

PALESTINIAN ECONOMIC BULLETIN FEATURE

Paris and the Golden Apple

by Simon Boas, MAS Research Associate

The \$7.4bn of assistance over 3 years pledged at the Paris donor conference on 17 December substantially exceeded the \$5.6bn initially requested by Prime Minister Fayyad. The Palestinian Reform and Development Plan (PRDP), put together by the Palestinian Ministry of Planning, was praised by the 87 representatives of states and international organisations present and 68 of them put their hands in their pockets to help finance it. Among the highest pledges were the USA (\$555m), Norway, (\$520m), Saudi Arabia (\$500m), Great Britain (\$489m) and Spain (\$360m), as well as Canada, France, Kuwait, Sweden and the United Arab Emirates (\$300m each). The European Commission promised \$650m in the first year alone, taking the total amount pledged for 2008 to a possible \$3.4bn.¹

Good news, then? “The real winner is the Palestinian state”, said French Foreign Minister and host Bernard Kouchner, a remark which encapsulates both the optimism of the principal participants – as reflected in the Western media – and the connection in most observers’ minds between the donor conference and November’s proceedings in Annapolis.

But a glance through the following day’s largely pessimistic headlines in the Middle Eastern press reveals a widely-held regional scepticism about both the efficacy and intention of the money.² Unsurprisingly, local and international reaction to Paris was split along the lines of what the observers think of the PA in general, and of Fayyad’s government in particular. This month the Bulletin examines whether the hopes or doubts are justified, or simply a product of the political views of those who express them.

In the first instance, the headline ‘\$7.4bn’ figure should be treated with some caution. It is not (as was widely reported) destined solely for the PA, but includes funding for local NGOs and up to \$462m for the 2008 United Nations Consolidated Appeals Process (CAP), which finances the work of large international NGOs such as CHF and Oxfam as well as 13 UN agencies.³ Furthermore, some of the money is conditional on progress made following on from Annapolis.⁴ It should be borne in mind that there has always been a significant gap between the amount pledged to the Palestinian Territory and the amount actually delivered, with the Arab League countries particularly remiss in this respect.⁵ Although some funds have already been transferred, it remains to be seen exactly how much will eventually arrive.

The figure should also be put into context. In 2007, international aid to Palestine amounted to nearly \$2bn, including over \$1.4bn from the EC and its member states.⁶ Even if the entire \$7.4bn is disbursed, this amounts to an increase of less than 25% on average over the three years.

Of course, this is still a lot of money. For the first time ever it will mean that Palestinians overtake Israelis as the highest national per-capita recipients of foreign assistance,⁷ and as a proportion of GNI it makes the Palestinian Territory among the most aid-dependent economies in the world. According to OECD figures,

Overseas Development Aid (ODA) to the Palestinian Territory in 2006 represented 34.5% of GNI, with only Iraq, the Solomon Islands, Liberia, Burundi and Afghanistan receiving more.⁸ In 2007 this figure approached 50%, and in 2008 it is likely to exceed it. An OECD reference document classifies countries with a net ODA to GNI ratio above 9% as 'highly dependent on aid',⁹ which leads ESCWA to describe the level in Palestine as 'alarming'¹⁰.

The conditions needed for economic growth (freedom of movement, security, open borders) are lacking in Palestine. The Palestinian economy is increasingly driven by government and private consumption from remittances and donor assistance, and while productive capability dwindles, the prospects for sustainable economic growth are very poor. Indeed, large aid flows to a developing country may have a negative effect on the productive base, reducing incentives to mobilise domestic resources and creating a 'Dutch Disease' which undermines the competitiveness of labour-intensive and manufacturing sectors.

These are legitimate, if slightly contradictory, concerns: that the \$7.4 billion pledged at Paris may not be as much as it seems, but even if it isn't, it is a sum that might swamp the Palestinian economy, further entrenching its dependency on outside assistance.

Analysis of the PRDP gives some cause for confidence. First, even if pledges are not fully matched by disbursements, the PA only requires \$1.8bn in 2008 for budget support and externally-financed capital expenditure (see table), which the Minister responsible for the PRDP, Dr. Samir Abdullah, told the Bulletin he was confident of reaching.

External Financing Requested by PNA in PRDP 2008-10

| | 2007 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------|-----------------|------------------|-------------------|------------------|------------------|
| (\$ millions) | <i>Budgeted</i> | <i>Projected</i> | <i>Projected.</i> | <i>Projected</i> | <i>Projected</i> |
| Budget support | 1,000 | 892 | 1,361 | 1,328 | 1,250 |
| Public investment | 175 | 306 | 427 | 550 | 667 |
| Total external financing | 1,175 | 1,198 | 1,788 | 1,878 | 1,917 |

Second, the PRDP demonstrates an acute awareness of the problems caused by increasing aid dependency, which it says 'perpetuates the cycle of de-development'.¹¹ Its markers for fiscal reform (see December Bulletin) are a laudable attempt to reduce the need for external assistance, which is expected to fall as a proportion of GNI in each year of the 3 year plan. Equally importantly, the plan takes a (refreshingly) reasonable approach to the vital development expenditure which it hopes will stimulate productive growth.

Some have criticised the fact that public investment will amount to 'only' \$1.6bn over the three years, less than third of the \$5.6bn originally requested. This, surely, is one of its strengths. Compare it with the most recent Medium-Term Development Plan (2005-7), in which a shopping list of 420 projects themselves amounted to \$5.6bn! The new PRDP is a more credible guideline to development aid allocation and is based on a realistic assessment of the PA's absorptive capacity for public investment and the likely resources available.

How realistic are the other assumptions in the plan? The original requirement of \$5.6bn was calculated based on a fiscal framework which predicted domestic revenues rising from \$336m in 2007 to \$447m in 2010, and clearance revenues growing from \$850m to \$1,130m in the same period. This is to be underpinned by real GDP growth of 3.5% in 2008, rising to 6% in 2010. Dr Abdullah told the Bulletin that these figures are realistic, especially given the fact that GDP is currently so low. Even with these rises, GDP would not surpass 1999 levels until early 2009. It is worth remembering that in the relatively heady days before the outbreak of the Intifada, GDP growth hovered around double digits for most of the Oslo period. Accompanied by more efficient revenue collection and growing private-sector confidence, the projections look reasonable.

Abdullah dismisses the main other objection to the plan – that it neglects Gaza – by pointing out that over half of the PA’s expenditure will go to the Strip in the form of salaries to its 79,000 public-sector workers, social assistance and electricity payments. But he admits that the money will just be a stopgap and that sustainable growth in the Palestinian Territory is unachievable unless there are tangible improvements in freedom of movement and security. Even with the PRDP’s targets for external assistance entirely financed and Palestinian commitments fulfilled, the World Bank forecasts that Palestinian GDP will continue to fall – by an average of 2% per year from 2008 until 2012 – if security does not improve and Israel does not remove movement and access restrictions.¹²

The private sector must take up the reins from international donors if we are not to be writing similar articles in 2011. But the private sector will not invest while goods are unable to move predictably within and through viable borders. Without appreciable improvements in 2008, Oxfam’s reaction to the money pledged – that it’s like water “poured into a leaking bucket; the challenge is to fix the leak, not pour faster”¹³ – has a grim ring of truth about it. However, the PRDP is certainly an important step towards fixing some of those holes on the Palestinian side. The international endorsement in Paris of the Palestinian plan should be cautiously welcomed.

The Portland Trust

42 Portland Place
London W1B 1NB

P.O. Box Al Bireh 4102
Ramallah Al Masyoun

Azrieli 3
132 Menachem Begin Road
Tel Aviv 67023

Email: feedback@portlandtrust.org
Website: www.portlandtrust.org

¹www.reliefweb.int/rw/rwb.nsf/db900SID/EMAE-79YSWG?OpenDocument, www.ambafrance-us.org/news/briefing/us181207.asp, www.haaretz.com/hasen/spages/935132.html

²For a good summary of Palestinian, Israeli and Arab press reaction, see http://news.bbc.co.uk/2/hi/middle_east/7149564.stm

³UNRWA takes over half of it. www.reliefweb.int/rw/rwb.nsf/db900SID/LSGZ-79JCEV?OpenDocument

⁴For example, the British Secretary of State for International Development Douglas Alexander: “We are willing to pledge an amount up to 243 million pounds, around \$500 million, over the next three years on the basis of progress we wish to see coming out of the Annapolis conference,” (<http://www.haaretz.com/hasen/spages/933177.html>)

⁵See Aronson, G, (2006) ‘Financing the Palestinian Authority’, IDRC (www.fmep.org/analysis/articles/pdf/IDRC3.pdf) and World Bank, 2006, ‘The Impending Palestinian

⁶www.reliefweb.int/rw/rwb.nsf/db900sid/AMMF-79YGGQ3?OpenDocument

⁷www.ynetnews.com/articles/0,7340,L-3414215,00.html

⁸www.oecd.org/dataoecd/52/12/1893167.xls. Iraq’s figures are calculated from UN statistics (www.unicef.org/infobycountry/iraq_statistics.html) and OECD ‘Development Aid at a Glance 2007’

⁹OECD, (2003) ‘Harmonizing donor practices for effective aid delivery’. DAC Guidelines and Reference Series

¹⁰Economic and Social Commission for Western Asia (ESCWA), (2007) ‘Foreign Aid and Development in the Arab Region’, UN: NY. (www.escwa.un.org/information/publications/edit/upload/ead-07-1-e.pdf)

¹¹PRDP p.18

¹²World Bank (2007), ‘Investing in Palestinian Economic Reform and Development – Report for the Pledging Conference’, (<http://siteresources.worldbank.org/>)

¹³www.oxfam.org.uk/applications/blogs/pressoffice/2007/oxfams_reaction_to_paris_confe.html

