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The Political Economy of Western Aid in the Occupied Palestinian Territory Since 1993

Mandy Turner

In the summer of 2012, a Palestinian theatre company toured the West Bank with its production, *Beit Yasmine* (House of Yasmine). Showed to packed theatre houses, the play narrates the story of the shooting and subsequent treatment of human rights activist, Yasmine. While she lies critically wounded, her family is required to write and submit a proposal for medicine which will only be accepted if they also supply a written assurance (the Anti-terrorism Certification[1]) that none of it will go to 'terrorists'. When the medicine arrives, the family discuss whether it will be addictive or not; a debate ensues where they are assured by the 'medical expert' that in small doses it will be beneficial. However, simultaneously, other 'experts' arrive with more types of medicine, and it soon becomes clear it is best that Yasmine remains ill in order to continue receiving such care, and for those around her to profit from it. The rebellious son of Yasmine, who initially opposes the medicine, is plied with offers of paid study abroad or a comfortable salary in a good job for his silence and acquiescence – thus posing him with a severe moral dilemma.[2]

Clearly *Beit Yasmine* was articulating some of the frustrations being expressed by Palestinians towards western aid and donors in the occupied Palestinian territory (oPt). In particular, that aid has become a 'game' and a corrupting force – for both beneficiaries and benefactors – and that it is shrouded in a fundamental dishonesty. From a population that was, for a few years (until recently), one of the largest per capita beneficiaries of foreign aid in the world, this is a damning critique, and one that requires serious exploration.[3]

The context for aid and humanitarian assistance provided to the Palestinian people has gone through a number of phases. In the initial

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period after the creation of the state of Israel and the Nakba in 1948, humanitarian assistance, distributed through the United Nations Relief and Works Agency (UNRWA), was provided for Palestinian refugees (see Chapter 5 in this book). After Israel's occupation of the West Bank and Gaza in 1967, a few Arab donors provided aid; and after the 1978 Camp David Accord between Israel and Egypt, USAID and UNDP began to operate in the oPt.[4] However, it was after 1993 and the signing of the 'Declaration of Principles' (better known as the Oslo Accord) between the Palestine Liberation Organisation (PLO) and the state of Israel, that the volume of aid and number of western donors operating in the oPt ballooned; and thereafter they became deeply involved in its political economy. While the activities of UNRWA continued to be funded, and thus Palestinians outside of the oPt were not completely ignored, most donor attention and activity was thereafter focused on the occupied West Bank and Gaza Strip.

This chapter is therefore focused on critically unpacking the political economy of western donor aid since 1993; the context for which has been the 'Oslo peace paradigm' which includes both the structural framework created by the Oslo Accord and the ideational framework surrounding and guiding this aid. It does not analyse the agendas and impacts of non-western aid and donors, important though they are (particularly those from the Arab world[5]), because although they operate within a similar structural reality, their ideational framework is different (in addition, reliable data on their activities is sporadic and difficult to access).[6] The chapter is divided into four sections. Section one describes the Oslo framework and the structural context for aid, while section two unpacks the ideational framework surrounding it. Section three critically reflects on western aid in the context of occupation and colonization, and argues that the concept of de-development no longer, on its own, adequately explains the political economy of the oPt. Section four concludes the chapter by arguing that western aid has played a major role in the political economy of the oPt in three ways. First, through the impact of donor-funded spending and involvement in the governance structures of the Palestinian Authority. Second, by helping to fragment the oPt geographically by working through the Oslo framework long past the five-year interim period. And, third, through the 'partners for peace' discursive framework which has been used to manipulate Palestinian elites. Because of this, the chapter argues, the type of peace being supported by western donors needs to be unpacked and subjected to critical scrutiny.

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The 'Oslo framework' and the structural context for aid

The expansion of western aid and donor involvement took place through and within the Oslo framework created by the Oslo Accord and subsequent agreements which committed both parties to track-one bilateral negotiations towards a resolution of the conflict. The Oslo framework thus established an interim administration, the Palestinian Authority (PA), as a form of self-rule, and handed over small pockets of territory to its management. The PA was given limited autonomy over the civil affairs of the majority of the Palestinian people living in the West Bank and Gaza (but not over the land) as Israel's military forces formally withdrew from some high-density population areas while continuing to control access to and from them (and making frequent military incursions and arrest raids into them). Geographically, the oPt was divided into administrative parcels: in the West Bank (excluding East Jerusalem which had been annexed after the 1967 occupation) into Area A (under PA civilian and security control), Area B (under PA civilian control and Israeli security control) and Area C (under full Israeli control); in Hebron into H1 (akin to Area A) and H2 (akin to Area C); and in Gaza into Yellow and White Areas.[7] This was structured as follows: 18 per cent of the West Bank was designated Area A holding 55 per cent of the Palestinian population, Area B was 20 per cent of territory with 41 per cent of the population, and Area C was 62 per cent of territory with 5.8 per cent of the population.[8] This framework has remained in place despite the fact that it was only supposed to be for an interim period of five years, while final status negotiations on refugees, borders, Jerusalem, water rights and Israeli settlements took place. However, withdrawals and transfers of power were frozen in 2000, and there has been no significant redeployment of Israeli forces, apart from Gaza in 2005 (thereafter put under siege). Areas A and B (or a combination of both) are surrounded by Area C, meaning there is no geographical contiguity for areas under PA administration, which also makes movement and access difficult for Palestinians.

The Oslo framework continued Israel's already-existing control over external borders and key factors of production (including land, water and the movement of labour) and did not deter Israel's practices of land grabbing and settlement expansion. Israel also retained control over key Palestinian state-building resources including trade and fiscal revenue, the proceeds of which were to be given by Israel to the PA as 'revenue transfers' as enshrined in the Paris Economic Protocol (PEP) – the framework for economic relations between the PA and Israel.[9] The PEP established a quasi-customs union which has been detrimental to the

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economy of the oPt as it left the PA with no control over macroeconomic or exchange rate policy, it led to huge amounts of fiscal leakage (documented as being over US$200 million by 2013) and it imposed a tariff structure appropriate to an advanced industrialized global economy not to an underdeveloped economy emerging out of military occupation.[10]

By the time of the signing of the Oslo Accord, 26 years of Israeli military occupation had taken its toll on the political economy of the West Bank and Gaza Strip. Palestinians had suffered from land expropriations, restrictions on the use of natural resources, low levels of public investment, an undeveloped economic infrastructure and industrial base, poor and fragmented social services, feeble local government, a weak financial sector and a loose legal and regulatory system.[11] This threw up huge challenges for developing the economy and creating governmental structures in the oPt in preparation for final status negotiations. Promoting development that could underpin statehood was further undermined by Israel's strategy of 'asymmetric containment' and the Oslo framework – both of which ensured the continuation of Israel's economic dominance and control over key Palestinian resources. (See Chapter 1 in this book.)

Into this context and framework, around 40 donor countries and 20 UN and other multilateral agencies have given aid for governance, development and humanitarian activities.[12] Western donors have committed significant resources as shown by the level of overseas development assistance (ODA) which rose from US$39.24 million in 1993 to $1.741 billion in 2009; it thereafter dipped so that by 2012 it was $1.099 billion.[13] (See Figure 2.1.) When ODA figures are given for all

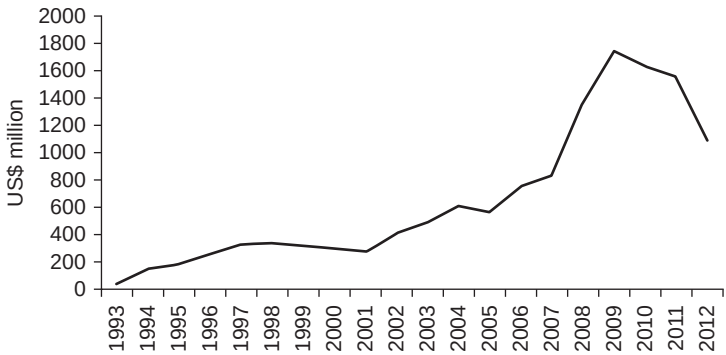


Figure 2.1 OECD DAC ODA official disbursements, 1993–2012
Source: OECD DAC database.

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donors and multilateral agencies, this increases from US$178.74 million in 1993 to $2.011 billion in 2012.[14] Budget support was provided to the PA and hundreds of international and local NGOs were established and competed to implement donor programmes.[15] However, it should be noted that the mechanisms for reporting and documenting aid have improved significantly since the mid-1990s and so earlier figures do not adequately capture the level of ODA provided. In 2013, the IMF estimated that since its creation, the PA has received more than US$15 billion in aid from bilateral and multilateral donors (which constitutes 15 per cent of GDP per year), with annual per capita aid averaging $340.[16]

Regular pledging conferences and other donor meetings have played a key role in mobilizing assistance although it has often been difficult to distinguish between 'new' and 'old' pledges, and pledges have not always translated into disbursements.[17] In fact, in 2012, donor countries pledged US$1.3 billion but had only transferred $800 million in funds, adding a $500 million deficit to the PA's 2013 budget, which by June 2013 had reached $4.2 billion.[18] The gap between budget assistance requested by the PA and that received from donors was US$694 million in 2012 and $438 million in 2011.[19] (See Figure 2.2.) This has contributed to the PA's fiscal crisis, which will be explored later in this chapter.

To coordinate aid, an elaborate layer of oversight committees was formed by the western donors with bodies at the national level and at the local level.[20] (See Figure 2.3.) This type of oversight arrangement reflects common donor practice in other war-torn societies – where they have either directly controlled the state-building process through the creation of a transitional administration (often, but not always, administered by

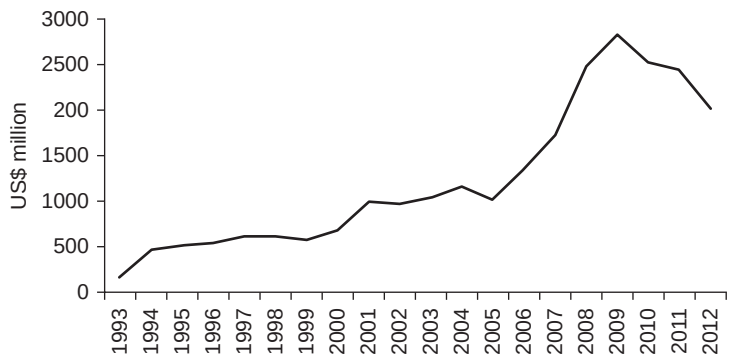


Figure 2.2 All donors and multilateral agencies ODA disbursement, 1993–2012
Source: OECD DAC database.

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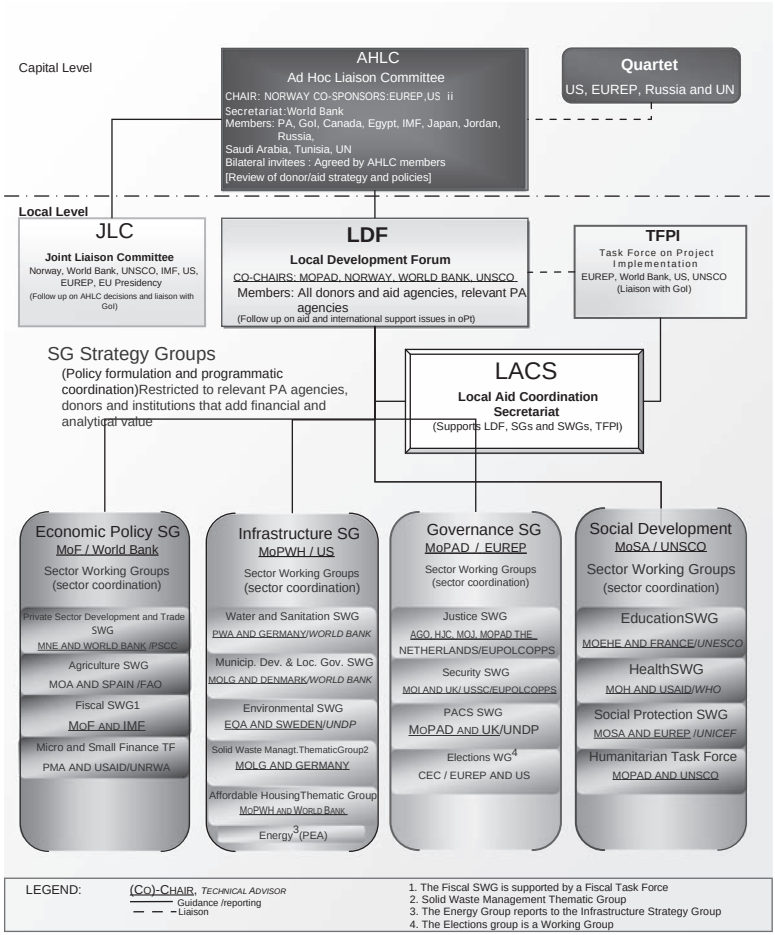


Figure 2.3 Aid management structure in the occupied Palestinian territory
Source: Local Aid Coordination Secretariat.

the UN) such as in Kosovo or East Timor,[21] or have dominated the state-building process through governance assistance and involvement in key ministries such as in Sierra Leone or Liberia.[22] However, the PA is unlike any other governance structure witnessed in either a colonial or conflict context (see Chapter 9 in this book). The only body which holds sovereignty over the land, resources and people of the oPt is the occupying power, Israel, despite the fact that the Oslo framework and the creation of the PA blurred this. Indeed, the necessity for large and continuing

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amounts of aid is caused by the lack of control that Palestinians have over their resources (both natural and human).

Due to the huge numbers of donors and multilateral agencies involved in the oPt, there was an 'aid politburo' of the dominant players: the US, the EU, the World Bank and the UN.[23] The World Bank is the leading multilateral actor in donor coordination: it holds key positions in nearly every committee and is the administrator of the multi-donor trust funds.[24] The UN has multiple agencies operational in the oPt overseen by the UN Special Coordinator Office for the Middle East Peace Process (UNSCO). Through the European Commission and individual Member States, the EU has been the largest donor. However, the most important third-party actor is the US, which has been the dominant external and military power in the region since the 1970s and which has overseen the diplomatic process.[25] US support for Israel throughout this period has been unconditional, cemented by both generous aid (around US$3 billion annually, almost all of it military aid, although in the past it included significant economic assistance) and in political/diplomatic terms (through strong support within the US Congress and within the UN).[26]

While the US's role is unquestionably problematic, all other donors have tended not to overtly challenge US positions for self-interested foreign policy reasons, although tensions and friction have arisen on occasion. Donor relationships and roles in the oPt therefore reflect global structures of power as they operate in the Middle East. Le More characterizes donor relationships and roles in the oPt thus: 'the US decides, the World Bank leads, the EU pays, the UN feeds.'[27] Nothing much has altered to disrupt this general rule, not even the creation of the Quartet (which includes the EU, the US, the UN and Russia) in 2002.[28] Indeed, a senior French official stated: 'As [ex-Secretary of State] Colin Powell admitted to me, the reason why the Quartet was formed was to make sure that nobody else could do anything.'[29] This became clear to some involved, including Alvaro De Soto, the UN Secretary-General's Special Envoy for the Middle East Peace Process 2005–2007, who stated, in a leaked confidential 'End of Mission Report': 'Whatever the Quartet was at the inception, let us be frank with ourselves: today, as a practical matter, the Quartet is pretty much a group of friends of the US – and the US doesn't feel the need to consult closely with the Quartet except when it suits it.'[30] It is perhaps also worth making the (too obvious) point that none of these organizations are elected by people in the oPt, and there is thus no democratic oversight over what they do.[31]

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Supporting Oslo and 'partners for peace': western donor ideology and practice

The genius of the Oslo Accord (and the resulting peace process) resides in its ambiguity: the creation of a sovereign Palestinian state was never explicitly agreed upon, but never ruled out.[32] This meant that Palestinian expectations could continue, despite mounting evidence that Israel would not allow it (see Chapter 12 in this book). The PA was established as a non-sovereign entity whose existence is subject to continuous negotiations with its occupier, Israel, *and* with the donors. This meant that the PA became party to a complex process of co-optation while Israel continued its colonial practices.

While there are clearly differences between those in the 'aid politburo' (and amongst the donor community in general), an official ideology unites their activities and creates the ideational context for aid. The stated aim of international assistance after 1993 was to support the peace process. Announcing the intention to convene an international donors' conference, US Secretary of State, Warren Christopher, stated in 1993: 'The purpose of this conference will be to mobilize resources needed to make the agreement [i.e. Oslo] work.'[33] Similar justifications for support exist in many donor policy documents. For example, the stated aim of UK aid, disbursed through the Department for International Development (DFID), is 'direct support to the peace process; humanitarian assistance to improve the prospects for peace; and supporting the institutions of a Palestinian state which could participate in the peace process and govern the Palestinian Territories following a final peace settlement.'[34] This ideational framework guiding western donor activity has not altered in the past 20 years, even when the peace process has stagnated. In fact, it has been crucial in perpetuating the fiction of a peace process where none has existed and in propping up the PA during times of acute crisis. In 2002, for example, during Israel's military campaign, Operation Defensive Shield, a World Bank official stated: 'With the [second] *intifada*, the sense was that the Palestinian institutions and economy needed to be prevented from collapsing so there remains something of an economy and institutions when the political process resumes.'[35] And in the aftermath of the administrative and political division between the West Bank and Gaza in 2007 another World Bank official stated: 'We need to keep the patient [i.e. the PA] alive.'[36] The fact that there was a spike in donor assistance in these periods of crisis indicates commitment to the Oslo framework even when it has been placed under severe pressure.[37] Commitment to the continuation of the PA is clear. Indeed, after

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2007, more than 80 per cent of aid has gone towards budget support of the PA, whereas prior to 2001, this constituted only one-third.[38]

Using aid to prop up preferred 'peace partners' is common in peace processes and/or at the end of conflict.[39] Indeed, donor conferences often give a sense of momentum to a peace process – particularly in terms of symbolic capital – in affording international legitimacy to some actors and processes while withholding it from others.[40] While commitment to a two-state solution is replete in donor documents and proclamations, western support for Israel is deeply-embedded and thus the political objectives of western donors have taken precedence over the developmental needs of Palestinians.[41] The Oslo peace paradigm – with its commitment to track-one bilateral negotiations and Israel's 'security first' perspective that insisted that the PA's primary task was to deliver security to Israel – codified the principle that any change in the status of the oPt, and thus any withdrawal of Israeli control, depended entirely on Israel's consent.

Western aid and donor practices in the oPt have thus come to compliment and intersect with Israel's methods of control in crucial, but subtle, ways.[42] The first has been through supporting certain Palestinian elites and marginalizing other elites; the second has been through training and controlling the PA's security services, and the third has been through the co-optation of individuals and groups into support or acquiescence of the Oslo peace paradigm. These policies, common throughout other examples of western peacebuilding practice, have been pursued utilizing the neutral and depoliticized donor language of 'state-building', 'security sector reform', 'democracy promotion' and 'good governance'. The implementation of these peacebuilding practices in this context, however, helped to create acquiescence in a context still structured by Israel's occupation and colonization practices – and has achieved some goals that had eluded Israel.

For example, and perhaps most importantly, Israel has long tried to manipulate Palestinian political elites; but with the additional involvement of the international peacebuilding industry after Oslo, a new interface of co-optation was created with the innocuous title of promoting 'partners for peace'. The phrase 'partners for peace' has been frequently used by all parties – Palestinian elites, Israeli elites and western donors – which indicates just how popular and apparently benign a discursive framework it has come to be. However, the ability to *act* on it has been fundamentally unequal thus revealing its more malignant implementation. In its application, this discursive framework has been used by Israel to justify cutting off revenue transfers to the PA, to arrest and detain

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Palestinian politicians and political leaders, to implement targeted assassinations, and to use military violence. By the donors, it has been used to justify supporting one set of Palestinian political elites over another, to cut off aid and to support/take measures to institute regime change.[43] This subtle phrase, therefore, masks a coercive process that can be at odds with local sentiment. For example, in October 2009, UN Secretary-General Ban Ki-moon called PA President Mahmoud Abbas a 'credible partner for peace'.[44] The context of this comment was Abbas's decision that the PA would not campaign for the UN General Assembly to adopt the Goldstone Report that had accused Israel (and Hamas) of war crimes during its 2008–2009 war on Gaza. But while the UN (and the US) were praising Abbas, there were demonstrations throughout the oPt (and internationally) as well as resignations from PA ministers in protest at Abbas's decision – all of which shook the credibility and stability of the PA. Being a 'partner for peace', therefore, can make political elites unpopular with their own people, but popular with major global players. The flip-side seems also to be true: that political elites popular with their own people can be unpopular with western donors, as indicated by the economic and political sanctions imposed in response to the election of Hamas in January 2006 because it rejected the Oslo peace paradigm.[45] This is not to suggest, however, that Palestinians and their elites have no agency; but it must be recognized that they have been in no position to dictate the terms of the peace – all they have been able to do is reject or accept Israel's demands.

The 'partners for peace' ideational framework has, therefore, become an intricate part of the Oslo peace paradigm helping to guide western aid in the oPt. Western donor support to the PA in Ramallah, after the split between the West Bank and Gaza in June 2007, is the most glaring example of this to date. Some western donors, particularly the US, have been open and direct about which Palestinian elites they are willing to work with, and which they are not. Since 2002, USAID has included an Anti-terrorist Clause (ATC) in its contract arrangements with implementing partners in the oPt, as referred to in the play *Beit Yasmine* discussed at the beginning of this chapter. The ATC was part of the US response to the 11 September 2001 attacks on the World Trade Center by al-Qaida, which tied US aid to its 'global war on terror' (renamed by President Barack Obama as 'overseas counterinsurgency operations'). Adopting the apparently neutral language of supporting 'partners for peace' has been therefore, for some donors, a cynical manoeuvre to ally direct with Israel. For other donors, however, a more pragmatic and practical approach has underpinned its adoption: funding and working with

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Palestinian political elites regarded by Israel as being 'partners for peace' would greatly assist them to implement their mission of 'supporting the peace process'. But in doing so they granted Israel the defining role in determining what constituted 'legitimate' and 'illegitimate' political practice for the PA (and Palestinians in general). Illegitimate political practice has been defined so wide as to include rockets fired into Israel from the Gaza Strip right through to the 2011–2012 'Palestine 194' campaign (labelled as such because Palestine would have been the 194th member of the UN if given member status). Indeed both forms of action have resulted in punishment by Israel and its key allies: the former has been met with military violence and blockade, while the latter was met with Israel cutting off clearance revenue and the US cutting off aid for budget support (but both of which were reinstated in March 2013).[46]

The second method of control installed by western donors has been the training and coordination of Palestinian security services to secure the population and ensure the position of the preferred local elites. In the oPt, building up the security institutions of the PA has been a western peacebuilding priority since its creation in 1994, but, as many critics have pointed out, unlike other security institutions which are both out-facing (to protect their populations against external threats) and in-facing (to protect the state against insurgents), the PA's security forces have been structured to protect the PA and Israel against insurgents, not the Palestinian population against external threats.[47] The involvement of Palestinian security personnel in the second intifada does not deter from this main point; in fact it proves to show that the PA itself is in a contradictory position, and its elites (and the military forces that protect them and the Oslo paradigm) constantly have to make decisions to continue this process.[48] Israeli–PA security cooperation, overseen by the Office of the US Security Coordinator (USSC), has been a key part of the Oslo framework, and this deepened in the post-second intifada period. Indeed, the channelling of US security assistance to the Office of the President and Fateh to bypass the Hamas administration in the aftermath of the January 2006 elections has been documented.[49] A disproportionate amount of effort has thus been translated into policing the Palestinian population and building up the PA's security services, including the construction of a massive covert operations programme by the CIA.[50] In 2011, 25 per cent of the PA's budget expenditure was spent on 'public order and safety' – more than double that spent on 'social protection' and more than 11 times that spent on 'economic affairs'.[51]

Creating a monopoly over the means of force historically has been a crucial part of the state-building process, but for the PA this monopoly

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has only been partially delegated and can be revoked or overridden by Israel at any point. At its most extreme and visible, this was witnessed in Israel's 2002 military action in the West Bank (Operation Defensive Shield) and the destruction of PA institutions and infrastructure. But it is also true on a more regular basis with Israel's arrest incursions into Area A – supposedly under PA security control. More importantly, the PA National Security Forces 3rd special battalion was dispersed throughout the West Bank during Israel's bombing campaign on Gaza in December 2008–January 2009. The US Security Coordinator at the time, Lt. General Keith Dayton, regarded this deployment as crucial in preventing the outbreak of a third intifada.[52] Israel also praised this deployment. The PA in the West Bank understandably complained that these comments undermined its legitimacy and made it look like a collaborator regime.[53]

The third method of control ensured by western aid has been the creation of active support or quiet acquiescence for the Oslo paradigm amongst an important segment of the Palestinian population. The creation of the PA and other institutions facilitated the rapid growth of the public sector. The Israeli-imposed Civil Administration, which had ruled over the oPt during the occupation, employed 20,000 Palestinians on the eve of Oslo. By 1999, the numbers employed by the PA was 120,000;[54] and by 2013 this constituted 160,000 in the West Bank and a further 42,000 in the Gaza Strip.[55] This, plus the expansion of the NGO sector, drove the growth of a middle class in the oPt, which became a solid foundation of support or acquiescence for the Oslo paradigm. Indeed, by 2013, 56 per cent of PA expenditure went towards paying public employee salaries, while 15 per cent went towards the payment of social benefits – meaning that more than 70 per cent of the PA's expenditure went towards upkeep of the population.[56] The PA is thus in essence a large social security net tying a huge section of the population into its stability and future existence.

The expansion of the NGO sector, dependent on donor aid, was a product of western donor and multilateral agency preference for working with NGOs under the stated objective of supporting civil society and democracy promotion.[57] In 2007, 1,495 NGOs were operating in the West Bank and Gaza Strip, a 61.5 per cent increase on the number in 2000; they were funded by a doubling in total income provided by foreign donors from US$112 million in 1999 to $223.6 million in 2006.[58] Hanafi and Tabar charge that access to donor money and their reporting requirements de-radicalized Palestinian civil society; 'moderate' voices, as defined by donors and other third party actors, were thereafter

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regarded as those that undertook advocacy strategies and lobbying, not the promotion of mobilizations or resistance strategies.[59] Nabulsi has referred to this as a process of 'de-democratization'.[60] The irony is that many of the new NGO elite came from the leftist groups within the PLO (that is the PCP, the PFLP and the DFLP) who had a critique of Oslo, but who thereafter became heavily dependent on its channels of aid for their livelihoods and futures.[61] The transformation of a radical representative civil society to a depoliticized professional one has been documented by several critics[62] although many of these processes are insidious and difficult to detect as they involve a form of self-censorship created by the pursuit of donor mammon.

Western donor aid and de-development – unpacking the linkages

Israel's pursuit of Jewish sovereignty over the land and resources of historic Palestine has resulted, argues Roy, in de-development for the oPt, defined 'as the deliberate, systematic and progressive dismemberment of an indigenous economy by a dominant one, where economic – and by extension, societal – potential is not only distorted but denied.'[63] This, argues Roy, was not altered by Oslo, merely repackaged. Such a critique challenges western donors' official discourse by arguing that instead of developing a viable Palestinian state, aid has relieved Israel of its duties as an occupying power; and the Oslo framework provided a smokescreen for the continued colonization of Palestinian lands and resources. Wittingly or unwittingly, it is charged, donors have assisted in the geographic fragmentation of the oPt because of the peculiarity of the PA's developmental context created by the Oslo framework, particularly its parcelization into Areas A, B and C.[64] This context has meant that development projects have been concentrated in Area A, which has made these areas densely populated and the land highly priced, so transforming these small pockets of Palestinian residency beyond recognition. Area C, on the other hand, is largely limited (for Palestinians) to low-intensity agriculture because of the difficulty obtaining construction permits from the Israeli authorities. According to UNOCHA, Palestinian construction is allowed in only 1 per cent of Area C, which is problematic given that it is the natural place for large infrastructure projects (such as waste-water treatment plants, water pipelines and main roads) to be built.[65] While there are no statistics for aid going to Area C alone, few development efforts have gone towards it; for one donor (and this is fairly typical) 90 per cent of all its aid has

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gone to Area A and Gaza, 6 per cent to East Jerusalem, and 4 per cent to the 'seam zone'.[66]

By accepting these, and other, restrictions (what some internationals refer to as 'working around the occupation'), donors are accused (at best) of standing by or (at worst) of assisting Israel in fragmenting the oPt as it expands and consolidates its control over the West Bank and isolates Gaza. Given that there is often a peak in approvals for infrastructure work from COGAT (the Coordinator of Government Activities in the Territories, the unit within the Israeli Ministry of Defence that coordinates civilian activities between Israel, international organizations and the PA) around the time of the Ad Hoc Liaison Committee meetings, this shows that Israel is playing a very clever game.[67]

By 2012 the number of Israeli settlers in the West Bank (including East Jerusalem) had increased to 550,000[68] and Jewish-only settlements command over 70 per cent of the land of Area C.[69] This growth has taken place with the provision of generous Israeli state subsidies, extensive military protection and a substantial infrastructural support system. Donors are accused of not doing enough to oppose settlement expansion – or the crippling blockade of Gaza which has transformed its economy into one dependent on humanitarian assistance and, until 2013, the smuggling tunnels under the border with Egypt (see Chapter 10 in this book). In this context, Roy regards it as 'both puzzling and tragic that donors including the World Bank are still pursuing the same kind of self-termed "apolitical" approach, seeking technical solutions that will mitigate economic damage rather than political solutions that will enable structural reform.'[70] For Roy, aid cannot prevent or reverse de-development as long as the Oslo peace paradigm remains in place.

There have, however, been important changes in the political economy of the oPt since Oslo that the concept of de-development overlooks. Within the operating framework of the Oslo peace paradigm, a section of the Palestinian political and business elite have been empowered – and they have a vested interest in seeing a continuation of the Oslo framework. The Palestinian business elite in the oPt operate in an economic context structured by the occupation, the PEP and the Oslo peace paradigm where the economic emphasis has been on developing a services- and export-oriented economy – sectors which are largely dependent on connections with Israel and Israeli businesses and are thus sensitive to closures.[71] And so, with the oPt economy dependent on good relations with Israel, strong incentives prevent activities that might jeopardize Israeli approval. It is beyond the scope of this chapter to analyse the links between the PA and Palestinian capitalists (both diaspora and local), but

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suffice it is to note here that these processes instituted a class of elites supportive of the continuation of the Oslo paradigm.[72] The paradox, however, which is typical of such contexts, is that these elites are also forced to push for more autonomy as the impacts of colonization and occupation impede their ability to expand their interests. Just how far they are willing to push and what they are willing to potentially lose, however, is a big question.

Classic neoliberal policies of promoting the private sector, foreign direct investment and open markets have therefore fed into creating a form of dependent development in the oPt.[73] Programmes promoting trade which focus on capacity-building, institution-building and training will not reverse this. Indeed, in 2009, UNCTAD warned against 'the fallacy of the widely-held belief that a return to the relatively less volatile pre–2000 environment, combined with security reform, fiscal prudence and vigorous private sector revival, will alone provide sufficient conditions for sustainable development'.[74] And its predictions appear to have been entirely correct, given that by 2014, the oPt's economic climate was marked by weak GDP growth, high unemployment (particularly amongst the youth) and pressure on wages, and a struggling private sector.[75]

The PA has had recurring shortfalls in donor aid, and indeed a drop in support since 2009 as shown by graph 2.1 (above).[76] Large and expanding arrears to private suppliers and Palestinian banks will ensure there is a huge economic knock-on effect of this fiscal crisis. Most foreign aid has been used for emergency purposes, including paying PA salaries, rather than for long-term development outcomes (although since 2012, the PA has rarely paid salaries on time or in full). Indeed, in 2011, development spending was only 4.2 per cent of GDP, which was well below that envisaged in the budget.[77] The Palestinian economy is therefore 'trapped on a path of low growth, economic dependence on Israel and reliance on foreign aid'.[78] And yet, despite recent drops in western aid, donors will not end it completely because western foreign policy objectives in the region demand its continuation.

Conclusion: what type of 'peace' and 'development'?

The political economy of the oPt has gone through a radical transformation since 1993. While the overall framework of colonization and the Oslo peace paradigm dominates and structures the macro level, the impacts at the micro-level have differed: some areas have become more middle class and prosperous (Ramallah), others have become poorer

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(East Jerusalem and large parts of the West Bank particularly Area C), and others have become impoverished through the impact of a blockade (Gaza) – although within these areas variations exist. Western donors and aid have played a key role in the development of this political economy. First, because aid has operated through the Oslo framework that has fragmented the oPt. Second, because western aid and peacebuilding practices have been crucial in the creation and maintenance of the PA and a new layer of middle class Palestinians whose livelihoods and well-being is tied into the Oslo framework. And, third, because access to western aid has been subject to the 'partners for peace' ideational framework which has justified acquiescence in the blockade of Gaza, helped to split the PA, and restricted democratic control. It is unsurprising, therefore, that some critics have concluded that Palestinians should develop a common critical approach to the donors and to what type of aid they are willing to accept.[79]

As this chapter documents, western aid and donor practices have become intricately intertwined and embedded within the processes of colonization and fragmentation taking place in the oPt, while at the same time purporting to reduce (or at least try to manage) its impacts. Donor commitment to some sort of 'peace' in the oPt is not in dispute – just what type of 'peace' this is, however, needs to be critically unpacked.

Acknowledgements

The author would like to thank the British Academy, the Council for British Research in the Levant and the Leverhulme Trust for grants which made this research possible. The author would also like to thank Miriyam Arough, Riina Isotola, Roger Mac Ginty, Lester Nora Murad, Michael Pugh and participants of the University of Kent at Canterbury Politics and International Relations Department Research Seminar for comments made on an earlier draft, but any errors are, of course, the author's own.

Notes

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