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# Journal of Global Analysis

## Constraints on Aid Conditionality:

### *The case of the European Commission and the Palestinian Authority*

By Dr. Guy Burton\*

Donors tend to be perceived as more powerful actors than the recipients in relation to foreign aid. However, this article presents a contrary example through the donor-recipient relationship between the European Commission (EC) and the Palestinian Authority (PA) during 2006-07. Drawing on previous scholarship and the EC-PA case, the article notes the roles played by recipients, third parties and donors in limiting conditionality. In addition to these actor-oriented explanations, the article draws attention to the constraining effect that structure (in the form of constant and changing local political contexts and actor preferences) can play to limit aid conditionality. The article concludes with an observation on the continuing relevance of conditionality in general and a recommendation for further research on the role of structure in limiting conditions in relation to aid.

**Key Words:** European Commission, Palestinian Authority, Hamas, Israel, foreign aid, conditionality.

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## Constraints on Aid Conditionality: *The case of the European Commission and the Palestinian Authority*<sup>1</sup>

The international community has come in for a great deal of criticism in relation to the Israeli-Palestinian conflict and especially within the Palestinian territories occupied by Israel since the 1967 war. The donors who dominate the international community are accused of shaping and dictating the development of Palestinian political, economic and social life. This claim is based on their ability to impose their agenda on a relatively weak and dependent Palestinian community through the use of their financial assistance.

The underlying assumption associated with this perspective is that power lies with the donor rather than the Palestinian recipients. Indeed, the Palestinian case is both pertinent and unique. It is especially pertinent because it is one where the general assumption is that donors are largely in control of the aid relationship while Palestinians are denied agency as a result. It is also unique because Palestinians are one of the largest recipients of donor aid per capita in the world. As a result, the implications of donor conditionality and their impact are therefore magnified in the Palestinian context, providing a useful insight for other cases of aid and aid conditionality. Moreover, it arguably leads to a relatively weak position for Palestinians, since their reliance on donor assistance should rob them of their agency.

Given these issues then, the criticism of the international community and the lack of Palestinian agency are evident in both direct and indirect ways. First, in terms of direct actions, foreign donors stand accused of dictating the terms on which aid is provided in the occupied Palestinian territory (OPT) of the West Bank and Gaza.<sup>2</sup> Both the US and European Union (EU) have come in for particular attention in this regard, through the requirements that they make of Palestinian beneficiaries not to make use of their financial resources in ways which may assist 'terror' organisations like the Islamist political party, Hamas. Second, donors are accused of setting the wider agenda for development through their selective support of the Palestinian leadership prepared to implement their preferred policies, in particular those related to structural readjustment, liberalisation programmes in the economic and social spheres and

1. The motivation for this article was prompted by the 'Geographies of Aid Intervention in Palestine' conference at Birzeit University in September 2010, organized by the Centre for Development Studies, Birzeit University and the Middle East and North Africa Research Group, Ghent University, with support from the Vlaamse Interuniversitaire Raad (University Development Cooperation—VLIR-UOS). I would like to thank Rachel Busbridge and the anonymous reviewers for reading earlier versions of this article.
2. Benoit Challand, *Palestinian Civil Society: Foreign Donors and the Power to Promote and Exclude*, London: Routledge 2009; Leila Farsakh, *Democracy Promotion in Palestine: Aid and the "De-Democratization" of the West Bank and Gaza*, Birzeit: Centre for Development Studies 2012; Linda Tabar, *Humanitarianism: Pacifying Anti-Colonial Agency – Towards Alternatives Reclaiming Solidarity*, Birzeit: Centre for Development Studies, 2012; Nithya Nagarajan, *Development under Colonialism?* Birzeit: Centre for Development Studies, 2012.

the expansion of security services and their reform.<sup>3</sup> The result is that in both cases donors are seen to 'condition' their assistance.

But to what extent is this state of affairs accurate? Is it really the case that donors dominate Palestinian political life? This article challenges that assumption by studying the relationship between donor and recipient in the Palestinian context through the specific case of the European Commission (EC) and the Palestinian Authority (PA). Particular attention is given to the 2006-07 period when the EC failed to realise its objectives. Indeed, contrary to the assumptions made about donors in the OPT, the EC has not been as successful at imposing its objectives as is sometimes believed. While it has certainly sought to impose its agenda on the political, economic and social dimensions of Palestinian life, it has not completely succeeded in this regard. By analysing the role of aid conditionality, the article accounts for the ways in which the EC appears to have achieved its goals while also illustrating the ways in which it has not. Specifically, the article notes that the importance of structure has been largely overlooked in accounts of why conditionality may fail. The case of the EC and the PA therefore provides a useful account of how this can happen, where despite pursuing its own agenda, the EC found itself undermined in a number of indirect ways.

In examining the relationship between the EC and PA the article notes that in making these observations, the article applies the use of previous scholarship associated with aid and its conditionality. This is presented in the first three sections: the first outlining the nature of EC assistance to the OPT generally; the second presenting the ways that it has sought – and achieved – conditionality; and the third presenting the three main ways that it has not (through recipients, third parties and donors). Through this analysis the article helps challenge the commonly held view that donors are more powerful than Palestinian actors and therefore able to impose their agenda. At the same time, this account arguably overlooks other significant factors which have played their part in constraining donors such as the EC, specifically that of structure. Therefore a fourth section provides details of the structural issues which have prevented the EC from achieving its objectives in relation to the PA. The article subsequently concludes with a plea to recognise that the conventional view of donor strength-Palestinian weakness is too simplistic and emphasises the need for future scholarship on aid conditionality to address the agency-structure dimension in more detail. More specifically, it notes the importance of contingency (through structural constraints) beyond the more commonly identified agency-related ones as an important factor in the realisation (or not) of policy objectives.

### **The EU-PA relationship**

The PA was formed following the signing of the Oslo accords between Israel and the Palestinians' representative body, the Palestinian Liberation Organisation (PLO), with the objective of realising a final agreement between the two sides and including a Palestinian state within five years. As a precursor to a state, a quasi-government for Palestinians residing in the OPT would be established; this became the PA. After its formation, the PA has been the primary recipient of much of the foreign assistance that has been allocated to the Palestinians, beyond that supplied to Palestinian civil society.

Donor assistance is especially important to the PA. Since the beginning of the Oslo process the PA's funding has come from three main sources: internal taxes; taxes and customs revenues on imported products (and administered by Israel); and foreign aid. By far the most



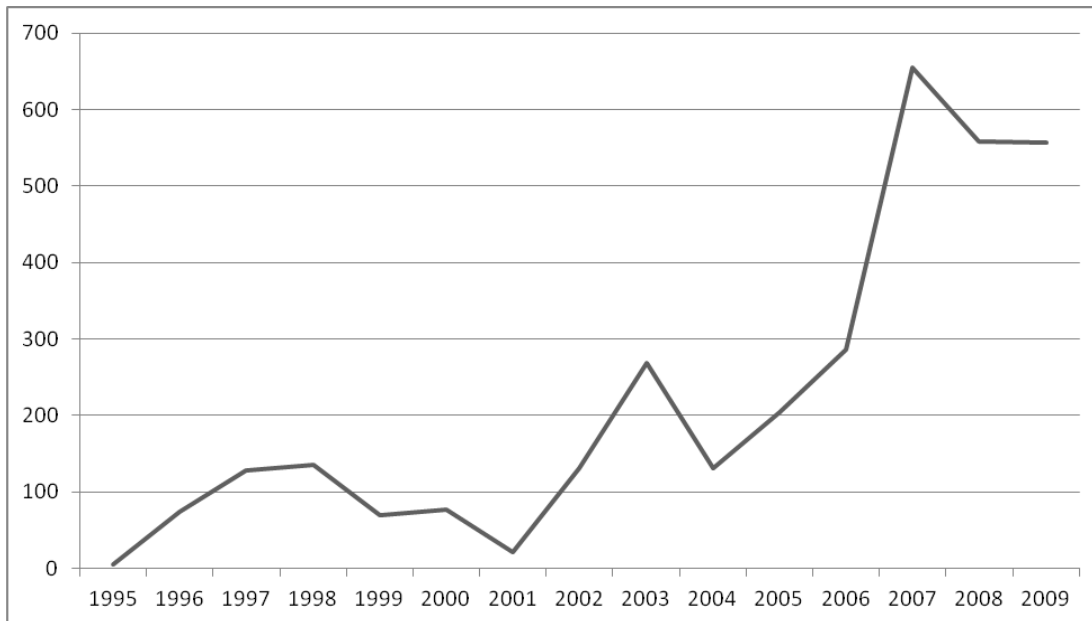
significant is foreign aid, followed by customs revenues/import duties (collected by Israel) and domestic taxes. In 2005 foreign aid totalled \$1.1 billion. Domestic taxes amounted to \$396 million and \$662 million came from clearance revenues administered by Israel. In 2010 the PA's expenses were \$3.29bn and its revenue amounted to \$3.59bn. Of this, taxes made up \$1.82bn of the total while grants were \$1.31bn – almost all of which came from foreign governments and international organisations.<sup>4</sup>

The EC is the executive body of the European Union (EU), an organization made up of 27 European member states. The EC is the EU's executive body, proposing legislation, implementing decisions, and ensuring that the organization's treaties are upheld and managing the day-to-day activities of the EU. Although composed from the different member states it effectively operates as a bilateral rather than a multilateral actor and is based in Brussels.

The EU's relationship with the Palestinians has been in place since 1971, when its predecessor, the European Economic Community, began financial support of the UN's refugee agency, UN Relief and Works Agency (UNRWA), in 1971. The formation of the PA through Oslo and the potential for some self-government in parts of Gaza and the West Bank provided scope for the EC and other actors to pursue a direct relationship with the Palestinian political leadership. In multilateral terms the EC was one of 26 donor countries and international organisations that pledged support to the Palestinian case in the mid-1990s. It has become increasingly relevant within the international donor community on account of it being one of the most important donors to the Palestinians since the signing of the Oslo accords. Indeed, between the start of the Oslo process and the end of the second intifada (between 1994 and 2005), it contributed \$1.17 billion in aid to the Palestinians, equal to 25% of all foreign aid over the period.<sup>5</sup> Since then EC aid has further increased. As Figure 1 illustrates, there has been a surge in documented funds to the PA after 2006; this coincided with the political changes following the Fatah-Hamas conflict and donors' commitment to increase their level of aid to the PA at the Paris donors' conference in December 2007. By 2008-09, the EU and its institutions provided \$601m per year on average, making it second only to the US, which provided support worth \$667m.<sup>6</sup>

3. Mandy Turner, "The Power of 'Shock and Awe': The Palestinian Authority and the Road to Reform," *International Peacekeeping*, Vol. 16, No. 4, 2009, pp. 562-577; Mandy Turner, "Aid and the 'Partners For Peace' Paradigm in the Occupied Palestinian Territory," *Bulletin of the Council for British Research in the Levant*, Vol. 6, No. 1, 2011, pp. 35-42; Raja Khalidi and Sobhi Samour, "Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement," *Journal of Palestine Studies*, Vol. 40, No. 2, 2011, pp. 6-25.
4. Ministry of Finance, "General Government Operations 2010-Table 1," Ramallah: Palestinian National Authority, 2011, <http://www.pmof.ps/news/plugins/spaw/uploads/files/General%20Government%20Operations%202010%20-%20table%201.pdf> (Accessed 1 April 2012); Ministry of Finance, "General Government Operations 2010-Table 2," Ramallah: Palestinian National Authority, 2011, <http://www.pmof.ps/news/plugins/spaw/uploads/files/General%20Government%20Operations%202010-%20table%202.pdf> (Accessed 1 April 2012).
5. MIFTAH (Palestinian Initiative for the Promotion of Global Dialogue and Democracy), *Fact Sheet: The Palestinian Authority's Sources of Funding*, February, 2006, [http://www.miftah.org/Doc/Factsheets/MIFTAH/English/PA\\_Sources\\_of\\_Funding2.pdf](http://www.miftah.org/Doc/Factsheets/MIFTAH/English/PA_Sources_of_Funding2.pdf) (Accessed 19 July 2010).
6. OECD (Organisation of Economic Cooperation and Development), "Aid at a Glance Chart," not dated, <http://www.oecd.org/dataoecd/23/38/1882818.gif> (Accessed 1 April 2012).

**Figure 1:** European Commission assistance to the Palestinian Authority, 1995-2009 (US\$m)<sup>7</sup>



### EC conditionality over the PA

Like other donors, the EC sees its financial assistance to the PA as a means of sustaining the Oslo process and supporting Palestinian socio-economic development and institution-building.<sup>8</sup> Furthermore, as the level of EC assistance to the PA has increased, it has arguably become more influential, by being able to shape and determine the way in which resources are allocated to condition funds towards administrative and judicial reform and greater financial accountability.<sup>9</sup> This conforms to the generally held view that donors tend to be stronger than recipients in aid relationships. Indeed, it does appear to be the case that this asymmetry between donor and recipient is captured in much of the scholarship related to aid. This is particularly so within the scholarly literature where much attention accounts for why donors give aid. Donors may give aid for a variety of reasons, from the altruistic to the self-interested. These include: (1) to address emergency needs in a recipient country; (2) to achieve economic growth and poverty reduction; (3) to show solidarity; (4) to further a donor's own strategic and national political interests; (5) because of historical ties; (6) to strengthen global public goods and reduce the impact of negative global effects; and/or (7) to support human rights.<sup>10</sup> To realise these outcomes (whether self-interested or not), donors may 'tie' aid by requiring recipients to deliver on these objectives. Specifically this can take

7. The data is in constant 2009 US dollars. AidData, "Donor-Recipient Database." November 2011, <http://www.aiddata.org/content/index/Research/research-datasets>, (Accessed 25 March 2012).
8. Anne Le More, "The international politics of aid in the occupied Palestinian territory," *Humanitarian Exchange Magazine*, Vol. 28(November), 2004, <http://www.odihpn.org/humanitarian-exchange-magazine/issue-28/the-international-politics-of-aid-in-the-occupied-palestinian-territory>, (Accessed 1 April 2012).
9. François D'Alancón, "The EC Looks to a New Middle East," *Journal of Palestine Studies*, Vol. 23, No. 2, 1994, pp. 41-51; CEC (Commission of the European Communities), *European Neighbourhood Policy. Country Report. Palestinian Authority of the West Bank and Gaza Strip*. SEC(2004) 565, Brussels, 12 May 2004, [http://ec.europa.eu/world/enp/pdf/country/pa\\_enp\\_country\\_report\\_2004\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/pa_enp_country_report_2004_en.pdf) (Accessed 16 July 2010).
10. Roger Riddell, *Does Foreign Aid Really Work?* Oxford: Oxford University Press, 2008, pp. 91-92.



the form of donors linking their foreign assistance to specific projects where they are able to exercise more influence over the use of aid.<sup>11</sup>

Tied aid – otherwise known as conditionality – has generated considerable criticism within the aid sector among scholars and practitioners alike. Even if done for the most selfless of intentions, it reveals the asymmetrical donor-recipient relationship. The imbalance between the two sides has prompted a reappraisal and a shift (at least among Western and Northern donors) towards ‘decoupled aid’ and a greater emphasis on recipient countries’ priorities rather than those of donors.<sup>12</sup> This rhetoric has been encapsulated at various donor meetings since Rome in 2003 and recommends ‘untying’ aid by stressing poverty reduction, principles of good practice and more partnership between donors and recipients.

In the case of the EC and the PA conditionality is evident. Political considerations have been at the heart of the international donor community’s concerns within the OPT generally, with donors using aid to support the Oslo process and contribute to the social and economic development of Palestinians and institution-building by the PA and Palestinian civil society.<sup>13</sup> Despite this, scholarship has emphasised donor priorities over those of recipients, whether it be the PA or Palestinian society more generally. Specifically, these objections have stressed the dominance of donors over the PA through their focus on security reform, good governance and economic liberalisation on the one hand and the damage done to traditional Palestinian civic life and association as a consequence of donors’ financing of NGOs that promote individual engagement with the PA.<sup>14</sup>

The EC is no different in this regard. Although it has broadly supported the peace process and the establishment of a Palestinian state,<sup>15</sup> it has prioritised – and thereby conditioned – its own concerns. This is apparent through its specific objectives in its relationship with the PA and the search for partners that will work to this end. In terms of goals, the EC has pressed for political and economic liberalisation, both themes which are present in its individual relationship with the PA and in its wider regional relationship with the Middle East and North Africa (MENA). The EC’s drive towards liberalization can be seen as a defensive mechanism resulting from the European Union’s expansion southwards (Spain, Greece and Portugal) and eastwards (Central and Eastern Europe) during the 1980s and 2000s. This expansion brought it closer to the challenges faced by various MENA governments, including insufficient economic growth and largely unrepresentative political systems which have failed to satisfy the region’s societies. This was reflected in increasing (and in many cases, illegal) migration from MENA to

11. Tito Cordella and Giovanni Ariccia, “Budget support versus aid support: a theoretical appraisal,” *Economic Journal*, Vol. 117, No. 523, 2007, pp. 1260-1280.

12. Roger Riddell, *Does Foreign Aid Really Work?* Oxford: Oxford University Press, 2008; Andrew Rogerson, “Aid harmonisation and alignment: bridging the gaps between reality and the Paris reform agenda,” *Development Policy Review*, Vol. 23, No. 5, 2005, pp. 531-553.

13. Anne Le More, “The international politics of aid in the occupied Palestinian territory,” *Humanitarian Exchange Magazine*, Vol. 28(November), 2004, <http://www.odihpn.org/humanitarian-exchange-magazine/issue-28/the-international-politics-of-aid-in-the-occupied-palestinian-territory>, (Accessed 1 April 2012).

14. Benoit Challand, *Palestinian Civil Society: Foreign Donors and the Power to Promote and Exclude*, London: Routledge 2009; Leila Farsakh, *Democracy Promotion in Palestine: Aid and the “De-Democratization” of the West Bank and Gaza*, Birzeit: Centre for Development Studies 2012; Raja Khalidi and Sobhi Samour, “Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement,” *Journal of Palestine Studies*, Vol. 40, No. 2, 2011, pp. 6-25.

15. EU (European Union), *EU/Palestinian Authority Action Plan*, Brussels: European Union, 2010, [http://trade.ec.europa.eu/doclib/docs/2010/june/tradoc\\_146237.pdf](http://trade.ec.europa.eu/doclib/docs/2010/june/tradoc_146237.pdf) (Accessed 1 April 2012).



Europe and – during the 1990s – rising support in the Maghreb for Iraq, especially in response to the sanctions imposed on it after the 1991 war. These issues prompted Brussels to take a pro-active approach to the region.<sup>16</sup> Specifically, the aim was to stimulate domestic economic growth, reduce migration and promote political developments which prevented civil unrest and strife. These goals were institutionalized in the European Mediterranean Policy (1994-2004) and European Neighborhood Policy (since 2004) through which the EC based its bilateral relations with each MENA government. These relationships took the form of an individual Action Plan between the EC and each government. Among the common themes they shared were statements in support of greater economic liberalisation of the domestic economy, increased trade and the realisation of internal stability and order (e.g. through reforms in the judiciary, home affairs and social policy sectors).

In the case of the EC's relationship with the PA, its southward policy coincided with the ending of the second intifada. The Palestinian leadership was in a much weaker position than it had been at the highpoint of the Oslo process in the late 1990s. This meant that the EC was in a stronger position to push its agenda, which was reflected in the various themes set out in its Action Plan with the PA in May 2005. It proposed greater integration through more political cooperation, more trade and deeper economic relations (including a reduction in trade barriers and more economic legislative convergence), more targeted financial support and more PA participation in EC activities (i.e. cultural, educational, environmental, technical and scientific).

EC conditionality was further reflected in the demand that the PA commit to the implementation of the 2002 Quartet Road Map (of which the EU was a Quartet member, along with the US, Russia and the UN) in order to receive additional targeted assistance.<sup>17</sup> The PA acquiesced to these demands, as reflected by its acceptance of the Action Plan. However, it would be wrong to assume that the PA was an unwilling partner: the EC's agenda was shared by the Fatah leadership and its allies (including the current prime minister, Salam Fayyad). They have prioritised themes of good governance, construction of public institutions and economic liberalisation in the three key development and institution-building documents associated with the PA over the past half-decade: the 2007 Palestine Reform and Development Plan, the 2009 Ending the Occupation, Establishing the State and the 2011 National Development Plan.<sup>18</sup>

In developing its Action Plans in the MENA region generally and with the PA in particular, the EC has made use of incentives. This is apparent in the offer of financial assistance based on the goals it espouses. At the same time though, the EC is also prepared to use the stick rather than the carrot in implementing conditionality. In the case of the PA this became apparent in the period following Fatah's defeat and Hamas's win in the 2006 legislative elections when it imposed a boycott on the continued allocation of funds to the PA.

16. Clara Mira Salama, *The Political Aspects of the Euro-Mediterranean Partnership*, Discussion Paper 23, European Development Policy Study Group, 2002; Patrick Holden, *In Search of Structural Power: EU Aid Policy as a Global Political Instrument*, Farnham, UK, Ashgate, 2009.

17. EC (European Commission), *EU/Palestinian Authority Action Plan*, Brussels: European Commission, 2005, [http://ec.europa.eu/world/enp/pdf/action\\_plans/pa\\_enp\\_ap\\_final\\_en.pdf](http://ec.europa.eu/world/enp/pdf/action_plans/pa_enp_ap_final_en.pdf) (Accessed 16 July 2010).

18. Raja Khalidi and Sobhi Samour, "Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement," *Journal of Palestine Studies*, Vol. 40, No. 2, 2011, pp. 6-25; PNA (Palestinian National Authority), *Palestinian Reform and Development Plan*, Ramallah: Palestinian National Authority, 2007; PNA, *Palestine: Ending the Occupation, Establishing the State*, Ramallah: Palestinian National Authority, 2009; PNA, *The National Development Plan: Establishing the State, Building our Future*, Ramallah: Palestinian National Authority, 2011.



The EC's opposition to the new Hamas government was based on the fact that it did not see Hamas as a viable partner. The EC supported the PLO's Fatah leadership and its decision to recognise Israel's existence through its signing of the Oslo accords. By contrast, Hamas refused to join the PLO and opposed Israel's right to exist. Hamas's opposition on both issues challenged the basic tenets of the EC's policy towards the Israeli-Palestinian conflict. In addition, the EC was opposed to Hamas on the grounds that it advocated violence. In 2003 Brussels had classified Hamas as a 'terrorist' organisation which meant that European funds could not be made available to it. The EC therefore responded by withholding its payments and suspending political contact and assistance with the PA government. To force the issue, Brussels pressured the Hamas government to accept the Quartet principles, which was a commitment 'to non-violence, recognition of Israel, and acceptance of previous agreements and obligations, including the Road Map.'<sup>19</sup> The pressure was a vote of confidence for Fatah and arguably contributed to the fall of the Hamas government in early 2007. At the same time, the restart of EC aid to the PA was designed in such a way as to control the use of those funds and avoid it being accessed by those it deemed beyond the pale, like Hamas. This was done by channeling it either to the PA directly or to those companies and individuals that were deemed to be in cooperation and agreement with the PA.<sup>20</sup>

### Undermining EC conditionality

The previous section makes clear both how donors are able to impose their objectives on recipients generally and in the case of the OPT, between the EC and PA. Specifically this entailed the EC adopting a proactive approach in its relationship with the PA, setting out clear objectives (i.e. recognition of Israel and support for the Oslo process and political and economic liberalisation) and finding a suitable Palestinian partner with which to work. However, despite this, the EC failed to realise these aims and lost its Fatah client in 2006-07 as a result of Hamas's election victory. That this happened reiterates the point that donors do not always control aid and condition its use with recipients. Indeed, this assumption does not take into account how different actors – recipients, third parties and donors – may challenge and undermine conditionality.

A review of the scholarship on failed conditionality points to three main ways in which donors may see their ability to impose conditions undermined: by recipients, third parties and donors themselves. First, recipient countries can constrain conditionality through the use of domestic veto players by working against the implementation of donor's favoured policies and programmes or merely paying lip service to a donor's interests.<sup>21</sup> Second, third parties can weaken donors' conditionality. This might include third parties, such as other donors, especially from the global South, who offer assistance without the conditions demanded by

19. Secretary-General of the UN, "Statement by Middle East Quartet." SG/2104 PAL/2042. 30 January 2006, New York, UN Department of Public Information, <http://domino.un.org/UNISPAL.NSF/0/354568cce5e38e5585257106007a0834?OpenDocument> (Accessed 15 July 2010).

20. EC (European Commission), *Implementation of the European Neighbourhood Policy in 2009: Progress report on the occupied Palestinian territory*, SEC(2010) 515. Brussels, 12 May 2010, [http://ec.europa.eu/world/enp/pdf/progress2010/sec10\\_515\\_en.pdf](http://ec.europa.eu/world/enp/pdf/progress2010/sec10_515_en.pdf) (Accessed 16 July 2010).

21. O. Arpac, G. Bird and A. Mandilaras, "Stop interrupting: an empirical analysis of the implementation of IMF programs," *World Development*, Vol. 36, No. 9, 2008, pp. 1493-1514; Bettina Woll, "Donor harmonisation and government ownership: multi-donor budget support in Ghana," *European Journal of Development Research*, Vol. 20, No. 1, 2008, pp. 74-88.

Northern donors.<sup>22</sup> Finally, established donors themselves may face difficulties when acting both individually and collectively. For example, lack of coordination between donors or different strategic interests by donors working together may place recipient countries at a greater advantage when dealing with more than one donor. Bureaucratic structures and incentives may work against donor conditionality, as may donors' view regarding whether a recipient is a strategic concern. Alternately, donors may go against their preferred interests and choose not to enforce conditions, as may happen when there is a humanitarian crisis.<sup>23</sup>

In the case of the EC, its ability to impose its objectives faced a number of challenges. First, the recipient itself has been perceived as problematic by pursuing objectives which went against the EC's own conception of 'good governance', most notably more transparent and accountable public institutions. This occurred both during the highpoint of Oslo during the late 1990s and during the years of the second intifada in the early 2000s. Although the PLO (and therefore the PA) under the leadership of Yasser Arafat had effectively recognised Israel through the Oslo accords, Arafat oversaw a period of growing political authoritarianism and corruption. This undermined the EC's pursuit of good governance. As the situation between Israel and the Palestinians deteriorated in the early 2000s Arafat came to be seen as a liability, especially when he proved incapable of reigning in the violence perpetrated by militants during the second intifada. Increasingly, donors began looking for an alternative, eventually settling upon the more accommodating Mahmoud Abbas after Arafat's death. Abbas was elected president in 2005 but although he received support from the donor community, who hoped he would behave less like Arafat, he was unable to reverse Fatah's fortunes among the Palestinian population; not only was he able to improve their economic situation and incomes, he was unable to bring an end to the occupation. As Fatah's stock declined, that of Hamas rose, resulting in its election win in 2006.<sup>24</sup>

Given its opposition to Hamas, the EC responded to the new PA government by withholding its funds for several months. During this time it looked for alternative ways to redirect assistance to those parts of the PA not in the hands of the new Hamas government, including through Abbas's office, contacts in the legislature, judiciary and other autonomous agencies. However, although the EC's action caused financial hardship to the PA, its employees and their families, it arguably did little to challenge public attitudes towards Hamas who remained generally

22. Ngaire Woods, "Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance," *International Affairs*, Vol. 84, No. 6, 2008, pp. 1205-1223; Sven Grimm, John Humphrey, Erik Lundsgaarde and Sarah-Lea John de Sousa, *European Development Cooperation to 2020: Challenges by New Actors in International Development*, Bonn, European Association of Development Research and Training Institutes (EADI), 2009.

23. James Boyce, "Aid conditionality as a tool for peacebuilding: opportunities and constraints," *Development and Change*, Vol. 33, No. 5, 2002, pp. 1025-1049; Paul Hoebink, "European donors and 'good governance': condition or goal?" *European Journal of Development Research*, Vol. 18, No. 1, 2006, pp. 131-162; Axel Borchgrevink, "Limits to donor influence: Ethiopia, aid and conditionality," *Forum for Development Studies*, Vol. 35, No. 2, 2008, pp. 195-221; Seonjou Kang, "Agree to reform? The political economy of conditionality variation in International Monetary Fund lending, 1983-1997," *European Journal of Political Research*, Vol. 46, No. 5, 2007, pp. 685-721; C. Kilby, "The political economy of conditionality: an empirical analysis of World Bank loan disbursements," *Journal of Development Economics*, Vol. 89, No. 1, 2009, pp. 51-62.

24. Karin Aggestam and Annika Björkdahl, *Just Peace Postponed: Unending peace processes & frozen conflicts*, Just and Durable Peace by Piece working paper series No. 10. Sweden: Lund University, 2011; Azzam Tamimi, *Hamas: Unwritten Chapters*. London: Hurst, 2007; Graham Usher, "Facing Defeat: The Intifada, Two Years On," *Journal of Palestine Studies*, Vol. 32, No. 2, 2003, pp. 21-40; Graham Usher, "The Democratic Resistance: Hamas, Fatah, and the Palestinian Elections," *Journal of Palestine Studies*, Vol. 35, No. 3, 2006, pp. 20-36.



supportive.<sup>25</sup> This was apparent in the fact that EC pressure did not lead to Hamas's immediate fall from government. Furthermore, when it did fall, Hamas's popularity meant that the EC's preferred option of a non-Hamas government was not possible; instead a national unity government was formed between Hamas and non-Hamas members in March 2007. As a result, the EC and the Quartet were obliged to review their position in relation to Hamas; while they maintained that they would continue to suspend direct aid assistance, they conceded that they would be prepared to open dialogue with the more 'moderate' Hamas members in the government.<sup>26</sup> This outcome could be seen as a failure for EC diplomacy; not only was it unable to enforce its opposition to Hamas (as shown by associating the party with terrorism) it was unable to encourage the Palestinian population to share the same opinion. This meant that the EC faced the unappealing prospect of recognizing Hamas government ministers.

In addition to its inability to change society's attitude towards Hamas, the EC was unable to employ any means of persuasion. Because it had no official contact with Hamas's leadership it lacked any alternate means of influence.<sup>27</sup> This was not helped by its determination to divert funds to the PA in such a way that it did not have to engage Hamas officials (and to this Hamas threatened to access alternative sources of revenue to make the EC's funds redundant). As a result, because of a lack of contact, in early 2007 the EC now faced the unpalatable prospect of making peace with what it saw as a terrorist organization if it wanted to retain influence with the Palestinian leadership. That it eventually did not do so was largely through the conflict which soon broke out between Fatah and Hamas, leading to an effective civil war and a political separation of the OPT between Gaza, dominated by Hamas, and the West Bank, controlled by Fatah, by mid-2007. The conflict effectively discouraged any previous willingness to review the EU's ban on direct aid. At the same time though, the removal of Hamas from the PA government in the West Bank made it easier for the EC to re-engage with those parts of the PA controlled by Fatah and its allies.<sup>28</sup> Donors' re-engagement with the Fatah-led PA sought to promote the West Bank and encourage economic development and prosperity and contrast it with the lack of assistance provided to Hamas-run Gaza.<sup>29</sup> This approach aimed to demonstrate to Palestinians the advantages of supporting the donor community and Fatah over Hamas. Despite this though, the social and political pressure unleashed by the Arab Spring has once again arguably undermined this aim of the EC and other donors. Since early 2011 both Fatah and Hamas have been in negotiations and discussion is taking place over the possibility of a new national unity government. This is

25. Scott Lasensky and Robert Grace, "Dollars and Diplomacy: Foreign Aid and the Palestinian Question," United States Institute of Peace Briefing, 2006, <http://dspace.cigilibrary.org/jspui/bitstream/123456789/15206/1/Dollars%20and%20Diplomacy%20Foreign%20Aid%20and%20the%20Palestinian%20Question.pdf?1> (Accessed 1 April 2012).

26. *Haaretz*, "PA Finance Minister to visit Brussels, discuss resumption of EU aid," 29 March 2007, <http://www.haaretz.com/news/pa-finance-minister-to-visit-brussels-discuss-resumption-of-eu-aid-1.216904> (Accessed 17 July 2010).

27. EUCE (European Union Center of Excellence), "Europe's Role in the Palestinian-Israeli Conflict." EU Briefing, March. Chapel Hill: European Union Center of North Carolina, 2008, [http://www.unc.edu/depts/europe/business\\_media/mediabriefs/Brief6-0803-palestinian-israeli-conflict.pdf](http://www.unc.edu/depts/europe/business_media/mediabriefs/Brief6-0803-palestinian-israeli-conflict.pdf) (Accessed 3 April 2012).

28. Benita Ferrero-Waldner, "Middle East Peace Process: occupied Palestinian territory. EP Plenary, EC Statement. Strasbourg." SPEECH/07/324. 22 May 2007, <http://europa.eu/rapid/p r e s s R e l e a s e s A c t i o n . d o ? r e f e r e n c e = S P E E C H / 0 7 / 3 2 4 & f o r m a t = H T M L & a g e d = 1 & l a n g u a g e = E N & g u i L a n g u a g e = e n> (Accessed 17 July 2010); Rory Miller, "Why the European Union Finally Sidelined Hamas," *InFocus*, Vol. 1, No. 2, 2007.

29. Nathan Brown, "The Hamas-Fatah conflict: shallow but wide," *Fletcher Forum of World Affairs*, Vol. 34, No. 2, 2010, pp. 37-51.

currently going on even as Hamas continues to be opposed to the EC's desire for Palestinian partners to accept Israel's existence and the Oslo process. As a result, the EC is once again being made to review its position vis-à-vis Hamas.<sup>30</sup> Moreover, this is happening at the same time that the EC and other Western donors have tacitly supported the Fatah leadership's continued delay of local and national elections, thereby undermining a core component of its good governance agenda (i.e. to build greater transparency and accountability into public institutions).

Second, third parties have also played a part in undermining EC conditionality. They have included donors and non-donors, specifically other Arab countries and Israel respectively. Following its election win and the threat of withheld funds from the EC and other Western donors, the new Hamas government claimed that financial assistance from Arab and Islamic states would help offset the loss. Among the governments which said they would support the Hamas-led PA were Saudi Arabia, Egypt and Iran.<sup>31</sup> Although the decision by Western donors including the EC to halt its financial assistance did ultimately prove costly to the PA, Western policy makers could not be certain that this would necessarily be the case; in the first months following Hamas's election they faced the prospect of significantly diminished influence had they continued their effective sanctions. Meanwhile, in the case of Israel, its actions in relation to the Palestinian political scene in 2006 also created difficulties for the EC, by withholding Palestinian customs duties to the new Hamas government. This deprived the PA of important revenue and obliged donors like the EC to make up the shortfall. And as noted above, in the case of Hamas, the EC has also faced several stumbling blocks towards its agenda.

Third, the EC itself has failed to impose conditionality. This is most apparent in its response to the humanitarian crisis which was a consequence of the EC's decision to withhold funds and thereby deny thousands of public sector workers and dependents of their income. The EC had hoped that by stopping funds to the PA it could put pressure on the new Hamas government. However, this turned out not to be the case. Despite Hamas's claim that the aid boycott would be overcome with support from elsewhere this did not happen. Within months of the sanctions, a quarter of the Palestinian population was at financial risk. Faced with this situation, the EC and other donors were obliged to respond to the damage that their policy was inflicting on the Palestinian population and restart payments, albeit in an indirect way. That the EC and other Western donors did so may have contained the level of public dissatisfaction, directing it against the donors rather than the embattled government. This may account for why the payments sanctions did not lead to Hamas's immediate fall despite the precarious situation it found itself in. Moreover, the EC and other donors found themselves funding a PA for several months whose government they opposed – and had no means of influencing.

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30. AP (Associated Press), "Israel condemns Palestinian reconciliation deal." *USA Today*, 6 February 2012, <http://www.usatoday.com/news/world/story/2012-02-06/israel-palestinian-rift/52986912/1> (Accessed 1 April 2012); Yossi Lempkowicz, "EU's Ashton cautious over Palestinian reconciliation agreement, 'will study the detail'," *European Jewish Press*, 28 April 2011, <http://www.ejpress.org/article/50561> (Accessed 1 April 2012).

31. Esther Pan, "Mideast Unwilling to Cut Off Hamas," Council on Foreign Relations Analysis Brief, 23 February 2006, <http://www.cfr.org/palestinian-authority/mideast-unwilling-cut-off-hamas/p9922> (Accessed 3 April 2012); BBC (British Broadcasting Corporation), "Hamas dismisses Israeli sanctions," 20 February 2006, <http://news.bbc.co.uk/2/hi/4731058.stm> (Accessed 3 April 2012); Christopher Blanchard and Alfred Prados, *Saudi Arabia: Terrorist Financing Issues*, Congressional Research Service Report for Congress, Washington DC: Congress, 2007.





### Structural factors

The previous section has highlighted both the scholarly literature and the case of the EC-PA relationship to show how aid conditionality can be contained. Specifically, they point out the role that particular actors have played in this regard, whether as recipients, third parties or the donor themselves. While such explanations provide a useful account of the blunting of EC conditionality on the PA, they do not provide a full explanation. Indeed, they overlook other non-agent related factors, such as structural ones. These constitute constraints which may be more indirect than agent-related factors. That they are so should not mask the significance of such factors. In this section, several structural factors are pointed out in relation to the EC-PA relationship, which highlight the need for a more nuanced understanding of the range of issues which may undermine aid conditionality.

First – and arguably most significant in this regard – is the Israeli occupation which provides the context in which the EC operates. By ignoring the Israeli dimension, donor-led foreign assistance has largely failed; it has failed to provide a diplomatic strand to the peace process alongside the financial assistance provided since the 1990s.<sup>32</sup> To give but one example, the World Bank regularly reports on the various restrictions on movement and access for Palestinians, which have disrupted the development of the economy in the OPT; but it falls short of blaming the occupation for establishing the framework within which these constraints occur.<sup>33</sup> As a result it does not directly specify why the international donor community's objectives (which are broadly similar to those of the EC) are incapable of being met. Indeed, despite the EC's intention to pursue political and economic liberalisation through its Action Plan with the PA, it has been unable to do so. This is mainly due to Israeli actions which constrain Palestinian capacity, from the creation and expansion of settlements, restrictions on Arab activities in east Jerusalem and curtailment of movement and access in the West Bank.<sup>34</sup>

Second, structural changes were already occurring through the EC's relationship with the PA. While the EC was shaping its regional policy in the Middle East and North Africa, the situation within the OPT was changing. By 2000 the Oslo process was at an end, especially following the outbreak of the Second Intifada. Increasing violence transformed the EC's engagement with the PA from one that was directed towards infrastructure and institution building towards emergency and humanitarian relief. As the PA's largest funder, the shift from the development-oriented Oslo period (1994-2000) to the second intifada in the first half of the 2000s changed the nature of EC financial assistance. This is shown in Table 1 where EC financial assistance during the 1990s was directed towards interventions designed to develop the economy of the OPT, such as the development of infrastructure in the water sector and in agriculture. The second intifada brought Israeli military forces into conflict with the Palestinian militias who supported the armed uprising. The violence had wider consequences on the Palestinian

32. Anne Le More, *International Assistance to the Palestinians after Oslo: Political guilt, wasted money*, Abingdon: Routledge, 2008.

33. World Bank, *The Palestinian Economy and the Prospects for its Recovery*, Economic Monitoring Report to the Ad Hoc Liaison Committee, Number 1, December. West Bank and Gaza: World Bank, 2005; World Bank, *Stagnation or Revival? Palestinian Economic Prospects*. Economic Monitoring Report to the Ad Hoc Liaison Committee. 21 March. West Bank and Gaza: World Bank, 2012.

34. CEC (Commission of the European Communities), *Communication from the Commission to the European Parliament and Council. Implementation of the European Neighbourhood Policy in 2008: Progress report the occupied Palestinian territories*. SEC(2009) 519/2. Brussels, 23 April 2009, pp. 2-3, [http://ec.europa.eu/world/enp/pdf/progress2009/sec09\\_519\\_en.pdf](http://ec.europa.eu/world/enp/pdf/progress2009/sec09_519_en.pdf) (Accessed 16 July 2010).



population, in the form of killings, injuries, destruction of homes and livelihoods. In response to the rising violence, donors like the EC began to change their mode of action; they began to allocate increasing funds towards humanitarian relief in the form of emergency support and food aid.

As the second intifada began to wind down in the mid-2000s, the nature of EC aid did not change; it continued to emphasise humanitarian intervention, which was now combined with providing support for the PA's social services and public finances. The changed composition of EC funding after 2000 was to have consequences, especially in the wake of the boycott imposed on the new PA government under Hamas after 2006. Because the PA had become largely dependent on external aid and especially that of the EC by 2006, the decision to withhold funds from the PA had a profound impact which extended beyond the PA to wider Palestinian society. The PA provided much of the employment available in the OPT given the lack of alternative jobs available. As a result, the EC boycott led to a lack of income for PA employees, who were unable to support their families. Within a couple of months, around a quarter of the Palestinian population was deemed to be facing hardship as a result of donors' decision to withhold funds.

**Table 1:** European Commission assistance to the Palestinian Authority by purpose, 1995-2009 (US\$m)<sup>35</sup>

Purpose	1995-99	2000-04	2005-09
Reconstruction relief	-	-	89.2
Emergency/distress relief	135.7	142.4	228.2
Food security programmes/food aid	30.8	149.6	234.1
Agriculture and rural development	39.3	1.4	1.4
Social/welfare services	51.7	88.2	1436.2
Civilian peace-keeping	-	-	15.6
Security services	-	-	26.4
Water sector	24.6	19.5	1.4
Democratic development and human rights	4.4	31.7	1.5
Culture, recreation and media freedom	-	3.8	0.9
Public sector policy, finances and budget	32.1	149.2	157.4
Transport	8.9	33.3	-
Waste	3.6	5.3	-
Business, SMEs, trade	12.4	39.3	43.6

Third, the EC faces a more recent challenge as a result of the Arab Spring. The political changes that have swept across the Arab world since December 2010 have had repercussions in the OPT, leaving the EC as a bystander. Both Fatah and Hamas have faced pressure to overcome their differences as a result of each losing their external sponsor (Fatah through the

35. The date is in constant 2009 US dollars. The raw data has been aggregated by the author. AidData, "Donor-Recipient-Purpose Database." November 2011, <http://www.aiddata.org/content/index/Research/research-datasets>, (Accessed 25 March 2012).

fall of the former Egyptian president, Hosni Mubarak, and Hamas through the uncertainty surrounding the Syrian regime). Consequently, both faced pressure to reach a deal with the other. This resulted in an agreement between the two sides in April 2011. Throughout the rest of the year and to the present, discussions have taken place on the possibility of forming a national unity government. The changing political circumstances within the region highlight the extent to which the EC is arguably irrelevant at the present moment. Despite Hamas's continued rejection of Israel and the Oslo process, the EC's client, Fatah, has been ready to cut a deal with it. In addition, it arguably shows up the limited achievement of the EC and other Western donors in their 'West Bank first' strategy, to build up the West Bank as an economically vibrant and successful alternative to Hamas-run Gaza.<sup>36</sup> The EC therefore faces the same prospect that it avoided having to address in 2007 when conflict broke out between the two Palestinian factions: having to make peace with Hamas, despite its continued intransigence in relation to EC objectives.

### Conclusion

This article has argued that donors are not always able to impose conditions in relation to aid generally and in the case of the EC and the PA in particular. Although the EC has clear objectives in its approach to the Israeli-Palestinian conflict – i.e. recognition of Israel and Oslo and the pursuit of political and economic liberalisation – it has not been able to realise them sufficiently or effectively with all actors. While it has been able to work with a Fatah client that accepts both demands, the EC has found its aims obstructed by Hamas in government. Moreover, it has found that because of its position in relation to Hamas it is unable to engage and influence it. Therefore, although the EC has been able to pursue the goals of Israeli recognition and support for Oslo in one part of OPT, namely the West Bank with the support of a part of the Palestinian leadership (i.e. Fatah and its allies), the period 2006-07 exposed the limits of its capacity to impose terms. The experience of the EC-PA relationship in the period following Hamas's election victory in and the period between 2006 and 2007 in the OPT is therefore a salutary corrective to the commonly held assumption that donors can direct the political, economic and social direction of the Palestinian people. In many respects, the case of the EC during this period suggests that it was less in control of its relationship with the PA and more a bystander in events happening within Palestinian society and between the two main Palestinian political actors, Fatah and Hamas. When the EC did attempt to influence events, its measures were detrimental, affecting Palestinian society adversely and requiring it to backtrack quickly. At the same time, its pressure failed to change Hamas's opposition to Israel's existence and the Oslo process. As a result, the EC is obliged to face the fact that the Palestinian polity continues to be divided between supporters and opponents of Israel and Oslo and the EC, both of which may be considered to be foundations of the EC's policy in the Israeli-Palestinian conflict.

The EC's failure to realise its objectives in 2006-07 is relevant for reasons which go beyond the immediacies of the case in question. At one level, it exposes the continued relevance of studying and analysing aid and its conditionality. Despite the global rhetoric on ending conditionality, donors have not entirely removed their commitment to tied aid. Contrary to the

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36. Nathan Brown, "The Hamas-Fatah conflict: shallow but wide," *Fletcher Forum of World Affairs*, Vol. 34, No. 2, 2010, pp. 37-51.

global agreements at Rome, Paris and Accra, the EC appears unwilling to completely untie its financial assistance to the PA. As the experience of 2006 showed, the EC was prepared to withhold its funds on the grounds that it did not recognise Hamas as a legitimate political actor. At the same time, the EC's objectives in relation to the PA have remained largely consistent, before and after Hamas's entry into government: namely towards political and economic liberalisation and the establishment of institutions, especially in the security sector and the elimination of corruption. These aims have been evident throughout the EC's relationship with the PA, including its 2005 Action Plan and in its support for the PA's development programmes since mid-2007, (i.e. the PRDP, the Ending the Occupation, Establishing the State programme and the National Development Plan) – but only once the EC's preferred clients, Fatah and its allies – were back in control of a truncated PA in the West Bank. In pursuing these objectives, the EC illustrates a shift noted by scholars that donors may be moving from imposing conditions to being selective, by supporting those recipients who share their aims.<sup>37</sup>

At another level, the case of the EC reinforces the point that despite donors' efforts to pursue conditionality, they do not always work. The article suggests that despite the general assumption that donors are in control of the aid relationship, Palestinians are not completely denied agency. While this is partly redressed, through the study of the different actors who have constrained EC and donor conditions (including Hamas and the PA under Fatah itself before the second intifada), this only accounts for part of the story. Certainly the role that different individuals and groups have is important. But is it not the only one; in addition to agency there is the important part that structure – and its different political and economic forms (e.g. the nature of the Israeli occupation, EC preferences and assistance) – may play.

The form that structure may take – the local political context, the EC's own preferences and actions – mean that the EC is bound to a number of factors which are both within and outside its control. In terms of the latter, the most notable is the Israeli occupation with which the EC and other donors have tended not to engage. Another is the change in the nature of the Oslo process, which has shifted from one of anticipated realisation of a Palestinian state and final settlement to a status quo of continued donor support to the PA. To this may be included the nature of aid itself: as the case of the EC has shown, the composition of its financial assistance has changed over time, from development-oriented projects to humanitarian relief. The result of this was to have profound implications beyond the PA and on wider Palestinian society when the EC decided to withhold funds. Such findings are important not only for scholars, but also practitioners as well. The case of the EC illustrates the fact that despite demands for change and pressure to realise it, without reflecting on what the direct and indirect consequences of those actions may be, a policy decision may just as easily contribute to failure as it may do towards its intended outcome. Consequently, further investigation of the various factors which may contribute to such policy failure (whether within the Palestinian context and among other donors who operate alongside the EC or in other conflict settings) would do much to shed light on such matters.

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37. James Boyce, "Unpacking Aid," *Development and Change*, Vol. 33, No. 2, 2002, pp. 239-246; James Boyce and Shephard Forman, "Financing Peace: International and National Resources for Postconflict Countries and Fragile States," Political Economy Research Institute, Working Paper No. 238, 2010.

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