

**Islamic University of Gaza**  
**High Studies Deanery**  
**Faculty of commerce**  
**Master of Development Economics**



# **Effect of International Aid in Achieving Economic Development in the Palestinian Territories**

**Prepared By**

**Noureldeen Moh. Abu Ajwa**

**120090952**

**Supervised By**

**Dr: Mohammed Migdad**

**Associated Professor of Economics-Islamic University**

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## ABSTRACT

After signing of the principle declaration agreement between the PLO and the Israeli government in September 1993, donor countries developed a mechanism to fund the PNA, in order to handle the situation and promote the living conditions of the Palestinian people to generate a sense and widely believed that a there is an improvement in the Palestinian people daily life due to engage in the peace process.

The main goal of this research is to identify the impact played by international aid in promoting economic development in the Palestinian occupied territories.

The research was processing as quantitative study, where a statistical econometric model was conducted to estimate the impact in numeric form through the available data on the subject of the research; many interviews were conducted with many specialists in the development issues in the Palestinian territories.

Therefore, the researcher derived several recommendations as follow:

- 1- The PNA to should form realistic developmental plans fitting with the requirements, needs and possibilities of the Palestinian society through coordination with the donor institutions.
- 2- There is need to direct more aid money to the production sector, which has had the biggest positive impact on development indicators in the occupied Palestinian territory.
- 3- Donors should exercise more pressure on the Israeli side to protect the achievements of the international aid from destruction.

## ملخص الدراسة

### أثر المساعدات الدولية على التنمية الاقتصادية

#### في الأراضي الفلسطينية

منذ توقيع إتفاق إعلان المبادئ بين منظمة التحرير الفلسطينية وحكومة الإحتلال في سبتمبر 1993، عمدت الدول المانحة الي وضع آليه لتمويل السلطه الوطنية الفلسطينية المنبثقة عن هذا الاتفاق، وذلك حتي يتسني لهذه السلطه الوليده الإمساك بزمام الأمور و النهوض بالأوضاع المعيشية للشعب الفلسطيني ومن ثم يسود الإعتقاد لدى المواطن الفلسطيني بوجود تحسن في حياة اليومية مرده الانخراط في العملية السلمية.

يهدف البحث بشكل رئيسي إلي التعرف على أثر المساعدات الدولية المقدمة للشعب الفلسطيني على التنمية الاقتصادية في الأراضي المحتلة.

ولذلك تم تنفيذ هذا البحث كبحث كمي مبني علي تكوين نموذج قياسي إحصائي، بهدف تقدير هذا الأثر بشكل رقمي من خلال المتوفر من بيانات سلاسل زمنية عن موضوع البحث، بالإضافة الي اجراء مقابلات مع مختصين بشئون التنمية في الاراضي الفلسطينية.

و كان من اهم ما توصل اليه الباحث الاتي:

- 1- أن تعمل السلطة الوطنية الفلسطينية على وضع خطط تنموية واقعية تتلاءم مع متطلبات وإحتياجات وإمكانيات المجتمع الفلسطيني وذلك من خلال التنسيق مع المؤسسات المانحة لإقامة مشاريع تنموية و ليس مجرد برامج إغاثية .
- 2- ضرورة توجيه المزيد من اموال المساعدات الي قطاع الإنتاج الذي كان له الأثر الإيجابي الاكبر على مؤشرات التنمية في الاراضي الفلسطينية المحتلة .
- 3- الضغط من قبل المانحين علي الجانب الإسرائيلي لحماية منجزات المساعدات الدولية من التدمير.

## DEDICATION

*I would like to take this opportunity to express my deepest thanks and  
dedicate this work to*

*My dear parents*

*Dear wife for her continues support*

*My children, Obada, Karmel and Tameem*

*Brothers AlaEldeen, Saifeldeen, SharafEldeen, Ezzledeen*

*My lonely sister Reem*

*All my lovely people that I know*

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## LIST OF ABBREVIATIONS

DAC	Development Assistance Committee
EU	European Union
ED	Economic Development
GDP	Gross Domestic Product
GNP	Gross National Product
GRP	Gaza Reconstruction Plan
IMF	International Monetary Fund
MOPIC	Ministry of Planning and International Cooperation
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization of Economic and Co-operation Development
PCBS	Palestinian Central Bureau for Statistics
PSE	Palestinian Special Effects
PLO	Palestinian Liberation Organization
PNGOs	Palestinian Non-Governmental Organizations
PNA	Palestinian National Authority
PDC	Paris Donors Conference
PEGASE	Palestinian-European Aid Management of Socio-Economic
PRDP	Palestinian reform development program
TIM	Temporary International Mechanism
UN	United Nations
UNDP	United Nations Development Program
UNRWA	United Nations Relief and Works Agency
WB	World Bank

A rectangular box with a double border and a slight 3D effect, containing the text 'Chapter 1' in a bold, black, sans-serif font.

## Chapter 1

# Background Context

## 1.1 Introduction:

Palestinian people International aid philosophy, fall within what was used to be known as the international community sponsorship to the regions which are facing major transitional stages; such as, political shifts in Sudan, Afghanistan, Bosnia, and definitely Palestinian territories. International aid is considered as a tool to finance economic development.

International community seeks via such policy to encourage all the parties to inter into the new stage; providing them with facilities which can help in achieving the required goal. Since Oslo agreement was signed in September 1993, there was a flow of international aid to enable Palestinian authority in order to handle its tasks, but many obstacles had been facing such aid to achieve the development goal (Shaban, 2006, p.3).

2.4 billion dollars allocated to support the Palestinian National Authority( PNA) for five years (500 million per year) for five continuous years which are between 1994 and 1999, since then the international community observed to support PNA financially to enable carrying out its tasks (MAS, 2005,p1).

The economic development efforts progress can be measured by the improvement of its indicators, for the sake of judging the effectiveness of the international aid presented to the Palestinians, we will put the change of these indicators under the spot light for the period from 1994 to 2010.

Michel Todaro, the famous economist, said once if you want to identify development level in somewhere; you have to answer the three following questions (Todaro.2008)

- What happen to poverty level?
- What about unemployment rate?
- What about Gross Domestic Product per capita (GDP per capita)?

Therefore, we will measure the economic development in the Palestinian territories via the improvement of its poverty level, unemployment rate and GDP per capita.

## **1.2 Problem Identification (Problem Statement):**

Generally, the international aid for development , and specially the economic development in Palestine is to push the development to achieve realistic progress in development indicators if logical funding and rational executive policy were both applied, so the Palestinians would seek via these tools to achieve a real economic development, unfortunately this goal did not take place till the moment.

So, this research will investigate why international aid to the Palestinian people did not achieve real economic development in the Palestinian occupied territories.

## **1.3 Research Objectives:**

- Identifying the Palestinian priorities in economic development and the extent of their need for aid.
- Indicating whether implementing the recruitment of international aid has been correctly applied.

- Making recommendations on how to exploit international aid optimally.
- Building a quantitative model to measure and explain the relationship between international aid and development in the Palestinian territories numerically.

## **1.4 Importance of the Research**

### **First: The Importance of the Research to the PNA and PNGOs**

- The study provides PNA and Palestinian Non-Governmental Organizations (PNGOs) with suitable recommendations enhancing its role to come through obstacles facing the international aid and improving its role to achieve development issues.
- The study evaluates the progress of economic development indicator in the PNA era.
- The study focuses on both of weakness and strength points of the economic development in Palestine.

### **Second: The Importance to the Donors:**

- The study is a reference for the donors who work in the field of economic development; in determining the policies and priorities of donors.
- Formulize a vision to the Palestinian decision makers how to deal with international aid flow, and conduct mechanisms which can achieve to economic development goals.

## **1.5 Research Hypotheses:**

- There is a statistically significant relationship between international aid and development in Palestinian occupied territories.
- Palestinian special effects have a negative impact on the economic development in the Palestinian occupied territories.
- The International aid tendency to be a humanitarian relief has affected the economic development negatively.

## **1.6 Variables:**

### **- Dependent Variable:**

Dependent variable is the Economic development (**ED**) in the Palestinian territories; it will be measured via the following indicators:

- Unemployment rate (**UR**).
- Gross Domestic Product (**GDP per capita**)
- Poverty level (**P**)

### **▪ Independent variables:**

#### **▪ International Aid Total Amount (IA):**

Total amount of international aid divided into the following fractions:

- Amount of international aid directed to infrastructure projects (**IS**).
- Amount of international aid directed to social sector (**SA**).
- Amount of international aid directed to projects in the productive sectors. (**PA**).

#### **▪ Palestinian Special Effects(PSE):**

This variable contains the following effects:

- Closure.
- Intifada.
- Palestinian Internal Political division

The three previous factors are dummy variables and will be measured one by one as fractions to the second dependent variables, the researcher will see the effect of each fraction on the independent variables in separated econometric model<sup>(1)</sup>.

The researcher also added another dummy variable which is PSE, it consist of the impact year of the event refers to the three factors (intifada, closure, political division) affect the economic development indicators in addition to the international aid, where the existence of intifada, closure, or division will take the value (1), and (0) value to the absence of these factors in certain year.

## **1.7 Research Methodology:**

For the purpose of this study; the quantitative descriptive analytical method was adopted, it required time series data to conduct the analysis, and data was collected from Palestinian central bureau of statistics (PCBS).

## **1.8 Data Collection:**

### **1- Secondary Data:**

Researcher relied mainly on secondary data of quarterly time series to the needs of the research, in addition to Published data to relevant studies and researches, books, thesis and dissertations, Articles, Journals and

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*(<sup>1</sup>)The researcher tend to conduct separate econometric model to the relation between poverty level and international aid, because that the available time series to the poverty in the Palestinian territories are annually, while the others indicators are available quarterly.*



university libraries, as well as other online university libraries. This data was collected via multiple resources, such as Islamic university library, Islamic university electronic library, the other Palestinian's universities libraries, local libraries in Palestinian territories, as well as internet.

## **2- Primary Data:**

Because of scarcity of secondary sources to research subject; the researcher has resorted to the primary sources of data collection, and conducted interviews to distinguished economic experts working in economic development field (foreign and local executors).

### **1.9 Definitions:**

#### **▪ International Aid.**

International aid can be defined “International aid can be defined as non-commercial transfer of resources or liquid money, equipment or services from one country to another Characterized by preferential conditions, given at least partly with the objective of benefiting the recipient country” (Todaro, 2008,p.676)

#### **▪ Economic Development.**

Economic development is the increase in the standard of living in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy (Sbaih, 2004).

## **1.10 Previous Studies:**

### **1- (Burnside & Dollar, 1997)**

#### **“Aid, Policies, and Growth”**

The study discussed the effectiveness of foreign aid. Burnside and Dollar use a new database on foreign aid to examine the relationships among foreign aid, economic policies, and growth of per capita GDP. They find that aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies. In the presence of poor policies, aid has no positive effect on growth. They examine the determinants of policy and find no evidence that aid has systematically affected policies, either for good or for ill. They estimate an aid allocation equation and show that any tendency for aid to reward good policies has been overwhelmed by donors' pursuit of their own strategic interests. In a counterfactual, they reallocate aid, reducing the role of donor interests and increasing the importance of policy. Such a reallocation would have a large positive effect on developing countries' growth rates.

### **2- (Alestina, 2000)**

#### **“Who gives Foreign Aid to whom and Why”**

This paper studies the pattern of allocation of foreign aid from various donors to receiving countries. We find considerable evidence that the direction of foreign aid is dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients.

Colonial past and political alliances are major determinants of foreign aid. At the margin, however, countries that democratize receive more aid,

ceteris paribus. While foreign aid flows respond to political variables, foreign direct investments are more sensitive to economic incentives.

Particularly "good policies" and protection of property rights in the receiving countries .the study uncovered significant differences in the behavior of different donors.

### **3- (Development Studies program, Berziet, 2000)**

#### **“The Impact of Intifada on International Funding: Reality and Prospects”**

The study addressed a direct question related to the current intifada on policies of international funding and machines for implementation of programs linked to the international funding.

The study clarifies the effect of the second intifada on the international funding specially in the development field, the study shows that the international agencies were compelled to adapt their work mechanism to cater to determination being faced some related to conditions on the ground of Palestine. The study discussed the following major questions:

- 1- Did the international funding with its policies and mechanism for disbursement constitute a tool for the economic development?**
- 2- Has such funding led to real development enabling the Palestinian society to broaden its choices and determine its destiny on political and economic levels?**
- 3- Has this kind of funding create excessive development on forging sources of funding, thus reducing chances for Palestinians to be self-dependent in balanced and responsible manner?**

What is the role of PNA and NGOs in leading the Palestinians such a state of exposure and vulnerability?

#### **4- (Lobad.2004)**

##### **“The Palestinian National Authority Experience in Handling the International Aid (1994-2003)”**

This study aims to recognize aims and nature of international aids offered to the PNA by donor countries and its impact on the Palestinian economy in general and also different conditions in Palestinian territories. The study also aims to figure out how capable the PNA of overcoming the obstacles encountering the better use of the international aid. The study findings shows that the international aid to the PNA does not fulfill its aspired goals both for factors related to the Palestinian side and that to external ones. It shows that such aid could be a burden on the Palestinian shoulders, and it might hinder attempts for fulfilling social and economic independence. The study included some recommendations most of which showed that the Palestinian experience in making use of international aid should be comprehensively and objectively evaluated for better use.

#### **5- (MAS, 2005)**

##### **“Towards More Effective Use of International Aid to the Palestinian People”**

The Palestinian economic policy research institute MAS presented this study in order to focus on the international aid provided to the Palestinians .the study was divided into four main sections:

**First:** A comprehensive profile of the international aid directed to the Palestinians since signing Oslo accords.

**Second:** Assess the extent to which the Palestinian (government agencies, private sector and NGOs) have managed the successful utilization of this assistance to serve national interests.

**Third:** putting forward some concrete recommendations to enhance the efficiency and effectiveness of the use of international aid.

**The study drew some recommendations as summarized below:**

Better coordination is needed between Palestinian recipient institutions and donors agencies, and among these two groups themselves. The study proposed the creation of an institutional body with a clear organizational structure and led by the ministry of planning.

The PNA should plan and design projects balancing between short run term emergency and long-term development needs.

The PNA should pay more attention to the Palestinian informational sector and its needs and should device lending strategies for small-scale projects in general.

## **6- (Erixon, 2005)**

### **"Aid and Development"**

Intendeds to further investigate whether there is a relation between the aid and development. The Paper concludes that aid has not promoted economic growth, nor has it led to improved policies in developing countries. Fundamentally, economic growth depends on qualitative, not quantitative, factors: the structure of property rights, the extent to which courts of law apply and enforce abstract, clear rules inexpensively and quickly, the size of government and its effectiveness in delivering public goods, and the openness of the economy to trade and investment with the outside world. It would be more sensible to scale back levels of aid,

provide aid only to governments that are already reforming, and make aid available for strictly limited period of time. Other reforms, such as removing trade barriers and eliminating trade-distorting agricultural subsidies, would yield far more benefits than increasing aid.

#### **7- (Olsson, 2005)**

##### **"Does Aid Work? A Cross-country Aid Efficiency Study"**

Identifies that Foreign aid and all kinds of support aiming at international development are of great importance for the developing nations. The researcher measures the criticism and debate around the argument that aid is less efficient in countries with tropical climate. The author has constructed two policy indexes with alternative measures on trade and monetary policy and run these in a growth regression together with a measure of institutional quality and a tropical dummy in order to see whether aid works and if the choice of variables in and construction of the policy index might influence the outcome of the growth regression. The results were indeed very dependent on which combination of variables that were included in the regression therefore no straight answer whether aid spurs growth in developing nations can be decided.

#### **8- (Nader Saeed and Noran Nassef,2006)**

##### **"Development Funding in Palestine"**

Study in a series of studies discuss aims to Lay the foundations of development financing, the foundations of the theory and process that must build on them to get to the developmental perspective of Palestine by treating development planning in the relevant sectors. The study aims to focus on a vital development issue which is development finance

through the international fund, taxes funding, and the funding role in developed the country from lack.

The study concentrates on the following fractions:

The role of donor funding in the development process and the role of United Nations and the relationship in the political process and questions rose about Politicize the funding.

Other sources quality of their importance and the fear of lack of sustainability of external funding flow.

The role of local private sector and the international private sector.

The effectiveness of funding, especially his arrival into marginal areas and vulnerable groups in society.

Indebtedness and a serious warning of the seriousness of future.

## **9- (Shaban, 2006)**

### **“Towards Better Employment of International Funding for Development in Palestine”**

This study focuses on the philosophy of the international funding and the international aid to the Palestinians, the study divided the international aid flowing to the Palestinians in the last 14 years into three man stages as follow:

First stage is the time period located between 1993 to 2000.

Second stage is the time period located between 2000 to 2004.

The third stage is financing of post-withdrawal 2005 to 2007.

The study also discusses the international funding evaluation and its effect on the economic development in Palestine, as well as the study demonstrate the Medium Term Development Plan held by the

PNA(2005-2007) via Specialized team of the Ministry of Planning and other relevant ministries.

The study also shows that the world attention to provide aids and funding to the Palestinian people is temporary and there is no guarantee of continued funding, so it must be used in in the right way.

The study describes Foundations of a new methodology to deal and treat the international funding and clarify the Areas that must intervene to bring development like support small project, enhance export to the Arabic and Islamic countries as well as Import substitution.

#### **10- (Murad, 2007)**

##### **“Association Aid to Palestinians that Would Really Help”**

The paper goes further to argue that the international community should implement aid policies that respect indigenous priorities and abilities.it begins by describing the Palestinian community, which has been fragment by the Israel’s colonizing policies, as well as by donors policies that treat the community in its parts rather than as whole, the paper focus on the civil society, a sector critical to Palestinian democracy, stability and development regardless of the status of the government.

The paper examined the distorted development of civil society in occupied Palestinian territories and Israel, where physical steadfastness of Palestinian community is essential to an ultimate just resolution of the political conflict .Next ,the paper draws on hundred interviews with members of Palestinian civil society, activists and professionals to explore how dependence on international aid has had unintended negative consequences on Palestinian civil society and on its ability to advance social change and sustainable development.



The study concluded that the Palestinian in occupied territories were the largest per capita recipients of international aid, but despite the hundreds of millions dollars spent; development is not achieved in fact, government donors funded agendas nearly suffocated indigenous efforts .Many Palestinian NGO's became accountable to donors and alienated from the grassroots volunteerism ,once vibrant ,gave way to passivity as millions of people have come to rely on food aid, free shelter ,and handouts .

#### **11- (Abu Nahla, 2008).**

##### **“Role of the NGOs in Utilizing the International Fund to Promote Entrepreneurs and Create Sustainable Job Opportunities, Case Study: Gaza Strip”**

The study focuses on the difference and the controversial role that Palestinian nongovernmental organization (PNGOs) played and whether it was compatible with the economic, social and political situation in which the Palestinian society went through. After the start of the second intifada in 2000 PNGOs had performed as a kind of subcontractor role as relief providers and away from their role as leaders of indigenous Palestinian development.

This research investigates the role that PNGOs played in utilizing the international fund to promote entrepreneurs and create sustainable and long term job opportunities, it recommends the Palestinian national authority to increase its effort to play more vital roles in coordination between PNGOs and the donors .PNGOs should learn lessons from the UNRWA previous experience in jobs creation program trying to adopt similar programs, Donors should take more systematic approach to

PNGOs funding, placing less emphasis on emergency projects financing and more on developmental programs.

## **12- (Ngang, 2008)**

### **“The Impact of Foreign Aid on Economic Growth and Economic Development in Cameroon”**

The study examines the role of foreign aid in promoting economic growth and improving the social welfare of people has been the subject of much debate among development specialists, researchers, aid donors as well as recipients in general and Cameroon in particular. This study explores the impact of foreign aid to economic growth and development in Cameroon using descriptive statistics for data that spans from 1997 to 2006. The results show that foreign aid significantly contributes to the current level of economic growth but has no significant contribution to economic development. In addition, the researcher reached to a conclusion that the impact may be significant depending on the country understudy, type of aid, the adjective of the donor country, the implementation policy of the recipient country, the methodology used, and the period of study. In Cameroon, foreign aid leads to economic growth but the growth is not translated to economic development because of bad governance and corruption.

## **13- (Al-Jabari, Akbar 2009)**

### **“The Concept of International Finance”**

The study explained in details the concept if the international funding and its role in development via money function in development finance. It refute international funding sources and international loans as well as the

effect of his loans at commercial payment balance, exchange rates in countries that receive funding from international parties.

The study discussed exchange rates and how to be set, it also discussed the international monetary funding system and its developing stages, analyze the mechanism of international cash capital movements, the study clarify the dilemma of international funding to the developing countries.

The study identifies the international funding institutions and the regional as well as like international band, IMF, and analyze the obstacles prevent the developing countries to benefit from its funding.

The study also highlighted the regional and Arab monetary institutions and the Arab monetary fund its foundation, finance mechanism and the effect on development issues.

#### **14- (Qita,2009)**

##### **“The Effect of USAID Funding in Developing the Palestinian Community from Palestinian Non-governmental Organizations perspective Case Study: Gaza Strip”**

The study concludes that the USAID funding has contributed to the basic Human development requirements for Palestinian community but it did not fully meet Palestinian expectations. Although those findings resulted in some achievements, especially in developing infrastructure and providing basic social services, it failed to empower Palestinian society to attain independence and self-determination, and to lay the foundations for sustainable human development.

USAID funding to the current level of NGOs was not able to develop the Palestinian economy, to generate sustainable employment opportunities or to reduce the economy’s vulnerability to and dependence on external

factors. This assistance failed to compensate for the losses and damages inflicted on Palestinian society and individuals by Israeli policies and practices. Therefore, the researcher derived several recommendations to both Palestinian NGOs and to USAID in order to bring the comprehensive concept of USAID effect on developing the Palestinian Community:

NGOs should empower their capabilities in modern management such as identifying vision; determining general goals; developing strategies, programs, and budgets; monitoring and conducting impact assessment; promoting the use of feedback in reviewing strategies, programs; reporting; decision-making; accountability; and transparency.

USAID should establish links between immediate relief efforts and long-term development programs that contribute to the sustainable development and in alignment with the Palestinian priorities.

### **1.11 Previous Studies Summary:**

Review the previous studies show that, international aid is an important tool for economic development in the developing countries, the Palestinian territories is one of those parties received large amount in of international aid, most of the previous studies showed that the Palestinians need this international assistance in order to come over what was destroyed by the Israeli destructive machine. Most of the previous studies related directly to the Palestinian case agreed that the political condition and the effects based on the occupation are the main obstacles facing the Palestinians to maintain the development efforts and bring achievement in its indicators.

This study differentiates between previous studies, being a recent study of the subject of international aid to the Palestinians, as well as in being a

quantitative study based on numeric analysis of the impact of international aid on development indicators numerically through a regression model.

### **1.12 Study Structure:**

This thesis consists of six chapters; the first chapter contains the research introduction, the statement of the problem which has the research question, research objectives and limitations of the research followed by the previous studies. The second chapter contains the background about international aid. The third chapter contains a background about the economic development. The fourth chapter contains the research methodology. The fifth chapter contains the research analysis results, discusses the research possible in the light of the previous studies and the results of hypothesis via the econometric model. The sixth final chapter contains the conclusions and recommendations drawn from the findings, and recommendation for further studies.

A decorative box with a double border and a slight 3D effect, containing the text 'Chapter 2' in a bold, black, sans-serif font.

## Chapter 2

### International Aid to the Palestinians

#### 2.1 Introduction:

Stated goal of international aid is enhancing developing countries to achieve the requirements of the development process, reduce poverty, decrease unemployment and raising the GDP per capita, many studies proved that most of international aid was provided to developed countries undergoes to considerations rather than development needs, these bulk of international aid heading to countries less vulnerable than other countries to aid, which indicates that the flow of aid is subject to the considerations rather than the development needs (Saede, 2008,p.16).

The Palestinian people received a lot of aid, donations and concessional loans through governmental and private agencies, Palestinian civil and international parts, in order to induce the Palestinian economy and create favorable conditions for development, assistance has increased by the signing of Oslo Accords in 1993, where were allocated half a billion dollars per year for this purpose regards to the interest and attention to the peace process (Mas.2005,p.1).

Israeli retaliation measures followed the outbreak of Al-Aqsa intifada in 28th September 2000, caused a decline in living standards in the occupied Palestinian territories, as well as destructed the infrastructure of the PNA by the Israeli deterioration war machine <sup>(2)</sup>, which called for more

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<sup>(2)</sup> In the interview conducting with Mr. Omar Shaban the executive manager of Pal think in Gaza, he emphasis that the Israeli measures were main reason to the destroying of the Palestinians efforts to achieve economic development.

donor's assistance from half billion to one billion dollars annually, and create a tendency from the international aid to be relief finance (Birziet University, 2000, p.6).

This chapter will identify the nature of international aid in general, and the international aid given to the Palestinian people via donors in particular, stand on the history of this aid in the globe as well as the Palestinian case, as well as types of aid provided to the Palestinians. International aid to the Palestinians cannot be proper finance to economic development in the reality of Israeli occupation, which prevents the rational utilization of this aid as the Israeli occupation heavily contributed to turn it into useless finance.

## **2.2 International Aid Conceptual Framework and**

### **Definitions:**

There are many titles express the international aid as assistance given from country to another country or from part to another part, some call it foreign aid, others call it overseas aid or international aid, in this research we will consider the Official Development Aid (ODA) as our adequate title.

International aid is a “transfer of resources on concessional term which is undertaken by official agencies; has the promotion of economic development and welfare as its main objectives (Ehrenfeld, 2005, p.4).

International aid can be defined “as a voluntary transfer of resources or liquid money, equipment or services from one country to another, given at least partly with the objective of benefiting the recipient country” (Todaro, 2008, p.677)

“ International aid also can be defined as the state when one country helps another country through some forms of donation, usually this refers to helping out a country that has a special need caused by poverty, unemployment, natural disasters, armed conflicts” (Williams,1999,p.1).

International aid has other functions as well; it might be given as signal of diplomatic approval from country to another one, through military ally or be given for desired behavior by the donors, beside that it might be a tool to extend the donors culture influence (Saede, 2008,p.18).

The main receivers of international aid are developing countries, the main contributors are the developed countries. United states is the world's largest contributor of international aid in absolute terms 15.7 billion dollar per year, but the smallest among developed countries as a percentage of its GDP 14%, however, private foreign aid donations from the United States side is on the order of \$35 billion per year such as American aid to Israel or united states allies,(Williams,1999,p.3).

The amount of the assistance provided by developed countries to developing countries small, compared to the amount of their Gross National Income (GNI).The international aid transferred yearly to the developing countries worldwide approximately 3 percent of its GNI, and in some cases 6 percent in a given year (Todaro, 2008).

Aid received by the Palestinian people can be classified within the international community policy aimed to finance peace-making in the region, as an evidence, before the signing of the Oslo agreement the international aid was modest compared to the post-agreement, this indicates that economic development is not the main objective of aid to poor countries, it is subject to politic considerations rather than development (Lazensky, 2006, p.2).



Humanitarianism and altruism are nerveless significant motivations for the given foreign aid (<sup>3</sup>), it might be given by government, individuals or private organizations, so it is given for certain motivation which based on the terminal interest to the donors," so donors tend through this aid to intervene in the interior affairs of the recipient counties that we find aid all the time conditioned or politicized" (Williams, 1999,p.2).

Many scholars and international foundations use the Development Assistance Committee (DAC) and ODA method as their main aid figure because it is easily, available, reasonably and consistently calculated over time between countries, the DAC consists of 22 of the wealthiest Western industrialized countries plus the E.U., it is a forum in which they coordinate their aid policies (Abu Nahla, 2008, p.65).

### **2.3 International Aid History:**

Aid existed in ancient times. More recently, in the nineteenth century, some private aid flowed from the Western countries to the rest of the world; missionary schools are an example. In the nineteenth and early twentieth centuries, aid from governments was tiny compared to present levels, consisting mostly of occasional humanitarian crisis relief. Some transfers that would now be counted as aid, however, came under the purview of colonial office budgets. It was at the end of World War Two, in the contexts of European reconstruction, decolonization, and cold war rivalry for influence in the third world, that aid became the major activity that it is today(Todaro,2008).

The history of international aid is divided into many periods as following:

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(<sup>3</sup>) *An interview was conducted with Mr. Fadi Elhindi the executive manager on Maan development center in Gaza and Mr. Momen Bsaiso the executive manager on International Labor Organization in Gaza, both of them were agreed that the international aid is not related to altruism of fairness, but they have their own agenda and policies as donors.*

### **2.3.1 International Aid Beginning:**

The earliest form of foreign aid was military assistance designed to help warring parties that were in some way considered strategically important. Its use in the modern era began in the 18th century, when Prussia subsidized some of its allies, European powers in the 19th and 20th centuries provided large amounts of money to their colonies, typically to improve infrastructure with the ultimate goal of increasing the colony's economic output (Williams, 1999, p.2).

The scope of international aid today can be traced into two major stages following World War II, the implementation of the Marshall Plan a U.S. sponsored package to rehabilitate the economies of 17 western and southern European countries, and the founding of significant international organizations, including the United Nations (UN), international monetary fund (IMF), and World Bank, these international organizations have played a major role in allocating international aid, determining the qualifications for the receipt of aid, and assessing the impact of foreign aid (Lazensky, 2006, p.3).

### **2.3.2 International Aid During and after World War II:**

The United States, Soviet Union and their allies during the Cold War used foreign aid as a diplomatic tool to foster political alliances and strategic advantages, punish states that seemed too close to the other side, In addition to the Marshall Plan in 1947 the United States provided assistance to Greece and Turkey to help those countries resist the spread of communism.

After the Soviet leader death Joseph Stalin in 1953, communist-bloc countries donated increasing amounts of foreign aid to less-developing

countries and to close allies as mean of gaining influence as well as promoting economic development. (Williams, 1999).

### **2.3.3 International Aid after OECD Establishment:**

The vast majority of ODA comes from the countries of the Organization for Economic Cooperation and Development (OECD) <sup>(4)</sup>, specifically the nearly two dozen countries that make up the OECD's members of the DAC.

The DAC includes western European countries, the United States, Canada, Japan, Australia, and New Zealand. Other providers of significant assistance include Brazil, China, Iceland, India, Kuwait, Poland, Qatar, Saudi Arabia, South Korea, Taiwan, Turkey, and the United Arab Emirates (World Bank, 2003, p.8).

In the 1970s, the international community and through the United Nations set 0.7 percent of a country's GNI as the benchmark for foreign aid. However; only a small number of countries (Denmark, Luxembourg, the Netherlands, Norway, and Sweden) reached that mark. Although the United States and Japan have been the world's two largest donors, their levels of foreign aid have fallen significantly short of the United Nations (UN) goal (World Bank, 2003, p.13).

Since the end of the Cold War, the United States has considered foreign aid as part of peacemaking or peacekeeping initiatives in the Balkans,

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<sup>(4)</sup> *The Organization for Economic Co-operation and Development (OECD), is an international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade. It defines itself as a forum of countries committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identifying good practices, and co-coordinating domestic and international policies of its members. The OECD originated in 1948 as the Organization for European Economic Co-operation (OEEC), led by Robert Marjolin of France, to help administer the Marshall Plan for the reconstruction of Europe after World War II(OECD Publications,2002).*

Northern Ireland, and parts of Africa, foreign aid also has been used to promote smooth transitions to democracy and capitalism in former communist countries, most notably Russia (Williams, 1999,p.6).

### **2.3.4 The Nineteenth and Beyond:**

Since the 1990s many foreign aid sources, notably the IMF, have made conditional aid on market-oriented economic reforms; such as, lowering trade barriers and privatization. Thus; “foreign aid has been used as a tool by some institutions and countries to encourage the spread of capitalism”. In the last decade of the 20th century, private capital flows and remittances from migrant workers became the two largest sources of aid from wealthy countries to poor ones, surpassing the amount of ODA provided by those countries. However, this form of aid is heavily stratified; most direct foreign investment has gone to developing countries pursuing policies of trade and economic liberalization and those with large markets like Brazil, China, and India ( Williams , 1999, p.9).

## **2.4 Types of international aid:**

There are many types of international aid differ from type to another type according to the nature of this aid as follow:

### **2.4.1 Humanitarian Aid:**

Humanitarian aid or emergency aid is rapid assistance given to people in immediate distress by individuals, organizations, or governments to relieve suffering, during and after man-made emergencies like wars and disasters which is vital services such as food aid to prevent starvation or logistic aid, It is often distinguished from development aid by being focused on relieving suffering caused by natural disaster or conflict, rather than removing the root causes of poverty or vulnerability (Humanitarian Policy Group Research Report,2004,p.2).

### **2.4.2 Development Aid:**

Development aid is an aid given by developed countries to support development in general which can be economic development or social development in countries, It is distinguished from humanitarian aid as being aimed at alleviating poverty in the long term, rather than alleviating suffering in the short term. Official (ODA) is a commonly used measure of developmental aid which is given by governments through individual countries, international aid agencies, multilateral institutions such as the World Bank, and by individuals through development charities such as action Aid, Caritas, Care International or Oxfam institution (Global Development Center,2006,p.3).

### **2.4.3 Specific Types of Aid:**

There are so many other types of aid as (Sbaih, 2004).mentioned as follow:

**Project aid:** Aid is given for a specific purpose such as building materials for a new school.

**Program aid:** Aid is given for a specific sector e.g. funding of the education sector of a country.

**Budget support:** A form of program Aid that is direct channeled into the financial system of the recipient country.

**Food aid:** Food is given to countries in urgent need of food supplies, especially if they have just experienced a natural disaster. Food aid can be provided by importing food from the donor, buying food locally, or providing cash.

**Untied aid:** The country receiving the aid can spend the money as they choose.

**Tied aid:** The aid must be used to purchase products from the country that donated it or a specified group of countries.

**Technical assistance:** Educated personnel; such as, doctors are moved into developing countries to assist with a program of development. Can be both program and project aid.

**Bilateral vs. Multilateral:** Bilateral aid is given by one country directly to another; multilateral aid is given through the intermediacy of an international organization, such as the World Bank, which pools donations from several countries' governments and then distributes them to the recipients (Congress Report, 2004, P.4).

#### **2.4.4 OECD Categories:**

The Organization for Economic Co-operation and Development classified international aid into three categories according to the following:

**Official Development Assistance (ODA):** Development aid provided to developing countries with the clear aim of economic development.

**Official Aid:** Development aid provided to developed countries and international organizations

**Other Official Flows:** Aid which does not fall into the other two categories, either because it is not aimed to development or it consists of more than 75% loan rather than grant (OECD, 2005).

#### **\*\*Comparison Between OECD and other Classifications**

OECD is one of the most famous organizations that set its aim to induce the development issues over the world, it was founded for the purpose of economic development and trade in the world, OECD classification to the international aid different from the other classification in weather the aid is aiming to development or not without specify the field of this aid (OECD, 2005).

## **2.5 International Aid to the Palestinians:**

After the declaration of principles, and signing of Oslo agreement in Washington between PLO, and the Government of Israel in September 1993, October of the same year witnessed donors countries held a conference included 42 nations and institutions, the conference adopted a strategy for providing financial and technical aid to the new Palestinian national authority. This donor's conference empowered the PNA to handle and administer the Palestinian territories, in order to help this infant authority to implement infrastructure projects, institutions, as well as manage the fund inflow to support the development process in the Palestinian territories (Shaban,2006,p.4,5).

The speed with the international community tool action bestowed significant economic credibility on Oslo agreement and the peace process in general among the Palestinian citizen who were hesitant to support the peace agreement, International community's goal is to ensure the success of Oslo agreement through the provision of financial support required to this purpose, in order to achieve this goal, the Palestinian needed to perceive positive change in their daily life (Lobad, 2004, p.4).

This initial financial support was developed subsequently even further, it came to be referred to as peace dividend in the literature of supporters of the peaceful settlement to the Arab Israeli conflict and push the coexistence forward. The total of 2.4 billion dollar was committed to PNA began to flow after three months of Washington donor's conference, this aid allocated to the reconstruction and developing the Palestinian economy and the destroyed infrastructure in the five years plan after Oslo agreement took place (Mas,2005,p.2).

Accordingly international aid flow to the Palestinians began to pouring form many counties and in different forms via multiple channels, the

ODA to the Palestinians totaled 6 billion US dollar at the end of the first half of 2004, resulting an average annual GDP per capita assistance of \$310 per person, which is considered one of the highest levels of aid in the whole world which was agreed by the World Bank (WB) and the International Monetary Fund (IMF). This large amount of international aid played essential roles in upgrade the Palestinian infrastructure facilities, and reducing the destructive influence to the Israeli measures and practices during the last seven years after Oslo accords (MAS, 2005, p.1).

Later After the outbreak of al-Aqsa intifada in September 2000, the international aid was shifted toward emergency aid, job creation and budget support at the expense of development activities (MAS, 2005).

The ration of development aid to emergency aid was 7:1 before intifada and shifted to 1:5 in 2002. This lead the Palestinian receivers organizations to the international aid to play the role subcontractor as relief providers, and far away from their expectable role as a responsible for indigenous Palestinian development, furthermore, many civil society organizations became more dependent of the international aid, and lost their grassroots and independency as well as undermining their democratic and freedom content (MAS, 2005,p,2).

## **2.6 International Aid Types to the Palestinians:**

There are many types of international aid provided to the Palestinians as grants and aid, such as infrastructure aid, production aid, social aid, institutional building aid and some other sectors as follow:

### **2.6.1 Infrastructure Aid:**

This type of aid is designed to improve and develop the infrastructure, this appears clearly in table NO.1, we can notice also that the sector of



infrastructure accounted the greater share of international aid, It is worth mentioning that the water sector and irrigation and infrastructure sector has accounted for the major international aid to the Palestinian people, the distribution of international aid to the Palestinian Authority for the period from 1994 to 2001 (MOPIC, 2001, p.3).

### **2.6.2 Production Sector Aid:**

Production share of foreign aid was 9.2 percent from the total aid offered to PNA during the period(1994 - 2001),which form a small share from the total aid in addition to the ongoing destruction suffered from the occupation destructive machine, it is worth mentioning that's the donors and the PNA did not give the agricultural sector and the industrial sector large importance, the percentage of aid to this sectors agriculture sector ,industry sector development, private sector and production sector Respectively is (1.84%0,87%,0.56%,3.8%) which occurs decline in the agricultural sector in the generation of the gross national income from 11% in 1994 to 6% in 2000.(Lobad,2004,p.16).

### **2.6.3 Social Sector Aid:**

The aid directed to social sector take the share of 28 percent from the total aid amount, it is large share and very essential to the Palestinian because large part of the Palestinian people depend on the social aid (relief). The main expenditures in this sector is education sector, health sector, humanitarian aid sector and development in social sector, more details in the following points:

The amount of \$ 50 million was allocated to the education sector from 1994 to 1997, this amount reduced in \$ 4.5 million per year, this caused high education crisis, in the time PNA do not offer donation to governmental universities in the Palestinian territories.

Despite the high share of this sector (18%) we find that there was Overall deterioration of social conditions, where the indicators show that 60% of the Palestinian people living under the poverty line and the unemployment rate up to 35%.

Most of the social projects funded by the international aid assistance directed to major cities compared to countryside and camps.

Al-Aqsa intifada tended to direct most of the forging aid into emergent humanitarian aid, in the other side marginalization of other projects (Rafati, 2006, p.16).

#### **2.6.4 Institution Building Aid:**

According to table (2-1) the targeted assistance for institution building sector accounted for 26 percent of the total actual expenditure of the international aid offered to PNA.

**Table (2-1): Distribution of International Aid to the Palestinian Authority Over the key Sectors for the Period (1994-2001) by Thousand Dollars**

Sector	Total commitment	Total payment	percentage
Infrastructure	2,200,923	1,295,918	33.3%
Prod. sector	658,675	360,275	9.2%
Social sector	1,443,056	1,124,416	28.8%
Institution building	1,226,210	1,009,959	25%
other	181,932	106,886	2.7%
total	5,737,796	3,897,454	100%

*Source: Ministry of Planning and International Cooperation, the report of the international aid, the third quarter and fourth quarter 2001, page3.*

this was rational percent to this sectors which was damaged from Israel, and also it justification to the amount of money needed to reconstruction of the institutions especially after Gaza war, 22% of this aid concentrated in police institutions which was damaged after al-Aqsa intifada in September 2000(Lobad,2004,p.19).

### **2.6.5 Others Sectors:**

Others sectors represent many sectors were not mentioned in the four basic pervious sections take the share of 2.7 of the total amount of foreign aid

### **2.6.6 Different Distributions:**

Different distributions mean any other forms of present spending within key sectors and the preceding sub-and most important of these distributions the following (Rafati, 2006, p.18).

**Public Investment:** The percentage of public investment aid about 1404 million \$ and accounted for 36% of the total aid.

**Technical Aid:** Valued 944 million\$ and representing share 24% of the total aid.

**Budget Support:** The value of money in support of the general budget of the Palestinian Authority, international aid, about 512 million\$ and accounted for 13% until 2001.

**Equipment & Supplies:** Total value of equipment and supplies 266 million\$ and represents 8% of the total aid.

**Various Aids:** The values of this sub-sector about 226 million, and represent 6% of the total amount of foreign aid

## **2.7 Characteristics of International Aid to the Palestinians:**

The international aid to the Palestinian people fluctuated from year to another year, so it was different amounts and different types, the history

of the international contribution to the international aid to the Palestinian people passed through the three following stages:

### **2.7.1 First Stage, International Aid (1994-2003):**

First donors parties conference was held in Washington, in October 1993, the donors (nations and institutions) pledged to provide approximately \$2.4 billion to the Palestinian side in the next five years, the table(2-2) shows the fluctuating of the pledged value, which was approximately \$2858 million the end of 1997 and it risen into \$3057.4 million and declined into 2269.2 in the period from 1998 to 2000.

By the end on 2003 the pledge value has risen into 3057.4 ,while the disarmments value was in the period 1994-1997 approximately \$2029.2 million, it fall to \$1456.9 million by the end of 2000, and the disarmments value back to rise by the end of 2003 to reach \$3057,4 million(Lobad,2004,p.13).

The share of the United States was the largest among the donors during the period 1994-2003, it amounted approximately \$1.450 million which is 19.7 percent of the total pledge, followed by the European Union with total amount to the same period approximately \$1215 million, it was about 13.1 percent from the total pledges.

The Arab countries pledges approximately \$911,7 million during this period, united Arab of Emirates pledge was the largest share among the Arab countries(\$310 million) followed by Saudi Arabia which approximately \$300 million(Abu nahla,2008,p.69).

**Table (2-2) Donor's Contributions to International Aid (1994-2003)  
in Millions of USD**

Donors party	1994-1997		1998-2000		2001-2003		total	
	Commitments	Disbarments	C.	D.	C.	D	C.	D.
Arab nations	312.5	193.8	101.5	105.5	5.2	903.4	418.9	1203.1
European union	520.2	219.1	507.2	235.2	187.3	787.3	1214.6	1241.6
United states	292.9	285.3	396.8	260.4	759.5	482.3	1449.2	1028
Japan	298.9	308.3	167.5	132.4	37.5	41.3	504	482
International institutions	225.5	139.3	180.5	140.7	54.5	154.7	460.4	434.7
European nations	1107.6	810.9	858.6	533.4	519.3	669.5	2485.6	2013.8
Other nations	101.5	72.6	57.2	57.9	16.7	18.9	175.4	148.4
Total	2858.9	2029.3	2269.2	1456.9	1580.2	3057.4	6708.3	6552.5

*Source: human development report, 2004*

Ministry of planning publications inform that \$6.708 million committed by the donors in the period between 1994 and the mid of 2003, with total amount approximately \$760 million per year. This commitments comprised approximately 91 percent of the total pledges in the previous period, and the donors according to this ratio provided about \$6.552.6 million as international aid, by the end of 2003 (Abu Nahla, 2008, p.70).

The highest amount of assistance in this period was in the year 2001, related to al-Aqsa intifada outbreak, which create more needs to increase the aid amount, it saw the amount of \$1.045 million, whereas, the lowest amount was in 1998, the figures in table (2-1) show the decline in the assistance inflows from 1998 to 2000, the total commitments declined approximately 20 percent comprised by the period 1994 -1997, and the

disbursal amount declined to 64,6 percent, likewise, the period (2001-2003) has an improvement in the international aid inflow because of the outbreak of al-Aqsa intifada, this stage had a great change in forms ,structure ,objectives and source of international aid, in this period the Arab nations decided to increase their aid support to the Palestinians, because of intifada ,they provided assistance for emergency projects and relief program which had negative effect on the development indicators later. (Rafati, 2006 , p.20).

### **2.7.2 Second Stage: International Aid (2004-2008).**

This stage saw a decline in all assistance indicators, total commitments fell by approximately 20 percent compared with the previous stage which having tangible improvement in a number of economic and social indicators in the Palestinian territories, as seen in a rise in Palestinian GDP and declining rates of unemployment and poverty among Palestinians(Qita,2009.p.55).

Total commitments amounting to approximately \$2,269.2 million Likewise, the percentage of disbursal of commitments fell to 64.6 percent. This means that actual assistance in the second stage declined approximately 27.8 percent compared with the previous stage; it amounted to \$1,465.9million with an annual average of approximately \$488.6 million (as compared to \$507.3 million in the first stage), taking into account that there were three years in this stage and four years in the first stage (MOP, 2004).

**Table (2-3): Donor's Contributions to International Assistance by Sector (2005-2008), in Millions of USD**

Donors	2005	2006	2007	2008	Total from 2002-2008
	Disbursement	Disb.	Disb.	Disb.	Disb.
European countries	690,735,710.65	840,617,029.49	1,110,772,351.92	386,695,978.5	5,163,923,882
Arab countries	207,913,547.7	190,160,224	444,503,491	232,193,520	1,614,192,872
Arab countries Al-Quds and Al-Aqsa					5,023,696
Arab league		31,086,248.00		100,000.00	31,186,248
Asian countries	42,186,052.22	48,754,204.36	17,090,952.31	13,960	473,735,677
North American countries	194,593,871.60	152,719,390.97	167,199,423.26	150,072,999	1,513,335,535
Canada	18,490,923.60	25,345,391.97	25,080,705.26	13,290.70	115,980,873
USA	176,102,948.00	127,373,999.00	142,118,718.00	150,059,709	1,397,354,662
Others	22,792,796.50	71,884,013.50	4,650,248.00	742,847.00	203,996,378
The world bank group	37,146,289.00	27,510,778.00	22,348,678.00		361,378,362
UN agencies	2,736,022.00	4,336,587.00	205,798.00	263,783	24,242,932
<b>Total</b>	<b>1,198,104,289</b>	<b>1,335,982,227.31</b>	<b>1,770,039,865.09</b>	<b>770,000,814</b>	<b>9,382,496,085</b>

*Source: Ministry of Planning, Palestine Assistance Monitoring System Reports,*

*Donor' matrix: [http://db.mop.gov.ps/amc/donor\\_matrix.asp](http://db.mop.gov.ps/amc/donor_matrix.asp). (05/09/2008)*

Of the nations that provided assistance, there was a rise in the amount and percentage of assistance committed by the United States out of total commitments during this stage; it rose to approximately 35.5 percent, occupying third place after the European nations and the European Union. However, the United States surpassed the European Union in terms of actual disbursement, as the percentage of actual disbursement by

the European Union remained low (approximately 46.3 percent of its total commitments) (MOP, 2005).

The Arab nation's contribution fell substantially during this stage, both on the level of commitments and on the level of actual disbursement; these indicators fell by 67.5 percent and 45.4 percent, respectively.

Nonetheless, there was improvement in the percentage of actual disbursement of Arab assistance, which exceeded 104 percent. This is primarily attributed to the outbreak of the Al-Aqsa Intifada and the Arab nation's provision of \$30 million during its first year, following the Arab summit held in Cairo in October 2000 (MOP, 2005).

Indicators for Japanese assistance fell as well, with its commitments declining by approximately 44 percent and its actual assistance declining by approximately 57 percent. There was also a change in Japan's by disbursement percentage, which dropped to 79 percent.

As international institutions, they began to play a bigger role in the international funding process, coming to occupy fourth place in terms of commitments and actual disbursement. This is in spite of the decline in the absolute value of these institutions total commitments.

A number of factors contributed to this development, including the drop in total commitments during this stage and the setting of these institutions actual assistance at around \$140 million (nearly equal to their contribution during the previous stage), which elevated disbursement to 78 percent (MOH, 2009, P.16).



### **2.7.3 Third Stage: International Aid (2008-2009).**

The table (2-4) shows the details of the international aid flow and the new mechanism of aid in the period between 2008 quarters and the first quarter of 2009.

the table also show the contributions of different donor, the Arab grants in the end of this period was in the first quarter of 2009 approximately 73.9 million, while the international aid in the same quarter in 2008 was \$153.5 million, the International grants in the end of this period was in the first quarter of 2009 approximately \$185.3 million, while the international aid in the same quarter in 2008 was \$372.1 million, there was decline in the international aid flow in 2009(MOH,2009,p.24).

The year 2008 has the largest share of international aid after the adoption of the new Palestinian European Aid Management of Socio Economic mechanism (PEGASE),which provide channels for direct support to the PNA's Central Treasury Account in addition to the types of channels used for Temporary International Mechanism (TIM),

International community adopted TIM after the Palestinian 2006 elections where Hamas win in this elections, in 2007 the international community held Paris conference and pledged over \$7.7 million from 2008-2010, Hamas was not invited to this conference and the international community moved from TIM to PEGASE (Economic Monitor, 2009,p.23).

**Table (2-4): Structure of External Assistance to the Palestinian Authority in 2008 Quarters and the 1st Quarter of 2009**

Donor Countries	Q1/2008	Q2/2008	Q3/2008	Q4/2008	Q1/2009
<b>Arab Grants</b>	<b>153.5</b>	<b>78.4</b>	<b>158</b>	<b>56</b>	<b>73.9</b>
<b>Arab League</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Algeria</b>	<b>0</b>	<b>62.9</b>	<b>0</b>	<b>0</b>	<b>26</b>
<b>Egypt</b>	<b>0</b>	<b>0</b>	<b>14.6</b>	<b>0</b>	<b>0</b>
<b>Saudi Arabia</b>	<b>61.9</b>	<b>15.5</b>	<b>100.7</b>	<b>56</b>	<b>22.9</b>
<b>United Arab Emirates</b>	<b>91.5</b>	<b>0</b>	<b>42.7</b>	<b>0</b>	<b>25</b>
<b>International Grants</b>	<b>372.1</b>	<b>332</b>	<b>318.1</b>	<b>295</b>	<b>185.3</b>
<b>PEGASE mechanism*</b>	<b>0</b>	<b>174.1</b>	<b>181.6</b>	<b>115.1</b>	<b>94.2</b>
<b>European Union</b>	<b>1803</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>India</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10.1</b>
<b>China</b>	<b>0.3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>France</b>	<b>35.7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27.7</b>
<b>Japan</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9.5</b>	<b>0</b>
<b>Russia</b>	<b>0</b>	<b>0</b>	<b>9.9</b>	<b>0</b>	<b>0</b>

*Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.*

After the war on Gaza, many governmental international and non-international directions have conducted many conferences <sup>(5)</sup> and meeting

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<sup>(5)</sup> Many conferences have been conducted for the reconstruction of Gaza; after the war on Gaza in December 2008.

## 2.8 The Distribution of International Aid to the Palestinians by Sectors:

There are two stages describes the distribution of the international aid, the first stage (1994-2003) where we divided the sectors in general, so in this for the sake of coordinating the providence of financial aids to the reconstruction of Gaza (<sup>6</sup>), mentioning that those conducted actions have been affected mainly by the political theme; and it is been dealt with as an

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(6)\*\**Sharm El-Sheikh Conference in March, 2nd 2009, is theoretically collecting 5.2 Billion USD Dollar, which is an amount higher than the needed amount that the Palestinian Authority asked for, as its need was only 2.8 billion USD Dollar, and the performance method was through the World Bank and the Development Islamic Bank - PEGASE, all in cooperation with local partners associations. The conference atmosphere was affected by the political atmosphere before the reconstruction atmosphere needs; which does that the political aspects is taking priorities for the donors rather than the development needs.*

*\*\* Istanbul Conference in June 2009, this conference has been conducted after the Sharm El-Sheikh conference by three months specifically in June 18<sup>th</sup> 2009, in which is witnessed the presence of more than 30 Arabic, Islamic and European countries, as in this conference it has been adopted all of the projects provided and included in the reconstruction project index. This conference has been conducted by the assistance of the International Arabic Corporation for the Gaza reconstruction.*

*\*\* Kuwait summit, which was an Arabic economical, developmental and social summit, occurred in Kuwait as it resulted with the Gaza reconstruction and then the Islamic Bank for Development and the International Rahma Association which both performed so many projects of the reconstruction of civil housings and agricultural projects.*

*\*\* The World Bank and the efforts presented for reconstructing Gaza, Mr. Juan Jose Dabob has visited Gaza before the summit of Sharm El-Sheikh bringing with him the Committee of rights inquiry, and he is been outcome with a new report which has quick and practical methods for the reconstruction plans in Gaza, this report has been presented to Sharm El-Sheikh conference titled as the available funding choices for the early intensive refreshing and resulted outcomes from the world bank vision.*

*\*\* UNRWA and UNDP efforts towards Gaza reconstruction, the UNRWA in Gaza had conducted for relieving so many people who's been affected by the destruction of their houses or even badly affected for the refugees segment, on the other hand; the UNDP has presented its assistance for the non-refugees segment of those who have been affected badly through the war.*

*\*\* So many Arab and international associations presented their assistances to the schools, mosques and hospitals...etc; such as, the Islamic Relief, Qatar red crescent, Qatar Charity Association, Charity works forum, Al-Rahma International Forum, Al-Rahma Malaysian Organization, Islamic Hands Organization, Islamic Bank for development and many others.*

aid project not as a developmental action. As these high performed efforts have been neglected the industrial and agricultural section which all led to the high increase of the unemployment rates and the carelessness of the infrastructure and the main location as the Gaza sea port and airport (Rafati, 2006, pp.20).

stage we will discuss the total amount in the five main sectors, which are infrastructure sector, production sector, institutional sector and the social sector, the second stage (2005-2009), we will discuss the sectors in details as follow:

### **2.8.1 First Stage to the Distribution of International Aid (1994-2003):**

The Palestinian ministry of planning preformed a distribution table to the sectors of if the Palestinian economy received an international aid which are ,infrastructure ,production sector ,social sector ,institution sector ,and Miscellaneous sector as shown in table (2-5).

The ministry of planning publications indicates that, the largest share of the international aid goes to the social approximately \$1770.3 million (31 percent) from the total amount of international aid during the period 1994-2003, social sector contain many branches sectors like education ,health, youth ,children(Human Development Report,2004,p.11).

The social sector share followed by the infrastructure sector, table (2-3) show that the total amount of the international aid allocated to the infrastructure sector was approximately \$2524.8 million which is 30 percent from the total amount of the international aid(Lobad,2004,p.14).

**Table (2-5): Distribution of International Assistance by Sector (1994-2003), in Millions of USD Dollars**

Donors party	1994-1997		1998-2000		2001-2003		total	
	Commitments	Disbursements	C.	D.	C.	D.	C.	D.
Infrastructure	999.3	606	1025.5	550.5	500	307	2524.8	1463.5
Productive sector	270.5	137.3	348.9	192.5	143.9	98.5	763.2	428.3
Social sector	815.2	599	439.1	427.4	516	2094.7	1770.3	3121.1
Institutional sector	697	604.5	406.1	241.7	333.2	346.8	1436.2	1193
Miscellaneous sector	76.9	82.5	49.5	53.8	87.1	210.2	213.8	346.5
Total	2858.9	2029.3	2269.2	1465.9	1580.2	3057.4	6708.3	6552.5

*Source: human development report*

The production sectors have the share of \$763.2, there was clear decline in the share of production sector in the total assistance, it did not exceed 11 percent of total commitments, and there was a drop of 9 percent of total disbursements (Human Development Report, 2004, p.119).

### **2.8.2 The Second Stage to the Distribution of International Aid (2005-2009):**

The second stage is shown in the table (2-6), the Palestinian Ministry of planning distribution diagram was employed. This distribution diagram categorizes assistance in detailed terms, the allocation of each sector and branch sector distribution shown in this table.

**Table (2-6) Donor Contribution to International Assistance by Sector  
(2005-2009), in Millions of USD**

Sector	2005	2006	2007	2008	2009	TOTAL
	Disbursement	Disbursement	Disbursement	Disbursement	Disbursement	Disbursement
Education, level unspecified	26,013,915.02	17,930,064.73	16,641,319.50	10,916,362.79	2,427,850.00	73,929,512.04
Basic education	371,301.16	1,707,960.69	2,688,017.60	1,839,936.63		6,607,216.08
Secondary education	4,968,181.78	7,858,675.73	4,773,973.25	5,333,012.49	510,919.84	23,444,763.09
Post-secondary education	17,869,185.92	8,520,709.04	5,247,270.48	4,638,905.98	1,913,637.00	38,189,708.42
Health, general	15,848,291.08	36,851,867.61	10,057,850.34	28,555,542.02	1,060,000.00	92,373,551.05
Basic health	14,118,884.84	40,646,546.74	19,216,232.97	9,026,134.34	339,428.60	83,347,227.49
Population Policies/Programmes And Reproductive Health	4,908,682.11	4,704,775.78	4,982,061.08	1,198,833.60		15,794,352.57
Water Supply And Sanitation	56,362,548.06	49,425,939.19	53,335,674.24	43,294,037.16	5,025,056.71	207,443,255.36
Government and civil society, general	84,410,956.90	66,214,794.85	59,237,881.64	85,721,273.51	10,393,109.26	305,978,016.16
Conflict prevention and resolution, peace and security	9,948,839.54	9,732,205.43	10,555,913.05	23,150,005.71	1,480,678.40	54,867,642.13
Other Social Infrastructure and Services	123,765,261.02	261,396,974.84	398,208,243.70	176,694,980.90	5,164,856.90	965,230,317.36
Transport And Storage	60,987,366.08	5,084,828.15	7,770,894.04	4,875,879.34		78,718,967.61
Communications	14,167.00	427,516.00	184,163.41	1,400,283.41		2,026,129.82
Energy Generation And Supply	31,214,769.64	35,313,070.83	18,983,040.33	41,465,939.29	54,425,000.00	181,401,820.09
Banking And Financial Services	575,681.75	6,972,819.51	7,420,842.95	24,564,558.90	30,031.00	39,563,934.11
Business And Other Services	596,126.55	762,594.03	1,618,438.89	8,864,553.45	719,335.78	12,561,048.70
Agriculture	8,010,661.11	13,137,772.46	12,586,465.89	16,950,442.81	3,104,251.02	53,789,593.29
Fishing			9,985.00	382,260.00		392,245.00
Industry	22,980,305.95	3,745,961.28	2,538,608.19	4,000,000.00	88,494.00	33,353,369.42

Mineral Resources and Mining			11,384.51			11,384.51
Construction				18,629,726.00	500,000.00	19,129,726.00
Trade Policy And Regulations	601,363.27	147,605.34	645,410.02	13,121,866.29		14,516,244.92
Tourism	5,088,396.32	74,805.20	7,749.77	110,579.70	96,018.00	5,377,548.99
General environmental protection	2,207,307.47	2,814,533.93	5,356,053.40	2,403,323.70		12,781,218.50
Other multisector	76,986,377.96	29,234,398.21	36,252,220.17	109,892,149.53	10,213,177.14	262,578,323.01
General budget support	219,734,742.00	266,849,648.63	527,097,221.83	1,784,856,551.14	278,432,301.93	3,076,970,465.53
Developmental food aid/Food security assistance	5,276,182.18	5,378,344.50	5,686,782.66	71,994,222.41	266,550.00	88,602,081.75
Other commodity assistance		117,961,300.73	125,665,788.21			243,627,088.94
Emergency Response	168,515,268.72	191,514,114.83	136,843,533.53	260,013,503.23	20,343,917.00	777,230,337.31
Reconstruction relief and rehabilitation	58,792,565.16	25,781,214.77	39,271,062.88	67,361,059.90	1,097,096.00	192,302,998.71
Disaster prevention and preparedness					417,882.40	417,882.40
Administrative Costs Of Donors	943,219.34	708,906.79	109,910.42	108,373,892.57	4,486.00	110,140,415.12
Support To Non-Governmental Organizations (NGOs)				1,287,526.82		1,287,526.82
Unallocated/ Unspecified	9,229,396.60	8,409,489.78	8,748,014.25	4,987,667.95	27,032.00	31,401,600.58
Core Funding to UNRWA	133,446,527.36	119,269,550.25	165,812,900.44	257,517,829.63		676,046,807.68
<b>Totals</b>	<b>1,163,786,471.88</b>	<b>1,338,578,989.86</b>	<b>1,687,564,908.65</b>	<b>3,193,422,841.20</b>	<b>398,081,108.97</b>	<b>11,439,757,113.07</b>

*Source: Ministry of Planning, Palestine Assistance Monitoring System Reports, donors Sectors matrix 2009.*

Essentially, The total assistance to the Palestinians since the outbreak of the present Intifada goes to relief aid, the social sectors accounted for 68.5 percent. This is attributed to the swelling of emergency humanitarian and relief assistance, which falls within the social sectors. As for the infrastructure sector, its share of total assistance declined in this stage to approximately 10 percent (as compared to 37.6 percent in the previous stage). As for the share of the productive sectors, it did not exceed \$98.5 million, or less than 3.2 percent of actual assistance, despite the importance of these sectors in strengthening the Palestinians and promoting their capacity for perseverance (MOH,2009,p.4).

The main uses for assistance in this period are supporting the PNAs general budget, especially the development budget, whose share of actual assistance was approximately 12 percent. If the grants for supporting the current budget are added, contributions earmarked for development increase substantially; since the outbreak of the Al-Aqsa Intifada, the donor parties have provided more than \$1,300 million for this use. As for in-kind assistance provided to the Palestinians in the form of equipment,

It comprised approximately 8 percent of total actual assistance, and approximately 5 percent of assistance was disbursed through job creation programs for the unemployed. Only 3 percent was disbursed to support the private sector (MOH, 2009, p.5).

## **2.9 Criticism of International Aid to the Palestinians:**

Many Palestinians economists <sup>(7)</sup> discussed the subject of international aid and the impact on economic development, they agreed that donors

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*(7)Dr. Nader Said, director of the Development Studies Program at Birzeit University and Dr. Alaa Alrafti former Dean of the College of Business at the Islamic University, and Dr. Mohamed Migdad economics professor at the Islamic University and others, the whole of these authors agreed that aid to the Palestinian people has failed*



looking forward to keep the situation in a state of crisis, which make the Palestinian development process in full under the mercy of donor countries, the flow of international aid in can be stopped in any moment and reflect crash in the Palestinian economy and development efforts (Rafati, 2006,p.1).

World attention to provide aid finance to the Palestinian people is temporary and there is no guarantee of continuous finance, so it must be used in in the rational way, the Palestinians should understand that this aid is not everlasting so it must be exploited in proper way, international aid to the Palestinians consider less than minimum amount should be offer as compensation to their suffering during more than sixty years since they lost their home at 1948 and compulsory commitment from the international community,(Shaban, 2006,p.2).

International aid to the Palestinians is the main source of foreign currency, which is transmitted through the donor countries, so it is possible to say that international aid helped the Palestinians to improve their life conditions and had essential role enabling PNA to treated and fix some of the destruction effects of the Israeli occupation, it Composed by 86% from grants and donations which is the material of our study (Mas.2005,p.).

International aid to the Palestinians consider as finance and support started as soon as the Israeli withdrawal had taken place in 1993, this aid was 500 million \$ per year started in the meeting of October 1993 in Washington, this international aid funding were developed to help the

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*significantly to achieve the required development to the Palestinian society because of Israeli measures and the donors policies which aimed to thwart any attempt to develop in the occupied territories.*

new emerging authority to handle the situation in the Palestinian Autonomous Areas and achieving its tasks (Lobad, 2004, p.4).

The total fund to the Palestinians was 6 billion \$ as grant and donations by the end of the first half of 2004, this amount of aid consider one of the highest aid amount presented from part to another part in the world, this resulting an average annual per capita assistance about 310\$ per person which is about 22% of the GDP per capita which give an indicator that Palestinian GDP heavily depended on international aid (Saeed,2006, p.6).

Many countries such as Sudan, Afghanistan, East Timor, and Iraq passed the same conditions in which the international community pledged to help and definitely Palestinian occupied territories, the international aid mechanism to the Palestinian last to the year of 2005 where the Israeli troops left Gaza strip, Israeli withdrawal create new situation.

The eight industrialized countries decided as usual to offer its Support and backing to the Palestinians, United States, japan, and European Union represented the rich world and pledged to help these areas in the world which facing transitional political or social stages and enabling them to come through this stage (shaban,2006,p.3).

The PNA received in the period from 1994 to 2004 about 7 billion\$(86% grants and donations,14%loans) to achieve its task in protecting peace through improving the life quality for the Palestinians, amount of aid received by the PNA making it second only to Israel in those countries received aid in the world (Lobad,2004,pp.4).

## **2.10 Donor Countries:**

Since the signing of the Oslo peace accord between PLO and Israel, many States and agencies had pledged to contribute financially through the

assistance to Palestinian people and with a view to the success of the Israeli-Palestinian peace draft, it has pledged to these countries to provide assistance in order to achieve this Purpose

Donors are those countries met in Washington in October 1993, these donors (countries or institutions) pledges to provide approximately 2.4 billion\$ to the Palestinian authority over the course of 500 million per year, the share of the united states was the largest among donors it was about 1.450 million\$ which is 19.7 percent of the pledges, this was followed by the European union which pledged to offer 13.1 percent of the total pledges ,next was the Arab countries pledged to pay about 911.7 million\$ during that period, the largest pledge of the Arab countries came from united Arab of emirates what amounting 310 million \$ followed by Saudi Arabia which pledged 300 million\$ expenditure on agreed upon projects (Lobad, 2004, pp3).

## **2.11 Conclusions:**

Aid seldom given from motives of pure altruism, for instance it is often given as a mean of supporting an ally in international politics, in the Palestinian case it is given with the intention of influencing the political process in the receiving nation, during the conflict between communism and capitalism in the twentieth century, the champions of those ideologies, the Soviet Union and the United States, each used aid to influence the internal politics of other nations, and to support their weaker allies, the Marshall Plan by which the United States, largely successfully, sought to pull European nations toward capitalism and away from communism.

Besides criticism of motive, aid may be criticized simply on the ground that it is not effective and did not do what it was intended to do or help the people it was intended to help, this is essentially an economic

criticism of aid,. Statistical studies have produced widely differing assessments of the correlation between aid and economic growth, and no firm consensus has emerged to suggest that foreign aid generally does boost growth. Some studies find a positive correlation, but others find either no correlation or a negative correlation.

In the case of African experience 1985 the foreign aid was deleterious to African development, International aid causes harm to the African nations economics, specifically because international aid was intentioned to be distributed by local politicians and caused the creation of government corruption.

As long as the international aid to the Palestinian people was a particular political figure or according to the need and the right of the Palestinians to get help from all over the parts, a relief to the crisis resulted from the tragedy which have been committed against the Palestinians, International community pledged to provide assistance and to the Palestinians, the international aid provided to the Palestinian people aimed mainly to finance and encourage political peace, and economic development was not its real objective.

The Palestinian people have been suffering for decades and did not receive the aid in such scale, only after the merged of Palestinian people to the Pease settlement and agreed the American vision to resolve the conflict, this demonstrates that the aid politicized. Palestinians achieved progress in certain areas and the improvement of some indicators related to the Palestinian economy, but this improvement built on a temporary basis and might be disappeared in the moment that international aid flow stopped, so this assistance was issued for taking the form of relief more than finance for development.

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## Chapter 3

# Economic Development

### 3.1 Introduction:

The study of economic development as an important topic was addressed by the modern economics after the beginning of the twentieth century, particularly in developing countries which focused on the subject of development as a tool to come over poverty, reduce unemployment, achieve fair income redistribution as well as GDP growth, economic dependency and failure in the felids of economic social life, political and management, was compelled to focus at the issue of development in order to find solutions (Sbaih,2004,p.18).

The old concept defined development as a growth in GDP, but the modern concept of economic development emphasis that the growth should focus and cover all the life activities such as economics, politics, culture, and social issues in order to achieve fast structural transformations to Communities suffering from developmental problems, this requires effective government role and the availability of a great deal of coordination in economic decision-making (Todaro, 2008, p.52).

In light of changes witnessed by the world in various fields, especially technological, economical, informational, the world affected by rapidly changes among its segments. Regions, countries and peoples took part of these changes and transformations in positive or negative implications on the future of economic development in developing countries (Todaro, 2008, p.53).

Arab countries and precisely the Palestinian occupied territories called for promotion of opportunities to take advantage of the positives atmosphere emerged from these changes which reduce the risks to a large extent, therefore the outlook for development require understanding of these shifts and changes which redefining economic development concept throughout the world and developing countries, despite the privacy of the Palestinian situation, it is possible to achieve tangible progress in economic development issues and make an improvement in development indicators(Shaban,2006,p.3).

### **3.2 The Concept and Definition of Economic Development:**

According to the traditional concept, economic development is the Process reflect an increase in GDP, this increase should be a cumulative, rapid, and continuously over a period of time, so it should be greater than the rate of population growth, as well as growth in GDP should provide productive and social services, keeping protection of renewable resources from pollution and conserve non-renewable resources from depletion (Sbaih, 2004, p.20).

The concept of economic development also concerned with the specialization of efficient productive resources which are scarce, it is also interested in achieving sustained growth and sustainable development over the time, social and economic development in the presence of each of public and private sector as it is necessary to recognize and achieve an expeditious and continuous improvements in standards of living (Assaf and Wadi, p.36).

Accordingly, the development economics is broader and more comprehensive than the traditional economic, it covers all the requirements of economic, political and cultural resources which is

necessary to achieve the institutional and structural transformation in communities that suffering from developmental problems such as poverty, unemployment , poor income distribution, ignorance and malnutrition... etc. (Assaf and Wadi,2011,p.39).

Because of the wide divergence in the third world societies, there is single prescription for economic development, but there are many development economies at the level of the third world countries, therefore they must choose among these economies in the light of circumstances to the national economy of the country and its requirements with the amendments to these economies, if necessary In accordance with the country Interior conditions, there are three values of development as follow (Kuraishi,2007,p.17).

### **1- Provide the Basic Needs of Humanity.**

Such as food, clothing, housing, treatment, education and security, thus the basic function of economic activity in the community is to provide these needs. The economic development is a necessary condition for the provision of basic needs and improves people's living conditions.

### **2- Self-Fulfillment and a Sense of Dignity.**

the economic progress and material prosperity achieved by the society become the global level measured by the dignity and worth of the community or the state, Thus, the third world societies are suffering from the complex of backwardness and a sense of inferiority, although many of them have an ancient civilization in history.

### **3- Providing the Freedom and the Ability to Choose.**

Many economists emphasized on the positive relationship between economic development and freedom from slavery, where Arthur Lewis

said the interest of economic growth is not because wealth increases happiness, but because the wealth increase from the scope of the humanitarian option, wealth enabling people to control more of nature and the physical environment compared to if they remain poor(Todaro,2008p.55,56).

### **3.3 Economic Development Theories:**

There are many economic developments; here we will try to mention the most important theories as following:

#### **3.3.1 The Theory of Adam Smith:**

Adam Smith focused on economic freedom and opposed intervention state in economic activity and seeks the principle of specialization and labor division, He believes that profit is the basis in the composition of savings rates, increased capital formation, Adam Smith comes at the forefront of the classical economists were writing about the nature and his famous book the wealth of nations concerned with the problem of economic development, it did not provide a complete theory of economic growth, although Subsequent economists have formed a theory about one of the inherited characteristics about the natural law(Khalaf,2006,p105).

#### **3.3.2 Mel's Theory:**

John Stuart Mel Consider economic development is a function of land, labor and capital, work and land are the two genuine production factors, while capital is accumulation result of earlier work, the rate of capital accumulation depending on the extent of recruitment of the well manpower employment.

So Mel noted the following points:



Mel thought truly Malthusian theory of population concentrated on productivity and the control population which is essential for economic development.

Mel Saw a tendency that profits depend on the work cost of the item, so the rate of profit is the ratio between profits and wages.

Mel Saw a tendency that the rate of profit falls as a result of diminishing returns law in agriculture, so high population growth rate according to Malthus in the absence of technological improvements and high growth rate of capital accumulation the rate of profit becomes minimal and occur a state of recession.

Mel thought that the tendency to silence unexpected occurrence in the near term and expects that it will lead to improving the pattern of income distribution and improve the conditions of workers.

Mel supported the policy of economic freedom, which should be the general rule; therefore, he has identified the role of the state in economic activity to a minimum and only if necessary. (Khalaf, 2007, p.135).

### **3.3.3 Classical Theory:**

The key elements of this theory are:

Policy of economic freedom: classical economists believed in the need for individual freedom and the importance that the markets should be free from the rule of full competition and away from any government intervention in the economy.

Capital formation is the key to progress: all classical economists consider that capital formation is the key to economic progress, all of them confirmed the need to achieve a sufficient amount of savings.

Profit is the incentive to invest: the main incentive motivation is profit which drives capitalists to make their investment decisions, the greater

the rate of profit has increased the greater the rate of capital formation and investment increased.

Tendency of the profit decline: the rate of profit is not increasing constantly, but tends to decline due to intensified competition among capitalists to accumulate capital.

Sleep stage: the inevitability of classical thought is to reach the state of stability as the end of the process of capital accumulation, so it is that profits begin to decline in order to continue to reach that rate to zero and the profit stops of capital accumulation, and settle down even the population and the wage rate only in the subsistence level (Todaro,2008,p.149)

### **3.3.4 Schumpeter's Theory:**

The theory of Schumpeter assume that the economic growth depend on Entrepreneurs of the individual who create plans of productivity which is motivated to get the most possible profit, therefore economic growth depends mainly on entrepreneurs and bank credit, which provides the material resources necessary for innovation and invention, This theory assumes that economy dominated by a state of perfect competition.

The properties of this theory as follow:

Innovations: According to Schumpeter, innovation is the introduction of any new product or improvements.

Entrepreneur role: Schumpeter was allocated the role of innovative entrepreneur is a person with extraordinary administrative capacity, capable to offer something completely new, he does not provide cash balances, but reallocate their use.

The role of profit: according to Schumpeter, it is under the competitive balance in the prices of products and completely equal to production costs and there is no earnings.

Circular process: as long as financing of investment through bank credit go on, it will lead to increase in monetary incomes, prices and help to create a cumulative expansion across the economy as a whole (Khalaf,2007,p.131).

### **3.3.5 Keynesian Theory:**

Keynes's theory was not exposed to analyze the problems of developing countries but it was focused on developed countries only, Keynes thought that total income is a function of the operating level in any country; the more the scale of operation increased the more the size of total income increased(Kuraishi,2007,p.73).

The Keynesian tools are:

Effective demand: according to Keynes, unemployment occurs because of lack in demand, to resolve the demand lack Keynes proposed an increase in spending, weather on consumption or investment.

Marginal efficiency of capital: Keynes thought that the marginal efficiency of capital represents a major determinant of the investment rate and there is an inverse relationship between investment and marginal efficiency of capital.

Interest Rate: represents the second set in the investment side of the marginal efficiency of capital in the Keynesian model, the interest rate is determined in turn favoring liquidity and money supply.

Multiplier: Keynesian Multiplier based on four assumptions as follows:

Involuntarily unemployment.

Surplus production capacity of consumption goods.

Industrial economic.

Elasticity of supply.

Economic Policy: There are areas which do not correspond to the conditions prevailing in developing countries in the requirements to the work of Keynesian policies.

### **3.3.6 Rostow Theory:**

Rostow presented a model including imports of capital that are funded through the efficient production and marketing of good natural resources for export, he set to accomplish this goal according to the following five stages to reach the required growth (Khalaf,2006,p.142).

The traditional society stage: This stage is characterized by delays and lack of community possibilities so the tribal system prevailed, dependence on agriculture; there is no willingness to change.

The pre-condition for takeoff into self-sustaining growth stage: Gradual change, tangible concepts, start of political stability, high level of savings, investment and the emergence of profit motive factors for the movement of investment in the community, using of technological advances in society, the emergence of the agricultural sector as a sector has a major role in development process financing, the proportion of workers in the agricultural sector accounted for 75% of the total labor force in the community.

Take-off stage: Increase rate of net investment from 5% of national income to more than 10% expansion in the labor force techs, low labor

force working in agriculture to 40%, high growth rate of real per capita output in order to overcome population pressures, creation of new industrial sector which leading the development process.

The drove to maturity stage: This stage last about 40 years, summed variables of this stage are high investment between 10% - 20% of national income, incomes rise at a rate greater than the rate of population growth, as well as the production of various goods and services needed by the community and provide competence and apply management skill, low proportion of workers in the agricultural sector to (about 20%), increase in the export capacity of items related to heavy industry.

The high mass consumption stage: This stage is characterized that main sectors of the economy moving by the time to the production of durable goods and services such as cars and refrigerators, etc. ... after they have covered the needs of the community of non-durable consumer goods(Todaro,2008,p.124).

### **3.3.7 Strong Push Theory:**

The idea of strong push theory, there is a need for a boost or a large and intense in the form of a minimum investment to overcome the obstacles facing development and put the economy on the path to self-growth, the owner of this theory is Rodin Rosenstein who considered that his theory more comprehensive than traditional theory as it is inconsistent with modern logos which is looking in reality at the path toward balance more than the conditions required at the point of balance (Kuraishi, 2007,p.87).

### **3.3.8 Balanced Growth (Selective Approach) Theory:**

Balanced growth as a development tool means that an equal balance in the different industries is required, growth should be in all the economic

sectors together, consumer goods, capital goods, industries, as well as includes a balance between industry and agriculture, the theory of balanced growth has been addressed by Rosenstein, Ranger and Arthur Lewis, this theory a new approach of economic development applied by Russia and helped to speed up the growth rate in a short period (Halawa and Saleh,2011,p.41).

### **3.3.9 Unbalanced Growth Theory:**

The theory of unbalanced growth take different trend from the idea of balanced growth as the investments in this case are allocated to specific sectors rather being distributed simultaneously to all sectors of the national economy, according to Hirschman who addressed this theory, the investment should be directed to certain sector called the pioneer sector in the economic (Kuraishi, 2007, p.96).

**\*\***The theory of unbalanced growth , which relies on the development of a particular sector of the economy as the leading sector in this economy, is the most suitable development theory to the Palestinian situation, in fact as long as the Palestinian society living under occupation, and cannot make a comprehensive development of all sectors together. Therefore, commensurate with the Palestinian situation, the source of growth in a particular sector in order develops and makes progress, which it reflects positively on other sectors.

### **3.4 Development Indicators:**

There are many indicators used to measure the development level and represent a tool to judge the progress achieved in certain field in the development process, the following are the most famous development indicators:

#### **3.4.1 Human Development Index (HDI).**

The Human Development Index is Scale Manual for Human Development, which measures the average achievements in a country in three basic dimensions of human development which, it is compound indicators, contains the following secondary indicators (HDR.2006).

Long life free from illness and disease: it measured by the expectation of life at birth so it depend on other factors such as nutrition, good health, clean water, unpolluted air and the size of government spending.

Acquisition of knowledge: measured by the proportion of literate, this indicator has been modified index called the last index of educational attainment.

Enjoy a dignified life: measured by real income per capita rate, which is calculated by taking purchasing power parity into account.

The calculation of HDI requires preparation of a manual for each of these three basic dimensions of human development, so it requires knowing the following indicators (Damma, 2009, p.22).

Education index.

GDP per capita index.

Life expectancy index.

According to HDI indicator, the world classified into four groups:

The developed countries: the human development index greater or equal to (0.90).

Countries with high human development, HDI directory between (.80 - .899).

Countries with medium human development, HDI directory between (0.500 - 0.799).

Countries with low human development (less than 0.50).

### **3.4.2 Gender - Related Development Index (GDI).**

While the Human Development Index (HDI) measures the average achievements, and then hides the differences between the sexes, gender Development Index GDI aimed to amend the average achievements to highlight the inequalities between males and females in the three main dimensions, which are contained in the Human Development Index (Damma, 2009, p.26).

### **3.4.3 Gender Empowerment Measure Index (GEM):**

The Indicator measuring empowerment of women Known as the index of gender-based participation, which highlights the inequality between the sexes in terms of participation in three following major areas:

Political participation and decision-making power: measured by the share percentage of women and men in the parliamentary seats.

Economic participation and decision-making power: measured by the share percentage of women and men in positions as legislators, senior officials and managers, share percentage of women and men in the professional and technical positions.

Control over economic resources: measured by estimated earned income for both women and men (Damma, 2009, p.33).



### **3.4.4 Human Poverty Index (HPI):**

The human poverty index (HPI) presented by the United Nations Development Program (UNDP) in Human Development Report (HDI) for 1997 instead of the poverty indicator of the World Bank, while HDI measuring achievements, human poverty index measuring deprivations in three basic dimensions of human development which are included in the HDI, there are two directories of human poverty index as follow (Todaro, 2008, p.239, 240):

First one related to developing countries, called the human poverty index - 1 and has the symbol **(HPI-1)**.

The second one related to industrial countries, called the Human Poverty Index - 2 and has the symbol **(HPI-2)** (Damma, 2009, p.42).

### **3.5 Economic Development in Palestine:**

The economic development in Palestine is one of the most important issues in the Palestinian's concern in the different phases; it seems that the issue of development in Palestine and the circumstances that prevailed imposed a special character both in the nature of the activity or development plans and programs. The concept of development in Palestinian territories associated with the privacy of what happening in the region and its relationship to the economic life to the Palestinians, socially and politically.

The development process in Palestinian territories faces many of difficulties and obstacles that prevent the Palestinians to achieve the requirements of the development process, which affected the standard of living for the majority of the population, due to instability and direct

interventions of the Israeli occupation authorities which tending to strike elements of infrastructure and public facilities(Saeed,1994,pp.4).

Accordingly, we need a developmental vision of the Palestinian economy in order organize effort of all development partners which are government, private sector, and civil society. Where unavoidable to clarify a vision and continue the development work in spite of all difficulties and obstacles shocking the Palestinian economy, aimed to achieve liberation from dependency on the Israeli economy.

Palestinian developmental environment based on three key elements do not overlap and no development without them and they are:

**First:** Get rid of the occupation and achieve the right of self-determination to ensure control over resources.

**Second:** provide a system of legislation, laws and policies away from monopolies and attracting foreign investment and encouraging the private sector under the supervision of the state

**Third:** attract international sympathy and support particularly that the bulk of the treasury relies on international aid, which obviously came under political considerations, and against the backdrop of the signing of Oslo agreement to promote climate stability and calm (Shakora, 2010, p.8).

### **3.5.1 The Internal Environment for Economic Development in Palestine:**

As a result of the circumstances surrounding, developmental work in Palestine missed the vision of comprehensive development, which has the consensus and conviction from the three development partners which are the Palestinian government, private sector and civil society, There have

been many attempts to develop a vision of development, but not completed, not in terms of building a unanimously agreed by development partners, nor in terms of adoption by official bodies authorized in the Palestinian National Authority, the following is an analysis of the address highlighted the strengths and weaknesses of the Palestinian economy(Shkora,2010,p.19).

**A – Strengths:**

- Human Resources favorable
- Investment of human
- Palestinian communities abroad
- Institutions of civil society
- Geographical location
- A dynamic private sector

**B – Weaknesses:**

- The weakness of the government sector.
- The limited resource base (land - water - natural resources).
- Economic dependency of Israel.
- Lack of participation of women in economic activity.

Reviewing Dr Mohammed Shakora classification to the strength and weakness points in the Palestinian development process, highlighted the Palestinian development environment from many sides, he did not mention the progress in the infrastructure sector, the progress in education and health, and the clear increase in the role of women, which

is very obvious in the Palestinian territories according to women empowerment indicator, where the occupied Palestinian territories a noticeable increase in the women role in the society.

### **3.5.2 The External Environment for Economic Development in Palestine:**

Despite that the economic development process facing difficulties in Palestine, but it was necessary for the Palestinian people to resist strongly the process of demolition and distortion of the potential and capabilities. This calls for the need to analyze the external environment where the Palestinian economy does not work in a vacuum, but operates under the framework around it starting from the frame contain the Arab world, Islamic world and the end of the outside world which is this study main concern as a tool to international aid, the following is an analysis of the most important opportunities and risks (Shakora, 2010, p.12).

The Palestinians must work to take the advantage of the outer frame supporting the economic development in Palestine through the use of international assistance offering from all parts, and work to employ route optimization in order to achieve the goals of economic development in Palestine ,which Requires the adoption of a strategy to achieve sustainable growth based on considerations of poverty reduction, social security,(GDP) growth ,and reduce unemployment rate by following the right and the rational procedure and implement developmental plan with clear objectives (Saeed and Naseef, 2006,p.4).

### **3.6 Objectives of Economic Development in Palestine:**

The objectives of economic development in Palestine divided into two categories according to Dr Mohammed Migdad <sup>(8)</sup> as follow:

#### **3.6.1 Goals Related to Solving the Problems Facing the Economy:**

- 1- Get rid of dependence on Israel gradually, by construction of balanced economic relations and exchange with equal brotherly and friendly countries.
- 2- Work to repair deformities of the national economy, especially structural distortions in the sectors of national economy.
- 3- Reduce the deficit in the trade balance through a policy of export subsidies and import substitution.
- 4- And reduce the deficit in the balance of payments adjust expenditures and increase revenues. Restructuring to take advantage of grants and loans in the optimize way (Migdad, 2008p.8).

#### **3.6.2 Goals Related to the Development of the local Economy in a Sustainable Manner and to Ensure Economic Growth:**

These goals are as follow:

- 1- Economic growth, and ensure the creation of adequate employment opportunities for the Palestinian labor force already in place and is expected to increase through the increase of natural and unnatural, and through the development of sectorial interest.
- 2- Human resources development as a cornerstone of development, including the needs of the Palestinian market agrees.

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<sup>(8)</sup> Dr Mohammed Migdad is the economic associated professor in the faculty of commerce, Islamic university, Gaza.

- 3- Encourage private investment and development investments.
  - 4- The independence of the Palestinian economy.
  - 5- Development and construction of the banking system, and the issuance of the national currency Palestinian confirmation of Palestinian sovereignty, in light of the objectives of the long term.
  - 6- Balancing bridge the gap between the West Bank and Gaza Strip, to the ability of the labor force and the size of investment and provide the institutions and economic performance.
  - 7- Work on non-competition government formally or informally to the private sector. The mean is the official competition, abuse of position and clout to achieve private benefits at the expense of national interest.
  - 8- Giving an active role for the private sector to the exercise its role in development, including strengthening self-reliance, as well as benefit from the aid expected from international source and Arab countries.
- (Migdad, 2008,p.9, 10).

### **3.7. The Millennium Development Goals:**

The Millennium Development Goals (MDGs) originated from the Millennium Declaration produced by the United Nations. The Declaration asserts that every individual has the right to dignity, freedom, equality, a basic standard of living that includes freedom from hunger and violence, and encourages tolerance and solidarity.

The MDGs were made to operationalize these ideas by setting targets and indicators for poverty reduction in order to achieve the rights set forth in the Declaration on a set fifteen-year timeline.

The Millennium Development Goals are eight international development goals, that all 192 United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. They

include eradicating extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development (Millennium Development Goals Report, 2006, p.3 ).

The eight millennium goals are as follow:

**Goal 1:** Eradicate extreme poverty and hunger:

Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day, and the proportion of people who suffer from hunger

**Goal 2:** Achieve universal primary education

Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

**Goal 3:** Promote gender equality and empower women

Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

**Goal 4:** Reduce child mortality

Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

**Goal 5:** Improve maternal health

Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

**Goal 6:** Combat HIV/AIDS, malaria and other diseases

Halt and reverse the spread of HIV/AIDS, malaria and other major diseases

**Goal 7:** Ensure environmental sustainability

Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

**Goal 8:** Develop a global partnership for development

Develop further and open, rules-based, predictable, non-discriminatory trading and financial system, including a commitment to good governance, development, and poverty reduction – both nationally and internationally. ( Millennium Development Goals Report, 2006, p.1-20).

**3.7.1 Palestinian Territories and Millennium Goals:**

The occupied Palestinian land Classified with the group of middle-income countries in the context of human development index, In the context of achieving the Millennium development goals with the exception of the first goal which is poverty eradication, remains favorable for the achievement of most goals in the year 2015, although the trends for the year 2000 indicate that there is a decline in most indicators (Palestinian Human Development Report, 2004, p.35).

This decline occur in the Palestinian private situation inform that the Palestinian worked hard and achieve acceptable results in this field, Palestinians suffering from a humanitarian crisis since the outbreak of the intifada, the mystery that surrounds the political climate poses a challenge to estimate the actual patterns of probabilities of progress until the year 2015, the deadline for achieving most of the national strategies to achieve the millennium development goals (Palestinian Human Development Report, 2004, p.57).



**Table (3-1): The Progress Made towards Achieving the Objectives and Data Availability and Quality from 1994- 2008**

<i>Goal</i>	<i>Target</i>	<i>The ability to achieve the goal</i>
<b>Goal 1</b>	<b>Target 1</b>	<b>Unexpected</b>
	<b>Target 2</b>	<b>Unexpected</b>
	<b>Target 3</b>	<b>expected</b>
<b>Goal 2</b>	<b>Target 1</b>	<b>Achieved</b>
<b>Goal 3</b>	<b>Target 1</b>	<b>Achieved numerically</b>
<b>Goal 4</b>	<b>Target 1</b>	<b>Hard to achieve</b>
<b>Goal 5</b>	<b>Target 1</b>	<b>Unexpected</b>
	<b>Target 2</b>	<b>Unexpected</b>
<b>Goal 6</b>	<b>Target1</b>	<b>Unexpected</b>
	<b>Target 2</b>	<b>Unexpected</b>
	<b>Target 3</b>	<b>Achieved</b>
<b>Goal 7</b>	<b>Target 1</b>	<b>Unexpected</b>
	<b>Target 2</b>	<b>Unexpected</b>
	<b>Target 3</b>	<b>Achieved</b>
	<b>Target 4</b>	<b>Unexpected</b>
<b>Goal 8</b>	<b>Target 1</b>	<b>Unexpected</b>
	<b>Target 2</b>	<b>Unexpected</b>
	<b>Target 3</b>	<b>Not applicable</b>
	<b>Target 4</b>	<b>Not applicable</b>
	<b>Target 5</b>	<b>Unexpected</b>
	<b>Target 6</b>	<b>Possible to achieve</b>

*The table prepared by the researcher through data from human development report (HDR) in Palestine, Birzeit development center.*

While local and international aid focused on development largely via the delivery of social services and support to the Palestinian Authority to implement the tasks of development <sup>(9)</sup>, therefore they have been conducted many efforts to organize the process through planning strategies for development since 1998 in the form of Palestinian development Plans, such as a plan of socio-economic stability, and more recently the Palestinian Development Plan (Shaban, 2006, p.5).

\*\*Table (3-1) shows the expected achievement in various development indicators in the Palestinian territories

### **3.8 The Palestinian Gross Domestic Product 1994-2010:**

GDP per capita in the occupied Palestinian territories rose by 7% per year from 1968-1980 but slowed during the 1980s. Between 1970 and 1991 life expectancy rose from 56 to 66 years, infant mortality per 1,000 fell from 95 to 42, the percentage of households with electricity rose from 30% to 85%, the percentage of households with safe water rose from 15% to 90%, the percentage of households with a refrigerator rose from 11% to 85%, and the percentage of households with a washing machine rose from 23% in 1980 to 61% in 1991(Word Bank Report, 1993, p.15).

Economic conditions in the West Bank and Gaza, where economic activity was governed by the Paris Economic Protocol of April 1994 between Israel and the Palestinian Authority, deteriorated in the early 1990s. Real per capita GDP for the West Bank and Gaza Strip declined 36.1% between 1992 and 1996 owing to the combined effect of falling aggregate incomes and robust population growth. The downturn in

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<sup>(9)</sup> Refer to UNDP Report, 2008 related to the development goals achievements in the Palestinian territories.

economic activity was due to extensive corruption in the newly governing (Human Development Report, 1998-1999, p.37).

Table (3-2) shows the values of GDP in certain years between 1994 to 1999, the table shown the fluctuating of the GDP values over the years.

**Table (3-2) Gross Domestic Product to the Palestinian Territories  
1994-1999 by US Million Dollars**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>GDP</b>	3,012	3,193	3,286	3,701	4,147	4,118

*Source: Economic and Social Monitor, (Q6), 2006.*

The GDP value for the WBGS was \$3.575 billion in 1995, \$3.897 million in 1996 and \$4.200 billion in 1997, whereas GNP was \$4.235 billion in 1995, \$4.509 billion in 1996 and \$4.900 billion in 1997. The per capita GNP was \$1.772 in 1995, \$1,779 in 1996 and \$1.763 in 1997. The ratio between the GDP and the GNP increased from 84.4% in 1995 to 91.7%, reflecting the steady decrease in remittances from labor in the Israeli market and from other external sources (Human Development Report.1998-1999, p.38).

The Palestinian GDP dropped 13.1 percent between 2000 and 2003 to \$4,019 million. GDP per capita for the same period dropped 24.4 percent to \$1,108.70. The Palestinian Gross National Product (GNP) also dropped by 15.7 percent between 2000 and 2003, with a corresponding drop in GNP per capita of 28.8 percent. Israeli occupation has affected the overall performance of individual Palestinian economic sectors as well. Total industrial sector losses amounted to \$540,000,000 at the end of 2001<sup>20</sup>. Employment in this sector decreased between 2000 and 2003 from 14.3 percent to 12.5 percent<sup>21</sup>.

**Table (3-3) Gross Domestic Product to the Palestinian Territories  
2000-2010 by US Million Dollars**

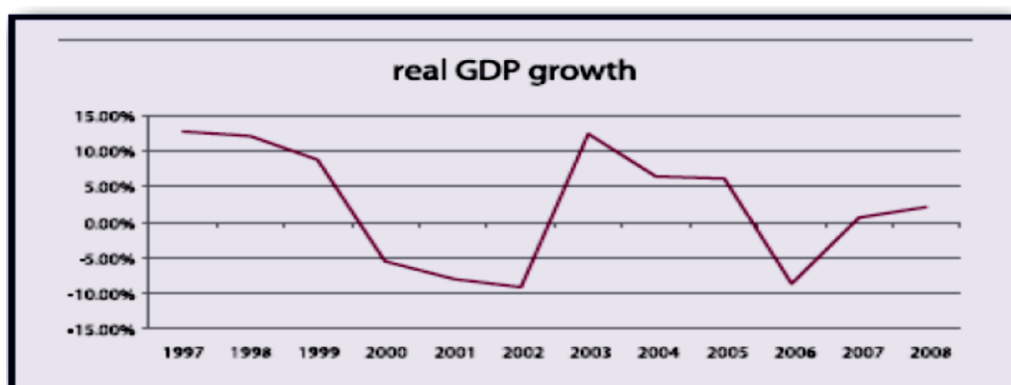
	2000	2001	2002	2003	2004	2005	2006	2006	2008	2009	2010
<b>GDP</b>	4,118	3,765	3,264	3,749	4,198	4,559	4,322	4,554	4,878	5,241	5,725

*Source: Economic and Social Monitor. (Q24)2011.*

The 2004 World Bank report covering the effects of the 27 months of the Intifada reported that only 7 percent of industrial facilities managed to maintain pre-Intifada production levels. The food, textile, leather and plastic industries were hit hardest. A slight change was recorded in the industrial sector's contribution to the GDP for this period, but the numerical figure does not reflect the true extent of the regression in the industrial sector. Value added statistics for the industrial sector dropped 13 percent between 2000 and 2002 (Human Development Report, 2004, p.58).

With a growing population and a shrinking economy, real per capita GDP is close to 30%, below its height in 1999. The overall economic picture is one of negative growth. PCBS estimates that the GDP in 2006 had negative growth rate of -6.6 % (see Figure 2).

**Figure (3-1) Real GDP Growth from 1997-2009**



*Source: Human Development Report 2009.*

It estimates that real GDP growth in 2007 was a mere 0.5 %, while results from the first quarter suggest that growth in 2008 is slightly negative. Similarly, the IMF recorded a drop in GDP to -0.5 % in 2007, and a modest growth of 0.8 % in 2008. This is probably due to a continued yet marginal drop in economic activity in Gaza, given its already-low base, matched with a modest rise in economic activity in the West Bank.

Table (3-3) shows the values of GDP in certain years between 2000 to 2010 , the table shown the fluctuating of the GDP values over the years.

These figures are representative of already severely limited economic activity before Operation Cast Lead, which, as it resulted in the destruction of significant remaining economic assets, means that further decline is inevitable. The average of GDP per capita increased by about 3.7% in 2009 compared to 2.9% in 2008 (Human Development Report, 2009, p.35, 36).

### **3.9 The Palestinian Development Plans:**

Comprehensive development plans undertaken by the governments of different countries is the tool to achieve the higher goals for their people in line with the vision of these communities for their future and in line with the optimal exploitation of natural and human resources.

The Palestinian National Authority has tried to put many plans and development programs, economic and social development plans in the Palestinian territories to address the economic and social problems, these plans were based to reduce dependence on the Israeli economy by providing adequate infrastructure for the economic development process, which will contribute to solve the problems of poverty, unemployment, and rising the GDP per capita and provide adequate social services such

as education, health and housing .these indicative plans were as follow(Hindi,2006,p.19):

### **3.9.1 Palestinian Development Plans before Oslo Agreement:**

many self-initiatives plans was formed by the Palestinians under occupation, a unique experience, where is a fitting introduction to understand the development experience in Palestine, a unique experience in its thinking and its content and goals, in the early eighties, a certain slogan was appeared titled as "development in order to survive," and several conferences were held under this slogan of in the most of the Palestinian institutions, the most important conference held in 1986 on the financing of development plans from outside sources and discuss(Lobad,2003,p.13,14)

These incentives plans played an important role in the Palestinian institutions building, and mitigate the outcomes of the transition and the rapid disappearance of the situation that prevailed in Palestine after the War of 1967, where it worked for development institutions to re-link the Palestinian society, both geographically and expand its energy market to foreign affairs.

### **3.9.2 Development Plans after Oslo Agreement:**

Oslo accords between the PLO and the Israeli government in 1993, Contributed to the attraction of the world attention to the region, particularly the donor countries that promised to develop the Palestinian economy, and provide assistance in cash and kind generous. This optimism is getting the Palestinians to increase the ceiling of expectations, and then the adoption of development plans is the most ambitious in the history of the Palestinian cause, and these plans were as follows:

### **3.9.2.1 Palestinian Development Program to National Economy from 1994-2000:**

This program was adopted at 1993 under the supervision of Professor Yousef Alsaigh, and Palestinian institutions, the program was under the fully supervision of the economic department of PLO.

the program formed the first attempt to develop an ambitious development plan in order to rebuild Palestinian society after the Oslo Agreement, the program costs were estimated by about 11.6 billion U.S. dollars in 1991 prices, the program based on important assumptions and strategies gave the priority to correct the distortions caused by the occupation, and making opportunities work and infrastructure development and encourage the export sector and housing. Despite the importance ,the size, and quality of this program, but its application was not practical due to several factors, most notably the lack of necessary funding, and unrealistic assumptions on which it is, whether political or geographical or demographic(Hindi,2006,p.20).

### **3.9.2.2 Palestinian Development Plan 1998 – 2000:**

The development plan of the year 1998 to 2000 based to achieve an employment and economic development, Revive and Rural Development, Development of institutions and policies, as well as Human resources development and improve living conditions.

The plan also aimed to rehabilitate the infrastructure, development the human resources by raising the social services standards by activating the role of the public and private sectors, the plan determine the legal framework of the economic activities, finally consolidate the concepts of democracy and human rights (Palestinian Development Plan, 1998, p.15).

It was Clear from the foregoing that the Palestinian Development Plan (1998 - 2000) is a plan began moving more toward realism, and start from the needs and basic requirements of the Palestinian society, it could be identified as part of the basic needs of Palestinian society, at the same time, actions and policies to achieve these goals were identified (Palestinian Development Plan, 1998-1999, p.5).

### **3.9.2.3 Palestinian Development Plan 1999-2003:**

This plan is an extension of the previous plan, since many important proposals and perspectives were added from the others suggestions, it contained many of the programs and key projects in detail, in particular economic sectors, this plan can be tab under the following headings: "finance, the sectorial distribution of projects, hypotheses plan, monitor and follow up the implementation.". Of course, the goal of the tab is the readability of the plan and writes any comments objectively and systematically.

The plan emphasis on the following points:

The application of the Wye River agreement and its annexes and start commercial operating of the Gaza airport, port, and reduce the pressures and constraints imposed on the Palestinian economy.

The necessity to achieve a surplus in the PNA current budget, which depends on the Palestinian economic performance in general.

The continuation of international aid physically and emotionally by the donor.

The private sector should play a vital and effective role in the next five years 1999(Palestinian Development Plan, 1999-2003, p.8, 9).

Reviewing the development plan 1999-2003, we can notice that the plan was formed on unrealistic assumptions, because these assumptions did



not sustained for long, they was collapsed by the second intifada outbreak in September 2000,as well as this plan based on the international aid flow which is supplied grants because of peace process enhancement rather than development needs, this aid flow is not continues and introduced to stop in ant moment in addition of the Non-compliance from the donors to supply the pledges(Eshteia.2003.p.86).

#### **3.9.2.4 Emergency plan 2003-2004:**

This plan came despite the presence of Plan 2001 – 2005and represent an adjustment to this plan, Emergency plan came as an external treatment to economic, political, social conditions the Palestinian people face as a result of the Palestinian intifada and the Israeli repressive practices lead to destroy the Palestinian economy. The emergency plan based on three main components, working to address the conditions that have occurred on the Palestinian economy to mitigate the impact of destructive Israeli practices (Emergency Plan, 2003, P.15, 16).

The emergency plan based on three components as follow:

The study focused on emergency humanitarian dimension, such as unemployment, poverty ,the provision of a minimum necessary social services, and include the plan as well as setting up programs to create jobs.

The second dimension deals with reconstruction programs that are trying to compensate the damages and losses that hit economic facilities, social and service.

The third dimension regard to the need to activate the role of institutional and attempts to strengthen its capacity through the procedures and administrative reform, building human resources, training, and preparation.

### **3.9.2.5 National Development Plan 2011-2013**

The plan called “Establishment of the State and building the future” This is the 6th development plan of the PNA, which was published in April of 2011 and titled ‘The Establishment of the State and Building the Future 2011-2013’. The development plan outlines a roadmap for establishing, building upon and strengthening PNA institutions. The plan focuses on a medium-term financial framework (3 years) that would distribute investment to four main sectors: governance, social and economic development and infra-structure. (Economic and Social Monitor, 2011, p.2).

\*\* we Can concluded to say that the era before and after Oslo agreement has seen a real scramble in the Palestinian development plans, where we display some of these plans, the previous period has seen extensive arguments on this subject, either through workshops or conferences. The main problem in these plans that it was formulated according to the conditions donors sometimes, and drafted well and do not apply properly at other times. This confirms the absence of a genuine desire among the competent authorities to achieve real economic development, in addition to the administrative and financial corruption of those in charge of the implementation of these plans.

### **3.10 Conclusion.**

Despite the recent establishment of the PNA, but the Palestinians took stable steps towards real achievements on the level of many developmental indicators, such as education and health.

this chapter has been discussed the concept and definition framework of the economic development in general and the economic development in the Palestinian territories in specific, where the distinction was addressed

between the classical concept of development based on growth in GDP only and the modern concept for economic development which based on achieving progress in all the fields and economic indicators prospects, The chapter also explained the core values the development process, as well as there was a refutation for the most important theories that explain the development process.

Later, the chapter discussed the development indicators in detail, with reference to the most important of these indicators, then discussed the reality of economic development in the occupied Palestinian territories in regard to the statement of the internal and external environment influence in the development process, also the chapter discussed development goals in Palestine, the efforts of the Palestinian Occupied territories towards achieving the millennium development goals.

Palestinian development plans were formulated according to donor's desire, and there were difficulties facing the application of these plans because of the political conditions of the Palestinian situation, in addition to corruption and mismanagement by those who involved in the implementation of these plans.

A graphic consisting of two overlapping rounded rectangular boxes. The front box is white with a black border and contains the text 'Chapter 4'. The back box is light gray and is partially obscured by the front box.

## Chapter 4

# Research Methodology

## 4.1 Introductions:

This chapter will define the research methods used in this study, the chosen method will be explained in details, and it will also describe the purpose of the study, research strategy, and data collection method and data analysis approach. Furthermore, this chapter will describe the way and the source in how the data collected, data manipulation conducted to the needs of the research, as well as describe the techniques used to analyze the data.

## 4.2 Research Techniques:

There are many research methods; each type depends on the nature and the area of the research problem, Treatment research problem requires using one particular type of research techniques, researcher should choose his research method from the three following types of research exploratory, explanatory, and descriptive (Geder, 2005, p.22).

### 1- Exploratory Research:

Is a type of research conducted for a problem that has not been clearly defined or not well known or not clear, exploratory research helps determine the best research design, data collection method and selection of subjects. It should draw definitive conclusions only with extreme caution. The results of exploratory research are not usually useful for

decision-making by themselves, but they can provide significant insight into a given situation (Geder, 2005, p.25).

## **2- Explanatory Research:**

A style of research in which the primary goal is to understand the nature or mechanisms of the relationship between the independent and dependent variable, so it is conducted in order to explain any behavior, it could be done by using questionnaire, group discussion, interviews, random sampling. (Zikmund, 2010, p.14).

## **3- Descriptive Research:**

Also known as statistical research, describes data and characteristics, Descriptive research answers the questions who, what, where, when...,it concerning with the current status of the phenomena to describe what is exist, the description is used for frequencies, averages and other statistical calculations, descriptive research deals with everything that can be counted and studied, but there are always restrictions to that, the descriptive research must have an impact to the lives of the people around the researcher (Yine,1994p.12).

In this thesis, the researcher will use the deep statistical descriptive analysis research technique where the data has been collected via time series (data) issued by the Palestinian statistical bureau (PSB), the researcher will use this data to formulate and conduct econometrician regression model, simple and multiple.

## **4.3 Research Approaches:**

There are two types of research approaches, quantitative and qualitative as follow:

### **1. Qualitative Research:**

Explores attitudes, behavior and experiences through such methods as interviews or focus groups, It attempts to get an in-depth opinion from participants (Yin, 2011, p.3).

### **2. Quantitative Research:**

Generates statistics through the use of large-scale survey research, using methods such as questionnaires, structured interviews or time series, so it depends on numeric data (Yin, 2011, p.4) .

In this thesis ,different factors have been emerged from the literature review will be tested in an empirical way in order to see how much they have been effective in the adopted process in the research, the researcher will use the available numeric data in the (PCBS)..

**\*\***In this study, the researcher will use the quantitative approach, and descriptive technique, which based on the regression model in order to analyze the data.

## **4.4 Research Strategy:**

The research strategy is a plan of action that gives direction to your efforts, enabling researcher to conduct research systematically, it reflect how the researcher will proceed in order to answer the research questions which were set by the researcher. It has clear objectives, derived from the research question and, specifies the source in which the researcher intended to collect the data and the constraint faced the researcher to have the required data to conduct the test of the hypotheses (Geder, 2005, p.18).

In this thesis, the researcher looking forward to find out the impediment facing international aid in achieving economic development in the Palestinian territories, which expressed by the GDP per capita, Unemployment rate ,and Poverty level.

To test the impact of the international aid on the three development indicators mentioned above, the researcher will conduct econometric model as follow:

#### **4.4.1 Econometric Model:**

Econometric model is a statistical model used in econometrics, an econometric model specifies the statistical relationship that is believed to hold between the various variables.

A simple example of an econometric model will consist of the following equation monthly spending by consumers :

$$y = a + bx + e$$

Where  $y$  is the dependent variable,  $x$  is the independent variable, and  $e$  is an error term measuring the extent to which the model cannot fully explain the relation. Then one objective of the econometrics is to obtain estimates of the parameters  $a$  and  $b$ ; these estimated parameter values, when used in the model's equation, enable predictions for future values of consumption to be made contingent on the prior month's income (Varian, 2009, p.2).

#### **4.4.2 Regression Types:**

There are many types of regression as follow:

**1- Simple Linear Regression (SLR):**

Simple linear regression is a method that enables you to determine the relationship between a continuous process output (Y) and one factor (X). The relationship is typically expressed in terms of a mathematical equation such as  $Y = b + mX$

**2- Multiple Linear Regression (MLR):**

This procedure performs linear regression on the selected dataset. This fits a linear model of the form

$$Y = b_0 + b_1 X_1 + b_2 X_2 + \dots + b_k X_k + e$$

Where:

Y is the dependent variable (response) and  $X_1, X_2, \dots, X_k$  are the independent variables (predictors) and e is random error.  $b_0, b_1, b_2, \dots, b_k$  are known as the regression coefficients, which have to be estimated from the data. The multiple linear regression algorithms in XL Miner choose regression coefficients so as to minimize the difference between predicted values and actual values.

Linear regression is performed either to predict the response variable based on the predictor variables, or to study the relationship between the response variable and predictor variables. For example, using linear regression, the crime rate of a state can be explained as a function of other demographic factors like population, education, male to female ratio (Yine, 1994, p77).

**\*\*** In this study, we will use both simple and multiple linear regressions to the purpose of the thesis data analysis, because we have many



independent variables, which need simple and multiple regression models.

## **4.5 Data Collection:**

To achieve the purpose of this study the quantitative descriptive analytical approach will be adopted, the researcher will depend on the following kinds of data:

### **4.5.1 Secondary Data.**

The researcher obtained the secondary data related to the study and used to write theoretical chapters from various sources such as time series to the variables, Published data to relevant studies and researches, books, thesis and dissertations, articles, journals, library of the university, online libraries of other universities (Geder, 2005, p.27).

### **4.5.2 Primary Data:**

Due to scarcity of secondary data, and for more Illustration to hypotheses testing the researcher tend to use primary data via conducting one or more interview with distinguish head of executors working in economic development field (foreign and local executors).we can also use questionnaire as primary data collection method(Geder, 2005, pp.27).

#### **1- Interview:**

Is a conversation and discussion between two people (the interviewer and the interviewee) where questions are asked by the interviewer to obtain information from the interviewee (Yin, 2011, p.132).

In this thesis, the researcher has been adopted one or more predetermined and standardized questions according to the research requirements.

## **2- Questionnaire:**

A form containing a set of questions, especially one addressed to a statistically significant number of subjects as a way of gathering information for a survey (Geder, 2005, p.31)

**\*\*** In this thesis we used the interview primary method to collect data

## **4.6 Data Manipulation:**

To the purpose of the research, the researcher collected annually time series data to all the variables in the Palestinian territories, the data covered the period from 1994 to the third quarter of 2010, as well as the researcher conducted data manipulation to the annual via the available quarter data.

To the purpose of the data analysis which is econometrician model, the researcher treating the data of the variables in order to estimate the missing quarterly figures manually to meet the needs of the regressions which need many observations not available without manipulation, so we tend to use the quarterly data and transfer the annual data into quarters in order to derive the missing quarters.

The researcher used the available quarter data according to data manipulation methods and conducted this manually, the available data annually (17<sup>th</sup> observations) is not enough to conduct the statistical regression model, so data manipulation was necessary to achieve the goal of this research.

After the data manipulation, the research got 67 observation (quarters), used them in conducting the regression models in this thesis, as well as the researcher conducted many tests attempts via this manipulated data

and formulate suitable regression equations to deal with the research factors.

## **4.7 data Analysis:**

To achieve the research goal, the researcher will use the statistical Eviews<sup>(10)</sup> program for manipulating and analyze data; the researcher will use the regression analysis tool:

### **4.7.1 Regression Analysis and Variables:**

#### **1- Regression Analysis:**

Regression analysis includes any techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more, independent variables regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed (field,2008,p.1).

The researcher will measure the economic development indicators (GDP per capita, UR, P, and IR) as fractions to dependent variables.

The researcher will conduct many regression models and choose the best among them to measure various aspects of the development mentioned before as follow.

$$\text{GDP per capita} = \alpha_0 + \beta_1 (IA) + \beta_2 (PSE) + \dots + \ell$$

*\*Where:*

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<sup>(10)</sup>Eviews program is a statistical package for Windows, used mainly for time-series oriented econometric analysis. It is developed by Quantitative Micro Software (QMS), now a part of IHS company. Version 1.0 was released in March 1994, and replaced Micro TSP. The current version of Eviews is 7.1, released in April 2010.

*IA = total amount of international aid*

*PSE = Palestinian political special effects*

*GDP per capita = gross domestic production per capita*

$$UR = \alpha_0 - \beta_1 (IA) + \beta_2 (PSE) \dots \dots \dots + \ell$$

*\*Where:*

*UR = unemployment rate of to the Palestinians territories*

$$Pov = \alpha_0 - \beta_1 (IA) + \beta_2 (PSE) \dots \dots \dots + \ell$$

*\*Where:*

*Pov = the poverty level in the Palestinian territories*

The above equations of the regression model will test and choose the best significant relations between the (GDP per capita, UR, P) and the independent variables which are (IA) and (EPS) and its fractions (closure, intifada, political division) in total and one by one rotationally.

4- The researcher will deal with each independent variable as one package or deal with its fractions according to necessity, which mean many attempts from the researcher to test the effect of the independent variables and its fractions at development indicators successively.

## **2- Variables:**

There are two types of variables, dependent and independent variable as following:

### **A-Dependent Variable:**

The dependent variable is the observed result of the independent variable being manipulated

### **B-Independent Variable:**

The independent variable is typically the variable representing the value being manipulated or changed

## Chapter 5

# Analysis Of International Aid Impact On Development In The Palestinian Territories

### 5.1 Introduction:

This chapter will cover the analysis and the interpretation of the collected data, which is time series, published by the PCBS, through this analysis; we will test the hypothesis of the study via regressions analysis, by conducting the required econometric models. We have many sections in this chapter; the first section will talk about the dependent and independent variables, as well as their fractions.

Second section, we will explain the data of this study, which is time series used in conducting regression model in each case, the third section will talk about the expected relationships, later, in the fourth section we will see the result of each model, show its coefficients and evaluate the model by accept the significant relations and reject the insignificant relation, through this regression models we will Accept or deny the hypothesis.

### 5.2 Dependent and Independent Variables:

The dependent variables that we explain are the economic indicators that measure the economic development in the Palestinian territories; the researcher examined economic development level; used the following

indicators in the Palestinian territories to estimate the effect of international aid and its fractions on the economic development.

Unemployment rate indicator.

GDP per capita indicator.

Poverty level indicator.

We have two independent variables, first international aid and its fractions, second Palestinian special effects and its fractions.

The first independent variable is the international aid and its fractions as follow:

Infra-structure sector aid (IA).

Production sector aid (PA).

Social sector aid (SA).

The second independent variable is the Palestinian special effects (PSE) that contain the following fractions:

Al-Aqsa Intifada (INTIF).

Closure (CLUO).

Political division (DIV).

The researcher conducted several attempts between the economic development indicators and international aid and their fractions, choosing the relevant and suitable tests results to the thesis. To the purpose of the study, the researcher conducted separate model to poverty level on measure of the economic development, based on annually time series as there is no available quarterly data to the poverty indicator.

According to the previous international and local studies, we assume that international aid affected the GDP per capita positively, affected unemployment rate negatively, and affected the poverty level negatively.

Quantitative and qualitative variables were used for the analysis; the qualitative variables are used as dummy variables taking value (1 or 0) in the regression analysis, while quantitative variables were used in numerical form.

### 5.3 Expected Relationships:

According to the literature review many previous studies agreed that the relationship between aid and economic development is positive impact in the total, in spite of the weakness of this effect which supposed to be larger these studies agreed that there was a positive relationship between international aid and economic development indicators<sup>(11)</sup>.

Table (5-1) shows the expected relationships among the international aid and its fractions and the economic development indicators.

The researcher expected GDP per capita and international aid and its fractions have positive relationship, while international aid and its fractions have negative relationship with the unemployment rate, last

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<sup>(11)</sup>There are many previous studies, which supported the correlation between per capita GDP, and unemployment rate in the Palestinian territories as indicators of development, where These studies indicated that international aid has had an impact one way or another on development indicators, with varying effect of a pointer to another, From these studies.

\* Dr. Nader Said, and Dr. Noran Nassif. titled by development finding published by Berziet Development studies Center, Ramallah, West bank, Palestine.

\*Mr. Emad lobad study published by Islamic university newspaper felt experience the Palestinian Authority in international aid, and study

\* Dr: Ala Rafati study titled as by reality of international aid, which has demonstrated a relationship to the impact of international aid for development regardless of the weakness of this effect.



international aid and its fractions have negative relationship with poverty level.

**Table (5-1): Expected Relationships for Independent Variables  
Affecting Economic Development Indicators**

Explanatory variables	Expected sign for			
	International aid and its fractions			
	TA	IS	PA	SA
GDP per capita	+	+	+	+
Unemployment rate	-	-	-	-
Poverty level	-	-	-	-

*\*Where:*

**TA** = total amount of international aid.

**IS** = infrastructure sector aid.

**PA** = production sector aid.

**SA** = social sector aid.

## **5.4 Regression analysis of the international aid effect on the economic development:**

We will start the analysis by the correlation matrix<sup>(12)</sup> among all variables, which show the size and the direction of the expected relations among the variables as shown below, the researcher conducted a correlation analysis among all the variables in the involved in the

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<sup>(12)</sup>correlation matrix is a matrix giving the correlations between all pairs of data sets

econometric model, and the expected relations according to this analysis as shown in table (5-2):

**Table (5-2): The Correlation Matrix for the Thesis Variables**

		Correlations					
		GDP qurtrly	UR qurtrly	AID qurtrly	infrastrcure	production sector	social sector
GDP qurtrly	Pearson Correlation	1	-.883-	-.430-	.199	-.430-	-.521-
	Sig. (1-tailed)		.000	.001	.088	.001	.000
	N	48	48	48	48	48	48
UR qurtrly	Pearson Correlation	-.883-	1	.561	-.151-	.561	.629
	Sig. (1-tailed)	.000		.000	.154	.000	.000
	N	48	48	48	48	48	48
AID qurtrly	Pearson Correlation	-.430-	.561	1	.226	1.000	.892
	Sig. (1-tailed)	.001	.000		.061	.000	.000
	N	48	48	48	48	48	48
infrastrcure	Pearson Correlation	.199	-.151-	.226	1	.226	-.240-
	Sig. (1-tailed)	.088	.154	.061		.061	.051
	N	48	48	48	48	48	48
production sector	Pearson Correlation	-.430-	.561	1.000	.226	1	.892
	Sig. (1-tailed)	.001	.000	.000	.061		.000
	N	48	48	48	48	48	48
social sector	Pearson Correlation	-.521-	.629	.892	-.240-	.892	1
	Sig. (1-tailed)	.000	.000	.000	.051	.000	
	N	48	48	48	48	48	48

Results of regression model among all the variables shows the correlation relationships between the international aid and the economic development indicators in the Palestinian territories.

Regression analysis has been done for each indicator in the study; we cover all the possible tests among all the variables, doing the same for each indicator, choosing the significant relationships, taking in our concern the effects of the Palestinian political situation (PSE) on the economic development beside the effect of international aid.

## **5.5 The Concept of GDP per capita:**

Gross domestic production per capita Refers to the market value of all final goods and services produced within a country in a given period divided on the population of the same country, it consider one of the most important indicators for the economic development, express the income which reflect the standard of living.

Practically, there are many factors determine and effect GDP per capita in the Palestinian territories , such as the government expenditure, taxes, production, international aid ,closure, intifada. In this study we will focus on the international aid effect on the GDP per capita as a basic economic development indicators and the influence of the PSE.

For the purpose of the analysis in this study, the researcher has implemented regression analysis to examine the relationships between international aid and its fractions rotationally; the analysis for the GDP per capita was as following:

### **5.5.1 The effect of international aid on GDP per capita:**

The researcher conducted two regression model in this case, first regression model examine the relation between by international aid and GDP per capita, the result was not significant, the e second test was international aid and GDP per capita with lag time period<sup>(13)</sup>in the relevant variables (six months), the second test results was acceptable, the lag period means that international aid need little bit time to begin

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<sup>(13)</sup> This term belongs to the statistical analysis of time series data, where models are sometimes built in which a variable is predicted based on its past values. And the values of the would be a predictive variable, called a lagged variable. This is rough, only intended to give you an idea. This type of variables used because some actions need bit of time to begin affecting the others variables.in this study, aid need at least 6 months to impact the development indicators.

affecting the GDP which is Consistent with the economic theory , previous studies, and the economic analysis; the equation for the regression model was as follow.

$$\text{GDP per capita} = 65.66 + 0.66 \cdot \text{AID}$$

$t = 2.95$	$t = 5.51$
$\text{Sig} = 0.0051$	$\text{sig} = 0.0000$
$F = 30.43$	$F \text{ sig} = 0.000002$
$R^2 = 0.40$	$DW = 1.7^{14}$

*\*Where:*

*GDP per capita = gross domestic production per capita by US dollar.*

*AID = international aid by million US dollars.*

The coefficients below the regression equation, indicate that international aid and GDP per capita have significant positive relationship; adjusted R square is 0.40 which means that the independent variable which is international aid explained 40 per cent of the variation, the adjusted square reflect that the international aid influence to the economic development via GDP per capita is not strong.

The positive relationship between the international aid and GDP per capita means that, the increase of international aid will decrease in (GDP per capita), which proof hypothesis number one in this study which say that there is statistical relationship between international aid and economic development, the positive relation between international aid and GDP per capita ,agreed with the previous study of Nader Saeed and

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<sup>(14)</sup> DW = 1.7 means that Durbin Watson test is 1.7, which means that there is no Autocorrelation problem on the model conducted by E views program.

Noran Nasseif study titled as “The impact of the Palestinian intifada on international fund” which says that the international aid caused an increase in GDP per capita ,not so far, the human development2004 report of the Palestinian territories also mentioned and supported this result previously.

### 5.5.2 The effect GDP per capita on the international aid with PSE:

In this part, we conducted a multiple regression analysis among the GDP per capita, the international aid with PSE ,the results was non- significant, so the researcher conducted another model to the same data and the same variables with lag period of two quarters(six months), the equation was:

$$\begin{aligned} &\text{GDP per capita}_t - 0.69 \text{ GDP per capita}_{t-1} = \\ &112.6 - 0.09 *(\text{AID}_t - 0.69 \text{ AID}_{t-1}) - 27.7*(\text{PSE}_t - 0.69\text{PSE}_{t-1}) \\ &\begin{array}{lll} t = 28.1 & t = -3.45 & t = -2.4 \\ \text{Sig} = 0.000 & \text{sig} = 0.0010 & \text{sig} = 0.016 \\ F = 32.7 & F \text{ sig} = 0.000 & \\ R^2 = 0.60 & DW = 2.33 & \end{array} \end{aligned}$$

*\*Where:*

*GDP per capita = gross domestic production per capita by US dollar.*

*AID = international aid by million US dollars.*

*PSE = Palestinian special effects.*

*PSE = (1) in case there is intifada or closure or division.*

*PSE = (0) in case there is not intifada or closure or division.*

The coefficients below the multiple regression model equation indicate that, PSE and GDP per capita have significant negative relationship;

Which means that the impact of the PSE affected the economic development via decreasing the GDP per capita in spite of the increasing of the international aid after year 2000, this results agreed with Nader Saeed and Noran Nasseif study about the impact of al-Aqsa intifada on the economic development in the Palestinian territories in the year 2006.

Adjusted R square is 0.60 which means that the independent variable which is international aid explained 60 per cent of the variation.

Economically, the result of this analysis indicate, that the weakness of international aid in achieving the economic development in the Palestinian territories can be explained more clear with the PSE influence on development, which is proof the hypothesis of the study that international aid have significant relationship with the economic development in spite of the PSE occurred after the year 2000 in the Palestinian territories.

Another deduction from this analysis, the inclusion of the PSE in the model clarify that the Palestinian political special effects has relevant impact to the change of the Palestinian economic development indicators.

### **5.5.3 The effect of international aid on GDP per capita with intifada:**

In this part, we conduct a multiple regression analysis between the GDP per capita, international aid and al-Aqsa intifada separately in, the results was non-significant, the researcher conducted the same model with lag period of two quarters (six months) the relationship was significant.

The coefficients below the regression equation indicate that, international aid and (GDP per capita) with intifada influence have significant negative relationship<sup>(15)</sup>; adjusted R square is 0.62 which means that the independent variable which is international aid explained 62 per cent of the variation in the dependent variable, the equation was as following:

$$\text{GDP per capita}_t - 0.68 \text{ GDP per capita}_{t-1} =$$

$$125.4 - 0.09*(\text{AID}_t - 0.68 \text{AID}_{t-1}) - 52.3*(\text{INTIF}_t - 0.68 \text{INTIF}_{t-1})$$

$t = 24.5$	$t = -3.48$	$t = -2.9$
Sig = 0.000	sig = 0.0009	sig = 0.0614
F = 35.2	F sig = 0.0000	
$R^2 = 0.620$	DW = 2.3	

\*Where:

*GDP per capita* = gross domestic production per capita by US dollar.

*AID* = the total international aid with lag period 6 months by million US dollar.

*INTIF* = al-Aqsa intifada (dummy variable).

*INTIF* = (1) in case there is intifada.

*INTIF* = (0) in case there is no intifada.

This result explain the effect of al-Aqsa intifada separately from the other Palestinian political special effects, the significant negative statistical

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<sup>(15)</sup> Many previous studies proof that the second intifada affected the economic development negatively, such as Nader Saeed and Noran Nasseif study titled as "Development funding in Palestine", Aala Rafati study titled as "the reality of the international aid to the Palestinian people", Emad Lobad study titled as "the Palestinian national authority experience with international aid", all these studies agreed the results of this analysis previously .

relationship between the dependent variable GDP per capita and independent variables (aid and intifada) explain and justify the result of many previous studies that intifada is a relevant factor effected the development indicators negatively, and proof the second hypothesis that the in this study which says that the Palestinian political special effects influence the economic development negatively.

#### **5.5.4 The effect of international aid on GDP per capita with political division:**

In this part, we conduct two regression analysis between the GDP per capita as dependent variable and the international aid with political division as two independent variables, the results was non-significant, the researcher preformed the same model with lag period of two quarters (six months), the relationship was non-significant, which means that there is no significant relationship between international aid with political division and the GDP per capita.

**\*\***This result can be explained that, after the political division take place in July 2007 have no relevant effect on the economic development indicators, it was political and psychological influence to this effect more than economic effect, because there was two government in both Gaza and the west bank, both of these movement was facing closure and intifada, but the division effect was only psychological only.

#### **5.5.5 The effect of international aid on GDP per capita with closure:**

In this test, we conduct also two regression analysis between the GDP per capita from one side and the international aid with closure as two independent variables from the other side, the results was significant.



$$\text{GDP per capita} = 5.44 + 0.95 \cdot \text{AID} + 7.75 \cdot \text{CLOU}$$

$t = 2.213 \quad t = 59.5617 \quad t = 3.015.$   
 $\text{Sig} = 0.0319 \quad \text{sig} = 0.0000 \quad \text{sig} = 0.0042$   
 $F = 3145 \quad F \text{ sig} = 0.000$   
 $R^2 = 0.982 \quad DW = 2.1$

**\*\*Where:**

*GDP per capita = the gross domestic production divided on the Palestinians population closure*

*Aid = international aid to the Palestinians.*

*Clou = the closure by the Israeli occupation to the Palestinian territories*

*Clou = (1) in case there is closure.*

*Clou = (0) in case there is no closure.*

**\*\* From the previous regression analysis results regarding to closure as an effects impact the economic development indicators in Palestine, we can deduct that the, most effective element among these effects was al-Aqsa intifada, followed by the Israeli closure to the Palestinian territories, which are according to the regression models results and the previous studies were the two major fractions impact the economic development via GDP per capita, as basic indicator if the economic development progress. This result was approved by many studies and development**

conferences to the effect of closure in reducing the international aid impact (<sup>16</sup>).

### **5.5.6 The effect of international aid fractions on GDP per capita:**

In this part, we will test and estimate the partial effect of each fraction of the international aid on the GDP per capita as basic indicators for the economic development in this study in order to estimate the contribution of each sector in the effect on the GDP per capita as following:

#### **5.5.6.1 The effect of infrastructure sector aid on GDP per capita:**

In order to test the infrastructure sector aid on the GDP per capita, we conduct two test, the first test using data for infrastructure sector aid and GDP per capita, it was not significant, the second test using data for infrastructure sector aid and GDP per capita with lag period (six months), the second test also was not significant which prove that infrastructure sector aid does not affect the economic development via GDP per capita.

#### **5.5.6.2 The effect of production sector aid on GDP per capita:**

In order to test the production sector aid on the GDP per capita, we conducted two multiple regression analysis models, the first test using data for production sector aid and GDP per capita, it was not significant, the second test using data for infrastructure sector aid and GDP per capita with lag period (six months), the second test was significant which prove that production sector aid affected the economic development via GDP per capita positively. The following equation represents the result of the test:

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(<sup>16</sup>) *Almost all the previous studies related to international aid effect to the economic development in the Palestinians territories agreed that the closure is main factor in destroying the development effort.*

$$\text{GDP per capita} = 62.37 + 7.35 \cdot \text{PROD}$$

$t = 2,78$	$t = 5,63$
$\text{Sig} = 0.0078$	$\text{sig} = 0.0000$
$F = 42.5$	$F \text{ sig} = 0.00001$
$R^2 = 0.40$	$DW 1.8$

*\*Where:*

*GDP per capita = gross domestic production per capita by US dollar.*

*PROD = the production sector aid with lag period six months by million US dollars.*

The coefficients below the regression equation indicate that, production sector aid and GDP per capita have significant positive relationship; adjusted R square is 0.40 which means that the independent variable which is international aid explained 40 per cent of the variation.

The test results indicate that production sector aid contribute to the effects of the GDP per capita in weak percentage which is agreed with Mr Omar Shaban previous study titled as Toward More Effective Employment to the International Fund which emphasis that there was clear a significant decline in the production sector role in the Palestinian agenda in inducing the economic development in the Palestinian territories and the international aid allocated to this very important sector (production sector) totaled 9.2 was not reasonable in the comparison with the aid amount directed to the social sector which totaled 28% from the total amount of the international aid to the Palestinian territories, which means that this sector aid is not the large effective fraction from international aid affected the economic

development in the Palestinian territories, or it is not employed properly from the Palestinian side.

### 5.5.6.3 The effect of social aid sector aid on the GDP per capita:

In this part of the data analysis, the researcher addressed a new regression test in order to examine the relation between the social sector aid and the GDP per capita, the test was acceptable.

The coefficients above indicate that social sector aid and GDP per capita have significant positive relationship; adjusted R square is 0.79 which means that the independent variable which is international aid explained 79 per cent of the variation, the equation of this test as following in the next page:

$$\text{GDP per capita} = 88.02 + 1.06 \cdot \text{SOCIO}$$

t = 10.54	t = 13.35
Sig = 0.0000	sig = 0.00000
F = 178.3	F sig = 0.00000
$R^2 = 0.80$	DW 2.1

*\*Where:*

*GDP per capita = gross domestic production per capita by US dollar.*

*Socio = the social sector aid by, million US dollars.*

The test results indicate that, social sector aid totaled 28% from the total amount of the international aid contribute to the effects of the GDP per capita in high percentage, adjusted R square .80 means that the social sector aid heavily affected the GDP per capita, and had the largest share among the international aid fractions impact on the GDP per capita,

which reflect that social sector aid have important role in the value of GDP per capita as well as economic development.

The positive significant relationship indicates that, if the social aid increased the GDP per capita increase because this social aid create new demand which lead to enhance and induce production and terminally push the GDP per capita forward , which agreed with the previous studies and literature.

**\*\***In the previous part of analysis between GDP per capita and international aid and its fractions, we can conclude that the international aid and its fractions in the study except the infrastructure, were affected the GDP per capita in various shares, that mean the international aid correlated to the changing of the economic development in the Palestinian territories from the GDP per capita side.

## **5.6 Unemployment Rate Concept:**

The second fraction of economic development discussed in this thesis is unemployment rate in the Palestinian territories; it can be defined as the rate represents the number unemployed as a percent of the labor force.

In the development concepts, unemployment rate consider as an essential indicator reflected the improvement of the development efforts, concerned with the achievement level through the development tracks, the Palestinian territories suffering from high rates of unemployment, according to the literature and the previous studies in this thesis, the unemployment in the Palestinian territories rate was affected (negatively or positively) by many factors such as population, population growth, closure, intifada...etc.

For the purpose of the analysis in this study, the researcher performs the statistical regression analysis tests to examine the relationship between international aid and its fractions rotationally and unemployment rate in the Palestinian territories the as following:

### 5.6.1 The effect of international aid on unemployment rate:

In this part, the researcher conducted simple regression analysis to examine the relationship between unemployment rate in the Palestinian territories and the total amount of the international aid, the test results was significant and acceptable. The main coefficients above indicate that the total amount of the international(independent variable) aid and the employment rate (dependent variable)have significant positive relationship; adjusted R square is 0.68 which means that the independent variable which is international aid explained 68 per cent of the variation. The regression equation of this model as follow:

$$UR_t - 0.80 UR_{t-1} = 20.2(1 - 0.80) + 0.006*(AID_t - 0.80 AID_{t-1})$$

$$t = 8.69$$

$$t = 1.81$$

$$Sig = 0.000$$

$$sig = 0.0640$$

$$F = 68.4$$

$$F sig = 0.0000$$

$$R^2 = 0.68$$

$$DW 1.9$$

*\*Where:*

*UR = unemployment rate percent in the Palestinian territories.*

*AID = total amount of international aid by million US dollars.*

The significant positive relationship in the model means that, both international aid and unemployment rate was increased together, the

nature of this relation can be explained economically according to the Palestinian special situation that, donors tend to increase their total fund in crisis state, this was very clear in the previous study to Haneen Abu Nahla titled as “Role of the NGO’s in utilizing the international fund” which find that the greater amount of job creation held by the donors came after the outbreak of second intifada, which explain this result, so we can find that when the unemployment rate in the Palestinian territories was increased, the donors tend to increase their job creation and relief programs as well as increase their transfer of total international aid flow to the Palestinians which explain the positive relation and the increase of the unemployment rate in the same time and deduct that unemployment rate indicator is the independent variable affected the international aid which is sometimes dependent variable.

### **5.6.2 The effect of international aid on unemployment rate with PSE:**

The researcher continue testing the relationships among variables, examined the relationship between unemployment rate in the Palestinian territories and the international aid presented via the donors under the effect of the Palestinian special effects(intifada, closure, division), therefore we addressed two separated tests for this relationship, the first test was examine the relationship between total amount of international and unemployment rate, the second was examine the relationship between the international aid and the unemployment rate with lag period(six months) , both of these tests was not acceptable ,there were have no significant relationship, this results can be explained that the Palestinian special effects reduces the influence of the total amount of international aid on reduce the unemployment rate in the Palestinian territories.

### 5.6.3 The effect of and international on unemployment rate with intifada:

In this part of the data analysis, the researcher achieve a new multiple regression analysis in order to examine the relationship between unemployment rate as dependent variable and both international and intifada as independent variables, the relationship was significant.

The main coefficients below the regression equation indicate that the total amount of the international aid and al-Aqsa intifada (independent variables) have significant positive relationship with the unemployment rate as dependent variable reflect one fraction of economic development; adjusted R square is 0.80 which means that the independent variables which is international aid explained 80 per cent of the variation.

The model equation as follow:

$$UR_t - 0.83 UR_{t-1} = 1.6 + 0.006*(AID_t - 0.83 AID_{t-1}) + 15.9*(INTIF_t - 0.83 INTIF_{t-1})$$

$t = 3.25$	$t = 2.43$	$t = 5.85$
$Sig = 0.0018$	$sig = 0.0177$	$sig = 0.000$
$F = 91, 5$	$F sig = 0.0000$	
$R^2 = 0.90$	$DW = 2.0$	

\*Where:

*UR = unemployment rate percent in the Palestinians territories.*

*AID = international aid by million US dollars.*

*INTIF = al-Aqsa intifada (dummy variable).*



*INTIF = (1) in case there is intifada.*

*INTIF = (0) in case there is no intifada.*

The previous results indicates that, the increase of unemployment rate will increase the amount of international aid, this increase was higher under al-Aqsa intifada impact, which mean that al-Aqsa intifada caused an increase of unemployment rate, which lead to an increase the international aid in order to create new job opportunities via new projects in the Palestinian territories.

#### **5.6.4 The effect of international aid fractions on unemployment rate:**

In this part of the data analysis, we will examine the partial effect of each fraction of the total amount of international aid on the unemployment rate in the Palestinian territories as a basic indicator for the economic development in this study in order to estimate the contribution of each sector in the effect on the unemployment rate as following

##### **5.6.4.1 The effect of infrastructure sector aid on unemployment rate:**

In this part of the data analysis, in order to test the effect of infrastructure sector aid on the unemployment rate, we conduct two test, the first test using time series data for infrastructure sector aid and unemployment rate, it was not significant, the second test using data for infrastructure sector aid and unemployment rate with lag period(six months), the second test also was not significant too, which proof that infrastructure sector aid does not affect the economic development via unemployment rate or have no effect on the economic development ,which means that this fraction of total amount of international aid was not contribute to reduce the

employment problem in the Palestinian territories in spite that's it had the largest share from the international aid in the period 1994 to 2000, this period was stable and have no closure, intifada or political division which indicate that there was Poor recruitment to the infrastructure sector aid which is very important and vital the each economic especially the Palestinian economy ,which have very active process reconstruct what was destroyed before the (PNA) establishing.

#### **5.6.4.2 The effect of the production sector aid on unemployment rate:**

In order to examine the production sector aid effect on the unemployment rate, new simple regression analysis was conducted by the researcher; the results was significant ,which proof that production sector aid influenced the economic development via affecting unemployment rate.

The coefficients above indicate that the production sector aid and the unemployment rate have weak significant positive relationship; adjusted R square is 0.30 which means that the independent variable which is international aid explained 30 per cent of the variation.

The following equation represents the result of the test:

$$\begin{array}{lcl} \text{UR} = & \mathbf{11.44} & + \quad \mathbf{0.49*PROD} \\ & t = 5, 97 & t = 4.58 \\ & \text{Sig} = 0.0000 & \text{sig} = 0.0000 \\ & F = 21.06 & F \text{ sig} = 0.0000 \\ & R^2 = 0.30 & DW = 1.2 \end{array}$$

*\*Where:*

*UR = unemployment rate percent in the Palestinian territories.*

*PROD = production sector aid by million US dollars.*

The results of this test explained that the production sector aid have very weak impact on the unemployment rate, this related to the al-Aqsa-intifada taking place in September 2000, closure, or it came as a consequence to poor recruitment to the international aid directed to this sector, which ignored this very important tool in pushing the development indicators forward by create real developmental based on developmental projects.

#### **5.6.4.3 The effect of the social sector aid on unemployment rate:**

In order to examine the relationship between social sector aid as independent variable and unemployment rate as independent variable, we conduct two simple regression models, the first model using time series data for social sector aid and unemployment rate, it was non-significant, the second test using data for social sector aid and unemployment rate with lag period (six months), the second test was significant which prove that social sector aid influenced the economic development via affecting unemployment rate.

The coefficients mentioned above, indicate that the social sector aid and the unemployment rate have middle significant positive relationship; adjusted R square 0.71 which means that the independent variable which is international aid explained 71 per cent of the variation, the regression equation as following:

$$UR_t - 0.79UR_{t-1} = 17.77 + 0.03*(SOCIO_t - 0.79 SOCIO_{t-1})$$

$$t = 6.66$$

$$t = 3.05$$

$$\text{Sig} = 0.0000$$

$$\text{sig} = 0.0039$$

$$F = 54$$

$$F \text{ sig} = 0.0000$$

$$R^2 = 0.0000$$

$$DW = 1.8$$

*\*Where:*

*UR = unemployment rate percent in the Palestinian territories.*

*SOCIO = social sector aid by million US dollars (dummy variable)*

*SOCIO = (0) in the case there is no closure.*

*SOCIO = (1) in the case there is closure.*

This results indicate, that the social sector aid affected the unemployment rate positively, which means that the increasing of social sector aid, the unemployment rate increased side by side, this reflected that the social aid increased when the unemployment rate goes high in order to come over this problem, or as the social aid increased people tendency not to look for jobs as the aid founded a state of laziness and dependency even to create new jobs tendency from the competent authority received this social aid, this results emphasis the idea that donors tend to increase their fund in the state of crisis.

## **5.7 Poverty:**

There are two basic types of poverty deep poverty and developmental poverty, deep poverty is the lack of basic human needs, such as clean and fresh water, nutrition, health care, education, clothing and shelter, this

differ from the developmental poverty which is the deprivation degree from the three component of human development index which are good health, good education, and reasonable income, in this study the developmental poverty is our concern(HDR,2004).

about 1.7 million people live in absolute poverty, Poverty indicator consider as one of the basic development indicators, nations seeking to reduce it as possible as they can, in the Palestinians territories national poverty line is 2625 shekel, in 2009 according to the PCBS, poverty ratio 21.9 per cent (MAS,2009).

There are many factors affected the poverty level in the Palestinian territories such as GDP per capita, ,unemployment rate, government expenditure, international aid.....etc. Poverty level can be measured via (HDI) Composite index, which include three indicators they are education indicator, health indicator, and standard of living (income) indicator.

For the purpose of the analysis in this study, the researcher preformed separated statistical regression analysis tests to examine the relationship between the total amount of international aid and poverty level in the Palestinian territories ,using annual time series data from 1994 to 2009,becuae there was no quarter publications to the poverty level ,and there is no clear and unify data, the published data for each institution differ from the other one, in this test we consider mix data from both (PCBS) and the world bank, the results were as following:

### **5.7.1 Poverty Level and Aid:**

In order to examine the relationship between the total amount of international aid as independent variable and poverty level as independent variable, we conduct many regression models, the first one using data for the total amount of international aid and poverty level, the

second test using data for social sector aid and unemployment rate with lag period (six months), both tests were not significant which prove that the international aid does not influenced the poverty level in the Palestinian territories.

\*\*from the previous explain about poverty, and according to all the regression models applied on the poverty annual time series data with the international aid annual time series data, we can address that the poverty level in the Palestinian territories is not influenced by the international aid, this might related to bad income redistributed to the GDP, wrong using to the sources, or poor recruitment to the international aid from the Palestinian side.

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## Chapter 6

# Conclusions and Recommendations

## 6.1 Conclusions:

The main goal of this study is to investigate why the international aid to the Palestinian people did not achieve real economic development in the Palestinian occupied territories, and estimate the effect of the international aid on the economic development indicator in Palestine, in this research, the results of the analysis supported the hypotheses ,we find that there is a statistically significant relationship between the total amount of international aid provided to the Palestinians and economic development in Palestinian territories. Palestinian political special effects impacted the economic development negatively, and the International aid tendency to be a humanitarian relief affected the economic development negatively.

The findings of this research indicate the following points:

The total amount of international aid affected the economic development indicators of Palestinian territories in both GDP per capita and unemployment rate significantly , which was clear in the results of the econometric model held in the data analysis, this result indicate that there is real impact to the international aid in the development indicators.

The significant positive relationship between in international aid and unemployment rate in the Palestinian territories according to the analysis results indicate that the donors again tend to increase their aid flow in

when the crisis show <sup>(17)</sup> up, so when the unemployment rate increased in the Palestinian territories the international aid flow increased which means that the unemployment rate affected the international aid and not vice versa.

The Palestinian political special effects (al-Aqsa intifada, closure, division) have a significant negative impact on the economic development indicators<sup>(18)</sup>, PSE reduced the effect of the international aid in achieving progress in the development indicators in Palestinian territories, which was very clear in the effect of al-Aqsa intifada on the GDP per capita value, which declined in 2001, this decline was mainly because of al-Aqsa intifada and statistically supported in this thesis analysis.

The effect of the closure on the international aid was negative followed the intifada effect, this result agreed by many previous studies <sup>(19)</sup>, and was statistically proofed via the regression model.

The effect of second intifada September 2000<sup>(20)</sup> was the largest among those factors reducing the effectiveness of the international aid, it

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<sup>(17)</sup> This finding is in accordance with the study of both of Dr. Nader Saeed and Dr. Noraan Naseef which is titled as "Development funding in Palestine" which means that the donors have increased the percentage of assistance to the Palestinian people after the fourth quarter of the year of 2000, since the launch of the second intifada and the bigger part of these assistances went to relieving programs more than to development projects.

<sup>(18)</sup> This result have been agreed with by the Dr. Mohammad Migdad in his presented paper to the conference of "two years for the Sharm El-Sheikh Conference " in which he supported this result which means that the Israeli measures " Political Situation" affected negatively on the international aid impact in achieving progress in unemployment and poverty rates.

<sup>(19)</sup> Dr. Moeen Rajab the professor of Economics in Al-Azhar University, Mr. Khader Shnewrah The manager of Palestinian Industries Union, Eng. Ali Abu Shahla, Secretary of Palestinian Businessmen Forum, Mr. Abdul Kareem Ashour the Director of the Agricultural relieving forum, they all respected, agreed and supported that the closure was the main reason negatively affecting on the development in Palestine in General and Gaza in particular.



influenced the development indicators heavily, and caused decline in the GDP per capita and increasing of unemployment rate in the Palestinian territories, al-Aqsa-intifada outbreak influenced the development efforts negatively and bring it back.

The political division between Gaza and the west bank deteriorate the Palestinian political regime and the political situation in general, because of the conflict between the two parties based on this division in Gaza strip and the west bank, which led to miss a strong and effective government to handle the development program issues, and use the international aid as tool to push the development wheel forward, this tragedy situation and the absence of co-ordination between the Palestinian home wings was main cause in the decline of the economic development indicators in the Palestinian territories.

The poverty level in the Palestinian territories was not affected by the international aid flow according to the research results based on time series data for the poverty level in the Palestinian territories and the international aid time series <sup>(21)</sup> to the same period of time, so the international aid did not lead to reduction of the poverty levels in the Palestinian territories.

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<sup>(20)</sup> Dr. Nader Saeed and Dr. Noran Naseef, in their study titled as "Development funding in Palestine" they both agreed and supported this finding, they said that Al-Aqsa Intifada had a major and main negative effect on the efforts presented for the development in Palestine, which led to the behind of the GDP per capita, increasing in the unemployment rate and the well noticed increase in the poverty level in the whole Palestinian territories.

<sup>(21)</sup> The different evaluation for the poverty percentage from the International Associations created a kind of misunderstanding in evaluating the effect of the international aids in presence of the Palestinian Special Political effects on the poverty level as an economic poverty indicator.

The international aid allocated to the production sector which is only 9.2 from the international total amount, it had weak <sup>(22)</sup> impact on economic development indicators.

After the second intifada <sup>(23)</sup> outbreak, the international aid directed to relief program, this was on the expense of the development project, which terminally affected on the economic development in the Palestinian territories.

The international aid allocated to the social sector was having the biggest share of impact to the economic development in the Palestinian territories.

The infrastructure <sup>(24)</sup> sector did not impact the development indicators in in Palestinian territories.

The improvement of the economic development indicators resulted from the international aid is temporary <sup>(25)</sup>, it is Introduced to disappear as soon as this aid flow stopped.

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<sup>(22)</sup> Dr. Alaa El-Rafaty study which is titled as *the impact of the actual international aids to the Palestinian people in this study which leads to as there is weak in the international funds which directed to the productions sector which decreased the impact of these aids in achieving any progress in the economic development via unimportant sector, this weak refers to the misunderstanding use of using the aids in the Palestinian side and that there is no focus from the donors on this section which is considered as a direction opposite to the development of the economic development.*

<sup>(23)</sup> Approximately all of the previous studies mentioned that the second intifada and the political unbelievable situations that the Palestinian people went through because of the Israeli occupation in addition to the policies of the donors; they all mentioned that these circumstance assisted in making the priorities of the international aids go for the relieving projects more than the development projects.

<sup>(24)</sup> Mr. Emad Lubbad study which is titled as “ *the Palestinian national authority experiment in the international aid*” supported this finding as the infrastructure aid did not assist seriously in making any progress in the development indicators which is led to the misuse of these aids towards the development wheel forward.

<sup>(25)</sup> Mr. Omar Shaban study which is titled as “ *towards a better use of the international aids*”, it concludes that the achieved progress in the development indicators because of the international aids is a temporary aid and it will be stopped by the aids coming; which is led by the misuse of the aids and the wrong funders policies, in here this all led to some progress in the indicators caused by the relief types of funds which is not sustained and all directed to this section mainly.

## **6.2 Recommendations:**

### **1- Recommendations to PNA and NGOs:**

The researcher recommend the NPA to set national development plans that cover the development sectors, and then allocate the international aid in achieving this plans, as the plans were set before mostly according to the donor's orientations.

We recommend that the two heads of the Palestinian authority in Gaza and the west bank should stop their conflict, as this conflict based on the division affected the achieving of economic development in Palestinian territories, so they should establish one government and set a unify national plan that can be decrease the deterioration of the humanitarian situation.

We recommend the PNA to set priorities to those amounts of the international aid directed to the effective developmental sustained projects which influenced the development indicators positively, such as development projects which make real changing in the economic structure in the Palestinian territories via front load and back load ties.

We recommend the PNA work to specify the frame of the international aid that they received, and to work on drawing a plan commensurate with the size and sources and forms of this assistance as many international aid sources or forms are not clear.

We recommend the PNA to form developmental plans related to the real needs of the Palestinian case not the donor's priorities via co-ordinate between the NGOs and the international organizations in order to aware them about the Palestinian development requirements.

We recommend the PNA to concentrate on the production sectors more and more as it is the key element to the development projects which have

the great effect in economic development inducing which lead real improvement in its indicators as well as.

We recommend the PNA play practice more observation on the international aid sources by establish Public body to international aid, and get sure that this aid amount goes in the right track and to the right purpose as well as.

The **NGOs** need more coordination with PNA to set joint plans taking in consideration achieving real developmental projects in order to push the development process forward by create new job opportunities or increase the GDP or reduce the poverty level.

We recommend the **NGOs** to focus on the developmental projects which have developmental impact rather than those projects of relief type which complex the situation in the long run by making temporary solutions to the people needs in Palestinian territories.

We recommend the Palestinian executive employees forming the development plans and the need assessment proposals in the **NGOs** to reflect the real situation in the Palestinian territories to the competent authorities in the international organization, and try to set their plans according to the real needs of Palestinian development.

## **2- Recommendation to the Donors:**

Donors should take a more systematic role to the economic development funding, by less emphasis on emergencies projects financing and more development programs.

Donors should support the development activities via financing developmental projects in order to enhance the efforts to improve the development indicators such like unemployment rate, poverty level and GDP per capita.

Donors should provide their aid according to the development needs not according to donor's policies, so they should read the situation in the Palestinian territories in depth.

Donors should play vital role in Pressure on the Israeli side in order to compress him not to waste their aid effect by its measures such as closure or destroying the infrastructure and the Palestinian institution...etc

### **6.3 Suggested Future Researches:**

The results study recommends the following research:

1. Factors that affect the economic development in Palestine.
2. The role of international assistance in achieving security stability in Palestine.
3. Impact of international aid to the industrial sector in Palestine.

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## **Appendix I**

### **Interview Questions**

Would you please give me a brief about the international aid provided to the Palestinian people through the donor's parties?

Could you evaluate the PNA and NGO's experience in dealing with the international aid inflow to the Palestinian territories?

Do you think that the international aid can contribute to achieving in the economic development indicators?

Do you think that the donors supply to the Palestinian people with this aid in altruism intension or according to other motivations?

Do you think that the international aid in the Palestinian territories employed properly from the receiver of this aid?

To what extent we can consider the political situation effects the main influence factor in the development efforts?

Under the existence of international aid, why we still far away from achieving economic development?

## Appendix II

### The Data Analysis Results

#### GDP per capita and international aid (-2):

$$\text{GDPQ2} = 65.6668676453 + 0.663583909889 * \text{AIDQ}(-2)$$

Dependent Variable: GDPQ2

Method: Least Squares

Date: 04/28/11 Time: 23:14

Sample (adjusted): 3 48

Included observations: 46 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	65.66687	22.25352	2.950854	0.0051
AIDQ(-2)	0.663584	0.120277	5.517129	0.0000
R-squared	0.408910	Mean dependent var		177.5500
Adjusted R-squared	0.395476	S.D. dependent var		79.93529
S.E. of regression	62.15061	Akaike info criterion		11.13950
Sum squared resid	169958.7	Schwarz criterion		11.21901
Log likelihood	-254.2086	Hannan-Quinn criter.		11.16929
F-statistic	30.43871	Durbin-Watson stat		1.798739
Prob(F-statistic)	0.000002			

#### GDP per capita and international aid with PSE:

$$\text{GDPQ} = 363.504778416 - 0.0909190079311 * \text{AIDQ}(-2) - 27.6332022004 * \text{PSE} + [\text{AR}(1)=0.691846374755]$$

Dependent Variable: GDPQ

Method: Least Squares

Date: 04/02/11 Time: 22:42

Sample (adjusted): 4 67

Included observations: 64 after adjustments

Convergence achieved after 7 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	363.5048	11.77908	30.86021	0.0000
AIDQ(-2)	-0.090919	0.026318	-3.454575	0.0010
PSE	-27.63320	11.18594	-2.470352	0.0164
AR(1)	0.691846	0.094695	7.306019	0.0000
R-squared	0.620873	Mean dependent var		337.6734
Adjusted R-squared	0.601916	S.D. dependent var		39.87386
S.E. of regression	25.15796	Akaike info criterion		9.348687
Sum squared resid	37975.37	Schwarz criterion		9.483617
Log likelihood	-295.1580	Hannan-Quinn criter.		9.401843
F-statistic	32.75274	Durbin-Watson stat		2.403391
Prob(F-statistic)	0.000000			

**GDP per capita and international aid with intifada:**

GDPQ = 392.037641607 - 0.089068309226\*AIDQ(-2) - 52.3927474212\*INTIF +  
[AR(1)=0.688866989597]

Dependent Variable: GDPQ

Method: Least Squares

Date: 04/02/11 Time: 22:57

Sample (adjusted): 4 67

Included observations: 64 after adjustments

Convergence achieved after 10 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	392.0376	15.96740	24.55238	0.0000
AIDQ(-2)	-0.089068	0.025575	-3.482583	0.0009
INTIF	-52.39275	17.57742	-2.980685	0.0614
AR(1)	0.688867	0.098727	6.977491	0.0000
R-squared	0.638335	Mean dependent var		337.6734
Adjusted R-squared	0.620251	S.D. dependent var		39.87386
S.E. of regression	24.57177	Akaike info criterion		9.301535
Sum squared resid	36226.31	Schwarz criterion		9.436465
Log likelihood	-293.6491	Hannan-Quinn criter.		9.354691
F-statistic	35.29972	Durbin-Watson stat		2.335891
Prob(F-statistic)	0.000000			

**Unemployment rate with international aid:**

URQ = 20.2208600831 + 0.00605801382022\*AIDQ + [AR(1)=0.806315347597]

Dependent Variable: URQ

Method: Least Squares

Date: 04/02/11 Time: 23:27

Sample (adjusted): 2 67

Included observations: 66 after adjustments

Convergence achieved after 7 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.22086	2.324869	8.697634	0.0000
AIDQ	0.006058	0.003334	1.816836	0.0640
AR(1)	0.806315	0.075193	10.72324	0.0000
R-squared	0.684190	Mean dependent var		20.84848
Adjusted R-squared	0.674164	S.D. dependent var		6.002749
S.E. of regression	3.426490	Akaike info criterion		5.345339
Sum squared resid	739.6726	Schwarz criterion		5.444869
Log likelihood	-173.3962	Hannan-Quinn criter.		5.384668
F-statistic	68.24353	Durbin-Watson stat		1.984982
Prob(F-statistic)	0.000000			
Inverted AR Roots	.81			



### GDP per capita and international aid aid with closure

$$\text{GDPQ2} = 5.4401 + 0.957796 \cdot \text{AIDQ} + 7.75678 \cdot \text{CLOUURE}$$

Dependent Variable: GDPQ2

Method: Least Squares

Date: 04/28/11 Time: 22:50

Sample: 1 48

Included observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.440129	2.457155	2.213995	0.0319
AIDQ	0.957797	0.016081	59.56174	0.0000
CLOUURE	7.756786	2.572107	3.015732	0.0042
R-squared	0.992897	Mean dependent var		174.6104
Adjusted R-squared	0.982582	S.D. dependent var		79.59853
S.E. of regression	6.855833	Akaike info criterion		6.748538
Sum squared resid	2115.110	Schwarz criterion		6.865488
Log likelihood	-158.9649	Hannan-Quinn criter.		6.792734
F-statistic	3145.299	Durbin-Watson stat		2.100724
Prob(F-statistic)	0.000000			

### Unemployment rate and international di with intifada:

$$\text{URQ} = 9.40237837725 + 0.00624990281227 \cdot \text{AIDQ} + 15.9880031788 \cdot \text{INTIF} + [\text{AR}(1)=0.837406012072]$$

Dependent Variable: URQ

Method: Least Squares

Date: 04/03/11 Time: 00:16

Sample (adjusted): 2 67

Included observations: 66 after adjustments

Convergence achieved after 22 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.402378	2.889516	3.253963	0.0018
AIDQ	0.006250	0.002566	2.435751	0.0177
INTIF	15.98800	2.683240	5.958468	0.0000
AR(1)	0.837406	0.076572	10.93618	0.0000
R-squared	0.815823	Mean dependent var		20.84848
Adjusted R-squared	0.806912	S.D. dependent var		6.002749
S.E. of regression	2.637717	Akaike info criterion		4.836396
Sum squared resid	431.3681	Schwarz criterion		4.969103
Log likelihood	-155.6011	Hannan-Quinn criter.		4.888835
F-statistic	91.54451	Durbin-Watson stat		2.038360
Prob(F-statistic)	0.000000			

**GDP per capita and production aid with time lag six months(-2):**

$$\text{GDPQ2} = 62.3728387753 + 7.35557819258 * \text{PROD}(-2)$$

Dependent Variable: GDPQ2

Method: Least Squares

Date: 04/03/11 Time: 01:46

Sample (adjusted): 3 48

Included observations: 46 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	62.37284	22.36070	2.789396	0.0078
PROD(-2)	7.355578	1.304918	5.636815	0.0000
R-squared	0.419323	Mean dependent var		177.5500
Adjusted R-squared	0.406126	S.D. dependent var		79.93529
S.E. of regression	61.60070	Akaike info criterion		11.12173
Sum squared resid	166964.4	Schwarz criterion		11.20123
Log likelihood	-253.7997	Hannan-Quinn criter.		11.15151
F-statistic	31.77368	Durbin-Watson stat		1.846102
Prob(F-statistic)	0.000001			

**GDP per capita and socio aid:**

$$\text{GDPQ2} = 88.0248642955 + 1.06555358495 * \text{SOCIO}$$

Dependent Variable: GDPQ2

Method: Least Squares

Date: 04/03/11 Time: 01:50

Sample: 1 48

Included observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	88.02486	8.348829	10.54338	0.0000
SOCIO	1.065554	0.079797	13.35327	0.0000
R-squared	0.794927	Mean dependent var		174.6104
Adjusted R-squared	0.790468	S.D. dependent var		79.59853
S.E. of regression	36.43592	Akaike info criterion		10.06976
Sum squared resid	61068.51	Schwarz criterion		10.14773
Log likelihood	-239.6743	Hannan-Quinn criter.		10.09922
F-statistic	178.3099	Durbin-Watson stat		2.120921
Prob(F-statistic)	0.000000			

**Unemployment rate and production aid:**

$$\text{URQ2} = 11.4493444043 + 0.498692053472 * \text{PROD}$$

Dependent Variable: URQ2

Method: Least Squares

Date: 04/03/11 Time: 05:43

Sample: 1 48

Included observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.44934	1.914705	5.979690	0.0000
PROD	0.498692	0.108648	4.589993	0.0000
R-squared	0.314129	Mean dependent var		19.46042
Adjusted R-squared	0.299219	S.D. dependent var		6.516158
S.E. of regression	5.454849	Akaike info criterion		6.271661
Sum squared resid	1368.748	Schwarz criterion		6.349627
Log likelihood	-148.5199	Hannan-Quinn criter.		6.301124
F-statistic	21.06803	Durbin-Watson stat		1.106249
Prob(F-statistic)	0.000034			

**Unemployment rate and social aid(-2):**

$$\text{URQ2} = 17.562056599 + 0.0335576298526 * \text{SOCIO}(-2) + [\text{AR}(1)=0.783603893985]$$

Dependent Variable: URQ2

Method: Least Squares

Date: 04/03/11 Time: 06:07

Sample (adjusted): 4 48

Included observations: 45 after adjustments

Convergence achieved after 6 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17.56206	2.633769	6.668033	0.0000
SOCIO(-2)	0.033558	0.011000	3.050712	0.0039
AR(1)	0.783604	0.096554	8.115707	0.0000
R-squared	0.723653	Mean dependent var		19.80667
Adjusted R-squared	0.710494	S.D. dependent var		6.583188
S.E. of regression	3.542135	Akaike info criterion		5.431677
Sum squared resid	526.9622	Schwarz criterion		5.552121
Log likelihood	-119.2127	Hannan-Quinn criter.		5.476577
F-statistic	54.99149	Durbin-Watson stat		1.865561
Prob(F-statistic)	0.000000			
Inverted AR Roots	.78			

## Appendix III

### Percentage Contribution to GDP by Economic Activity for the Years 1994-2009 at Constant Prices

Economic Activity	Palestinian Territory															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture and fishing</b>	12.2	12.0	13.6	10.8	10.9	9.8	9.2	-	-	-	-	-	-	-	-	-
<b>Mining, manufacturing, electr. and water</b>	21.8	20.4	17.0	15.4	15.1	14.6	13.4	-	-	-	-	-	-	-	-	-
Mining and quarrying	0.9	0.8	0.7	0.6	0.7	0.7	0.5	-	-	-	-	-	-	-	-	-
Manufacturing	19.2	18.1	14.8	13.1	12.6	12.4	11.1	-	-	-	-	-	-	-	-	-
Electricity and water supply	1.7	1.5	1.5	1.7	1.8	1.5	1.8	-	-	-	-	-	-	-	-	-
<b>Construction</b>	8.4	6.5	8.0	7.7	9.0	13.4	8.8	-	-	-	-	-	-	-	-	-
<b>Wholesale and retail trade</b>	17.8	15.2	11.2	11.7	10.7	11.2	11.3	-	-	-	-	-	-	-	-	-
<b>Transport, Storage and Communications</b>	4.4	4.1	3.9	4.7	5.5	6.2	6.8	-	-	-	-	-	-	-	-	-
<b>Financial intermediation</b>	1.1	1.9	2.1	2.6	3.0	3.5	4.1	-	-	-	-	-	-	-	-	-
<b>Other services</b>	24.7	22.5	21.5	22.0	21.6	20.8	23.3	-	-	-	-	-	-	-	-	-
Real estate, renting and business services	12.6	11.2	10.5	11.0	10.4	9.4	12.3	-	-	-	-	-	-	-	-	-
Community, social and personal services	0.9	0.9	0.8	0.8	0.8	0.9	0.9	-	-	-	-	-	-	-	-	-
Hotels and restaurants	2.0	1.9	1.6	1.7	1.7	1.7	1.3	-	-	-	-	-	-	-	-	-
Education	5.4	5.0	5.3	5.9	5.9	5.8	6.0	-	-	-	-	-	-	-	-	-
Health and social work	3.8	3.5	3.3	2.6	2.8	3.0	2.8	-	-	-	-	-	-	-	-	-
<b>Public administration and defense</b>	9.4	11.1	12.3	11.4	10.3	10.3	11.5	-	-	-	-	-	-	-	-	-
<b>Households with employed persons</b>	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-	-	-	-	-	-	-	-	-
<b>Public owned employed persons</b>	0.0	0.0	0.9	2.2	2.6	3.2	4.3	-	-	-	-	-	-	-	-	-
Less: FISIM	-0.6	-1.1	-1.8	-2.1	-2.4	-2.6	-3.4	-	-	-	-	-	-	-	-	-
Plus: Customs duties	0.0	1.6	5.3	6.6	6.7	4.3	4.4	-	-	-	-	-	-	-	-	-
Plus: VAT on imports, net	0.6	5.6	5.8	6.8	6.8	5.1	6.1	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	-	-	-	-	-	-	-	-	-

Economic Activity	Palestinian Territory*															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture and fishing</b>	13.2	13.0	14.7	11.6	11.6	10.4	9.8	9.1	7.7	7.9	7.1	5.2	5.6	5.5	5.9	5.6
<b>Mining, manufacturing, electr. and water</b>	22.1	20.5	16.8	15.3	14.8	14.6	13.2	16.4	16.4	17.0	17.1	17.0	15.0	15.3	15.6	14.3
Mining and quarrying	1.0	0.9	0.8	0.7	0.7	0.8	0.6	0.6	0.8	0.6	0.7	0.6	0.5	0.5	0.4	0.4
Manufacturing	19.7	18.4	14.9	13.3	12.8	12.6	11.4	12.5	11.8	12.6	13.2	13.0	11.7	11.6	11.1	10.4
Electricity and water supply	1.4	1.2	1.1	1.3	1.3	1.2	1.2	3.3	3.8	3.8	3.2	3.4	2.8	3.2	4.1	3.5

Construction	8.9	6.9	8.4	7.8	8.9	13.7	8.9	5.5	3.9	5.0	5.7	6.8	7.2	6.6	6.4	7.4
Wholesale and retail trade	17.9	15.2	10.9	11.4	10.5	11.0	11.3	9.6	11.9	9.8	9.8	9.4	9.6	9.7	10.2	10.3
Transport, Storage and Communications	3.4	3.2	3.0	3.9	4.6	5.1	5.4	5.6	5.6	4.6	6.1	5.8	6.6	7.4	7.1	7.3
Financial intermediation	1.2	2.0	2.2	2.7	3.2	3.7	4.4	3.6	4.2	4.1	3.6	4.4	4.3	6.0	5.7	5.1
Other services	23.7	21.0	20.1	20.6	20.3	19.5	21.8	21.5	23.5	22.8	22.8	23.0	19.6	20.4	20.7	21.2
Real estate, renting and business services	12.1	10.5	9.7	10.4	9.8	8.9	11.8	10.3	11.0	10.3	10.4	10.3	7.0	7.4	7.5	7.8
Community, social and personal services	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.8	1.0	1.2	0.9	1.2	1.1	1.3	1.5	1.7
Hotels and restaurants	1.5	1.3	1.1	1.2	1.3	1.3	0.8	0.5	0.2	0.4	0.7	0.8	0.9	0.8	0.7	0.8
Education	5.6	5.1	5.4	5.9	5.9	5.9	5.9	7.1	8.0	7.6	7.8	8.2	7.9	8.2	8.2	8.1
Health and social work	3.8	3.5	3.3	2.5	2.7	2.8	2.6	2.8	3.3	3.3	3.0	2.5	2.7	2.7	2.8	2.8
Public administration and defense	9.4	11.4	12.6	11.9	10.9	11.0	12.6	17.6	16.7	16.9	14.3	14.1	15.7	14.5	14.0	14.3
Households with employed persons	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.1
Public owned employed persons	0.0	0.0	1.0	2.4	2.8	3.5	4.7	2.8	3.6	4.5	3.7	3.4	4.5	4.1	2.6	2.1
Less: FISIM	-0.7	-1.2	-2.0	-2.3	-2.5	-2.9	-3.8	-3.1	-3.1	-3.0	-2.8	-2.6	-3.0	-5.6	-5.6	-4.4
Plus: Customs duties	0.0	1.7	5.7	7.1	7.3	4.6	4.8	4.5	2.7	4.4	4.8	5.9	6.7	6.1	6.7	6.6
Plus: VAT on imports, net	0.7	6.1	6.4	7.4	7.4	5.6	6.7	6.7	6.7	5.8	7.7	7.6	8.1	9.9	10.6	10.1
Total	100	100	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Economic Activity	West Bank*															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture and fishing	14.4	13.6	16.5	11.7	12.9	11.5	10.0	8.5	7.3	7.8	6.5	5.0	5.0	5.0	5.3	4.9
Mining, manufacturing, electr. and water	24.3	23.4	18.7	17.3	16.2	15.3	16.4	17.8	16.5	18.3	19.1	19.7	17.4	18.3	17.2	16.1
Mining and quarrying	1.5	1.3	1.2	1.0	1.1	1.1	0.8	0.8	1.2	1.0	1.1	1.0	0.7	0.6	0.6	0.6
Manufacturing	21.6	20.8	16.2	14.8	13.5	12.8	15.1	14.5	12.8	14.3	15.7	16.2	14.2	14.9	13.8	12.5
Electricity and water supply	1.2	1.3	1.3	1.5	1.6	1.4	0.5	2.5	2.5	3.0	2.3	2.5	2.5	2.8	2.8	3.0
Construction	7.6	6.6	7.6	7.8	8.6	14.1	8.5	5.0	3.8	5.2	5.3	6.3	7.3	6.8	7.4	8.6
Wholesale and retail trade	18.9	15.4	12.0	12.3	11.0	11.1	11.8	10.2	12.1	9.9	10.1	8.9	9.7	10.3	11.1	10.9
Transport, Storage and Communications	3.5	3.2	2.9	4.0	5.0	5.7	6.8	7.2	7.6	6.6	8.3	7.3	8.7	9.7	9.1	9.1
Financial intermediation	1.4	2.5	2.6	3.2	3.7	4.1	4.8	4.0	4.7	5.0	4.1	4.9	4.3	5.8	6.4	5.6
Other services	21.5	18.8	17.7	18.2	17.7	17.0	18.9	18.4	20.7	20.8	20.3	21.5	16.7	16.0	16.5	17.1
Real estate, renting and business services	11.5	9.7	9.0	9.5	8.9	8.3	10.1	9.2	9.8	9.7	9.5	9.8	6.6	6.1	6.3	6.4
Community, social and personal services	0.7	0.7	0.6	0.6	0.6	0.6	0.8	0.7	1.1	1.2	0.8	1.3	1.0	1.0	1.5	1.8
Hotels and restaurants	1.8	1.6	1.3	1.5	1.5	1.4	0.9	0.4	0.2	0.4	0.8	0.9	0.9	0.8	0.7	0.8
Education	4.2	3.8	4.0	4.5	4.3	4.2	4.5	5.6	6.7	6.3	6.2	6.8	5.7	5.7	5.7	5.7
Health and social work	3.3	3.0	2.8	2.1	2.4	2.5	2.6	2.5	2.9	3.2	3.0	2.7	2.5	2.4	2.3	2.4
Public administration and defense	8.1	9.6	10.5	10.1	8.9	9.1	10.3	14.2	15.3	15.3	12.4	11.3	12.8	11.6	11.3	11.3
Households with employed persons	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.1	0.0	0.1	0.1	0.1	0.1

<b>Public owned employed persons</b>	<b>0.0</b>	<b>0.0</b>	<b>0.9</b>	<b>2.2</b>	<b>2.5</b>	<b>3.0</b>	<b>4.1</b>	<b>2.6</b>	<b>2.9</b>	<b>3.8</b>	<b>3.6</b>	<b>3.3</b>	<b>3.9</b>	<b>4.0</b>	<b>2.4</b>	<b>2.2</b>
Less: FISIM	-0.6	-1.1	-1.9	-2.1	-2.4	-2.4	-3.3	-2.6	-2.7	-2.9	-2.4	-2.4	-2.6	-4.6	-6.3	-4.9
Plus: Customs duties	0.0	1.9	5.9	7.4	7.8	5.1	4.7	5.9	3.3	4.4	5.0	6.4	7.6	6.6	7.7	7.5
Plus: VAT on imports, net	0.7	5.9	6.4	7.7	7.9	6.2	6.7	8.6	8.2	5.5	7.6	7.8	9.1	10.4	11.8	11.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Economic Activity	Gaza Strip															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture and fishing</b>	<b>11.1</b>	<b>11.8</b>	<b>11.2</b>	<b>11.4</b>	<b>9.2</b>	<b>8.0</b>	<b>9.4</b>	<b>10.1</b>	<b>8.5</b>	<b>8.2</b>	<b>8.3</b>	<b>5.6</b>	<b>6.7</b>	<b>7.1</b>	<b>7.7</b>	<b>8.0</b>
<b>Mining, manufacturing, electr. and water</b>	<b>18.0</b>	<b>15.1</b>	<b>13.1</b>	<b>11.2</b>	<b>12.1</b>	<b>12.9</b>	<b>5.9</b>	<b>13.4</b>	<b>16.1</b>	<b>14.6</b>	<b>13.2</b>	<b>12.4</b>	<b>9.7</b>	<b>7.0</b>	<b>10.6</b>	<b>7.9</b>
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	16.4	14.3	12.2	10.3	11.2	12.2	3.0	8.4	9.7	9.5	8.2	7.5	6.3	2.7	2.4	2.4
Electricity and water supply	1.6	0.8	0.9	0.9	0.9	0.7	2.9	5.0	6.4	5.1	5.0	4.9	3.4	4.3	8.2	5.5
<b>Construction</b>	<b>11.2</b>	<b>7.4</b>	<b>9.9</b>	<b>7.9</b>	<b>9.6</b>	<b>12.8</b>	<b>9.8</b>	<b>6.4</b>	<b>4.1</b>	<b>4.7</b>	<b>6.4</b>	<b>7.7</b>	<b>7.0</b>	<b>5.9</b>	<b>3.5</b>	<b>3.3</b>
<b>Wholesale and retail trade</b>	<b>16.2</b>	<b>14.7</b>	<b>8.8</b>	<b>9.6</b>	<b>9.4</b>	<b>10.7</b>	<b>10.1</b>	<b>8.5</b>	<b>11.4</b>	<b>9.5</b>	<b>9.3</b>	<b>10.2</b>	<b>9.3</b>	<b>8.1</b>	<b>7.3</b>	<b>8.2</b>
<b>Transport, Storage and Communications</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>3.6</b>	<b>3.8</b>	<b>3.8</b>	<b>2.2</b>	<b>2.1</b>	<b>1.7</b>	<b>1.2</b>	<b>1.6</b>	<b>3.2</b>	<b>1.9</b>	<b>1.3</b>	<b>0.7</b>	<b>1.0</b>
<b>Financial intermediation</b>	<b>0.8</b>	<b>1.2</b>	<b>1.5</b>	<b>1.9</b>	<b>2.3</b>	<b>2.8</b>	<b>3.5</b>	<b>2.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.4</b>	<b>3.6</b>	<b>4.1</b>	<b>6.6</b>	<b>3.7</b>	<b>3.5</b>
<b>Other services</b>	<b>27.5</b>	<b>25.2</b>	<b>24.8</b>	<b>25.1</b>	<b>25.6</b>	<b>24.8</b>	<b>28.6</b>	<b>27.8</b>	<b>29.2</b>	<b>26.5</b>	<b>27.8</b>	<b>25.5</b>	<b>26.2</b>	<b>32.4</b>	<b>33.9</b>	<b>35.4</b>
Real estate, renting and business services	13.6	12.2	11.5	12.0	11.7	10.3	15.5	12.5	13.3	11.5	12.4	11.0	7.8	11.0	11.2	12.6
Community, social and personal services	0.6	0.6	0.4	0.5	0.6	0.7	0.7	0.8	0.8	1.2	1.1	1.1	1.3	2.1	1.8	1.4
Hotels and restaurants	0.9	0.7	0.6	0.8	0.9	0.9	0.6	0.5	0.2	0.5	0.6	0.6	1.0	0.8	0.6	0.7
Education	7.9	7.4	8.1	8.6	9.2	9.4	9.1	10.4	10.5	9.9	11.0	10.7	12.9	14.8	16.1	16.5
Health and social work	4.5	4.3	4.2	3.2	3.2	3.5	2.7	3.6	4.4	3.4	2.7	2.1	3.2	3.7	4.2	4.2
<b>Public administration and defense</b>	<b>11.7</b>	<b>14.8</b>	<b>16.7</b>	<b>15.5</b>	<b>15.0</b>	<b>15.4</b>	<b>17.9</b>	<b>24.7</b>	<b>19.6</b>	<b>19.7</b>	<b>18.0</b>	<b>18.8</b>	<b>22.2</b>	<b>22.0</b>	<b>22.8</b>	<b>25.0</b>
<b>Households with employed persons</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Public owned employed persons</b>	<b>0.0</b>	<b>0.0</b>	<b>1.1</b>	<b>2.9</b>	<b>3.4</b>	<b>4.5</b>	<b>6.2</b>	<b>3.4</b>	<b>5.0</b>	<b>5.9</b>	<b>3.8</b>	<b>3.7</b>	<b>5.9</b>	<b>4.4</b>	<b>3.4</b>	<b>1.9</b>
Less: FISIM	-0.7	-1.3	-2.3	-2.7	-3.1	-3.7	-5.0	-3.8	-3.7	-3.4	-3.3	-2.8	-3.8	-8.3	-3.7	-3.0
Plus: Customs duties	0.0	1.4	5.7	6.6	6.3	3.6	4.7	1.9	1.4	4.4	4.7	4.6	4.6	4.9	3.8	3.3
Plus: VAT on imports, net	0.8	6.4	6.2	6.8	6.3	4.3	6.5	2.8	3.6	6.0	7.7	7.5	6.2	8.6	6.3	5.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Economic Activity	Jerusalem**															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture and fishing</b>	<b>1.3</b>	<b>1.4</b>	<b>1.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.8</b>	<b>1.8</b>	-	-	-	-	-	-	-	-	-
<b>Mining, manufacturing, electr. and water</b>	<b>19.2</b>	<b>18.6</b>	<b>19.6</b>	<b>16.8</b>	<b>18.4</b>	<b>16.0</b>	<b>15.4</b>	-	-	-	-	-	-	-	-	-
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
Manufacturing	14.0	13.4	14.0	11.0	10.6	10.6	6.2	-	-	-	-	-	-	-	-	-
Electricity and water supply	5.2	5.2	5.6	5.8	7.8	5.4	9.2	-	-	-	-	-	-	-	-	-

<b>Construction</b>	<b>2.5</b>	<b>2.8</b>	<b>4.2</b>	<b>6.3</b>	<b>10.6</b>	<b>9.6</b>	<b>8.3</b>	-	-	-	-	-	-	-	-	-
<b>Wholesale and retail trade</b>	<b>16.6</b>	<b>15.7</b>	<b>14.3</b>	<b>15.6</b>	<b>13.7</b>	<b>14.5</b>	<b>11.2</b>	-	-	-	-	-	-	-	-	-
<b>Transport, Storage and Communications</b>	<b>14.7</b>	<b>13.9</b>	<b>14.4</b>	<b>14.5</b>	<b>16.2</b>	<b>19.0</b>	<b>23.2</b>	-	-	-	-	-	-	-	-	-
<b>Financial intermediation</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	-	-	-	-	-	-	-	-	-
<b>Other services</b>	<b>35.8</b>	<b>38.6</b>	<b>36.4</b>	<b>39.9</b>	<b>37.0</b>	<b>37.5</b>	<b>40.0</b>	-	-	-	-	-	-	-	-	-
Real estate, renting and business services	16.6	18.6	16.3	19.5	15.9	16.6	17.5	-	-	-	-	-	-	-	-	-
Community, social and personal services	2.7	3.4	3.6	3.4	3.2	3.6	2.6	-	-	-	-	-	-	-	-	-
Hotels and restaurants	8.2	8.7	8.0	7.2	6.8	7.1	7.3	-	-	-	-	-	-	-	-	-
Education	4.2	3.9	4.4	5.9	6.6	5.7	7.5	-	-	-	-	-	-	-	-	-
Health and social work	4.1	4.0	4.1	3.9	4.5	4.5	5.1	-	-	-	-	-	-	-	-	-
<b>Public administration and defense</b>	<b>9.3</b>	<b>8.4</b>	<b>8.7</b>	<b>4.7</b>	<b>2.2</b>	<b>1.1</b>	<b>-0.5</b>	-	-	-	-	-	-	-	-	-
<b>Households with employed persons</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	-	-	-	-	-	-	-	-	-
<b>Public owned employed persons</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	-	-	-	-	-	-	-	-	-
Less: FISIM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
Plus: Customs duties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
Plus: VAT on imports, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	-	-	-	-	-	-	-	-	-

\* The Data excludes those parts of Jerusalem which were annexed by Israel in 1967.

\*\* That part of the governorate of Jerusalem, which Israel annexed by force in the aftermath of the June 1967 war.

(-) The data is not available.

1997 is the Base Year for the Period 1994-2003, 2004 is the Base Year for the Period 2004-2009