

The Impact of Foreign Aid on Economic Growth in Palestine: An Empirical Evidence

ABSTRACT

This study examines the impact of Foreign Aid on Economic Growth in Palestine by considering time series data of the last twenty years from (2000-2019). Foreign Aid's impact on the Palestinian Economy explored with the Gross Domestic Product (GDP) as the dependent variable against few selected independent variables such as Foreign Aid, Remittance, Investment, Labour Force and Lagged (GDP). The study used a partial Adjustment Model to analyze the impact of Foreign Aid on Economic Growth and further applied the Chow Test to examine whether there is a Structural Breakthrough in the Economy. The results indicate that Foreign Aid has a positive relationship with (GDP). However, the relationship is not significant since the higher volume of Foreign Aid used in humanitarian and Social Welfare rather than Production Activities in the real sectors. From the Chow Test, it found that Foreign Aid (GDP) relationship has not undergone a Structural Breakthrough in Palestine over the last twenty years' period. In light of such empirical findings, it suggested to the Government Policy-Makers to allocate the Foreign Aid on Productive Sectors and Human Capital (HC) formation activities with a special focus on capital expenditures to achieve the high rate of Economic Growth and Development to meet the periodic plan and Long-Run Development Objectives.

Keywords: *Foreign Aid, Remittance, Investment, Labour Force, Partial Adjustment Model, Economic Growth, Human Capital, Palestine.*

JEL Classification: *E44, F21, F35, F36, F41, G17, O16*

1. INTRODUCTION

Foreign Aid to Developing Countries has an important source of Development Finance in the form of Grants, Concessional Loans for Development Projects, and assistance for meeting humanitarian needs and emergencies for more than half a century.

Over the last (60 years), Donors have provided more than (\$2.3) trillion amount of Foreign Aid to Poor Countries for their developmental activities. Since after getting such huge significant amount of Foreign Aid, nearly (3) billion people still live on less than (\$2) a day; (840) million are suffering from hunger, (10) million children die from various kinds of preventable diseases and 1 billion adults are still illiterate (World Bank, 2010).

Moreover, Palestine is one of the Middle East countries most supported by the Donors Countries, with an estimated population of (5.1) million in (2020) and a Growth rate of (1.6) per cent annually. Palestine is a predominantly youthful rural, rural community, with (61%) of them mainly living in densely populated villages (PCBS, 2020).

Besides, the Palestinian Economy is considered a livelihood Economy that depends heavily on Agriculture, local and light Manufacturing Industries, which in turn depend on the Fluctuations of Nature. More than (62) per cent of the population depends on this Agricultural and Industrial Sector to earn their livelihood, in addition to Government

Employment. Agriculture accounts for nearly half of the Gross Domestic Product and more than (77) per cent of export earnings.

However, the share of Agriculture is declining steadily at present, while the share of the services sector in Gross Domestic Product has been on the rise in recent times. On the other hand, the share of the Manufacturing Sector is relatively stable and ranges (22-26) per cent only (MoNE, 2020).

Moreover, the amount of Foreign Financial Aid provided to Developing Countries in general and Asian and African Countries, in particular, has been increasing from time to time. In Asia, the share of Official Development Assistance (ODA) in Gross Domestic Product has increased significantly over the years, increasing dramatically from (1.3) per cent in (2000-2005) to (2.6) per cent in (2010-2011) to (7.6) per cent and in (2012-2013) it reached to (11.2) per cent in (2015-2016) (World Bank, 2020).

Besides, the share of Foreign Aid in (GDP) increased to (26%) during the (2017-2020) fiscal years. In Palestine, the Economy's high import intensity, limited capacity to produce Capital Goods, low levels of Domestic Savings and limited capacity to generate Foreign Exchange make Development Efforts exceed Domestic Capacities, all of these factors seemingly providing an objective justification for the massive influx of Foreign Aid.

Palestine has been one of the Aids receiving country Aid for more than (60 years) through Foreign Governments, World Bank, Multilateral Agencies and (INGOs), collectively referred to as external developmental partners (EDPs). (EDPs) have been involved in Palestine's Policymaking, Program Design, and Implementation in a range of areas, among the Middle East Countries, Palestine is one of the highest Aid receiving nations (MoNE, 2020).

During the period (2000-2019), Foreign Aid to Palestine, as a percentage of the (GDP), averaged (8.68%) higher than that of Jordan and Syria, Lebanon who received (3.06%) and (2.09%) respectively during the same period. Despite the constant Flow of Foreign Aid and decades of Aid-Financed Development efforts in Palestine, it remains one of the Poor Countries in the world, with a per capita income of about (\$752) and almost (23.8%) of the total population living in absolute poverty (MoFP, 2020).

A casual observer of these facts could easily conclude that Foreign Aid to Palestine has not been effective, though they would not be able to say what would have happened in the absence of Aid. Moreover, the key question that both the Donor and the recipient countries need to address is whether Aid has any effect on the Economic Growth of Developing Countries. Given the record of over (60 years), trillions of the amount of Foreign Aid provided from Donor Countries (Fatima, 2014).

However, its impact on Economic Growth said to be negligible compared to those large sums of Aid Inflows. This issue approached from various perspectives; nevertheless, a single and definite answer still does not exist. Therefore, it is important to note the amount and type of Financial Aid that affects the effectiveness of available funds.

The literature on the Impact of Aid on Economic Growth is mainly found in the cross-sectional analysis of Developing Countries. Besides, Most of these cross-sectional analyzes indicate that the Growth effects of Foreign Aid differ for different countries that indicated the need for a pilot study for each country (Elayah, 2016).

In particular, in the Palestinian cause, the number of studies conducted to date is limited in number, scope and time, which require further studies. Hence, this study will attempt to study the Growth effects of (ODA) by using a Growth Model for a Multivariate Co-integration Analysis. On a large scale, this study aims to assess the effectiveness of Foreign Aid in promoting Economic Growth in Palestine (PCBS, 2020).

Specifically, this study tries to determine whether or not there are restrictions on the absorptive capacity of the Economy with the Flow of Foreign Aid.

Besides, it also attempts to determine whether the effectiveness of Foreign Aid depends on Global Policy or not and to determine the real Impact of this Foreign Aid on Palestinian Economic Growth.

2. LITERATURE REVIEW

In the global context, they assessed the impact of Foreign Aid on (68) Developing Countries throughout (1970-1993) and observed Foreign Aid has some positive impact on growth depending on the macro policy environment (Durberry, Gemmell & Grenaway, 1998).

Argued that not much evidence established to support the belief that Direct Foreign Assistance (DFA) to countries with good (Policy) will increase the impact on growth or poverty reduction in Developing Countries (Ram, 2004).

The study revealed that Foreign Aid is beneficial to the Economic Growth of Developing Countries but the immediate and overall impact of Aid on growth differs in terms of magnitude.

He measured the Development using the Human Development Index (HDI) of (120) countries with (HDI) value less than (0.800) in the year (2001) (Lohani, 2004).

Explored the aid growth relationship in the Macroeconomic level of (48) Developing Countries covering the period (1970-1998) (Moreira, 2005).

A similar study was conducted by (Chheange, 2009) on (67) Developing Countries by using panel data from (1986-2005) and concluded that Aid has no positive effect on Economic Growth, however, it is positively related to corruption.

The findings revealed that Foreign Aid has a negative relationship with Development. The findings rather indicated that Foreign Direct Investment (FDI) and Domestic Investment plays a significant role in Development Countries.

She found that Foreign Aid; neither at the aggregate level nor disaggregates level; influenced Economic Growth in Syria. Pant (2016) assessed the contribution of the European Union and USA Aid to the Palestinian Economy. It concluded that the overall contribution of Foreign Aid in Palestine was positive; however, less effective in aggregate (Fatima, 2014).

The study found that Aid has a significant positive impact in Jordan insignificant Impact in Lebanon a significant but negative impact in Syria. Besides, in a regional context, empirically examined the Impact of Foreign Aid of (25) Sub-Saharan African countries throughout (1970-2012) through the fixed effect panel model.

The findings indicated that Aid has a significant positive Long-Run Impact on per capita (GDP) of Sub-Saharan African Countries (Tait et al., 2015).

Besides, this study found that Aid in the form of the Grant found to be more effective in the Middle East Region, he examined the Long-Run causal relationship between Foreign Aid and Economic Development (Sahoo, 2016).

Financial Aid plays an important and effective role in the process of Economic Growth in the State and is based on Achieving Economic Recovery most of the times and raising the growth rates of the local economy of the state, and he explained that it is through that assistance that the state can raise the efficiency of Financial Policies and estimated budgets for the state and this leads to increased Economic Prosperity in the state and a significant Modernization of its economy in the field of work in most of the country's economic areas, it reduces Unemployment and reduces the rate of Economic Depression, and works to increase Gross Domestic Product (GDP) and support national exports in the current circumstances and at present, and works to improve competencies within the state and raise their level and support and improve the National Economy in a good and discreet way (Badwan, 2017).

They illustrated the effects of Foreign Aid and Financial Flows that come in the form of Financial Flows and their impact on Economic Growth through the use of a (Cognitive

Modeling) methodology to find out the effect of Capital Movement which is in the form of Foreign Aid, and this study that was previously published and a methodology knowledge presentation modelling confirmed the effectiveness of factors that affect Economic Growth. The most important of which is the movement of Financial Capital and Financial Flows in the form of Foreign Aid, and they specifically used this to develop new recommendations for Decision-Makers regarding Foreign Aid, Financial Flows, Capital Movement, and their impact on the Economic Growth of the country, the (Cognitive Modeling) has proven its effectiveness and credibility using statistical graphs, charts and scenarios that clarify the variables and values that have been inferred through the process of the movement of this Foreign Aid and its Impact on Economic Growth, the impact of capital and other factors common to each other in Economic Growth and Development (Gorelova & Badwan, 2018).

They have shown the positive impact of Foreign Direct Investment (FDI) on Economic Growth while few others have shown negative impact or no impact at all on growth. The debate on the relationship between Foreign Aid and Economic Growth has drawn great attention for years. For instance, several studies are available on the role of Foreign Aid on Economic Development in the international context (Phuyal & Sunuwar, 2018).

He pointed to the impact of Financial Capital and International Capital Flows, and also included the effect of Foreign Aid on the Palestinian Economy, if these Financial Flows and Foreign Aid and its movement in different directions inside and outside the country lead to clear Economic Progress and Economic Growth, the Foreign Aid plays an important role in the Economic Growth of the country, so that this Foreign Aid affects the National Economy and is a strong reason for the Palestinian Economic Renaissance at the National Economic level in general, and it supports the state's Government Budget, and it consists of several forms, the most important of which are Foreign Direct Investment (FDI) that in turn leads to achieving rates Economic Growth in the country and develops its economy and strengthens its rules, and also studied a new methodology for the movement of Financial Capital in the form of Foreign Aid from Donor Countries, besides, this methodology allows (Cognitive Modeling) learning and proving the impact of Financial Capital, Foreign Aid and other factors that affect the Economic Growth of the country (Badwan, 2019).

They explained with the proposed tools for Economic and Financial Problems and Development of Economic in Palestine, social strategies through theory and practice of operations, direct application, that the choice of policies for Economic Strategies for the optimal use of Foreign Aid, and the Aid of Donor Countries is an important economic factor, if they do not, it may effect on the direct skills on Economic Growth in general, and it is known that measuring the efficiency of the Economic Strategy against the efficiency of the Government itself determines the extent of the Impact of this Aid on the growth of the country's economy, if the Government tests and evaluates the tools used to address and reduce the Economic Problems that negatively affect the country's economy, strategies and Economic Tools, the proposed reduction in social and Economic Problems, as this is considered one of the most important elements of Economic Growth and the continuity of internal Economic Prosperity (Badwan & Atta, 2020).

Studied and clarified the Impact of Financial Flows and other Financial Aid from Donor Countries on Economic Growth in Palestine in general, if this is explained and demonstrated in his study (Badwan, 2020).

Donors reported as losing confidence in Palestine because of political interference and corruption in poverty relief efforts as well as the country's poor capacity to utilize Aid.

Foreign Aid and Grants may impose many undesirable terms and conditions while Foreign Loans considered a burden for future generations. Besides, they crowd out the trade sector of the Economy (Christina Pradhan & Ram Kumar Phuyal, 2020).

Besides, this shows that Foreign Aid in terms of Grants and Loans treated as a free lunch, neither affecting Economic Growth nor supporting for raising the living standard and/or maintaining equity among the people. However, there are several challenges to sustain the current trend of Economic Growth. The high dependency of Economic Growth on timely and adequate on many factors such as a country's vulnerability to terms of Trade and Similar External Shocks are structural constraints facing the Economy.

3. OBJECTIVE OF THE STUDY

The prime and general objective of this study is to analyze and reveal the Impact of Foreign Aid on Economic Growth and Development in Palestine for the period (2000-2019) through quantitative and qualitative analysis of data as well as using the basic variables directly related to Foreign Aid and that have a strong impact and relationship on Economic Growth, empirically investigate the Long-Run and Short-Run Impacts of Foreign Aid on Economic Growth.

4. METHODOLOGY

4.1. Model Specification

The theoretical foundation of the proposed study based on a Growth Model, which considers GDP (Output) as a function of Capital and Labour, i.e.

$$GDP = F(K, L, t) \quad (1)$$

This is an aggregate production function, which considers output as a function of Capital (K) and labour (L). Therefore, Capital can come from different sources as Remittance, Investment, Foreign Aid, and lagged (GDP) while Labour comes from the Labor Force. The inclusion of time t in the model represents the shift in the basic production function that changes over time i.e. $t=1, 2, 3, 4$.

The selection of these Macroeconomic variables also based on the literature reviews and availability of the reliable data set in the published sources.

The model specification of the study involves stock Adjustment, which facilitates to estimate of the speed of Adjustment in (GDP) and, short and Long Run elasticity.

The model indicates that the desired level of (GDP) reached actual (GDP) and some fraction of change known as the speed of Adjustment.

Introducing Lagged (GDP), as an independent variable in the model will help to estimate the short and Long-Run Impacts of the variables and the speed of Adjustment meaning Adjustment of actual (GDP) to the desired level of (GDP) by some factor say (λ).

The value of (λ) should lie between one and zero (0).

The process will help to examine economies of scale of the use of resources.

The regression model can be written as:

$$\begin{aligned} \text{Log (GDP)}_t = & b_0 + b_1 \text{Log (Aid)}_t + b_2 \text{Log (Inv)}_t + b_3 \text{Log} \\ & (\text{Lab})_t + b_4 \text{Log (Remit)}_t + b_5 \text{Log GDP}_{t-1} + \dots + U_t \end{aligned} \quad (2)$$

The coefficient of Adjustment is obtained from (b_5), which entails ($1-\lambda$), its value normally ranging between (zero and one) (0; 1). The estimate of (b_1) is Foreign Aid, (b_2) is an Investment, (b_3) is Labour Force, (b_4) is Remittance Inflows; (λ) is the speed of Adjustment.

The Long-Run impact in all cases obtained by dividing the estimated (b 's by λ).

The Adjustment coefficient determines the relationship, which should exist between the short and Long-Run impacts.

4.2. The Data Sources

Most of the studies are taking a short period for empirical analysis. In the case of annual time series data, minimum (10-15 years) data should consider to capture the appropriate Long-Run trend among the variables. Therefore, this study aims to understand the status of Foreign Aid based on the past (20 years) of data available, i.e. from (2000-2019).

Since this study based on secondary data sources, the Economic surveys published by the Ministry of Finance and Planning (MoFP) and Ministry of National Economy (MoNE), the Palestinian Central Bureau of Statistics (PCBS), annual and financial reports of Palestine Monetary Authority (PMA) from the year (2000-2019) are selected. All the relevant data for the study was available after the year (2009) thus, the sample period starts from this year.

5. DATA ANALYSIS AND DISCUSSION

The production function, which establishes the relationship between output and input, has been the basis for measuring the Impact of Foreign Aid received at various point in time. In addition to Foreign Aid¹, other input variables included in the function are Remittance (Remit as the indicator of Workers' Remittances), Investment (Investment as the indicator of Total Investment and/or Gross Fixed Capital Formation), the Labor Force (Lab as the indicator of the age group of (10-20 years age group) as economically active population), and Lagged (GDP) (GDP_{t-1} indicator of a lag of one year). All the variables have been converted into real values (constant prices year (2006-2007) =100).

After the process, the values of the variables converted in their logarithmic forms. As per the theoretical foundation, (GDP) considered as the dependent variable whereas all other variables are used as the independent variables for the empirical analysis.

5.1. Size, Status and Direction of Foreign Aid

Foreign Aid considered an important component of Economic Growth and Social Changes in Palestine from the beginning of planning exercises. Foreign Aid defined as the Official Development Assistance (ODA) channelled through the National Budget in Palestine, Constituting Grants, Loans and Technical Assistance by bilateral and multilateral Organizations. The share of Foreign Aid as a percentage of the total budget is decreasing over a period as shown in (Table 1). The table shows the data on five years span from (2000-2019) where the amounts all converted to constant prices thereby using the year (2006) as a base year.

It has observed that Foreign Aid has increased by (6.81) times since the year (2009). For a detailed study, Foreign Aid sub-divided into Foreign Grants and Loans where they increased by (4.1) times and (13.5) times respectively in the year (2019) as compared to the year (2009).

However, Foreign Aid with (GDP) has shown less significant change even though various fluctuations have occurred during this period. This might have arisen since, during this period, the amount of Foreign Aid directed from the Manufacturing Sector towards the Humanitarian Sector. Moreover, the size of the Foreign Grants has declined to (0.02%) of (GDP) with an increment of Foreign Loans to (0.07%) of (GDP). One of the reasons for this

¹ Aid is the indicator of Foreign Assistance, which is the sum of Foreign Grants and Foreign Loans.

can be the mishandling of Foreign Funds leading to a decrease in Donor Country's trust towards the country's Development.

5.2. Commitment and Disbursement of Foreign Aid by Different Sources and Sectors

The highest amount of commitment via bilateral source was in (2016) while the lowest commitment did in (2009) and the highest amount of commitment via multilateral source was in (2017-2018) while the lowest was in (2015). On the other hand, the highest amount of disbursement via bilateral source was in (2017-2018) with (43%) disbursement of commitment while the lowest amount of disbursement was in the year (2011) with only (33%) as evident in (Table 2). Similarly, the highest amount of disbursement via multilateral source was during the year (2016-2017) with (139%) of disbursement of commitment whereas the lowest amount of disbursement was (23%) in the year (2000). In the case of bilateral commitment, no (100%) disbursement of the commitment observed during any of the study years while there is more than (100%) disbursement of multilateral commitment observed during some of the study year-especially in the decades of (2015s) and early (2018s).

The reason for these highest disbursements exceeding (100%) might be because being the final year of disbursement of the Aid for many foreign and funded projects. The trend of disbursement of commitment rate is fluctuating, where over a period; the interest has shifted from the Production Sector to the Service Sector. The disbursement-commitment rate decreased for Agriculture, Irrigation and forestry sector in (2015) from (60.6% to 66.9%) while, the trend increased for transport, Power and Communication from (55.4% to 63.7%). It can be observed that Foreign Aid priorities have shifted towards Social Services with (79.8%). Here, Social Services include-rural Development, Water Supply, Education, and Health.

The figures from (Table 3) also demonstrate that there is no commitment to Industry and Mining in years (2015-2016), (2017-2018) and (2019). The sectors have merged in one another for data consistency. From this, it can be interpreted that, the preference of Foreign Aid commitment and disbursement has shifted from the Production Sector i. e. Transport, Power and Communication Sector to Nonproduction Sector i.e. Social Sector.

The contribution of Foreign Aid to (GDP) has not increased during this study time as compared to other Macro-Economic variables. Since Foreign Aid alone does not contribute to Economic Development, some other major economic variables are included as factors responsible for Economic Growth such as Investment, Remittance, Labour Force and Lagged (GDP) as presented in (Table 4).

Table 1. Size of Foreign Aid from Period (2000-2019) (in USD Millions)

Year	Foreign Grant+ Assistance	Foreign Loans	GDP (Factor Cost)	Foreign Grant + Assistance as % of GDP	Foreign Loan as % of GDP	Year	Foreign Grants+Assistance
2000	510	520	4313	0.11	0.12	2000	510
2005	636	624	5125	0.12	0.12	2005	636
2010	1210	1043	9681	0.12	0.10	2010	1210
2015	796	1119	13972	0.05	0.08	2015	796
2017	720	1085	16128	0.04	0.06	2017	720
2018	664	1063	16276	0.04	0.06	2018	664

2019	492	1218	17058	0.02	0.07	2019	492
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Source: Palestine Monetary Authority (PMA) years 2000, 2005, 2010, 2015, and 2017, 2018, 2019, Palestinian Central Bureau of Statistics (PCBS), Ministry of Finance and Planning (MoFP), Ministry of National Economy (MoNE).

Table 2. Foreign Aid Commitment and Disbursement by Major Sources

Year	Commitment (in USD Millions)			Disbursement (in USD Millions)			Disbursement as per % of Commitment		
	Bilateral	Multilateral	Total	Bilateral	Multilateral	Total	Bilateral	Multilateral	Total
2000	396	420	816	226	148	374	48	23	31
2005	633	560	1193	515	486	1001	37	26	32
2010	789	756	1545	578	689	1267	33	43	36
2015	569	626	1195	662	774	1436	76	121	87
2017	721	782	1503	746	734	1480	43	139	76
2018	776	822	1598	798	913	1711	26	112	56
2019	842	916	1758	877	962	1839	46	186	91
Total	4726	4882	9608	4402	4706	9108	38	62	51

Source: Palestine Monetary Authority (PMA) years 2000, 2005, 2010, 2015, and 2017, 2018, 2019, Palestinian Central Bureau of Statistics (PCBS), Ministry of Finance and Planning (MoFP), Ministry of National Economy (MoNE).

Table 3. Summary of Foreign Aid Commitment and Disbursement by Sectors

Sectors	Commitment (USD Millions)		Disbursement (USD Millions)		Disbursement as per % of Commitment	
	Years					
	2000	2019	2000	2019	2000	2019
Agriculture, Irrigation and Forestry	32.6	41.2	52.3	58.9	60.6	66.9
Transport, Power and Communication	24.2	48.3	41.4	50.7	55.4	63.7
Industry and Manufacturing	13.6	17.2	26.2	12.9	44.8	14.7
Social Services	33.9	56.2	63.6	71.7	75.3	79.8
Others	88	122.6	149.2	198.4	226	259

Source: Palestine Monetary Authority (PMA) years 2000, 2005, 2010, 2015, and 2018, 2019, Palestinian Central Bureau of Statistics (PCBS), Ministry of Finance and Planning (MoFP), Ministry of National Economy (MoNE).

Table 4. Foreign Aid, Investment and Remittance (in USD Millions) as % of (GDP)

Year	Foreign Assistance	Investment	Remittance	GDP (Factor Cost)	Foreign Assistance as % of GDP	Investment as % of GDP	Remittance as % of GDP
2000	363	212	19.6	259	6.9	11.3	3.9
2005	552	236	22.3	364	8.4	12.1	4.8
2010	776	321	26.4	447	12.6	16.8	6.2
2015	820	396	33.6	520	17.5	19.9	9.3
2017	860	560	41.2	612	18.3	38.7	17.9
2018	753	622	39.3	692	17.2	29.4	26.2

2019	916	842	27.5	602	21.3	42.2	31.7
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Source: Palestine Monetary Authority (PMA) years 2000, 2005, 2010, 2015, and 2017, 2018, 2019, Palestinian Central Bureau of Statistics (PCBS), Ministry of Finance and Planning (MoFP), Ministry of National Economy (MoNE).

As already, explained, Foreign Assistance has increased by (6.8) folds from (\$363) million to (\$916) million thus contributing (21.3%) to (GDP) in the year (2019).

Similarly, Investment has also increased by about 21 times thereby contributing (42.2%) to (GDP) compared to the year (2000).

Besides, Remittance has also shown significant change with time where it increased its contribution to (GDP) from (3.9%) in the year (2000) to (31.7%) in (2019) - i.e. about (120) times in the year (2015).

5.3. Regression Analysis

The regression model has employed to examine the impact of the variables. The specification of the model involves (GDP) at factor cost as a dependent variable and Foreign Aid (Aid), Remittance (Remit), Investment (Inv), the Labor Force (Lab) and Lagged of (GDP) (LGDP) as independent variables.

It hypothesized that all the independent variables in the model have a significant positive impact on the Palestinian Economy, which is a proxy, by (GDP).

The regression result given below:

$$\ln(\text{GDP})_t = -11.26^* + 0.07 \ln(\text{Aid})_t - 0.05 \ln(\text{Remit})_t + 0.06 \ln(\text{Inv})_t + 1.262 \ln(\text{Lab})_t^{**} + 0.80 \ln(\text{GDP})_{t-1} + \dots + U_t$$

$$t = (-1.630) (1.106) (-0.563) (0.59) (2.456) (2.268)$$

$$R^2 = 0.667 \quad F = 475.473$$

$$DW = 1.654$$

$$DF = 36$$

$$N = 48$$

$$\text{Adjusted } R^2 = 0.913$$

$$SEE = 0.05266$$

$$\text{Jarque-Bera} = 16.73462$$

Note: * Significance at (1) percent level

** Significance at (5%) level

The regression result shows that the sign of all coefficients is positive except that of Remittance.

However, the coefficient is not significant. It may be due to a larger portion of spending driven towards consumption. It seems that a very limited amount of Remittance invested in Production Activities.

All the variables included in the model shows the existence of regression.

The (R^2) of the model estimation obtained at (0.91), which indicates that (91%) of the variation in (GDP) can be explained by the variation of independent variables used in the model.

The computed ($F_{(5, 39)}$) is 475.473, which is higher than the table value of ($F_{(5, 39)}$).

The model is the best fit.

Therefore, the hypothesis, that the coefficient of all the variables jointly or simultaneously, is not equal to zero (0). It confirms the presence of a relationship between (GDP) and Foreign Aid, Remittance, Investment, Labour Force and Lagged (GDP).

The coefficient of Lagged (GDP) is significant at the (1%) level, which provides a (0.56) value of the coefficient. Based on this coefficient, the speed of adjustment is $(1-\lambda) = (0.706)$.

It shows that (63.6%) is adjusted to the desired level of (GDP) in the period included.

Similarly, the Labor Force (10-15 years group) is also significant at the (1%) level while the coefficients of Foreign Aid and Investment are not significant.

However, the sign of coefficients is positive as per expectation. The reason for insignificant Investment may be due to the channelization of Investment in the real sector.

Table 5. Short and Long-Run Analysis

Impact	Foreign Aid	Investment	Remittance	Labour Force
Short-Term Elasticity	0.052	0.048	-0.036	1.262
Long-Term Elasticity	0.091	0.07	-0.059	1.98

Source: *Eveiws 44 statically output of Growth Model.*

The coefficient of the Labor Force (Lab) tells that the (1%) increase in the Labor Force would lead to (1.262) in the output (GDP) in Short-Run while in Long-Run this would increase to (1.98). Moreover, the findings of the model suggest that there is a need for emphasizing focused Investment in close collaboration with Government, Private Sector and Development partners. Besides, there should also be an emphasis on the productive use of Remittance. The opportunities of Remittance considered up to the only Medium-Term plan.

5.4. Structural Breakthrough Analysis

Another objective of the study was to see whether there is a presence of structural breakthrough in the Palestinian Economy. Many reform measures took place during the restoration of Democracy.

Besides, the Economic Liberalization in the Economy started with the implementation of Structural Adjustment Programs by (IMF) and the World Bank, which tied up many of its Assistance Programs. As a result, convertibility of Capital and current account reformed in the external sector to have external assistance.

To see structural change, a Chow Test developed by Gregory C. Chow has used. Palestine undertook Economic Stabilization and Trade Liberalization during (2011). Many reform measures implemented in (2011).

The sample data thus divided into two periods: The first period from (2000-2011) and the Second period from (2012-2019) the pre-and post-Liberalization periods.

From this, three possible regressions are drawn:

First period (2000 to 2011): (n₁=18)

$$GDP_t = \alpha_1 + \alpha_2(Aid)_t + \alpha_3(Remit)_t + \alpha_4(Inv)_t + \alpha_5(Lab)_t + \alpha_6(GDP)_{t-1} + \dots + U_{1t} \quad (3)$$

Second period (2012 to 2019): (n₂=24)

$$GDP_t = \beta_1 + \beta_2(Aid)_t + \beta_3(Remit)_t + \beta_4(Inv)_t + \beta_5(Lab)_t + \beta_6(GDP)_{t-1} + \dots + U_{2t} \quad (4)$$

Whole period (2000 to 2019): (n = (n₁ + n₂) = 42)

$$GDP_t = \gamma_1 + \gamma_2(Aid)_t + \gamma_3(Remit)_t + \gamma_4(Inv)_t + \gamma_5(Lab)_t + \gamma_6(GDP)_{t-1} + \dots + U_t \quad (5)$$

Regression (5) assumes that there is no difference between the two periods and therefore estimates the relationship between Foreign Aid and Economic Growth for the period consisting of (40) observations. In other words, the regression assumes that the intercept, as

well as the slope coefficient, remains the same over the entire period; i. e. there is no structural change.

If this is the situation, then $\alpha_1 = \beta_1 = \gamma_1$ and $\alpha_2 = \beta_2 = \gamma_2$.

Regression (3) and (4) assume that the regressions in the two periods are different; i. e. the intercepts and the slope coefficients are different, as indicated by the subscripted parameters.

In the preceding regressions, the (U 's) represent the error terms and the n's represent the number of observations.

For the data given in the table above, the empirical counterparts of the preceding three regressions areas:

For the First Period:

$$GDP_t = -4.002 + 0.036 (Aid)_t + 0.026 (Remit)_t + 0.408 (Inv)_t + 0.626 (Lab)_t + 0.293 (GDP)_{t-1} + \dots + U_{1t}$$

$$t = (-0.269) (-0.098) (-0.096) (1.563) (0.458) (0.967)$$

$$R^2 = 0.987 \text{ RSS}_1 = 0.073 \text{ DF} = (n_1 - k) = (18 - 6) = 12$$

For the Second Period:

$$GDP_t = -11.180 + -0.048 (Aid)_t + 0.016 (Remit)_t + 0.060 (Inv)_t + 1.903 (Lab)_t + -0.063 (GDP)_{t-1} + \dots + U_{2t}$$

$$t = (-3.186) (-0.936) (0.737) (1.092) (6.752) (-0.198)$$

$$R^2 = 0.999 \text{ RSS}_2 = 0.007 \text{ DF} = (n_2 - k) = (24 - 6) = 18$$

For the Whole Period:

$$GDP_t = -13.760 + 0.093 (Aid)_t + -0.036 (Remit)_t + 0.048 (Inv)_t + 1.396 (Lab)_t + 0.56 (GDP)_{t-1} + \dots + U_t$$

$$t = (-1.966) (1.306) (-0.973) (0.484) (2.479) (2.842)$$

$$R^2 = 0.998 \text{ RSS}_R = 0.109 \text{ DF} = (n_1 + n_2 - k) = (18 + 24 - 6) = 36$$

Since two sets of samples deemed independent, RSS_1 and RSS_2 added to obtain the unrestricted residual sum of square (RSS_{UR}), i. e.

$$RSS_{UR} = RSS_1 + RSS_2 = 0.073 + 0.007 = 0.08;$$

$$DF = (n_1 + n_2 - 2k) = 18 + 24 - 12 = 30$$

The idea behind the Chow Test is that if in fact, there is no structural change, and then the RSS_R and RSS_{UR} should not be statistically different. Thus, the following ratio formed as:

$$F = \frac{(RSS_R - RSS_{UR})/k}{(RSS_{UR})/(n_1 + n_2 - 2k)}$$

$$F = \frac{(RSS_R - RSS_{UR})/k}{(RSS_{UR})/(n_1 + n_2 - 2k)}$$

$$F = \frac{(0.109 - 0.08)/6}{0.08/30} = 1.612$$

$$\text{Alternatively, } F = \frac{(0.109 - 0.0)/6}{0.08/30} = 1.612$$

From the (F-tables), it found that for a degree of freedom (DF) with (6 and 30), the (5%) critical (F-value) is (2.84).

Therefore, the probability of obtaining an (F-value) of as much as or greater than (1.612) is much smaller than (5%).

Besides, the Chow Test, therefore, seems to support the study hypothesis that Foreign Aid (GDP) relationship has not undergone a Structural Breakthrough in Palestine over the period (2000-2019), assuming that the assumptions underlying the test are fulfilled.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

Most Developing Countries like Palestine are characterized by a low level of Domestic Saving and hence the shortage of capital to undertake Development Programs. This in turn necessitates the country to rely on External Finance from Developed Countries, which is something one cannot afford to ignore.

The Growth Model result showed that Aid contributed positively to Economic Growth in the Long-Run, but its Short-Run Impact appeared to be negligible, indicating that most of the Aid has been used to Finance Long-Run Investment.

However, there has been a great debate on the contribution of this Foreign Assistance to Economic Growth. As a result, the core objective of this study is to look at the Impact of Foreign Aid on the Economic Growth of Palestine using annual time series data from (2000-2019).

The findings of this study show that there is a positive Impact but not a significant relationship between Foreign Aid and Economic Growth since the Foreign Grants is increasing at a lower rate than that of Foreign Loans.

This study observed that Foreign Aid priorities have shifted from Production to Non-Production i.e. humanitarian and Social Service Sector thus contributing less to (GDP) as compared to other Macro-Economic variables as Investment and Remittance.

In the case of Foreign Assistance, Foreign Loans has increased tremendously as compared to Foreign Grants. This has increased the burden of debt on future generations.

However, the study shows that the Remittance has although not significant but negative relationship with (GDP). This may be due to the use of Remittance Inflows in consumption rather than Investment. It has been seen that the Labor Force and Domestic Investment contributes positively to Economic Growth in the Long-Run and Short-Run.

This shows that these variables remain as the key factor that can foster Economic Growth in Palestine. Thus, the country should be built up some strategy around Labor Force and Domestic Saving leading to Domestic Investment and much better focus on these internal factors than external factors to boost its Economic Growth.

Therefore, Foreign Aid can be used to finance these Gaps and enhance Economic Growth if it is supplemented by good monetary, Fiscal and Trade Policies. Empirical evidence obtained in this study is an indication that Aid Flows to Palestine will be effective conditional on the stable Macroeconomic Environment.

Moreover, the Government of the country should therefore better pursue Economic Policies that at least reveal a Low Inflation Rate, Productive Budgetary Balance and Good Trade Policies. Meanwhile, Labour Force and Lagged (GDP) shows a significant positive relationship with (GDP), which implies that increasing Labour Force, has led to an increase in (GDP), and (GDP) from the previous year is being used as Capital in the current year.

During the analysis, it also found that the country has not undergone any Structural Breakthrough even after introducing various reform measures and Undergoing Economic Stabilization and Trade Liberalization. This means that the reform measures taken during that period has not been effective enough or requires more revision for Practical Implications.

Foreign Aid that interacts with Politics has a major positive effect on Growth only in the Long-Run. The positive outcome is linked to the Policy Environment (Macroeconomic and Infrastructure) in the country which makes the assistance more effective.

Therefore, Aid is effective in promoting Growth in Palestine in the period considered; but its effectiveness would have been higher if it was supported by a sound Macroeconomic Policy Environment.

Therefore, during the period under consideration, Aid played a positive role in improving Economic Growth in Palestine, and based on Empirical Investigations, the following Policy Implications will be drawn up by researchers which the Palestinian Government can recommend.

Thus, establishing a Sound Policy Environment is critical to using Aid more effectively and to making Domestic Investment more efficient and Foreign Aid can be used to boost Economic Growth.

Finally, the study suggests that the Government of Palestine is required to set a sound Macroeconomic Policy Environment that stimulates Domestic Saving that is adequate to Finance Investment and also to close the Saving Investment Gap in the Long-Run and reliance on future Aid and borrowing should be diminished and a country's Growth must be sustained without Aid.

7. LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE STUDIES

The study explores the Impact of Foreign Aid on the Economic Growth of Palestine by estimating Growth Model. To achieve this objective, the period (2000-2019) was chosen based on the availability of data on variables used in the study.

It is important to note the previous studies that studied the title of the current study, and what are the most important results, conclusions and recommendations that came out of those studies.

Therefore the current study represents some important limitations such as its reliance on previous studies and a scientific methodology appropriate to the problem of the study and the process of data analysis, data from reliable official Government sources were used and analyzed, and the study reached good and satisfactory results.

However, the conclusions and recommendations are considered sufficient for the purpose based on the data analyzed by the authors.

Another important limitation is that this study used the quantitative approach to data a lot and the qualitative less, and the statistical approach was also used to reach those results available to us, and therefore future studies and researches will benefit from this study as results, conclusions and recommendations that have been summarized in a brief and written form in the most prominent of which are.

Besides, the type of scientific approach used and the methodology used to solve and examine the study problem is suitable and beneficial for future studies and researches.

One of the important limitations of this study is that it revealed the real effect of Foreign Aid on the country's Economic Growth process, besides that it showed the quality and quantity of this Aid, and used the approach of analyzing data in the Short-Run and Long-Run, and showed the effect of each of the variables used in the study on the process of Economic Growth in Palestine, and the study proved that with empirical evidence from the current Palestinian Economic Situation.

Therefore, future studies and researches will benefit from the current study of its findings, conclusions and recommendations, and will help authors and researchers to conduct broader studies related to the topic and problem of the current study.

Besides, the result of the study is also confined by the quality of data. This limitation arises from the inconsistency of data reported by different institutions and even by different departments in the country. Additionally, because of the lack of data, it has been unable to use a long period for the study.

NOVELTY OF THE STUDY

The novelty of this study lies in the new findings, conclusions and recommendations it provides a real benefit to Decision-Makers in the country and the Decision-Making process in another way.

The data analysis and quantitative content analysis of these data in the study showed that there is a positive retrospective effect of Financial Aid from Donor Countries on the Economic Growth of Palestine.

Significantly, this Foreign Aid has achieved in all its Financial and Non-Financial forms on the process of Economic Growth of the country, and Economic Development as a whole to discover this novelty can be extracted from those findings of the study and the conclusions and recommendations presented by the study, this novelty is considered a useful model for future studies in this regard.

DECLARATIONS

The views, conclusions, and recommendations derived here are the narratives concluded by the authors, based on the data (Facts/Figures) that derived in this paper, which do not reflect the official views and perspectives of the Organizations where the authors are associated now. This study conducted in early (2020), in the first months of the onset of (COVID-19).

AUTHOR CONTRIBUTION STATEMENT

This work was carried out in collaboration between both authors. Author NB (Conceptualization; Data curation; Formal analysis; Methodology; Investigation; Methodology; Visualization; Writing – original draft; Resources; Supervision; Writing – review & editing). Author MA (Conceptualization; Methodology; Resources; Supervision; Writing – review & editing). Both authors read and approved the final manuscript.

DATA AVAILABILITY STATEMENT

The data and materials that support the findings of this study are available from the corresponding author upon request. Datasets derived from public resources and made available with the authors. Data analyzed in this study were a reanalysis of existing data, which are openly available at locations cited in the reference section.

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