EMPOWERMENT THROUGH REFORM:
RESTORING ECONOMIC ACTIVITY IN THE WEST BANK, 2007−2009

Jennifer Widner, Tristan Dreisbach, and Gordon LaForge drafted this case study based on interviews conducted in Ramallah, Nablus, and Jericho in June and July 2019 and in other locations during 2019 and 2020. The case is part of a series on state building in Palestine, 2002–05 and 2007–12. Case published June 2022.

SYNOPSIS

Upon assuming office in mid-2007, Palestinian Authority Prime Minister Salam Fayyad faced an economy in shambles. Devastated by a loss of revenues and international aid in the wake of Hamas's 2006 electoral victory, which brought to power politicians deemed terrorists by some in the international community, average real gross domestic product per capita in the West Bank and Gaza was about 40% below its 1999 level, and the government was broke. To restart the economy and demonstrate that the Palestinian Authority could manage a socioeconomic crisis in a manner befitting a sovereign state, Fayyad and his colleagues created a detailed development plan that helped secure financial resources from international donors. With that money, the government undertook an ambitious community development program, building thousands of small-scale infrastructure projects across the West Bank. It also negotiated an easing of some of the Israeli-imposed movement restrictions that were stifling both commerce and investment. The West Bank then posted two years of double-digit economic growth and expanded, private-sector activity, but the occupation's political challenges stymied the Fayyad government's ultimate goal of Palestinian statehood.

INTRODUCTION

When Salam Fayyad became prime minister of the Palestinian Authority (PA) in June 2007, one of his top priorities was to expand economic opportunity in the West Bank and help residents improve their livelihoods. "Government should be providing basic infrastructure and, as necessary, stimulating the economy," he recalled. "Those are core functions of a state, and if we were going to project the reality of a state on the ground, we would have to fulfill them."

But at the time, the PA appeared unequipped to deliver on that ambition. When Fayyad stepped down as finance minister in 2005, the economy was on a path to recovery after an earlier downturn. But just two years later, the socioeconomic fabric of the West Bank and Gaza was in tatters after conflict erupted between political factions and the 2006 elections resulted in a victory for Hamas, a group whose leaders did not accept the commitments undertaken by the Palestine Liberation Organization under the Oslo Accords, including the recognition of Israel's right to exist. The economy had contracted as much as 8% in real terms in 2006 alone,[1] and per-capita gross domestic product (GDP) was nearly 40% below its 1999 peak in real terms, according to the International Monetary Fund (IMF).[2] Roughly one-fifth of the West Bank labor force was out of work,[3] and the proportion of households that were food insecure had risen sharply.[4]

To make matters worse, the government was broke. In response to the 2006 election results, international donors suspended assistance, and the Israeli government withheld customs and value-added tax revenue, causing the PA's revenues to drop by more than half, to US$782 million in 2006 from US$2.1 billion a year earlier. Government investment fell by 50%. Most public-sector employees received only 50% of their salaries. And ministries incurred debts to suppliers.

It was urgent that Fayyad's government kick-start the economy in order to ease the suffering of residents and bring stability to the West Bank. It was equally important to show that the government could handle the West Bank's difficult economic and social challenges, which would go a long way toward persuading the international community to support the PA politically and financially. Roughly one month after Fayyad assumed office, US President George W. Bush announced he would convene a meeting in Annapolis, Maryland, to reopen negotiations for an independent Palestinian state.[5] It was anticipated that a conference of international donors that could reboot external assistance would follow.

Fayyad also knew that if Palestine was ever going to "project the reality of a state on the ground" in order to end the occupation, it would need to create a sense of nationhood by inspiring hope and building a new social contract. "Not only was prosperity a fundamental tenet of the contract between government and citizens, but also it was important for creating unity for Palestine and for enhancing people's capacity to withstand the adversity of the occupation," he said.

THE CHALLENGE

Fayyad's biggest challenge was that the Palestinian Authority lacked many of the levers sovereign states had for helping rejuvenate an economy. Chief among them was the ability to control revenue. Most of the PA's revenue, outside of external assistance, came from customs and value-added taxes on imports, both of which Israel collected on the PA's behalf.[6] With Hamas's rise to power in 2006, however, Israel began withholding that income, and donors suspended aid payments. The PA's financial position deteriorated, and beginning in early September 2006, teachers protesting the PA's failure to pay them went on strike for two months, leaving tens of thousands of students without classroom education.[7] By March 2007, an estimated 165,000 PA workers had not received their full salaries; the government was unable to pay social assistance transfer payments to 47,000 Palestinian families classified as hardship cases; and hospitals and public health centers had run out of essential medical supplies.

Text box 1: The Oslo Accords and Economic Activity in the West Bank

Promoting economic development in the West Bank presented unique challenges in part because of stipulations established under the Oslo Declaration of 1993 and the 1995 Oslo Accords, both of which would become, together with the 1994 Paris Protocol on economic relations, collectively known as the Oslo Accords. The agreements, which began with secret talks between representatives of the Palestine Liberation Organization and the government of Israel, set in motion a peace process and facilitated the creation of the Palestinian Authority, with the ambition, similar to that agreed to by Egypt and Israel in the 1978 Camp David Accords, of establishing Palestinian self-government. However, the Oslo Accords left unresolved the matter of a Palestinian state, the status of Israeli settlements, and other issues, including the status of Jerusalem and Palestinian refugees.

The Oslo Accords divided the West Bank into three areas. Palestinian cities were designated Area A, where the Palestinian Authority exercised exclusive control. Palestinian villages became Area B, where the Palestinian Authority was responsible for administration and shared with Israel purview over security. Area C comprised all other territory—about 60% of the total area of the West Bank, including the Jordan Valley's fertile agricultural land. Israel asserted control over planning and construction, movement, and security in this area.

"Originally, the idea was that Area C would gradually become part of the Palestinian Authority and then, eventually, part of Palestine when there would be a permanent agreement," Yossi Beilin, one of the Israeli negotiators of the Oslo Accords, told Agence France-Presse. But Beilin's understanding was contradicted by a 1995 speech to the Knesset, in which he was explicit that portions of the West Bank with large Jewish populations and the Jordan Valley would be incorporated into Israel, with the remainder of the West Bank, along with Gaza, becoming subject to Palestinian autonomy, though something less than a state.

See Beilin quoted in "Area C, the chunk of the West Bank the Israeli right has long coveted," France24, April 7, 2020. Accessed at https://www.france24.com/en/20200704-area-c-the-chunk-of-the-west-bank-the-israeli-right-has-long-coveted

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Moreover, the ability of Palestinians to freely engage in economic activity was severely circumscribed. During the second intifada—a five-year uprising, from 2000 to 2005, against Israel's occupation of areas that were home to Palestinians—Israel had imposed a complex array of restrictions on movement in the West Bank and Gaza. Its military controlled border crossings and maintained more than 560 security checkpoints in the West Bank, which slowed trade, added to the cost of doing business, and made Palestinian goods more expensive and less competitive.[8]

Those physical barriers to movement were coupled with a convoluted permit regime under which Palestinians were required to obtain Israeli approval for "nearly all movement outside of their greater municipal area," a 2007 World Bank report said.[9] The permit requirements were "rarely published" and "highly changeable," resulting in a system that was "non-transparent and highly unpredictable," the report said. It concluded that: "The practical effect of this shattered economic space is that on any given day the ability to reach work, school, shopping, healthcare facilities, and agricultural land is highly uncertain and subject to arbitrary restriction and delay. In economic terms, the restrictions have created a level of uncertainty and inefficiency which has made the normal conduct of business extremely difficult and therefore has stymied the growth and investment which is necessary to fuel economic revival."[10]

Additional restrictions complicated economic development. Under the Oslo Accords, some 62% of land in the West Bank, designated Area C, was under Israeli administration (text box 1, figure 1 at end). And because of a relative abundance of natural resources and the fact that Area C was contiguous territory connecting all of the other areas of the West Bank, the value of developing the region was great, with the potential to increase Palestine's GDP by 35%, according to one study.[11] But even though many of the 150,000 Palestinians living in Area C owned land, any commercial, industrial, or residential construction or development required a permit from Israel's Civil Administration. Such permits were hard to get: from 2000 to 2007, only 5.6% of all Palestinian applications for building permits were approved.[12] If a Palestinian undertook construction without a permit, Israel would dispatch personnel and bulldozers to demolish the structure. To make matters worse, strict limits on imports made it difficult to obtain construction supplies.

Further, challenges within the PA government itself confounded the delivery of development projects. Besides the financial squeeze that left civil servants unpaid or partially paid, the capacity of the PA's ministries to develop and carry out a development strategy had weakened during the tumult of the second intifada and the internal conflict between Fatah and Hamas, the two main political groups. Few ministries had systems for monitoring performance, for instance.[13]

FRAMING A RESPONSE

To address these challenges, Fayyad's government first needed a plan that could lay out an implementable economic development strategy and persuade outsiders as well as Palestinians that the government had realistic solutions to the socioeconomic crisis.

To develop the plan, Fayyad turned to Ali Jarbawi, former director general and CEO of the Central Elections Commission, which administered legislative and presidential elections in the territories, and dean of the Faculty of Law and Public Administration at Birzeit University in the West Bank. A political scientist, Jarbawi had also led the Palestinian Independent Center for Citizens' Rights. In mid-August 2007, he agreed to serve as an adviser appointed specifically to develop the strategy. "I had been writing a lot about reform. It was a good opportunity to put one's soul into all of this," he said.

Jarbawi commandeered an office in the Planning Ministry, which, along with the Ministry of Finance, housed the economic strategy project. He assembled a small group of technical staff from the two ministries' ranks. Fayyad, who was serving as prime minister and finance minister while getting his new government up and running was heavily involved.

The team began by defining a vision statement and setting key goals for the government. Neither had previously existed, so the team canvassed the speeches and writings of the PA leadership. They spoke with a wide range of people, Jarbawi said. Aspirations began to emerge from these discussions. They also found in Fayyad's public statements a clear, cohesive articulation of a vision for the PA government: economic development and institution building as means to establish a sovereign Palestinian state. "We decided the plan should lead us to an end of the occupation," Jarbawi recalled. "We needed to build the institutional setup necessary to achieve this goal."

The focus on development and strong institutions was meant to serve the needs of ordinary Palestinians—well-paying jobs, good schools for their children, and access to quality health care—and to provide assurance that any financial support given to the PA would go toward humanitarian and social and economic development purposes.

To link the strategy to results on the ground, the team decided it would embed programs in the PA's medium-term expenditure framework, an internationally recognized planning tool favored by multilateral development institutions such as the International Monetary Fund, Fayyad's previous employer, and the World Bank. The framework helped translate national goals into specific revenue and spending figures. The step would also help persuade the international community to provide financial support for the PA because it helped show where resources would go.

At the heart of the plan was an agenda for economic development. The team articulated two primary mechanisms for spurring growth. The first was government investment. Though the plan would state in its text that "the Palestinian private sector must be the engine of sustainable economic growth,"

the government needed to play an initial role.[14] "We had to jump-start the economy with government spending," Fayyad said. "Private-sector activity wouldn't ramp up unless the government acted first to stimulate growth." The team envisioned investments in infrastructure that would put people to work and repair damage inflicted during the second intifada. "We needed the economy to recover enough for investors to see opportunities and begin employing people," Fayyad said. The team intended this spurt of government investment to be temporary.

The second mechanism for facilitating growth was to remove the movement restrictions that were strangling economic activity. That would require negotiations with Israel, and international pressure would be pivotal.

Over the longer term, Jarbawi's team envisioned a future in which the PA's economy was primarily knowledge-based and its labor force highly skilled. Education levels were already relatively high in the Palestinian territories, and an industry coalition called the Palestinian Information Technology Association was growing. If conflict subsided, the PA would also be able to increase tourism, which had once accounted for 10% of GDP.[15]

With some of those outlines in place, the strategy team next established four pillars—governance, social, economic, and infrastructure—and decided to convene groups of ministries to discuss specific institution-building priorities within each pillar. The clustered structure mirrored the PA's aid coordination system adopted in late 2005, just before Hamas won the national elections.[16] Because the structure was familiar to ministry staff as well as to external partners, it was relatively easy to organize.

Despite those steps, Jarbawi said, he still found the planning meetings difficult because senior civil servants usually came better prepared to talk about their wish lists than about what a sector's priorities ought to be.

By the end of October, however, the team had assembled a development strategy for the next three years, with 33 programs across the four pillars. Within each program, the team proposed specific projects, indicated the measurable results the projects would generate, and computed likely costs. Later presented in a document titled the Palestinian Reform and Development Plan, the strategy also estimated the total value of the external resources the PA needed. "That first year, we needed $1.8 billion, second year $1.5 billion, then $1.2 billion," Fayyad recalled. "The reduction each year would show our seriousness—that we didn't want to continue being subsidized."

GETTING DOWN TO WORK

With a development plan in place, Fayyad's government set out to implement measures that would grow the economy and support the residents of the West Bank. Primarily, that meant building public infrastructure and negotiating an end to the second second-intifada-era restrictions on movement in the West Bank. But the PA's first step was to secure the financing necessary to fund its operations and make public investments.

Securing donor support

In mid-October 2007, as Jarbawi's team was nearing completion of the Palestinian Reform and Development Plan, the French government announced it would host an international gathering in Paris on December 17 to raise financial assistance for the PA. The meeting would be cochaired by the French foreign minister, the Norwegian foreign minister, and Tony Blair, the former British prime minister who was now special envoy for the Quartet, a group comprising the United Nations, the United States, the European Union, and Russia, established in 2002 to help mediate the Israeli–Palestinian peace process.

In mid-November, the PA submitted the reform and development plan to the conference's organizers. Representatives from the World Bank and the IMF reviewed it and gave it their endorsement. The Norwegian foreign ministry and Tony Blair then began enlisting contributors.[17]

In December, Fayyad, Jarbawi, planning minister Samir Abdullah, and other PA cabinet secretaries flew to Paris for the conference. Representatives from 90 countries plus various multilateral institutions attended. At the opening, the cochairs announced the gathering's purpose by using language that was aligned with the vision of the reform and development plan: "to provide political and financial support for the Palestinian Authority by creating the capacities and conditions for creating a Palestinian state." The plan received further affirmation from UN Secretary-General Ban Ki-moon, who said it "clearly and coherently sets out the investment and reform priorities of the Palestinian Authority," adding that "its targets are ambitious but achievable."[18]

In the event, the participants at the conference pledged more than the PA requested, so that failures of some of them to live up to their commitments—a common problem—would not undermine the Fayyad government's work. Several governments, including the United States and the United Kingdom, paid contributions in advance, setting an example for other governments. The PA had the money it would need for its development plan.

But, as Fayyad recalled, there was one problem. Many of the large infrastructure development projects outlined in the plan would be impossible to implement under the conditions that then prevailed in the West Bank. During the previous month, Fayyad had been negotiating with the Israeli government to lift trade restrictions that prevented the flow of building supplies into the West Bank, but the talks were going nowhere. If the PA couldn't procure the materials needed to undertake major infrastructure projects, then it likely would be unable to spend the donor money as it had said it would. "What would it look like if we told the international community we would spend over a billion dollars, but then at the end of the year it came out that we were able to implement only, say, $100 million in projects?" Fayyad said.

At the close of the Paris conference, Fayyad said, he scrapped a prepared speech he was to make and instead tried to prepare the donors for the possibility that the plan would not be implemented as designed. "Please be prepared to offer as much flexibility as you possibly can because rarely are the best-laid plans

implemented exactly as proposed," he recalled saying. "It's quite conceivable that we may have to make some adjustments as we go along."

State building from the bottom up

With Israel unwilling to commit to lifting trade and movement restrictions, Fayyad and his advisers quickly came up with a different approach to public infrastructure development. Rather than undertake a small number of large projects, they decided on a large number of small projects, such as rehabilitation of water networks and irrigation wells, feeder roads, electricity infrastructure, school buildings, and multipurpose halls intended to build a stronger sense of community while providing sources of income for local governments and civil society organizations—particularly in rural areas. The projects could be completed in weeks or months rather than years, and they would require fewer materials.

Moreover, small projects would empower local communities. Fayyad and Hani Kayed, who led the directorate of projects at the Ministry of Local Government, envisioned that the PA would involve local governments, civil society, and citizens in deciding the kinds of projects to pursue. And because most projects would likely require less technical expertise than larger ventures would, small companies, tradespeople, and laborers could manage and carry out the work, thereby creating jobs and generating income for local economies. It was state building from the bottom up.

From a public management perspective, the main challenge was how to organize such an effort. Unlike contracting with a big company for a long road, the pursuit of a variety of small projects required detailed local knowledge and more monitoring resources. Instead of a few projects to monitor, there would be hundreds, if not thousands.

The program quickly took shape, however, with a focus on implementing as many projects as possible—the smaller the better and the faster the better. "Do-ability became the most important criterion in project selection—almost a philosophy of government in a crisis situation," Fayyad said.

The Ministry of Local Government became the locus of activity. It had extensive contacts throughout the territories, including in the refugee camps. It could mobilize communities to offer proposals, disburse funds, and monitor completion. Other ministries—health, education, public works—partnered. For example, if a local government supported construction of a new classroom, the education ministry would provide the teacher.

Kayed was the man of the hour. A civil engineer, Kayed had first joined the PA staff in 1996 and risen within the ranks. He had already created a small grants program to help municipalities carry out projects as a way of reaching the 570 local governments with which the ministry worked.

The community development program had to involve an extensive outreach component. "To say you want to implement as many small projects as possible as soon as possible was one thing; to identify and prioritize them was

another," Fayyad said. That meant taking the concept to the people and getting their input on the kinds of development initiatives they would like to see undertaken in their own communities. It did not take long before that took the form of field trips that ended up covering just about every corner of the West Bank, with Fayyad prioritizing visits to remote, long-marginalized areas. For that purpose, Kayed worked closely with Jamal Zakout, a veteran of the first intifada—an uprising against Israeli occupation that began in 1987 and lasted until 1993—who served as adviser to Fayyad on civil society affairs, outreach initiatives, and media relations. Both Kayed and Zakout had extensive networks within the territories' many local communities.

Kayed also worked closely with another adviser to Fayyad, Mazin Jadallah, for help with securing the funding needed to implement community development projects. Jadallah was a junior finance ministry staffer when Fayyad joined the PA in 2002. Over the years, he acquired extensive experience in dealing with PA donors, which served him well in his role as adviser to the prime minister on relations with the international donor community. In that role, he worked closely with donors to repurpose and redirect already committed funds to match community development priorities as they unfolded in real time.

Administering hundreds, if not thousands, of small projects would overtax the limited ministry capacity available, Fayyad worried, but Kayed suggested that his staff did not have to actually manage the work themselves. Instead, the program could give grants to communities or pay contractors to implement the projects—in the same way the government handled road construction. The role of Kayed's office was simply to issue invitations for proposals and tenders, and then coordinate and track progress.

When the new program launched, Kayed first invited municipalities to hold workshops with community representatives and village councils to help them learn how the program worked. Communities submitted their proposals, including estimated costs and budgets, and discussed the proposals with their respective municipalities to determine whether the ideas duplicated projects already in development or whether coordination with neighboring communities would increase impact. The local governments then sent the ideas forward to the Ministry of Local Government. In considering whether to fund a proposal, the ministry focused on how many people the project would serve, past performance of the municipality, inclusion of youth and women among the beneficiaries, and whether the project would help more than one community. It also considered whether the project would broaden the geographic distribution of projects across the territory and would contribute to reasonably equal engagement by local organizations within its district.

Fayyad recalled that tenders for each project were advertised in local newspapers. A standing committee headed by the local government ministry and the ministry of public works representing seven government agencies evaluated bids—in line with norms and procedures established under a procurement law passed years earlier, he said.

Once Kayed's office granted support, it had to track progress. It did so in two ways: (1) by forming an implementation committee that consisted of representatives of relevant ministries, local government, and sometimes civil society organizations, and (2) by enlisting the engineers and managers on staff, which numbered more than 40 people, all told, as well as private engineering services paid on contract to supervise projects and assist communities when needed. Kayed's office also tried to build local capacity in project management by running instructional workshops.

The money came from a variety of aid partners, who pooled their resources—already promised at the Paris conference—in a designated fund within the PA's central treasury account. Germany was one of those that offered to support the program in a big way, endowing it with the name Future of Palestine.[19] The World Bank provided assistance not just for the projects themselves but also for Kayed's coordination unit and a program to foster interaction between communities through shared initiatives.[20]

Development as resistance

The first field trip Fayyad took as prime minister was to Azzoun Itmeh, a small village in Area C, the 62% of West Bank territory under the direct control of Israel (figure 1). Fayyad recalled that the village was fenced in, accessible only through a gate operated by Israeli security forces and close to burgeoning Israeli settlements. He gave a speech to village residents who had gathered. "I told them to remember that even if there are changes around them, the olive tree is deeply rooted—more deeply rooted than any of the settlements around them," he recalled. "And from being there I became inspired about trying to develop Area C, about building in these remote, marginalized areas as a strategy to counter Israeli settlement activity."

More rural and poorer than other areas of the West Bank, Area C was the territory most in need of development, yet construction was virtually impossible. Palestinians in Area C had to apply to Israel's Civil Administration for permits to build any sort of structure, and such approvals were rarely issued.

The PA began building projects without permits. "Are you really going to seek permission from an authority that controls you and expect that they're going to give it to you? No, you just build it right under their nose," Fayyad said. In response, Israel often demolished the structures. "The whole endeavor of building in Area C was a game of cat and mouse between us and the Israeli military," he said. His government began to prioritize buildings that would be more difficult—in terms of optics—for the Israelis to destroy. "We built schools," Fayyad said. "We built them even in places without big needs for schools. But we built them because we knew it would be hard for Israel to justify destroying them."

Fayyad made many visits to meet with village leaders and hold town-hall-style gatherings so he could learn the kinds of projects residents thought were important to build. "I was spending around half of my time out on the road and

in the field meeting with people across the West Bank," he recalled. "We were trying to show that the government was out there, working for them."

On one occasion, Fayyad visited Qarawat Bani Hassan, a Palestinian village facing encroachment from a growing Israeli settlement. The village leaders told him that more than anything they needed a road, of just 1.8 kilometers, or just over a mile, to connect the village to its water source, a spring. "This was in the heart of an Israeli settlement area," Fayyad recalled. "Any objective person would have said it would be impossible to build a road—that the Israelis never would allow it."

The next day, the government dispatched a team of engineers to begin the reconnaissance needed to plan construction. "The townspeople couldn't believe we were actually taking their request seriously," Fayyad said. "There was a lot of skepticism." The government applied to the Israeli Civil Administration for a building permit, knowing it would be denied.

Not long after beginning construction, Fayyad recalled, he received a phone call with news that he expected: the Israeli military had arrived at the construction site, detained the contractor, confiscated the equipment, and ordered the laborers to halt work on the project. "That should have been the end of it," Fayyad recalled. "But the road took on a symbolic importance in my mind, as if building this road was building a state. We could not just stop."

He contacted the village and pledged to continue to build, which meant having to switch to small machinery and reducing the quality of the road. The work resumed at a painstakingly slow pace and mostly under the cover of darkness—especially on Fridays and Saturdays when there was no Israeli army patrol activity. After about three months, the job was complete. Fayyad's office organized a celebration at the site to inaugurate the new road. Government officials, civil society members, and international diplomats attended. "We invited the whole world to come and see this little road," Fayyad recalled. He named it Freedom Road.

A few weeks later, the Israeli military returned with heavy earth-moving machinery and destroyed the road. Fayyad returned to the village shortly thereafter. "We'll fix it," he recalled telling the townspeople. The same workers returned and rebuilt the road. Again, the Israelis bulldozed it. And again, Fayyad visited the village and said they would rebuild it. The workers rebuilt it, and this time the Israelis did not return to destroy it.

The construction in Area C underscored the larger purpose of economic development as envisioned by the reform and development plan. Improving the material livelihoods of Palestinians was important, but equally important was the political goal of ending the occupation. "The building effort was an instrument of resistance," Fayyad said. "Every time we dug a well or got one additional kid into school or made a plot of land more productive, it helped our people withstand the adversity of living under occupation. Even if what we built got demolished, every time you roll the boulder up the hill, you learn something; and the mere fact of doing it is an act of empowerment."

OVERCOMING OBSTACLES

The Palestinian Reform and Development Plan had envisioned two mechanisms for stimulating the economy. The first, public infrastructure development, proceeded at a rapid pace as the PA implemented small-scale projects across the West Bank. However, the second mechanism for growth, reducing Israeli restrictions on movement and trade that stifled economic activity, was far more difficult to advance.

The November 27, 2007, Annapolis conference had relaunched the Roadmap for Peace, the 2003 path to a two-state solution of the Israeli–Palestinian conflict. As chair of the Palestine Liberation Organization and president of the Palestinian Authority, Mahmoud Abbas led the delegation and handled diplomatic negotiations with Israeli Prime Minister Ehud Olmert. Fayyad and Israeli defense minister Ehud Barak began to negotiate practical details on economic matters, with US Secretary of State Condoleezza Rice as mediator.

Fayyad's goal was to elicit changes that would eliminate some of the checkpoints and other restrictions on trade so as to make people's lives easier. Abbas had tasked Fayyad to negotiate because of Fayyad's detailed administrative knowledge, Fayyad recalled. Barak negotiated for Israel because security was the putative reason the restrictions were in place.

Using a detailed map of the area, the two discussed whether there were security justifications for various checkpoints. Fayyad argued for removing several checkpoints or extending the hours during which they were open. In addition to the economic costs they imposed, the restrictions were also sources of deep frustration and humiliation for residents of the West Bank. "We wanted these things removed because they were instruments of subjugation as well as economic impediments, and I was looking for things that could begin to get people to think differently," Fayyad said.

Fayyad and Barak found few points of agreement. A longer negotiating process ensued, with regular biweekly meetings, beginning on December 10.[21] Despite US engagement, the negotiation process proceeded slowly. "It was like pulling teeth," Fayyad said. By and large, he recalled, Israel made unilateral decisions when it came to the checkpoints and whether to impose a so-called closure day—one on which neither people nor goods were allowed to move into or out of the West Bank. Total closures usually happened during extended Jewish religious holidays or after security incidents.

In 2008, it seemed things were moving backward. The number of closure days increased from 34 in 2007 to 52 in 2008.[22] In a report to the Ad Hoc Liaison Committee—the body of representatives of international donors set up to help mobilize donor support for the PA, coordinate donor activities, and monitor implementation by Palestinians and Israelis of their respective commitments in the economic sphere—Palestinian planning minister Samir Abdullah wrote: "Movement restrictions have increased despite the relaunch of

peace negotiations in Annapolis. While there were expectations following the Paris International Donor Conference that checkpoints and barriers would be reduced, they actually increased. Obstacles and roadblocks in the West Bank alone increased to 580 during the month of February 2008, up from a monthly average of 552 in the previous year." [23]

Conditions improved the next year, however. Increased international pressure—especially from the Quartet—plus an improved security situation in the West Bank based on public safety reforms undertaken by the PA (see companion case *Restoring Order in the West Bank, 2007 – 2009*), led Israel to ease its restrictions. In September 2009, the Israeli Ministry of Defense ordered that 100 roadblocks in the West Bank be removed. In December 2009, Israeli reported that the number of major checkpoints in the West Bank had been reduced from 41 in July 2007 to 14.[24] Israel also increased the hours during which major crossings between the West Bank and Israel, as well as the Allenby Bridge with Jordan, were open.[25] The number of closure days decreased from 52 in 2008 to 44 in 2009 and to 31 in 2010.[26]

ASSESSING RESULTS

By 2010, the Fayyad government could point to a number of positive results in the economy of the West Bank. According to figures from the Palestinian Central Bureau of Statistics cited in IMF and World Bank reports, the GDP of the West Bank grew year on year at 8% or higher for the period 2008–10.[27] Similarly, unemployment in the West Bank dropped from 19% in the first quarter of 2008 to 16% by the end of 2010.[28]

Evidence also suggested that private investment increased. From 2008 to 2009, foreign investment in the West Bank increased sixfold.[29] A World Bank report found that "managers in banks and loan guarantee programs have indicated that they were being approached by more entrepreneurs seeking financing for long-term projects. Between 2008 and 2009 alone, the number of newly registered enterprises jumped by more than 38% with declared capital in 2009 more than double of that in 2008."[30]

At the same time, IMF data indicated that the PA had reduced its reliance on donor support. External support accounted for 32% of the West Bank's GDP in 2008; in 2010, it accounted for 16%.[31]

The gradual easing of trade and movement restrictions between the West Bank and Israel resulted in increased cross-border economic activity. The Israeli government reported that the number of trucks delivering goods from the West Bank into Israel increased 52% from 2008 to 2009.[32] The PA's total foreign trade, including with Israel, increased 17% from 2007 to 2008. After that big bounce, trade increased at a more modest rate: about 2.75% from 2008 to 2009.[33]

In two years, the PA had carried out nearly 3,000 small-scale development projects, including the construction of more than 100 schools. More than 800 of those projects were in Area C, territory in which the government had never

undertaken a single development project before 2007. Most of the projects still stood when Fayyad left office.

"There was not a corner of the country that we did not visit or serve—not a barracks or a tent," said Fayyad. "And the development program endured in a good way." Frequent field visits by PA government officials—Fayyad included—plus the rapid completion of small projects improved towns and villages, facilitated economic activity, and likely contributed to residents' improving perceptions of government.

The Palestinian Center for Policy and Survey Research, which tracked public opinion in the Palestinian territories, found in early 2010 that 44.7% of West Bank residents said they thought the Fayyad government was doing a good or very good job; 76% rated performance average or better.[34] Those numbers were up from early 2009, when 29% said the government's performance was good or very good and 55.5% said it was average or better.

In an interview with the *Washington Post* in late 2009, Fayyad said: "In mid-2007, I took over. I [now] say to people, 'two years ago I came to you and talked about [development projects]. I can understand it if some of you thought, 'sounds good but it's not going to happen.' But here we are. The school is there. The water pump is [working]; electricity is on. And just as one school happened, the next one will happen.'"[35]

International donors—both governments and multilateral institutions—praised the economic progress in the West Bank. Referring to the success of the Fayyad government's economic development plan and public financial management reforms (see companion case *Rebuilding Financial Management in the Palestinian Authority, 2007-2012*), World Bank Vice President for Middle East and North Africa Shamshad Akhtar said during the 2010 Ad Hoc Liaison Committee meeting, "The Palestinian Authority has illustrated its strong commitment and determination to steer the economy despite the challenges it faces . . . The World Bank believes that the PA is, in several regards, well-positioned to take the reins of its statehood as the political dynamics allow."[36]

REFLECTIONS

Though it materially improved livelihoods in the West Bank, the economic development agenda undertaken by Prime Minister Salam Fayyad was at its heart a political endeavor. "Nothing was purely technocratic," he said. "All of our development efforts had to be linked to political goals because building a state is a political enterprise. We had to help our people make the connection that building was about the ultimate goal of freedom in a state of our own."

Fayyad recalled that a palpable sense of nationhood and civic participation grew as he and other PA officials traveled the territory, engaging with citizens and carrying out small development projects. "When we visited villages to implement development projects, these people had never seen the face or hand of government before," he said. He recalled that more and more people became involved; newspaper readership grew, as news now contained project

announcements and invitations to tender. "People felt government working for them. In that way, we were building a political system and culture on the strength of an economic process."

Other political dynamics, however, worked against the Fayyad government's goal of Palestinian statehood. Fayyad recalled that powerful figures began to see his rising popularity as a potential threat to their own influence. "If you ask me where I made a mistake, it was primarily that I didn't worry about the elite too much," he reflected. "I was naive in thinking that if you have a big idea that resonates with ordinary citizens, that's good enough. I was wrong about that." For instance, on occasion, some of the families that controlled the territories' large businesses found ways to impede changes they did not like.

Second, even if the PA could "project the reality of a state on the ground," changing the status quo required Israeli cooperation. UN Special Coordinator Robert Serry wrote in his memoir *The Endless Quest for Israeli-Palestinian Peace: A Reflection from No Man's Land* that Fayyad had achieved what he called a "failed success." The government had demonstrated it could handle its socioeconomic affairs well enough to receive what Serry described as "a certificate of statehood," yet little progress toward sovereignty occurred because of "lack of Israeli facilitation," he wrote. That "begged the question why Israel, if it was really interested in peace with the Palestinians, didn't do more to enable this new kind of Palestinian leader." Israel, he concluded, was unwilling or unable to change "entrenched habits of occupation."[37]

Fayyad agreed, saying he was not sure the idea of a fully sovereign Palestinian state that included any part of the West Bank was ever internalized by the Israeli body politic. He cited the framing of the Oslo Accords—which made progress toward self-determination contingent on Palestinian restraint but said little about Israel's obligations, coupled with subsequent Israeli government actions that made public security and economic development more difficult to achieve—as suggestive of a fundamental Israeli objection to Palestinian sovereignty, adding "within such construction, a Palestinian state look-alike was OK, provided it was not allowed to ever be strong or viable enough to become a full-fledged state."

Figure 1: Areas A, B, C
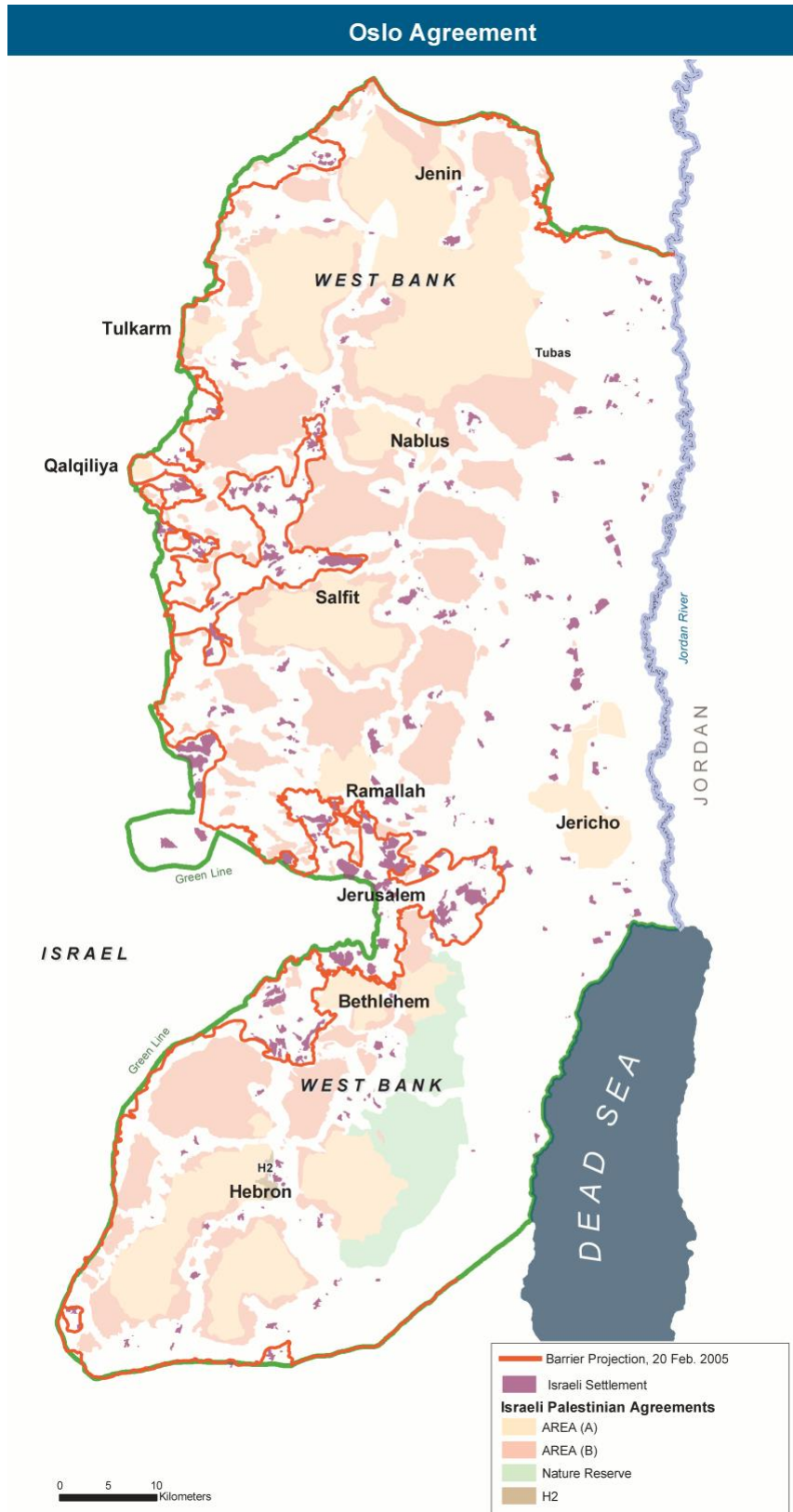
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