

# Killing with kindness: funding the demise of a Palestinian state

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We meet at a time when a great achievement of history is within reach, the creation of a peaceful, democratic Palestinian state.

President George W. Bush. Statement welcoming Palestinian President Mahmoud Abbas to the White House, 26 May 2005.

In the present reality, I see difficulty in producing a stable situation of end-of-conflict within that paradigm [of a two-state solution]. A two-state solution is simply not relevant. It is a story that the Western world tells with Western eyes. And that story does not comprehend the scale of the gap and the scale of the problem. We, too, are sweeping it under the carpet ... We have created a paradigm that generates an illusion. We have to think in long-term historical terms. Think about a lengthy process. Not something that is finished here and now and gives us an end to the conflict. There is no such solution now.

General Moshe Ya'alon, IDF Chief of Staff 2002–2005, 1 June 2005.<sup>1</sup>

President Bush now officially talks about the *creation* of a Palestinian state. He first articulated his 'vision of two states, living side by side, in peace and security' in his speech of 24 June 2002 calling for Palestinian reform and leadership change. At the declaratory level, there seems to have been a qualitative shift in the American conception of what a solution to the Israeli–Palestinian conflict entails. This shift is not restricted to the attitude of the United States. In 1999, the European Union, which since the Venice Declaration in 1980 had pronounced itself in favour of Palestinians' right to self-determination, gave explicit support for two states.<sup>2</sup> More generally, the decade since the Oslo peace process was launched in 1993 has seen the clear emergence of an international consensus around the idea of a two-state solution as the best option for peace in the Middle East. This is embodied in the title of the peace plan put forward by the Quartet in April 2003: 'a performance-based roadmap to a permanent two-state solution to the Israeli–Palestinian conflict'.<sup>3</sup>

<sup>1</sup> 'Ya'alon: IDF persuaded Palestinians to halt terror', *Ha'aretz*, 1 June 2005.

<sup>2</sup> *Conclusions of the European Council in Berlin*, 24–25 March 1999, at <https://www.europa.eu.int>.

<sup>3</sup> The Quartet is the highest multilateral diplomatic forum for the Israeli–Palestinian peace process and is composed of the United States, the European Union, the United Nations and Russia.

The international community has collectively sought to support this state-building enterprise by injecting a considerable amount of cash. More than US\$7 billion have been disbursed to the occupied Palestinian territory (oPt) over the last twelve years—with an average of a little under US\$1 billion per annum over the last four years. The European Union (Commission and member states combined) has been by far the largest aid contributor to the Palestinians. The Arab League states have also been substantial donors, notably through budgetary support to the Palestinian National Authority (PA) during the intifada. For its part, the United States has also provided considerable funds, even if they are negligible compared to what it allocates bilaterally to Israel—which alone far exceeds the level of combined international assistance to the Palestinians.<sup>4</sup>

Central to donor thinking has been the desire to provide tangible benefits to the 3.6 million Palestinians of the oPt through improvements in living standards, higher incomes and upgraded infrastructure so as to create a positive environment for peace negotiations and lay the basis for a future state. At the time of Oslo, there was considerable optimism that the process of reaching a final peace deal would proceed uninterrupted during the five-year transitional period initially envisaged. By fostering economic and social development in the West Bank and Gaza Strip (WBGS) and building Palestinian institutions, it was assumed that the aid effort would buttress the political process and sustain the search for a peace settlement.

As early as the mid-1990s, however, donors had to shift much of their funds to emergency assistance to alleviate the social impact of the severe economic and budgetary crises which engulfed the WBGS and support the nascent PA. With the onset of the intifada crisis and an incapacitated PA, levels of relief aid peaked. But, if the peace process did not unfold as anticipated and eventually collapsed in 2000, the rationale for donors' assistance has remained unchanged to date. While the international community continues to be engaged in the search for a peace settlement, emergency aid is to relieve human suffering, avoid a total collapse of the economy and sustain the PA, thereby preventing further political radicalization and violence. Despite the longevity of the crisis, aid to the oPt remains one of the highest levels of multilateral per capita foreign aid in the world at about US\$300 per year.<sup>5</sup> With the recent Israeli disengagement from Gaza and part of the West Bank, donor funding in the next few years is expected to increase, possibly reaching as much as 3 billion per annum.<sup>6</sup>

Writing about the demise of a two-state solution may thus seem unduly pessimistic at a time when the concept has arguably more international appeal

<sup>4</sup> Bilateral American aid to Israel is estimated to be over \$4 billion a year if military and economic aid, loan guarantees and grants, hard and soft money are included (Interview with senior State Department official, Washington DC, 28 April 2004). As an indication, for the fiscal year 2003, the US Embassy to Israel estimated that US per capita assistance to Israel amounted to \$654 as compared to \$54 to the Palestinians. 'US assistance to Israel', at <http://www.usembassy-israel.org.il>.

<sup>5</sup> *Disengagement, the Palestinian economy and the settlements* (Jerusalem: World Bank, 23 June 2004), p. ii.

<sup>6</sup> *Stagnation or revival? Israeli disengagement and Palestinian economic prospects* (Jerusalem: World Bank, December 2004), p. 3. See also *Ha'aretz*, 10 July 2005.

and backing than it has had since Israel began its occupation of the Palestinian territories 38 years ago. This may also appear inopportune as the donor community is enthusiastically engaged in planning for the funding of disengagement in an atmosphere of renewed optimism brought about by the Israeli withdrawal and a change in the Palestinian leadership following the death of President Arafat in November 2004. However, the underlying trend of the last twelve years contrasts sharply with the international community's current zeal and hyperactivity. The paradox is that although at the declaratory level there has been a growing acceptance of the two-state solution, the feasibility of its materialization dramatically decreased as the decade unfolded.

The reality of the whole period has been one of increasing territorial, socio-economic and political fragmentation, which intensified with the onset of the intifada. This has in large part been caused by a number of mutually reinforcing Israeli measures of control and territorial expansion. In turn, this process of 'bantustanization', whereby the West Bank, East Jerusalem and the Gaza Strip have become a collection of isolated areas and enclaves separated from one another, stands in sharp contradiction to the *sine qua non* of territorial contiguity as the basis for an economically and politically viable Palestinian state.

This article sets out to show the widening gulf which has emerged between the international community's professed diplomatic endgame, the assistance policy it has put forward in support of this political goal, and the developments on the ground. It is its central contention that, in the course of the last decade, the international donor community has financed not only Israel's continued occupation but also its expansionist agenda—at the expense of international law, of the well-being of the Palestinian population, of their right to self-determination, and of the international community's own stated developmental and political objectives. Looking ahead, 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.

### **Developments in the oPt: a multi-faceted process of territorial, socio-economic and political fragmentation**

The territorial fragmentation of the WBGS today is more pervasive than at any point since the beginning of the Israeli occupation in 1967. It is the result of a web of intertwined policies pursued by all consecutive Israeli governments regardless of their party affiliation, notably the strict closure regime that has been imposed on the oPt since the early 1990s, its partition into areas A, B and C following the 1995 Interim Agreement, and the creation of physical 'facts on the ground' on Palestinian land through such measures as large-scale house demolitions and land expropriation, Jewish settlements and by-pass road expansion, and, more recently, the construction of the separation barrier in the West Bank which replicates the fence erected around Gaza in the 1990s. Although some of these measures such as the closure and the barrier are justified by Israel

as temporary security measures to prevent the infiltration of suicide bombers into Israel, taken as a whole, they are too far-reaching to be seen solely as ad hoc measures linked to Palestinian security performance. Rather, they should primarily be understood in the context of Israel's occupation and other policies of territorial expansion aimed at widening its control and transforming the physical landscape of the WBGS.<sup>7</sup>

A glance at a map of the West Bank reveals a patchwork of small Palestinian islands within Israeli territorial contiguity, rather than isolated Israeli settlement dots within Palestinian geographical continuity which would have most accurately described the situation in 1993. Area C, which has remained under Israeli control since Oslo, represents about 60 per cent of the West Bank. Palestinian populated enclaves (consisting of the main cities of area A and Palestinian villages largely in area B) are separated from one another by the wall, by Israeli checkpoints and other forms of physical barriers (such as observation towers, road gates, road blocks, earth mounds, trenches, etc.), by settlements and by a segregated road network which is limited or totally prohibited to Palestinian vehicular and pedestrian use. Internal closure, which restricts the free movement of Palestinian people, vehicle and goods within the oPt, is enforced by a complex permit system and is supplemented by the external sealing off of the West Bank and Gaza Strip from one another and from all neighbouring countries, namely Israel, Jordan and Egypt. In other words, the occupied territories today are both besieged and internally fragmented.<sup>8</sup>

These severe movement restrictions and the reduction in the flows of Palestinian workers to Israel have been the proximate cause of the recurrent economic crises that have engulfed the occupied territories since Oslo. The economic situation stabilized to a certain extent in the late 1990s, but Palestinian living conditions have consistently remained well below what they had been prior to 1993. In June 2000, after two years of economic recovery and modest growth, the World Bank nonetheless estimated that if the growth rates were sustained, it would take a decade before real Palestinian GNP/capita reached its 1993 level.<sup>9</sup> Real per capita expenditure was at its lowest level in 1999 for any year since 1980.<sup>10</sup> With the onset of the intifada, renewed violence and the physical and institutional destruction of the PA, the recession deepened, leading to the emergence of a humanitarian crisis from 2002.<sup>11</sup>

<sup>7</sup> For instance, had the wall a strictly security rationale, it could have been built on the Green Line (the 1967 armistice line separating Israel from the oPt). In some places the barrier goes as deep as six kilometres inside the West Bank. *The impact of Israel's separation barrier on affected West Bank communities* (Jerusalem: HEPG, May 2003); and *Update 3* (30 November 2003).

<sup>8</sup> For a detailed analysis of this process of territorial fragmentation, see Anne Le More, 'Are realities on the ground compatible with the international state-building and development agenda?', in Michael Keating, Anne Le More and Robert Lowe, eds, *Aid, diplomacy and facts on the ground: the case of Palestine* (London: Chatham House, 2005).

<sup>9</sup> *Aid effectiveness in the West Bank and Gaza* (Jerusalem: World Bank/Government of Japan, June 2000), p. 14.

<sup>10</sup> *Development under adversity: the Palestinian economy in transition* (Jerusalem: MAS/World Bank, 1999), p. 2.

<sup>11</sup> On the nature and impact of the humanitarian crisis, see *United Nations 2004 Humanitarian Plan of Action for the Occupied Palestinian Territory (CAP)* (New York and Geneva: OCHA, November 2003).

Unemployment reached 35 per cent by the end of 2001 and 37 per cent a year later. By March 2002, an estimated 45–50 per cent of the population was living below the poverty line, peaking at 60 per cent by mid-2003 against 21 per cent on the eve of the intifada.<sup>12</sup>

At a more structural level, the cantonization of the WBGS has led to the disintegration of the economic links between its various parts and contributed to the creation of disconnected Palestinian economic clusters with increasingly less access to either the Israeli economy or to one another. In the 1990s, this trend in localization of economic activity primarily affected Gaza but from the early 2000s, the West Bank also fragmented into a number of small economies, a process that intensified with the construction of the wall.<sup>13</sup>

The deterioration of the economic conditions, coupled with continuing Israeli occupation, the building of 'facts on the ground' and the absence of any real headway in the diplomatic process, in turn have had serious consequences on the evolution of Palestinian domestic politics since Oslo. As the much anticipated 'peace dividend' failed to materialize and the PA had to absorb a large proportion of former Civil Administration personnel and returning Palestinian Liberation Organization (PLO) activists as well as compensate for the loss of jobs and income, public sector hiring became both a way to provide a safety net for the population and ensure the stability of the regime.<sup>14</sup> Clientelism and the neo-patrimonial distribution of resources were used by President Arafat and the new PA elite to reward loyalty or to co-opt the opposition, thereby holding together a political power base in a context of mounting popular discontent and the growing appeal of Islamic movements such as Hamas.<sup>15</sup> Public revenues and the opaque allocation of business contracts notably in the case of PA monopolies also became a political resource to buy support for the regime, leading to the waste and misuse of public funds and the growing perception that the PA was not only a bloated and inefficient administration but also a corrupt one.

If it was in part a legacy of the centralized, secretive and patronage-based bureaucratic structure of the revolutionary PLO in exile, the authoritarian nature of the PA regime was also a product of the peace agreements. The international community and many on the Israeli and Palestinian sides have seen in the PA the embryonic structure upon which the future Palestinian state would be based. Yet, in reality, Oslo (like the current disengagement) has essentially

<sup>12</sup> *Fifteen months—intifada, closures and Palestinian economic crisis—an assessment* (Jerusalem: World Bank, March 2002), pp. 34–6; *Twenty-seven months—intifada, closures and economic crisis—an assessment* (Jerusalem: World Bank, May 2003), p. 7.

<sup>13</sup> *Four years—intifada, closures and Palestinian economic crisis—an assessment* (Jerusalem: World Bank, October 2004), pp. 52–4.

<sup>14</sup> For instance, 125,000 people were estimated to be on the PA's payroll in 2003—26% of those working in the oPt and 40% of all domestic wages. *Twenty-seven months—intifada, closures and economic crisis—an assessment* (Jerusalem: World Bank, May 2003), p. xiii.

<sup>15</sup> On PA authoritarianism and neo-patrimonial practices, see Rex Brynen, 'The neopatrimonial dimension of Palestinian politics', *Journal of Palestinian Studies* 25: 1, Autumn 1995; Glenn E. Robinson, *Building a Palestinian state: the incomplete revolution* (Bloomington, IN: Indiana University Press, 1997).

been about the partial redeployment of Israeli troops and the establishment of Palestinian self-rule and limited autonomy in the areas of high Palestinian population density. The PA has been conceived as a transient institution, limited spatially and circumscribed in the powers it can exercise in the non-contiguous areas which it has been created to administer: the PA does not have control over its external and internal borders, the airspace, access to the sea, the overall security of the oPt, its foreign policy, and key natural resources such as land and water; it lacks an autonomous fiscal and monetary base and, as mentioned, the movement of goods and people to the outside world, between and within the autonomous areas is dependent on Israel. Within this 'client status' context, the PA core functions are to provide civil and legal administration to the non-refugee population of the WBGS and deliver security for the Israelis.<sup>16</sup> Repression and the curtailment of political and civic rights have thus also been central features of the regime, largely as a response to the security orientation of the political process since Oslo, that made and continues to make, progress in the negotiation process conditional upon Palestinian security performance.<sup>17</sup> As famously stated by Prime Minister Rabin in September 1993:

I prefer the Palestinians to cope with the problem of enforcing order in the Gaza Strip. The Palestinians will be better at it than we were because they will allow no appeals to the Supreme Court and will prevent the Israeli Association of Civil Rights from criticizing the conditions there by denying it access to the area. They will rule by their own methods, freeing, and this is most important, the Israeli army soldiers from having to do what they will do.<sup>18</sup>

The PA regime was built with international funds at the cost of democracy, transparency, accountability, the rule of law and respect for human rights. Not surprisingly, although it has survived, it has today lost much of its legitimacy and popularity. In addition, the intifada led to its considerable weakening. As the result of the deepening of the economic crisis and the systematic targeting and destruction of its civil and security institutions by the Israeli military, the PA has since 2002 officially been 'bankrupt'. It has been maintained on life support by emergency donor budget funds that enabled it to continue to provide essential

<sup>16</sup> The United Nations Relief and Works Agency (UNRWA) continues to be in charge of much of the social services, expenditure and employment of the refugee population covering 70–80% of the Gaza Strip and 30% of the West Bank populations. On the external dimension of the failures of Palestinian state formation and governance, see Mushtaq Husain Khan with George Giacaman and Inge Amundsen, *State formation in Palestine: viability and governance during a social transformation* (London: Routledge/Curzon, 2004).

<sup>17</sup> As stated by Prime Minister Sharon in his televised address to the nation on the first day of the evacuation of the Israeli settlers from Gaza: 'Now the Palestinians bear the burden of proof. They must fight terror organizations, dismantle its infrastructure and show sincere intentions of peace in order to sit with us at the negotiating table'. 'Sharon's speech on Gaza pullout', 15 August 2005, available at [http://news.bbc.co.uk/1/hi/world/middle\\_east/4154798.stm](http://news.bbc.co.uk/1/hi/world/middle_east/4154798.stm).

<sup>18</sup> *Yediot Aharonot*, 7 September 1993. Quoted in Graham Usher, *Palestine in crisis: the struggle for peace and political independence after Oslo* (London: Pluto Press, 1995), pp. 71–2.

services to the population and pay for the salaries of its bureaucracy.<sup>19</sup> As the central authority collapsed and territorial fragmentation intensified, Palestinian politics also became increasingly localized: mayors and governors, family clans, tribes, political groups and armed militias have gained in power and authority, competing against one another, often for narrower political interests.<sup>20</sup> Violent factional and internecine disputes, kidnappings and murders, notably within *Fatah* the dominant Palestinian political faction, are now characterizing an increasingly chaotic domestic scene in which Islamist movements have gained substantial popular support, as seen in Hamas' major success in the recent municipal elections. This worrying trend seems to have accelerated in Gaza over the last few months.<sup>21</sup>

Finally, Oslo also led to the fragmentation of the PLO and the Palestinian body politic at large: over the last twelve years, the voice of Palestinian refugees and that of the diaspora seem to have disappeared as international focus and assistance has been mainly targeted at the PA and the population living inside the occupied territory rather than at the Palestinian people as a nation. This has contributed to the marginalization of the representation of Palestinians outside the oPt and resulted in a broader process of de-democratization.<sup>22</sup>

This situation of multi-faceted fragmentation, coupled with continuing occupation, deadlock in the peace process and the intifada, has been markedly different from what the international donor community had envisaged in 1993 when it embarked on an ambitious development programme in support of the implementation of the Oslo peace process. Before turning to the way the donor community has adapted or otherwise to this evolution on the ground, it is important to examine why Israel has relentlessly pursued this policy of fragmentation and the strategic implications this has for its conception of Palestinian statehood.

## **Israeli policy towards the oPt: strategic continuity**

Several reasons can be put forward to explain why Oslo did not mark a break in Israel's expansionist policy into the occupied territories—indeed the fragmentation of the WBS taken as a single legal entity and the basis for meaningful statehood has intensified with the onset of the peace process and continues unabated to this day. First, the traditional Zionist ideology of 'Greater Israel'

<sup>19</sup> *Fifteen months—intifada, closures and Palestinian economic crisis—an assessment* (Jerusalem: World Bank, 5 March 2002), p. v.

<sup>20</sup> *Who governs the West Bank? Palestinian administration under Israeli occupation* (Amman/Brussels, International Crisis Group, 28 September 2004), p. i.

<sup>21</sup> Kidnappings between factions and of international civilians in Gaza have sharply increased in recent months, notably in the lead up to and in the immediate aftermath of Gaza disengagement. On 7 September 2005, the head of the PA military intelligence and cousin of former Palestinian President, Moussa Arafat, was murdered. See for instance 'Palestine, murder and fragmentation', *Economist*, 10 September 2005, and Arnon Regular, 'PA boosts PA presence in Gaza Strip', *Ha'aretz*, 11 September 2005.

<sup>22</sup> Karma Nabulsi, 'The state-building project: what went wrong?', in Keating et al., *Aid, diplomacy and facts on the ground*.

which can be traced back to the beginning of the twentieth century, according to which Judaea and Samaria, the biblical term for the West Bank, are an integral and inalienable part of the Land of Israel between the Mediterranean and the Jordan River, has remained one of the core principles of the Likud party's foreign policy. Ever since Prime Minister Menachem Begin's elections in 1977, territorial expansion and the official encouragement of the construction of settlements and related infrastructure in the WBGS have been the Israeli right-wing and religious nationalist parties' unfailing policy. This did not change after Oslo.<sup>23</sup>

Second, and perhaps less commonly acknowledged, territorial expansion has also always been encouraged by the Israeli Labor Party, although more for economic and security reasons than ideological ones. In line with the Allon Plan of 1967, Labor's longstanding preference for Palestinian autonomy, and an eventual Jordanian–Palestinian confederation,<sup>24</sup> the policy Rabin initiated at Oslo was to annex as much strategic land with as few Palestinians as possible. With the Palestinian population under the jurisdiction and governance responsibilities of the PA, Oslo enabled Israel to begin separating both people without having to end the occupation and withdraw from the Palestinian territories: 'to keep the land but not the indigenous population'.<sup>25</sup> This is to be understood by the desire to retain some strategic parts of the West Bank, for example the Jordan Valley for purportedly military reasons or some of the main settlement blocs along the Green Line that are located above the West Bank's main water aquifers. More fundamentally, this is also to be seen as a tactical response to the long-term demographic danger of a Palestinian majority, which would compromise the Jewish identity of the state of Israel.

While there is a recognition across the Israeli political spectrum that self-government or even some sort of a state is necessary so as to avoid having to maintain the occupation *ad infinitum* or having to absorb the Palestinian population of the occupied territories into Israel, this does not mean that a fully sovereign Palestinian state provides a long-term solution to Israel's 'Palestinian problem'. As forcibly argued by Mushtaq Khan, this might actually hinder Israel's perceived room for manoeuvre to 'manage' the problem. This is so because

even after the creation of a Palestinian state, a significant Palestinian minority would remain in Israel with Israeli citizenship. The Israeli Palestinian minority was already around 20 per cent of the Israeli population at the time of the Oslo Agreements, and its faster growth was expected to steadily increase this percentage in the decades ahead. There was also the issue of the refugees. Many of them were unlikely to give up their

<sup>23</sup> Avi Shlaim, *The iron wall: Israel and the Arab world* (London: Allen Lane, 2000), pp. 11, 352.

<sup>24</sup> The Allon Plan, proposed by senior Labor party official Yigal Allon just after the June 1967 war, called for Israel's annexation of up to a half of the West Bank, with the areas densely populated by Arabs forming two unconnected areas to the north and south supposed to become part of a Jordanian–Palestinian state. B'Tselem, *Land grab: Israel's settlement policy in the West Bank* (Jerusalem: May 2002), p. 7. See also Shimon Peres, *The new Middle East* (New York: Henry Holt, 1993), pp. 163–79.

<sup>25</sup> Peter Ezra Weinberger, *Co-opting the PLO: a critical reconstruction of the Oslo Accords, 1993–1995* (unpublished Ph.D., London School of Economics and Political Science, 2002), pp. 10–11.

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historic struggle to gain the right of return, irrespective of any agreements signed by their leaders. This can explain why the Israeli political class may have felt that Israel as a Zionist state would always have to live with the 'Palestinian problem', and the exercise of power over the Palestinians was going to be a permanent part of Israel's survival strategy as it had always been in the past.<sup>26</sup>

The cross-party strategic purpose pursued by all Israeli governments over the last twelve years has thus been to disengage itself from heavily populated Palestinian areas while expanding its grip onto key areas of the territories and remaining in effective control. This national consensus was clearly articulated in the Beilin–Eitan Agreement of 1997, a Likud/Labor bi-partisan plan which was intended to serve as a roadmap for Israeli negotiators as they engaged in final status negotiations.<sup>27</sup>

Far from being the first step of a return to the Road Map towards a two-state solution as donors and diplomats would like to imagine it, Israeli unilateral disengagement proceeds from the exact same logic. As stated by Sharon on the eve of the withdrawal: 'Gaza cannot be held onto forever. Over one million Palestinians live there, and they double their numbers with every generation'.<sup>28</sup> A few days before this statement, the Israeli daily newspaper *Ha'aretz* published a leading article entitled 'For first time, Jews are no longer a majority between the Jordan and the Sea'. It showed that the proportion of Jews living in the 'territories under Israel's control' (Israel, WBGS) was 49 per cent, but would rise to 56.8 per cent following disengagement. This would ensure 'a Jewish majority within Israeli territories [Israel, West Bank] for the next 20 years', according to Israeli demographic expert Professor Sergio Della Pergolla.<sup>29</sup> In addition, as the world extolled Israel's evacuation of about 8,000 settlers from Gaza, the settler population in the West Bank has continued to expand. In the first nine months of 2005 alone, the number of Jewish settlers in the West Bank increased by an estimated 12,800 to a total of approximately 250,000, scattered in 116 official settlements in the West Bank.<sup>30</sup> Finally, Israel has been consoli-

<sup>26</sup> Khan, *State formation in Palestine: viability and governance during a social transformation*, p. 51.

<sup>27</sup> The document stated that any agreement with the Palestinians must be guided by three key principles: the need to reach a permanent agreement with the Palestinians that will entail 'the establishment of a Palestinian entity whose status will be determined in negotiations between the sides and limits of sovereignty will be detailed in the following section'; the need to uphold Israel's and Israeli citizens' security; and the need to maintain Israeli settlements 'in the Western Land of Israel'. The following sections stated *inter alia* that there will be no return to the 1967 borders, that settlements will not be dismantled, that the Jordan River will be the security border of Israel, and that Jerusalem will remain the eternal and unified capital of Israel. Importantly, in the section entitled 'Status of the Palestinian entity and limits on its sovereignty', the document mentioned that 'if the Palestinian entity subjects itself to the limits presented in this document, its self-determination will be recognized. According to an alternative opinion it will be regarded as an enlarged autonomy, and according to another opinion, as a state.' 'National Agreement regarding the Negotiations on the Permanent Settlement with the Palestinians', available at [http://www.knesset.gov.il/process/docs/bei-eit\\_eng.htm](http://www.knesset.gov.il/process/docs/bei-eit_eng.htm), accessed March 2005.

<sup>28</sup> 'Sharon's speech on Gaza pullout', 15 August 2005.

<sup>29</sup> 'For first time, Jews are no longer a majority between the Jordan and the Sea', *Ha'aretz*, 11 August 2005.

<sup>30</sup> This does not include either the approximate 100 'illegal' outposts in the West Bank or the 200,000 settlers living in East Jerusalem. 'State: West Bank settler population grew by 12,800 in past year', *Ha'aretz*, 26 August 2005.

dating and expanding its grip over a wide area in and around Jerusalem, cutting Arab East Jerusalem off from the West Bank and limiting its growth by the building of a Jewish belt around it. Simultaneously, it is reinforcing the links between its Jewish West Bank settlements, Jerusalem and Israel proper through the construction of new settlements, the building of the barrier, and the enlargement of area E1 between Jerusalem and the West Bank settlement of Ma'aleh Adumin which, if completed, will virtually cut the West Bank into two.<sup>31</sup>

Not surprisingly, Sharon publicly described the disengagement plan as 'a blow to the Palestinians, in that it will force them to give up on their aspirations [to statehood] for many years to come'.<sup>32</sup> This statement may appear at first glance contradictory to Israel's declared support over the last few years for the creation of a 'Palestinian state'. However, Sharon's vision of such a state bears little resemblance either to the official Palestinian demand or indeed to the international community's conception of an independent, sovereign, viable and contiguous state on the territories occupied by Israel in 1967, including East Jerusalem. For Sharon, and not dissimilar to what was stipulated in the Beilin-Eitan Agreement, a Palestinian state neither implies a return to the 1967 armistice line, nor full Palestinian sovereignty—certainly not over East Jerusalem—and is based on 'transportation' rather than 'territorial' contiguity. It is essentially made up of Gaza and besieged islands in the West Bank forming three main demographic enclaves separated from one another by the main settlement blocs (the Ariel, Jerusalem and Etzion blocs) but linked through tunnels or bridges, and with no joint external border on the east with Jordan (Israel retaining control of the Jordan Valley as well as all land transit points, air, naval border, etc).<sup>33</sup> Sharon's conception of a Palestinian 'state' is in fact very akin to the sub-sovereign Bantustan model of apartheid South Africa, a comparison which he is reported to make in private.<sup>34</sup> As pointed out by Israeli political columnist Akiva Eldar:

Such semantic exercises [such as 'transportation contiguity'] serve Sharon in bridging between the aspiration that Israel hold onto at least half the West Bank, the international consensus that the Palestinians deserve an independent state, and Israel's demographic interest. After the Oslo accord, Sharon gradually recognized that terms like 'self-government' and 'autonomy' had become outmoded as models for long-term solution. He realized that the interim agreement had in fact turned areas A into autonomous regions, and that under final status it would be necessary to go one step further.<sup>35</sup>

Fragmentation and the creation of a territorial *fait accompli* are testimony to, and the result of, the fact that the traditional strategic orientation of Israeli policy towards the Palestinians was not fundamentally altered after Oslo despite

<sup>31</sup> International Crisis Group, 'The Jerusalem powder keg', *Middle East Report*, 44, 2 August 2005; and 'PM ordered E1 police HQ built two months ago', *Ha'aretz*, 26 August 2005.

<sup>32</sup> Prime Minister Ariel Sharon interview, *Ha'aretz*, Pesach Supplement, 5 April 2004.

<sup>33</sup> Chris McGreal, 'Sharon in Palestine state u-turn', *Guardian*, 28 February 2003; Akiva Eldar, 'Sharon's Palestinian "state"—in the eyes of the beholder', *Daily Star*, 21 June 2004.

<sup>34</sup> Eldar, 'Sharon's Palestinian "state"'.

<sup>35</sup> Eldar, 'Sharon's Palestinian "state"'.

tactical inventiveness and flexibility, in large part the result of the complex nature of the Israeli political system. If Oslo led to the recognition by Israel of the PLO as the representative of the Palestinian people—a pragmatic acceptance that the other exists—it did not lead to the recognition that the Palestinians also had legitimate rights to either the land of Greater Israel or to a sovereign state.<sup>36</sup> Both the Israeli discourse and policy on the ground over the last twelve years point to Israel's resistance to, and active undermining of, a viable two-state solution. President Bush's speech on 14 April 2004 on the occasion of the United States' official endorsement of the Israeli unilateral disengagement plan indicated that the Bush conception of Palestinian statehood may be closer to that of Sharon than that of the Palestinians or other Quartet members. In what was widely seen as a historic change in US Middle East policy and a serious blow to Palestinian national aspirations and right to self-determination, the American President stated: 'in light of new realities on the ground, including already existing major Israeli population centers, it is unrealistic to expect that the outcome of final status negotiations will be a full and complete return to the armistice lines of 1949', in effect officially recognizing Israeli settlement blocs in the West Bank.<sup>37</sup>

### **The response of donors: continuity amid fragmentation**

As the decade unfolded, despite increasing evidence—and recognition by donors and diplomats in private—that the state-building premise upon which the international assistance strategy has been based is at odds with Israeli policies and their impact on the ground, donors have turned a blind eye. This has been the case even if fragmentation has seriously complicated their operational work in the field and their ability to implement projects and deliver assistance in a predictable, timely and cost-effective manner. The aid community has instead responded to the degrading socio-economic conditions by shifting to emergency assistance while attempting to maintain a veneer of medium-term development focus and continuing rhetorically to frame its assistance programme within a broader state-building objective. Admittedly, the relative balance between relief and development has varied according to the intensity of the recurrent budgetary and economic crises that have beset the Palestinian territories. For example, in the late 1990s, as the economic situation and financial state of the PA stabilized to a certain extent, donors were able to engage in more development and institution-building type of activities. Moreover, over the last twelve years, there is no doubt that some significant infrastructural and institutional development has taken place—although investments in these two sectors remain unsustainable and almost entirely dependent on a continuation of donor flows and Palestinian institutions and infrastructure were heavily damaged or destroyed

<sup>36</sup> Amal Jamal, 'The Palestinians in the Israeli peace discourse: a conditional partnership', *Journal of Palestinian Studies* 30: 1, Autumn 2000.

<sup>37</sup> Transcript of remarks by Bush and Sharon on Israel, *New York Times*, 14 April 2004.

by Israeli military operations during the first few years of the intifada.<sup>38</sup> However, despite the best efforts of donors to keep a development focus and incorporate technical assistance and capacity-building components into their emergency projects whenever feasible, aid to the oPt has, on the whole, been overwhelmingly reactive and short term in nature.

This shift to relief assistance occurred as early as 1994–5 rather than being the product of the intifada as is commonly assumed. In response to the PA's first major budgetary crisis, donors had to reduce the originally planned levels of investment in infrastructure and spend most of their money on financing the PA start-up and recurrent costs, including staff salaries.<sup>39</sup> In 1996, in the context of the first severe economic crisis, donors shifted to emergency assistance, focusing on labour-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.<sup>40</sup> With the onset of the intifada, donors intensified their provision of 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 WBGS, 81 per cent (US\$829 million) went to emergency assistance, including 50 per cent for budget support to the PA.<sup>41</sup>

The main justification for donor strategy has revolved around the elusive notion of 'supporting the peace process'. In the mid-1990s, the fear was that worsening economic conditions would lead to the political radicalization of Palestinian society and a derailment of the peace process. In the early 2000s, the rationale for a doubling of donor funds has in essence been similar: to avoid a total collapse of the PA and the Palestinian economy, alleviate human suffering so as to ensure a minimum level of stability, and prevent more violence and a further degradation of the situation.

The prime political function of aid to the Palestinian territories also explains why, in the 1990s, the international community did little to support the development of the rule of law and a democratic, transparent and accountable PA. Rather, donors and diplomats were mainly concerned with establishing a strong power structure around Chairman Arafat capable of delivering security and a peace deal, while containing the Islamist opposition to the peace process. This in turn encouraged authoritarianism and reinforced repressive and neo-patrimonial practices within the PA, including that of large-scale public sector hiring as a way of both combating unemployment and stabilizing the regime.

<sup>38</sup> The physical and institutional damage incurred during Operation Defence Shield alone in April–June 2002 was estimated at US\$342 million, or one-third of the total funds that donors disbursed in 2002 or about three-quarters of what they had disbursed on average per year for the period 1994–2000. *Physical and institutional damage assessment. West Bank Governorates, March–May 2002. Summary Report* (Jerusalem: LACC, 23 May 2002).

<sup>39</sup> Barbara Balaj, Ishac Diwan & Bernard Philippe, 'Aide extérieure aux Palestiniens: ce qui n'a pas fonctionné', *Politique Étrangère* 3: 95, Autumn 1995.

<sup>40</sup> *West Bank and Gaza: an evaluation of Bank assistance* (Washington DC: World Bank/OED, March 2002), pp. 4–5.

<sup>41</sup> *Twenty-seven months* (Jerusalem: World Bank, May 2003), pp. 51–2.

Reform, good governance and democracy only came to the forefront of the donor agenda in mid-2002, in the context of a bankrupt and deligitimized PA in need of external budgetary support, amid widespread accusations that donors were financing Palestinian corruption and terrorism, and calls by some governments, notably the United States and Israel, for regime change and the removal of Arafat. From the outset, the reform effort was thus conceived as a technocratic exercise aimed at improving—and for some changing—the regime. It did not mark a turning point in the international community's strategic understanding of what building a viable Palestinian state would entail politically. Not surprisingly given its opportunistic focus, the reform effort quickly lost momentum and the measures achieved to date have remained largely cosmetic even if some noticeable improvements have been made in the field of financial transparency.

While emergency assistance has without doubt helped prevent further socio-economic deterioration and enabled vital social services to continue to function, it has contributed to developing neither the infrastructure, nor the economy nor self-sustaining institutions. It is true that it was estimated in 2004 that 'without donor help, living standards would be far worse; of the estimated US\$713 million spent in 2002–3 on welfare instruments (food, cash support, job creation), some 97 per cent was donor-financed'.<sup>42</sup> However, as the crisis continues, serious doubts have arisen as to the long-term effectiveness and sustainability of the donor intervention beyond dramatically increasing the aid dependence of Palestinian households. Moreover, the short-term impact of relief is equally not that encouraging. As further noted by the World Bank in December 2004: 'the last four years exemplify how little donor assistance can achieve in the absence of a positive policy environment—while donor disbursements doubled to almost US\$1 billion per annum, real personal incomes fell by almost 40 per cent in the same period'.<sup>43</sup>

Beyond the issue of aid effectiveness, donors have also increasingly recognized that the crisis is not only one of needs but also reflects the failure to respect humanitarian norms, notably the Fourth Geneva Convention which governs the status of civilians under military occupation. This has created serious dilemmas, notably that of continuing to provide relief to mitigate the socio-economic and humanitarian impacts of a crisis largely brought about by politically motivated Israeli measures, when under international humanitarian law, Israel, as the Occupying Power, should be responsible for delivering assistance and services to the Palestinian population. As the high contracting parties to the Conventions, donors also have a special obligation to ensure compliance with the law. In addition, aid not only relieves Israel of its responsibilities under international law but it has also clearly helped sustain its occupation, which would have been much trickier and more onerous to maintain had the international community not footed the bills. This is all the more so as evidence suggests that

<sup>42</sup> World Bank, *Disengagement, the Palestinian economy and the settlements* (Jerusalem: World Bank, 23 June 2004), p. 3.

<sup>43</sup> World Bank, *Stagnation or revival? Israeli disengagement and Palestinian economic prospects*, p. 1.

Israel benefits economically from donor funds: for every dollar produced in the oPt, an estimated 45 per cent goes back into the Israeli economy.<sup>44</sup> The fear of leaving human suffering unmet (thereby diminishing the prospect for peace) while donors wait for Israel to abide by its legal obligations is the main justification for donors to provide huge amounts of relief to this day. Nonetheless, since mid-2002, the aid community has become aware of the legal and political implications of funding certain types of projects which may inadvertently entrench Israeli policies of destroying Palestinian infrastructure and institutions and establishing facts on the ground—for example, rebuilding houses demolished by the Israeli military or funding by-pass roads (a de facto recognition and encouragement of the expansion of Israeli settlements and the segregated road network in the oPt).<sup>45</sup>

At the time of writing, it is too early to ascertain the full implications of the Gaza disengagement for the legal status of the territory, for future Palestinian economic prospects and for donor intervention. Certainly, at the UN World Summit in New York in mid-September 2005, Israel sought hard to get international recognition that its withdrawal marked the ‘end of its responsibility’ for the fate of Gaza and its residents, even if it deliberately chose not to focus on whether disengagement triggered the ‘end of occupation’ or not.<sup>46</sup> Indeed the issues of the continuing applicability of international humanitarian law, of the legal status of the evacuated territory and of the responsibilities of Israel towards its inhabitants are complex.<sup>47</sup> However, as long as Israel retains control of all entry and crossing points into Gaza, its borders, air space, water, etc., so long as movement restrictions remain severe, and the West Bank continues to be fully occupied, fragmented and cut off from Gaza and Jerusalem, any scope for viable Palestinian economic and political development remains very limited indeed.<sup>48</sup> In June 2004, the World Bank warned that:

Of itself Israel’s Disengagement ... will have very little impact on the Palestinian economy and Palestinian livelihoods since it only proposes a limited easing of closure. A focus on this over-arching issue is essential if disengagement is to deliver long-term benefits ... Disengagement will remove internal restrictions in Gaza and in part of the northern West Bank, but Palestinian economic recovery depends on a radical easing of internal closures throughout the West Bank, the opening of Palestinian external borders to commodity trade, and sustaining a reasonable flow of Palestinian labour into Israel. ... It is important to understand that additional donor money alone can not solve today’s economic problems. Donor disbursements of c. US\$1 billion per annum (or US\$310

<sup>44</sup> UNCTAD, *Report on UNCTAD’s assistance to the Palestinian people* (Geneva: United Nations, 28 July 2003), p. 8.

<sup>45</sup> David Shearer and Anuschka Meyer, ‘The dilemma of aid under occupation’, in Keating et al., *Aid, diplomacy and facts on the ground*.

<sup>46</sup> ‘PM to tell UN: Israel’s responsibility for Gaza is over’, *Ha’aretz*, 13 September 2005.

<sup>47</sup> International Humanitarian Law Research Initiative, ‘Legal Aspects of Israel’s Disengagement Plan under International Humanitarian Law (IHL)’, *Policy Brief* (Boston, MA: Harvard University, 30 August 2004).

<sup>48</sup> Greg Myre, ‘As Israelis pull out, the question lingers: who’ll control Gaza?’, *New York Times*, 11 September 2005.

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per person) are already very high. Additional aid in today's economy would help alleviate day-to-day hardship, but would have little lasting impact. As long as the web of Palestinian economic transactions remains shredded by closures, investors will stay away, and short-term gains will not be sustainable.<sup>49</sup>

In the short to medium term, it is thus extremely likely that donors will continue to focus on providing humanitarian assistance and mitigating the damaging socio-economic effects of Israeli policies, as it has been doing over the last twelve years.

In addition, portraying the crisis as an emergency may also have contributed to depoliticizing the Palestinian development process and normalizing the conflict. This distracts efforts away from tackling the diplomatic challenges and obstacles impeding the resolution of the Israeli–Palestinian conflict by focusing on its socio-economic consequences rather than addressing its political root causes—essentially two peoples, one land. While humanitarian symptoms are assuaged and a semblance of stability is maintained, there is less incentive to resolve the conflict. The appointment in April 2005 of former World Bank President James D. Wolfensohn as the Quartet's Special Envoy for Gaza Disengagement is a case in point. While his mandate is mainly about coordinating donor assistance to the Palestinians following Israeli withdrawal, he is also the 'single international interlocutor at the political level on disengagement'. As disengagement has become the 'only game in town' and the international community is busy determining how much money it will cough up this time, the fragmentation of East Jerusalem and the West Bank continues to deepen, the core issues of the conflict (sovereignty, borders, refugees, the status of Jerusalem and so on) remain neglected, and the prospect for a viable Palestinian state grows increasingly remote.

### **The US decides, the World Bank leads, the EU pays, the UN feeds**

There is little controversy about the international community's initial scheme to buttress the Oslo peace process by providing tangible benefits to the Palestinian population of the oPt. Aid is now the landmark of every post-conflict reconstruction and state-building enterprise and, if used adroitly, can go a long way to help stabilize a political process and cement a peace deal. But that is when a meaningful negotiation process is actually under way. In the Israeli–Palestinian case, things went wrong too disastrously and too soon. Aid very rapidly came to be used as a smokescreen for political inaction. Interestingly, the impact of violence, the volatility of the negotiation process and unilateral actions taken by Israel on the international community's strategy and the possibilities for peace, development and state-building had been anticipated by donors at the time. In the first comprehensive assistance programme for the WBGs in 1994, the World Bank clearly stated that donor strategy was premised

<sup>49</sup> World Bank, *Disengagement, the Palestinian economy and the settlements*, pp. i, ii.

on two main political developments: stability and the continuation of the peace process. The document identified a number of risks facing the programme, namely, in order of importance, political risks, implementation risks, technical risks and programmatic risks. As far as political risks are concerned, the document stated:

The success of the Program requires stability in the Occupied Territories, steady progress in bilateral and multilateral negotiations, and a maturation of internal political processes. Instability on the Occupied Territories would hinder implementation. In particular, delays in bilateral negotiations would slow activities that depend on their outcome. Program success in providing tangible benefits to the Palestinian population could, on the other hand, reinforce the momentum for peace and thereby help with implementation.<sup>50</sup>

However, despite this early recognition that politics would necessarily have an impact on the development process, donors nonetheless acted as if the aid effort in the WBGS could proceed independently. There was also insufficient attention given to the specificity of the Palestinian development context, notably continuing Israeli military occupation and the absence of Palestinian sovereignty. As Rick Hooper, UNSCO Chief of Staff in the mid-1990s, observed:

It seemed that the basic impulse among the development specialists, which would continue for some time beyond October 1993, was to treat the West Bank and Gaza Strip similar to poor (sovereign) countries. One implication of this was that development plans for the Palestinian economy and society did not initially take fully into consideration the ramifications of an ongoing negotiations process, and the fact that a third party, namely the government of Israel, would necessarily and inevitably be involved in anything that would happen in the West Bank and Gaza Strip.<sup>51</sup>

As the decade progressed, donors became increasingly aware of the political constraints characterizing the policy environment under which they had to operate and notably the extent to which the deterioration in the bilateral Palestinian–Israeli relationship, Israeli territorial expansion and the domestic evolution of the Palestinian entity hampered the Palestinian development and state-building effort. Yet, this recognition of the primacy of politics did not lead to an adjustment of their overall approach. Donors continued to treat the West Bank and Gaza as a quasi normal ‘sovereign’ country, focusing on the PA having to be kept on the ‘peace process’ track by means of a complex mix of carrots and sticks. While Israel’s role came to be acknowledged by all—no least because it continued to exert control over the WBGS borders, natural resources, currency, fiscal policy—the international community failed to put forward a plan to integrate fully the ‘Israeli’ factor into the peace implementation and Palestinian state-building equation. Frustration grew at Israeli

<sup>50</sup> World Bank, *Emergency assistance program for the Occupied Territories* (Washington DC: World Bank, April 1994), p. 7.

<sup>51</sup> Rick Hooper, *The international politics of donor assistance to the Palestinians in the West Bank and Gaza Strip, 1993–1997* (Research in Middle East Economics, 3), 1999, p. 64.

actions *vis-à-vis* the Palestinian economy but international actors remained compromising and displayed surprisingly 'little practical, sustained action intended to influence Israeli measures' whether through diplomatic or economic means.<sup>52</sup>

This 'political relief' approach is first and foremost to be explained by the dominant diplomatic role exerted by the US in the peace process, Washington's unwavering support for Israel, and the concomitant very limited diplomatic influence of other actors—whether the EU, the World Bank or the UN—on Israeli policy, the peace process or American mediation efforts. It has also been based on the naive assumption held by most non-US international actors that, given the otherwise limited ability to influence the process diplomatically, they could influence Israel through their aid to the Palestinians and also that this would buy time for further negotiations on the political front. It also rested on a similar misleading assumption *vis-à-vis* the Palestinian leadership: that through financial incentives with very few political strings attached, they could lure the PA into accepting diminished political goals, in particular forging its demands for statehood within the 1967 borders and for Palestinian right of return.

This strategy of overcompensating with money for political inertia failed. The second intifada clearly showed that cushioning the harmful impacts of Israeli policies on Palestinian territory, economy and society by giving money to the Palestinians encouraged, rather than disheartened, Israeli expansionist policy—donors did not even manage to prevent Israel from destroying the Palestinian infrastructure and institutional projects they had financed between 1994 and 2001. It also blatantly exposed the pitfalls of having facilitated the establishment of an unaccountable, authoritarian and repressive Palestinian regime. As the donors' complicit policy *vis-à-vis* the PA internal management depended on progress in the peace process, it was altered in the post-Camp David period, attaching good governance conditionality to their aid in the form of a highly publicized reform process from 2002 on.

However, the intifada did not result in increased will to intervene politically or economically to exert pressure on the government of Israel or to use positive conditionality to influence Israel's policies. As in the early years of the peace process, the PA remains today the primary client of the international donor community. This is so despite a decade of peace implementation that has demonstrated that exclusive focus on the PA in a conflict and military occupation context where it is merely the 'recipient' of aid but not simultaneously sovereign and 'host' has been rather unsuccessful.

## **Conclusion: bringing back politics**

This article has highlighted some fundamental flaws in the international community's 'aid for peace' strategy which has underpinned its multilateral engagement to support Middle East peace and Palestinian state-building over

<sup>52</sup> Hooper, *The international politics*, p. 76.

the last twelve years. To date, this strategy has not been substantially reassessed despite the recent surge of donor and diplomatic activity surrounding Gaza disengagement. Specifically, it has argued that the international community's approach has been based on the flawed assumption that the two-state solution is the best outcome for both parties to the conflict and, notably, that it is pursued as such by Israeli governments. In fact, evidence suggests that their policy on the ground has been fundamentally at odds with the international community's avowed support for the emergence of an independent Palestinian state 'living side by side in peace and security with Israel'. As pointed out by Dr Sara Roy:

Israel's disengagement from Gaza has renewed discussions in the two polities. The discourse is increasingly dominated by a two-state versus one-state solution. With Israel's proposed unilateral separation from Gaza—and accounting for the conditions that preceded and will inevitably follow from it—the discourse must also incorporate a third and more likely option, an apartheid state solution. Although untenable over the long-term, apartheid-like conditions can, and most likely will, define the local reality for some time to come'.<sup>53</sup>

This article also contends that given Israeli reluctance to end the occupation and relinquish territorial control, there has been a fundamental contradiction between the aid enterprise's ambitious political *raison d'être* (to resolve a conflict between *two* parties) and a minimalist technical interpretation of the role and mandate of the aid community (emergency support, socio-economic development and institution-building directed only at *one of the two* parties), as if these could be insulated from the broader trilateral diplomatic setting underpinning the conflict and what has actually been happening on the ground. Although the explicit aim of aid has been actively to support the search for a peace settlement (which necessarily involves both parties to the conflict), the role of donors has been largely reactive. In addition, the multilateral incentive structure has only been targeted at the Palestinians. At a deeper level, the failure of the donor strategy also reflects the limitations of the incrementalist approach underpinning the Oslo process which did not tackle the main political issues to the conflict directly and did not link the 'peace process' to a clear set of political objectives.<sup>54</sup>

The result has been an incredible amount of tax payers' money being wasted on attempting to keep the peace process politically alive and to cushion the shocks to the Palestinian economy induced by Israeli policies rather than on fostering growth, development and the institutional basis for a state. There has

<sup>53</sup> Sara Roy, 'Developing the Gaza Strip in the event of Israel's disengagement', in Keating et al., *Aid, diplomacy and facts on the ground*, p. 211.

<sup>54</sup> 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. On an alternative to the Oslo gradualist approach, see International Crisis Group, *Middle East Endgame II: how a comprehensive Israeli–Palestinian peace settlement would look* (Amman/Brussels: International Crisis Group, 16 July 2002).

also been a failure of 'chequebook diplomacy' to induce major policy change on the part of the parties. In so doing, the international community has absolved Israel of its obligations *vis-à-vis* the Palestinian civilian population as the Occupying Power under international law, encouraging further Israeli violations of humanitarian norms and condoning Israeli territorial expansion into the Palestinian territories. In the process also, the international community's intervention and assistance programme has turned increasingly surreal: donors are today providing short-term, unsustainable emergency assistance and pumping large sums of money into an ever more aid-dependent territory which has become ever less viable geographically, economically and politically.

Ultimately, aid in the context of the Israeli–Palestinian conflict as in other peace-building enterprises can buttress but not replace a political process. It cannot buy peace and is not on its own an effective instrument to change the dynamics of a conflict. What needs to be explored at this juncture is whether and how other policy instruments could alter, rather than accentuate, the asymmetric structure of the conflict through a coherent and sustained incentive strategy aimed at changing the behaviour of both parties—and not solely the Palestinians. Within the context of the blueprint of a permanent political settlement which addresses the core issues to the conflict, this implies looking afresh at all the policy options at the disposal of the international community and formulating an integrated and coherent state-building strategy, which includes but does not confine itself to multilateral funding.

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