Bireh Governorates, and west of Tulkarem and Qalqilya governorates. Nablus city is surrounded by mountains on all sides. The Governorate of Nablus is 605 square-kilometers (10% of Palestinian territories and 10.7 of the West-Bank area).

#### Figure 2: Nablus Governorate<sup>8</sup>

The population of Nablus Governorate was 348,023 in 2010 (PCBS, 2011b). The city of



Nablus and neighboring communities represent 57 % of the total governorate population. The rural areas are home to about 33.5 % of the population. The governorate has three refugee camps representing 9.5 % of the population (Ibid), but refugees in total for Nablus governorate is 83,115. Nablus has 61 localities, in addition to the three refugee camps: Balata, Asker and Ein Elma. According to the ministry of Local Government the governorate is home to 59 localities: 9 municipal councils, 41 village councils, and 9 project committees. There are also 9 joint service councils in the governorate

(Ibid).

Nablus City, is the largest Palestinian city in the West Bank. The Nablus old city has one of the oldest souks (covered markets) in the West Bank. It is one of the most important cities for trade, industry and education in the occupied oPt. The city's population is predominantly Muslim, with Christian and Samaritan minorities. The poverty rate in Nablus governorate (2010) was 11 %. The level of deep poverty was at 6 % in 2010 (PCBS, 2011b).

<sup>8</sup> Source: [http://en.wikipedia.org/wiki/File:Nablus\\_in\\_Palestine.svg](http://en.wikipedia.org/wiki/File:Nablus_in_Palestine.svg)

## Labor Force

The results of the Labor Force Survey for the governorate of Nablus in 2009 for individuals who are classified within the working age (aged 15 years and over) that the rate of labor force participation among them amounted to 42% in 2009. The percentage of workers of the total participants in the labor force reached to 87% of whom 3% employment is limited. Results also indicate that the percentage of unemployed among the participants in the labor force reached 13%, which is less than the average for the West Bank as a whole. As for academic achievement, the ratio of individuals (15 years and more) who have completed undergraduate and graduate university education was 9 % in 2008 (Hilal & Shalian, 2011).

### 2.4.2 Business environment in Nablus

There are 14,600 enterprises in Nablus governorate (Ibid). Most operate in the production sector by producing consumer products, such as foods and beverages, footwear, leather, clothing, metals and furniture. The establishments operating in the private sector in Nablus constitute 93% of the total number of establishments operating in the district, 90% employ

<b>Economic Activity</b>	<b>No. of Employed Persons</b>	<b>No. of Establishments</b>
Agriculture (raising of cattle and other animals)	2,412	973
Mining & quarrying	321	67
Manufacturing	9,393	2,278
Electricity and water supply	24	7
Construction	808	73
Wholesale, retail trade & repairs	13,235	7,239
Transport, storage & communications	2,326	103
Financial intermediation	859	125
Real estate, renting & business activities	1,153	484
Education	3,068	235
Health & social work	1,606	490
Other community, social & personal services	1,980	987
<b>Total</b>	<b>38,524</b>	<b>13,742</b>

Source: PCBS, 2011b

less than 5 people (Ibid). The most important industries in Nablus are; metal industry, manufacture of furniture, food production, clothing, and paper industries, printing and publishing. Nablus employs 32 per cent of its manpower in the district. The industrial and commercial sector is the strongest in the governorate. In addition the agriculture sector has experienced a growth the last years. The number of agricultural establishments rose to 55 in 1997 and to 973 in 2007 (Ibid).

Nablus is known for its position as the economic capital of Palestine. The district tops the Palestinian industrial sectors in terms of production and numbers of establishments. Moreover, Nablus is considered an important commercial center in the northern part of the West Bank. Approximately 7200 economic establishments in Nablus work in the spheres of retail, wholesale business, vehicle reparation, and 2300 establishments work in manufacturing (Hilal & Shallian, 2011).

**2.4.3 Import/Export**

In 2007 the district of Nablus and Salfit was US\$ 108.3 million, 26.5 % of the total amount of import in oPt. The value of exports in the two districts reached US\$65.9m. Nablus and Salfit was US\$13.3 million. 20.2 % of the total value of exports in the West Bank.

<b>Table 2: Value of registered imports and exports by SITC-3 Categories in Nablus &amp; Salfit governorate 2005-2009. SITC = Standard International Trade Classification, Rev.3</b>					
<b>Section</b>	<b>The Value, in 1000 US\$</b>				
	2005	2006	2007	2008	2009
<b>Imports</b>					
Food and live animals	54,853.5	56,367.5	78,086.8	77,622.7	96,709.4
Beverages and tobacco	20,034.3	27,833.3	21,984.5	29,499.7	35,867.6
Raw materials, inedible except fuels	7,094.2	7,686.4	8,116.8	6,871.5	13,758.6
Mineral Fuels, Lubricants and related material	72,316.9	91,920.9	108,256.7	166,117.1	123,089.9
Animal and vegetable oils, fats and waxes	9,441.8	8,884.0	7,347.6	6,808.9	6,310.3
Chemical and related products n.e.s.*	27,352.0	28,031.0	35,437.6	33,003.4	39,644.3
Manufactured goods classified mainly by material	48,669.9	42,560.9	55,685.9	65,939.7	86,571.7

Machinery and transport equipment's	47,259.0	39,350.0	59,187.4	40,836.8	78,604.3
Miscellaneous manufactured articles	21,499.7	22,488.5	34,669.9	27,073.9	35,562.8
Commodities and transactions n.e.s* In the sitc-Rev.3	8,503.9	14,362.1			
<b>Total Imports</b>	<b>317,025.2</b>	<b>339,484.6</b>	<b>408,773.2</b>	<b>453,773.2</b>	<b>516,118.9</b>

Section	The Value, in 1000 US\$				
	2005	2006	2007	2008	2009
<b>Exports</b>					
Food and live animals	6,489.7	5,685.6	10,533.3	18,268.8	15,069.9
Beverages and tobacco	6,641.2	5,036.7	8,764.8	13,306.5	14,934.9
Raw materials, inedible except fuels	157.5	493.6	1,418.6	2,488.0	6,537.5
Mineral Fuels, Lubricants and related material	1.4	34.0	5.7	83.9	8.3
Animal and vegetable oils, fats and waxes	4,233.8	5,569.4	5,556.5	10,115.4	7,399.1
Chemical and related products n.e.s.*	5,450.9	4,839.5	7,730.3	7,293.5	4,599.2
Manufactured goods classified mainly by material	6,614.3	6,855.6	12,067.9	20,589.3	15,134.6
Machinery and transport equipment's	3,090.7	2,970.8	4,475.6	5,143.4	5,899.2
Miscellaneous manufactured articles	3,090.7	2,970.8	4,475.6	5,143.4	5,899.2
Commodities and transactions n.e.s* In the sitc-Rev.3	8.0				
<b>Total Imports</b>	<b>41,795.0</b>	<b>41,583.6</b>	<b>65,892.4</b>	<b>95,776.1</b>	<b>90,744.3</b>

\*n.e.s not elsewhere specified

Source: PCBS,2011b

#### 2.4.4 Nablus and the Occupation

Nablus was hit hard by the Israeli defense force (IDF) in the second intifada. Nablus city was surrounded by seven checkpoints on all sides of the city, the governorate had 106 checkpoints. The city was also under curfew. From 2001 until 2007 the city had been under curfew for 312 days and from 2002 until 2007 there were 255 days were the city was under closure. This was especially strict compared to the rest of the West Bank. Freedom of movement was non-existing. This was hard for the businesses in Nablus and the city was moving towards poverty (Ma'an, 2008). In the last years, some of the restrictions have been

eased, so the business environment is also doing better. Today, 2012, Nablus district has 6 checkpoints, three partial checkpoints, 33 earth mounds blocking exit roads from major thoroughfares, eight roadblocks 5,4 km of trenches and 3,4 km of earth walls preventing free movement (Ibid). Nablus governorate has 11 settlements with 11900 settlers living in the area (PCBS, 2011a).

## 3.0 Theory

### 3.1 Development

The meaning of the term development varies and has been discussed abundantly.

Development can be a number of things, all depending on what type, aspect or field of development we are talking about; that being political -, environmental- , economic- , human- or cultural – development to name a few. Based on an economic term;

“development has traditionally meant the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its gross national income (GNI) at rates of 5% to 7% or more” (Todaro & Smith, p.14). Economic development can also be defined in terms of indicators in GDP, which is a common way to describe the term (Ibrahim, 2011). There is no unified definition of development; one major characteristic, however, is that it measures a progress or process, hopefully moving forward in a positive direction, compared to a previous situation or baseline at a given point in time.

The aspect of freedom is also discussed by the well-known economist and Nobel Prize winner Amartya Sen; “Development requires the removal of major sources of un-freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance and over-activity of repressive states” (Sen, p.3). Sen has been quoted in many articles about development, and the thought of freedom is used as a key component in the process of achieving this. He also talks about market mechanisms as a mean to economic growth, this however, is not as important as freedom; “Economic growth cannot sensibly be treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy” (Sen, p.14). He also believes that the development process must happen from within a society, not from the outside. The aspect of freedom is also repeated in this definition of human development; *“Human development is about putting people at the centre of development. It is about people realizing their potential, increasing their choices and enjoying the freedom to lead lives they value” (OPHI, p.3).*

Development happens on both a physical and a mental level, where society aims for a better life. Based on this Todaro & Smith, 2009, p.22, presents three objectives, that a developing society must have;

1. To *increase the availability and widen the distribution of basic life-sustaining goods* such as food, shelter health and protection.
2. To *raise levels of living*, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
3. To *expand the range of economic and social choices* available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

The objectives of development according to Ibrahim (2011) are;

- The objectives of development aim to achieve and sustain high rates of economic growth.
- The objectives of development aim to expand what people are able to do and be – what might be called their freedom.

Skarstein (1997) debates in his book on development theory, the aspects of dependency, where it's argued that "foreign direct investments in the periphery will increase its dependency upon the centre" (p.44), where the periphery in our case will be oPT, and the centre- foreign donors. Furthermore, however, "the periphery's increasing dependency on the centre will imply a problem of increasing impoverishment or *underdevelopment* at the periphery" (Skarstein, p.44).

### **3.2 Relief vs. Development**

Where relief ends and development starts, is an ongoing debate. It will go on as long as there are no clear guidelines for the one or the other. Concerning to the oPt, Hanafi & Tabar discusses the dilemma where the crisis in Palestine was considered to be over, and



development was to take place. The authors claim that the conflict was not in fact over, how does one proceed in a situation like this?

“Jones identifies four factors that complicate the debate:

- *technical issues* – donors have very rigid administrative distinctions between relief and development budgets, which make it difficult to respond quickly or to coordinate both types of aid;
- *conceptual issues* – often development agents prioritize long-term initiatives and focus on state cooperation, which is not the case with humanitarian relief agencies;
- *coordination issues* – both development and humanitarian aid; and the *political* question – the possibility that the donor is unwilling to support a particular political regime”.

(Jones 2000, p. 9-18, in Hanafi & Tabar, p.47).

In complex emergencies there is a matter of time aspects, short vs long term, where on one side it's important to focus on the ongoing crisis, but at the same time begin with repairs and building the society back up. In such emergencies it is also possible that relief work and development goes hand in hand, happening at the same time, but in different sectors, and at different levels. In some cases NGOs “represent more effective, efficient, and less costly service-providers than governments; at the same time they are perceived as having closer access to marginalized groups” (Hanafi & Tabar, p.38). NGOs work as vehicles for democratization and essential components of civil society; “today NGOs deliver more official development assistance than the entire United Nations system” (Ibid).

### **3.3 Aid and economy**

“Economics have defined foreign aid, ..., as any flow of capital to less developed countries (LDCs) that meets two criteria: (1) Its objective should be noncommercial from the point of view of the donor, and (2) it should be characterized by concessional terms; that is, the interest rate and repayment period for borrowed capital should be softer (less stringent) than commercial terms” (Todaro & Smith, p.729). This does not include the aspects of military aid, which is normally excluded from international economic measurements.

How aid is given, and the donations distributed varies according to the situation in donating countries. In times of economic crisis the money donated reflects the current situation and vice versa in good economic times. Recent findings (Hanafi & Tabar, p. 47-48) show that there are three trends among donor disbursement of aid;

- Overall reduction of aid due to the adjustments of fiscal policies in developed countries
- Proportional increase in short-term relief aid at the expense of long-term development cooperation
- The donors usually switch to multilateral channels when political conflict gives way to peace and reconstruction

### **3.3.1 Aid and politics**

In oPt, aid is political money. In an area that is so heavily affected by political decisions, it is impossible to get away from the political aspect, and this in turn lays the ground for decisions regarding the distribution of aid. "Donor-country governments give aid primarily because it is in their political, strategic, or economic self-interest to do so" (Todaro & Smith, p. 731). There are, however, organizations that genuinely want to help, but to what extent they do this can be debated; "Some development assistance may be motivated by moral and humanitarian desires to assist the less fortunate (e.g., emergency food relief and medical programs), but there is no historical evidence to suggest that over longer periods of time, donor nations assist others without expecting some corresponding benefits (political, economic, military, counterterrorism, antinarcotics, etc.) in return" (Ibid).

The numbers show that the allocation of foreign aid is only secondarily determined by the relative needs of developing countries. Most bilateral aid seems unrelated to development priorities, being based largely on political and military considerations and the whims and ad hoc judgments of donor decision makers. Multilateral aid (e.g. from the World Bank and various UN agencies) is somewhat more economically rational, although here too, the rich seem to attract more resources than the poor (Alesina & Dollar, 2000).

There are many examples of donor countries blocking aid to regimes they don't agree political with. This can lead to a poor monitoring of a potential crisis situations, something that would not be acceptable in most contexts. Examples of this are North Korea, Liberia and

Afghanistan. There are also examples of the opposite; aid can serve as a substitute for diplomatic efforts (Keen, 2008).

Alesina and Dollar (2000) argues in the paper “Who gives foreign aid to whom and why?” that foreign aid has only been partially successful at promoting growth and reducing poverty. They have two explanations for this. One is the poor performance of the bureaucracies of the receiving countries and the other is the pattern of the flow of foreign aid. They document in their paper that there are different motives for giving foreign aid. The allocation of bilateral aid across recipient countries provides evidence as to why it is not more effective at promoting growth and poverty reduction. Factors such as colonial past and voting patterns in the United Nations explain more of the distribution of aid than the political institutions or economic policy of recipients. The authors findings show that non-democratic former colony get about twice as much aid as a democratic non-colony. A similar result holds for former colonies that are closed to trade versus open non-colonies.

The three donors, France, Japan and USA have different patterns of how they distributed aid. USA has targeted about one third of its total assistance to Egypt and Israel; France has given overwhelmingly to its former colonies; and Japans aid is highly correlated with UN voting patterns (countries that vote tandem with Japan receive more assistance). A country that is relative democratic receives 39% more aid; a country that has a relatively long colonial past receives 87% more aid, a country that voted relatively often with Japan in the UN receives 172% more aid. Egypt and Israel receives much more aid than other countries with similar characteristics. Egypt receives 481% more aid. Israel is a relatively rich country with no colonial past. The authors write that according to the regression Israel shouldn't receive aid; instead they receive 400\$ per capita. These results suggest that, in explaining aid flows; political and strategic considerations are at least as important, and arguably more important, than recipient's policy or political institutions (Alesina & Dollar, 2000).

These countries aid allocation may be very effective at promoting strategic interests, but the result is that bilateral aid has only a weak association with poverty, democracy, and good policy (Ibid).

### **3.4 Local structures/ dynamics**

How aid is distributed and in which manner the aid workers behave will decide the impact, both the positive and negative (Anderson, 2008). You get a flow of capital that has consequences. It can affect the economy, the conflict, and the local power balance. In a complex emergency there will be many different actors with different agendas and mandates. Anderson (2008) stresses the need for providers of aid to be aware of the consequences of their actions when working in war areas. This thesis will use the term conflict and not war.

Examples of actions or non-actions that can leave negative effects on communities;

- Conflict through implicit ethical messages
  - Arms and power
    - When aid agencies hire armed guards and drive with protected cars the implicit message can be that they are afraid of the people they are supposed to help. They divide themselves from the beneficiaries.
  - Disrespect, mistrust, and competition among aid agencies.
  - Different Values for different Lives
    - There are often different salary policies for international workers and for local workers. This can leave the message that the international workers are more worth then the locals. (Anderson, 2008).

#### **3.4.1 How aid affects local structures**

Aid often creates its own “industries” in recipient countries in which profits can be made and wages can be paid (Ibid). Demands for others assets also rise when aid agencies arrive. The cost of hotel rooms, office space, housing, food furniture, and equipment are bid up by the influx of expatriates. People who own or control these facilities and goods can become wealthy in the midst of the otherwise deteriorating economic conditions associated with conflict. Aid creates jobs, pays wages (Ibid), and can create sectors that would not be present if not for the conflict situation. Aid agencies hire local people who speak the languages; they also hire drivers, housekeepers, guards, gardeners, and warehouses. If the demand for limited skills is sufficient, wages can be significantly inflated by the presence of international employers (Ibid).

## **3.5 Accessibility of aid**

### **3.5.1 Coordination and communication in aid distribution**

This sub chapter will use theory of organizational accidents to explain why coordination between the different actors can be a challenge in complex emergencies.

#### **Coordination in a complex emergency**

The success of humanitarian operations depends on the ability of organizations to work together (Kruke & Olsen, 2010). In complex emergencies there are a large number of different actors with different mandates and agendas. This can make coordination difficult (Ibid). UN Office for the Coordination of Humanitarian Affairs defines a complex emergency as "...a humanitarian crisis in a country, region or society where there is total or considerable breakdown of authority resulting from internal or external conflict and which requires an international response that goes beyond the mandate or capacity of any single agency and/or the on-going United Nations country Program" (IASC,1994, in Kruke & Olsen, 2010, p. 3). This definition takes in to account that you need a coordinated response between host government, humanitarian organizations and society (Kruke & Olsen, 2010).

Accidents represent a significant disturbance or collapse of existing beliefs, norms about threats and how to handle them. This will not happen if the gap between how you thought the organization worked and how it actually worked did not exist (Dekker & Suparamaniam, 2005). HQ and donors are often far away from the conflict and don't know the facts on the ground, the blunt end being HQ/donors. Issues can often be black and white for HQ/donors, they are engaged with issues such as economy and politics, while field workers, as the sharp end, are engaged with issues of what is needed on the ground (Ibid). In our thesis local NGO's and beneficiaries will also represent the sharp end. This makes it hard for field workers to communicate the complexity of the situation.

When decisions are being made by HQ/donors, it is often guided by strict procedure, protocol, over specified plans, politics, economy, hierarchy and organizational structures. However, when field workers on the ground make their decisions, they work is based on managing surprise, resource shortage, what is needed in the moment, and capitalizing on local political opportunity (Kruke & Olsen, 2010). These two different ways of working makes coordination and communication difficult. HQ/donors and field workers speak different languages, and a gap between knowledge and authority is created. It is a paradox that those

who have knowledge of what to do, do not have the authority to take decisions, and those who have no knowledge of what is needed on the ground are authorized to decide (Kruke & Olsen, 2010; Dekker & Suparamaniam, 2005). This makes it difficult for team leaders to deal with rules and protocol. Knowledge and authority are rarely located in the same actor. It's difficult to have the knowledge, understand the facts on the ground and still be political and bureaucratically accountable. Crisis management is not just about providing local assistance but also geopolitics. Giving, not give, accept or refuse help, is politics. Field workers are not trained to look locally, too internationally, or see all the stakeholders in the hierarchy (Dekker & Suparamaniam, 2005).

The larger the gap between the world as imagined and the world as it is, the more vulnerable the organization is, because the gap opens up for unintended and complex interactions between contributory preconditions (Dekker & Suparamaniam, 2005). This can result in what Reason (1997) refers to as organizational accidents.

### **3.5.2 The challenges of impact assessments and evaluations in aid distribution**

“Like all humanitarian evaluations, impact assessments predominantly relate to two institutional priorities: accountability and learning” (ALNAP, 2009, p.13). As with many other aspects of humanitarian and development work the terms and definitions are not fully recognized and agreed upon, that goes for impact assessment as well. “Generally, the aim is to judge the likely environmental, social and economic consequences of development projects” (Hofmann, Roberts, Shoham & Harvey, 2004, p.8). The concern is to identify potential negative impacts, and establish a valid counterfactual – what would happen if the intervention had not taken place (White, 2005; Hofman et al., 2004). (Assessments and evaluations can also be used as documentation.)

Kaiser argues that “... humanitarian actors are beginning to recognize that assessing the actual impact of their work is more valid than simply measuring output in material terms” (Kaiser, 2004, p.8). This means that evaluators need to look at participants, and conduct beneficiary based evaluations. They need to be interested in looking into, and understand the nature of the situation as the social actors experience it. It is important to not only see the cause and effect, but also understand *why* it happens.

NGOs see the value of participation, and the necessity to involve participants and beneficiaries in assessments and evaluations. The perspectives from beneficiaries is something to value, the "...wisdom and judgement of ordinary people is therefore a critical element of any impact assessment process" (Roche, p. 29). The challenge, because of this is to incorporate these opinions into monitoring and evaluation systems. It is also important not to focus entirely on either positive or negative changes, both aspects need to be balanced. The degree to which this is done does not match the perceived impression of the importance of actually doing it, thus creating a gap between theory and practice (Kaiser, 2004; Jones 2000; Roche, 1999; Hanafi & Tabar, 2005). A different gap is the one between the uses of evaluations at all; "Impact is a key evaluation criteria, and most evaluations of humanitarian programmes consider it. In practice, however, assessment of impact within evaluations has often been poor" (ALNAP; 2003b, in Hofmann et. Al., 2004, p. 8). Eventually results need to be presented, and it is not easy to give clear cut numbers and results based on this type of assessments.

**The difficulties with evaluation:**

What use is evaluating if there is nothing learned from it? As Hanafi and Tabar (p. 183-184) remarks in their study; "... upon close inspection we found that community participation is often used as a slogan: it is discussed as a method, but when probed as to how it's applied, there is little substance behind the celebratory proclamation..." It is also quite clear that donors appreciate results, and because of this NGOs often evaluate outputs of projects in a manner that pleases the donor. There is a chance that true findings are kept unnoticed and undisclosed because they are found uninteresting for the donor, by those evaluating. Too much is expected by too many different stakeholders (ALNAP, 2009).

The way evaluations are conducted could predetermine the information gathered. The point of evaluations and assessments is to learn, for the donors perhaps more to see results, but also the aspect of accountability. Currently accountability is faced upwards; to donors, trustees and other stakeholders, when in fact it should be downward, to those receiving assistance (Kaiser, 2004). There is a connection between the information sought in an evaluation and the means and methods used to gather it (Ibid).

Another difficulty with evaluations is what can be read into them. Like statistics, evaluations can also be conducted in such a manner that it displays the results you like to portrait, which in term could result in a false image of reality. “Evaluation is a political process which means different things to different actors” (Ibid). Field staff and evaluators should be obliged to take responsibility for their work no matter what, and accountability and transparency should go hand in hand (Ibid).

Impact assessment methods and results differ between organizations. It is therefore hard to measure impact, because there is no final answer as to what indicators or aspects of the impact are the correct ones. There is also the question of what method to use. Donors tend to favor quantitative methods, because they give clear indications of the results, whereas more qualitative methods are seen as more uncertain. The main priorities that seem to be consistent throughout the organizations, however, are learning and accountability (Kaiser, 2004; Roche, 1999; ALNAP, 2009).

### **3.6 Summary**

The development theory show how economic growth cannot be treated as an end in itself, but we also need to focus on “enhancing the lives we lead and the freedoms we enjoy” (Sen, p.14), this meaning that statistics are not necessarily enough to thoroughly describe the aspects of the development progress.

In complex emergencies there are a number of different actors with different mandates and agendas. Donors have their own agenda and reasons for providing aid, and do it primarily because it is in their political, strategic, or economic self-interest (Todaro & Smith, 2009). The political aspects of aid are of great importance in this thesis, because of the political situation in the Palestinian area, also highlighting the features of aid dependency.

How aid is given impacts the local society, in complex emergencies HQ and donors are distanced from the conflict and don’t necessarily know the facts on the ground.

Communication and coordination are important in the functioning of aid processes, which again could determine the degree of local resource participation. How coordination and communication structures affect the distribution of aid is something that we wish to highlight in our thesis, because of its relevance in developing the business environment.



Based on these theoretical aspects, our research question is;

*How does international aid affect business development in Nablus?*

With the following sub questions:

1. *How does PA's budgeted support in Nablus affect the private business sector?*
2. *How are local resources used in aid distribution in private sector development?*

## 4.0 Methodology

This chapter presents the course of action and the selected tools used to describe and achieve new knowledge on the topic of how international aid affects business development. The chapter will account for and explain the research design. It will present the reasons for choosing a case study approach and for using qualitative methods. It will also elaborate on the reasons for the different qualitative methods used, strengths and weaknesses, and challenges involved with validity and reliability.

### 4.1 Research Design

There are several different meanings to the concept of 'research design'. According to Yin, "the design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions" (Yin, 2009, p.26). The research design functions like a logical plan for getting from here to there, from a set of questions to be answered to a set of conclusions to these questions (Yin, 2009). A research design is normally based on answering three basic questions: *What* will be studied, *why* will it be studied, and *how* will it be studied? (Blaikie, 2009).

Regarding the primary focus of our research, *what* to study, we wanted to study the effects that international aid has on business development in conflict areas. *Why* this theme was chosen was due to personal interest in the subject, and review of several reports on international aid. How aid makes countries dependent on foreign aid, and vulnerable to outside pressure, which in turn makes predictability for small businesses difficult, was an interesting angle to the conflict in Palestine. This also made us curious to investigate further. *How*, was through a period of fieldwork in oPt, in addition to literature studies. In our opinion the research we have conducted is closest to an exploratory research strategy. "Ideally, designing social research is the process of making all decisions related to the research project before they are carried out" (Blaikie, p.15), however, all eventualities and aspects cannot be anticipated and controlled at *all* times (Blaikie, 2009). This is something we experienced when conducting our fieldwork. The interview situations could divert from what is anticipated; different people make different interview subjects and therefore cannot be controlled.

The table shows the main steps taken during the working process, based on the decisions made regarding research design.

**Table 3: Research progress**

<b>Period</b>	<b>What</b>	<b>Why</b>	<b>Outcome</b>
<i>Period 1</i> Autumn/Winter 2011	Literature studies. Contact with some organizations.	Gain knowledge on the chosen topic and examine the relevance of the topic.	Enhanced knowledge and an overview of the current economic situation in oPt.  Positive feedback and relevance of chosen topic.
<i>Period 2</i> Jan 2012	Develop a research proposal, with research question and clear objectives.  Approach The Nablus committee in Stavanger to get relevant contacts in Nablus.  Develop a theoretical overview and interview guide.  Preparation for fieldwork through literature studies.	Present a description of the project to potential relevant actors in the field.  To gain access to the field.  To establish a clear direction for the field study.  To gain a better overview of the field.	A structured research proposal.  Gained access to key informants in Nablus.  A theoretical perspective and interview guide.  Enhanced knowledge about the region.
<i>Period 3</i> 1. Feb – 6. March	Data collection through field work.	Produce findings tied to the research question.	18 interviews Observations Questionnaire
<i>Period 4</i> 7. March – 15. July	Data decomposing and analysis.	To reduce complexity of the data to gain a better overview, and analyze the data in order to draw conclusions to the research question.	Produce knowledge on the phenomena investigated in this research.

### ***Period 1***

Literature studies were our main activity this period, to gain an insight as to how the situation in Palestine was. We wanted to get an overview of different actors in the area, what NGOs that were active, and who the major donors were. Further we contacted different organizations that we thought could have some input on business development, to gain insight to the relevance of our subject. As the response was positive we began developing our research proposal.

### ***Period 2***

The second period consisted mainly of further information gathering together with developing our research proposal. With objectives more clarified we formulated the research question, and approached the Nablus committee in Stavanger to get contacts, as we had narrowed down our research to focus on this West Bank city. We developed a theoretical overview, and based on the aim we wanted to pursue created an interview guide that was compatible for relevant informants. As a preparation for our fieldwork we sought to gain a better understanding of the field we were entering and explored relevant literature to retrieve this knowledge.

### ***Period 3***

This period consisted of our fieldwork on the West Bank. During this time we collected large amounts of data through interviews, constant observations of daily activities, and our questionnaire and by visiting the Palestinian Central Bureau of Statistics. When data was not gathered, time was spent transcribing interviews and getting to know the area that we were now a part of.

### ***Period 4***

In this period our main focus was to decompose and analyze data in a relevant order. As we had collected a large amount of data the categorizing of our findings and decisions regarding the importance and relevance of different data was a complex and time consuming task.

The analysis process was twofold, where we first categorized our data from the transcribed interviews and sorted the information into themes and where we felt they belonged. We also needed to summarize and quantify the information that was retrieved through the questionnaire. "The first and foremost strategy is to follow the theoretical propositions that lead to your case study" (Yin, p.130). With this in mind, we used the data together with our

chosen theoretic material to answer our research question, the two sub-questions, and come up with a conclusion as to what our findings truly were.

## **4.2 Fieldwork**

Our fieldwork period was 5 weeks. We had discussed with other students that had also conducted fieldwork, and they recommended leaving as soon as possible, because the analysis and further work on the data would take time. The planning of our fieldwork started in December with us contacting different organizations. More detailed planning took place in January; practical issues like a place to stay were easily taken care of.

We arranged meetings with a few people before we arrived in Palestine, but from the time of arrival we took use of the snowball method, and spoke to people we were recommended to speak to during our conducted interviews. We also sought people that seemed of interest to us, and got a hold of them while we were there. It was easier to get in touch with people when we were in the same country, as opposed to writing emails from home. We feel that we spoke to the right people in the beginning, as we were able to retrieve a large amount of information in a short period of time. After returning to Norway, we have kept in touch with some of our informants from small businesses, as it was our impression that circumstances changed fast, and the situation for the shops could change rapidly.

Being two people doing fieldwork together was good and in our opinion something of great value. It was an opportunity for us to have discussions with someone in the same situation during our stay and solve problems together, also as a means of debriefing and venting all the impressions that we got. The teamwork was also impeccable, and we felt we worked well together.

## **4.3 Methods for gathering qualitative data**

In this study, the methods for gathering qualitative data were based on literature studies, observations, semi-structured interviews, and a questionnaire. To get greater validity and also a better understanding of the subject we decided to approach the topic from different angles.

### **4.3.1 Case study**

With the decision of conducting fieldwork in oPt it became natural to design the research as a case study. A case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when boundaries between phenomenon and context are not clearly evident” (Yin 2003, in Blakie, p. 189).

Yin (2004) divides case study into ‘holistic’ and ‘embedded’ designs, and these can be either single-case or multiple-case designs. A holistic case study investigates only one unit of analysis within the case or cases, while an embedded design investigates a sub-unit or a number of sub-units. In our thesis we have looked into how international aid affects business development in Nablus, a single-case design, with a use of the embedded approach. The case study has an embedded approach because of the different units we have researched to get an impression of the different actors that affect business development. The units that have been researched further are INGOs, PNGOs, donors, businesses and the government. The units range from small local businesses to complex organizations, leaving a varied sample.

A research design based on a case study has a particular strength in its ability to deal with a full variety of data, documents, interviews and observations to artifacts (Yin, 2009). This influenced the choices of methods for gathering data for the research. Qualitative methods for gathering data are also relevant when studying complex phenomena (Hellevik, 1995). International aid is a complicated subject with different views and politics, which can make collecting data difficult. To better be able to study the topic in depth, the thesis is based on a qualitative method.

### **4.3.2 Literature Study**

The method of literature study relies on secondary data, data that others have collected. Examples are public documents, reports, and letters (Jacobsen, 2005). The method of literature studies were an important tool to increasing our knowledge on the topic of international aid and business development. By gaining knowledge through literature, it was possible to develop research questions and an interview guide that was designed to fit the topic. Because the situation in oPt is ever-changing it was difficult for us to find reports,

statistics and data that would be relevant to the current economic situation. The quality and amount of statistics from PCBS has become better in later years, which helped on our research, together with recent reports (March 2012) from both the World Bank and the International Monetary Fund.

Reports and studies done on the topic of international aid and business development were for the most part done for the West Bank as a whole. As there were few or none area specific reports, we needed to look at the area as a whole at first to get an indication of the situation. Depending on where you live in the West Bank, economic and social conditions differ. The only report we found on Nablus was one report from the GIZ (Hilal & Shalian, 2001). It was not exclusively restricted to the Nablus area, which makes the results we were left with subject to bias. There were, however, some statistics presented on Nablus from the (PCBS, 2011b) which we found useful in the place of more elaborated reports.

#### **4.3.3 Interview**

Conducting individual interviews is one of the most common methods for gathering qualitative data (Yin, 2009). The qualitative interview can be classified according to its degree of formality, the two main types of interview in quality research are the unstructured and semi-structured (Bryman, 2012). In this research we have conducted semi-structured interviews, based on an interview guide with key elements for the research. Strengths with the interview are that it's targeted, and focuses directly on the focus of our topic. It's insightful and "provides perceived casual inferences and explanations" (Yin, p.102). Weaknesses are biases due to poorly articulated questions along with response bias, inaccuracies due to poor recall, and reflexivity; the interviewee says what the interviewer wants to hear (Yin, 2009). In our opinion there were little difficulties with the language barrier as all of our informants spoke English and an Arabic translator was not necessary. We do see the potential biases regarding the possibility that there could have been misunderstandings or confusions regarding questions because of language issues.

Interviews were a great supplementary source of information. We could ask questions of how things were done and what was really happening on the ground, but also in bigger

organizations. We would not have been able to gather the same data, and achieve the same understanding of the situation had we not conducted these interviews.

### **Informants**

We had early decided that we would seek information from different organizations and people. We wanted to get the view from major donors, the government, PNGOs, INGOs and local business owners, and chose informants based on this criterion. Most of these were chosen randomly in Palestine mainly because of convenience and access. Some organizations that we believed to have a busy schedule were contacted prior to our arrival in Palestine. With the thought of selection bias in mind we were mindful of whether or not our sampling group was representative or not. With a peak of large amounts of data quite early we reached a point of information saturation. We felt that the information we got was no longer new to us and did not feel the need to expand our group of informants.

### **4.3.4 Observation**

Gold (1958) identifies four different roles in field observations; *The complete participant* - takes an insider role, is fully part of the setting and often observes covertly. *The participant as observer* - the researcher gains access to a setting by virtue of having a natural and non-research reason for being part of the setting. As observers, we are part of the group being studied. *The observer as participant* - In this role, the researcher or observer has only minimal involvement in the social setting being studied. There is some connection to the setting but the observer is not naturally and normally part of the social setting. *The complete observer* - the researcher does not take part in the social setting at all.

As it is hard to contain a certain role through the entire study period, when it is conducted over time, it is not unlikely that an observer can take on different roles throughout the period. We believe we have inhabited both the role as the participant as observer, and observer as participant during our fieldwork. Different roles were exhibited when we were in the interview setting as opposed to the “daily life” setting. Common to both roles were that our agenda was known.



### **4.3.5 Questionnaire**

For getting more information on how small business owners felt about international aid we developed a small questionnaire with 16 questions. The first ten questions were created to get information about the business, and whether they had received aid. The last six questions were regarding their thoughts on specific issues related to the way aid is given, on a scale from one to ten.

The questionnaire was translated from English to Arabic by a Palestinian English student. It was also reviewed by three other Palestinians, independent from each other to strengthen the validity of the questionnaire. The questionnaire was then given to 19 random shops in the local market in Nablus. The number of shops chosen was due to the time aspect, and we questioned as many as we could with the time available to us. We also tried to target different types of small businesses, that being food, clothing, restaurants, pharmacy and so on. To make sure the people answering the questionnaire understood the meaning of the questions in the right way, we had a Palestinian translator with us to help with the language barrier. We had prepared the translator with our questions, and explained what we meant by each of them, in order to get clarity.

## **4.4 Validity and Reliability**

### **4.4.1. Validity**

Results are valid “if the explanations are really true or accurate and correctly capture what is actually happening” (Gibbs, p.91). To find the validity of our research design we looked at these aspects presented by Yin, 2009, p.40:

- Construct validity: identifying correct operational measures for the concept being studied.
- Internal validity: seeking to establish a causal relationship, whereby certain conditions are believed to lead to other conditions, as distinguished from spurious relationships
- External validity: defining the domain to which a study’s findings can be generalized

### ***Construct validity***

In order to get construct validity we used multiple sources of evidence, literature, interviews and observation, which could also be described as method triangulation. “By getting more than one different view on a subject, an accurate (or more accurate) view of the subject matter can be obtained” (Gibbs, p.94). We have not, however, had key informants review drafts or case study reports, which limits the validity. We have had other independent volunteers review our report though, which would clarify if some aspects were unclear or not understandable.

### ***Internal validity***

In our research we have looked at different aspects of aid distribution and how it affects the private sector business development, in addition to how the aid given to the government as budget support also has an effect on the economy. The concern regarding internal validity was to follow logic models and do explanation building. To follow a logical summary to reach conclusions while at the same time keep our minds open to opposing explanations. Because of the highly political climate in this area we tried our best not to get politically involved and because of that biased. We also tried not to make assumptions and conclusions because of preconceptions of ideas we thought to exist. We believe we have managed this to a certain degree, but it's hard not to be political at all when researching an area like Palestine, because of the pressing political aspects presented at all times.

### ***External validity***

To see whether or not “the study's findings are generalizable beyond the immediate case study” (Yin, p.43), shows us the degree of external validity. The selection of our informants is not necessarily representative for the whole population, and the opinions of our chosen organizations are not necessarily the opinions of all organizations in Palestine. There is, however still a potential for transferability, as the same mechanisms, structures and guidelines apply in other aid situations. The theoretical approaches we have used are also used for other cases, strengthening the external validity.

### **4.4.2. Reliability**

The objective of reliability is to make sure that if a later researcher were to follow our procedure and conduct the same case study as us, they would come to the same findings; “The goal of reliability is to minimize the errors and biases in a study” (Yin, p 45). Whether or

not we can rely on the data we have collected is connected to the procedures implemented in order to gather the data. Due to changing conditions in both the human nature and also the area of the case study, it would be difficult to repeat or reconstruct the study precisely.

Our choice of informants was based on random selection, which could mean that if other random subjects were chosen the answers could have been different. It also means that if a different research were to be conducted, the selection of informants could have an implication on the results.

#### **4.4.3. Transferability**

It's been debated whether generalization is possible in qualitative studies, "the idea of replicating previous studies, a goal of much experimental and survey research, is usually regarded as being inappropriate in qualitative research" (Blaikie, p. 217). Blaikie goes on to illuminate the fact that it is not necessarily a wish to have the same qualitative study repeated, and that it is hard to have the exact conditions present; That being the researcher and his/her interpretations, the research object, and time - as the time of research will never be the same either, as the human behavior is dynamic. These are all conditions that are subject to change, and may cause the results to differ. Danemark et. al. (1997) claims all science should have generalizable aspects. Further they say generalizing could mean different things, all depending on the conclusion, and what methods are used to retrieve the info. Results are "generalizable if they are true for a wide (but specific) range of circumstances beyond those studied in the particular research" (Gibbs, p.91).

As for our research, we are aware of the fact that the situation in the West Bank differs in various locations. Because of that, a study of Nablus as a city will not automatically be transferrable to other cities. However, the system of aid, and how it's distributed, conditions laid upon recipients, and so on, are issues that in our opinion are generalizable. For Nablus city, we believe, that were someone to come and conduct the same study again, they would find the same results.

#### **4.5 Strengths and weaknesses**

Being two students writing this thesis together was a big advantage and a positive experience, not only during our fieldwork, but also throughout the entire research process.

When we were out of ideas, we could bounce new ideas off each other and engage in discussion about our thesis. This would not have been possible to do in the same way with a fellow student writing a different thesis. The insight we both have gained on this topic is exceptional, and because of that it has been good to have a companion to share reflections on observations and experiences with.

To conduct fieldwork has been a strengthening of the reliability, because we received our information from different sources in organizations and sectors, which was consistent and similar at the different levels represented. The knowledge of the situation we were studying would not have been possible through reading reports and other literature. The weaknesses with our fieldwork was that it was conducted in a limited area, and it was difficult to cover all aspects related to the subject in an equally thorough manner. Because of time limitations, we had to narrow down our thesis to cover certain chosen topics. In addition there could be a weakness regarding the use of a translator when conducting our questionnaire research, as we could not know what exactly was said between the two parts.

With our chosen methods we could analyze the interviews we had conducted, the results from the questionnaire and also our observations during the fieldwork. We could also analyze written material from recent reports up against our own findings. Analyzing old reports, from the end of the second intifada (2007) and earlier, was of little or no use, as the situation has changed so much since then. Because of the relevance to our study this was not done.

The shortcoming to a stay of five weeks is the fact that this conflict has been going on for over 60 years. Although we feel we have gained large amounts of information, it is still not enough for us to understand the contexts and situation 100%. The highly complex situation takes time to comprehend, and even though we were conducting fieldwork, we were still “guests” to the country. We cannot fully comprehend the life of Palestinians or how the aid system works. We can, however, use the knowledge we now possess and to analyze the findings.

## 5.0 Findings

### 5.1 Occupations effect on the economy

#### *Restrictions*

The Ad Hoc Liaison Committee report from March 2012 states that “Israeli restrictions represent the biggest constraint facing Palestinian private sectors growth”. Movement and access within the oPt is restricted by a combination of physical obstacles – most notably the Barrier, separation wall, checkpoints – and by bureaucratic constraints, such as permits and access restricted areas. The World Banks report from 2006 states: “The closed regime – i.e. the system of restrictions on the movement of goods and people both within the West Bank and Gaza Strip and through Israel to the rest of the world, have fragmented the Palestinian economy and reduced its potential”.

Israeli restrictions prevent Palestinians from accessing much of their land and from exploiting their natural resources; they isolate the Palestinians from global markets, and fragment their territory into small, “cantons” (PMNE & ARIJ, 2011). In the West Bank, the application of movement and access restrictions is discriminatory, targeting mostly Palestinian residents, for the benefit of the Israeli settler population (OCHA, 2011).

Previous to the year 2000, and the 1<sup>st</sup> intifada, Nablus was the industrial city, a city of economic growth. Many workshops and factories in the West Bank were located in Nablus, but after the 2<sup>nd</sup> intifada there was a curfew and closure imposed on the city, and the situation changed.

An informant from the government explained that until 2007, Nablus was moving towards poverty. From 2000 to 2006, Nablus suffered from businesses escaping the city; people transferred it elsewhere. Cities like Hebron and Ramallah took advantage of the situation (the economy and industry) and most of the big investors went to Ramallah, she told us. Investors were hesitant to start up in Nablus.

Informants from small and medium sized businesses also agreed to the fact that there is a certain amount of reluctance to establish new businesses in the city; they don’t feel it’s safe to establish their business in Nablus. From 2007, there has been a gradual lift of the barriers

around the city, but the economic situation has still not changed at the same rate; “most of the money that was in Nablus escaped, and hasn’t come back.”

### **5.1.2 Constraints caused by the occupation**

Nablus district has 6 checkpoints, three partial checkpoints, 33 earth mounds blocking exit roads from major thoroughfares, eight roadblocks 5,400 meters of trenches and 3,363 meters of earth walls preventing free movement (Ma’an, 2012).

#### ***Permits***

Palestinians need to apply for permits from Israel, for different activities. All from building houses, entering Jerusalem and Israel, importing and exporting goods, traveling ect. The NGOs and business owners meant that the biggest problem with permits was that its take a long time to get them. Sometimes it can even take years to get a permit to build a house, if it’s not denied altogether. One informant from a medium size business said they could be interested in a project, but by the time the permit is clear, the project is no longer attractive to the investor. It’s too time-consuming, and many opportunities are wasted because of the issue with permits.

#### ***Freedom of movement***

The occupation causes a number of difficulties for the Palestinian society. All of our informants from the different sector: academia, NGOs, business owners, government; they all saw the occupation as the main problem for business development, especially, the lack of freedom of movement.

People cannot go where they want, or in worst case even talk to each other. Checkpoints leave constraints on the mobility, with both being time consuming and with them sometimes being closed entirely. An informant gave us an example; they had a meeting with partner organizations in Gaza but since he cannot enter Gaza they had to meet in Cairo. A couple of hours with a car became 2 days of traveling. The problem with checkpoints also results in people giving up altogether, as one medium size business owner said; *“Now most of the people who has capital in Nablus, are working outside, Ramallah for instance.”*

In 2002 Israel began building the “separation wall”. According to UNSCO, by 2011, 440 km (62 percent) of the planned 709-kilometre-long barrier was completed (UNCTAD, 2011).

About 85 per cent of the barrier is built inside Palestinian land (OCHA, 2009). In the West Bank alone, there are fixed 500 obstacles to the movement of Palestinian people and goods (Ibid).

Many Palestinians used to work inside Israel. They are no longer allowed to work there which in addition to creating more jobless people it also puts an end to a great deal of income to the Palestinian society.

### **5.10.3 Import/export**

Israel imposes different restrictions on trade, especially on import and export.

These restrictions lead to different types of costs for the business environment, which can be divided into two categories (PMNE, ARIJ, 2011):

1. Lack of availability and higher costs of inputs to production due to the 'dual use' item list.
2. Costs of the restrictions in handling, processing and transporting imports and exports.

#### ***Import***

Dual-use items are goods, raw materials and equipments and spare parts that have both civilian use as well as potentially other use that Gol views as a security threat. Since 2002, the Government of Israel (Gol) has progressively added materials, machinery, and equipment (including telecommunications equipment) to the list of items considered "dual-use" (PMNE & ARIJ, 2011; World Bank, 2012). In 2008, as part of the new Defence Export Control Law, a new list was approved by MoD that includes 56 items. The latter includes; fertilizers, chemicals and raw materials for industry, steel pipes, lathe and milling machines, optical equipment, and navigation aids, amongst others (PMNE & ARIJ, p.5).

The Gol has a system of bureaucratic controls that require the Gol to approve their transfer to the West Bank. Importers must obtain a license in order to import the dual use items; however, most companies fail to get the license. The authorization is gained through an application process for permits and licenses, but the permission for many goods is so rarely

obtained, so as a result, the goods are banned. The process of handing out permissions must be repeated for every truckload of dual-use item, even for the same type of goods (PMNE & ARIJ, 2011).

Box 1 illustrates some examples of how these restrictions affect specific companies.

**Box 1: Firm-level experience of the costs from dual use restrictions**

The National Aluminum and Profile Company “NAPCO”, located in Nablus, is a leading industrial aluminum profile. The company exports an estimated 10 truckloads of aluminum to Israel on a monthly basis. Due to the restrictions imposed on the entry of industrial inputs essential for aluminum anodizing (oxidizations) and nitration, the company is forced to make the needed processing steps in Israel. As a result, NAPCO’s extra costs per shipment of 400 kg are estimated at NIS 25,800, for aluminum anodizing, and NIS 6,464 for nitration.. These extra costs represent transportation and processing costs in Israel.

Pal Karm Company for Cosmetics, located in Nablus, is a leading industrial cosmetics company. The company sells products in the local market and also exports to Israel. Around 50% - 60% of the company's sales are going to the Israeli market. The company has a wide experience in manufacturing cosmetics and skincare products: i.e. moisturizer and lipstick. Glycerin is an essential raw material for the company which is used in cosmetics to hold moisture against the skin and prevent dryness. Israel banned the entry of Glycerin into the Palestinian Territory since mid 2007. Ever since, the company has not able to sell skincare products in the Israeli market because the Israeli Health Authorities require Glycerin to be part of such products. The company estimates their losses at 30% of their sales in the Israeli market for this specific product.

Al-Juneidi Dairy and Food Stuff Company was founded in 1982 in Hebron. Al-Juneidi is a leading industrial producer of dairy products and food stuff, which contains numerous products of food, dairy, salads, and snacks. Al-Juneidi uses packing material known as (Tetra-Pack) for packing their products. Further, it is internationally recommended to use hydrogen peroxide– H<sub>2</sub>O<sub>2</sub> with a concentration of 35%. Since 2007, Israel only allows the entry of hydrogen peroxide of H<sub>2</sub>O<sub>2</sub> with 17% concentration into the Palestinian Territory. This limitation severely impacts the productivity of the factory because the packing machine automatically stops when the sterilizing



materials concentration reaches low levels (12%). Therefore, the company has to install more sterilizing materials in order to resume production. Further, it is necessary to re-sterilize the whole production line again. Consequently, this process requires several hours, causing disruption in production. The estimated time for re-sterilizing and re-operation is 4 days per month, where the operating cost per day is estimated at NIS 5,000, which is around NIS 20,000 per month.

*PalTrade, 2010 from (PMNE & ARIJ, 2011).*

## ***Export***

### **Separation barrier isolates trade between oPt and global markets**

Due to the construction of the separation wall and restrictions like checkpoints and roadblocks, export to Israel, which accounts for 90% of all export, fell by 30% during 2008 – 2009 (UNCTAD, 2011). Restrictions on Palestinian export and import tightened even more during 2010 (IMF, 2011). Repeated and lengthy Israeli security checks force Palestinian traders into long queues at the crossing points, which have inadequate facilities and limited working hours. Many businesses lose income because of goods being damaged by long waiting times at checkpoint. Especially fresh produce (UNCTAD, 2011).

All cargo must also use a back-to-back loading system, where shipments are downloaded from Palestinian to Israel trucks or vice versa: a procedure that adds significant cost and delays to the shipping process (World Bank, 2012). The PA deputy economic minister Abdel Hafiz Nofal says that the back-to-back system, internal West Bank checkpoints, and the clearance process at Israeli ports that require Palestinian goods to be searched several times and often held in warehouses for long periods, delay trade," .

(<http://electronicintifada.net/content/israel-chokes-palestinian-trade-says-un-study/10352>).

### **Withholding PA customs clearance revenue aggravates fiscal instability**

A major source of fiscal instability is in Israeli control over the tax and customs clearance revenue that it collects on behalf of the PA. Israel has resorted to withholding tax and customs clearance revenue. This happened in 2002 and 2006 (UNCTAD, 2008). Revenue

from customs clearance represents 60–70 per cent of total PA revenue. In May 2011, Israel considered withholding some \$100 million of customs clearance revenues owed to the PA following Palestinian national reconciliation efforts (UN, 2012). Israel eventually released the delayed revenue (UNCTAD, 2008).

## **5.2 The Cost of Occupation**

The Palestinian Ministry of National Economy in cooperation with the Applied Research Institute- Jerusalem released a report on the costs of the occupation. The total result is represented in the table in appendix 3.

The report estimates that the total measurable cost of the Israeli occupation on the Palestinian economy in 2010 was USD 6.897 billion; 84.9% of the total Palestinian GDP in 2010. As the costs are measured in current prices, the report used GDP in 2010 measured in current prices. For that it uses the estimate of USD 8.124 billion provided by the IMF and the Palestinian Ministry of Finance (PMNE & ARIJ, 2011).

The costs are split into direct and indirect costs. The former are extra costs, which are directly borne by the Palestinian economy due to Israeli restrictions; these include higher costs of electricity, water, and the movements of goods and people. The latter form the major part of the costs of the Israeli occupation and concern the foregone revenues from production that have yet to be realized, due to the restrictions imposed by the occupation. Examples of these indirect costs include the value added from the extraction of minerals and salts in the Dead Sea, and the royalties from the development of the offshore marine gas field of Gaza. It limits the estimation of indirect costs to sectors such as natural resource exploitation, so that it can confidently quantify the opportunity cost of not developing any economic activities. As such, it does not include the probable missed revenues from not developing certain industries due to the import restrictions imposed by Israel in the estimation (PMNE & ARIJ, 2011).

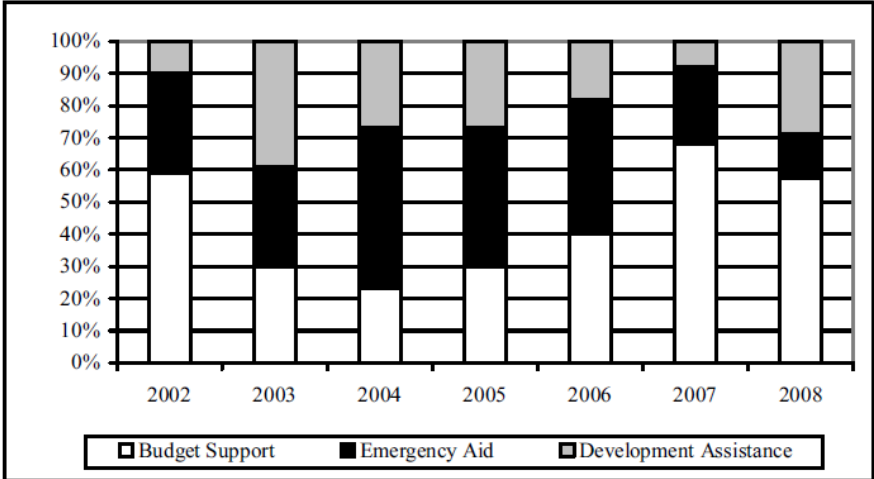
### **5.1.1 Budget support**

Aid from international donors to the oPt *“increased by 500% in the last decade, exceeding \$3bn in 2009. This meant that on a per capita basis the Palestinian population received one*

of the highest levels of aid in the World. Aid is also significant compared to the size of the Palestinian economy. With a GDP of only \$6.2bn in 2009, aid effectively represented just less than half the economy. In addition, it is a dominant source of finance for the PA budget, with budget support covering 42% of recurrent government spending in 2009, and 38% in 2010” (MAS, 2011, p.1).

A study on aid by the Palestine Economic Policy and Research Institute (MAS) (DeVoor & Tartir, 2009) identifies a shift in type and sources of aid in different political situations. As we see in the following figure, aid provided as budget support has increased significantly in recent years. In 2008, however there is a change again towards development assistance. “Support to development assistance is projected to reach \$1.09bn in 2013, or 68% of total aid, which will hopefully generate more productive, long term and sustainable growth” (MAS, 2011, p.4).

**Figure 3: Type of aid disbursed to the West bank and Gaza 2002-2008**



Source: Palestinian MoP PAMS database (DeVoor & Tartir, 2009)

We also see the exceeding focus on development in the following table, on projected expenditures for development from the National Development Plan (NDP) 2011-2013. The NDP forms the basis of requests for \$6.8bn of external finance from donors over three years (Palestinian Authority (PA), 2011). It includes \$1.5bn for Gaza reconstruction and \$0.5bn for East Jerusalem, with the remaining \$4.8bn divided equally between budget support for recurrent spending and development assistance. As we see in table 4, the amount provided for budget support is declining, as the budget for development assistance is increasing.

**Table 4: Planned national expenditure**

In \$m	Budget Support	Development Assistance				
Year		Governance	Social	Economy	Infrastructure	Total
<b>2011</b>	967	142	142	74	142	<b>500</b>
<b>2012</b>	881	207	283	135	248	<b>873</b>
<b>2013</b>	501	207	385	192	311	<b>1,095</b>
<b>Total Expenditure</b>	<b>2,349</b>	<b>556</b>	<b>810</b>	<b>401</b>	<b>701</b>	<b>2,468</b>

Source: PA, 2011

The planned national development expenditure is distributed among four different focus areas; Governance, Social, Economy and Infrastructure. As part of the economy main emphasis we find the private sector development, and “will lead the drive to build an open and vibrant economy” (PA, p.77). The expenditures projected to be distributed in the Economy area are presented according to the following table, where the total amount sums up to 28%, 32% and 35% of total development expenditure for the years 2011-2013 respectively;

**Table 5: Planned expenditure by category**

Category	Planned Expenditure 2011-2013 In US\$ m	% of planned expenditure	% of total planned development assistance
Industrial modernisation & business promotion	116.8	29 %	4,7 %
Foreign trade & investment	8.7	2 %	0,4 %
Consumer protection	1.7	1 %	0,07 %
Employment & worker protection	31	8 %	1,3 %
Agricultural & rural development	177.9	44 %	7,2 %
Telecommunications & IT	15.9	4 %	0,6 %
Tourism & antiques	49.1	12 %	2 %
<b>Total</b>	<b>401,1</b>	<b>100 %</b>	<b>16 %</b>

Source: PA, 2011

### 5.1.2 Economic situation

Donor aid to support the 2011 recurrent budget was considerably lower than predicted in the 2011 budget. The PA’s wage bill continued to grow in 2011, and ended the year 1 percent over budget, and 6 percent higher than 2010.

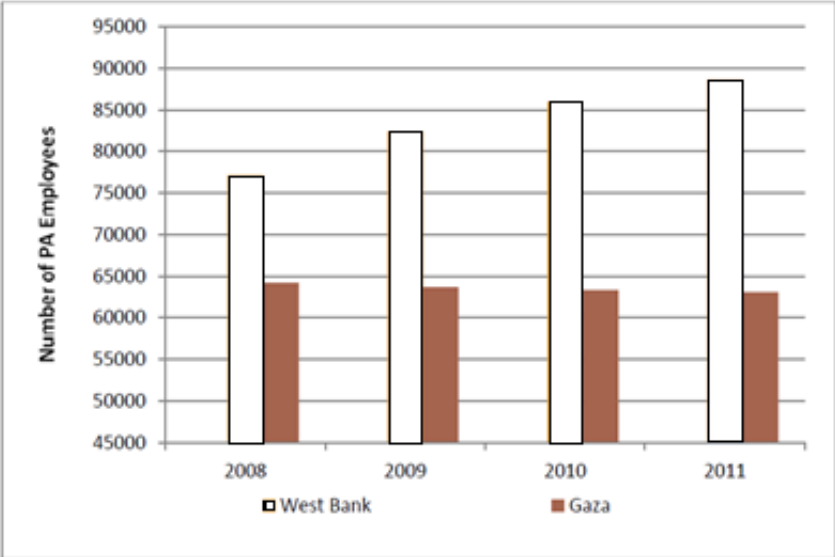
**Table 6: 2011 expenditures of the Palestinian Authority by category**

Expenditure Item	Amount (NIS million)	Percent of total expenditure
<b>Wage expenditure</b>	<b>6,381</b>	<b>53.6</b>
<b>Nonwage expenditure</b>	<b>5,015</b>	<b>42.2</b>
- Operational expenditure	1,792	15.1
- Transfers	3,165	26.6
- Minor capital expenditure	58	0.5
<b>Net lending</b>	<b>501</b>	<b>4.2</b>
<b>Total</b>	<b>11,897</b>	<b>100</b>

Source: World Bank, 2012

Based on the average exchange rate in 2011(see ad hoc p.6 footnote), the total spending results were \$3.3bn dollars, where half of this were wage expenditures. As we see of the table following, the number of Palestinian Authority employees has steadily increased and represents just less of 90 000 employees in 2011. The PA has however decreased unnecessary spending, such as cars for employees and reduced the amount of new people that are employed (ad hoc).

**Figure 4: Number of Palestinian Authority employees, 2008-2011<sup>9</sup>**



In 2011, the PA required US\$1.5 billion dollars in budget support, of which US\$200 million were to cover development expenses not funded by donors. The PA only received about US\$814 million in budget support, as opposed to

the US\$1.0 bn that was anticipated. They received US\$169 million in development financing compared to \$370 million committed for development projects and the \$500 million that was projected in the 2011 budget, adding up to a total of US\$983 million. The remaining

<sup>9</sup> Source: World Bank, 2012

deficit was financed by borrowing from the local banking sector, and accumulating around \$260 million in arrears to the private sector. The gap was filled, but it's unlikely that the banks and the private sector will allow or even has the capacity to let the PA to continue to borrow this amount again (World Bank, 2012; IMF, 2012).

The PA's fiscal situation is likely to worsen in 2012. The projected recurrent deficit is expected to be about US\$1.1 bn. This represents a nearly 14 percent decline from the 2011 budget. It reflects the PA's determination to control spending and increase revenues (World Bank, 2012). Following is the 2012 budget, presented by the Palestinian Authority

**Table 7: Palestinian Authority budget for fiscal year 2012 (in million \$)**

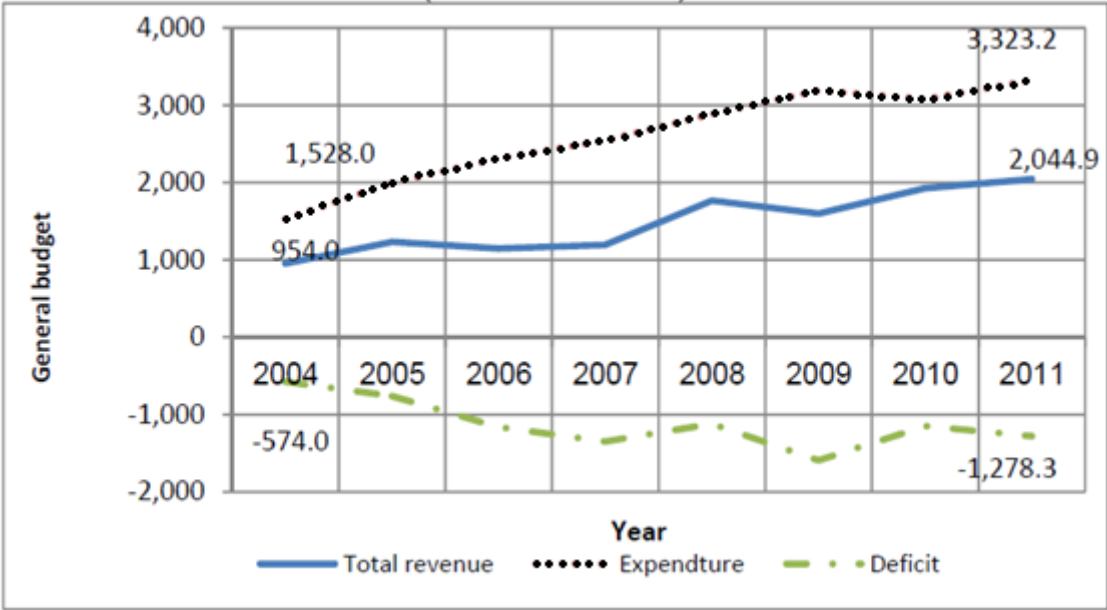
<b>Item</b>	<b>Amount</b>
<b>Total Revenues</b>	<b>2,354</b>
<b>Public Revenues</b>	<b>2,235</b>
<i>Domestic Revenues</i>	<i>812</i>
<i>Clearance with Israel</i>	<i>1,542</i>
<i>Tax Refunds</i>	<i>-119</i>
<b>Total Expenditure</b>	<b>3,538</b>
<i>Recurrent Expenditure</i>	<i>3,188</i>
<i>Wages</i>	<i>1,793</i>
<i>Non-Wages</i>	<i>1,290</i>
<i>Net Lending</i>	<i>105</i>
<i>Development Expenditure</i>	<i>350</i>
<b>Total Deficit</b>	<b>1,303</b>
<i>Recurrent Deficit</i>	<i>953</i>
<i>Development Expenditure</i>	<i>350</i>
<b>Total External Financing</b>	<b>1,303</b>
<i>Budget Support</i>	<i>1003</i>
<i>Development Financing</i>	<i>300</i>
<b>Financing Gap</b>	<b>0</b>

Source: Portland trust, 2012a

Based on this there is no financial gap, the PA is, however, only able to identify about US\$610 in external support, leaving a gap of some US\$540 million according to the projected external financing (World Bank, 2012). The PA is making a concrete effort to find additional savings and reduce the deficit to a more manageable size. (World Bank, 2012; IMF, 2012).

This graph shows how the deficit has developed in the recent years;

**Figure 5: Deficit in general budget in the Palestinian Territory, (2004-2011) (Value in USD Million)**



Source: PCBS, 2012

An IMF report from March 2012 says; “It will be very difficult for the PA to cover the 2012 financing gap through austerity alone, without the prompt pledging and disbursement of additional aid. There is also a need for an enhanced donor coordination framework to enhance the predictability of aid, which has varied widely by donor in recent years. For example, while the EU countries’ disbursements have generally been predictable, in line with yearly plans, many of the regional donors’ disbursements have been made on an ad hoc basis with little advance planning” (World Bank, p.23) On this matter the EU, the Swiss confederation and Austria made a contribution of € 10m, in April 2012, to this year’s first payment of social allowances to poor and vulnerable families.(MAS, 2012a). On the 9<sup>th</sup> of

**Case 1: Mahmoud Jbbarin’s Vegetable shop**

Jbbarin opened his vegetable shop in Ramallah at the begging of April 2012. The PAs salaries were delayed in April with the EU having to give extra assistance in budget support for the PA to be able to pay its employees. Jbbarin told us that this had a dramatic effect on his business and that he was worried he would have to close his business because of this. He also told us that it was hard to run a business under the circumstances of never knowing if the PA were going to be able to pay its salaries. In June 2012, the shop was closed, because he never recovered from the negative impact that came with the delayed salaries.

May, The European Union contributed an additional € 22.5 million to help the PA pay for the April 2012 salaries and pensions for around 84, 500 Palestinian public service providers and pensioners (EU, 2012a). John Gatt-Rutter is quoted with this in a press release from the EU in May 2012:

*“In these very challenging times for the Palestinian Authority, this new contribution shows again the EU’s continuing financial support to its institutions and their ability to provide essential public services to the Palestinian people...The EU calls on all parties concerned to fulfill their obligations with regards to the PA in a timely and reliable manner”* (EU, 2012a).

The PA is determent to reduce the external aid, and stick to the 2011-2013 national development plan. Based on this, external support for recurrent and capital expenditure will decline gradually. In 2008 the external support amounted to 32% of GDP, in 2010 it was 17%, and by 2013 it should reach 15% if the plan is followed.

**Table 8: External financing 2006 – 2010**

	2006	2007	2008	2009	2010
% of GDP	Act.	Act.	Act.	Act.	Act.
Financing for recurrent expenditure	16,3	19,4	28,9	22,0	15,5
Financing for development expenditure	6,2	2,5	3,5	6,5	1,8
Total	22,5	21,9	32,4	28,5	17,3

Source: World Bank, 2012

**5.2 PA strategy**

Economic growth in 2008–10 was supported by a combination of steady reforms, donor aid, and easing of restrictions. Aid was essential in supporting the PA’s institution-building and development efforts, and the reestablishment of law and order in the West Bank, all of which were crucial for bolstering private sector confidence and expansion. (IMF, 2012)

Economic growth in 2010 was not a sign of sustainable recovery, but rather a sign of an economy operating from a low base (UNCTAD, 2011).

“The GDP growth in 2010 was to a large extent “jobless” because it failed to make a dent in the high unemployment rate that has persisted for a decade. The growth was achieved largely by better utilization of existing resources but does not reflect an increase in investment. Weakness of the private sector and the high risk it faces, combined with the PA



fiscal austerity which features – inter alia – containment of public employment and salaries, explain the lack of progress on job creation” (UNCTAD, p.5).

In addition, donor aid has been reduced significantly since early 2011, it declined to levels lower than the levels needed to finance the already tight budget; there has also been an absence of relaxation on movement and access restrictions which have been growing since 2009, the stagnation of relaxation has also affected the contribution of donor aid. Both of these aspects are posing risks to the Palestinian economy’s outlook (IMF, 2012). The easing of controls on trade and other activities are important to make sure that the growth is continued, “at least to offset the impact of the PA’s fiscal retrenchment and declining aid on private sector activity and investment” (IMF, p.22). Previously there has been a steady progress regarding the legal and regulatory reforms, they have slowed down, causing worry and skepticism from investors (World Bank, 2012).

One of PA’s strategies for reducing aid dependency is to increase tax revenues; “...the strategy for increasing domestic tax revenues is to improve and expand the mechanisms for collecting tax, reduce tax evasion and implement an austerity policy especially in the automotive and fuel sectors” (MAS, 2011, p.3).

The other part of the PA’s strategy is to encourage private sector development, in order to succeed in generating a more sustainable growth and lift the revenue situation and job creation. “Since 2007 the PA has taken serious measures and steps towards encouraging investment, reforming the legal and regulatory framework and fostering public-private partnerships” (MAS, 2011, p.4). Donors too are moving to focus more on private sector development; “...the EU has been putting its focus on the development of the private – sector, through a comprehensive approach via numbers of different projects” (Ibid)

The AHLC claims it is necessary to have a strong private sector growth to generate revenues to sustain service delivery. Still, the private sector is held back by the restrictions on access to natural resources and markets by the Israeli restrictions. The restrictions “which are the biggest constraint on the growth of the Palestinian private sector” (World Bank, 2012, p.21). The PA has much work to do in creating an encouraging business environment, and the ad hoc liaison committee presses that “the PA should strive to create a business environment that is among the best in the world and not merely on a par with its neighbors” (Ibid). The

PA has, however, not been able to accomplish this, and there has been little recent improvement in the business environment, even though fiscal sustainability can only come through sustained and rapid private sector growth (World Bank, 2012).

### **5.3 Focus on private sector**

The National Development Plan 2011-2013 states that “The government is committed to building a free and competitive economy through close cooperation between a competent and visionary public sector and a pioneering private sector. Our economic policy agenda focuses on developing domestic capacities and resources, creating an environment that attracts investment, and laying the foundations of sustainable growth and development which will ultimately eliminate dependency on external aid” (PA, p.43).

One informant from the government says the aid situation in Nablus is haphazard, and not related to the national plans. This informant said it feels a little bit like the PA has forgotten about Nablus, and that not much has been done for the development in the city the last ten years.

“The development of our private sector has been stunted by the denial of freedom to engage in the open exchange of ideas, technologies and trade with the outside world. Free of the constraints imposed by the occupation. Colonization and exploitation of our land and natural resources, Palestine will have enormous potential for private-sector led growth. Such growth is critical to our plans to eradicate poverty, tackle unemployment and propel Palestine and its citizens rapidly forward from a state of aid dependency towards self-sufficiency” (PA, p.43). The participation rate of labor force (aged 15 years and above) in 2010 in Nablus Governorate was 43% from total of human power. Unemployed persons constitute about 13.7% of those participating in labor force (PCBS, 2011b).

The prospects from the National Development Plan states that: “Over the coming three years we will consolidate our efforts to work in partnership with the private sector” (PA, p.45). The main challenge to be addressed will be the need for reform of the legal and regulatory framework in order to reduce bureaucratic ‘red tape’ and provide investors and companies with the confidence and certainty needed to do business in Palestine. In Nablus an informant from the government says they encourage the private sector to invest and

establish businesses, and try to consolidate the relationship between the public and the private sector, to have good partnerships. Industrially the situation is improving, but it is not as it used to be, and work still needs to be done here.

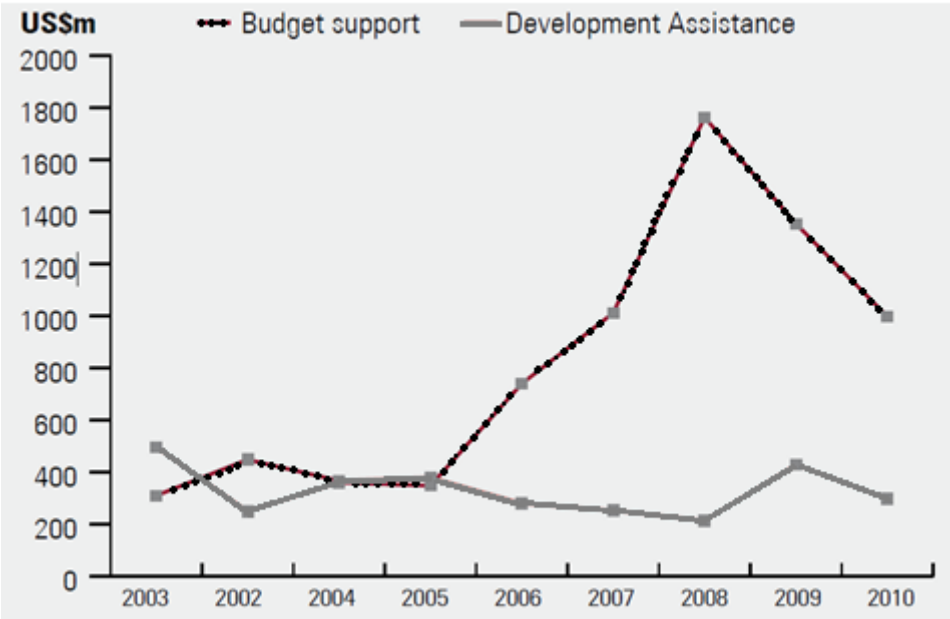
### 5.4 Aid and politics

This sub-chapter will show how donors use politics in their funding choices.

According to a report from Palestine Economic Policy Research Institute (2009), the amount and type of external aid entering the West Bank and Gaza varied according to political conditions. In times of political struggle external aid moved away from development and the PA to emergency relief programs. The report (DeVoor & Tartir, 2009) also stated that amongst donors, Europe is by far the largest donor to both the Palestinian Authority and the PNGO sector, providing nearly 70% of the total funding to the latter. Aid from the Arab countries to Palestine had decreased in comparison to Western donors and primarily contributed to the Palestinian Authority’s budget. In times of political crises the amount of aid from Arab countries increased while aid from Europe and USA decreased.

As might be expected, at times of political instability, humanitarian aid increased. The relative volumes of the other two main types of aid – budget support and development assistance – are also shown to have changed over time (MAS, 2011).

**Figure 6: External Assistance to the Palestinian Authority**



Source: MAS, 2011.

#### **5.4.1 Examples of how aid follows politics**

##### ***2006 Elections***

The Hamas party won the Palestinian Legislative Elections in January 2006. This resulted in financial sanctions against the PA. In addition to funding “drying up”, it also meant a loss of VAT and trade clearance revenue transfers from Israel and decreased loan availability to the PA (Devoir & Tartin 2009; Ibrahim, 2011). The results of our questionnaire shows that 17 of the 19 asked small business owners felt the effect of the sanctions towards the PA in 2006.

According to the Ministry of Planning; ‘in response to the yearlong fiscal crisis and the resulting inability of the government to provide essential services to its citizens, a National Unity Government was formed between February and March of 2007. However, many donors continued to bypass the PA’ (MoP, 2008, in DeVoor & Tartin 2009, p.9), meaning that public salaries continued to go unpaid and development projects ground to a halt (DeVoor & Tartin 2009).

In June of 2007, fighting erupted between Fatah and Hamas in Gaza, resulting in the deaths of 118 Palestinians and Hamas control over the Gaza Strip. Following the Hamas takeover, humanitarian aid almost doubled, from \$491 million in 2005 to \$885 in 2008 (Portland Trust, 2011).

##### ***UN application for full membership***

In September 2011 President Mahmoud Abbas submitted an application for full UN membership. After this USAID put a hold on funding to the oPt several planned projects were put on hold and over 200 employers were laid off. The EU did not cut their funding and the Arab League appealed to its member States to bolster financial help to the Palestinians (Unipal, 2012).

##### ***Palestine full membership in the UNESCO***

On October 31<sup>st</sup>, 2011, UNESCO admitted Palestine as a full member. The same day the spokesperson from the US state department announced that it would cut all funds to the agency. “The United States also remains strongly committed to robust multilateral engagement across the UN system. However, Palestinian membership as a state in UNESCO

triggers longstanding legislative restrictions which will compel the United States to refrain from making contributions to UNESCO.”<sup>10</sup>

A government informant told us that USAID had cut all funding for new projects. The projects that were already started would be finished. We tried getting an interview with representatives from USAID but they were not able to meet us.

## 5.5 Local Structures/Dynamics

### 5.5.1 NGOs effect on private sector

In 2011, the number of employees in the Palestinian Territory reached 837 000 employees compared to 744 000 employees in 2010. As a result, the unemployment rate in the Palestinian Territory decreased to 21% in 2011. The percentage of the real daily wage went down by 3% compared with 2010, which demonstrated a low purchasing power of individuals in the Palestinian Territory, i.e. any increase in nominal pay of the laborer was less than the high level of prices in the Palestinian Territory (PCBS, 2011a). An informant from an INGO told us that the cost of living, especially in the big cities, is high compared to the salaries people get. She said that even with the salary you get from an INGO it’s hard to make the ends meet.

Khaled Al Sabawi is the Founder and President of MENA Geothermal based in Ramallah, Palestine. In an article from May 2011 he states that the growing number of NGOs has made it exceptionally difficult for Palestinian businesses to find professional human capital in the West Bank. He says it’s a challenge to compete with the NGOs. Because of the amount of donor funds provided, many NGOs are able to offer salaries that are three or four times higher than what the local private

### Case 2: The Stolen Money

In our questionnaire we had one question regarding how the businesses felt about humanitarian aid given through cash for food and food distribution.

*“On a scale from 1-10, how positive is cash for work and food distribution aid, in your opinion? “*

Almost all our informants misunderstood this question and asked us if we were there to find the “stolen money”. After talking to them, they said that there were problems of corruption with the humanitarian food distribution. If you were affiliated with certain political parties or knew the right people, you could get this help without qualifying for it.

<sup>10</sup> <http://www.state.gov/r/pa/prs/ps/2011/10/176418.htm>

sector can afford. He says that this raises labor costs and directly undermines the local private sectors ability to recruit educated professionals and build an autonomous Palestinian economy<sup>11</sup>.

One informant from an INGO told us that it's normal for students graduate from University, and instead of going in to the private sector, they start working in a NGO. Informants from both PNGOs and INGOs told us that private sector can't compete with the NGOs. *"It's not just the NGOs stealing people, the economy isn't able to grow therefore the private sector isn't able to grow and then the private sector cant punch back. But how do you go back to the start though?"* Another informant from a PNGO told us there where created too many NGOs in a short period of time and the private sector is suffering from this. The private marked needs a marked to their products. *"Why will someone buy something they can get for free?"*

### ***Salaries***

One informant told us that salary policy in NGOs is a hard balance. Local aid workers often get less salary then the international workers. One aid worker from an INGO told us that international aid workers often have lives in their home countries and that the salaries they got were not much compared to those at home, however, *"we are colleagues, why shouldn't we get the same salary? But you risk destroying the local power balance."*

An informant from an INGO told us that they exclusively hire locals on field level and that they would never be able to do as good job as they did; *"They have the ground knowledge that we never could learn or understand"*. He explained that oPt being the political minefield that it is, it was very important for them to have local knowledge in the organization.

## **5.5.2 Highly-skilled Migration**

### ***Academic achievement***

The ratio of individuals (15 years and more) who have completed undergraduate and graduate university education was 9% in 2008 and about 13% have not finished any educational stage. According to available data, there is clear distinction between males and

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<sup>11</sup> <http://www.themarknews.com/articles/5301-the-palestinian-aid-trap>

females in academic achievement. The ratio of males who have completed their undergraduate and graduate university education was 10%, but 7% for females. About 10% male and 15% female individuals have not completed any educational stage. Moreover, findings have shown that the ratio of illiteracy among individuals 15 years and more was 5%, 2% males compared to 7% females. According to PCBS 2005 statistics, the ratio of individuals holding vocational qualification was 2.5%, 3.4% males and 1.6% females (Shalabi, 2010).

In 2007, the Palestinian population was estimated at 10.4 million, more than half of whom lived outside historic Palestine (Ibid). It's difficult to estimate the volume of migration for the Palestinian people because it's the Israel Authority controls the crossing points, restriction on movement and that it's the Israeli Authority that controls the population register (Ibid).

According to estimates from previous studies and data released by the Palestinian Ministry of Foreign Affairs for arrivals and departures through land crossings, including the Allenby (Al Karamah) Bridge between the West Bank and Jordan and the Rafah Crossing between the Gaza Strip and Egypt, 20,000-30,000 Palestinians migrate each year. Over 2002-2007, more than 20,000 Palestinians migrated from the West Bank *per annum*. These numbers does take into account the Palestinians that has Jerusalem ID cards. They have access to Israeli airports and crossing points (Ibid).

Shalabi (p. 110) sums up the reasons for leaving in two categories:

- Difficult political conditions, the occupation as well as closure, siege, movement restrictions, etc. Factors include internal political crisis and fragmentation.
- Socio-Political Perspectives Difficult socio-economic conditions including high unemployment and poverty, the economical situation, a weak labour market, and the search on for better living conditions

(Al Maliki and Shalabi 2000, in Shalabi 2010).

A survey on brain drain in Palestine (Shalabi, 2010) studied migrants from Palestinians who is living abroad on a permanent basis. According to the study, political-security, economic and social factors drove Palestinians to leave Palestine for other countries. These factors were: feelings of insecurity given the deteriorated security situation; difficult access to workplaces

in light of Israeli checkpoints, closure and curfews; harassment by the Israeli authorities; low salaries and the hope of getting a better income; dissatisfaction with one’s job; and the search for a better lifestyle. A number of people had also migrated to get a higher education. (Ibid).

**Who is leaving?**

According to a survey conducted in three Palestinian cities, five families that had 138 migrant members were surveyed. Over 61% of these had departed from Palestinian territory following the outbreak of the second *Intifada* in 2000. The survey showed that, 56% left the country after they obtained their high-school certificate, 14% had a BA degree. 27% decided to migrate before they completed their education. 4% of migrants held Ph.D. degrees, 9% MA degrees, and 27% BA degrees (Mattaria et. Al., 2008, in Shalabi, 2010).

**5.6 Coordination and communication in aid distribution**

**5.6.1 Aid to Private Sector**

The tables below show the priorities of different donors to the oPt. The EU used 2 per cent of their aid in private sector development. USAID used 25 per cent.

During the period 2007-2010, €1.57 billion was committed for the following priorities:

**Table 9: EU’s funding priorities**

Priority	Realized	Amount in € million
Direct & Indirect Financial Support for PA	61.0%	96
Institution-building	3.5%	6
Infrastructure Development	4.5%	7
Private Sector Development	2.0%	3
Support to UNRWA	29.0%	45

Source: [http://ec.europa.eu/world/enp/docs/2012\\_enp\\_pack/statistical\\_annex\\_en.pdf](http://ec.europa.eu/world/enp/docs/2012_enp_pack/statistical_annex_en.pdf)

In figure 7 we can see how USAID had planned their funding in 2010. From this, roughly 25% was planned to be spent on economic development. What went to the private sector specifically was not stated.



**Figure 7: USAID funding priorities**

Amount	Purpose
<b>Economic Support Fund (\$400.4 million total)</b>	
\$200 million	Direct budgetary assistance to Palestinian Authority (PA) in West Bank
\$200.4 million	Assistance for the West Bank and Gaza (through USAID) <sup>a</sup>
	<ul style="list-style-type: none"> <li>• \$20 million – governance, rule of law, civil society</li> <li>• \$79.7 million – health, education, social services</li> <li>• \$53.2 million – economic development</li> <li>• \$47.5 million – humanitarian assistance</li> </ul>

In the following figure we can see how the Norwegian bilateral aid was distributed in 2010, of US\$110 million, US\$55 million was given for economic development and trade. How much exactly went to private sector development is not stated, however.

**Table 10: Norwegian bilateral aid to the Palestinian territory 2010, US \$110 million**

Category	%	Amount in US\$ million
Economic development and trade	56 %	61.6
Good governance	21 %	23.1
Education	9 %	9.9
Health and social	12 %	13.2
Environment and energy	2 %	2.2
Expenses in Norway + unspecified	0 %	0.2

Source: Norad, 2011.

***What is the money spent on?***

There are differences in transparency regarding project funding in the private sector development. The only data we found that specific mentioned private sector was from the EU. They spent €22 million in 2009 on a program that was to support businesses that were destroyed or damaged during “Operation Cast Lead”. Funded items included machinery, office furniture and equipment, as well as building and business premise material (EU, 2012b).

The EU states in their own document that explains what their aid goes to: “The specific needs of the private sector in Gaza, which has been devastated by Operation Cast Lead and

the continuous Israeli siege, continue to be one of the priorities in the area private sector development". The EU is also looking into and planning similar projects in area C in the West Bank, in the areas that is most affected by the occupation (Ibid).

Another area that EU defines as private sector development is paying back loans for the PA to private banks. From table 9 we also see that 2% of their funding from 2007-2010 was directed towards the private sector. As of 31 January, 2012, over €27 million were paid to support the payment of arrears to the private sector labeled as private sector development (Ibid).

**5.6.1.2 NGO aid to private sector development**

There are several NGOs that work with private sector development. One PNGO explained in detail how they worked;

**Case 3: One stop shop**

In general the center focuses on the micro, small and medium enterprises. Through providing technical assistance, training, coaching, creating business plans, information, exhibition, and trying to link them with other local businesses providers. Help the beneficiaries to make a business plan, marketing plan, production plan, management plan, and a financial plan. The average grant given to the families was \$5000.

The donors selected which families are to be helped and give the PNGO a list. The donors select the criteria's for who is to receive this help; the target group was woman, elderly and handicapped. They had 600 beneficiaries, 200 female, 200 elderly and 200 disabled. The informant told us that it was not easy working with these groups. They are often not educated and most of the businesses that started up had to close within 6 months. The informant meant that one of the main reasons for the businesses closing was that they didn't manage the finances. So they faced cash deficit and debt, and then they started to sell their equipment. Another problem was that it was hard to link businesses together were there are many in one area producing the same product. Family businesses s is a big part of the culture in oPt and the family name is often the name of the business. The informant told us that it was important to understand the family conflict dynamics.

### **5.6.2 Aid coordination**

The aid coordination structure in the oPt was set up as the meeting of the AHLC in December 2005. The aim was to improve the effectiveness of aid coordination structure based on national priorities to the Palestinian people in line with the OECD-DAC Pairs Declaration on Aid Effectiveness<sup>12</sup>.

In the following we will present some of the main coordination mechanisms and then focus on the participation of the private sector in the local coordination mechanisms.

#### ***Institutional mechanisms of coordination***

Ad-Hoc Liaison Committee (AHLC): The Ad Hoc Liaison Committee (AHLC) is a 15-member committee that serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people. The AHLC is chaired by Norway and co-sponsored by the EU and US. In addition, the United Nations participates together with the World Bank (Secretariat) and the International Monetary Fund (IMF). The AHLC seeks to encourage dialogue between donors, the Palestinian Authority (PA) and the Government of Israel (Gol).

Local Development Forum (LDF): The LDF is open to Palestinian National Authority representatives and all donors, United Nations and aid agencies, as well as to the representative of the Association of International Development Agencies. The LDF is co-chaired by the Minister of Planning and Administrative Development, together with Norway, the World Bank and UNSCO.

#### Strategy Groups (SGs):

There are four Strategy Groups (SGs); Governance SG, Economic SG, Social Development SG, Infrastructure SG. They focus on programmatic coordination, and a better design of donor projects.

The SGs are supported by the work of thirteen main sub-groups and twelve Sector Working Groups (SWGs) and one working group - that report to the SGs. These groups are the main tools of coordination between the PA and the donor community at the technical level. The SWG that is relevant in this thesis is Private Sector Development and Trade.

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<sup>12</sup> <http://www.lacs.ps/article.aspx?id=4>

Joint Liaison Committee (JLC): JLC comprises the PNA, the Government of Israel, LDF Co-Chairs and major donors with the aim of enhancing tripartite cooperation at the local level and securing effective progress on AHLC priorities and decisions.

Palestinian Economic Council for Development and Reconstruction (PECDAR): PECDAR is governmental body for project implementation.

### **5.6.3 Private Sector involvement in local coordination**

The Economic Strategy Group has a Private Sector development and Trade working group. The members of the Economic Strategy groups come from PA institutions and donors. There are no representatives from the private sector in the strategy group. In the working group there are representatives from PA institutions, Donors and Private Sector Organizations. The organizations are: : Bankers' Association, Construction Union, Federation of Chambers of Commerce, Insurance Union, Federation of Industry, Palestinian Businessmen Association, PALTRADE, Palestinian IT Association, Portland Trust, Shippers' Council, Tourism Association. There are no representatives from business owners.

As far as we can see this is the private sector development and trade work group the only coordination mechanism where the private sector is somehow involved.

## **5.7 Bureaucracy in aid distribution processes**

### **5.7.1. Application process**

An informant from a PNGO compared the applying process for EU funding to writing a master thesis. He said that in the end, the funding you got was not worth the work. An informant from a large private company told us that they have become experts on applying for aid grants. They had an own department in their firm that applied for grants. Another informant from a medium size business told us that he had received a grant but he really didn't need it. The company he owned had the capital to expand without the aid. "It's the smaller businesses who need this money, but I know how to get it".

Many of the application forms are in English and not Arabic, even though Arabic is a UN language. The application process is often online and they don't have an alternative paper version if you don't have internet access. An informants told us that the agencies don't take into consideration that if you have a bad internet connection and it breaks, or if you're a

slow typer, your page will time out and you have to start all over. They also seldom come with guide notes. So if you get one question wrong you risk waiting six months and then get the message that you didn't fill in the form right. She told us that people for a long time have asked for a standardized reporting and applying systems.

An informant from an INGO told us that there are not an element of learning in the process, or discussing the challenges and failures. We asked an informant how you could change the system do make it more accessible for people, she said: "Almost nobody goes and ask the local people and local organization, how it can be changed. What is practical in their capacity, what would they like to see and be done. They are the fractional voice in the whole discussion".

An informant from a PNGO told us that it was frustrating to work with donors, they had their proposals and they didn't have any influence of making any changes. *"The donors don't know the details of what the community needs. They are not taking the local context into consideration"*. The use of local resources was a priority when establishing projects when NGOs and INGOs were working with partners. When it comes to changing the administrative factors it is different. Organizations like the UN and EU spend 5 -6 years setting up a system, and they discover that it doesn't really work; it's hard for them to go back. The informant said: "The UN doesn't say to the Palestinian organizations, make your own forms that is locally acceptable, no, this is what we have for you here. You have to use this one that we made in New York. Maximum input for you minimum input for us."

Another donor condition that was highly used was conditions on how and where the money was going to be spent. If you have a project and you get 100 000 dollar, the donors will demand an independent consultant to make an estimate of the project, and he has to be from a specific company. Everything you buy has to come from specific firms or from specific countries. That takes a good chunk of you 100 000 and what you are left with, is a little labor for service providers. What goes to the local level is not much.

### **5.7.2. Reporting**

Several of the informants told us that the reporting was a burden. In many cases you have to report to both the PA and GoI. You will also have to report to the INGOs you work with. The INGOs will have to report to the PA and GoI, as well as to the donors and home government.

As one informant told us; *“reporting, reporting, reporting, who reads all this anyway?”* The burden of reporting is on the organization receiving the money. One informant from an INGO told us that they make their partners report on a quarterly basis and the donors want reporting from the partners and the INGO twice a year. Very little is done with the information collected. *“It’s like having a giant survey and really just want to know the answers to a few questions and you give them a hundred question survey”*. Another INGO informant told us that he felt that they followed up their partners to close. He was worried it could be perceived as they didn’t trust them.

One informant from an INGO told us that if you do direct implementation you are responsible for every beneficiary. She gave us an example from USAID. Anything that is USAID funded will have to submit a beneficiary list and send it to Washington DC, and wait for anywhere from six weeks to six months for approval. If you then have a mistake you have to do the whole process again.

### **5.7.3. Evaluation/ assessments**

In 2011, the PA became a part of the Paris Declaration Monitoring Survey. It allows the Government to assess the current status of aid effectiveness in Palestine, and has information on aid flows and aid effectiveness issues that require further improvement (Report to the ad hoc, PNA, apr 2011 p.20). The survey will also serve as a baseline for future progress. There has also been a progress in the forming of statistics, as the Palestinian Central Bureau of Statistics are conducting more reports and getting the information out. That provides quantitative data that can be used for future references and research.

The reports (World Bank, IMF, EU, PA) refer to GDP and other statistics such as employment rate, GNI, when speaking of development and progress, little is said about the actual situation on the ground, as we can see. The GIZ report (Hilal & Shalian, 2011), however, states in its methodology section that it is “based on an internationally developed methodology that a local participatory methodology, which involves the stakeholders in the local community and the local market players within the various processes of production, export and distribution” (Hilal & Shalian, p.4). Further on how they have conducted the research they have used the “participatory rapid appraisal approach, which combines the use of different tools, obtaining information from various sources, and comparing them to reach an objective opinion” (Ibid, p.4). From Nablus, the GIZ report has consulted 42 people

at the local level, of a total of 64 that contributed to the report. Total amount in the report were 231 of 297 consulted at the local level.

### ***Situation in the NGO sector***

One informant from a NGO simply states; “we have forms”, when asked how they evaluate. In this NGO forms seemed to be the basic approach to any evaluation, monitoring or analysis that takes place. A different NGO however, asked; “Forms, who reads them anyways?” And called the amount of paperwork that accumulated in the different levels down in the hierarchy; “the burden of reporting”. When the top level writes 10 pages in an evaluation, the level below writes 20, and the next, 40 pages. This results in an obscene amount of paper, but for what use? Two different NGOs say the amount of forms and papers that are requested in an evaluation or for the application for funding depend on the donor. According to one NGO, the Arab nations do not request as much paperwork as the European donors for instance.

Reporting can be done at various levels; according to one NGO they report to the PA, the Israelis and their own donors/government. Another NGO say they only report to their head offices. One NGO says that donors lay a condition of reporting upon the organization, it’s not, however, always clear as to what you are responsible for reporting

One NGO says they meet all the decision makers, country representatives, organizations, all depending on the certain sectors that are involved. To assess what projects to get involved in they start by the activity itself, and the need arise. Decisions on all activities are taken in advance, based on analysis. “Even the training courses, must depend on the need, and be measured beforehand.” According to one NGO their projects now are; “development, pure development, so it’s capacity building, it’s different than giving relief.” According to them, relief does not measure impact afterwards in the same way. They work in different sectors, and when they choose what organization to work with, they do it according to assessments done before.

A second NGO says it’s hard to isolate the impact of a project, because there is always some hidden aid that is unaccounted for. The hidden aid is for instance families helping each other; it’s then hard to know what indicators to take into account and which ones not to measure. The NGO says they cannot present accurate reports of impact, only indications as

to what the impact is. This NGO claims its donors do evaluations and impact assessments, but do not share the results with them. They are uncertain of whether or not some results are shared with the head of the NGO, but not at their office level.

When asked if they feel donors measure impact, one NGO said; “They focus on activities that cannot be measured, like awareness and gender sensitivity.”

A different INGO say they have an annual plan, and update it as well. The monitoring and evaluation system is based on a set of indicators. The indicators help to measure if results are achieved or not. The numbers are based on indicators and previous numbers, a baseline. Who does this evaluation depends on the assessment, sometimes they visit the company, and sometimes this is not necessary. Other times they bring external evaluators, monitoring and evaluating specialists. This NGO also does monitoring during the course of a project to see if it is going according to the plan if not; “You start analyzing the reasons. You go deeply into reasons for it.”

Another NGO say they don’t evaluate annually, because they are involved with projects that all have their own independent evaluations. And because of this, annual evaluations would be unnecessary.

A donor informant told us that they had regular meters, and a research oriented monitoring vision. “There is an internal monitoring that we do often, but also an external monitoring that is done by an external independent consultant”.

One informant from the government says assessments are executed better at this point, because of a strategic plan that all NGOs and donors need to follow. If they want to evaluate they have to see if the program fits with the strategy. “If they want to talk about any kind of projects, they have to follow our plan.”The strategic plan is not absolute, and does not work 100 %, however, there is a huge improvement from the previous years.

One informant from a PNGO that worked with private sector development told us that the general trend is that donors want quantitative measurements, but many things are hard to measure. Donors want the money to matter, and for the PA to work, but possibly look away from negative sides. One NGO says there is a lack of planning on some donors behalf; “they just want to implement something without analyzing the situation on the ground”.



## **5.8 Knowledge of the situation on the ground**

Several of our informants told us that they don't think the donors have the ground knowledge of what's going on. One even said that donors and diplomats don't even know the difference of area A, B and C. She said that she was surprised of the level of ignorance from the donors. The diplomats and donors sit in their offices in Jerusalem. They eat dinner in West Jerusalem, they don't socialize in Ramallah and they never go to cities like Jenin or Hebron. They have their own drivers and their own roads so they don't have to see the checkpoints. They have the knowledge of what's going on; put it through reading reports. "You can read about Calandria and the Calandria process and how many go through there every day and how long they have to wait. But if you haven't experienced it, it's just numbers". The donors blame security regulation for why they don't travel more in the WB. Our informant told us that many of the security regulations were made fifteen years ago, and that the situation has changed since then.

Another informant from a PNGO that worked with private sector development informant said that it was hard working with the donors. The donor didn't know the details of what the community needs. Their projects are applied oriented not demand or mean oriented. They have projects up and running, and don't take the local context into consideration, he said.

## 6.0 Analysis

In this part we will try to answer the question of how PA's budget support, in Nablus, affects the private business sector and how local resources are used in international aid distribution in private sector business development. It is our opinion that as most of the aid coming to the oPt is given as budget support this has ramifications for all parts of development and growth in the country, especially private sector business development.

### 6.1 Vulnerability of the PA's budget support

Palestine's GDP has grown, as we see from our findings; this is an indicator of development, as was presented by Ibrahim (2011). We see, however that this does not necessarily mean that there is true growth. UNCTAD states that it in 2010 has been a jobless growth, where the unemployment rate has not really gone down, and that the GDP was very low in the beginning and there has been a better use of existing resources. This created an unrealistic picture of the situation.

Big parts of the economy is financed by outside funding as the tables show, nearly half of the PA's budget comes from external aid. In 2011 the total Palestinian deficit was nearly half a billion US dollars. Funding in recent years has shifted towards budget support, and from that again shifted towards development (see, figure 3). Of all aid that comes to oPt, most goes to the PA. As we see in the EU's distribution of aid to Palestine, only 2 % of the aid goes to the private sector. The PA receives large amounts of money, and as we see from the PA's expenditures, half of their budget goes towards wages. This creates a vulnerable system, highlighted by what we see from the 2012 budget, where there are already difficulties with covering the salaries. When half of the budget goes to wages, and the budget itself is mostly covered by donor funding, it shows the fragility in the system; vulnerable with a great sense of uncertainty.

Because of the budget support's size we can argue that the economy is an artificial one. The limited amount of income that is generated from import and export, the "new" money that is generated comes from the Palestinians themselves. The amount is low, and the majority of funding comes from the "outside" as we have seen presented (see table 4 & 8). The

balance of funding for the running cost of the PA is unnatural and not sustainable in the long run.

It can be debated whether the support is helping the PA or not. The planned external funding is decreasing every year, but if the actual expenses match the planned ones remains to be seen. The big deficit from 2011 (see figure 5), gives an indicator that this could be hard to achieve though. Uncertainty around the PA's ability to meet its obligations and maintain its reform program could decrease business confidence and reduce economic growth.

### **6.1.1. The politics of aid dependency**

It happens, as we have seen, that the PA doesn't receive the funding they need, or that payments are late. When the PA employees don't receive their salaries, it hurts local business because they don't have capital to spend on products and services. This also became clear in our questionnaire, where 17 of 19 answered positive as to whether or not their business was affected when Hamas won the election in 2006 and the PA employees didn't get paid. Withholding funding is, as our theory shows a way of making a political statement regarding opinions of a country's regime, but as in this case it also causes problems for innocent parties, that has no power over these decisions, and indirectly hurts their business.

There doesn't need to be a complete stop of funding, as we saw in Case 2, to leave an impact on the business environment. The fact that the PA was late with their salaries, again because of lack of funding, has an impact on small businesses that live on a day to day basis. The PA being late with salaries caused a huge dent in Jbbarin's income, which was a major factor in the closing of the vegetable shop. A lack of aid means that the PA can't pay their salaries – which affects consumer's capacity to purchase goods and products, which affects small businesses. This situation creates a vicious circle that is difficult to recover from.

As we see in the oPt, the aid funding is highly unstable and varies according to the situation in donating countries, but also the changes and the situation in the oPt. In 2011 the oPt received less funding than it had in previous years, which is also the situation in 2012. From earlier we have seen what happened when Hamas won the elections and how the full membership in the UNESCO also had impacts on donor funding. This uncertainty and

unpredictability has ramifications for the economic environment as a whole. It is especially difficult to plan far ahead, when you don't know if you will have the funding in order. The GDP is growing, but as we see in the reports, it's mainly jobless, and the growth is happening because of exceeded growth in existing sectors, and not because of the creation of new jobs, the unemployment rate is also not affected in a positive way. The politics and funding are all indirect causes to what happens in the private business sector in Palestine. The issues at national level, causes problems on the local level.

The occupation also has political aspects, especially with the international donor questioning, but not holding the Israelis accountable for the destruction of constructions built by donor money. As one major donor stated; "We are not strong enough politically".

### **6.1.2. Aid's effect on the local dynamics**

In some parts of the World, and especially in Palestine where the government is not as strong, the NGOs take over the jobs (from the government); this could be civil services for instance. Where the government does not provide adequate service for its community, it's an opportunity for the NGOs to step in. In some cases they "represent more effective, efficient, and less costly service-providers than governments; at the same time they are perceived as having closer access to marginalized groups" (Tabar & Hanafi, p.38). NGOs work as vehicles for democratization and essential components of civil society; "today NGOs deliver more official development assistance than the entire United Nations system" (Hanafi & Tabar, p.38). It is important though, that the NGOs do not entirely discredit and override the attempts of the local government to get back on its feet, and take control of the situation. NGOs need to give the responsibility back to the locals as soon as they see them capable of this.

Aid creates job sectors that would not necessarily exist in a non-conflict situation, or not in such a major part. For instance translators, chauffeurs, security personnel, are all occupations that would not have such a big market in normal settings. It is a problem that the NGO's offer "big money" compared to the private sector. As the NGO's get funds from outside Palestine, they usually have more finances and can pay higher salaries.

This is a big problem in the Palestinian society. Most newly educated people start working in a NGO instead of the private sector, because the wages are better. This is again an illustration of an artificial situation, where the occupation sets its mark and creates an undesirable working climate. We see how educated people wish to seek opportunities elsewhere. The Palestinian society experiences a huge drain of resources, as educated people leave the country; the highly skilled migration. This is mostly due to the situation in the oPt and the fact that they don't see a future there. This again affects the private sector growth, because you don't have the best competitors for establishing new businesses as they have already left. The ones creating something new will then perhaps not be as skilled or capable in creating, and keeping a business sustainable.

### **6.1.3. Aid's effect on business development**

When most of the money coming from donors goes to cover PA's expenses, it's an undesirable environment for the private sector. As we have seen, different actors both donors and the government all encourage private sector growth, and see it as an important part of the improvement of the Palestinian economy. The insecurity and uncertainty that follows the salary payments and funding of the PA does not help on this part, and although there is talk of private sector growth, the funding doesn't show the same willingness. One cause for this is naturally the PA's plan of statehood building, and improvement of institutions. This takes up big parts of the budget, that could otherwise been used for private sector development.

## **6.2 Aid distribution in private sector**

### **6.2.1 Aid to private sector**

As the findings show, there is a big difference in the amount of aid given to the private sector from the different donors. USAID give 25% of their aid to economic development, while the EU only gives 2%. In 2012 the EU spent their private sector development aid on paying back loans for the PA to the private banks. This means that private sector development aid from the EU also went to the PA, with the PA already getting huge amounts of aid in budget support.

All the actors in aid distribution and the economic institutions working in the oPt agree that the only way to get a sustainable economy is through private sector growth. Still, we see a difference in the priorities from the donors, as most of the international aid is given through budget support. In our search for the aid given to private sector development, the different donor countries use different labels on the different sectors they give aid to. Related to private sector development, Norway calls it Economic development and trade, the EU calls it private sector development and USAID calls it Economic development. Some donors were transparent as to what the private sector development aid went to, while others don't specify what exactly is funded. The lack of transparency makes it hard for us to perform an accurate analysis of the priorities of the donors in private sector development. As we can see from the EU, however, the private sector development aid funding goes to paying back PAs loans and building up businesses that has been destroyed by the occupation.

### **6.2.2. Aid priorities and the occupation**

As we can see from the findings, large amounts of the aid given to the oPt goes to humanitarian support. This is in many cases spent on building up what is destroyed by the occupation. It is difficult to speak about the process of private sector development in the Palestinian Territories without also speaking about the occupation. The restrictions on import and export, the lack of freedom of movement and the uncertainty the occupation presents for the private sector, leaves us with the question of how the private sector can grow under these circumstances.

In 2009 the EU started private sector development projects that were meant to build up businesses that has been closed, or destroyed by Israel. Our informant from a major donor told us this was the price of occupation and that they didn't feel politically strong enough to pressure Israel. With this in mind; is private sector development in the oPt only an illusion made up by donors to give the impression that they are trying to build up and help the private sector? The foreign aid frees the Israeli occupation from its international obligations towards the Palestinians, and lets them continue, because there are no economic incentives for the Israelis to stop the occupation.

### **6.2.3. Private Sector Aid representation in coordination**

As mentioned before, the oPt is one of the areas in the world that receives most international aid per capita. This makes aid coordination challenging. The local coordination mechanisms that are relevant for private sector are the Economic Strategy Group and the Private sector Development and Trade working group. As the findings show, the private sector's only representation in the local coordination structure is in the Private Sector Development and Trade working group. They are represented by interest organizations for the private sector. They are not represented in the Economic strategy group.

From the theory (Dekker & Suparamaniam, 2005) we see that communication from the blunt end to the sharp end often is bad because they see the world differently. HQ and donors are often far away from the conflict and don't know the facts on the ground, the blunt end being HQ/donors. They are engaged with issues as economy and politics, while those who work on the ground are engaged with issues of what is needed at the time (Ibid). As our findings show, the donors, NGO, INGOs, UN agencies, World Bank, IMF all say that the private sector must be a priority for the Palestinian economy to be sustainable. But they are not represented in coordination mechanisms. How can donors and the PA make the right decision on economic issues when they don't talk to the people who work in the private sector?

The private sector businesses in oPt consists mostly of one to five employees, they are also often family based. Is it possible to have a representation of the "real" private sector in these mechanisms? One can argue that the interest groups are the best way to represent the private sector. But as our findings show the donors seldom travel in the West Bank, they don't walk through the checkpoint or feel the occupation on their body. They read reports, statistics and numbers on the situation. We can then argue that this makes it even more important that the workers from private sectors on the ground are heard, the people who are affected by the decisions of these mechanisms.

### **6.2.4. The Impact of Evaluation and reporting**

The reasons for the applying and reporting system is to ensure that the right families/persons get the aid, and that it is spent in the way according to the NGO's/donor's

wish. The evaluation is executed to identify potential negative impacts, and establish a valid counterfactual – what would happen if the intervention had not taken place (White, 2005, Hofman et al., 2004). The aim is to judge the probable environmental, social and economic consequences of development projects” (Hofmann et. Al., 2004). This is all well and good, but as our findings show, it is harder than it sounds.

The way aid is given has consequences for the private sector development. Our findings show that the larger businesses that have a good economy get grants, and the smaller businesses, in many cases don't have the capacity to even apply. The donor conditions, such as reporting and applying systems, makes this hard for the small businesses to enter the “donor market”. In the following section we will try to give an answer to why this is the case.

### **6.2.5. The impact of Bureaucracy**

#### ***Local context***

As our findings show, many of the application forms were in English and not Arabic. The application process is often online and they don't have an alternative paper version if you don't have internet access. An informant told us that the agencies don't take into consideration what happens if you have a bad internet connection and it breaks before you get to fill out the application, or if you're a slow typer. The applications also rarely come with guide notes. If you get one question wrong you risk waiting for the duration of the application process, and then get the message that you didn't fill in the form correctly. We were told that people for a long time have asked for a standardized reporting and applying systems.

We asked an informant how you could change the system do make it more accessible for people, she said: “Almost nobody goes and ask the local people and local organizations, how it can be changed. What is practical in their capacity, what would they like to see be done. They are the fractional voice in the whole discussion”. As Hanafi and Tabar (p. 183-184) remarks in their study; “... upon close inspection we found that community participation is often used as a slogan: it is discussed as a method, but when probed as to how it's applied, there is little substance behind the celebratory proclamation...” Standardization is a way to



cooperate with the beneficiaries and local businesses on their terms. It would create more efficient systems, and make it easier for those using them.

In many cases, the small businesses with one to five employees don't have the sufficient capacity needed to do the applying process. The larger businesses sometimes have their own departments who specialize in this, and will therefore be the ones who receive the funding. This could of course be a good thing for the larger businesses, as they will be able to develop further, but the system as a whole has some faults that need to be rectified.

This is an example of people adapting to the condition they are in. Anderson (2008) explains this; when you have a large flow of capital in a sector or an area it will affect the dynamics of the sector. It will change the power balance, and it will make sectors that in non-conflict setting would be un-natural (Anderson, 2008). She also warns the actors working in these areas to be aware of this and take precautions, to do as little harm as possible to the local structures. We claim that the applying and reporting system made by donors and NGOs has made an impact on the structure of business development. The larger businesses have a better chance at receiving funds because of their capacity in the application process. They have perhaps better language skills and knowledge of the aid system that they have adapted to because they are capable and have the resources. The smaller businesses don't have this and get bypassed. One can argue that it's better for the business environment that the larger companies get the grants, because they then have the possibility to expand. This will create more workplaces, and the unemployment rate could decline. In a business development aspect, however, the consequence is that the small businesses get bypassed and don't get the support that could make a difference, not only for the business but their whole family, and in turn generate growth in the private sector.

## **How international aid changes incentives for business development**

### ***Medium/large businesses***

The medium and large businesses have, according to our findings often own departments that's only focus is on applying for aid and handle the aid bureaucracy. This means that the international aid distribution has created a system that has incentivized this activity. The businesses use manpower and resources on the bureaucracy of aid instead of developing their own businesses further.

### ***Small businesses***

As our findings show, there are NGOs that offer private businesses to prepare all the work for them to open. They do all the paperwork, business plans, and financial plans and so on. According to one informant most of these businesses closed within 6 months. One can argue that with the NGO doing all the work for the beneficiaries they don't get a feeling of business ownership or accountability. The motivation you have when creating something for yourself is higher, than when you don't have anything to lose. The NGOs are trying to help, but might do the exact opposite by changing incentives for private sector to development.

### ***Learning***

The point of evaluations and assessments is to learn from them (Kaiser, 2004). Kaiser argues that "... humanitarian actors are beginning to recognize that assessing the actual impact of their work is more valid than simply measuring output in material terms" (Kaiser, 2004, p.8). This means that evaluators need to look to participants, and conduct beneficiary based evaluations. As mentioned in our findings, informants told us that the reporting was a burden, with no element of learning, or discussions of the challenges and failures in the process.

In many cases you have to report to both the PA and GoI. You will also have to report to the INGOs you work with. The INGOs will have to report to the PA and GoI, as well as to the donors and home government. When the top level writes 10 pages in an evaluation, the level below writes 20, and the next, 40 pages. This results in an obscene amount of paper, but for what use? Little is done with the information collected; informants said that they don't even think all these papers are being read. When the system of reporting does makes it so that nobody reads the reports, one can ask what the point of it is.

We were told by an informant that the use of local resources was a priority when establishing projects where NGOs and INGOs were working with partners. When it came to changing the administrative factors it was different. Organizations like the UN and EU spend 5 -6 years setting up a system, to discover that it doesn't really work; it makes it hard for them to go back. The informant said: "The UN doesn't say to the Palestinian organizations; make your own forms that are locally acceptable, no, this is what we have for you here. You have to use this one, which we made in New York."

When you have as many different actors as you have in the oPt, there should be a better system for learning from own failures. The transparency in previously conducted studies and evaluations are lacking, and in some ways making different actors to the same work that already has been done, because results are not shared. When reports are requested, there should be more consideration and thought going into what and how they are used, making a system that would be beneficiary for both parts.

### **6.2.6 Donors**

#### ***Knowledge on the ground***

Dekker & Suparamaniam (2005) explain how HQ and donors often are away from the conflict and don't know the facts on the ground. Issues can often be black and white for HQ/donors. They priorities issues like economy and politics, while field workers are engaged with issues of what is needed on the ground (Dekker & Suparamaniam, 2005). This makes it hard for field workers to communicate the complexity of the situation, because they have two different views of the situation.

Several of our informants told us that they don't think the donors have the ground knowledge of what's going on. They don't travel in the West Bank and they have their own drivers that don't have to drive through or see the checkpoints. The knowledge they have is from reading reports. Will you get the right view of how the private sector is affected by the occupation or the reporting system when you don't talk to them, or don't visit the people who are affected, and you don't know how it is to live under occupation?

There can also be a gap between knowledge and authority. Those who have knowledge of what to do, do not have the authority to take decisions, and those who don't have the knowledge of what is needed on the ground is authorized to decide (Kruke & Olsen, 2010; Dekker & Suparamaniam, 2005). An informant from a PNGO told us that it was frustrating to work with donors, they had their proposals and they didn't have any influence of making any changes. *"The donors don't know the details of what the community needs. They are not taking the local context into consideration"*.

#### ***What is evaluated?***

One NGO says there is a lack of planning on some donors behalf; "they just want to implement something without analyzing the situation on the ground". The point of

evaluations and assessments is to learn, for the donors perhaps more to see results, but also the aspect of accountability. Currently accountability is faced upwards; to donors, trustees and other stakeholders, when in fact it should be downward, to those receiving assistance (Kaiser, 2004). One informant from a PNGO that worked with private sector development told us that the general trend is that donors want quantitative measurements, but many things are hard to measure. Donors want the money to matter, and for the PA to work, but then possibly look away from negative sides. As the ALNAP (2009) states, it is quite clear that donors appreciate results, and because of this NGOs often evaluate outputs of projects in a manner that pleases the donor. The way evaluations are conducted could predetermine the information gathered (Kaiser, 2004).

There is a chance that true findings are kept unnoticed and undisclosed because they are found uninteresting for the donor, by those evaluating. Too much is expected by too many different stakeholders (ALNAP, 2009). An informant from an NGO told us that they don't receive the evaluations, that the donors don't share the results. This means that the learning element falls away from the people at field level.

### **6.3 Summary**

There are two dimensions for the lack of communication and coordination with local resources in aid distribution; the structure on how aid is given, implemented and evaluated, and the occupation. The donors and INGOs don't communicate with the PNGOs and the locals to the degree they could. They also don't know the fact on the ground as well as they could, how it is to run a business while living under occupation. The consequence being that aid is given in a way that harms the private sector development. On top of this the private sector has to run their businesses under occupation with all the extra cost and uncertainty this represents.

## 7.0 Conclusion

The purpose of this thesis was to study how international aid affects business development in Nablus. International aid makes the city of Nablus vulnerable. Private sector runs their businesses in uncertainty, both from the vulnerability of the PA and the occupation.

International aid affects business development in Nablus in several ways, both directly and indirectly. First directly, in the way the aid is distributed. This is through the reporting and aid application process, as well as the evaluating and assessment system. These systems are made by donors and INGO headquarters. They are far from the conflict and seldom travel or communicate with the beneficiaries. This creates an environment where local recourses are not listened to in the degree they should. The consequences being that projects are executed and aid is given in ways that are not necessarily needed on the ground. In many cases the businesses that receive the aid are not the ones that need it.

The business development is also affected indirectly by the PAs budget support. The huge amount of aid the PA receives makes them vulnerable for political pressure from the donor countries. If the PA doesn't behave in a way the donor countries approve of, they could stop the aid flow. As our findings show, this has happened on several occasions. If the PA doesn't get their budgets in balance they risk not being able to pay their employees. With the PA being the largest employer in the oPt, it makes private sector vulnerable. If the PA can't pay salaries to its employees, they cannot purchase products from the private sector, and the private sector will stagnate.

In addition to this you have the occupation, the restrictions on import and export, the lack of freedom of movement, the permit system etc. All these conditions put together makes it hard for the private sector to develop and grow. We will also argue that the occupation is the main problem for business development, this because of the politics of the aid given. In many cases the donors pay for the destructions of the occupation, and Israel is not given any incentives to end the occupation. As long as the occupation is a fact, real development is not possible. With the donors paying for the destruction, the state building and the PA's budget support how can real development occur; "It's the price of occupation".

It is difficult to be absolutely certain of our findings, and further research should be done on the impacts of aid on the private sector. It would be interesting to study how the focus on private sector in the coming years changes, and how the private business will develop. The decreasing of budget support may or may not cause problems for the private sector; this could also be an interesting aspect for further studies.

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## Appendix 1

1. When was this business established? Year/month: \_\_\_\_\_
2. Have you ever applied for aid? Yes No
3. Have you ever received aid? Yes No
4. Did you receive aid to establish your business? Yes No
5. Could you run your business without aid? Yes No
6. Do you think aid is distributed fairly? Yes No
7. Do you think it's possible for Palestine to become aid-independent by 2014, like the PA wants? Yes No
8. In 2006 the PA did not receive tax-money, and could not give salaries to their employees, did you feel the effects of this in your business? Yes No
9. Do you work with INGO's? Yes No
10. If yes, is the cooperation positive for your business Yes No

Please answer the following questions on the scale from 1-10 where 1 is the lowest/most negative, and 10 is the highest/most positive answer.

11. How good do you think aid is for the local businesses?

1    2    3    4    5    6    7    8    9    10

12. How satisfied are you with the PA's work for economic development?

1    2    3    4    5    6    7    8    9    10

13. On a scale from 1-10, how much do you think business owners can affect aid distribution?

1    2    3    4    5    6    7    8    9    10

14. On a scale from 1-10, how positive do you consider international aid?

1    2    3    4    5    6    7    8    9    10

15. On a scale from 1-10, how do you view the future for your business?

1    2    3    4    5    6    7    8    9    10

16. On a scale from 1-10, how positive is cash for work and food distribution aid, in your opinion?

1    2    3    4    5    6    7    8    9    10

## Appendix 2

1. متى تم إنشاء هذا العمل؟  
السنة/الشهر : \_\_\_\_\_
2. هل سبق و أن قدمت طلب للحصول عل مساعده؟  
لا نعم
3. هل سبق و أن حصلت على مساعده ؟  
لا نعم
4. هل سبق و أن حصلت على مساعده لإنشاء مشروعك الخاص؟  
لا نعم
5. هل كان بإمكانك إدارة مشروعك من دون مساعده؟  
لا نعم
6. هل تعتقد بان المساعدات توزع بشكل عادل؟  
لا نعم
7. هل تعتقد بأنه من الممكن لفلسطين أن تصبح غير معتمده على المساعدات بحلول العام 2014 , كما تريد السلطة الفلسطينية ؟  
لا نعم
8. في العام 2006 لم تتلقى السلطة الفلسطينية عائدات الضرائب , ولم تكون قادرة على دفع رواتب موظفيها , هل شعرت بأثر ذلك على عملك الخاص؟  
لا نعم
9. هل تعمل مع المؤسسات الغير حكومية المستقلة؟  
لا نعم
10. إذا كانت إجابتك السابقة نعم , هل كان لهذا التعاون الأثر الايجابي على عملك؟ نعم لا
- الرجاء الإجابة عن الأسئلة التالية بناءا على المقياس من 1- 10 حيث الرقم 1 هو الإجابة الأقل/ الأكثر سلبية , و الرقم 10 هو الإجابة الأعلى/ الأكثر ايجابية.
11. ما مدى أهمية المساعدة للمشاريع المحلية باعتقادك؟  
10 9 8 7 6 5 4 3 2 1
12. ما مدى رضاك عن عمل السلطة الفلسطينية في التطوير الصناعي؟  
10 9 8 7 6 5 4 3 2 1
13. بناءا على المقياس من 1-10, باعتقادك كم يؤثر أصحاب المشاريع في توزيع المساعدات؟  
10 9 8 7 6 5 4 3 2 1
14. بناءا على المقياس من 1-10, بنظرك ما مدى ايجابية المساعدات الأجنبية ؟  
10 9 8 7 6 5 4 3 2 1
15. بناءا على المقياس من 1-10, ما مدى ايجابيتك حول عملك في المستقبل ؟  
10 9 8 7 6 5 4 3 2 1
16. بناءا على المقياس من 1-10 ما مدى ايجابية الأموال و توزيع المساعدات الغذائية برأيك الخاص؟  
10 9 8 7 6 5 4 3 2 1

## Appendix 3

**Table E1: Economic costs of the Israeli occupation for the Palestinian territory, USD '000 and % of GDP (2010)**

	Cost ('000 USD)	%GDP
Gaza blockade	<b>1,908,751</b>	<b>23.5%</b>
Indirect costs of water restrictions	<b>1,903,082</b>	<b>23.4%</b>
Value Added from irrigation	1,219,667	15.0%
Jordan Valley agriculture	663,415	8.2%
Health costs from water	20,000	0.2%
Natural resources	<b>1,837,738</b>	<b>22.6%</b>
Dead Sea salts and minerals	1,102,869	13.6%
Value added from quarries	574,869	7.1%
Gas marine reserve	160,000	2.0%
Direct utility costs	<b>492,788</b>	<b>6.1%</b>
Direct electricity costs	440,876	5.4%
Direct water costs	51,912	0.6%
Intl. Trade restrictions	<b>288,364</b>	<b>3.5%</b>
Dual use (excl agriculture)	120,000	1.5%
Dual use agriculture	141,972	1.7%
Cost of trading	26,392	0.3%
Movement restrictions	<b>184,517</b>	<b>2.3%</b>
Dead Sea tourism	<b>143,578</b>	<b>1.8%</b>
Uprooted trees	<b>138,030</b>	<b>1.7%</b>

**Direct costs** **3,012,451** **37.1%**

**Indirect costs** **3,884,398** **47.8%**

**TOTAL** **6,896,849** **84.9%**

**Fiscal costs** **1,795,685**

*Memo item*

Nominal Palestinian GDP (2010) 8,124,000

(PMNE & ARIJ, 2011)



### Interview guide

#### Questions for NGO/INGO

1. What kind of aid do you feel effects business development? Why?
2. How do you distribute aid?
3. Do the donors have conditions, are they fair?
4. Do you evaluate the effects of your work?
5. Do you view your work as aid or development?
6. How does the conflict affect your work?
7. How should international aid be distributed?
8. What do you think about the PAs work towards aid independence?
9. How is the cooperation between NGOs and local business?
10. How are the conditions in Nablus?
11. How do you cooperate with the PA?
12. How do you coordinate between the different partners you work with?
13. How is the cooperation between INGOs and PNGOS?
14. How are local resources used?

#### Questions specific for business owners

1. Why have you chosen this business?
2. How does the conflict affect your business?
3. Have you applied for or received aid or grants?
4. If yes, are there conditions you have to follow?
5. How is your cooperation with INGOs?
6. How does the PA help with the establishment of new businesses?
7. Palestine aid independent by 2014?
8. What is your relationship with the PA?
9. How is Nablus different from other parts in the West Bank?

### **Questions for government employees**

1. Could you tell us about the aid situation in Nablus
2. How do you work to get aid independent?
3. Do you have a backup plan if the aid stops?
4. How does the conflict effect business development?
5. In what way can you influence international aid?
6. How do you work long-term?

### **Academica:**

- 1 How does the conflict affect business development?
- 2 Do you think the aid affects business development?
- 3 How should aid be distributed?
- 4 What do you think of PAs work concerning aid and business development?
- 5 Local actors?