

The Dilemma of Aid to the PA After the Victory of Hamas

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The decision by Western donors to stop funding the Palestinian Authority (PA) since Hamas received a democratic mandate from the population of the Occupied Palestinian Territories (OT) in January 2006 has been big in the media headlines but provoked very little debate. Why should it have? How could taxpayer money – mainly European, as the United States has almost never funded the PA directly – go to a government that does not recognise Israel and that is not ready to renounce violence? The third condition set by the Quartet,¹ that Hamas should recognise the previous agreements reached between Israel and the Palestinians in the 1990s, is less plausible as a demand since most of the provisions of the various Oslo agreements had already been violated by both sides before the second *intifada* broke out in September 2000 and have become largely obsolete since then. In any event, the first two reasons seem compelling enough.

They might indeed be so, although when one factors in the context of Israeli military occupation in its 40th year, the international choice to deprive the Palestinian government of indispensable resources and isolate it

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¹ The highest multilateral diplomatic forum for the Palestinian-Israeli peace process, composed of the US, the EU, the UN and Russia.

diplomatically, is slightly less self-evident. Whatever one's view on the insightfulness of imposing a sanctions regime on a democratically elected government operating under occupation, and short of a debate on the decision itself, important issues are nonetheless worth pondering. As the Quartet conditions are not being met and international funds dry up, not only are the Palestinians' already poor living conditions worsening by the day, but a further deterioration of the situation on the ground could lead to the collapse of the PA but also to the unleashing of more violence, chaos and desperation in the OT. This would in turn have disastrous repercussions in the short to medium term on security, and the political and economic situations and, in the long run for the resolution of the Israeli-Palestinian conflict along a two-state paradigm. An attempt will be made here to put the aid issue into its historical context so as to expose the full extent of the consequences the Quartet's decision might yield.

Aid in support of the peace process

At the beginning of the Oslo process in 1993/94, aid to the Palestinian population within the context of the Israeli-Palestinian peace process had three basic objectives:

- sustain the peace endeavour
- foster economic and social development in the West Bank and Gaza Strip (WBGs),
- build Palestinian institutions within the framework of the self-governing autonomy which the PA had been granted under the agreements.

Back then, there was considerable optimism that the process of reaching a final peace deal would proceed uninterrupted during the initially envisaged five-year transitional period. By providing the Palestinian population with "tangible" improvements in basic infrastructure, living conditions and employment opportunities, the assumption was that the aid effort would buttress the political process by enhancing public support for the negotiations and create a positive environment for sustaining the search for a peace settlement. It was also well understood, although less openly stated, that an economic stake in peace was a necessary condition to have the Palestinians agree to the political concessions that they would be asked to make to fulfill the requirements of an essentially Israeli-dominated diplomatic process, notably forgo their demand for a right of return.

Yet by the time Hamas was voted into power in January 2006, the Palestinian population had witnessed few concrete improvements in their daily lives and little peace remained to be upheld between the two parties,

despite the fact that the funds which have been collectively devoted to the WBCS in support of Israeli-Palestinian peacemaking represent one of the highest – and most sustained over time – levels of multilateral per capita foreign aid in the world.² The second *intifada*, and the years 2002-03 in particular, saw a dramatic upsurge in violence and confrontation characterised by frequent Palestinian suicide attacks and large-scale military operations by Israeli armed forces involving incursions into Palestinian areas; re-occupation of major cities, refugee camps, towns and villages; ever tighter restrictions on movement; the imposition of prolonged curfews and the systematic targeting, damage and destruction of the Palestinian institutions and infrastructure paid for by the donor community in the 1990s. After the failure of the Camp David and Taba Summits in July 2000 and January 2001, there were no further serious bilateral negotiations between the parties. The Road Map for Peace, developed by the Quartet in 2003, never got off the ground. The sole political "process" has been Israeli disengagement from the Gaza Strip in August 2005, a unilateral move. Few informed analysts believed at the time that disengagement would mark a watershed event and indeed, given the chaos, humanitarian disaster and human tragedy currently unfolding in Gaza, it seems clear that in and of itself, it was not.

A multi-faceted process of Palestinian fragmentation

The reality of the last twelve years has been one of increasing Palestinian territorial, demographic, socio-economic and political fragmentation, which has only intensified with the onset of the *intifada*. The West Bank, East Jerusalem and the Gaza Strip have become a collection of isolated areas and population enclaves physically separated from one another by confiscated land plots, Israeli settlements, a segregated by-pass network and, from June 2002, the separation barrier. Not only does this process of "Bantustanisation" stand in sharp contradiction to the *sine qua non* of territorial contiguity as the basis for an economically and politically viable Palestinian state, but it has also precluded the possibility of Palestinian development and resulted in a full-fledged – and entirely man-made – humanitarian crisis since 2002. Despite the growing acceptance of the two-state solution at the declaratory level, the feasibility of its materialisation has thus dramatically decreased.

The general assumption is that this multifaceted process of fragmentation

² About US\$ 7 billion have been spent on the WBCS since 1994. In 2004, the World Bank estimated that aid to the Palestinians represented one of the highest levels of multilateral per capita foreign aid in the world at about US\$ 300: *Disengagement, the Palestinian Economy and the Settlements* (Jerusalem: World Bank, 23 June 2004) ii.

started with the second *intifada*. Such was the scale of the violence which erupted in the fall of 2000, so high had been the hopes and expectations invested in the American sponsored peace summit and so pervasive became the Israeli narrative about Prime Minister Barak's "generous offer",³ that it quickly developed into conventional wisdom that, from then on, everything went downhill and the "progress" – diplomatic, developmental, security and otherwise – achieved in the late 1990s was reversed.

Actually, Palestinian disintegration can be traced back to the start of the Oslo process itself and only intensified during the *intifada*. The latter part of the decade was undoubtedly calmer, more hopeful and more prosperous when compared to the mid-90s and of course the crisis after 2000, but this was only relative. From the early 1990s, a number of mutually reinforcing Israeli measures of closure, control and expansion consistently pursued by all Israeli governments regardless of their party affiliation accelerated (indeed some of these actions such as the settlement enterprise began right after the 1967 war when Israel started its occupation of the WBCS). These measures concurred to enhance Israel's control and profoundly transform the OT's physical and demographic landscape. Furthermore, territorial cantonisation and severe restrictions on the internal and external movement of Palestinian goods and people have also been the proximate cause of the recurrent economic crises that have engulfed the WBCS since the mid-1990s.⁴

Donor response: crisis management in the midst of fragmentation

Eagerness to keep the peace process politically alive led donors to espouse the crisis management mode characterising international diplomatic involvement in Middle East peacemaking and to focus on day-to-day problem

³ On dispelling the myth of "Israel's generous and historic offer", see R. Malley and H. Agha, "Camp David: The Tragedy of Errors", *The New York Review of Books*, 9 August 2001; D. Sontag, "Quest for Mideast Peace: How and Why It Failed", *New York Times*, 26 July 2001; A. Benn, "The Selling of the Summit", *Haaretz*, 27 July 2001.

⁴ A. Shlaim, *The Iron Wall. Israel and the Arab World* (London: The Penguin Press, 2000) pp. 11, 352. *Land Grab. Israel's Settlement Policy in the West Bank* (Jerusalem: B'Tselem, May 2002) p. 7 <http://www.btselem.org/English/Publications/Summaries/200205_Land_Grab.asp>. For a detailed analysis of the process of territorial fragmentation, see A. Le More, "Are Realities on the Ground Compatible with the International State-building and Development Agenda?" in Keating, M., A. Le More and R. Lowe (eds) *Aid, Diplomacy and Facts on the Ground: The Case of Palestine* (London: Chatham House, 2005). On the Palestinian economy, see various World Bank reports on the Palestinian economy, 1994-2006. For instance, World Bank, *Four Years - Intifada, Closures and Palestinian Economic Crisis - an Assessment*. (Jerusalem: World Bank, October 2004) pp. 52-4.

solving.⁵ As early as 1994-95, donors shifted most of their funds to emergency assistance to alleviate the social impact of the severe economic and budgetary crises and provide a minimum level of support to the nascent PA. In response to the PA's first such crisis, donors had to reduce the originally planned levels of investment in infrastructure in order to finance Palestinian budgetary shortfalls and the start-up and recurrent costs of the emergent institutions, including staff salaries.⁶ In 1996, donors shifted full-scale to emergency assistance, focusing on labor-intensive projects to curb rising unemployment and poverty. Between 1994 and 1996, almost half of all donor funds (over US\$ 600 million) went to short-term support.⁷ With the beginning of the *intifada*, donors intensified their emergency relief, notably through direct budget support to the PA and the delivery of humanitarian assistance. At the peak of the crisis in 2002, out of more than US\$ 1 billion disbursed to the WBCS, 81 percent (US\$ 829 million) went to emergency assistance, including 50 percent (US\$ 519 million) to PA budget support, of which 84 percent was for salaries.⁸ The World Bank estimates that with about 172,000 persons receiving some sort of payment from the PA (including about 150,000, including security personnel, directly on its payroll), 30 percent of the Palestinian population is dependent on the PA.⁹

Beyond stated objectives: the function of aid in practice

Although unsustainable, direct budgetary assistance has nevertheless been assessed by the Bank as the most effective "welfare" instrument employed by

⁵ Oslo was characterised by a procedural bias for process over substance, in line with the US approach to the Arab-Israeli conflict since the late 1960s. The Declaration of Principles of September 1993 stipulated that final status issues (including borders, Jerusalem, refugees, settlements and security arrangements) would be dealt with in final status negotiations after a transitional period not exceeding five years. See W. B. Quandt, *Peace Process. American Diplomacy and The Arab-Israeli Conflict since 1967* (Washington DC/Berkeley: Brookings and UCP, 2005) III ed.; and D. Ross, *The Missing Peace: The Inside Story of the Fight for Middle East Peace* (New York: Farrar, Straus and Giroux, 2004) pp. 6-7.

⁶ B. Balaj, I. Diwan and B. Philippe, "Aide Extérieure Aux Palestiniens: Ce Qui N'a Pas Fonctionné", *Politique étrangère*, vol. 60, no. 3, Autumn 1996, pp. 753-67.

⁷ World Bank (Operations Evaluation Department), *West Bank and Gaza: An Evaluation of Bank Assistance* (Washington DC: World Bank, March 2002) pp. 4-5.

⁸ World Bank, *Twenty-Seven Months - Intifada, Closures and Economic Crisis - an Assessment* (Jerusalem: World Bank, May 2003) pp. 51-2.

⁹ World Bank, "The Impending Palestinian Fiscal Crisis, Potential Remedies", 7 May 2006 <<http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/PalestinianFiscalCrisis,PotentialRemediesMay7.pdf>>.

donors, as compared to food aid, cash payment schemes and job creation programs in that, in the context of deteriorating socio-economic conditions, the PA – though bankrupt and entirely funded by foreign assistance – has simply become the largest employer in the OT. By creating jobs and sustaining the livelihoods of a substantial proportion of the population, the money given to the PA has thus helped mitigate and offset the damaging socio-economic and humanitarian effects of Israeli closure and other associated policies on the ground. This is so, even though under international law, Israel, as the occupying power, is the party responsible for meeting the basic needs of the population, not the international community.

In addition, aid to the PA has also been meant to perform a no less critical political stabilisation function. Anxious that the PA deliver security for the Israelis and a peace deal, the authoritarian, opaque and repressive nature of the regime has deliberately been overlooked by the international community. From 1994 when the PLO moved from Tunis to form the elite of the PA bureaucracy, public sector hiring largely became a means of rewarding loyalty and of securing a mass constituency. This fed into the clientelist and neopatrimonial nature of Arafat's style of government while also ensuring the stability of the regime amidst deadlock in the peace process, territorial and socio-economic degradation and growing Palestinian, mainly Islamist, opposition to the peace process. Donors turned a blind eye to reports of corruption, mismanagement and human rights abuses until relatively late in the 1990s for fear of undermining an already fragile and contested PA.

Such international concern for the establishment of a strong power structure in turn militated against democratisation in the WBGS and the development of self-sustaining, representative and accountable Palestinian institutions. Reform and governance only came to the forefront of the donor agenda in mid-2002 with stringent conditionality attached, in the context of a bankrupt and delegitimised PA and amidst calls by some governments, notably the United States and Israel, for regime change and the removal of President Arafat. By then though, the PA and its leading faction Fatah had lost not only any ability to deliver security but also any vestige of credibility and legitimacy among their own people, as attested to by the landslide electoral victory of Hamas. As pointed out by many analysts, Hamas' popular appeal has less to do with its Islamic religious credentials, than with the fact that it represents the sole alternative to a co-opted, moribund, and discredited regime.¹⁰

¹⁰ See for instance, H. Siegman, "Hamas: The Last Chance for Peace?", *The New York Review of Books*, 27 April 2006.

Now what?

While aid – and donor conditionality – may not have achieved the desired result of regime stabilisation, international assistance has performed a critical emergency relief function. This has been a sub-optimal palliative to sustainable and viable development, and has had many perverse effects, notably deepening Palestinian dependency on foreign aid, sustaining Israel's actions in the OT and violations of international law, and diminishing the prospect of a viable two-state solution.¹¹ Nonetheless, in the absence of a political strategy aimed at altering the asymmetric nature of the conflict and inducing changes on *both* sides, assistance to the Palestinians has played a crucial humanitarian function. Thus the Quartet's decision to stop funding the now Hamas-led administration could have potentially disastrous effects. Short of a descent into total chaos, lawlessness and possibly the onset of a civil war – notably in Gaza where the humanitarian and security situation is already distressing – a few scenarios are possible.

- In the immediate term, the PA might be able to reverse its desperate financial situation through contributions from the Arab and Islamic world, but it is doubtful that these countries will be ready or able to sustain aid over time at the same high level as provided by Western donors over the last decade.
- The Quartet may reach an agreement on a way to continue to channel funds while by-passing the elected Palestinian government by boosting the role of the President's Office, establishing a multilateral funding mechanism such as a World Bank administered trust fund, as was the case in the early 1990s, or increasing the funding of UN agencies and NGOs. Money could also be provided through all three channels simultaneously, and indeed on 9 May 2006, the Quartet indicated its willingness to establish a "temporary international mechanism that is limited in scope and duration, operates with full transparency and accountability, and ensures direct delivery of any assistance to the Palestinian people". The modalities of such a mechanism, meant to fund priority social sectors, remain to be worked out, however.¹² Indeed, more than a month after the Quartet endorsed what was essentially a European proposal, and despite the urgency of the situation, the US has remained reluctant and the mechanism has still not become operational.

¹¹ See A. Le More, "Killing with Kindness: Funding the Demise of a Palestinian State", *International Affairs*, vol. 81, no. 5, October 2005, pp 981-99.

¹² Quartet Statement, New York, 9 May 2006.

- Western donors might decide that they should let the PA collapse and return to a pre-Oslo situation where they channeled most of their funds to the Palestinians through the UN or civil society.

Given the PA's functions, the huge past investments and the fact that the two-state solution remains the diplomatic paradigm to this day, one may expect that Western donors will be creative and continue, as they have done over the last twelve years, to come up with short-term fixes to be able to pay the salaries of Palestinian teachers and nurses. This is all the more probable as the aid agenda is what has given the Europeans their entry point and the opportunity to be part of a venture from which they would otherwise have largely been excluded, given American-Israeli diplomatic predominance and predilection for unilateralism.

What seems equally likely at this point in time is that donors will *not* use this crisis as an opportunity to fundamentally reassess their failed "aid for peace" strategy towards the Israeli-Palestinian peace process, notably to factor in fully the Israeli dimension and intervene politically or economically to exert pressure on the government of Israel or use positive conditionality to influence Israel's policies on the ground. As in the early years of the peace process, the Palestinians remain the primary client of the international donor community. This is so even though a decade of peace implementation has demonstrated that exclusive focus on the PA in a conflict and military occupation context in which it is merely the "recipient" of aid and not simultaneously sovereign and "host" has been rather unsuccessful.

Aid may be effective in a conflict/post-conflict environment but as a support to a political process, not as a substitute for it. In the Israeli-Palestinian case, rather than using aid as one of the instruments that could help correct the asymmetric structure of the conflict, international assistance has actually accentuated this asymmetry. In addition, it may be contended that the succession of short-term, stop-gap solutions have detracted efforts from tackling the diplomatic challenges and obstacles impeding the resolution of the Palestinian-Israeli conflict by focusing on limited, practical, technical benchmarks and conditions to be fulfilled by the PA rather than addressing the core political issues to the conflict – territory and borders, Jerusalem, refugees and so on. In so doing, international focus on the Palestinians through a complex mixture of sticks and carrots has also given Israel the diplomatic space to disengage itself from heavily populated Palestinian areas while expanding its grip onto key areas of Jerusalem and the West Bank and remaining in effective control. In the long run, this bodes well neither for the emergence of a viable Palestinian state nor for the security – collective and individual – of the Israeli and Palestinian people. This will only come when justice to both parties is rendered, not through the exercise of might and coercion alone.