



**BACKGROUND NOTE:
SALAM FAYYAD AND THE POLITICS OF PALESTINE, 2002 – 2013**

For readers unfamiliar with the history surrounding the case studies in this series, this overview offers a quick introduction.



<https://www.bbc.com/news/world-middle-east-54116567>

During the opening years of the twenty-first century, Palestinians struggled to establish an independent state, even as Israel continued to occupy the land on which they lived—territory Israel had captured in 1967.

The hurdles that confronted those who tried to build order and accountable government were familiar to anyone who tried to manage transitional or caretaker governments in Northern Ireland and South Africa, or in Yemen, Libya, and Nepal: contested legitimacy and control over territory, deep suspicions and mistrust among the factions that competed for primacy; a nearly empty treasury; a government that served as employer of last resort; a civil service that mismatched skills and responsibilities; and vulnerability to outside meddling in internal affairs. To make matters more difficult, the occupying power and its allies controlled the goalposts for certifying whether Palestinians had lived up to their commitments under the Oslo Accords and therefore whether Palestine merited statehood.

Among those who joined the push for self-government was Salam Fayyad, who served as finance minister (2002–05) and prime minister (2007–13) through the volatile early years of the quest for a two-state solution to the conflict with Israel.

This multipart ISS series draws on Fayyad’s recollections and those of others closely involved in helping steer the Palestinians through that turbulent time.

Fayyad was born in the West Bank in 1952, when the area was under Jordanian rule. In 1967, his hometown of Tulkarm, like the rest of the West Bank, came under Israeli control following a war between Israel and three Arab neighbors: Egypt, Jordan, and Syria. A few years later, Fayyad attended the American University of Beirut in Lebanon. He continued his studies in the United States, earning a doctorate in economics from the University of Texas at Austin. In 1987, he moved to Washington, D.C., to work with the International Monetary Fund (IMF).

From his new home in the United States—with his wife and, later, their three children—Fayyad stayed loyal to his Palestinian roots. He closely followed the nationalist cause and had conflicted feelings about building a successful career while his homeland struggled under occupation. “I was torn,” he recalled. “The Palestinian in me was nagging me all the time. I had grown up thinking Palestine was my home.” He never considered applying for US residency or citizenship.

In 1994, after years of conflict and following an accord between Israel and the Palestine Liberation Organization (PLO), Yasser Arafat and other Palestinian leaders began to establish the Palestinian Authority (PA) as an interim body tasked with limited self-government until the Israelis and Palestinians could negotiate a permanent settlement. The agreements called for the PA to govern for a period of five years, but because of the absence of a final agreement, the authority remained in place after the initial 1999 deadline.

Fayyad wanted to be involved in the new authority in some way and inquired about joining a Palestinian council that coordinated with donors on infrastructure projects. He did not find a position there right away, but in 1995 he had his chance to return home. The IMF needed a resident representative in the West Bank and Gaza, and Fayyad jumped at the chance, relocating his family from the United States to Jerusalem. In that position, he played an important role in the development of reforms—including an agenda for public financial management—and he developed working relationships with PA leaders, including Arafat.

In 2001, Fayyad’s term of service as IMF resident representative ended, and he left the organization rather than go back to headquarters or take a post elsewhere. “My destiny was to be in my own country,” he said. He took a job as head of Palestinian operations at the Arab Bank, the largest commercial bank in the region, and tried to make the bank function despite the Israeli military reoccupation of Palestinian cities. He worked there for less than a year.

In June 2002, under domestic and international pressure to implement financial reforms in the PA, Arafat offered Fayyad the position of finance minister, Fayyad’s initial entry into the government of his homeland. Fayyad recalled that in keeping with the shifting political winds of the time, Arafat gave him no specific orders. But he knew that the core of his job—and the jobs of others who shared his commitment to his homeland—was to bolster the PA’s fragile government.

To make progress toward fixing the PA's troubles both from his initial post at the finance ministry and later as prime minister, Fayyad had to grapple with six overarching and intertwined challenges: (1) ill-defined rules and procedures that had resulted in poor government performance; (2) an administrative culture often resistant to transparency and coordination; (3) weak oversight, which opened the door to error and malfeasance; (4) powerful people who were heavily invested in the status quo and had little to gain from change; (5) strong factional competition; and (6) dependence on reciprocal actions by the occupying power in order to implement reforms needed to improve people's lives.

Fayyad had to confront those challenges in the context of a devastated economy. Recession struck in 2000 as the second intifada, an uprising against the occupation, erupted and Israel responded to violent protests by suspending the transfer of revenues it collected on the PA's behalf. Israel increased restrictions on Palestinians' movements—including lengthy closures of West Bank cities and the entire Gaza Strip—and it cut the number of permits that allowed Palestinians living in the West Bank and Gaza to work in Israel. Those factors pushed the Palestinian unemployment rate to more than 50%, and the share of the population living below the poverty line (defined as an income of US\$2 per day) nearly doubled to 59% in 2002 from 31% just two years earlier.¹ Per-capita gross domestic product fell 20% from 2000 to 2001, and another 23% from 2001 to 2002.²

Fayyad had significant political backing for his efforts. At the time, influential Palestinian Legislative Council leaders and even members of the PLO itself were pressing the Arafat government to undertake major reforms of its own operations. That changing environment within the PA helped pave the way for Fayyad to secure support for new internal financial controls and to gain cabinet approval for their implementation. In March 2003, Arafat also consented to the long-awaited creation of the position of prime minister within the PA, with authority divided between the prime minister and the president. Mahmoud Abbas, a PLO leader associated with the Fatah political faction, became the first to hold the new post.

Two years after Fayyad began bringing order to the PA's finances, an extended period of political turbulence began, which complicated some of the changes he had sought to make and which set the stage for the intense challenges he would face as prime minister a few years later. Arafat, the first PLO chairman and a father figure to many, died in November 2004. Abbas, who succeeded him as head of the PLO, ran for president and won the January 2005 election. Ahmed Qurei, speaker of the Palestinian Legislative Council and a member of the Fatah central committee, replaced Abbas as prime minister. But competition among political movements and factions rapidly intensified.

Fayyad served as finance minister until late 2005, when, against a backdrop of escalating campaign-period policy differences among senior decision makers, he left the government to run in parliamentary elections scheduled to take place in January 2006. Toward that end, Fayyad, together with a group of political independents, formed an electoral slate named Third Way to compete for

legislative seats allocated on the basis of proportional representation. Fayyad was one of the two candidates from that slate to win a seat. The incumbent party, Fatah, which was favored to win a majority, allowed its candidates to run against each other and split the vote, thereby losing to Hamas, a religious political party that refused to recognize Israel or renounce violence.

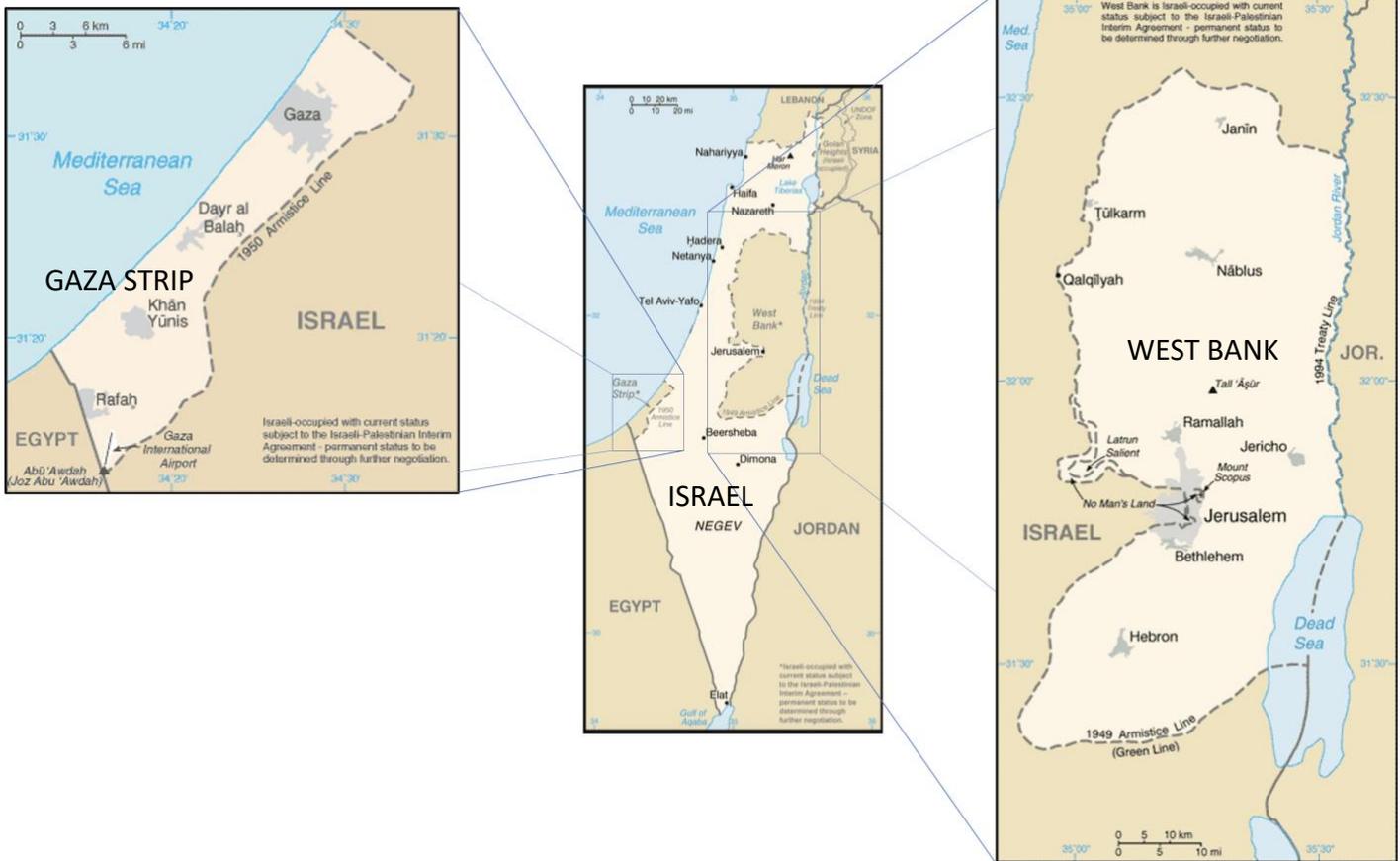
A little more than a year later, Fayyad was back as the consensus choice among main factions as finance minister in a unity government headed by Hamas leader Ismail Haniyeh. The new cabinet struggled to curtail increasing lawlessness, its job made more difficult by Israel's decision to again withhold the revenues it collected on the authority's behalf and by the withdrawal of most external assistance. Some members of the security services, with salaries partly unpaid, began to freelance, and crime started to rise, especially in the West Bank.

Violence between Fatah and Hamas, on the increase for several years, exploded in June 2007. Hamas seized control of government offices in Gaza, creating a constitutional crisis. President Abbas responded by setting up an emergency government, and he called on Fayyad to become prime minister. Fayyad served in the position until mid 2013, heading a succession of caretaker governments. As he saw it, his task was to address a state of extreme lawlessness, while shoring up the economy and getting the PA's finances back in order. That effort was largely successful in the sense that, acting within the framework of what became widely known as the "Fayyad plan" (2009-2011), the PA won in 2011 formal international recognition of its readiness for statehood.³

However, Fayyad also had to deal with an exceptionally difficult challenge the Israeli–Palestinian conflict had created. To reach a permanent settlement with Israel and secure status as an independent state, the president and prime minister had to persuade Palestinians to accept the kind of strategy Gandhi and Mandela had proposed to their followers. Peaceful resistance would enable the PA to seize the moral high ground, they reasoned. Under the resulting international pressure, Israel would have to make good on its commitment to respect an independent Palestinian state. But getting that kind of agreement in an increasingly fractured polity was hugely difficult, and Israel's actions—in the form of continued expansion of settlements, withholding of the PA's revenues, and sharp constraint of Palestinian economic development in about 60 percent of the West Bank—made it even more so.

Fayyad's odyssey during that period, as well as earlier, offers insight into several broader political challenges: (1) how to transform a personalist and patronage-based system into one based on bureaucratic rules; (2) how to manage institutional reform in the context of intense partisanship and factional competition; (3) how to induce political leaders, an occupying power, and members of the international community to converge on a shared set of goals and then undertake the reciprocal actions required to achieve those outcomes; (4) how to navigate institutional change when a constitution divides authority between a president and a prime minister; and (5) how to create and promulgate a compelling vision to help people endure short-term sacrifice on behalf of a better future for the next generation.

The Palestinian Territories in 2004



Wikimedia Commons courtesy US government

References

^{1,2} "Twenty-Seven Months – Intifada, Closures and Palestinian Economic Crisis." World Bank, 2003. <http://documents.worldbank.org/curated/en/616581468765333893/Twenty-seven-months-Intifada-closures-and-Palestinian-economic-crisis-an-assessment>

³ See the chair's summary of the Ad Hoc Liaison Committee (AHLIC) Brussels meeting in April 2011. Accessed at <https://www.un.org/unispal/document/auto-insert-196726/>



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