

INTRODUCTION: ASSESSING AID EFFECTIVENESS

- 1.1. Since the signing of the Israeli-Palestinian Declaration of Principles in September 1993, the international donor community has mobilized substantial economic resources in support of the search for peace. These resources have been intended to enhance the capacities of the Palestinian Authority, generate tangible improvements in the daily lives of Palestinians, and lay the groundwork for future sustainable development.
- 1.2. The aid effectiveness study, jointly undertaken by Japan and the World Bank with the financial support of the government of Japan and the United Nations Development Program, examines the impact of donor assistance in the West Bank and Gaza. The format and approach of the study are the product of an extensive process of consultation with key stakeholders in the development effort. The initial design of the study was first discussed in the Joint Liaison Committee in the summer of 1999. This was followed by a series of field interviews by the project team with Palestinian and donor officials. A progress report was subsequently presented to the Tokyo meeting of the Ad Hoc Liaison Committee in October 1999, thus allowing all AHLC members an opportunity to have further input into the design of the study.
- 1.3. As a consequence of this process of consultation, the aid effectiveness study focuses its analytical attention on four key areas.
 - Section 2 of this study examines **the measurable economic and social effects of the aid effort** since 1993, including the macroeconomic impact of donor assistance on economic growth, investment and employment; key patterns in the allocation and disbursement of assistance; and key sectoral indicators of the impact of donor investments. The object here is to provide, to the extent possible, an empirical foundation for assessing the extent to which aid has contributed to the goal of Palestinian social and economic development.
 - Section 3 of this study examines **Palestinian perceptions of the aid effort** through newly-available survey and other data. This analysis not only complements the earlier economic findings, but also offers new and unique insight into how the real effects of aid have been felt “on the ground” in the everyday lives of ordinary Palestinians.

- Section 4 of the study examines **the future sustainability of the development effort**. It looks at the importance of fiscal stability, possible shifts in the volume and composition of donor assistance, and the implications of demographic growth. It also underscores the fundamental importance of future permanent status arrangements in shaping the foundations for sustainable development in the WBG.
- Section 5 of the study addresses the **important role of donor assistance and policy dialogue in supporting institutional development and policy reform**. This discussion emphasizes the essential importance of “getting policies and institutions right” if donor assistance is to have positive effects, and highlights ways in which donors may support such efforts in more constructive ways.
- Finally, Section 6 of the study **summarizes key findings and recommendations and identifies important next steps for the donor community and the PA**. It emphasizes the importance of undertaking the sorts of policy and institutional reforms in the WBG that would allow donor assistance to have optimal effect.

1.4. In examining each of these areas, three additional considerations have shaped the present study. The first of these concerns the need to adopt a flexible and contextual approach in assessing aid effectiveness during an ongoing peace process. In other words, *aid assessment must take into account the enormous challenges facing the PA and donors alike*. Second, as noted below, many of the traditional approaches to economic assessment provide an incomplete picture in situations where supporting the transition to peace is a primary objective of donor assistance. *Any assessment of peacebuilding assistance must recognize the fundamental interconnections between the political and socio-economic dimensions of development*. The third and final consideration is the desire to maximize the value-added of the present study *by building upon, rather than repeating, the findings of earlier work*. To do this effectively, it is important to summarize what we know—and don’t know—about social and economic conditions in the West Bank and Gaza.

Aid, Development, and Peacebuilding: The Challenge of Assessment

1.5. A variety of approaches and criteria can be adopted in assessing the effectiveness of donor assistance in the West Bank and Gaza, including both traditional approaches to (aid) inputs and (development) outputs and more recent approaches that emphasize the importance of the institutional and policy setting. However, as will be argued below, it is important to recognize the highly political and politicized character of development assistance. In contexts of peacebuilding such as those found in the West Bank and Gaza, standard assessment techniques risk missing key parts of the picture. In such cases, the delivery of development assistance is buffeted by the often complex and powerful pressures of diplomatic negotiation and local politics. Any fair assessment must take these into account. Moreover, aid itself has a fundamentally political purpose: to consolidate and encourage progress towards peace.

Traditional Approaches

- 1.6. The traditional approach to measuring aid effectiveness has been to identify outputs and measure impacts, often on a project-by-project basis. Such an approach is useful in assessing the degree to which a particular initiative meets the objectives set for it. However, it may reveal relatively little about the extent to which a given project (or a series of projects by different donors) affects medium and long-term development within a given sector, or how such developments in turn influence the broader prospects for economic growth and social development. Conversely, macroeconomic analysis can be useful in estimating the aggregate impact of development assistance on broader economic performance (e.g., gross domestic product, employment, sectoral growth), but reveal little about the effectiveness of particular projects and programs.
- 1.7. Assessment is further complicated by the fungibility of aid, unknown opportunity costs, and possible effects on agenda formation. Development assistance in one area may free up recipient resources for possible expenditure in other areas. The decision to allocate development resources to one project implies that those same resources are not available for alternative investments. Finally, the potential provision of development assistance creates incentives for recipients to emphasize projects in those sectors most likely to attract donor support, with the result that development agendas may become heavily (if indirectly) donor-driven. All three of these aspects can have important ramifications for the effectiveness of donor assistance.
- 1.8. In short, therefore, assessing aid effectiveness along narrow, quantifiable, sectoral or macroeconomic lines provides only part of the picture. It represents a very important part of the picture, to be sure: ultimately, improvements in empirical indicators are an essential indication of progress in social and economic development. Accordingly, considerable attention is devoted to assessing these dimensions of the aid effort in the WBG in Section 2 of this study. Subsequently, in Section 4, the economic sustainability of current development efforts will also be explored. However, something more is required if the underlying links between aid and long-term growth are to be fully explored.

Aid, Institutions and Policy Reform

- 1.9. In particular, recent comparative research on aid effectiveness has emphasized that a good policy environment and effective public institutions are essential if development assistance is to foster growth, reduce poverty, and improve social conditions. In this context, aid complements, rather than crowds out, private investment. Effective aid strengthens institutions and policies so that services can be delivered more effectively. In many cases, the provision of good ideas is as important, if not more important, than the provision of donor funds. Finally, a participatory approach to service delivery, characterized by the active engagement of civil society, has positive effects on the quality of public services (World Bank 1998a).

- 1.10. Existing research on aid and reform suggests that donors often fail to design and target assistance in ways that encourage and reinforce the process of reform. Indeed, large amounts of aid to countries with bad policies can actually serve to sustain those same policies (World Bank 1999a).
- 1.11. In light of this, the aid effectiveness study devotes substantial attention to issues of institutional and policy reform. Among other aspects, Sections 2 and 3 examine the progress that has been made in developing Palestinian public institutions. Similarly, Sections 2 and 4 highlight the importance of effective economic planning in terms of both structures and process, and particular attention is devoted to these issues in Section 5, with a focus on the extent to which donor policies have contributed to or hampered effective institutional and policy development by the Palestinian Authority.

Aid and Peacebuilding

- 1.12. Above and beyond these issues, however, it is essential to recognize that development aid to the West Bank and Gaza is part of an ongoing process of peacebuilding. Assessing aid effectiveness in this context poses two particular challenges, one operational, the other conceptual.
- 1.13. The *operational challenge* arises from the environment in which development initiatives must take place. In most cases of war-to-peace transition, societal needs are great, the social and economic environment is difficult and complex, and political authority is in transition. Moreover, the need to provide assistance is unusually urgent, creating additional pressures on planners and officials. The aid flows involved tend to be relatively large, highlighting the need for close donor-donor and donor-recipient coordination, and heightening vulnerability to administrative bottlenecks or limited absorptive capacity in the local economy. Recipient institutions and economic policies are likely to be in a state of flux, further complicating the developmental picture. Finally, social and economic data on countries in transition is typically uneven, both in quantity and quality, making measurement of trends even more difficult.
- 1.14. Any effort to assess aid effectiveness must necessarily take these operational challenges into account if it is to provide a meaningful and fair assessment of donor efforts. As one study of peacebuilding indicators argues, “results should be viewed within the context of the complexity of the task at hand, the need for quick action, and the high level of risk involved” (CIDA 1998a, 8). In the case of the WBG, it is important to recognize how a multitude of factors (the complexities of building new institutions from scratch, the impact of external economic shocks and unforeseen political delays, and the policy and territorial constraints associated with the various interim agreements) has constrained both donors and the PA. In short, the impact of aid ought to be measured not against the *ideal*, but against the *achievable*.

- 1.15. The *conceptual challenge* arises from the fact that donor assistance to areas undergoing war-to-peace transitions is intended to serve a broad range of objectives. On the one hand it is intended (as in other contexts) to foster sustainable social and economic development. On the other hand, it is also intended to support political progress towards peace. Indeed, as the Development Assistance Committee (DAC) of the OECD has emphasized, “While it may sometimes be difficult to articulate and analyze, this ‘peacebuilding’ objective must form the cornerstone of all development co-operation strategies and programs” (DAC 1997, para. 3; see Box 1.15). At times, sustainable development and the politics of peacebuilding may go hand-in-hand. At other times, however, they may be in tension; programs that promote immediate improvement in living conditions, for example, may be of greater political utility than those that foster longer-term improvements, even if the latter are more substantial.

BOX 1.15: Peace and Conflict Impact Assessment

In recent years, a number of projects have addressed the particular challenges of designing and evaluating development projects in contexts of war-to-peace transitions. In the case of Western donors, some of the earliest and most important work was done by the Development Assistance Committee of the Organization of Economic Cooperation and Development. The *1997 DAC Guidelines on Conflict, Peace and Development Cooperation* outlines a number of important considerations in development programming in conflict areas, and subsequent work by the DAC task force expands the range of available analysis. Within the World Bank, the Bank’s *1997 Framework for World Bank Involvement in Post-Conflict Reconstruction* has been followed by more detailed work on the evaluation of Bank activities in conflict areas, both by the Operations Evaluation Department and by the Bank’s Post-Conflict Unit.

More recently, both the International Development Research Centre (Canada) and the Conflict and Humanitarian Affairs Department of the Department for International Development (UK) supported projects on conflict impact assessment, as have a number of other aid agencies and NGO consortia. There is also growing academic research in this area. The “CPR” network—established in 1997 to bring together the conflict prevention and post-conflict units of bilateral and multilateral aid agencies—has begun to collect and disseminate analytical tools addressing these issues.

Collectively, these various projects have contributed to a fuller understanding of how planning, assessment and evaluation efforts in conflict areas must be conditioned by the particular requirements of peacebuilding and conflict prevention. However, dissemination of these insights (as well as feedback from the field) has sometimes been slowed by institutional disconnections between the policy or post-conflict units engaged in analytical work and line units and field representatives responsible for actual program management.

- 1.16. Any assessment of aid effectiveness must therefore recognize the particular (often country- and time-specific) requirements of promoting peace. As one major project on peace and conflict impact assessment notes:

The peace and conflict impact assessment of development projects differs from “evaluation” in the conventional sense because its scope extends far beyond the stated outputs, outcomes, goals, and objectives of conventional development projects or programs. Rather, it attempts to discern a project’s impact on the peace and conflict environment—an area it may not have been designed explicitly to affect. Thus, it is quite possible that a project might fail according to limited

developmental criteria... but succeed according to broader peacebuilding criteria.... The converse also holds true. It is possible that a project may succeed according to pre-determined developmental criteria but fail in terms of a beneficial impact on peace (Bush 1998, 2).

- 1.17. In some cases, traditional approaches to development and development evaluation may be ill-suited for assessing donor programs. In a major comparative examination of World Bank activities in post-conflict countries, the Operations Evaluation Department of the Bank concludes that:

Many “conventional wisdoms” of development learned over the past several decades also apply in post-conflict settings. Among these are the importance of relevance, client ownership, beneficiary participation, the policy and institutional environments, including a positive enabling environment for the private sector, and cost-effectiveness. But some characteristics of post-conflict settings... make some “conventional wisdoms” not applicable, at least not in the short run (World Bank 1998e, 33).

- 1.18. In one of its most recent reports, the DAC further underlines the need to recognize the unique, and highly political, aspects of development assistance in such contexts:

Aid managers need to face up to the political nature of all aid. This involves recognizing that perceptions matter as much as facts in aid impacts; that who gets which piece of the cake is usually as important as the total size of the cake; that efficiency may sometimes need to be traded for stability and peace; that the development discourse can be used for many political purposes; and, broadly, that process is as important as product (Uvin 1999, para. 8).

- 1.19. The aid effectiveness study does not explore all of these aspects of peacebuilding in the Palestinian case, in part because they have already been explored elsewhere (Brynen 2000). However, as previously noted—and in keeping with the idea that “perceptions matter”—Section 3 of the aid effectiveness study examines mass and elite attitudes to the development effort in the West Bank and Gaza using a specially commissioned public opinion survey. In traditional evaluation terms, this survey provides insight into beneficiary needs and priorities, and hence contributes to a fuller assessment of past and future development priorities. Furthermore, the survey casts new light on the extent to which development efforts have met the objective of fostering real improvements in the everyday lives of Palestinians, thereby creating tangible benefits associated with progress towards peace.

Relationship to Previous Work

- 1.20. The development effort in the West Bank and Gaza has produced voluminous amounts of data and analysis. This includes—but is not limited to—the Palestinian Development Plan, MOPIC donor matrices, data from the Palestinian Central Bureau of Statistics (PCBS), regional and sectoral plans, technical analyses, commission findings, donor assessments, periodic UNSCO reports, World Bank analyses, work by many other international organizations, documents prepared for meetings of the AHLC, CG, LACC, and various SWGs, journalistic reports, websites and email lists, and many published and unpublished analyses undertaken by local and international NGOs and academics.

- 1.21. The quantity and quality of information available represents an enormous asset for the development effort. As noted in the October 1999 aid effectiveness progress report, however, there is as yet no comprehensive collection of such material available to the PA, agency officials, researchers, or the private sector. *Data management is of key importance: if the best information is not in the hands of the appropriate donor and PA officials, the quality of development assistance and economic planning will inevitably suffer.* Establishing a systematic collection of past and current reports would represent a low-cost but valuable tool for future analyses of Palestinian economic development (Box 1.21).

BOX 1.21: Improving Access to Development Information

Despite the large amounts of analysis available on development issues in the WBG, development practitioners have only partial access to such material. Many consultant reports gather dust on shelves. Within MOPIC and the Ministry of Finance, studies are often distributed across different departments, offices, and individuals. Line ministries and specialized international organizations tend to possess only that material which most immediately affects them. In-house donor assessments are rarely given wide distribution. And, while the World Bank and UNSCO local offices have modest libraries, they do not have systematic collections. Analyzing the development effort, therefore, involves searching the shelves of key colleagues and organizations, and in the process, often informing one actor of material previously published by another.

Donors, Palestinian institutions, NGOs and potential private sector investors would all benefit from the creation of one or more publicly-accessible collections of material—a development information resource center—that would allow “one-stop” access to existing data and analysis. This could be established within MOPIC or an international organization. A more effective and accessible approach, however, might be modeled on the library collection and legal database project at Birzeit University’s Institute of Law. The value of this type of documentation center could be further enhanced by making key materials available via the internet, much as the periodic reports of the Office of the UN Special Coordinator are archived on the UNSCO website (<http://www.unsco.org>).

- 1.22. Despite these rich sources, there are nevertheless some weaknesses in the available data which inhibit attempts to evaluate the effectiveness of development efforts.
- Perhaps the most important of these is the absence of reliable baseline data for the pre-1994 period. Prior to the establishment of the Palestinian Authority, social and economic data—variously collected by Israel and by Palestinian NGOs—was typically uneven or widely divergent. In the water sector, for example, the World Bank (1993e, 45, 53) reported differences of over 20 percent in available estimates of rural water connections, and differences of up to 37 million m³ (+/- 17 percent) in estimates of annual Palestinian water consumption in the early 1990s. Without adequate baseline data, it is difficult to measure subsequent changes in economic and social conditions.
 - Since the establishment of the PA, data collection has improved markedly. However, continual improvements and modifications in data collection and analytical methodologies limits the ability of analysts to make year-to-year comparisons, since

apparent changes may be due to refinements in data collection rather than actual changes in the underlying variables. PCBS has, for example, modified the way in which it measures Palestinian national accounts, necessitating caution in any attempt to use such data for time series analysis. Similarly, early estimates often remain in circulation even when more recent data becomes available.

- Despite improvements, weaknesses persist in the data available on a number of important aspects of the West Bank and Gaza. Water statistics for the West Bank, for example, are not collected through any central mechanism, but rather rely on municipal reporting and site evaluations which vary widely in terms of quality and comprehensiveness. MOPIC data on donor assistance—although much more detailed than the data available in most comparable countries—is another area with room for further improvement. Specifically, current MOPIC donor matrices do not adequately track “on the ground” disbursements (as opposed to disbursements to international organizations or implementing agencies), provide little information on donor loans and credits, and rarely offer an adequate analysis of sectoral or aggregate trends. As the donor effort has continued, there is also reason to believe that problems of “pledge inflation” have worsened. There remains no agreed estimate of the amounts and time-frame of donor pledges made during and after the November 1998 Conference to Support Peace and Development in the Middle East. In order to expand the apparent size of their pledges, some donors have included in their declarations contributions to UNRWA’s general program and other monies spent largely outside the WBG. Others may “roll over” and re-announce previous unfulfilled pledges and commitments, thus obscuring the actual level of commitment.
- Donors themselves have supported a number of sectoral projects to improve data collection and analysis. In some cases, however, these projects are heavily dependent on short-term donor support. Data may therefore only be available for specified locations or time periods, and may become unavailable when donor support for the project terminates.
- Analyses on the impact of completed projects in the WBG are not systematically or widely disseminated. This lack of impact assessment is in part due to the interim or “emergency” nature of much of the aid effort. Moreover, the PA’s ability to undertake such assessment is, at present, unevenly developed across ministries, and has often been sidelined by urgent planning, budgetary and project preparation needs. The post-project assessments undertaken by individual donors in connection with their own initiatives tend not to be widely shared, both because of the confidentiality of many in-house assessments, and because no mechanisms currently exist for dissemination (a shortcoming that could be easily solved if donors were to routinely copy their assessments to the PA, World Bank, UNSCO, and/or the development resources center proposed in Box 1.21). As a consequence, anecdotal assessment of the aid effort has tended to predominate, particularly in the media. Such reporting

offers policymakers, parliaments, and the public alike an incomplete picture of the substantial achievements of the development effort during the past six years.

- 1.23. In an effort to complement available data—particularly on infrastructure investments—the aid effectiveness study constructed a database on the outputs of donor projects using available MOPIC data as well as data provided by other PA and donor agencies (see Annex II). Specifically, this database records certain quantifiable project outputs from donor programs in the areas of health facilities, education facilities, road construction/rehabilitation, water and sanitation, and electricity. While not sensitive enough to permit year-to-year comparisons, it nevertheless allows measurement of some of the overall effects of donor investments, and permits a limited disaggregation along regional lines.
- 1.24. More broadly, the aid effectiveness study seeks to avoid repeating what is already well-known by focussing its efforts in areas where there is little existing research, or where existing analytical work could benefit from further emphasis or expansion.