

# Aid Coordination and Post-Conflict Reconstruction: the West Bank and Gaza Experience

**W**ITH THE KOSOVO CRISIS CAPTURING THE world's attention, taking a look back at how the World Bank and the international donor community responded to other post-conflict reconstruction and aid coordination challenges in places such as the West Bank and Gaza is both timely and instructive. Where relevant, comparisons will also be drawn with Bosnia-Herzegovina.

## From Unilateralism to Multilateralism

In the post-World War II era, post-conflict reconstruction was primarily a unilateral undertaking. From 1948 to 1952, one donor, the United States, financed the \$13 billion (approximately \$70–\$80 billion in today's dollars) Marshall Plan for the reconstruction of post-war Europe, and provided for its security through the creation of the North Atlantic Treaty Organization (NATO). In the Middle East, one donor, again the United States, helped to broker and secure the first major Arab-Israeli diplomatic breakthrough in 1979 with the Camp David peace agreement between Israel and

Egypt. Thus, a single donor essentially guaranteed the basic economic and security requirements of the two former combatants; American aid has amounted to \$5 billion annually—\$2 billion to Egypt and \$3 billion to Israel—for every year since the signing of the accords.

Much has changed in the past 20 years. Multilateral economic, political, and security alliances are increasingly being forged to solve the world's problems. In contrast to the earlier days when one large, committed donor provided across-the-board assistance, today no single actor can afford to do so. Also, given the growing number of post-conflict



situations around the world and the enormity of the rebuilding task in each case, the job has simply become too big for any one country or organization to manage. Fortunately, there are many international actors ready and able to aid post-conflict entities. In this context, aid coordination has become a critical factor in managing post-conflict reconstruction.

### Three Pillars of Peace

Historically, one aspect of successful post-conflict rebuilding has not changed; that is, the necessity for three interdependent and mutually reinforcing pillars—political, economic, and military—to support and consolidate the peace. The absence, neglect, or deterioration of any one of these three pillars is inevitably detrimental to the health and survival of the entire peace process. Just as a strong economic recovery cannot be built on a fragile peace, a strong peace cannot be built on the basis of a fragile economy.

### The Politics of Multilateral Reconstruction and Aid Coordination

These large, diverse, and often unwieldy multilateral alliances present a host of new opportunities and challenges in post-war reconstruction. While the new alliances have helped to assure the requisite funding for post-conflict needs in times of tight budgetary constraints, they have also resulted in enormously complicated reconstruction and aid coordination processes. In the case of the West Bank and Gaza, 50 bilateral and multilateral donors are active, while in Bosnia-Herzegovina, the number has soared to over 60 donors. Also, more than any other kind of development effort, post-conflict situations have brought together an unusually wide-ranging group of economic, political, and military actors: bilateral and multilateral donors, NGOs, military/security forces, civil society, religious authorities, the private sector, the diplomatic corps, and the media.

Multilateral alliances are alternatively driven by cooperative forces, and rent apart by competitive ones. On the cooperative side, economic, political, and security partnerships have created an unusual and complex nexus of interrelationships and interdependencies. Donors also recognize that dwindling overseas development assistance and increasing demands for donor funding on the part of the



Photo by Barbara Balaj.

Temporary port at Gaza, 1994.

developing world, emerging economies, and post-conflict entities dictate that all resources be deployed and leveraged for maximum development impact.

On the competitive side, motivations often vary widely among donor countries, bringing to bear different historical legacies in relation to the post-conflict entity/region, domestic political and commercial pressures, larger geopolitical/strategic considerations, and country/bloc competitions and rivalries. For the multilateral institutions, membership and mandate are the determinants of policies and programs, not to mention constraints. Furthermore, donors bring to the table varying levels and kinds of economic assistance, including attendant political and economic conditionalities.

In contrast to earlier times, when the key economic and political players were one and the same, the major economic donor and political broker are separate—for example, the European Union (EU) and its member states are the major donor in the West Bank and Gaza (and Bosnia), while the United States is the major political broker. This additional bifurcation of power has led to competition for the leadership of the post-conflict reconstruction and aid coordination efforts. Burden-sharing has also emerged as a key concern, with the EU calling for more equitable burden-sharing among donors, especially Europe, Japan, the Gulf States, and the United States.

### Battles for Aid Coordination Leadership

As the primary economic donor, the EU has sought a greater leadership role in aid coordination, particularly with respect to the Ad-Hoc Liaison Committee (AHLC), a special apex political-economic coordination body cre-

ated to deal with the policy matters pertaining to reconstruction in the West Bank and Gaza. As the major donor, the EU has expressed its wish for a leadership role commensurate with its contributions, and in “complementarity” with the United States.

### But Who Leads?

Who should lead the aid coordination process in the West Bank and Gaza? Traditional wisdom says that the aid recipient should be in the driver’s seat. But realities presented a far different picture in the West Bank and Gaza. Chairman Arafat and the PLO had to transform themselves from an outside revolutionary movement into an internal civilian governing authority through the creation of a new Palestinian Authority. Growing pains were strong and learning curves steep; Palestinian institutions had to be created from scratch, and new ministers appointed to oversee unfamiliar tasks. The Palestinian Authority, at least in the early years, was simply not prepared to take a leadership role in aid coordination.

The optimal solution may be to work toward joint donor-Palestinian leadership of aid coordination. With the large financial sums being sought and the unusual nature of some of the demands being placed on the donor community, it is unlikely that donors will play second fiddle in aid coordination. With so many vested historical, national, economic, commercial, and political interests in this very high-profile hotspot, it is unrealistic to expect that donors will eventually cede the lead role solely to the Palestinians. As the Palestinians have increased their economic, technical, and institutional capacity, however, they have begun to play a leadership role at the local aid and sector coordination levels. They have also begun to have more input at the international level, and may eventually enter into a formal overall joint leadership role with the major donors.

### Key Ingredients of Successful Post-Conflict Reconstruction and Aid Coordination

#### *Early and Coordinated Involvement of Main Reconstruction Actors*

Before the peace agreements, early and coordinated involvement of the main reconstruction actors was key. In the West Bank and Gaza, the World Bank produced, in cooperation with other donors and the Palestinians, a major series of reports that provided the first authoritative and comprehensive review of the economy and its reconstruction/rehabilitation requirements. This enabled the Bank and the international community to quickly mobilize funding and help jump-start the reconstruction effort at a critical historical juncture, shortly after the signing of the Oslo peace accords. In the case of Bosnia, the Bank was actually present at the Dayton negotia-

tions, helping to design the economic aspects of the final peace accords—perhaps setting a precedent for a new Bank role in the economics of conflict resolution.

#### *Reconstruction Should Be Multidimensional and Multisectoral*

Reconstruction assistance to post-conflict entities is not only about infrastructure. It is about rebuilding institutions and fostering societal reconciliation. In the West Bank and Gaza, donors contributed to a wide range of activities, including support for the affected physical infrastructure sectors; institution-building; technical assistance; support for democracy and elections; funding for NGOs; funding and in-kind assistance to the newly created Palestinian Police Force; and budgetary start-up and recurrent costs for the new Palestinian administration. In Bosnia, donors also supported balance of payments needs, debt relief, demining, and demobilization of soldiers.

#### *Need for Explicit Economic-Political Linkages*

In dealing with post-war reconstruction, economic and political processes must inform each other. New overarching and integrated economic and political coordination mechanisms, such as the AHLC, have emerged to deal with the challenges of post-conflict reconstruction in the West Bank and Gaza. In Bosnia, by contrast, new but *separate* political and economic mechanisms emerged, resulting in a greater disconnect between these two pillars of the peace process. Thus, political discussions took place without economic context, and economics was informed by politics after the fact.

#### *Consult and Involve All Stakeholders*

Donors should consult and involve all Palestinian and foreign stakeholders from the very beginning of the peace process. This includes a wide range of domestic and international actors and groups: civil society, NGOs, the Diaspora, the private sector, the media, the opposition, Palestinians who remained “inside” during the conflict, key internal and external political players, neighboring countries such as Israel and Jordan, local police, international security/peace-keeping forces, and so forth.

Peace treaties also paper over many profound conflicts. In Bosnia, the stakeholder problem was manifested at all levels of government, where it could not be assumed that decisionmaking authority was necessarily vested in a given officeholder. Therefore, the Bank and other donors needed to develop a participatory approach inclusive of government officials, all ethnic groups, political parties, NGOs, the private sector, and the like. In short, all parties to the conflict need to become part of the peace.

These integrative efforts were, for the most part, useful and effective. But there were problems in the initial adjust-

ment to local conditions, and in the timeliness of consultations and involvement of all stakeholders, given the rapidly changing political/economic/security environment characteristic of post-conflict entities. Several donors had difficulties in dealing with some local and regional stakeholders because of their differing historical, national, and other interests in relation to these areas.

### *Tripartite Understandings*

An innovation was created as part of the West Bank and Gaza aid coordination process—that is, the drafting of Tripartite Understandings among Palestinians, Israelis, and the international donor community—wherein each of the parties agreed to a host of respective responsibilities and actions. These were politically unique and consensual aid coordination and conditionality documents. They provided transparency through dialogue and debate on an array of sensitive and complex economic, political, and security issues. These understandings also contained very specific and detailed benchmarks and timetables that all three parties could work toward, and against which progress could be monitored. Although some progress has been achieved in a variety of areas, enforceability of the understandings remains problematic.

Despite these enforceability shortcomings, such donor-aid recipient understandings could usefully be adopted in other post-conflict situations as well. They help to focus the international community's attention on the most pressing problems, and to set goals and timetables for resolving them. In addition, they help to open up and improve communications about the respective roles and responsibilities of the parties involved in reconstruction and aid coordination.

### *Need for New Kinds of Donor Coordination Mechanisms and Procedures*

Post-conflict reconstruction and aid coordination is definitely not business as usual. In addition to the traditional kinds of donor and Consultative Group meetings, new aid coordination groups—such as the AHLC, the Coordinating Committee for Assistance to the Palestinian Police (COPP), and local aid and sector coordination groups—are necessary to deal with the special post-conflict challenges.

New kinds of mechanisms may also be needed to provide funding for some of the unique demands of post-conflict reconstruction. For example, in the West Bank and Gaza, a special Bank-administered, multilateral Holst Peace Fund was created to funnel donor contributions to start-up and recurrent budgetary expenditures for the new Palestinian administration. The Holst Fund eventually became a conduit for donor-funded emergency job creation initiatives to deal with the socioeconomic impact of closures. A special donor group and

## **Transparency, Accountability, and Corruption in Post-Conflict Entities**

**CORRUPTION—A KEY CONCERN IN VIRTUALLY all countries—represents a far more serious challenge in post-conflict situations. Issues of governmental accountability, transparency, and corruption take on heightened significance in post-conflict entities, because large amounts of donor funds flow through nascent polities composed of weak or even nonexistent institutions; a leadership and political class often lacking in political legitimacy, moral credibility, and/or administrative competence; and a weak technocratic cadre, without essential economic and financial management skills.**

Donors have opted to deal with corruption in a variety of ways. In creating the Holst Fund, donors used built-in auditing controls and other checks and balances to prevent misuse of their funds. Many donors also opted to “go bilateral”—that is, to self-implement their projects to eliminate concerns about good governance and corruption. Some donors initiated international competitive bidding for procurement to stem problems of bid inflation and internal collusion. Finally, the best way for donors to deal with corruption may be to support local institution-building and provide technical assistance for better internal regulations *from the very beginning* of the reconstruction process. The cost of such assistance is miniscule in comparison with the overall reconstruction effort, while the rewards are potentially very great for donor and recipient alike.

### *The Real Source of Corruption in Post-Conflict Entities*

Because controls were tight, there was relatively little abuse associated with donor funds in the West Bank and Gaza and Bosnia. The real source of corruption in post-conflict entities appears to lie in the misuse of domestic revenues, direct cash transfers (made on the side by donors and/or the Diaspora), customs revenues, taxes, and monopoly rents. These revenues have been held “off-budget,” and have been used to support political patronage, military/security forces, and other activities that the international donor community cannot—or will not—finance.

fund was also created to help support the establishment of the Palestinian police. These new flexible financing mechanisms were a key element in successfully addressing some of the unique and ever-changing challenges and priorities peculiar to post-conflict situations.

Finally, new kinds of donor procedures and mechanisms are needed. Aid recipients would like to see all donors adopt more flexible and faster-paced project pro-

### Donor Pledges of Assistance to the West Bank and Gaza, 1993–98 (millions US\$)

Algeria	10	Germany	355	Russia	4
Arab Fund	150	Greece	28	Saudia Arabia	208
Australia	13	International Finance Corp.	70	Spain	147
Austria	25	Ireland	7	Sweden	95
Belgium	39	Israel	75	Switzerland	90
Brunei	6	Italy	156	Turkey	54
Canada	43	Japan	312	United Arab Emirates	25
China	15	Jordan	20	United Kingdom	128
Denmark	50	Korea	15	UNDP	12
Egypt	17	Kuwait	25	United States	500
European Investment Bank	300	Luxembourg	11	World Bank Group	320
European Union	421	Netherlands	154	World Food Programme	9
Finland	13	Norway	244	Other donors	2
France	80	Qatar	3	<b>Total pledges</b>	<b>4.2 billion</b>

Source: Palestinian Ministry of Planning and International Cooperation (MOPIC) estimates.

cessing and implementation, as well as special procurement and disbursement procedures, to help ensure the speedy delivery of peace dividends. Aid recipients would also prefer that donors provide more untied aid and support for local institutions, contractors, workers, and services. This is particularly crucial in post-conflict societies, where high levels of unemployment tend to be both endemic and chronic.

#### *Multilateral Donor Coordination Is Paramount*

The consequences of donor fragmentation, lack of coordination, and bilateral or side dealings are potentially very detrimental to the post-conflict entity. Fragmentation can lead to sectoral mismatches and bottlenecks. It also puts pressure on weak and overburdened post-conflict authorities and institutions. Bilateralism can frustrate good macroeconomic management and open the door to corruption. Finally, donor fragmentation can potentially lead to political and economic exploitation of internal divisions within the

post-conflict entity, and vice versa—aid recipients may use donor fragmentation to their own advantage.

#### *Peace Dividends*

Peace dividends are not guaranteed. They depend on good aid coordination, the strength of the political and military pillars of the peace process, and the revitalization of the local economy. Peace dividends were not forthcoming in the West Bank and Gaza because there is no peace yet. In this sense, it is not a true post-conflict entity because no final peace treaty has been reached. The situation may best be characterized as one of no peace–no war. Thus, weaknesses in the political and security pillars, and the attendant reorientation of donor funding to support recurrent budgetary costs and emergency job creation, meant that peace dividends were elusive. By contrast, with all three pillars more or less on track in Bosnia, the country has achieved some peace dividends, although much remains to be done.