

**PALESTINIANS, ISRAEL, AND THE QUARTET:
PULLING BACK FROM THE BRINK**

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PALESTINIANS, ISRAEL AND THE QUARTET: PULLING BACK FROM THE BRINK

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Throughout years of uprising and Israeli military actions, siege of West Bank cities and President Arafat's de facto house arrest, it was hard to imagine the situation getting worse for Palestinians. It has. On all fronts – Palestinian/Palestinian, Palestinian/Israeli and Palestinian/international – prevailing dynamics are leading to a dangerous breakdown. Subjected to the cumulative effects of a military occupation in its 40th year and now what is effectively an international sanctions regime, the Hamas-led Palestinian Authority (PA) government cannot pay salaries or deliver basic services. Diplomacy is frozen, with scant prospect of thaw – and none at all of breakthrough. And Hamas's electoral victory and the reactions it provoked among Fatah loyalists have intensified chaos and brought the nation near civil war. There is an urgent need for all relevant players to pragmatically reassess their positions, with the immediate objectives of:

- ❑ avoiding inter-Palestinian violence and the PA's collapse;
- ❑ encouraging Hamas to adopt more pragmatic policies rather than merely punishing it for not doing so;
- ❑ achieving a mutual and sustained Israeli-Palestinian ceasefire to prevent a resumption of full-scale hostilities; and
- ❑ preventing activity that jeopardises the possibility of a two-state solution.

Of all the dangers threatening the Palestinians, the most acute may well be internal strife. Facing one of the most hostile external environments in its history, the national movement also confronts one of its most acute domestic crises. Even as Hamas and Fatah leaders repeatedly profess their determination to avoid violent conflict, they act in ways that promote it. Fatah, unable to digest its electoral loss, is behaving as if still in power. It treats the new government as a usurper, blatantly subverting its ability to govern, relying on its partisans' overwhelming presence throughout the civil service and, especially, the security forces. Hamas, unprepared for its triumph, is behaving

as if it remains in opposition. It invokes steadfastness as a substitute for policy and has proved incapable so far of adjusting to its new status, while introducing provocative measures of its own.

In this increasingly bloody power struggle, both camps (as well as the myriad camps within camps) are mobilising armed militias, stockpiling weapons, resorting to killings and spreading bedlam. The latest move was political. Mahmoud Abbas, PA President, Chairman of the Palestine Liberation Organisation (PLO) Executive Committee and Fatah Deputy Chairman, on 25 May 2006 threatened that if Hamas did not accept within ten days a proposal signed by a number of Israel's most prominent Palestinian detainees – the Prisoners' Initiative – which implicitly endorses a negotiated two-state solution, he would submit it to a popular referendum. Making good on his ultimatum after a short extension, he issued a presidential decree on 10 June calling for a referendum on 26 July.

The result has been an increasingly bitter, and perilously violent, relationship, bringing the Palestinians to the brink of internecine conflict. The National Dialogue that was launched in late May to forge a political consensus appears to be as much about partisan posturing as about strategic compromise. While Abbas understandably is averse to interminable negotiations, his determination to hold a referendum opposed by Hamas carries a serious risk of further polarisation and violence – the very outcome that, by seeking to bring the Islamists into the political arena, he had tried to avoid. Today, the situation is but one tragic step – the assassination of a senior Fatah or Hamas leader, for example – from all-out chaos.

Faced with the intensifying inter-Palestinian struggle, the calculus of the Quartet – the U.S., EU, Russia and the UN, who have been in charge of the disappearing peace process – and other outside actors has been simple: pressure the government, count on popular dissatisfaction with its (non-) performance and find ways to strengthen Abbas and ensure the Hamas experience in power comes to a rapid and unsuccessful end. The approach comes in different

variants, from the more confrontational (seeking to subvert the Hamas-led government through political and economic isolation), to the more subtle (hoping to circumvent the government through Abbas's empowerment). Yet in both cases outside actors, by openly bolstering one faction against the other, exacerbate internal strife.

Of late, limited signs of pragmatism have come from Washington regarding the need to prevent collapse within the occupied territories. However, the U.S. still appears reluctant to endorse a European proposal to fund priority social sectors while bypassing the government or at least wishes to postpone implementation of such a mechanism until after a referendum is held and the political context altered. The tightness of the grip aside, all, including Israel and even Arab states, appear convinced that squeezing the government unless it meets the Quartet's three demands (recognition of Israel, renunciation of violence, and acceptance of past agreements) is the best way to end its tenure and accelerate the restoration of its more pragmatic predecessors.

There are important elements of Hamas's ideology and charter, including its refusal to recognise Israel and the call for its destruction, that are incompatible with the international community's principles for a resolution of this conflict as well as the views of most Palestinians; pressure certainly needs to be brought upon it to change these. Without this necessary evolution, it cannot expect international recognition, nor can the government it leads expect genuine international support. But the approaches currently being applied or contemplated – to deprive it of resources, isolate or bypass it, force a referendum, or even stage early elections – suffer from the same fundamental flaws: the absence of a day-after strategy and an almost total disregard for Hamas's very recent democratic mandate as well as the longer-term consequences of short-term success.

Feeling cheated of its right to govern, Hamas would be unlikely to go quietly. Having reached the conclusion that its experiment in the mainstream has failed and political integration is no longer a viable option, and with its back against the wall, Hamas almost certainly would revert to internal violence or violence targeting Israel, causing maximum chaos, possibly bringing down the PA and allowing the Islamists to re-emerge as a resistance movement. The recent mutual escalation of violence with Israel shows how perilous this situation quickly can become. Nor should one expect poverty and despair to encourage the Palestinians toward greater moderation; those are the very conditions that helped propel Hamas to power in the first place, and it is difficult to imagine how they could assist Fatah in the near future. Regionally as well, the engineered failure of the first elected Sunni Islamist government could have unwelcome repercussions,

buttressing jihadi Islamists at the expense of their more political counterparts.

Starved of resources, confronting an increasingly hostile population and unable to realise its agenda, Hamas may well fail. But with widespread violence, chaos and a collapse in Palestinian institutions, it quickly would become hard to chalk up its failure as anybody's success. Instead, what is required today is a more sophisticated, nuanced approach, pursuing the priority objectives described above with the specific policies summarised below.

RECOMMENDATIONS

To the Islamic Resistance Movement (Hamas) and Palestinian National Resistance Movement (Fatah):

1. Reach and implement agreement on the composition and role of the Palestine Liberation Organisation (PLO), including the integration of Hamas and recognition of the PLO's responsibility for political negotiations with Israel.
2. Form, with the participation of other Palestinian political movements and independents as appropriate, a national coalition government whose program includes endorsement of the 2002 Arab League Beirut Initiative and/or the 2006 Prisoners' Initiative; designation of the PLO as responsible for political negotiations with Israel; ratification by national institutions and/or a national referendum of any agreement reached with Israel; and recognition of existing Palestinian commitments.
3. Reactivate the National Security Council under the Palestinian president and including the prime minister, interior minister and heads of security agencies, to ensure the coordination of all security agencies and phased integration or demobilisation of all militias.

To the Islamic Resistance Movement (Hamas):

4. Reinstate the truce and extend it for the duration of the current government's lifespan and declare a permanent moratorium on attacks against civilian targets, to enable Egypt and other mediators to achieve a reciprocal and comprehensive Israeli-Palestinian cessation of hostilities.

To the Government of Israel:

5. Cease offensive operations, particularly assassinations and incursions, which cannot be justified by imminent military necessity, refraining in particular from unprovoked acts of escalation and operations that harm civilians and damage civilian installations,

and support third-party efforts to achieve a reciprocal and comprehensive cessation of Israeli-Palestinian hostilities.

6. Release all Palestinians in Israeli detention who have not been charged with an offence and respond to Palestinian initiatives to maintain quiet with timely and substantive prisoner releases.
7. Channel all withheld tax revenues to the Temporary International Mechanism proposed by the EU and maintain utility supplies and banking services to the Palestinian population.

To the Members of the Diplomatic Quartet (U.S., EU, Russian Federation, UN):

8. Subject to the PA abiding by existing Palestinian commitments and Hamas reinstating a truce, assign a UN-appointed mediator as its representative for contacts with the PLO, PA, Hamas, and other Palestinian organisations to obtain commitments from the PA government on the following matters:
 - (a) support for a reciprocal and comprehensive Israeli-Palestinian cessation of hostilities;
 - (b) recognition of applicable UN resolutions and the 2002 Arab League Beirut Initiative as the terms of reference for an Israeli-Palestinian political settlement; and
 - (c) approval of contacts between Israeli and Palestinian counterparts to improve delivery of services and mutual security, and on other matters of common interest.
9. Ensure Israel fulfils its humanitarian obligations under international law towards the civilian population of the occupied Palestinian territories, specifically by:
 - (a) providing unrestricted access to humanitarian agencies operating in the West Bank and Gaza Strip that have been certified as such by the UN mediator; and
 - (b) halting restrictions on the free movement of persons, goods, and services within, between, to and from the occupied territories that cannot be justified by legitimate security interests.
10. Issue a declaration that, while any Israeli withdrawal from occupied territory is welcome, it will not recognise boundaries situated within occupied territory established through unilateral measures nor the legitimacy of any settlements established in contravention of international law.
11. Present at an appropriate time a more detailed vision of a viable final status agreement.

To the European Union and its Member States:

12. Subject to agreement between UN mediator and the Palestinian government as described above:
 - (a) suspend the prohibition on contacts with the PA government and Hamas leadership to expedite discussions on core EU concerns relating to the government's political program, donor relations, the demobilisation and integration of armed factions and terms for the removal of Hamas from the EU blacklist of terrorist organisations; and
 - (b) restore 2005 levels and forms of donor support to the PA, including budgetary support.
13. In the absence of agreement between the UN mediator and the Palestinian government as described above, and subject to the PA government abiding by existing agreements and Hamas reinstating a truce:
 - (a) expand the proposed Temporary International Mechanism (TIM) in order to fund basic services in the occupied territories, including PA personnel, recurrent, and where necessary other costs, without distinction between civilian and security sectors, and wherever practicable through direct disbursements to personnel, suppliers, and contractors; and
 - (b) modify the proposed Temporary International Mechanism so that UN agencies and the World Bank rather than the PA presidency serve as intermediaries between donors and the PA administration, and proceed with implementation without additional delay.

To the Government of the United States:

14. Refrain from threats against Palestinian political organisations and individual politicians that obstruct inter-Palestinian dialogue and the formation of a PA coalition government.
15. Revise the Office of Foreign Assets Control (OFAC) directives with respect to Hamas to state specifically that the standing exemption from penalty for dealing with a proscribed organisation provided to select international organisations, including the United Nations and the World Bank, will apply to third parties, such as banks and other institutions and entities, implementing programs for or handling funds received on behalf of those international organisations.

To the Chairman of the Arab League and member states:

16. Engage with the PA government and Hamas leadership to seek endorsement of the Arab League Beirut Initiative.

Jerusalem/Amman/Brussels, 13 June 2006

PALESTINIANS, ISRAEL AND THE QUARTET: PULLING BACK FROM THE BRINK

I. INTRODUCTION

The new Palestinian Authority (PA) government's assumption of power on 29 March 2006 completed the most significant transition of power since the Palestinian National Liberation Movement (Fatah) along with other guerrilla groups established their dominance of the Palestine Liberation Organisation (PLO) in the wake of the 1967 Arab-Israeli War.

With the Islamic Resistance Movement (Hamas) today in control of the PA government and parliament, and Fatah retaining power over the PA's presidency as well as the PLO, the transition has not produced a comprehensive change of leadership. Rather, the situation is one of dual power, somewhat akin to what France experiences during periods when competing parties hold sway over different executive institutions. Given the circumstances in which this occurred – most prominently Israeli military occupation, but also Palestinian political and demographic fragmentation as well as domestic chaos – in some ways it is remarkable it took place at all, let alone in a peaceful, democratic and transparent manner. Nevertheless the PA's reconfiguration has confronted the political system, the region, and the wider international community with a series of challenges that in many respects are more complex than those the election was meant to resolve.

Fatah, in seeking to consolidate its legitimacy through elections, has instead lost hegemony over a system it continues to regard as its own. Hamas, which anticipated sharing power with Fatah and acquiring international recognition through participation in Palestinian institutions,¹ is by virtue of its victory confronted with greater and more stringent demands than before, along with the responsibility of governing alone and the overwhelming task of mobilising

resources.² Growing tensions between Fatah and Hamas, between them and extra-institutional armed groups, as well as between the PA and a disenchanted public, can further destabilise an already volatile environment.

Israel, which rejected first Yasir Arafat and then Mahmoud Abbas (Abu Mazen) as interlocutors, must now contend with a counterpart that openly professes a disinterest in negotiations, is at best ambiguous about its strategic objectives, and continues to publicly uphold the right of armed resistance to military occupation. In principle, Hamas may prove a convenient foil and partner for Israel's strategy of unilateral disengagement from much of the West Bank. But escalating Israeli measures to isolate and undermine the PA while consolidating control over East Jerusalem and other strategic West Bank territory could trigger a resumption of full-scale violence. A series of attacks on 9 June that killed a senior PA security official and a number of Palestinian civilians has come perilously close to doing so. In other words, Israel may be able to thwart Hamas's attempt at governing, but in the process risks sacrificing its goal of undertaking a peaceful unilateral disengagement. Moreover, and in the longer run, a growing Israeli-Palestinian rupture is unlikely to produce either the mutual security or credible political process required for long-term stability.

For the international community as well, challenges and choices abound. Arab governments appear torn between fear that Hamas's success would inspire and embolden like-minded Islamist groups, particularly those associated with the Muslim Brotherhood, and concern that Hamas's manufactured collapse would further radicalise the region and strengthen the jihadi strand of Islamism. While most of the rest of the world has treated Hamas's ascendancy as a purely domestic matter, the most significant actors – the United States and European Union – have not.³ In

¹ For further discussion of Hamas's approach to political integration see Crisis Group Middle East Report N°49, *Enter Hamas: The Challenges of Political Integration*, 18 January 2006; Crisis Group Middle East Report N°21, *Dealing With Hamas*, 26 January 2004; Graham Usher, "Hamas Risen", *Middle East Report* 238 (Spring 2006), pp. 2-11.

² See, for example, Hussein Agha and Robert Malley, "Hamas: The Perils of Power", *The New York Review of Books* 53:4 (9 March 2006).

³ Most states within the region and elsewhere, including Egypt, Saudi Arabia, Turkey, Indonesia, Russia, China, Japan, India, Pakistan, South Africa, and Brazil, have maintained relations

contrast to Iraq, where Washington and Brussels actively encouraged the formation of a national unity government led by Islamists, or Lebanon, where they have largely averted their gaze from Hizbollah's participation in government, the entire relationship with the PA, as well as other forms of assistance to the Palestinian people, have either been severed or placed under review due to Hamas's executive role.

The U.S. (and, to a lesser degree, European) strategy appears to be one of containment, frustrating Hamas's government while avoiding a humanitarian crisis, and simultaneously preparing the ground for a popular backlash and/or a reversal of the electoral outcome.⁴ The purpose appears to be to send a clear message – to Hamas, the Palestinians, and the region as a whole – that the Islamist organisation's ideology and practice have no place in the political arena and will not be accorded one. Short of the Islamists' unlikely ideological conversion, in other words, the goal is to ensure they do not succeed. But few seem to have assessed the long-term consequences of a strategy that convinces the Islamists they are being set up for a failure they almost certainly will not accept quietly.

On all three fronts – the Palestinian/Palestinian, Palestinian/Israeli and Palestinian/international community – prevailing dynamics are leading to dangerous breakdowns. Each needs to be reassessed and considered in light of what ought to be the principal priorities: to avoid a collapse of the PA, eruption of greater inter-Palestinian violence and resumption of full-scale Israeli-Palestinian confrontation.

with the PA and declined to revise these on account of Hamas's electoral victory.

⁴ "The goal is not to collapse the Hamas government right away. Hamas would not be blamed, we have no confidence in Fatah or Abbas at this point, and so don't see a substitute. It will take time, and we are prepared to wait". Crisis Group interview, U.S. official, Washington, March 2006.

II. THE INTER-PALESTINIAN STRUGGLE

Facing one of the most hostile external environments in its history, the Palestinian national movement also confronts one of its most acute internal crises. Fatah, unable to fully accept its electoral loss, has continued to act as if it remains in power, treating the new government as usurpers, temporarily in possession of positions and institutions that are rightfully its own. Hamas, unprepared for its parliamentary triumph and even less to govern alone,⁵ has behaved as if it were still in opposition, relying on political posturing and denunciations of subversive plots as substitutes for hard decision-making.⁶ The result has been an increasingly bitter and perilously violent relationship, bringing the Palestinians to the brink of civil war. While both sides profess a determination to avoid this, and neither appears to have an interest in provoking it,⁷ the worst may

⁵ "We didn't expect to be in government. We thought we'd be a strong opposition. We were stunned". Crisis Group interview, Riyad Mustafa, Hamas parliamentarian, Ramallah, February 2006. Similar views were expressed by other Islamist PLC members. Crisis Group interviews, Salah Bardawil, Hamas PLC member and spokesman for its parliamentary faction, Khan Yunis, May 2006; Mustafa Abu Sway, Jerusalem, February 2006. Mark Perry and Alastair Crooke, "How to Lose the War on Terror 1: Talking with the 'Terrorists'", *Asia Times*, 31 March 2006, argue that the Islamists "purposely played down their expectations of a clear parliamentary victory over fears that the U.S. and Israel would press Palestinian President Abu Mazen to cancel the elections until Fatah could gain more strength". Indeed, Hamas leader Muhammad Nazzal, in a post-election interview with Crisis Group held in Cairo in February 2006, praised its report, *Enter Hamas*, on the grounds that it helped lull America, Israel, and Fatah into proceeding with elections. Echoing this view, an Islamist leader explained: "We did not enter the elections expecting to win. But after we were nominated as candidates and began campaigning among the people, it became clear to us that we were heading for victory and would achieve a majority". Crisis Group interview, Mahmoud Ramahi, PLC Secretary General, Ramallah, May 2006. That said, the tenor of debate and discussion within Hamas prior to 25 January 2006 centred around whether or not the movement should participate in government and assume ministerial posts if these were offered – an entirely superfluous debate if victory was indeed expected, and an indication that the magnitude of the victory came as a surprise. Indeed, several Hamas members interviewed prior to the elections offered specific predictions of their performance. The highest gave Hamas 60 seats, less than the 67 required for a parliamentary majority.

⁶ See, for example, the Friday sermons of PM Ismail Haniya, and public speeches of Hamas politburo leader Khalid Mashal, available in Arabic at <http://www.palestine-info.net/arabic/index.shtml>.

⁷ Leaders on both sides expressed confidence their rivals were not reckless enough to risk a conflict. Crisis Group interviews,

yet materialise. The National Dialogue that was launched in late May to forge a political consensus and resolve the crisis appears to be as much about pressing partisan advantage as about securing strategic compromise. The situation is but a tragic step – the assassination of a senior Fatah or Hamas leader, for example – from all-out chaos.

A. HAMAS IN GOVERNMENT

In the immediate aftermath of Hamas's victory, some Palestinian and outside analysts speculated that the movement, confronted with the exigencies of governing and eager to achieve greater international recognition, might accelerate its political transition and formally adopt the more pragmatic views suggested by numerous leadership statements in recent years.⁸ Such statements have, to some extent, continued. Thus, according to Prime Minister Ismail Haniya, speaking to Crisis Group in February 2006:

The real problem is that we are not a state but the government of an authority existing in territory that does not meet the criteria of a state. I say clearly that if Israel wants to end this situation it must agree to a fully sovereign Palestinian state. If this does not happen the conflict will continue. The solution is a sovereign Palestinian state encompassing the West Bank and Gaza Strip, with its capital in East Jerusalem. This does not obligate me to recognise Israel. The reality is that Israel exists and is a state recognised by many, and I have to deal with this. There is no law compelling me to recognise it; the subject of recognition is not on the agenda. The solution is in the hands of the Israelis. We demand that it announce its commitment to a Palestinian state with its capital in Jerusalem, and clearly announce and fully respect a schedule for implementing this. We are under no obligation to offer initiatives and we do not provide political positions free of charge.⁹

Likewise, in the words of Riad Mustafa, a Hamas parliamentarian:

I say unambiguously: Hamas does not and never will recognise Israel. Recognition is an act conferred by states, not movements or governments, and Palestine is not a state. Nevertheless, the government's program calls for the end of the occupation, not the destruction of Israel, and Hamas has proposed ending the occupation and a long-term truce (*hudna*) to bring peace to this region. That is Hamas's own position. The government has also recognised President Abbas's right to conduct political negotiations with Israel. If he were to produce a peace agreement, and if this agreement was endorsed by our national institutions and a popular referendum, then – even if it includes Palestinian recognition of Israel – we would of course accept their verdict. Because respecting the will of the people and their democratic choice is also one of our principles.¹⁰

However, the transition from opposition to government demanded far more clarity, and it was not forthcoming. Hamas and the new government failed to take the initiative by articulating clear and forward-leaning political positions that could convincingly return the ball to their opponents' court, sow dissent between the U.S. and EU, or produce a common script with other Palestinian forces. Instead, the new government and Hamas officials launched ambiguous trial balloons, offering one day what they withdrew the next. Hamas politburo leader Khalid Mashal "seems unable to make a statement these days without reference to the movement's 'realism'",¹¹ but rather than spelling out what this means seems primarily interested in balancing these statements with warnings that the Islamists will not capitulate to foreign pressure.

In early April, PA Foreign Minister Mahmoud Zahhar wrote a letter to UN Secretary General Kofi Annan calling for "our people to enjoy freedom, independence, and a dignified life with our neighbours in this holy part of the world", "achieving peace and stability in our region on the basis of a just and comprehensive peace" and accusing Israel of "destruction of any hope of achieving a resolution and peace on the basis of a two-state settlement".¹² Responding to fevered speculation that one of Hamas's most prominent hardliners had on behalf of the government formally accepted the two-state settlement, however, Zahhar denounced this interpretation; it seems he was only stating for the record the view that Israel was destroying this option, without himself endorsing it. Such incidents and others,

Shaikh Hamid Baitawi, Hamas PLC member, Ramallah, May 2006; senior PA officials, Ramallah, May 2006.

⁸ See further Crisis Group Reports, *Enter Hamas; The Challenges of Political Integration*; and *Dealing With Hamas*, all op. cit.

⁹ Crisis Group interview, Ismail Haniya, Cairo, February 2006. See further Khalid Mashal, "We will not sell our people or principles for foreign aid", *The Guardian*, 31 January 2006; Musa Abu Marzuq, "What Hamas is seeking", *Washington Post*, 31 January 2006; Ismail Haniya, "A just peace or no peace", *The Guardian*, 31 March 2006; Danny Rubinstein, "Haniya tells *Haaretz*: Withdrawal to 1967 borders will lead to peace", *Haaretz*, 23 May 2006.

¹⁰ Crisis Group interview, Ramallah, May 2006.

¹¹ Crisis Group interview, George Giacaman, Director, Palestinian Institute for the Study of Democracy (Muwatin), Ramallah, February 2006.

¹² Letter from PA Foreign Minister Mahmoud Zahhar to UN Secretary General Kofi Annan, 4 April 2006. Copy provided to Crisis Group.

presumably intended to demonstrate the Islamists' pragmatism and potential for flexibility, reinforced rather than ameliorated the image, dominant in much of the West, of a dogmatic movement camouflaging formal rejectionism with informal and non-binding statements.

Overall, the Islamists evinced surprisingly little appetite for change and far less of the political savvy they had displayed both in opposition and during the campaign. For instance, while the movement and government have separate spokespersons, and while candidates ran as members of the Change and Reform Bloc, the Islamists failed to draw the clear distinctions between Hamas and the government that might have allowed greater flexibility without compromising on core principles.¹³ Their inability to form either a coalition government or a cabinet led by independents was another indication in this regard,¹⁴ as was the monopolisation of institutional posts. The secretariat of the Palestinian Legislative Council (PLC), for example, is customarily shared with opposition and Christian parliamentarians but the current one is staffed exclusively by officers beholden to Hamas, even though there was no lack of opposition or Christian parliamentarians.¹⁵

Once it was formed, the government could have endorsed the Arab League's 2002 Beirut Initiative – accepted by every Arab government, Syria and Saddam Hussein's Iraq included – which conditions normal relations with Israel on full withdrawal from occupied territory and a negotiated solution to the refugee problem; acquiesced in the applicability of past PA commitments; accepted the PLO's 1988 Algiers Program (proclaiming statehood

within the occupied territories to be the national movement's strategic goal); or, more recently, approved the 11 May Prisoners' Initiative (jointly signed by leading Fatah and Hamas members)¹⁶ – any of which would have signalled acceptance of, or at least willingness to countenance, the two-state solution and modified the political context. Independent Palestinian activists as well as major Arab states pressed them to do so; so far, they have balked. Urged by Crisis Group in particular to accept the Beirut Initiative, senior Hamas leaders demurred. "If Israel accepts it or if the Quartet makes clear that it will actively seek to implement it once we say yes, then we will seriously consider it".¹⁷

Likewise, in lieu of a strategy to cope with the economic stranglehold, Hamas leaders have resorted to equivocation and rhetoric, speaking of "steadfastness", surviving on "olive oil and thyme",¹⁸ and of pressure by Arab peoples on their regimes which would force them to provide aid.¹⁹ Some Fatah members, even while rejecting the Quartet's approach of pre-conditionality and denouncing it for bias,²⁰ bitterly faulted Hamas for its inability to seize the initiative.²¹

¹³ "We told Hamas: Fatah itself has not lived up to the Quartet's three conditions, but the PA under its stewardship did. Why can't you do the same?". Crisis Group interview, independent Palestinian observer, Washington, May 2006. Others have pointed out that Arafat recognised Israel in his capacity as PLO Chairman, and that Fatah has to this day not adopted a similar decision.

¹⁴ The question of Hamas's willingness to form a coalition government has been hotly disputed. Hamas leaders insist they spent a month trying to accommodate Fatah and that independents backed out under U.S. pressure (the U.S. reportedly made clear that any member of the government would be barred from entry into the country or from contacts with American officials). "We spent a month with all the factions to form a coalition with Fatah and find a common program but they insisted that there was no solution unless we accepted their plan in full, which had just been rejected by the people". Crisis Group interview, Salah Bardawil, Khan Yunis, May 2006. Rival factions blame Hamas's reluctance to compromise; one potential independent cabinet member states negotiations failed because of Islamist "intransigence". Crisis Group interview, April 2006.

¹⁵ PLC Deputy Speaker Hasan Khreisheh is not an Islamist but his candidacy for parliament was supported by Hamas. In the previous parliament he served a similar function as an opposition member.

¹⁶ The latter document calls for the establishment of a Palestinian state in the 1967 borders without explicit reference to recognition of Israel but with reference to international legitimacy; affirms the right to resist the occupation by all means within those boundaries; and calls for the refugees' right of return to be guaranteed. For a more detailed discussion, see Section II D below.

¹⁷ Crisis Group interview, March 2006.

¹⁸ Prime Minister Haniya's reference to the traditional Palestinian condiment of olive oil and thyme (*zayt wa za'tar*), while similar to statements made by Arafat and other Palestinian leaders in past crises to indicate the popular capacity for steadfastness, has been subjected to increasing public ridicule as the economy deteriorates further. Some have also begun to cynically inquire if it has become a staple on the menu of Hamas leaders and officials. Crisis Group interviews, Palestinian residents, West Bank and Gaza Strip, May 2006.

¹⁹ Crisis Group interview with Hamas official, March 2006.

²⁰ "Quartet Go Home! It's a miserable body that has provided cover for the worst American policies. The 30 January Quartet statement is simply terrible, even worse than U.S. statements". Crisis Group interview with Nasir Qidwa, former PA Foreign Minister and Fatah Revolutionary Council member, Ramallah, February 2006. Others have chided the Quartet and its members for double standards, noting that Palestinian attacks on Israeli targets routinely draw vigorous condemnation while more frequent killings of Palestinians often pass without acknowledgement. Indeed, the strongest statement offered by Washington in response to the 9 June killing of six members of a Palestinian family in the Gaza Strip – for which it expressed regret – was, "We call on the Palestinian authority to prevent all acts of terrorism". *Haaretz*, 11 June 2006.

²¹ Responding to such criticism, Hamas leaders question why the burden should be on them to endorse the Beirut Initiative,

Interpretations differ as to why the movement has failed to formalise the greater flexibility shown by individual leaders now that it has the opportunity to exercise real power and now that the potential costs of intransigence – an inability to deliver on campaign promises, growing discontent among unpaid government employees and the possibility of domestic violence – have become appreciably higher. For many, some Palestinians included, it reflects the strength of Hamas's Islamist ideology and beliefs, and in particular the prohibition against recognising the legitimacy of Israel's existence on what is defined as sacred Muslim territory.²²

Another explanation relates to the difficulties experienced by a movement that is accustomed to changing only gradually and on the basis of extensive internal consultation, to adapt rapidly to unexpected circumstances and resolve its organisational differences in real time and in the limelight. Given the short period Hamas has been in office, and in the context of heavy international and domestic pressure, the movement may simply not have had the necessary political space and time required to conduct and conclude its internal debates.

That such debates exist is not in serious doubt. Indeed; there is growing evidence of tensions within Hamas that cut across various and at times overlapping lines – inside/outside; West Bank/Gaza; younger/older generations; and perhaps political/military as well. For example, some members of the PLC and government – by virtue of their institutional position and need to deliver on campaign promises – have appeared more receptive to international demands and more intent on avoiding a clash with Abbas. According to Ghassan Khatib, a political analyst and former PA minister, the internal leadership's agenda increasingly is determined by the exigencies of government and the imperative of addressing their constituents' socio-economic priorities, while the exile leadership focuses on

when Israel has rejected it, arguing that the past ten years have seen Palestinians accept one compromise after another with no returns. They also raised substantive objections to the initiative, in particular its provisions on the Palestinian refugee question, which call for a negotiated solution rather than unconditional recognition of their right of return. Crisis Group interview with Hamas leaders, March 2006.

²² "This is not a matter of tactics; it goes to the very root of Hamas's Islamist creed. They simply cannot deviate from their religious conviction that all of mandatory Palestine is *waqf* [Islamic mortmain], and that none can be relinquished". Crisis Group interview, U.S. official, Washington May 2006. "It is an ideological principle of the Muslim Brotherhood. They will never recognise Israel. They are ready to become agents of the U.S. and CIA, but not to give legitimacy to Israel. They will recognise it de facto but never de jure. This makes the political path very difficult". Crisis Group interview, senior Fatah official and Palestinian presidential adviser, Ramallah, March 2006.

maintaining Iranian funding and Syrian political support. "The challenges of governing and meeting basic needs necessarily diminish the importance of ideology. It can't be avoided".²³

Hamas officials are predictably tight-lipped about any internal tensions. Commenting on this, a leader in the occupied territories stated that "we have four committees that participate in decision-making: West Bank, Gaza Strip, prisoners, and exile. If any three of these endorse a position, it becomes the decision of the movement".²⁴ But disagreements increasingly have flared into the open. In April, for example, Deputy Prime Minister Nasir-al-Din Sha'ir publicly criticised exiled Politburo chief Khalid Mashal for an outspoken attack on Fatah leaders, whom Mashal had accused of seeking to mount a "coup" in collusion with the U.S. and Israel.²⁵ While Sha'ir is an independent Islamist rather than Hamas member, he would have been unlikely to make such a statement without at least tacit government support. He may also have been sending a signal to his cabinet colleagues that the interests of the national government need to supersede the partisan ones of the Islamist movement. In the event, he was not reprimanded.

More recently, in assessing the 11 May Prisoners' Initiative, Hamas leaders and officials responded in a muddled and disorderly fashion – shown from the outset in their failure to either endorse or reject a document co-signed by one of its most prominent prisoners. These differences became more pronounced in response to Abbas's 25 May ultimatum for Hamas to endorse the Initiative within ten days or face a referendum in 40. PLC speaker Aziz Dwaik appeared to accept a referendum on the grounds that "returning to the people is one of the most important principles in democracy", while PLC member Mushir Masri denounced it as a "coup against the democratic choice of the Palestinian people".²⁶ Personifying these contradictions and the movement's dilemma, exile leader Muhammad Nazzal characterised it as "blackmail" and "a tool of pressure on Hamas", before concluding that "no one can be against a referendum because it will show the will of the people".²⁷

All in all, such disagreements have made it hard for the Islamists rapidly to come up with a unified, let alone a

²³ Crisis Group interview, Ghassan Khatib, former PA Minister of Labour, Planning, and Health (Acting), Ramallah, May 2006.

²⁴ Crisis Group interview, Ramahi, May 2006.

²⁵ Palestine News Network, "Political office leader Khalid Mashal speech: No way we will bend to U.S., Israeli & Fatah pressure to be subservient to the zionists – Fatah leaders in uproar", 22 April 2006, at <http://www.pnn.ps/english/archive/2006/apr/week4/220406/report1.htm>.

²⁶ Joel Greenberg, "Hamas faces challenge on Israel's right to exist", *Chicago Tribune*, 25 May 2006.

²⁷ Reuters, 26 May 2006.

forward-leaning position. While Hamas's brand of democratic centralism and its very deliberative method of resolving differences served it well in opposition, they are severely undermining its credibility and effectiveness in government.

It also can be argued that Hamas's disappointing lack of pragmatism reflects the reactions of a movement under siege, pressured by all sides – Fatah included – to acquiesce to non-negotiable (and, in their eyes, humiliating) demands; indeed, some independent Palestinian observers believe that the confrontational tactics adopted by the Quartet and Fatah have contributed to Hamas's uncompromising stance. "We should have given them the time and space to evolve. By pressing them immediately and imposing unrealistic demands, we made it more difficult for them to show flexibility and strengthened the hand of their more militant leaders".²⁸ Senior Hamas officials made the point that they stood to lose far more in the public eye by bowing to foreign diktats and making ideological U-turns than by sticking steadfastly to past positions. According to a senior Hamas leader:

The Palestinian public would not understand or forgive us if we changed positions overnight, after campaigning on a different platform, in response to outside pressure. They did not elect us to pursue the policies of those we defeated and which produced nothing after ten years. They elected us to stand for what we believe and to stand firm.²⁹

For Riad Mustafa, a Hamas parliamentarian, "If we are forced to choose between our beliefs and political power we will sacrifice authority to maintain our beliefs".³⁰ This posture was made all the easier since the Quartet demands were deemed excessive by large, probably majority segments of the public.³¹ In the words of a Palestinian analyst:

Many Palestinians see this as another instance of double standards. They are being asked to recognise the state of Israel while Israel continues to occupy

Palestinian land and before Israel has recognised a Palestinian state in the 1967 borders. They are being asked to renounce violence while every day they experience the effect of Israeli violence. And they are being asked to accept past agreements while Israel has attached so many reservations to the Roadmap as to make its acceptance a nullity.³²

Whatever the reasons for Hamas's approach, the end result has been diplomatic and economic paralysis, strengthening the conviction of those inside and out who favour a policy of pressure to cause the government to fall. Advocates of an engagement policy have been inhibited, unable to point to unequivocal movement on the PA government's part to buttress their case that a new approach was warranted.³³ In the words of a European diplomat, "with its contradictory noises, Hamas made it easy for the Quartet to stick together".³⁴ Pointing to statements made by Hamas leaders and PA cabinet members that condoned rather than condemned a 17 April suicide bombing in Tel Aviv by Islamic Jihad, another Western diplomat reached an identical conclusion.³⁵

Rigidity is one concern; inexperience another. While the PA government has been hamstrung financially, it has also been hampered by Hamas's performance. The mantra among Fatah leaders and other critics is that "Hamas doesn't know how to govern".³⁶ In response, the Islamists insist they inherited a shambles and are working effectively to fix it.³⁷ More importantly, they insist they have not yet begun to govern because the combination of Israeli policies, international boycott and Fatah obstruction (via its loyalist civil service and hold over the PA's financial institutions) has deprived them of the resources and institutions required to rule.³⁸

²⁸ Crisis Group interview, independent Palestinian observer, Washington, May 2006.

²⁹ Crisis Group interview, senior Hamas official, March 2006.

³⁰ Crisis Group interview, Ramallah, May 2006.

³¹ In a public opinion poll conducted in late April 2006, for example, 64 per cent opposed the proposition that Hamas should recognise Israel in exchange for international funding of the PA. "Poll: The Palestinian Government and International Funding", Birzeit University Development Studies Centre, 30 April 2006, at www.jmcc.org. Responding to an identical question for a poll conducted by Birzeit University's Development Studies Program in June, 61 per cent opposed recognition in exchange for funding. "Public Opinion Poll #27: Living Conditions, National Dialogue and the Referendum, Evaluation of Institutions", at <http://home.birzeit.edu/dsp/opinionpolls/poll27/analysis.html>.

³² Crisis Group interview, Palestinian analyst, Washington, April 2006. Prime Minister Haniya did not mince his words on this issue: "Do policymakers in Washington and Europe ever feel ashamed of their scandalous double standards? Before and since the Palestinian elections in January, they have continually insisted that Hamas comply with certain demands....But we have not heard a single demand of the Israeli parties that took part in this week's elections, though some advocate the complete removal of the Palestinians from their lands....Though we are the victims, we offer our hands in peace, but only a peace that is based on justice". Ismail Haniya, "A just peace or no peace", *The Guardian*, 31 March 2006.

³³ Crisis Group interview, European diplomats, May 2006.

³⁴ Crisis Group interview, EU diplomat, Jerusalem, May 2006.

³⁵ Crisis Group telephone interview, May 2006.

³⁶ Crisis Group interviews, Fatah leaders and secular Palestinian activists, West Bank and Gaza Strip, January-May 2006.

³⁷ Crisis Group interviews, Hamas leaders and PA government officials, Cairo, West Bank and Gaza Strip, February-May 2006.

³⁸ Crisis Group interview, Riad Mustafa, May 2006.

Criticism of the civil service is particularly harsh, as Hamas officials dismiss suggestions that a neutral bureaucracy is being shunted aside by an Islamist government. Rather, they claim the civil service is a partisan force appointed and directed by Fatah that is actively working to block the government from fulfilling its duties. "There are 5,300 Directors-General in the PA, all of them Fatah. Because of the financial crisis we have been unable to make any appointments. How can a general lead an army loyal to the other side?"³⁹

A Fatah activist concurs that "Hamas is unable to bring its own people into the PA. So long as the financial crisis persists it would be too unseemly for them to make the new appointments they are entitled to".⁴⁰ And the head of an international agency confirms that both the presidency and the civil service are seeking to impede the ministers' work.⁴¹

All that said, it appears beyond dispute that the Islamists were unprepared for the difficulties they currently face. By most accounts, they underestimated the extent of the challenge, initially assuming that their electoral achievement would automatically produce international recognition, while minimising threats emanating from the Quartet and others as either unlikely to materialise or easily overcome. On the eve of his 29 March investiture as finance minister, for example, Omar Abd-al-Raziq suggested any differences with the EU would be resolved based on a shared commitment to transparency and accountability. If not, he foresaw little difficulty in obtaining the necessary resources from Arab and Islamic states, PA government corporations, or – should all else fail – Palestinian banks.⁴² Hamas officials interviewed by Crisis Group also displayed a surprising lack of detailed knowledge concerning the PA's dependency on the outside world and its relationship with Israel.⁴³

This has severely limited the government's ability to maintain a functioning administration let alone implement its program. Ghassan Khatib, a leader of the Palestinian People's Party who held three ministerial posts in Fatah-dominated cabinets, notes the Hamas-dominated PLC has ratified only two initiatives: the first depriving deputy ministers and other senior civil servants of their financial authority and a number of other powers, the second a wholesale abrogation of decrees issued by Abbas in the interregnum between the old and new parliaments.⁴⁴ Within

ministries, the situation is perceived by some as no better. "We thought Fatah was factional but they are nothing compared to Hamas. They are treating the civil service as the opposition".⁴⁵ Justified or not,⁴⁶ such suspicion has its costs; while some ministries have maintained their chains of command, in others the ministers' loyalist advisers serve as the interface, with even routine activity such as correspondence requiring ministerial approval.⁴⁷

Low morale has led to absenteeism, which is crippling several ministries. In one, for example, a senior civil servant estimates it has reached 50 per cent:

I only come here out of a sense of obligation. I have three assistants who now rotate working days. They have transport costs that exceed \$100 a month and are not getting paid, and there is no work to compel them to come here. The work of a ministry consists of projects, activities, and relations, but now there is no money for any of these so the ministry is paralysed. We no longer have money for office supplies, or even for the transportation we need for interministerial and other meetings because since early May gas stations no longer accept PA fuel coupons. People no longer come here for services because they know we can't provide them. There's an awful lot of card-playing within the PA these days. The only functioning ministries are health and education, but after schools close next week the latter will stop functioning as well.⁴⁸

the PLC is not in session but these only retain the power of law if approved by the first subsequent session convened by the PLC.

⁴⁵ "Hamas ministers could easily have taken a professional as opposed to political approach to senior civil servants. In the event a Fatah civil servant seeks to sabotage the proper functioning of a ministry, the law entitles the minister to take disciplinary action". Crisis Group interview, Ghassan Khatib, May 2006.

⁴⁶ Hamas has acted to present its management of state institutions as non-partisan. Thus, whereas throughout the PA, including in offices staffed by senior Islamist officials, the only pictures on the wall are those of Abbas and Arafat, with no evident attempt to replace them with pictures of Hamas dignitaries, Preventive Security commanders in Khan Younis burnish their camps with numerous pictures of Mohammad Dahlan, their former commander, and fly Fatah flags from the ramparts.

⁴⁷ Crisis Group interview, senior PA civil servant, Ramallah, May 2006.

⁴⁸ Crisis group interview, senior PA civil servant, Ramallah, May 2006. Such absenteeism levels are not the norm, however. At the ministry of labour, for instance, a senior official reports 96.3 per cent attendance, "the highest of any ministry. We've instructed our employees to report for duty at the ministry branch office closest to their place of residence to reduce their transportation costs". Crisis Group interview, Ramallah, May 2006. Likewise, Minister of Planning Samir Abu Aisha, who

³⁹ Crisis Group interview, Riad Mustafa, May 2006.

⁴⁰ Crisis Group interview, Ramallah, May 2006.

⁴¹ Crisis Group interview, May 2006.

⁴² Crisis Group interview, Ramallah, March 2006.

⁴³ Crisis Group interviews, Hamas officials, March 2006.

⁴⁴ According to Article 43 of the Palestinian Basic Law (interim constitution) the presidency has the right to issue decrees when

A ministry of culture employee in the West Bank paints an equally bleak picture. The minister, based in Gaza City, reportedly has assumed all decision-making powers, cutting senior as well as junior staff out of the loop:

Communications from the minister are virtually non-existent, limited to the occasional missive about the importance of showing up for work. I don't work for him, but for the PA, which is under an obligation to pay me a salary even if it doesn't give me assignments related to culture. So far absenteeism is low because people have been expecting some resolution of the financial crisis and have a strong sense of duty. Another month of this and people will begin to give up hope, especially considering the many families with two working parents who will have children home all summer for lack of money.⁴⁹

Hamas's excuses also are beginning to wear thin. Upon assuming office, PM Haniya, Finance Minister Abd-al-Raziq, and other officials gave detailed figures, ranging up to hundreds of millions of dollars, for the savings the new government expected to make by eliminating corruption, mismanagement, and waste purportedly tolerated by the finance ministry in previous years. They also accused their predecessors of running odious debts of up to \$4 billion. Charging he was being accused of "high treason", former finance minister and current Third Way parliamentarian Salam Fayyad on 4 May issued a detailed, lengthy rebuttal demonstrating that the civil service was run to the highest standards of transparency and the debt burden was well within guidelines adopted by the EU for its own member states, and that the projected savings were therefore largely imaginary:

In my assessment there can only be two explanations for the government's claim that it was surprised to receive empty coffers. The first is that the government and its advisers did not actually expect to receive empty coffers. The second is that the government deliberately sought to give the impression that it was surprised to find the treasury empty, even though it knew for sure that the treasury could not have been anything but empty....[O]ne has to ask how credible and realistic a government program can be when it is based on the slogan of change and reform but the government is not fully aware of the full dimensions of what it wants to

change and reform....If opposition is based on criticising others, governance cannot be and cannot stand on such a basis.⁵⁰

Since Fayyad published his statement, "Hamas has talked a lot less about corruption and savings within the civilian budget".⁵¹

Discontent, while still palpably directed at the outside world, has begun to spill over to the government itself. On 30 May, a demonstration organised outside the council of ministers by *Until When?*, a new Fatah-backed movement, attracted hundreds of participants with its demand that the PA government "produce solutions or resign".⁵² Describing itself as independent, and supported by the largest public sector union, it denounced the government for "continuing to hold its employees' livelihoods and people hostage to its determination to reject everything".⁵³ It threatened to escalate its activities with work stoppages, walkouts, strikes and further demonstrations if the government "continued to act like an opposition party and refused to assume the responsibilities of governance. They don't seem to understand that the PA can't be run like an Islamic charity".⁵⁴

More ominously, the government has also faced armed protests, involving violence against PA buildings and officials, such as on 1 June, when large numbers of security personnel attacked the PLC in Gaza City demanding unpaid wages. The action appeared to be precipitated by an announcement one day earlier that the PA has collected enough revenues and donations to pay the 40,000 lowest-earning PA employees one month's salary, and the remaining 125,000 an advance of approximately \$300. According to one banner, the promised amounts "are not enough to pay debts, buy milk and diapers".⁵⁵ A PA employee referred to the 3rd of June as the "93rd of March" – a reference to the last day salaries were paid. (A more cynical protestor at the 30 May demonstration carried a

previously had been a private consultant frequently employed by the Ministry over the years, has "developed good relations with what is now his senior staff that have continued". Crisis Group interview, Ghassan Khatib, May 2006

⁴⁹ Crisis Group interview, Ramallah, May 2006. A foreign ministry official is similarly critical, reaching similar conclusions. Crisis Group interview, Ramallah, May 2006.

⁵⁰ Salam Fayyad, "O experts, have mercy on the truth", 4 May 2006. The article was run as a two-page spread in the three main Palestinian dailies.

⁵¹ Crisis Group interview, Ghassan Khatib, May 2006.

⁵² "We are asking the government to take responsibility: to pay salaries, provide security, enhance the rule of law and talk to Israel. It's easy to say no to everything in opposition, but now that they are in power they have to take positions on the issues. If they cannot assume this responsibility they should resign". Crisis Group interview, *Until When?* leader, Ramallah, May 2006. Media reports suggested the demonstration was about 1,000 strong. See Nidal al-Mughabi, "Palestinian PM Promises Salaries in a Few Days", Reuters, 30 May 2006.

⁵³ Crisis Group interview, *Until When?* leader, May 2006.

⁵⁴ Crisis Group interview, *Until When?* leader, May 2006.

⁵⁵ Reuters, 1 June 2006.

sign proclaiming “Long Live the Government, Down with the People!”⁵⁶

However, it would be premature to speak of any significant change in public opinion or of anything like majority support for unseating the government. Threats of mass action – for example, a May Day march planned by Fatah-run unions – have failed to materialise; many civil servants spoke of a commitment to their work and a sense of solidarity in the face an external siege. Asked about criticism and opinion polls reflecting a downturn in public support since March, a Hamas parliamentarian smiled and noted the same pollsters concluded Fatah would win the January elections.⁵⁷ “The Palestinian people know who we are; they know our track record in tending to people’s needs and are familiar with our program, and that is why they voted for us and not others. They also understand very clearly that if there is one reason that does not explain the current crisis, it is the personal conduct of our officials”.⁵⁸ Broadly agreeing, a Fatah activist stated:

So far people are not really turning against the government. Although I’m convinced most cast a protest vote against Fatah rather than for Hamas, and did not expect or want Hamas to win an absolute majority, they are unprepared to demand a change of government after only a few short months, a period in which most believe it has not been given a chance to demonstrate its ability to govern because of the boycott. There is also an ethical aspect, a refusal to turn against those they voted for because the enemies of the Palestinian people are using humanitarian aid as a political weapon; there is a sense of shame about making political concessions for a bag of rice.

But Hamas’s problem is that it doesn’t understand it won because of the protest vote, and that in a democratic, pluralist system you only achieve temporary custodianship of the government until the next election. They are acting as if the people have given them an unconditional oath of allegiance (*bay’a*) and endorsed every item of their program.⁵⁹

Echoing these sentiments, a prominent minister in the last government cautioned against “underestimating the ability of the Palestinian people to endure pain”.⁶⁰

B. FATAH IN OPPOSITION

Almost immediately following the elections, members of Fatah were busy thinking of how they could hamper Hamas’s ability to govern and find a way back to power. Within hours of the declared results, they were examining whether President Abbas could legally dissolve parliament and call for new elections, declare a state of emergency and temporarily suspend parliament, challenge the election results in court, or take other measures to prevent Hamas’s assumption of office.⁶¹ Some went so far as to speak openly of military confrontation, arguing that it was best for it to occur before Hamas had time to take over the PA security apparatus.⁶² In the event, Abbas came out with an unambiguous statement that Hamas had won the elections fair and square and would, therefore, be tasked with forming the new government. But the acrimony remained.

Fatah leaders argued strongly against participation in a national unity government, fearing this would strengthen the Islamists’ legitimacy and hold on power, condemning Fatah to years in a subordinate role and in the process irretrievably transforming the character of the Palestinian national movement. One official explained: “We saw what happened to the Labour party in Israel when it joined Likud in government: Likud prospered; Labour faltered and lost its soul”.⁶³ The predominant notion was that Hamas’s rule would last at most several months; once it became evident the Islamists could not govern or that a constitutional crisis with President Abbas had brought the nation to a standstill, steps would be taken to change course and recover the national movement for Fatah.

Even so, and beyond that relatively unified position, several trends exist within Fatah, “ranging from appeasement of Hamas on the grounds that we aren’t yet in a position to contest it, to full confrontation on the basis that over time it will only get stronger and Fatah weaker”.⁶⁴ The former is best represented by the expression, “I am Fatah vis-à-vis

⁵⁶ In the wake of the government’s announcement of partial payments, a number of bank branches were attacked by frustrated PA employees in the days leading up to disbursement, leading to threats that they would be closed if the security forces could not guarantee their safety.

⁵⁷ Crisis Group interview, Riad Mustafa, May 2006.

⁵⁸ Crisis Group interview, Mustafa, May 2006.

⁵⁹ Crisis Group interview, Ramallah, May 2006.

⁶⁰ Crisis Group interview, Ramallah, June 2006.

⁶¹ Crisis Group interviews, Ramallah, January 2006. There is, in fact, nothing in the Basic Law that would allow Abbas to dissolve parliament and call for new elections. As Nathan Brown, an expert on the matter, writes: “The Palestinian constitutional document (the “Basic Law”) is definitive: the next parliamentary elections are due in 2010. Some Palestinians have also claimed that unwritten international practice allows a president to dissolve an assembly in case of a constitutional stalemate. This right is wholly imaginary”. He concludes, “Fatah can seize power only by shredding the law”. “Living with Palestinian Democracy”, Policy Brief, Carnegie Endowment, June 2006.

⁶² Crisis Group interview, Palestinian presidential advisers, Ramallah, January 2006.

⁶³ Crisis Group interview, Ramallah, February 2006.

⁶⁴ Crisis Group interview, PA presidential adviser, May 2006.

Hamas, and Palestinian vis-à-vis the outside world”,⁶⁵ heard among the rank-and-file, but it appears to enjoy little influence at the leadership level. As a presidential adviser described it:

There are two schools. The first calls for a quick confrontation with Hamas, and isn't selective about how to achieve this. The second, to which I belong, says the elections were clean; we have to respect the choice of the people, go into opposition, and help Hamas succeed. But I want them to fail. And I want them to fail because of themselves, not because of conspiracies involving the U.S., EU, and Olmert that don't give them an opportunity to govern, but because they failed to govern despite the opportunity to do so.⁶⁶

Hard-liners have a clear edge, and they are driven by different rationales. For some, accustomed to decades of hegemony over the political system, it is a question of power, pure and simple: allowing their main rivals to exercise it is inconceivable and too great a threat to their own positions. Others appear genuinely distressed at the threat of an Islamist takeover that, gradually, would change the fabric of Palestinian society. “I did not fight Israel's occupation for decades only to see my children brought up in an Islamic state”, lamented a former PA official, who dismissed as tactical manoeuvring the Islamists' decision to downplay the religious aspect of their social agenda.⁶⁷

A third group insists on the grave harm that would befall the national movement were Hamas treated leniently by the international community without having to undergo its own ideological transformation or if Fatah were to compromise on its platform in order to accommodate the Islamists':

The principal Palestinian asset today is our international legitimacy – our acceptance of UN resolutions, of the two-state solution, of past agreements signed with Israel. If we are to compromise on that, we will be set back years and squander what we accomplished. The door will be open for all kinds of actions detrimental to our cause. Unrelenting pressure needs to be exercised on Hamas so that it accept these positions, or fail.⁶⁸

Such reasoning quickly dovetailed with – and in some cases reinforced – U.S. and EU ideas about freezing funding until Hamas changed its formal positions. Not a few Fatah officials meeting with Quartet members

emphasised that it should not relax its three conditions, lest funding bail Hamas out, and argued that pressure should be used to confront Hamas with a stark choice: agree to the conditions, or, more likely, fail to govern.⁶⁹ Many decided from the outset that the National Dialogue should be an effort to expose Hamas, not to entice it; these same people seized upon the referendum idea as another tool in their confrontation with the Islamists and, as discussed below, would rather postpone any international aid mechanism until after the referendum has been held – thereby ensuring people vote remembering their last unpaid pay check.

Abbas's position in this debate is both crucial and not entirely well-defined. Encouraged to execute an assertive, aggressive strategy, he was in an awkward position, and it showed. By temperament and conviction, he is averse to confrontation; although deputy head of Fatah, he is also PLO Chairman and PA President, and sees himself as the leader of all Palestinians, loathe to be perceived as a partisan politician. Years of disappointment with U.S. policy has made him suspicious of any strategy that – like the one advocated by some who surround him – depends on Washington's complicity and active support and could yet again leave him hanging out to dry. Finally, he also is said to perceive his struggle with Hamas essentially as not for political power, but rather for the survival of the national project as embodied in his vision of an independent state achieved on the basis of a negotiated settlement.⁷⁰

Unlike some of his aides and other Fatah leaders, in other words, Abbas appears agnostic with respect to the alternatives of compelling the government to modify its positions or causing it to collapse. So long as the PA government supports his agenda, and its program does not impede his ability to pursue his priorities, he is said to be less concerned about its political composition.⁷¹ Thus, he reportedly is receptive to the idea of a national unity government constituted on the basis of the Prisoners' Initiative.⁷²

At the same time, Abbas is adamant in his belief that Hamas's outlook, if unchanged, is a genuine threat to the national movement, whose sole option in his view is a negotiated settlement with Israel; he also remains jealous of his prerogatives as PA and PLO leader. What is more,

⁶⁵ Crisis Group interview, Palestinian presidential adviser, Ramallah, March 2006.

⁶⁶ Crisis Group interview, Palestinian presidential adviser, Ramallah, March 2006.

⁶⁷ Crisis Group interview, Ramallah, January 2006.

⁶⁸ Crisis Group interview, Washington, March 2006.

⁶⁹ According to EU officials, PA presidential advisers argued that the three conditions should not be diluted, and that the Quartet should not waver if confronted with partial movement towards them by the Islamists. Crisis Group interviews, Brussels, March 2006.

⁷⁰ Crisis Group interview, Palestinian presidential adviser, Washington, DC, May 2006.

⁷¹ Crisis Group interview, Palestinian presidential adviser, Washington, DC, May 2006.

⁷² Ibid.

Fatah leaders are said to have warned him that if he failed to safeguard their interests from Islamist encroachment, he would face an internal revolt.⁷³

The outcome has been a series of at times shifting policies and pronouncements. Abbas authorised Hamas to form a government that did not endorse his basic principles, yet also asserted his hold on key bastions: the presidency, of course, insisting on its institutional supremacy; the PLO, in which Hamas does not yet participate;⁷⁴ and the security forces, the chief source of formal power within the PA, whose officer corps is almost exclusively composed of Fatah and voted for it by a large majority.⁷⁵ In the wake of the election, and in some cases after the formation of the new government, the presidency asserted control over several institutions, which promptly ended their previous practice of financial support for the PA budget, further reducing the government's sources of revenue. These included the Palestinian Monetary Authority, which controls the banking system;⁷⁶ the Palestinian Investment Fund, which holds the PA's assets and had been a major contributor to the 2005 budget;⁷⁷ and the Palestinian Broadcasting Company, which controls the official broadcast media.

While emphasising that the Palestinian political system is democratic, Abbas also periodically has warned that he might dismiss the government.⁷⁸ In the latest dramatic move, he announced on 25 May that if the National

Dialogue failed to achieve Islamist acceptance of the Prisoners' Initiative, he would place the document before the people in a referendum, thereby making an end-run around Hamas. Abbas and other Fatah officials have strongly denounced the funding boycott in public; in private, they are said to be broadly supportive of a tough international policy toward the government. Finally, Abbas has emphasised that as PLO Chairman he remains in charge of political matters and, in particular, of Palestinian relations with Israel, lauding the hitherto dormant organisation as "the leader of this people" and "the supreme political reference for its institutions".⁷⁹

The sum of these conflicting instincts, pressures and priorities is an Abbas strategy that, today, aims to demonstrate his approach to the Israeli-Palestinian conflict commands broad popular support, is the one most likely to produce results and can break the international funding boycott in ways Hamas's cannot.⁸⁰ Thus, while rejecting the notion of leading a shadow government to manage PA affairs – which would amount to usurping the Islamists' power – the president and his aides have suggested that emergency donor funds be handed to him and then passed on to the government.⁸¹ If, after he has given the government a temporary and partial respite, Hamas nonetheless maintains its current stance, he could credibly claim that he can do no more and has no choice but to dismiss the government to prevent an institutional collapse and humanitarian catastrophe.⁸²

Abbas's support for the Prisoners' Initiative and surprise referendum announcement – further discussed below – have supplemented this strategy with a clear political component. Yet, the objective is similar: to compel Hamas to take a stance in the one area where the president feels he has a distinct advantage – the political program – and to do so in a way that does not associate him with international actors, but rather with a majority of his people.⁸³

While the logic behind this approach might not be inherently confrontational, the results – given the polarised

⁷³ Crisis Group interview, Abd-al-Hakim Awad, Fatah spokesperson and youth wing (Shabiba) leader, Gaza City, January 2006.

⁷⁴ The March 2005 Cairo agreement endorsed by the PA and thirteen Palestinian political organisations contemplated Hamas's and Islamic Jihad's integration into the PLO, but the mechanisms specified to this end have yet to be activated. Given Hamas's showing in the PLC elections, Fatah clearly does not wish to see it inch toward control of that institution as well. Crisis Group interview with PLO official, Washington, March 2006.

⁷⁵ Crisis Group interviews, Ismail Haniya; Palestinian security officials, Gaza City, February 2006.

⁷⁶ "The PMA is not cooperating with the government. It is refusing to issue new loans". Crisis Group interview, Ahmad Bahar, deputy PLC speaker, Gaza City, May 2006. A senior Palestinian banker also said that the PMA was enforcing OFAC measures against PA employees in order to preserve its OFAC exemption. "Every PA employee has become suspicious for the PMA". Crisis Group interview, Ramallah, May 2006.

⁷⁷ In 2005 the PA budget was supplemented with \$173 million of PIF funds. The World Bank estimated that with access to Palestinian Investment Fund funds, the PA government could boost its monthly income by between \$15 million and \$25 million. World Bank, "The Impending Palestinian Fiscal Crisis: Potential Remedies", 7 May 2006, p. 8, at www.worldbank.org.

⁷⁸ Visiting Turkey on 24 April 2006, for example, Abbas stated that "the Constitution grants me very clearly the authority to dismiss the government but I don't want to use these authorities". *Al-Ayyam*, 25 April 2005.

⁷⁹ Mahmoud Abbas, address to the inaugural session of the new PLC, attended by Crisis Group, 18 February 2006.

⁸⁰ Crisis Group interview, Palestinian presidential adviser, Ramallah, March 2006.

⁸¹ Crisis Group interview, Palestinian presidential adviser, Jerusalem, March 2006. It does however involve restricting the government's financial autonomy and ability to tap into other sources of funds. Hence the decision to place government corporations such as the Palestinian Investment Fund (PIF) under direct presidential authority. In this way, the president sought to maximise his leverage while leaving the responsibility of government firmly on Hamas's shoulders.

⁸² Crisis Group interview, Palestinian presidential adviser, Jerusalem, March 2006.

⁸³ Crisis Group interview, Palestinian presidential adviser, May 2006.

environment and the combined actions of Hamas, Fatah and the international community – clearly are, as Hamas increasingly has perceived the president's actions as designed to obstruct its ability to govern and, together with outside powers, rob it of its electoral victory. This has been particularly noticeable in the security sector.

Already when, as prime minister, Abbas confronted President Arafat, that sector had been the object of an incessant institutional tug of war facilitated by the proliferation of security forces with differing loyalties and chains of command. In a role reversal, Abbas now has sought to assert presidential prerogatives all the while formally acknowledging the government's own.⁸⁴ Whereas the previous minister of interior, Nasr Yusif, had been granted operational command of all security forces save the Presidential Guard, his successor, Said Siam, was restricted to the duties outlined in the Basic Law: command over the Preventive Security Force (PSF), police, and civil defence.⁸⁵ That control, too, was compromised when, on 6 April, one week after the new government took office, Abbas appointed a Fatah loyalist, Rashid Abu Shbak – who, as deputy commander of the PSF during the 1990s, helped spearhead the anti-Islamist crackdown⁸⁶ – as director general of internal security in the ministry of interior, thereby placing him in operational command of those forces that remained within the purview of the ministry.

Responding a day earlier to EU threats to withdraw its personnel from the Rafah border crossing between Gaza and Egypt if they were compelled to cooperate with forces under governmental authority, Abbas issued a decree placing the General Administration for Crossings and Borders under exclusive presidential authority⁸⁷ and announced that the crossing would be secured by the Presidential Guard. Hamas initially rejected the move, then acceded to it in order to keep the crossing open. Plans were announced in late April to increase the Presidential Guard from 2,500 to 3,000-3,500, with press reports a

month later suggesting it may expand further, to 10,000.⁸⁸ Hamas leaders increasingly saw these steps, together with other statements by Abbas and his allies, as attempts to constrict their authority and martial the president's forces as a prelude to ousting them from office.

More critically, from Hamas's perspective they threatened to transform the government into what both Fatah and Hamas activists called "a general without an army".⁸⁹ Abbas's intentions aside, the concern appeared at least somewhat validated by developments on the ground. On the day after the elections, a Fatah security leader vowed that his men would never obey the orders of a Hamas minister.⁹⁰ Another leading Fatah official in Gaza stated: "Fatah will comply with a Hamas-led PA with as much respect as Hamas complied with a Fatah-led PA".⁹¹

Al-Aqsa Martyrs' Brigades gunmen affiliated with Fatah exploited the period between the election and Hamas's assumption of office, roaming the streets of Gaza in police cars full of weapons. Their targets ranged from government institutions and personnel to international missions and foreigners,⁹² businesses, and Hamas cadres. The trend has continued: by June many residents in some of the more volatile areas of the Gaza Strip were living under a self-imposed dusk-to-dawn curfew. Though motivation for such attacks may often have been personal interest or factional gain as much as organisational advantage, their effect has been to stymie the government's efforts to restore order. In effect, the traditionally permeable wall between the security forces and Fatah militias has virtually eroded. "The same police who drove us to the border were the ones who were shooting in the air to chase us out", observed a

⁸⁴ In late February, for example, Abbas stated: "We'll grant Hamas authority over national security because we need to have one body controlling the situation to ensure security. I don't intend to deprive Hamas of what I demanded in the past from Yasir Arafat". *AlJazeera*, 28 February 2006.

⁸⁵ This important change did not in fact violate existing constitutional provisions. Rather it entailed a revocation of authority Abbas had devolved to the previous interior minister and re-assertion of presidential prerogative.

⁸⁶ The Preventive Security Force is primarily composed of Fatah loyalists from the occupied territories who were active in its militias during the 1987-1993 Uprising. Abu Shbak was initially the deputy to PSF Gaza Strip Commander Dahlan, and in 2005 was promoted by Abbas as its overall commander.

⁸⁷ "Abbas Takes Charge of Border Security", *AlJazeera.net*, 6 April 2006, at <http://english.aljazeera.net/NR/exeres/CCE11D4B-0366-4010-BEB8-EEC62D5F7AE4.htm>.

⁸⁸ See *Al-Ayyam*, 25 April 2006; Ze'ev Schiff, "PA chief Abbas Aims to Expand Presidential Guard to 10,000 Men", *Haaretz*, 29 May 2006.

⁸⁹ Crisis Group interview, Abd-al-Hakim Awad, Fatah spokesperson, Gaza City, January 2006.

⁹⁰ Crisis Group interview, Ramallah, 26 January 2006.

⁹¹ Crisis Group interview, Ahmad Hillis (Abu Mahir), Fatah General Secretary in the Gaza Strip, Gaza City, February 2006. Similarly Fatah spokesperson Awad commented: "The military wing will not give up its weapons to the PA because Hamas did everything in its power to frustrate the PA and refused to cooperate. Did it not resist when the PA tried to confiscate the rocket launchers? Hamas is calling what is *halal* [permitted] *haram* [forbidden], and *haram*, *halal*". Crisis Group interview, Gaza, January 2006.

⁹² Al Aqsa Martyrs' Brigades gunmen seized on the Danish cartoon controversy in February 2006 to poach the Islamist card from Hamas, demonstrate that foreigners were unsafe under Islamist rule and compel Hamas to defend foreign targets from protestors defending the integrity of their religion and prophet. For its part, Hamas sought to downplay the crisis and issued a statement demanding the protection of Christians.

departing European aid administrator after gunmen raided the European Commission building in Gaza City.⁹³

C. A MARCH OF FOLLY?

Even as Hamas and Fatah leaders repeatedly profess their determination to avoid violent conflict, they are acting in ways that promote it. Rather than cooperating to wrest sovereignty over the occupied territories from Israel, they are locked in competition over administrative authorities under Israeli rule. The dominant pattern has been one of Fatah and the presidency seeking to limit the power of the Hamas government. In turn, convinced that Abbas is plotting with outside powers to undermine them, Islamist officials have begun pointing to him as the problem,⁹⁴ in stark contrast to the cordial and even warm relations that prevailed before the elections.⁹⁵ Even prior to Mashal's April accusation that Fatah elements were in league with outside powers, a senior Hamas leader had suggested that by encouraging the donor community to adhere to its three conditions, Fatah officials were guilty of treason.⁹⁶ Others highlighted the president's increasingly deliberate assertions of power and control over the security branches and revenue sources.⁹⁷

Fatah likewise has viewed Hamas's moves with distrust, fearing the Islamists seek to consolidate their rule in order to perpetuate it.⁹⁸ On 20 April, in response to Abu Shbak's appointment, Interior Minister Siam announced formation of the Security Forces Support Unit, also known as the Executive Force. Charged with enforcing public safety and protecting property but widely seen as an attempt by Hamas to establish a loyalist PA force, it was to report

directly to Siam. Making matters worse from Abbas's standpoint, Siam appointed Jamal Abu Samhadana, commander of the Popular Resistance Committees, as its head and announced it would be composed of 3,000 new recruits from various armed groups,⁹⁹ including Hamas's own Qassam Brigades.

Dismissing claims he had exceeded his constitutional authority, the minister insisted the unit was not a new security force requiring presidential approval but rather an auxiliary unit that he was authorised to establish. According to government spokesperson Ghazi Hamad, "the decision was taken in accordance with the basic law, which gives the interior minister the right to take measures in order to maintain security and public law and order".¹⁰⁰

A militia more than a movement and operating almost exclusively in the Gaza Strip, the Popular Resistance Committees consist primarily of disenchanted former Fatah and Hamas members. While independent of these organisations, and the only group that rejected the March 2005 Palestinian *tahdi'a*,¹⁰¹ elements within the Committees are believed to have carried out attacks on behalf of both Fatah and Hamas that required plausible deniability. Abu Samhadana, a prominent Fatah activist during the 1987-1993 uprising and a leader of the powerful clan bearing the same name in the southern Gaza Strip's Rafah region, had been a PA security officer during the 1990s. He left the PA and Fatah to establish the Committees at the outset of the current uprising, in order to conduct a military campaign unencumbered by political considerations. Since the current *tahdi'a* commenced in 2005, his men, along with Islamic Jihad, have been the main source of rocket and other attacks along the Gaza-Israel border.¹⁰²

The decision to create the unit, and in particular to select Abu Samhadana as its head, can be read in two very different ways. On the one hand, it marks a first step in the subordination of the Popular Resistance Committees to a government committed to the *tahdia*. As a Palestinian

⁹³ Crisis Group interview, European Commission administrator, Gaza-Israel border crossing, February 2006.

⁹⁴ A Palestinian journalist in regular contact with Islamist leaders believes Hamas is determined to unseat Abbas; having previously viewed the continuation of his presidency as a necessary condition for their consolidation of power, they now see it as the primary obstacle. Based on its own interviews with Hamas leaders and officials as of late May, Crisis Group does not share this conclusion, though there is little doubt that distrust has significantly risen. Crisis Group interview, Ramallah, May 2006.

⁹⁵ Abbas's insistence that the elections be held, despite strong pressure from other Fatah leaders, earned him a significant degree of trust among Hamas leaders. See Crisis Group Report, *Enter Hamas*, op. cit.

⁹⁶ Crisis Group interview, March 2006.

⁹⁷ "Abbas's decrees are the problem". Crisis Group interview, Ahmed Bahar, PLC Deputy Speaker, Gaza City, May 2006.

⁹⁸ "Anyone who thinks Hamas will organise legislative elections once their term ends and vacate the government if they lose doesn't understand them". Crisis Group interview, Fatah activist, Ramallah, May 2006. The sentiment was repeated by a number of other Palestinians, including independents, interviewed by Crisis Group.

⁹⁹ There are plans to expand the force to 5,000 men by the end of June. Crisis Group interview, PA interior ministry official, Gaza City, June 2006.

¹⁰⁰ BBC News, 21 April 2006, at http://news.bbc.co.uk/1/hi/world/middle_east/4932724.stm. On 8 June 2006, an Israeli air strike killed Abu Samhadana and three other members of the Popular Resistance Committees. See further on this below.

¹⁰¹ The Popular Resistance Committees were not invited to participate in the Cairo negotiations that produced the *tahdi'a*.

¹⁰² Whereas Palestinian Islamic Jihad as a party to the *tahdi'a* at least frames its attacks in the context of reprisals against Israeli assassinations and other military actions, the Popular Resistance Committees initially made a point of demonstrating that they retained the right to act without the justification of specific Israeli provocations.

resident of the Gaza Strip who does not profess support for Hamas put it:

It's exactly what is needed. It's the integration of the militias everyone has been demanding. You bring one of the most unruly factions on board, and they're being put to good use. Abu Samhadana also happens to be the most powerful man in the southern Gaza Strip, with a reputation for being very clean and a very committed patriot. I will sleep more soundly at night knowing that local security is now his responsibility rather than of the thugs who've made chaos their vocation.¹⁰³

But there is another side, and it is the one Abbas – along with many others, including both Palestinians and foreign actors – focused on. In addition to the Committees' rejection and consistent violations of the *tahdi'a*, Abu Samhadana was also accused of involvement in the killing of three American security officials in the Gaza Strip in October 2003.¹⁰⁴ Heightening Abbas's concerns, Abu Samhadana characterised the new unit as "the nucleus of a Palestinian army", while emphasising that armed resistance would remain a priority.¹⁰⁵ If it was indeed an auxiliary force, some concluded, it was a party militia established to bolster Hamas's power rather than an interior ministry unit meant to assist existing PA security forces to enforce law and order.¹⁰⁶ In theory these objectives need not necessarily conflict. But the manner in which the government prepared and announced its decision, and the manner in which the force subsequently has been deployed and utilised, only exacerbated suspicion.

Reacting to what he saw as a direct challenge to his authority and a highly provocative act that further

undermined his credibility vis-à-vis Israel and particularly the U.S., Abbas promptly issued a decree banning the force, which the security forces vowed to uphold.¹⁰⁷ In the words of Preventive Security Force Deputy Commander Sulaiman Mutlaq, "Siam did not consult us on establishing the new force. He wants to replace Preventive Security. According to the president the force is illegal, and so we won't work with it".¹⁰⁸ The PA cabinet responded by declaring Abbas's decree illegal.

The entire sequence of events, a microcosm of the fight to carve out territory in the security – and therefore political – arena, quickly escalated. As Siam deployed the new unit, Abbas called for the counter-deployment of thousands of security forces under presidential command, leading to clashes and the death of an employee of the Jordanian embassy during a shootout outside the PLC's Gaza headquarters on 21 May.¹⁰⁹

Separate from the above, but in the view of many not unrelated, May also witnessed an ominous series of assassination attempts against senior security officers. These included one on 20 May against military intelligence commander Tariq Abu Rajab – who was badly wounded and lost an aide – another the following day against Abbas's interior minister appointee, Abu Shbak, and a fatal attack on local Preventive Security commander Nabil Hudhud on 24 May. These were claimed by a previously unknown group, the al-Qaeda Organisation in Palestine. While some have speculated that al-Qaeda has gained access to the occupied territories, specifically by infiltrating Hamas, the prevalent view is that the attacks were too sophisticated to be conducted by a small handful of new arrivals.¹¹⁰

¹⁰³ Crisis Group interview, May 2006. According to a Palestinian analyst in the Gaza Strip, "Hamas's biggest problem is the Qassam Brigades – not their designated fighters, but those who declared themselves members of this force. They present Hamas with the same problem the Al-Aqsa Martyrs' Brigades have posed for Fatah. And now Hamas is trying to deal with this problem in the same way, except they lack a security force to incorporate these people, so they established one to give them something to do. What we are seeing with Hamas is kind of Fatah history repeating itself". Crisis Group interview, Palestinian analyst, Gaza City, June 2006.

¹⁰⁴ The allegations, which Abu Samhadana denied, were dismissed by interior ministry officials. Crisis Group interviews, Gaza, May 2006.

¹⁰⁵ "This [unit] will be the nucleus of the future Palestinian army. The resistance must continue. We have only one enemy...I will continue to carry the rifle and pull the trigger whenever required to defend my people. We are also a force against corruption. We are against thieves, corrupt officials and law breakers". *Haaretz*, 23 April 2006.

¹⁰⁶ Crisis Group interview, Palestinian residents, Ramallah, May 2006.

¹⁰⁷ According to Tayib Abd-al-Rahim, secretary general of the PA presidency, "President Abbas considers the decisions of Interior Minister Said Siam illegal and anti-constitutional". A letter from Abbas to Haniya stated: "All officers, soldiers and security personnel are asked not to abide by these decisions and to consider them nonexistent". *The New York Times*, 21 April 2006.

¹⁰⁸ Crisis Group interview, Gaza City, May 2006.

¹⁰⁹ In early June, furthermore, the Al-Aqsa Martyrs' Brigades affiliated with Fatah symbolically deployed a force similar to that established by Siam in the northern West Bank town of Jenin. This time the interior ministry denounced it as illegal, while the presidency offered no comment.

¹¹⁰ The attack on Abu Rajab, for example, involved the detonation of a hand grenade in his personal elevator within Military Intelligence headquarters. The claims of responsibility are considered convenient to all concerned. They spare Fatah the consequences of explicitly accusing Hamas, while subtly suggesting Islamist rule has made the Gaza Strip more amenable to al-Qaeda. At the same time, they allow Hamas to deflect suspicions from its own ranks and remind its detractors that there are less savoury alternatives waiting in the wings should they be forced from office. Among local analysts, activists, and journalists prepared to speculate on these attacks, the prevalent view

The same period also saw a number of assassinations of local Hamas military commanders. According to a Palestinian in the Gaza Strip who has followed these developments closely:

Even ten months ago supporters of both factions used to mix together. Not anymore. Trenches have been dug, and divisions within the society have deepened. I expect that clashes will continue, as well as assassinations. These will target the operational people from both sides. Each wants to weaken the other by eliminating operatives. The backbone on the Fatah side in this respect is Preventive Security, for Hamas it is the Qassam Brigades. If Fatah is confident in the West Bank, here they are scared. The only one who is acting confidently is [former security chief and Fatah power centre] Muhammad Dahlan, who is seen by the Islamists as their most challenging enemy because he is the only one applying his policy on the ground.¹¹¹

Observers also have noted that both Fatah and Hamas have been stockpiling weapons and ammunition:

Arms dealers and an Israeli military source said black market bullets were now selling for \$1 each – a steep price in areas where up to half the people live on less than \$2 per day. In the West Bank, Hamas has been buying M-16 rifles. Dealers said heavy demand and a lack of supply have sent prices soaring to as much as \$13,000 each, up from \$5,400 a year ago.¹¹²

For some time, rival groups armed with heavy weaponry, typically claiming to be acting on behalf of legal authority, have squared off in the streets of Gaza. As for the restoration of security, the alleged purpose of the security forces, “we’ve yet to see a sign of it”;¹¹³ instead, ordinary Palestinians live in palpable fear of violence and chaos or, worse, escalating factional warfare.¹¹⁴ By early

May, armed clashes were occurring on an almost daily basis, routinely producing casualties, with the most intense and prolonged confrontations – generally confined to the Gaza Strip – developing in Abasan east of Khan Yunis.¹¹⁵

Throughout the occupied territories, the rival movements also organised mass demonstrations marked by denunciations not of Israel but each other. When Mashal, in a thinly-veiled 21 April reference to Abbas and his associates, denounced “the security coup” as a “conspiracy” that “would only work with the support of the Zionists and the Americans”,¹¹⁶ Fatah for the first time turned out crowds to rival those mobilised by Hamas after Friday prayers; the protestors, many of them civil servants and uniformed security personnel, condemned the exiled Islamist leader and demanded he apologise.

By early June, the brief lull that accompanied the beginning of the National Dialogue late the previous month appeared to be coming to an end. The Security Forces Support Unit, briefly withdrawn from the streets on 26 May, was again deployed several days later, producing further clashes that were accompanied by sometimes violent protests at PA installations.¹¹⁷ Should a full-scale confrontation ultimately develop, it is difficult to predict how it might conclude. Fatah has considerably more men under arms, and, with likely international assistance, its forces could well grow larger and become better equipped, but those affiliated with Hamas are believed to be more committed. As a U.S. official put it, “I’ve seen pictures of Hamas’s armed militia. They seem disciplined, well trained, motivated. It’s hardly how I would describe the official PA security forces”.¹¹⁸

Fatah’s performance also is hampered by the chaos that continues to rein in its ranks.¹¹⁹ What is more, however

is that Hamas, perhaps acting through the Popular Resistance Committees, is ultimately responsible. Those reaching this conclusion emphasise that concrete evidence remains lacking but point out that all those targeted are close allies of Hamas nemesis and former PA security chief Muhammad Dahlan. Suggestions that the attacks reflect an inter-Fatah settling of scores found virtually no support.

¹¹¹ Crisis Group interview, Gaza City, June 2006.

¹¹² Adam Entous and Haitham Tamimi, “Hamas, Abbas Rivalry Spurs Palestinian Arms Race”, Reuters, 8 June 2006.

¹¹³ Crisis Group interview, Gaza City, May 2006.

¹¹⁴ While Hamas pins the blame squarely on Fatah in the context of the latter’s determination to unseat the government, Fatah activists ascribe responsibility to the Islamists, either on account of their project to consolidate power or as a deliberate attempt to divert attention from the economic crisis. “People in Abasan

are no longer demanding jobs or salaries, just the right for their children to leave their homes without getting shot”. Crisis Group interview, senior PA official, Ramallah, May 2006.

¹¹⁵ In May, a total of ten Palestinians were killed, and many more wounded as a result of these clashes. Seven more were killed during the first ten days of June.

¹¹⁶ Palestine News Network, “Political office leader Khalid Mashal speech: No way we will bend to U.S., Israeli & Fatah pressure to be subservient to the zionists – Fatah leaders in uproar”, 22 April 2006, at <http://www.pnn.ps/english/archive/2006/apr/week4/220406/report1.htm>.

¹¹⁷ In early June the interior ministry again pledged to remove the force from the streets, but according to press reports this was not implemented. Ibrahim Barzak, “Despite deal, Hamas still on streets”, Associated Press, 8 June 2006.

¹¹⁸ Crisis Group interview, U.S. official, Washington, May 2006.

¹¹⁹ “Fatah, particularly since the election defeat, has been reduced to a name. Unlike Hamas we don’t have a maestro keeping us together. They have Islam to conduct and coordinate their movement. We had Arafat but he is dead and buried”.

much support Hamas may have lost in the public eye, there is little evidence it has shifted to the nationalist movement, which suffers from its record in office, its internal power struggles, and the conduct of some of its security forces and senior officials. Nor do its lower ranks appear united around the need to confront Hamas forcefully. "They say Abbas and Fatah should be working with Hamas, not seeking to undermine it, and that Palestinians have the right to choose their government. Israel chose Sharon twice, the Americans chose Bush twice, so Palestinians have the right to choose Hamas".¹²⁰

In contemplating a confrontation, Hamas, too, must worry about potentially declining popular support. Even while claiming mass backing for its program and dismissing polls indicating decreasing levels of approval,¹²¹ its leaders must consider how their expanded constituency, many and perhaps most of whom were protest voters, as well as the broader population for which it is now responsible, would respond over time should no resolution to the PA crisis be found and conflict rise. The worsening domestic security situation and the increase in inter-factional fighting visibly undermine Islamist election promises, while eroding their reputation for discipline. Disorder, including both inter-Palestinian strife and its corollary, Israeli-Palestinian violence, risks eroding Hamas's position; if chaos leads to more attacks against Israel, and if Israel responds with military strikes, people may feel that as the party of government it – like Fatah previously

– should impose discipline. In the words of a university lecturer in the Gaza Strip, "America used to give Arafat money for peace. Today we have neither peace nor money".¹²²

Regardless of the outcome of a putative clash, it is unlikely the PA would survive such a battle, if only because the loser – assuming there was only one – presumably would resort to the "Samson Option" and bring the house down to deprive its rival of the fruits of victory. Nor would either Hamas or Fatah emerge with its legitimacy intact. The Palestinian people remain overwhelmingly opposed to internal strife, and the taboo on internecine fighting, particularly under conditions of occupation, is both genuine and deeply rooted. Even the military victor, assuming there was one, thus would suffer in public eyes. This, perhaps more than anything else, is acting as a break on this Palestinian march of folly.

D. THE PRISONERS'S INITIATIVE AND REFERENDUM

With national leaders seemingly incapable and increasingly disinterested in defusing growing tensions, with Egyptian mediation failing where it had succeeded in the past and with the spectre of civil war acquiring growing prominence, a potential lifeline emerged from Israel's prisons. On 11 May five of the most prominent Palestinian prisoners in Israeli jails – who, by virtue of their status, possess extraordinary moral and political suasion among their people – released a National Conciliation Document,¹²³ which they asked the leadership "to consider as one whole package with the hope to see this document achieve unanimous endorsement and contribute to achieving a Palestinian national conciliation document".

Its signatories included Marwan Barghouti, Fatah's West Bank secretary general, who is perhaps the most popular Palestinian leader alive and who headed the movement's parliamentary slate in the January elections and is thus also a PLC member; Shaikh Abd-al-Khaliq Natshe, a Hamas leader and Qassam Brigades commander from the Hebron district; and Abd-al-Rahim Malluh, the deputy secretary general of the Popular Front for the Liberation of Palestine (PFLP) and member of the PLO Executive Committee, who has been a prominent figure in the national movement for decades and is becoming something of an elder statesman. All three were arrested in 2002 and subsequently sentenced to lengthy prison terms.¹²⁴ None of the five was

Crisis Group interview, Fatah activist, Ramallah, May 2006. Indeed, the nostalgia for Arafat appears to be growing significantly, based on the conviction that the current impasse would have been inconceivable under his stewardship. "Arafat would never have allowed these elections, would never have allowed Hamas to win them and would never have allowed it to govern alone. Abbas gave us all three, and look where we are now". Crisis Group interview, Palestinian resident, Jerusalem, June 2006.

¹²⁰ Crisis Group interview, Khan Yunis, May 2006.

¹²¹ Hamas officials in public appearances and interviews with Crisis Group, for example, routinely refer to obtaining the votes of "60 per cent of voters" in the PLC elections. They in fact won closer to 40 per cent of the vote (though a majority of seats). More to the point, a number of public opinion polls have shown a marked decline in support for Hamas and the PA government it leads, particularly in the wake of the publication of the Prisoners' Initiative. A series of polls conducted by Near East Consultants, for example, showed trust levels in Abbas and Haniya had shifted from 51:49 to 55:45 in Abbas's favour between 19 May and 2 June, and that between Fatah and Hamas from 34:42 to 43:34 in Fatah's favour. "NEC Survey #2: Results on Palestinian National Dialogue And Referendum", 3 June 2006, at www.neareastconsulting.com. A poll conducted by Birzeit University during the same period showed support for Hamas since April had declined from 50 to 37 per cent, while Fatah held steady at 37 per cent. "Public Opinion Poll #27", op. cit.

¹²² Crisis Group interview, Khan Yunis, May 2006.

¹²³ For excerpts from the full text, see Appendix B below.

¹²⁴ The other signatories were Shaikh Bassam Sadi of Islamic Jihad and Mustafa Badarna of the Democratic Front for the Liberation of Palestine (DFLP).

acting as authorised representative of his organisational leadership, but each holds a senior rank within his movement.

The Prisoners' Initiative consists of eighteen points, including commitment to the establishment of an independent state on all the territories occupied in 1967 and adherence to the right of return for refugees. The document also upholds the right to resistance "by all means", albeit concentrated within the occupied territories (i.e., not in pre-1967 Israel), while at the same time calling for popular, political, and diplomatic activity including negotiations. In referring to the basis of this program, it cites the "Palestinian national consensus program", "international legitimacy", "international resolutions fair to our people", and "Arab legitimacy" (all likely code words for the PLO's 1988 Algiers Program), UN resolutions, and the Arab League's Beirut Initiative, though it never explicitly mentions recognising Israel.

Much of it relates to Palestinian politics and the proper allocation of power. Thus, it both confirms the PLO as the sole legitimate representative of the Palestinian people and urges the integration of Hamas and Islamic Jihad into its ranks by the end of 2006. It makes clear that political negotiations fall under the authority of the PLO and PA president, while stressing the need for cooperation and coordination between the PA presidency and government, the formation of a coalition government including Fatah and Hamas, rejection of internecine warfare and respect for regular democratic elections.

There is more than one way to analyse the National Conciliation Document. Ostensibly, it is a compromise, substantively more militant than anything Abbas has pronounced (e.g., its call for resistance and absence of explicit reference to recognising Israel), yet not as hard-line as some of Hamas's traditional positions (e.g., its explicit reference to negotiations and to international and Arab legitimacy) and most closely reflecting Fatah's vision and rhetoric.

Abbas, despite his reservations, lost no time in embracing it. Initially perceived by many as mere background noise,¹²⁵ the president – in what some of his partisans call his "first real political initiative since taking office"¹²⁶ – thrust it into the centre of debate in the context of the National Dialogue. Convened on 25 May at the initiative of PLC speaker Aziz Dwaik, with Abbas as co-sponsor,¹²⁷ the Dialogue brought together representatives of political movements, parliamentary factions, government and presidency, civil society, the private sector, and others.

Speaking on the first day of the plenary session, Abbas dropped a bombshell that appeared to catch Hamas – and not a few of his own partisans – completely off guard: if Hamas did not formally accept the document by 6 June, he would conduct a referendum on it 40 days later.¹²⁸

Hours before the 6 June deadline was to expire, and responding to demands from prison leaders for further negotiations that proved difficult to ignore, Abbas extended the deadline to 10 June.¹²⁹ His hand appeared further weakened by statements from prison leaders, including Hamas's Natshe and others who supported the document, that they rejected its use in a referendum. On 8 June, furthermore, Hamas and Islamic Jihad formally rejected the idea of a referendum, while the Popular Front for the Liberation of Palestine expressed reservations. Nevertheless having obtained the support of the PLO Executive Committee the previous week, Abbas on 10 June issued a presidential decree setting 26 July as the referendum date.

Hamas rejected Abbas's move as unconstitutional and said it would boycott the referendum;¹³⁰ the Islamists called the PLC into emergency session for 12 June, to consider among other measures adoption of a law giving the legislature sole authority to determine the substance of any referendum and reducing the presidency's role to announcing the date. On 11 June Natshe and Sadi, the Islamist signatories of the Prisoners' Initiative, withdrew their signatures in protest at Abbas's "unacceptable abuse" of the initiative.¹³¹ Abbas declared that he would rescind his decree if negotiations with Hamas were successfully concluded before the referendum date. However, a presidential adviser considered such agreement unlikely, asserting instead:

50.01 per cent is enough for a mandate. After winning, we will start negotiations for a national unity or technocratic government, because there's no possibility of coexistence with this one. Hamas

¹²⁸ The idea for the referendum is said to have originated with Yasir Abed-Rabbo, a close presidential adviser and initiator of the Geneva Peace Initiative. Crisis Group interviews, May-June 2006.

¹²⁹ Reports that Arab leaders had interceded with Abbas appeared substantiated when Yemeni president Ali Abdullah Salih invited rival Palestinian movements to continue the dialogue at leadership level in Sana'a.

¹³⁰ According to Nathan J. Brown, "I don't think there is much of any legal basis for the decree, which becomes clear if you read all the preambular language (which hints at various legal bases but names nothing that is at all convincing). The decree actually reads very similarly to some of the more questionable ones that Arafat issued – making vague allusions to general authorities but citing nothing specific". Email communication, 11 June 2006.

¹³¹ *Haaretz*, 11 June 2006.

¹²⁵ Crisis Group interview, Palestinian presidential adviser, June 2006.

¹²⁶ Crisis Group interview, May 2006.

¹²⁷ Crisis Group interview, Khatib, May 2006.

has rejected all proposals to climb down from the tree, and we've reached the point of no return. We want a political crisis to replace a civil war crisis. Negotiations will continue until the day of the referendum but Hamas will not change their positions.¹³²

This is a high-risk gambit and, from the usually cautious Abbas, an improbable one. Not only does the Initiative appear closer to Hamas's positions than Abbas's, and to generate divisions within Fatah itself,¹³³ but its substance is a complete non-starter as far as the U.S. and Israel are concerned. As Olmert stated shortly before Abbas issued his referendum decree, "[it] is an internal game between one [Palestinian] faction and the other. [The Prisoners' Initiative] is meaningless in terms of the broad picture of chances towards some kind of dialogue between us and the Palestinians".¹³⁴ In other words, were Hamas to endorse it, and were it to become the government's platform, it would cause the president real diplomatic embarrassment and constrain his negotiating ability. Moreover, his initiative instantly transformed that of the prisoners from a potential bridge between Fatah and Hamas into another instrument in their power struggle.

Although initial opinion polls indicated overwhelming support for the Initiative and continued majority support for a two-state settlement,¹³⁵ the risk remains that Hamas might succeed in framing the question as either a referendum on the legitimacy of its electoral victory or a popularity contest with Fatah, in which case the result would be unpredictable. Indeed, the most recent opinion poll suggests a serious decline in support for both the Initiative and the referendum in the days since Abbas made his

announcement.¹³⁶ As an Abbas adviser noted, if he loses, "it's game over", and "he will have to immediately resign".¹³⁷ For their part, the Islamists, uncommitted as they are to either a referendum or its outcome, are under no obligation to perform similarly, even if Abbas scores a convincing victory.

As Abbas saw it, however, there appeared to be few alternatives. Initial suggestions of new elections called as the result of the economic and political crisis had rapidly faded; there is no constitutional basis for such a move and, besides, Hamas could well have benefited from a siege mentality, leaving Abbas and Fatah to be perceived as collaborators in a U.S. and Israeli-inspired effort to unseat the government. Likewise, any hope he had of concluding a far-reaching political agreement with Israel, thereby challenging Hamas on the basis of his diplomatic achievements, was equally dim.¹³⁸ While Prime Minister Olmert stated his readiness to discuss immediate issues, implementation of the first phase of the roadmap, or even coordination of his West Bank withdrawal, he has signalled that final status issues are off limits.¹³⁹ The president thus contemplated the possibility of many more months of the same slow-motion saga, allowing Hamas to consolidate its position, forcing the people to suffer increased hardship and exposing him to criticism for reinforcing the West's position.¹⁴⁰

The referendum is a desperate but potentially rewarding move, a circuitous way of re-litigating the electoral results to shift the focus to Abbas's perceived strong suit (his political program) rather than his weakest (Fatah's performance in government); to expose Hamas's vision as out of step with the majority; and to turn the issue

¹³² The adviser discounted the prospect of negotiations for a national unity government succeeding, even after the referendum, adding: "If Hamas rejects, and crisis persists, Abbas will declare a state of emergency and appoint an emergency government. Leave the legal game to us". Crisis Group interview, Palestinian presidential adviser, Ramallah, June 2006. The adviser also suggested that some PA cabinet members advocated acceptance of the Prisoners' Initiative, endorsement of a referendum, and filibustering on implementation, but that PM Haniya, insisting it not be accepted and for the matter to be referred to the movement's leadership, ultimately prevailed.

¹³³ These stemmed primarily from internal political rivalries and concerns it would strengthen Barghouti's position rather than substantive objections. Crisis Group interview, Palestinian analyst, Ramallah, May 2006.

¹³⁴ *The Independent*, 10 June 2006. In the interview, Olmert confirmed that "I still am" dismissive of the Initiative.

¹³⁵ See, for example, "NEC Survey #1 results on Palestinian National Dialogue And Referendum", 28 May 2006, at www.neareastconsulting.com, which registered 71 per cent support for a two-state settlement and 89 per cent support for the Prisoners' Initiative.

¹³⁶ Support for the Prisoners' Initiative was down to 65 per cent from an initial high of 89 percent; support for the referendum was down to 59 per cent (17 per cent lower than the previous week). "NEC Survey #3: The Palestinian National Dialogue and Call for a Referendum", 11 June 2006, at www.neareastconsulting.com.

¹³⁷ Crisis Group interview, Palestinian presidential advisers and Fatah activists, May 2006. Other advisers predicted that a simple majority would not give Abbas the mandate he needs, and that if Hamas succeeded in limiting turnout to 50 per cent or support for the motion to less than 60 per cent he would have a political problem. Crisis Group interviews, Jerusalem and Ramallah, May-June 2006.

¹³⁸ Crisis Group interview, Palestinian presidential adviser, May 2006.

¹³⁹ Referring to Abbas, Olmert asked: "This guy is actually unable to actually even exercise his authority. What shall I negotiate with him about?" *The Independent*, 10 June 2006.

¹⁴⁰ Crisis Group interview with presidential advisers, May-June 2006. Persevering on the prior path was seen as equally dangerous in terms of provoking a confrontation with Hamas, but without any potential benefit. Crisis Group interview, presidential adviser, Jerusalem, May 2006.

from a struggle between Palestinians and foreign powers to a debate among Palestinians. The last two points were deemed most critical: the fact that the document originated with a cross-party group of prisoners, was consistent with the views of an overwhelming majority of the public and did not coincide with the international community's (or Abbas's) made it much harder for Hamas to depict the move as an extension of a foreign plot to unseat it.

The conventional wisdom is that it's easier to get rid of Hamas than change them. But let's weaken them first. Getting rid of them is too transparent. That's why the option of presenting an Abbas Initiative was considered and rejected. That's why we adopted the Prisoners' Initiative and not the Quartet conditions. The Initiative is a great tool for Palestinian political legitimacy, and the whole objective is to shift the balance of power. The idea is to corner Hamas. If they say "yes", they lose, and if they say "no" and it's a referendum they lose as well.¹⁴¹

Speaking in early June, one adviser conceded Abbas's purpose was to form "a new government within 45 days, either a coalition with Hamas or a new one without it". Convinced that both options would break the existing logjam, Abbas was described as having no clear preference in this regard.¹⁴²

Abbas's aides have had to respond to two charges, one domestic, the other foreign. The first was that in both its timing (at the outset of the Dialogue) and style (an ultimatum and threat of a referendum) the move was an attempt to torpedo any chance of an accord. Defending it, they argue that the National Dialogue inevitably would have dragged on interminably while the crisis on the streets escalated. The Palestinians, starved of funds, marginalised from the diplomatic game, and on the verge of internal chaos, could not afford to wait.¹⁴³

A second, quite different objection emanated from the U.S. Officials who scrutinised the document questioned its usefulness, pointing to the stance it took on such sensitive issues as violence, refugees and territory. In response, the president's aides sought to deflect attention away from the substance. "This is not a foreign policy instrument; it is a domestic policy tool. You should see it for what it is:

an attempt to corner Hamas and strengthen Abbas".¹⁴⁴ Judging from Washington's low-key reaction to both the document and the referendum, U.S. officials appear to have been convinced. Still, the U.S. would face an awkward dilemma if a coalition government were formed on the basis of the Prisoners' Initiative. Because the document espouses positions at loggerheads with Washington's stance, it would be hard for the U.S. to accept its adoption as compliance with the Quartet's conditions, but equally delicate for it to denounce a program blessed by Abbas and the entire Palestinian political spectrum.

Caught unawares, and suspicious of the document, Hamas leaders reacted very unlike the newly decisive Abbas. Praising its authors and their efforts while withholding judgement and calling for further study, they have yet to accept or reject it unambiguously. Instead, they appear to have done precisely as Abbas hoped: ignored the content and focused on the politics. The bigger risk, as many Fatah officials conceded, was for Hamas to turn the tables on Abbas by endorsing the document. That would have put Abbas in a highly uncomfortable situation, forced to adopt positions with which he disagreed, constrained in negotiations with Israel, and compelled to argue that Hamas had met the bar for receiving international funding.

However, given the growing acrimony between the rival movements, Hamas's leaders saw the initiative solely as an illegitimate attempt to undo the electoral results, wrong foot them, and portray them as intransigent. Accordingly, they fought back. While expressing support for "90 per cent" or even "98 per cent" of the Prisoners' Initiative and for its utilisation as the basis for the National Dialogue,¹⁴⁵

¹⁴⁴ Crisis Group interviews, May-June 2006. A Fatah activist also dismissed the need for detailed examination of the document's meaning, insisting: "It does not demand the analytical skill required to understand *Das Kapital*. It's about only two issues: the PLO and the two-state settlement. Are you for, or are you against?" Crisis Group interview, Ramallah, May 2006.

¹⁴⁵ Crisis Group interviews, Shaik Hamid Baitawi, PLC member; Mahmoud Ramahi, PLC Secretary General; Riad Mustafa, PLC member, Ramallah, May 2006. Hamas leaders expressed various objections regarding the text itself. Some argued that, through its reference to international and Arab legitimacy, it implicitly recognised Israel; others that the language pertaining to the PLO's expansion was overly vague and left open the possibility that both Abbas and an unreformed and unrepresentative organisation would negotiate on behalf of all Palestinians, leaving them as passive observers. It also was said that some issues, such as the future of the PLO, could not be resolved within the occupied territories and required the participation of senior leaders and movements based in exile. Finally, they noted that Natshe was unable to consult with the movement's leadership or even other Hamas prisoners during the drafting process and that some of the latter had protested their exclusion. Crisis Group interviews,

¹⁴¹ "An Abbas victory in the referendum could lead to the dismissal of the government and a process leading to early elections". Crisis Group interview, Palestinian presidential adviser, May 2006.

¹⁴² Crisis Group interview, Palestinian presidential adviser, June 2006.

¹⁴³ Crisis Group interviews with presidential advisers, May-June 2006.

they have vociferously rejected the referendum. “Why have a dialogue at all if one party makes clear at the very outset that it will accept only a single outcome?”, asked PLC member Riad Mustafa.¹⁴⁶ Rejecting “diktats and ultimatums”, his colleague Shaikh Hamid Baitawi observed that “we never had a referendum on Oslo, Wye River, or other documents that constituted agreements that affected our national destiny, so why this one? And why now?”¹⁴⁷ Islamists also consistently argued that Hamas had just won an election in January, there was no provision in the Basic Law for a referendum, and Abbas’s transparent objective was to undermine Hamas.

So far, despite some inroads (including criticism of the referendum by other factions¹⁴⁸ and some prisoners), Hamas has failed to mount an effective campaign to regain the initiative. In conversations, Hamas officials suggest several ways in which they will challenge the president. They will argue he has no constitutional authority to call for a referendum, and no power to do so without appropriate legislation passed by the Hamas-controlled PLC, leaving the independent electoral commission in a difficult bind.¹⁴⁹ They can also seek to muddy the waters by staging their own referendum, borrowing from but not replicating the prisoners’ document. As one of their parliamentarians observed, “if a referendum is indeed held, its form and content cannot be unilaterally imposed by Abbas. If no agreement is reached, the people should be given a choice between two proposals”.¹⁵⁰

In the worst case scenario, they intimate, even a successful referendum would change nothing. The legislature would remain in Hamas’s hands, and lacking the constitutional tools to impose a government without its approval, Abbas would be a spent force, who had played a prime card.

All these options have drawbacks. By challenging the referendum’s legitimacy or usefulness, seeking to

complicate it, or ignoring its results, Hamas may appear both oblivious to and fearful of the people’s verdict. But that leaves Hamas with potent tactics in the event its back is to the wall and its hold on power threatened: resort to violence domestically or targeting Israel, causing maximum chaos, possibly bringing down the PA and allowing the Islamists to reemerge as a resistance movement. “Hamas’s popularity does not emanate from or depend upon the institutions it currently controls. It can survive without them. Not so Fatah”.¹⁵¹ Although attacks directly attributable to Hamas “would be seen as too transparent a ploy to change the subject”,¹⁵² the organisation has other possibilities, such as quietly encouraging other groups. Even if Hamas initially were viewed as responsible, “after three weeks of intensive inter-Palestinian strife or, worse, of major Israeli reprisals, who among the Palestinians will remember?”¹⁵³ Either way, violence would be the result.

Israel’s 9 June 2006 assassination of Abu Samhadana and killing of civilians on a Gaza beach¹⁵⁴ later that day appears to have played into Hamas’s hands: while giving it the opportunity to deflect attention from the power struggle with Abbas and raising questions about the justification for a referendum in this context, the Islamists can hardly be said to have deliberately provoked conflict with Israel in order to do so. Hamas’s announcement that it was renouncing the ceasefire it had largely maintained for sixteen months underscores the dangers inherent in the current situation.

And this, of course, is the central point. Missing from all strategies to dislodge Hamas, Palestinian or foreign, is a realistic assessment of the consequences of success. Finance Minister and independent Islamist Abd-al-Raziq observes: “If the government were toppled you’d still have a strong Hamas, the PLC, and the occupation, but the whole political system would collapse”.¹⁵⁵ There would, in other words, be little for Fatah to repossess should the PA fall, either under the weight of its own failures, or at the instigation of an Islamist Samson, or in the crossfire of an inter-Palestinian or Israeli-Palestinian conflict.

For the Islamist movement, political integration and participation remains an experiment, and one that can be

Muhammad Abu Tir, Hamas parliamentarian; Mahmoud Ramahi; Nasir al-Din Sha’ir, PA deputy prime minister, Jerusalem and Ramallah, May 2006.

¹⁴⁶ Crisis Group interview, May 2006.

¹⁴⁷ Crisis Group interview, May 2006.

¹⁴⁸ This is not hard to understand: smaller factions stand to gain much more from a negotiated agreement than from a referendum that will strengthen only Fatah or Hamas and are interested in the PLO’s reshaping more than in the adoption of a political program.

¹⁴⁹ Jihad Harb, a Palestinian researcher on constitutional affairs, claims that it would be a real anomaly for Abbas to seek to hold a referendum without a referendum law. He assesses that the independent Central Electoral Commission, in order to preserve its credibility, will await a verdict from the PA’s courts. Crisis Group telephone interview, June 2006.

¹⁵⁰ Crisis Group interview, Mustafa, May 2006.

¹⁵¹ Crisis Group interview, Palestinian analyst, June 2006.

¹⁵² Crisis Group interview, Fatah official, June 2006.

¹⁵³ Crisis Group interview, Palestinian analyst, June 2006.

¹⁵⁴ Eyewitness and press accounts point to Israeli naval artillery as the most probable cause, although Israel has stated that it is investigating the incident and has raised the possibility that the seven Palestinian civilians were killed by a Palestinian mine. See further Chris McGreal, “Death on the beach: Seven Palestinians killed as Israeli shells hit family picnic”, *The Guardian*, 10 June 2006.

¹⁵⁵ Crisis Group interview, Ramallah, April 2006.

reversed if it fails. If its leaders conclude that their attempt at institutional power was sabotaged, Hamas should be expected to return to the tried and true formula of militancy, violent confrontation, and grassroots social work. "On what basis does anyone expect that Hamas will acquiesce in a referendum result any more than Fatah acquiesced in the electoral outcome?"¹⁵⁶ Hamas PLC member Shaikh Hamid Batawi was anything but coy in this regard: "The alternative to our government is a resumption of suicide attacks".¹⁵⁷

A referendum, in short, is not a bad idea per se, but only as a last resort, and far preferably on the basis of a Fatah/Hamas agreement. Instead, the proposal appears in the minds of many to have come at the expense of efforts to achieve consensus. While Abbas is understandably averse to interminable negotiation, his ultimatum could thus produce a result he more than most appears intent on avoiding: an uncontrollable battle from which all Palestinians would emerge losers.

From a Palestinian perspective, the most promising outcome also appears the least plausible: a successful National Dialogue concluding with a common agenda and giving rise to a unity government. While some Hamas leaders continue to predict a successful conclusion to the dialogue and openly laud the prospect of a coalition government, others dismiss the exercise as camouflage for Fatah's agenda of bringing down the government.¹⁵⁸ Likewise, Fatah leaders tend towards scepticism about Hamas's intentions. One suggested the dialogue would fail not because of any differences over the resolution of the Israeli-Palestinian conflict but because the Islamists find the prospect of a coalition government unpalatable. "They will not accept Abbas's demands, and will also ensure there is no referendum. They will first hold it up forever in the PLC, then seek to scuttle it through chaos. If that fails, they will denounce a loss at the polls as proof of electoral fraud. It's going to get very messy".¹⁵⁹

There is little evidence pointing to a soft landing, even as negotiations are expected to continue during the period preceding the referendum. That so few loyalists from either movement expect a positive outcome and that their pessimism is exceeded by other Palestinians¹⁶⁰ says it all.

III. THE INTERNATIONAL COMMUNITY AND THE PALESTINIAN CRISIS

For the international community, sorting out priorities and devising an appropriate strategy in this unfamiliar environment has been no easy task. Shocked by Hamas's victory, the Quartet on 30 January "congratulated the Palestinian people on an electoral process that was free, fair and secure", expressed the "view of the Quartet that all members of a future Palestinian government must be committed to non-violence, recognition of Israel, and acceptance of previous agreements and obligations, including the Roadmap", and "concluded that it was inevitable that future assistance to any new government would be reviewed by donors against that government's commitment" to these "principles".¹⁶¹

Meeting again the day after the Haniya cabinet took office on 29 March, the Quartet "noted with grave concern that the new Government has not committed to the principles spelled out on 30 January", "concurred that there inevitably will be an effect on direct assistance to that Government and its ministries", yet also "encouraged continued humanitarian assistance to meet the basic needs of the Palestinian people".¹⁶² The past few months have seen the Quartet and other members of the donor community struggle to reconcile these two at least somewhat incompatible objectives. Yet missing from it all appears to be a serious assessment of the longer-term local and regional consequences of a policy that has all the advantages of apparent moral clarity and all the drawbacks of evident strategic confusion.

A. PA BUDGETARY COSTS, DONOR CONTRIBUTIONS AND DONOR ATTITUDES

In their effort to influence Palestinian events, international actors – chiefly the U.S., the EU, Arab states and Israel – have focused on their financial and economic leverage. Perhaps no entity is as dependent on the outside world

¹⁵⁶ Crisis Group interview, Palestinian analyst, June 2006.

¹⁵⁷ Crisis Group interview, Ramallah, May 2006.

¹⁵⁸ Crisis Group interview, Hamas parliamentarian, May 2006.

¹⁵⁹ Crisis Group interview, senior PA official and Fatah leader, May 2006.

¹⁶⁰ "Look at our options. In the best of circumstances, the National Dialogue succeeds, and we go back to the misery we enjoyed before the elections. If it fails, things will get even worse than they are today". Crisis Group interview, Palestinian resident, Ramallah, May 2006. One week into the National

Dialogue, confidence in its chance to succeed had fallen from 65 percent to 53 percent. NEC poll, 3 June 2006.

¹⁶¹ "Statement by Middle East Quartet", 30 January 2006. See further <http://domino.un.org/UNISPAL.NSF/vCurrent!OpenView>. For a detailed examination of the Roadmap initiative see Crisis Group Middle East Report N°14, *A Middle East Roadmap to Where?*, 2 May 2003.

¹⁶² "Quartet Statement on New Palestinian Government", 30 March 2006. See further <http://domino.un.org/UNISPAL.NSF/vCurrent!OpenView>.

as the Palestinian Authority,¹⁶³ entirely reliant for its survival on Israeli policies and international funding. The decision taken in the wake of the new government's establishment to freeze donor contributions until and unless it abided by the Quartet's three conditions thus was bound to have major repercussions. A survey of PA expenditures and donor contributions starkly illustrates why.

According to former World Bank President and Quartet Special Envoy for Disengagement James Wolfensohn, the PA has "recurring monthly operating costs of approximately \$165 million, amounting to between \$1.8 and \$2.0 billion a year".¹⁶⁴ Before the current fiscal crisis, only about 21 per cent of this amount (roughly \$35 million monthly) was raised directly by the PA in the form of taxes and income.¹⁶⁵ Of the remaining \$130 million, \$50 million to \$60 million consisted of taxes, tariffs and other fees collected by Israel on the PA's behalf and transferred to it on a monthly basis.¹⁶⁶ The monthly shortfall of some \$70 million to \$80 million – 42 per cent to 48 per cent of the total required – had to be made up from other sources.¹⁶⁷

The PA, therefore, needs to raise nearly \$1 billion per year to fund its basic operating costs. During the past five years, even before the current curb on funding, that target has not been met. Rather, fundraising conducted on the PA's behalf by the international Ad-Hoc Liaison Committee yielded annual sums in the range of \$350 million to \$500 million, roughly half from Arab states, and half from the EU and its member states.¹⁶⁸ This left a significant gap that the PA filled by "running down assets, selling them or borrowing against them".¹⁶⁹

Amounts raised by the Ad-Hoc Liaison Committee for the most part were disbursed through one of two instruments. The World Bank's Reform Trust Fund released donor deposits to the ministry of finance's Single Treasury Account, subject to the PA's success in meeting reform criteria. These funds were not identified with any line items in the budget. The Trust Fund thus "supported the PA general budget and was not earmarked".¹⁷⁰ The other was the Emergency Services Support Projects (ESSP-I and ESSP-II), established in 2002, which again transferred funds to the Single Treasury Account, although these payments were signed off against "non-salary social sector recurrent expenditures and were earmarked to specific PA expenditures".¹⁷¹ Remaining funds were disbursed directly to the PA to fund individual projects and programs. All these disbursements were frozen in early 2006.

The interruption in donor support thus had an immediate and devastating effect on the PA, the economy, and the population's welfare, perhaps best illustrated by the impact on salaries. Some 60 per cent of the PA budget is for salaries; with at least 172,000 employees, and assuming these have an average of six dependents each, PA employment sustains one million Palestinians, roughly 29 per cent of the total West Bank and Gaza Strip population of nearly 3.5 million.¹⁷² Almost half these employees belong to the security forces;¹⁷³ armed and unpaid, they constitute a formidable potential for anger and unrest.

The PA budget also keeps the education and health sectors afloat: the ministry of education is responsible for 75 per cent of schools in the West Bank and Gaza, educating 70 per cent of school children (the remainder being equally divided between the UN's Palestinian refugee agency, UNRWA and private schools);¹⁷⁴ the ministry of health accounts for 62 per cent of primary health clinics and 57 per cent of hospital beds and is the address for 47 per cent of the population's regular health care services (the

¹⁶³ Crisis Group interview, World Bank official, Washington, April 2006.

¹⁶⁴ Crisis Group interview, Jerusalem, March 2006.

¹⁶⁵ Crisis Group interview, James Wolfensohn, Jerusalem, March 2006.

¹⁶⁶ *Ibid.* The arrangement, designed to preserve the customs union enforced by Israel over the occupied territories after 1967 and regulate economic relations between the parties, is spelled out in the 1994 Protocol on Economic Relations Between the Government of the State of Israel and the PLO, Representing the Palestinian People (Paris Protocol), incorporated into the 1994 Israeli-Palestinian Gaza-Jericho Agreement as Annex IV. The full text can be consulted at www.israel-mfa.gov.il.

¹⁶⁷ Crisis Group interview, Wolfensohn, March 2006.

¹⁶⁸ For the most part, the U.S. has refused to provide the PA with direct budgetary support. The only exceptions were a \$36 million contribution to the Holst Fund in 1994 and \$20 million earmarked for infrastructure projects in 2003.

¹⁶⁹ Crisis Group interview, James Wolfensohn, March 2006. In its 2005 budget, the Finance Ministry secured \$173 million in "exceptional" Palestine Investment Fund (PIF) profits, and \$254 million in commercial borrowing. "The Impending Palestinian

Fiscal Crisis: Potential Remedies", World Bank, 7 May 2006, p. 3 at www.worldbank.org.

¹⁷⁰ Crisis Group interview, European development specialist, Jerusalem, May 2006.

¹⁷¹ Crisis Group interview, European development specialist, Jerusalem, May 2006.

¹⁷² World Bank, *op. cit.*, pp. 3-4, at www.worldbank.org. This takes into account what Wolfensohn characterised as "substantial wage increases" provided by the previous government in mid-2005.

¹⁷³ According to Wolfensohn, at the tail end of a surge in recruiting that preceded Hamas's assumption of power, there are some 70,000 security personnel, accounting for more than 40 per cent of the PA's employees. Crisis Group interview, Wolfensohn, Jerusalem, March 2006.

¹⁷⁴ The PA plays a significantly larger role in education in the West Bank than in the Gaza Strip where many pupils attend UNRWA schools.

remainder is obtained from UNRWA, the private sector and NGOs).¹⁷⁵ In other words, the notion (floated in particular by some Americans) that PA functions could be taken up by a strengthened NGO sector appears fanciful, certainly in the immediate future.

Along with budget support came humanitarian/emergency assistance and developmental aid (in the form of capital or technical assistance). Although in theory the former category (roughly \$500 million) has not been adversely affected by recent decisions, and countries like the U.S. have sought to redirect aid in the form of humanitarian assistance, reality is more complex. NGOs engaged in humanitarian relief work face significant obstacles stemming from extraordinarily restrictive U.S. Treasury Department regulations; U.S. organisations, for example, require pre-approval for their donations, which must be in-kind rather than cash.

Such restrictions affect developmental assistance – \$450 million in 2005 – even more severely, for it often involves direct contacts with the PA.¹⁷⁶ Some U.S. NGOs have had entire projects suspended. CARE, the international aid agency, which had hitherto provided 30 per cent of the health ministry's medicines under a USAID-funded emergency medical assistance program, halted regular supplies after USAID withheld approval.¹⁷⁷ Modifications in the attitude of foreign actors also inevitably affect PA-generated resources. The reduction in economic activity produced by an intensified siege and donor boycott reduces the volume of tax receipts, while increased levels of unemployment and poverty create a greater burden on shrinking resources.

As the European Union severed its political and financial links with the government and ministries, the U.S. Treasury's decision to prohibit transactions with the PA, its employees and institutions in which it has an interest exerted formidable pressure on Arab states and private banks to suspend financial ties and created a tertiary boycott.¹⁷⁸ Thus, an individual considering making a

direct personal contribution to a Palestinian hospital was informed by legal advisers that "it would be illegal for U.S. citizens to provide a charitable contribution directly to a Palestinian public hospital unless a specific exemption was first obtained".¹⁷⁹

Indeed, according to the U.S. Office of Foreign Assets Control (OFAC), "U.S. persons are prohibited from engaging in transactions with the Palestinian Authority unless authorised, and may not transfer, pay, withdraw, export or otherwise deal in any assets in which the Palestinian Authority has an interest unless authorised".¹⁸⁰ Similarly, pursuant to OFAC regulations, on 26 April USAID addressed a letter to all USAID contractors and grantees, stating that "no contact is allowed with PA officials under the authority of the Prime Minister or any other minister. Contact with all officials in these ministries, including working-level employees, is prohibited".¹⁸¹

On similar grounds, the Amman-based Arab Bank froze the PA's Single Treasury Account, which had been considered a key achievement of Palestinian fiscal reform and through which the government collected and disbursed its revenues. The few Arab states which agreed to contribute to the PA have deposited their funds with the Arab League in Cairo, which itself faces the same debilitating legal concerns vis-à-vis the U.S. in transferring funds and delivering payments. The precise figures for Arab aid are shrouded in contradiction. Hamas

explaining that if he was he would no longer be able to speak with him". Crisis Group interview, Quartet official, March 2006. Similarly Palestinian bankers stated that U.S. government decisions had forced him to suspend foreign transactions for PA employees. "No American has told me not to transfer the funds to a PA employee's account. But the banks know that if OFAC (the U.S. Treasury's Office of Foreign Assets Control) learns of this we'd be in bad shape. They could terminate our dollar account in New York, and we'd lose access to our funds. Not even the Arab-Islamic bank is ready to pay the consequences". Crisis Group interview, Palestinian banker, Ramallah, May 2006. The EU restrictions are more ambiguous. While the European Commission suspended 34 contracts focussed on PA capacity-building, it maintained a wide array of projects and resumed contact with PA ministries and municipalities, including those run by Hamas mayors. Crisis Group interviews, EU aid officials, PA Planning Ministry officials, European aid workers, May 2006.

¹⁷⁹ Crisis Group telephone interview, June 2006.
¹⁸⁰ "Recent OFAC Actions", Office of Foreign Assets Control, at <http://www.treas.gov/offices/enforcement/ofac/actions/20060412.shtml>.

¹⁸¹ USAID letter to contractors and grantees, 26 April 2006, Notice No 20006-WBG-17, at www.usaid.gov. "'Contact' means any meeting, telephone conversation, or other communication, whether oral or written". Contact with "any private Palestinian, and mayors, deputy mayors, village council members, and officials under their authority", is permitted only if they "are not affiliated" with a proscribed organisation.

¹⁷⁵ "Fact Sheet on PA Social Service Ministries", n.d., Office of the Quartet Special Envoy on Disengagement. As of December 2005, 8,050 civilians were receiving PA pensions worth \$3.2 million a month (averaging \$398 per pensioner per month), and 1,750 security personnel were receiving \$2 million (averaging \$1,143 per veteran per month).

¹⁷⁶ "West Bank and Gaza Update", The World Bank Group, April 2006, p. 4. Many UN agencies do however use the PA as an implementing partner.

¹⁷⁷ Crisis Group interview, CARE aid worker, Jerusalem, June 2006. USAID approved two one-off medical consignments for direct delivery to public hospitals, following UN reports that lives had been put at risk.

¹⁷⁸ "A contractor informed me that he was today called by a USAID official asking if he is in contact with Hamas officials,

representatives in exile who before the elections managed the movement's finances claim Arab banks have frozen some \$347 million in donations from Arab states and private benefactors, including \$90 million in Jordan.¹⁸²

While Arab states acted out of fear of sanctions, they also had policy considerations of their own which made them wary of Hamas's role as the first Islamist movement to assume governmental control through – more troubling still – democratic means. Consequently, Arab governments sought to bolster the Abbas presidency at the expense of the government and even assist in Fatah's putative resurrection. "People are beginning to realise that a bad Fatah is better than a good Hamas. They don't want to see Hamas ruin the achievements of the past twelve years".¹⁸³ Besides a reluctance to assist the government,¹⁸⁴ actions ranged from Lebanon's decision to resume diplomatic relations with the PLO after a 24-year hiatus – a development from which Hamas was by definition excluded and which it therefore opposed – to Jordan's allegation that Hamas was smuggling weapons into the Kingdom and surveying strategic sites in several Jordanian cities for future attacks,¹⁸⁵ and Egypt's private assurances to EU and U.S. officials that it too wished to see Hamas fail.¹⁸⁶

Far more damaging than anything the EU, Arab states or the U.S. could do, Israel – which possesses the power virtually to turn the Palestinian economy on and off at will – implemented a series of steps to pressure the PA. As described in an EU position paper:

The looming crisis is not the result of suspension of [donor] aid – nor will the crisis be averted by a resumption of direct aid. The key underlying factor is the continued freeze in Israeli transfers of PA fiscal revenue and the strict Israeli policy on closures and other restrictions... The latest tightening of this policy has had a dramatic effect on the banking sector with a shortage of hard currency in the Palestinian Territories and difficulties to transfer money into Palestinian banks.¹⁸⁷

Israel's policy in this regard appears conflicted. On the one hand, the primary goal appears to be to enfeeble and pressure the new government, to the extent that it will fall. On the other hand, there is great awareness – indeed, far more than in the U.S. – of the potentially calamitous consequences of a humanitarian crisis or PA collapse, either of which could lead to a resumption of full-scale violence, to Israel's forced assumption of responsibility over ungoverned territories or to it suffering great damage in international public opinion. And so, while publicly dismissing warnings of impending crisis or claiming that the PA could survive up to four years at current income levels,¹⁸⁸ Israeli officials have maintained some contacts with the PA where Israel's national security is affected, have stated that Israel would send some humanitarian assistance of its own¹⁸⁹ and on occasion encouraged the U.S. to alleviate its restrictions.¹⁹⁰

¹⁸² Usama Hamdan, cited in "Hamas not interested in 'secret ways' to transfer funds", Associated Press, 5 May 2006.

¹⁸³ Crisis Group interview, Arab diplomat, May 2006.

¹⁸⁴ At a time of record high oil prices, Qatar and Saudi Arabia together committed only \$70 million – which, for reasons described above, has not reached the PA treasury.

¹⁸⁵ BBC News, 19 April 2006, at http://news.bbc.co.uk/2/hi/middle_east/4922076.stm. Jordanian officials claimed to have incontrovertible evidence of Hamas's activities, though Palestinians were equally fervent in their denials. Crisis Group interviews, Jordanian and Palestinian officials, Amman, Ramallah, March-May 2006.

¹⁸⁶ Egyptian officials denied that this was the case. Crisis Group interviews, April 2006. But more than one EU representative made the claim. Crisis Group interviews, EU officials, Brussels, March 2006. At a more symbolic level, Palestinian Interior Minister Siam reportedly was harassed at Egyptian military checkpoints and denied privileges normally accorded persons of his rank while transiting from Rafah to Cairo en route to Damascus. *Al-Quds al-Arabi*, 24 May 2006. An Egyptian echo of Jordan's concerns that Hamas domination could lead to the export of Islamist violence could also be discerned in an official statement that claimed the perpetrators of attacks on the Sinai coast had been trained in and financed from Gaza. Egyptian interior ministry statement, Associated Press, 23 May 2006.

¹⁸⁷ "EC Assistance to the Palestinians", European Commission draft position paper dated 27 April 2006. The views expressed were unanimously shared by other donors interviewed by Crisis Group, and similar statements have been issued by the World Bank.

¹⁸⁸ Crisis Group interview, Israeli official, Jerusalem, April 2006.

¹⁸⁹ Though, as Palestinians quickly pointed out, this was being done with the withheld tax revenues money that belonged to the PA in the first place. Crisis Group interviews, PLO diplomats, Washington, May 2006.

¹⁹⁰ "We are caught in a bind. We don't want to be accused of undermining Washington's anti-terrorism policy, with which we generally agree, but we also realize that some of their policies go too far. There are things that need to be done with the PA because they serve our interests, and we try to get that message across". Crisis Group interview, Israeli diplomat, Washington, May 2006. In general "Israel's policy towards the PA is closer to that of the EU than the U.S.". Crisis Group interview, Asher Susser, former government adviser, Tel Aviv University, May 2006. The contradictions were perhaps most stark in the decisions of Israel's banking sector, which since 1967 has, with government encouragement and support, ensured a stable supply of Israeli currency to the occupied territories to promote it as the prime legal tender. After the January 2006 Palestinian election, some Israeli officials began pressing banks to sever ties with Palestinian counterparts. Several, no doubt also not wishing to fall afoul of U.S. Treasury regulations, gave notice

Thus, health ministry officials have met with their Palestinian counterparts to discuss measures to contain the spread of avian flu.¹⁹¹ With limited exceptions, utility companies have continued to supply the West Bank and Gaza, not least the offices of the Haniya administration, financed both by Palestinian customs revenues Israel collects and by the EU.¹⁹² Israeli officials explain they are also authorised to engage with Palestinian local, provincial, and national officials and civil servants who are not Hamas members, but only when vital interests are at stake.¹⁹³ While regular meetings with Palestinian security forces have been suspended, limited contact continues.¹⁹⁴

Moreover, and as PA funds began to ebb, Israel encouraged international agencies to move in – a decision seen cynically by Palestinians as an attempt to ensure the international community is the main funder of both the occupation and the territories' basic needs.¹⁹⁵ In contrast to their previous attitude, Israeli officials actively court UN agencies,¹⁹⁶ finance a UN institution in Gaza¹⁹⁷ and,

that they would within one to six months cease to perform the function of correspondent bank for Palestinian banks. Other Israeli officials, fearing a collapse of the Palestinian money supply, counselled caution. Crisis Group interviews, Israeli and Palestinian bankers, Amman, Tel Aviv and Ramallah, May 2006.

¹⁹¹ Crisis Group interviews, UN officials, Jerusalem, April 2006.

¹⁹² According to Israeli officials, the total cost of such Israeli goods and services to Palestinians in the occupied territories in March 2006 amounted to some \$20 million of the \$55 million collected on the PA's behalf; and the remainder was placed in escrow. Crisis Group interviews, Israeli and European Commission officials, Jerusalem and Brussels, March and April 2006.

¹⁹³ Crisis Group interviews, Israeli civilian and military officials, Jerusalem, April 2006.

¹⁹⁴ Crisis group interview, Adam Avidan, Israeli civil administration spokesman, Jerusalem, April 2006. During times when Israel opened the Karni/al-Mintar crossing, Israeli and Palestinian security officials – the latter under Interior Ministry control – maintained constant radio contact. Crisis Group visit to the crossing, May 2006. In early June, however, an Abbas aide announced that this and other border crossings would be placed under control of the Presidential Guard. *Haaretz*, 5 June 2006.

¹⁹⁵ "We are looking for other addresses – international organisations, private sector, big companies and hospital managers. And now we have other addresses". Crisis Group interview, Adam Avidan, Israel Defence Forces (IDF) civil administration spokesman, April 2006. See Israeli cabinet communiqué, 21 May 2006: "Israel will coordinate with the international community regarding humanitarian assistance for the needs of the Palestinian population, not via the Palestinian Authority establishment".

¹⁹⁶ Crisis Group interview, senior UN official, March 2006. See also Ari Shavit, "A New Dawn", *Haaretz*, 3 March 2006.

¹⁹⁷ "Israel Provides \$25 Million to UNDP for Gaza", UNDP Press Release, 22 December 2006. Israel also transferred \$11

together with the U.S. and others, back expansion of the long-criticised UNRWA.¹⁹⁸ "We were always the devil incarnate in the Israeli government's eyes; now we have become the angel of light", said the country director of a UN agency in the occupied territories.¹⁹⁹

That said, the tremendous hardship Israeli policies cause should not be underestimated. Through May, revenue transfers were some \$200 million in arrears; as World Bank and EU officials repeatedly point out, the tax revenues are the most important source of income for the PA budget, in terms of regularity and amount. Israeli banks were also pressed to sever ties with all banks operating in the Palestinian territories on the grounds that it would be too complicated to screen every transaction for links to terrorist entities. Most eventually complied.²⁰⁰ On the ground, the military's matrix of checkpoints and barrier terminals continues to hamper both civilian and government activity. Citing security concerns, Israel has maintained its prolonged closure of Gaza's main supply crossing at Karni/Mintar.²⁰¹

million from Palestinian customs revenues it withheld to the World Health Organisation for disbursement in the West Bank and Gaza Strip. Crisis Group interview, Israeli foreign ministry official, Jerusalem, June 2006.

¹⁹⁸ Crisis Group interviews, Israeli and international officials, April 2006. In the past Israel had criticised UNRWA for employing members of Hamas, including current Interior Minister and former UNRWA teacher, Said Siam. See also Adam Entous, "Israel warms to UN body it long scorned", Reuters, 31 March 2006.

¹⁹⁹ Crisis Group interview, Jerusalem, April 2006.

²⁰⁰ Crisis Group interview, Israeli government officials and foreign finance officials, April and May 2006. Of the two largest Israeli banks with Palestinian ties, Bank Hapoalim on 4 April 2006 gave Palestinian banks a month's notice to remove assets, and on 17 May the Israel Discount Bank said that ties would be frozen within three to six months. An Israeli banker suggested the Bank of Israel and the Palestinian Monetary Authority would negotiate alternative arrangements before the deadline expired. Crisis Group interview, Israel Discount Bank official, Tel Aviv, May 2006. Assuming continued pressure on Israeli banks by both their government and the U.S. Treasury, however, Palestinians are increasingly discussing adoption of the Jordanian Dinar, which has remained in circulation since 1967, as the main currency in the occupied territories.

²⁰¹ The Israeli presence at Karni is protected by a veritable obstacle course of ditches and concrete barriers, as well as a series of checkpoints manned by the Palestinian Preventive Security Force, leading diplomats to argue that the prime motive for closure is political rather than security-related. Crisis Group interview, Western diplomat, Jerusalem, May 2006. Even after Israeli Defence Minister Amir Peretz ordered the crossings open for exports, traffic trickled out of Gaza. When the crossing was open in both directions, an average of twenty trucks per day exported goods from Gaza, far less than the 400 trucks Israel had agreed to allow by the end of 2006 in the U.S.-brokered Access and Movement Agreement of 15 November 2005. Crisis Group interview, UN official, Gaza, June 2006.

This affects Palestinian exports, not least the harvest of the greenhouses which donors had prominently purchased from Israel when it evacuated Gaza.²⁰²

Overall, Israeli officials appear to want the Palestinian population to understand that electing its sworn enemies comes at a price. In the words of prime ministerial adviser Dov Weisglass, “it’s like a meeting with a dietician. We have to make them much thinner, but not enough to die”.²⁰³

B. A NATION UNDER SIEGE

Palestinian planning and finance officials describe the current crisis as the most severe in the PA’s twelve-year history. When Israel withheld tax revenues during the recent uprising, the international community responded with substantial compensatory aid, banks used the unpaid revenues as collateral for loans, and the Palestinian diaspora helped with remittances. In June 2006, the PA is bereft of all these resources.

In April 2006, shortly after the new government took office, the World Bank presented a number of economic scenarios for 2006-2008. Assuming no abrupt change relative to 2005, it forecast a continued albeit moderate deterioration in economic performance, unemployment, and poverty levels. Assuming reduced foreign aid flows, it predicted a more pronounced and rapid deterioration, and an even greater and more abrupt decline if foreign aid flows were maintained but Israel suspended revenue transfers and continued to impose trade and labour restrictions. Under a scenario of both Israeli curbs and reduction in foreign aid flows, it said unemployment would rise from 23 per cent to 40 per cent in 2006 and 47 per cent in 2008; poverty would rise from 44 per cent to 74 per cent (67 per cent in 2006); GDP would decline an additional 25 per cent (a full 55 per cent lower than 1999 levels); investment levels would decline by some 70 per cent; average personal income would decrease by almost a

third; and private consumption would be slashed by a quarter.²⁰⁴

On 7 May, the World Bank issued an urgent clarification: “Based on evolving [Israeli] and donor policies, these [above] projections now appear too rosy”.²⁰⁵ Noting that public sector salaries had last been paid in February on account of the “unprecedented” nature of the PA’s liquidity crisis and that “the recession has already begun”, with “signs of food and gasoline shortages” observed in Gaza, it cited “concern at the early emergence of a supply-induced humanitarian crisis” and noted that those dependent on PA salaries...will suffer major income reductions – while the PA is unlikely to be able to provide basic services or maintain law and order”. “As a result of such dramatic fiscal compression”, the World Bank concluded, a humanitarian crisis, rising insecurity, and/or institutional dissolution “may occur in the coming months”.²⁰⁶ Palestinian and Israeli officials, diplomats and development specialists interviewed by Crisis Group generally concurred that if present trends continued, the crisis would come to a head by mid-2006.²⁰⁷

Given the PA’s increasingly critical role in sustaining the local economy since the onset of the uprising in 2000 and the ensuing Israeli siege, the salary suspension that commenced in March 2006 has had a devastating effect, hitting not just employees and their dependents, but also those who depend on the activity they generate.

The hardship is compounded by the almost total depletion of savings that helped ordinary Palestinians survive the first five years of conflict. In an economy traditionally lubricated by credit, banks are reining in mortgages, customers have reached the limits of their overdrafts at local supermarkets, and telephone companies are disconnecting customers defaulting on payments. In some cases children have been withdrawn from private schools because parents cannot afford the annual registration fee for the 2006-2007 academic year; in others pupils have

²⁰² According to the Office of the Quartet Special Envoy, export volumes during the first four months of 2006 averaged just 23 truckloads per day, compared to the target level of 150 truckloads per day by 31 December 2005, crippling the harvest. It estimated revenue losses to Gaza’s agricultural sector at some \$450,000 per day during the peak season. Since the beginning of the year, the sector has lost more than \$18 million in foregone revenues due to the closures at Karni. Office of the Quartet Special Envoy, “Periodic Report”, April 2006. Earnings were further depleted following attacks on the greenhouses by local clans claiming ownership of former settlement land. *The Jerusalem Post*, 14 May 2006.

²⁰³ *Haaretz*, 23 March 2006. Similarly, a senior UN official stated that the sentiment in Washington was that Palestinians should “survive, but not thrive”. Crisis Group interview, April 2006.

²⁰⁴ “West Bank and Gaza Update”, The World Bank Group, April 2006, p. 7.

²⁰⁵ “Palestinian revenues continue to be withheld [by Israel]...Border restrictions are proving more stifling than in 2005...[T]he suspension of donor disbursements to the PA by OECD donors is being implemented more rapidly than the Bank anticipated...[and] Commercial banks have been reminded of their potential legal liability under U.S. anti-terror legislation, leading them to withhold services to the PA; this is impeding the PA’s ability to receive transfers of funds from abroad (in particular, from Arab-League donors), and to operate an internal payments system”. “The Impending Palestinian Fiscal Crisis”, World Bank, pp. 1-2.

²⁰⁶ *Ibid*, pp. 1-5.

²⁰⁷ Crisis Group interviews, Amman, Gaza City, Jerusalem, Ramallah, Tel Aviv, March-May 2006.

been denied certificates until the outstanding balance for the current academic year is made good.

Israel's ban on Palestinian exports – which with few exceptions has prevailed since the beginning of 2006 – coupled with an inflow of imports means that much of the money still in circulation is paid to outside suppliers, leading to a balance of payments collapse. During the first five months of 2006 the stock exchange fell by over 40 per cent,²⁰⁸ and real estate sales dwindled, while shops, particularly in the Gaza Strip, remained stocked in large part because ever fewer customers could afford to buy. With growing frequency, stores are choosing not to open at all.

As employees prepare for their fourth month without salaries, defiance increasingly is tinged with despair. Applications for UNRWA food parcels are rising sharply and those for financial grants fourfold,²⁰⁹ in significant part because registered refugees who are government employees were previously ineligible for such assistance. A senior UNRWA official reports Palestinian staff began inquiring about jobs for relatives, “something I never experienced before”.²¹⁰ The food aid needs of the non-refugee population – which has no access to UNRWA assistance – increased by an additional 14 per cent to cover over half this population group.²¹¹ By June, an influx of emergency supplies had alleviated much of the immediate medical and food crisis but, officials emphasised, only temporarily.²¹²

Having run down reserves, policemen and their spouses can be seen queuing at Gaza's gold market to sell wedding bands and other jewellery, some continuing to the Suq Firas market lugging household appliances and even mobile telephones. Unpaid security personnel and militiamen scour the market for alternative employment, and crime, predictably, is on the rise. The Red Cross worries that unpaid prison wardens might abandon their posts or lack funds to feed inmates, leading to a mass breakout of criminals.²¹³ Indeed the guards, themselves

lacking proper meals while on duty, are asking relatives of inmates to prepare food and bring it to the prisons so that prisoners do not starve.²¹⁴ “No one throws tens of thousands of armed men onto the street, unless they want the destruction of the entity, as in Iraq”, concluded Raji Sourani, a leading Gaza human rights activist.²¹⁵

More ominously perhaps, drug companies have refused to supply the ministry of health until the PA clears its dues, and private hospitals, which relied on the ministry for at least a third of their income, have severed salary payments, prompting incremental strike action.²¹⁶ At the same time, the ministry of civil affairs has stopped preparing paperwork for patients referred to hospitals in neighbouring states for treatment unavailable in the occupied territories. “The PA no longer has the funds to pay for such treatments so it would be superfluous to do so”.²¹⁷ “Is the Palestinian health system going to collapse?”, Dr Yahya Shawar of the Palestinian Medical Association asked in mid-May. “Probably, yes”.²¹⁸

C. CAN A HUMANITARIAN COLLAPSE BE AVOIDED WITHOUT DEALING WITH THE PA?

Seeking to avoid a humanitarian collapse without bankrolling the Hamas-dominated government, some Quartet members have been considering whether they could establish alternative delivery mechanisms that bypass the PA. In the U.S. in particular, the idea that a parallel NGO system could provide vital services was given serious thought.²¹⁹ The notion, which reflected excessively poor understanding of how the Palestinian economy worked and of the PA's central role, was quickly dismissed by experts, including NGOs working on the ground.²²⁰ As James Wolfensohn put it:

²¹⁴ Crisis Group interview, International Committee of the Red Cross (ICRC) official, Jerusalem, May 2006.

²¹⁵ Crisis Group interview, Gaza City, May 2006.

²¹⁶ Crisis Group interview, Khalid Sanwar, Director, Palestinian Red Crescent Society (PRCS), Gaza City, May 2006.

²¹⁷ Crisis Group interview, senior ministry of civil affairs official, Ramallah, May 2006.

²¹⁸ “Palestinian Association warns health system will Collapse”, Agence France-Presse, 17 May 2006.

²¹⁹ Crisis Group interviews with members of Administration and of Congress, February-March 2006. .

²²⁰ In early May 2006, 36 international aid agencies issued a statement notifying donors that “the responsibilities of public sector institutions cannot be replaced by non-governmental agencies (NGOs) and the United Nations”. See www.aidajer.org. Other aid agencies also rejected funding “to dramatically scale up activities to counteract the effects of international isolation of the PA”. Crisis Group interview, aid worker, Jerusalem, May 2006.

²⁰⁸ “There hasn't been much capital flight. The problem is not that existing projects are being discontinued, but that new investments have been put on hold”. Crisis Group interview, Palestinian contractor, Ramallah, April 2006.

²⁰⁹ Crisis Group interview, John Ging, UNRWA director, Gaza City, May 2006.

²¹⁰ Crisis Group interview, senior UNRWA official, March 2006.

²¹¹ Crisis Group interview, Kirstie Campbell, World Food Program (WFP) official, Jerusalem, June 2006. WFP said it was increasing food assistance by 25 per cent, from 480,000 to 600,000 non-refugees. See <http://www.wfp.org/english/?ModuleID=137&Key=2128>.

²¹² Crisis Group interview, UN officials, Gaza, June 2006.

²¹³ Crisis Group interview, ICRC official, Jerusalem, May 2006.

Take schools. You have a million pupils. The notion that you can educate a million kids tomorrow through an alternative school system in tents without notebooks, without textbooks, without anything, seems whimsical. What are you going to do? Build new schools for a million kids? Find 30,000 new teachers? The possibility of building an alternative mechanism does not exist. The impasse cries out for a resolution that involves dealing with the existing education system.²²¹

Claims by U.S. experts that “if Hamas managed to build its strength on the basis of service provision, secular NGOs funded by us should be able to do the same” were similarly rebutted.²²² In the words of a UN official:

The most effective NGO sector when it comes to service delivery is the Islamist one, and this stopped receiving Western funds even before the elections. Its scope was also exaggerated. But even if you believe the claims about it, it still has nowhere near the capacity required to tend to an entire population. So how can you get the secular NGOs, most of whom have until now specialised in issues like democracy and human rights, to provide education and medical care to the West Bank and Gaza Strip? Well, you can’t.²²³

For somewhat different reasons, the same caveats apply to the UN itself. As U.S. and European diplomats began to consider alternative delivery mechanisms, the UN launched its own emergency appeal on 2 June, calling for an increase of emergency aid from \$215 million to \$380 million, the lion’s share of the additional increment to be devoted to job creation schemes, primarily labour intensive infrastructure projects such as road-building, sewage maintenance and school-building. But UN officials warned such projects could further deplete PA capacity by attracting unpaid public sector workers to UN-sponsored projects.²²⁴

When UNRWA was approached as a potential provider of services – on account of its long and extensive presence throughout the occupied territories and its role as the donor community surrogate when the PA was first established – it, too, expressed misgivings. The agency’s mandate in principle is restricted to the care of refugees (over 75 per cent of the Gaza Strip population and approximately 40 per cent of West Bank residents) and, more importantly:

Our basic position is respect for the “sovereignty” of the PA, and we will therefore not respond to any donor request to assume PA functions. To do so we would need authorisation from the PA, which in the current situation means the authorisation of both the government and the presidency.²²⁵

Nor would the agency, according to its staff, have the capacity to take over and run entire sectors, such as education or health.

With donors and their implementing agents alike resistant to engineering the collapse of a national entity they had spent \$10 billion nurturing, the U.S. appeared prepared to soften its position somewhat.²²⁶ It acquiesced in EU efforts, subject to Washington’s ultimate review,²²⁷ to devise not alternative delivery mechanisms but rather alternative funding mechanisms that could help ensure continuation of basic services without monetary transfers to the PA government. Various ideas have since been mooted.

In late April, the EU produced a preliminary proposal for setting up an “international supervisory mechanism” in cooperation with major multilateral and bilateral donors.²²⁸ Its purpose, the draft stated, would be “to pool donor funding to meet basic needs”, by directly reimbursing providers such as hospitals and suppliers. In order to avoid dealings with the government, it would use the PA presidency as an “interface between the international community and the Palestinian Authority”.²²⁹ Recognising the proposed mechanism would have only “limited impact...in the absence of tax transfers by Israel...the resumption [of such transfers] to specific earmarked areas” would be one of its “main aims”.²³⁰

In a related development, a British draft in May pointed to the “precedent” of the Holst fund, which in the 1990s disbursed donor monies to the PA, and proposed a similar mechanism to finance a variety of activities – including “direct payment of salaries to the bank accounts

²²¹ Crisis Group interview, James Wolfensohn, Jerusalem, March 2006.

²²² Crisis Group interview, Washington, March 2006.

²²³ Crisis Group interview, March 2006.

²²⁴ Crisis Group interview, UN official, Jerusalem, June 2006.

²²⁵ The official additionally suggested UNRWA would not approach the PA in this respect, but would need to be approached by the Palestinians. Crisis Group interview, March 2006.

²²⁶ Crisis Group interview, U.S. official, Washington, May 2006.

²²⁷ Crisis Group interview, European development specialist, Jerusalem, May 2006.

²²⁸ “EC assistance to the Palestinians”, op. cit. Furthermore, “It is highly unlikely NGOs would be capable of or willing to replace the role of the Palestinian Authority in providing basic services for the majority of the Palestinian population”.

²²⁹ Ibid. “In concrete terms the donors would need to fully control all identification, tendering, procurement, contracting, payments, and auditing”.

²³⁰ “EC assistance to the Palestinians”, op. cit., pp. 5-7.

of key workers” – without providing funds directly to the PA.²³¹ By the end of that month these ideas coalesced into what Brussels designated a Temporary International Mechanism (TIM).

In its latest iteration, the TIM would consist of three separate instruments:

- ❑ the Emergency Services Support Project (ESSP) previously utilised to fund non-salary recurrent PA social sector costs would be expanded to support both non-salary expenditures of social service providers, especially in the health sector, and, potentially, salary payments to such providers as well. While previously monies were paid to the PA Single Treasury Account, the program would be “moved” to the president’s office;²³²
- ❑ the Interim Emergency Relief Contribution (IERC), solely funded by the European Commission, would continue to pay utility providers directly, based on details furnished by the presidency. This is estimated to cost \$6 million per month; and
- ❑ a third mechanism would directly disburse “social allowances” to “people in need and workers involved in the delivery of essential services”; cost estimates are between \$25 million and \$30 million per month.²³³ Here, too, the PA presidency would be expected to play a central role, providing information obtained from PA agencies and taking responsibility for certifying the eligibility of recipients and the validity of expenditures. A management unit, established by the “lead donor”, would, among other functions, disburse and audit all payments.

The last of these in particular was accompanied by considerable semantic acrobatics. According to a European Commission official, “payment of salaries has never been on the agenda. What has been agreed is payment of a social allowance to health and education workers”.²³⁴ A European diplomat dispensed with such nuance: “There’s not much point to the Temporary International Mechanism without giving money to the people who provide the services. As to what you call it and how you do it, there are numerous options”.²³⁵ Regarding these options, a

development specialist mentioned vouchers, “targeted payments”, and other mechanisms that would meet the program’s objectives of “simplicity, preserving the current infrastructure, and doing something quickly”.²³⁶ While Europeans hope that other donors, including Arab states, will contribute to these mechanisms, “the test will be whether the Israelis release Palestinian money into the mechanism[s], which is the desired outcome”.²³⁷

The Temporary International Mechanism, yet to be approved by the U.S., raises several issues. While clearly an improvement on past proposals, in particular in that it casts a far wider net, its emphasis on “essential social services” appears to neglect the importance of the security sector – a possible bow to Washington, which is strongly opposed to such assistance. As a European diplomat put it, financial requirements of the security sector “haven’t even been brought onto the agenda”.²³⁸ Among those expressing scepticism about attempts to discriminate between different public services is Wolfensohn: “All the things that are public service related have the potential after a short period of time to create a humanitarian crisis”, including police and civil defence forces that might be required at a school or hospital.²³⁹

Whereas some question the feasibility of funding schools and hospitals while withholding support from agencies that provide support services, others doubt the wisdom of funding some but not all PA employees – particularly if those collecting salaries are civilians, and the security forces are left out.²⁴⁰ In the words of a World Bank official,

explained, fiscal imbalances in the PA were so severe, even before the election-generated crisis, that sustaining salaries at existing levels was virtually impossible. Recasting them as social allowance could allow the PA to impose a salary cut by another name. Crisis Group interview, Washington, June 2006. Similarly, a Palestinian fund manager suggested that the “essential but long overdue” privatisation of social services could be facilitated by the donor boycott. Crisis Group interview, Ramallah, April 2006.

²³⁶ Crisis Group interview, senior European development specialist, Jerusalem, May 2006.

²³⁷ Crisis Group interview, European Commission official, Brussels, May 2006.

²³⁸ Crisis Group interview, European diplomat, Jerusalem, May 2006. The proposal does provide that “arrangements will be designed in such a way that other donors can identify their preferred sectors”. “Temporary International Mechanism”, EU position paper, copy provided to Crisis Group. In theory, then, donors who do not face the same political constraints as Washington and Brussels could earmark monies for the security sector – one neither included nor excluded from the position paper’s contents.

²³⁹ Crisis Group interview, March 2006.

²⁴⁰ Crisis Group interview, European diplomats, May 2006. UN officials estimate that under the TIM, only health workers,

²³¹ “Financing basic services to the Palestinians outside PA systems”, op. cit., p. 2.

²³² Crisis Group interviews, EU diplomats, Jerusalem, May and June 2006.

²³³ Crisis Group interview, European development specialist, Jerusalem, May 2006. “Temporary International Mechanism”, EU position paper, copy provided to Crisis Group, June 2006.

²³⁴ Crisis Group interview, Brussels, May 2006.

²³⁵ Crisis Group interview, Jerusalem, May 2006. A World Bank official pointed to a possible advantage to this proposal. As he

"I cannot imagine that paying some personnel and not others is going to go very far, especially if the unpaid ones have guns".²⁴¹

Making distinctions between those under the presidency's aegis and those under the government's could further exacerbate the situation, leading to domestic clashes and spilling over into resentment of and action against the international community.²⁴² A system that sought to fund all sectors so that the PA as an institution could stay alive is far preferable.

A second major problem involves the role assigned to the presidency. As currently conceived, and as a means both to bolster Abbas and circumvent Hamas, the presidency is defined as the "interface" between donors and the PA administration, meaning it would provide necessary information and certify that expenditures were justified. Politically, this could put the president in the awkward position of being responsible for a program he does not control, attacked as complicit in a Western scheme and the target of popular criticism whenever payment lagged.²⁴³ The goal may be to strengthen Abbas but the result could be the opposite. An Arab diplomat described this scenario as tantamount to giving the president the rope with which to hang himself.²⁴⁴

Further, involvement of the presidency almost inevitably runs the risk of politicisation, as some would try to direct payments to more loyal sectors, most notably security forces under Abbas's command, leading to greater internal tension. A UN official remarked: "Salaries have become a scarce commodity, the equivalent of diamonds in other conflict situations. They have become a stake in institutional and factional competition".²⁴⁵ To allow one side control over this issue is a sure way to stoke the fires and increase scepticism about the mechanism. Again, it is one thing to strengthen Abbas's stature as president of all Palestinians, quite another to bolster his role as leader of one of their factions.

who account for 7 per cent of the PA workforce, would receive salaries. Crisis Group interview, Jerusalem, June 2006.

²⁴¹ Crisis Group interview, World Bank official, Washington, June 2006.

²⁴² Crisis Group interview, Palestinian analyst, June 2006.

²⁴³ Crisis Group interview, U.S. official, Washington, May 2006. Some of Abbas's advisers concur. "Such plans would leave Hamas with political power without responsibility. Our agenda is to confront it with the complexities of governance". Crisis Group interview, Jerusalem, April 2006.

²⁴⁴ Crisis Group interview, Algiers, June 2006. Abbas himself is said not to be oblivious to this concern, fearful that he would be held responsible for any humanitarian hardship. Crisis Group interview, presidential adviser, Ramallah, June 2006.

²⁴⁵ Crisis Group interview, Jerusalem, June 2006.

The alternative is not for the Hamas government to receive funds directly; for that, it would have to make significant moves in the direction of the international consensus as described below. Still, an alternative that is independent of Palestinian power struggles while at the same time enjoying a sufficient measure of credibility, such as UN agencies (e.g., UNDP or UNWRA) or the World Bank, would appear better suited for such a role. This would not be a panacea, of course. The UN and the World Bank could become the targets of resentment by those who were not paid, or insufficiently so; they would be thrust into a deeply political and violent struggle; and they would have to engage in uncomfortable anti-terrorism vetting on behalf of the Quartet. Nevertheless, this option is preferable to one that – in the absence of a Fatah/Hamas agreement – would dangerously exacerbate internal tensions.

Such objections aside, the principal obstacle confronting the Temporary International Mechanism is obtaining U.S. approval. Washington is expected to balk at anything deemed likely to reduce pressure on the PA government and will closely scrutinise anything approximating salary payments, particularly to the security forces.²⁴⁶ It is said to prefer an entirely needs-based scheme that would not specifically provide payments to Palestinians engaged in service delivery. According to an informed observer:

The Americans are dead set against anything resembling salaries. They can get their way because of their influence over the banks. They continue to prefer a general social allowance that would in one form or another be directly distributed to Palestinians, along the lines of vouchers or food stamps, without discrimination between PA or non-PA, to those who can demonstrate need.²⁴⁷

The aim, in other words, is not to keep the PA alive, but rather Palestinian society afloat – a critical difference with potentially costly consequences for institutional sustainability. Humanitarian handouts are no substitute for either functioning institutions or a functioning economy. If individuals are not paid for their labour, it is hard to see why they would continue working at all. The outcome, again, if one considers the impact on security personnel, could be devastating. The U.S. has powerful leverage, as noted, due to the influence it exercises over banks that

²⁴⁶ "A European diplomat said [U.S. opposition to TIM]...reinforced fears that the U.S. was intent on [Palestinian] regime change....The U.S. envoy to the Middle East, David Welch, said there was "no basis" for talks if they included payments to the security forces". Anne Penketh, "Fears of 'regime change' policy after U.S. cancels Palestinian pay talks", *The Independent*, 9 June 2006.

²⁴⁷ Crisis Group telephone interview, foreign correspondent, June 2006. The comments were based on discussions with U.S. officials.

would be engaged in transactions. The IMF, UN, and World Bank each have standing exemptions from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) restrictions with regard to dealing with the PA, but individual banks do not. They will not transfer funds to or on behalf of the PA – including to the accounts of individual PA employees – without a written “letter of comfort” from Washington, or clarification of OFAC terms.²⁴⁸

The Americans – and, reportedly, some of Abbas's advisers as well – also are said to be increasingly determined to postpone the beginning of implementation until after the proposed referendum as a means of further weakening Hamas and turning the vote into a plebiscite over who can pay salaries.²⁴⁹ Politically, they argue, it would be better for the Palestinians to know the full consequences of Hamas's posture, which early implementation of the TIM could dilute. Should this view prevail, or should the U.S. stall until that time, it would delay implementation by at least several weeks.

Whatever the ultimate mechanism, three further considerations should be kept in mind. First, even without U.S. delays, the mechanism is not expected to be operational before early July, by which time economic problems may well have reached breaking point. Second, with security deteriorating and fears that attacks on foreigners could be renewed, expatriates doubt their ability to audit any program properly.²⁵⁰ Third, there is the question of the funding levels involved: there has been no firm indication that the Europeans or others would be prepared to donate the kinds of sums required. As a Palestinian official put it:

It's empty rhetoric, and much too rosy. It's a discussion about principles rather than details. Until now they're talking about instruments, not funding levels. There are no figures involved yet. Additionally, no one is talking about infrastructure. USAID, the main donor for infrastructure, has

stopped all projects, yet none of these proposed mechanisms would deal with our infrastructure needs.²⁵¹

There is no sign as yet, however, that the differences between the U.S. and the EU have been bridged. A Quartet conference call scheduled for 7 June was cancelled amid continuing disagreement;²⁵² on 11 June a diplomat reported that “the Americans told the Europeans to go back to the drawing board”, because U.S. officials “don't want the [European] Commission to pay even partial salaries or allowances”, including the health sector.²⁵³ Even if a mechanism is jointly agreed, the question will remain whether it will prevent an economic and therefore social and security breakdown, or rather simply postpone it.²⁵⁴

For the moment, talk of a humanitarian crisis may be exaggerated or premature – although there have been periodic shortages, at times severe, of basic goods such as flour and fuel, and a number of dialysis patients in Gaza reportedly have died because hospitals lacked the funds and materials to properly treat them. As Crisis Group witnessed in Gaza, Palestinians have developed remarkable resilience and ability to cope with hardship while maintaining minimum services. But this cannot substitute for a long-term answer to the questions raised by Hamas's victory. It is hard to imagine the PA surviving – or the international community agreeing to sustain it – on the basis of humanitarian hand-outs alone. Likewise, until political accommodations are found between Hamas and Fatah, between the PA and the Quartet and between the PA and Israel, the risks of renewed and aggravated violence will hover over the Israeli-Palestinian arena as a whole.

²⁴⁸ Crisis Group interview, Palestinian banker, Ramallah, June 2006. Some banks, including the Bank of Palestine, did make limited payments to PA employees in early June, a sign that fear of sanction by OFAC was tempered by the more immediate fear of gunmen on the ground.

²⁴⁹ Crisis Group interview, presidential adviser, Ramallah, June 2006.

²⁵⁰ Following a series of recent kidnapping incidents and arson attacks, the UN severely cut the international staff presence in the Gaza Strip to a symbolic-level presence. “Without international staff in headquarters, maintaining operations is a very real challenge”. Crisis Group interview, UN official, Gaza, May 2006. If perceived as the humanitarian fig-leaf of a Western sanctions policy, international staff warn they could become soft targets.

²⁵¹ Crisis Group interview, Ramallah, May 2006.

²⁵² Crisis Group interviews, UN, EU and U.S. officials, Jerusalem, June 2006. See also Penketh, “Fears of ‘Regime Change’ Policy”, *op. cit.*

²⁵³ “Critics of the U.S. approach said it would undercut EU efforts to maintain key Palestinian institutions like the health and education ministries”. Adam Entous, “U.S., EU spar over Palestinian aid plan – diplomats”, Reuters, 11 June 2006.

²⁵⁴ A UN official also pointed to longer-term implications. “All the talk about PA corruption and mismanagement has obfuscated the reality that at the mid and lower levels this is a genuinely professional civil service that has enjoyed real success in delivering services to the people. Do we really want to jeopardise everything that we've achieved in this respect? Have we thought about the consequences?” Crisis Group interview, Amman, April 2006.

IV. CONCLUSION: WHAT SHOULD BE DONE?

A. SUBVERTING HAMAS?

Taking the lead in defining the international community's objectives toward Hamas, the U.S. has claimed it wants to see it "change or fail".²⁵⁵ But while change continues to be presented as the preferred option, there is little belief in it, and so most eyes are on failure. At its root, the conviction is based on the premise that if Hamas were allowed to consolidate its position and succeed in governing, it would decisively transform the Palestinian political landscape, allow radical Islamists to determine the future of the Arab-Israeli conflict and embolden such movements elsewhere.²⁵⁶ A concern to the U.S. and Israel, it is no less a worry to Arab regimes fearful of their own Islamists²⁵⁷ and, of course, to Fatah.

The path contemplated is, through financial sanctions and diplomatic isolation, to provoke a popular domestic backlash against Hamas and – most likely through confrontation – pave the way for the return of Fatah. It also involves strengthening Fatah through a variety of means, including bolstering its military capability by providing technical and material assistance to those branches of the security sector under Abbas's direct control.²⁵⁸

²⁵⁵ Crisis Group interview, U.S. official, Washington, May 2006.

²⁵⁶ "The U.S. is disengaging from the Israeli-Palestinian conflict, it is less of a priority than its 'global war on terror'. The Hamas government means that for the Americans the conflict is now part of their larger war and subordinated to it". Crisis Group interview, Palestinian presidential adviser, Jerusalem, May 2006.

²⁵⁷ Crisis Group interviews with U.S. and Arab officials, April-May 2006. Before assuming office, Hamas had reasoned that Arab and Islamic states would compensate for any shortfall in donor funding and diplomatic support. Crisis Group interviews, Ismail Haniya, Beach Refugee Camp, Gaza Strip, January 2006; Omar Abd-al-Raziq, PA finance minister, Ramallah, March 2006. The Islamists were sorely disappointed. Neighbouring regimes were no more favourably disposed to Hamas than they were to their own Islamists and flinched at the prospect that Palestine might set a trend. Asked about his government's attitude toward the PA, a Jordanian diplomat told Crisis Group, "if Hamas can pay salaries, they would stay in power for over 40 years". Crisis Group interview, May 2006.

²⁵⁸ For example, "Western security officials in the Gaza Strip said members of one of Abbas's elite bodyguard units had shown them newly issued anti-tank rockets concealed in backpacks. In the occupied West Bank city of Ramallah, where Abbas has his headquarters, the guard recently acquired four brand new U.S.-made armoured vehicles worth an estimated \$100,000 each". Entous and Tamimi, "Hamas, Abbas rivalry spurs Palestinian

But it is a course full of obstacles. Particularly if punitive measures fail to distinguish – whether in fact or perception – between the regime and its constituents, they are likely to generate greater solidarity with Hamas.²⁵⁹ This will be all the more so if Fatah's restoration were seen to have been engineered with U.S. support.²⁶⁰ Moreover, as Fatah officials themselves acknowledge, their movement is not yet ready to pick up the challenge. It has postponed the necessary internal reforms and failed to address the issues – including its internal power struggles and lawless militias – that led it to its electoral defeat in the first place.²⁶¹ As discussed above, it also is far from clear by what method Hamas would be forced to relinquish its power, there being no provision in the Basic Law for early elections.²⁶²

While such constitutional niceties might well be ignored in the chaos that seems certain to accompany Palestinian regime change, there are even more serious considerations about long-term impact. Feeling cheated of its right to govern, Hamas would be unlikely to go quietly into the night or to acquiesce in subsequent elections. Some Palestinian analysts have evoked the possibility of a "strategic realignment", with Hamas turning decisively toward Damascus and Tehran in order to resist a Fatah take-over.²⁶³ Even if, under this theory, the Islamists'

arms race", op. cit. See also Amos Harel, "Defence official: arms transfer to help Abbas take on Hamas", *Haaretz*, 27 May 2005.

²⁵⁹ On 23 May, Chief of Staff Dan Halutz told Israel's parliament that in his view economic pressure would neither reduce popular support for Hamas nor expedite the PA government's ouster, *Haaretz*, 24 May 2006.

²⁶⁰ "To the extent that Fatah is seen as America's choice, particularly in an environment when U.S. policy is explicitly hostile to the choices Palestinians themselves have made, Fatah's rehabilitation in the public's eye and also in terms of much needed internal reform becomes even less likely". Geoffrey Aronson, "Financing the Palestinian Authority", International Development Research Centre (IDRC), 25 May 2006, pp. 21, 29.

²⁶¹ Crisis Group interviews, May 2006.

²⁶² Crisis Group telephone interview, Jihad Harb, specialist on Palestinian constitutional issues, Palestinian Centre for Policy and Survey Research (PSR), June 2006. Abbas can dismiss the government and/or proclaim a state of emergency, but any alternative government would need to win a vote of confidence in the Hamas-dominated PLC (with the current one remaining in office until this is achieved), as would a state of emergency within 30 days of its proclamation. Any measures adopted under a state of emergency would also require parliamentary approval. Email communication from Nathan Brown, specialist in Palestinian constitutional issues, June 2006.

²⁶³ Crisis Group interview, April 2006. According to another analyst, George Giacaman: "U.S. regional policy is very clear, to separate Lebanon from Syria, Syria from Iran, Hizbollah from Syria and Iran, and the Palestinians from all of the above. Iran's policy is exactly the opposite. Ahmadi-Nejad's statements

popular support will have dropped significantly before any showdown and this scenario is accompanied (as often suggested) by a comprehensive Fatah crackdown against Hamas, it is hard to imagine the Islamists collapsing to the point where they no longer could mount a dangerous challenge, either disrupting elections or finding other ways to discredit them.

Having reached the conclusion that its experiment with the mainstream had failed and political integration was no longer a viable option, Hamas almost certainly would revert to the methods of the past. In once again resorting to violence, it would be likely to direct its fire against not only Israel but also its Fatah rivals.

The 9 June renunciation of the unilateral ceasefire by Hamas's military wing, the Qassam Brigades, demonstrates just how perilous this strategy can be. Bloody and tragic as the previous 24 hours undoubtedly were, from Hamas's perspective it was only one of numerous Israeli provocations during the past sixteen months. Yet within hours, the Islamists were insisting they would continue shelling the southern Israeli town of Sderot until it was evacuated by its residents, while Israeli press reports indicated Defence Minister Peretz rejected IDF recommendations for a massive incursion into the Gaza Strip and the assassination of Hamas political leaders.²⁶⁴ The heightened tensions within the Palestinian political arena and suffocating international pressure on the PA government appear to have made the alternative of Israeli-Palestinian conflict considerably more appealing to the Islamists than it did on the eve of their assumption of office.

As mentioned above, this option also could prove fatal to the PA. According to Geoffrey Aronson, a specialist on Palestinian affairs:

A Hamas decision that the value of participation in democratic elections and subsequent administration of the institutions of Palestinian self-rule have been undermined by external forces will have implications not simply for the composition of the next PA government, but whether there will be a government at all. The Hamas leadership has made it clear that the organisation will not permit the reconstitution of the PA – via elections or through any other

vehicle – if it is forced to fail. In such an environment it believes that it will emerge as the only Palestinian organisation capable of mobilising popular support. In this sense, the Hamas leadership, while preferring to work through established institutions it now leads, is fully prepared to profit from its ability to mobilise popular support in their absence.²⁶⁵

Chaos in Palestine could well open the field to more militant groups. With the prospect that neither Hamas nor Fatah would be able to establish control in the wake of PA collapse, security officials from across the political spectrum expressed concern that al-Qaeda and other radical groups could exploit the political vacuum.²⁶⁶ On a wall opposite the main mosque in Khan Yunis Refugee Camp, home to several senior Hamas cadres, graffiti proclaimed that: "Democracy is apostasy with the blessing of Islamic preachers". While the Haniya government was unambiguous in its rejection of al-Qaeda's ideology,²⁶⁷ it dangled the threat in an attempt to modify the West's approach. "People now see a new U.S. crusade pushing us to a clash of civilisations. We are against this, but the alternative to us is al-Qaeda".²⁶⁸

In short, this option suffers from a serious disconnect between ends and means and an apparent obliviousness to longer-term implications. If it is starved of resources, confronted by an increasingly hostile population and unable to realise its agenda, Hamas might well fail. But with widespread violence and chaos and a collapse in Palestinian institutions and a question-mark dangling over the legitimacy of any successor regime, its failure would be hard to chalk up as anybody's success.

about the holocaust and eliminating Israel need to be read politically. It was his attempt to link Iran with the Palestinians through Hizbollah and Syria. If Washington wants Iran to be detached from the Palestinians the price is a two-state solution somewhere along the lines of Taba". Crisis Group interview, Ramallah, February 2006.

²⁶⁴ Nonetheless, according to Peretz, "no organization, no status will serve as cover for any source that is involved in planning or carrying out shooting". *Haaretz*, 12 June 2006.

²⁶⁵ Aronson, "Financing the Palestinian Authority", op. cit. Additionally, "If the United States reacts to the first electoral defeat of an Arab government by overturning the results, the message will reverberate around the region". Brown, "Living with Palestinian Democracy", op. cit., p. 3.

²⁶⁶ Crisis Group interviews, Hamas, Fatah and international security officials, Gaza Strip, May 2006. Al-Qaeda's operations in Jordan and Sinai have exacerbated concern that the radical Islamist network is at the gates. Among the Israeli General Staff, journalists have also noted "fears that the collapse of the Hamas government would generate chaos and thrust Gaza into the hands of world Jihad". Amir Oren, "Taking the offensive", *Haaretz*, 2 June 2006.

²⁶⁷ "Our sole conflict is with the occupation. We are not ready for a war with the EU and the U.S. We want their support, not their enmity". Crisis Group interview, Abu Hilal, Gaza, May 2006.

²⁶⁸ Crisis Group interview, Salah Bardawil, Hamas PLC member and spokesperson of the parliamentary faction, Khan Yunis, May 2006.

B. STRENGTHENING ABBAS?

Under the growing realisation that “*Hamas cannot be defeated with nothing*”²⁶⁹ and that Fatah currently cannot present an appealing alternative to the public, a softer option is also being considered. The objective is to find ways to strengthen Abbas, thereby circumventing the government and persuading Palestinians that Hamas is the real obstacle to progress.

Empowerment of the president could have several components. As outlined above, he could be successful in raising funds the government could not, placing him in the position of having averted an all-out humanitarian crisis. Rejecting a more confrontational approach, a Palestinian presidential adviser remarked:

Abbas can't be a spoiler if he wants to be effective. A shadow government would be the stupidest possible move, because it will perpetuate the image of a power-hungry Fatah. What Abbas can and should do is fundraise, for example from the Arab states, and when it becomes clear money is coming in because of him and despite the government he will appear as a saviour and statesman.²⁷⁰

Politically, this strategy could entail the opening of an Abbas/Olmert channel. At its most modest, it could yield changes on the ground, the removal of certain checkpoints, the relaxation of harsh security measures, the handing over of withheld tax revenues or the release of Palestinian prisoners. At its most ambitious, it could give rise to coordination of the next stages of Israel's territorial withdrawal or, most dramatically, agreement on the basic parameters of a final status accord to be presented to a popular referendum. This option has greatest resonance among some of the president's advisers, even as they concede it is by far the least likely. As they see it, if the goal is to build up Abbas, focus should shift from the arena where he faces the most severe constraints (security) to the arena where he faces the least (his political agenda).

Given the countervailing power of Hamas and the chaos in his own forces, Abbas may not be able to deliver on security; indeed, even before the elections, he had fallen rather short. However, as PLO chairman, he could obtain broad public consent through a referendum on a framework agreement that built on the Clinton Parameters, Taba negotiations, and Geneva Accords.²⁷¹ But even the less

ambitious outcomes could revive both faith in negotiations and support for those who can engage in them.

There are advantages to this overall approach, and it has much to recommend it compared to efforts to provoke a quick confrontation with Hamas. Enhancing Abbas's stature through positive change is certainly preferable to diminishing Hamas's through negative ones. Should progress in fact occur, Hamas would be placed in the difficult position of either passive bystander – thereby conveying an impression of impotence – or active saboteur – thereby clearly standing in the way of Palestinian progress.

Although it may not have fully endorsed this strategy in all its components, the U.S. signalled during Prime Minister Olmert's May visit to Washington that it saw clear benefits to a negotiating track. President Bush is said to have conveyed to his guest in no uncertain terms the importance of a genuine effort to negotiate with Abbas before resorting to a unilateral approach.²⁷²

Deeply sceptical of any attempt to jump-start final status talks – “that would be irresponsible now, for failure would set us back irreversibly”²⁷³ – U.S. officials are instead exploring whether some negotiations could produce material changes on the ground or whether Olmert's realignment plan could be repackaged through Israeli-Palestinian coordination to address some Palestinian concerns. This might be done by eliciting Israeli assurances to take no further prejudicial steps in Jerusalem and by presenting partial withdrawal as a step towards, rather than a substitute for, a comprehensive solution to the conflict. A meeting between Abbas and Olmert, expected in the near future, could be the first step toward clarifying such issues.

In Israel as well, there is interest for such a strategy, principally though not only expressed by the Labour Party, and more specifically its leader and current defence minister, Amir Peretz. An advocate of a negotiated permanent settlement, Peretz has manifested his preference for a strategy of bolstering Abbas, while coming out against broad-brush sanctions that could backfire.²⁷⁴

may reflect frustration that his earlier idea had not encountered American or Israeli support.

²⁷² Crisis Group interview, U.S. official, Washington, May 2006.

²⁷³ Ibid.

²⁷⁴ In a lengthy interview before the recent Israeli election, Peretz stated: “The optimal scenario is massive aid from humanitarian organizations to the moderate Palestinian forces so that within two years Abbas can dissolve the parliament after Fatah cleans up its corruption. If that happens, the results of those elections will be totally different. On the other hand, if we starve the

²⁶⁹ Crisis Group interview, U.S. official, Washington, May 2006.

²⁷⁰ Crisis Group interview, Jerusalem, April 2006.

²⁷¹ Crisis Group interview, Palestinian presidential adviser, May 2006. This idea was presented prior to Abbas's 25 May ultimatum to Hamas. His adoption of the Prisoners' Initiative

Still, this second strategy involves important risks and, given the factional rivalries on the ground, would present many of the same pitfalls as the first. In essence, if Hamas leaders were to see it as a more roundabout way of side-stepping and ultimately replacing them, they would likely seek to thwart it. Although they might be wary of appearing to stand against material or political advancement, they too possess indirect ways of reaching their goals. Insofar as Abbas's empowerment was linked to the U.S. or Israel, Hamas's efforts to discredit him might well register with the public. The Islamists also could promote an escalation in attacks against Israel that did not bear their immediate fingerprints by giving a greener light to other militant groups, thereby torpedoing any chance of improved bilateral relations and turning this from a Fatah/Hamas to a Palestinian/Israeli struggle.

Then there is, of course, the risk that negotiations raise expectations which, if dashed – as so often in the past – would inflict a serious blow on Abbas and the strategy he embodies. “There is a price to calling for negotiations”, an Abbas adviser said, “which is that if we cannot obtain what Palestinians see as the minimum, Hamas will be vindicated and we will be history”.²⁷⁵

C. A DIFFERENT APPROACH

Over the past several years, the Israeli-Palestinian landscape has undergone mutations so profound as to make it barely recognisable. The two sides' supposed endorsement of the Roadmap notwithstanding, there no longer exists a shared framework for their relationship. In Israel, belief that the status quo is untenable combined with conviction that negotiations over a final settlement are not viable has given rise both to unilateralism and to a new party that embodies it. In Palestine, Fatah has lost its hegemonic status, Hamas's ascent challenges some of the core political assumptions that have guided the national movement since the late 1980s, and rivalry between the two, coming on the heels of five years of a costly conflict with Israel, threatens to descend into chaos and civil war.

The international community, frustrated that so much economic and political investment over more than a decade has yielded so little, questions the validity of its continued involvement and is more concerned today about containing the conflict than resolving it. Hamas's electoral victory has, of course, only exacerbated such feelings, putting in question the wisdom of continued financial assistance and diplomatic activity and encouraging

international actors to interfere in domestic Palestinian politics.

Yet, beyond ritual incantations of the increasingly imperceptible objective of a two-state solution, very little effort appears to have gone into defining realistic strategic objectives in this new context, devising a way to get there, or assessing the probable longer-term consequences of current policy choices. Instead, policy options debated in the U.S., Israel and much of Europe cover only the narrow spectrum from hard to softer attempts to weaken the Hamas-led government and ultimately facilitate its ouster from power. All that helps obscure that obstacles to Israeli-Palestinian relations are not exclusively, or perhaps even essentially, due to Hamas's victory; that there have been no genuine negotiations since 2001, including during the year Abbas reigned and Fatah ruled; and that the elections were promoted by Abbas precisely to prevent growing fissures among Palestinians and to forge a more consensual strategy. In other words, Hamas's rise to power is far more a symptom than the cause of the Israeli-Palestinian crisis, and removing Hamas is unlikely to resolve it.

What is needed today is a more sophisticated, nuanced approach that sets itself the following priority objectives:

- ❑ avoiding a resumption of full-scale Israeli-Palestinian hostilities by achieving a sustainable and reciprocal truce;
- ❑ averting intra-Palestinian violence and a PA collapse; and
- ❑ preventing measures that jeopardise the possibility of a two-state solution, and, ideally, setting the stage for a resumption of negotiations.

Since the elections, Crisis Group has argued that the current approach of isolating Hamas and depriving its government of funds unless it accepts the three Quartet conditions runs counter to all these goals.²⁷⁶ What is more, the interplay of international pressure and interference in Palestinian affairs on the one hand and growing Hamas/Fatah tensions on the other has brought the situation frighteningly close to civil war.

The parties need now to concentrate on three interconnected arenas: relations among Palestinians, relations between the PA and the international community, and relations between the PA and Israel.

Palestinians, we'll get the opposite result". Ari Shavit, "A new dawn", *Haaretz*, 3 March 2006.

²⁷⁵ Crisis Group interview, Palestinian presidential adviser, June 2006.

²⁷⁶ See, for example, Robert Malley and Aaron David Miller, "For Israel and Hamas, a case for accommodation", *The Washington Post*, 15 May 2006; Robert Malley, "Avoiding Failure with Hamas", *International Herald Tribune*, 10 April 2006; Robert Malley, "Making the best of Hamas's victory", *Baltimore Sun*, 19 February 2006.

A Palestinian/Palestinian Accommodation

As this report has sought to make clear, the single most urgent issue today is for Palestinians to overcome their differences peacefully and achieve a strategic consensus. In the absence of an all-encompassing understanding, it is hard to contemplate favourable evolution on any other front. Abbas's efforts to reach out to Israel will be at the mercy of Hamas's firepower; any similar Hamas attempts to reach a *modus vivendi* with Israel based on parallel unilateral steps could be thwarted by Fatah-inspired violence; and civil strife would nullify any international effort to avert a humanitarian disaster.

An inter-Palestinian agreement would need to tackle three issues: the national movement's strategic objectives; the PLO's role and composition; and the proper allocation of power between government and presidency. A reconstituted PLO that includes the Islamist organisations and reflects their proper weight is recognised by all constituent organisations as the sole legitimate Palestinian representative and negotiator, and is authorised to pursue policy on the basis of the Arab League Beirut Initiative or the Prisoners' Initiative would address the first two. Resolving the Fatah-Hamas rivalry through revitalisation of the PLO would also deflate the growing constitutional crisis within the PA insofar as it would either produce a coalition government or more clearly define and enforce the respective roles of the PA and PLO – neglected terrain when Arafat and thereafter Fatah dominated both.

Specifically, such an agreement would reconfirm the primarily domestic and administrative character of the PA, as against the political supremacy and national role of the PLO. If the parties also confirmed the Basic Law as the sole framework regulating the respective powers of the PA government and presidency and, as a confidence-building measure, pledged not to introduce presidential decrees or parliamentary legislation that impinged upon presidential and cabinet authority without prior consultation, the importance of the PA presidency would likely diminish over time; in political matters the presidency would be superseded by the PLO chairman, with governance primarily within the purview of the government. In due course and consensus permitting, Palestinians might even consider abolishing one of the two PA posts and resurrecting it only when the PLO and its leadership were disbanded in the context of statehood.

Another priority area is tacking the dual command structures competing for control of the security forces. Pending security sector legislation regularising the chain of command, political leaders should revive the National Security Council (NSC) under the president's auspices, with the participation of the prime minister, interior minister and the heads of security agencies and the aim of framing a united national security policy and nurturing

loyalty to national institutions. In particular, the NSC should consider:

- ❑ the removal of all factional slogans and other insignia from security premises;
- ❑ the formation of a non-partisan standing committee to enforce a ban on militia and private security activity by members of the security forces and the screening of the pay-roll for fictitious employment;
- ❑ the merging of all auxiliary forces formed since the January 2006 election into existing units; and
- ❑ the drafting of security sector legislation providing for the demobilisation of paramilitary forces, with members being either integrated into official security forces or pensioned out.

The National Dialogue, which continues during preparations and debate surrounding the 26 July referendum, could provide an important platform in this respect; even Abbas's notion of a referendum in principle could serve to break the impasse by giving Hamas an honourable way to change the government's position. To date, however, reaching a genuine consensus seems the least of either side's concerns. Instead, both appear more intent on posturing than on resolving policy differences, on weakening their counterparts than on forging common positions.

The Prisoners' Initiative, drafted in painstaking negotiations by leaders confident they and their rivals were working towards a common purpose, offers an instructive example. While Abbas's aversion to an open-ended and therefore inconclusive dialogue in the context of escalating crisis is entirely understandable, his linking of an ultimatum to a non-negotiable outcome has heightened suspicions that the exercise is not about achieving consensus but rather about winning a confrontation. There is thus a real danger that the referendum as currently envisaged will exacerbate those very tensions the Prisoners' Initiative intended to address. In announcing a referendum date, Abbas has moved the process one step closer; still, in the weeks remaining prior to the 26 July vote, the parties should redouble their efforts to reach an agreement that would either render the referendum superfluous or turn it into a consensual exercise.

For these efforts to have a chance of success, members of the international community would have to adopt a more hands-off approach, allowing Palestinians the necessary political space to resolve their differences. Should a coalition government be on the agenda, the U.S. in particular would need to refrain from pressuring Fatah and independent politicians not to join, as it did in the elections' aftermath.

A Palestinian/International Community Accommodation

Although inter-Palestinian differences have played a decisive part in the deteriorating situation, the international attitude clearly has contributed. The economic boycott, lack of engagement with the government, and imposition of non-negotiable and non-prioritised conditions have promoted a sense of siege within Hamas, arguably fostering greater inflexibility among the Islamists.

The EU's funding mechanisms, once finalised and if endorsed by the U.S., might provide a temporary palliative – provided it is modified as advocated above to substitute UN agencies and/or the World Bank for the presidency as the interface with the PA administration and to expand its coverage to fund all basic services, the security sector included. If it is not so modified, it could do more to fuel tensions within the PA than quench them. In any event, it is not a satisfactory substitute for a long-term assistance policy. Instead, and in parallel with the achievement of a new consensual Palestinian position, the Quartet and other international actors should rethink the conditions they have placed on the PA government and focus on practical and meaningful benchmarks that, if met, would lead to a reassessment of the budgetary and political boycott.

The principal benchmark ought to be the government's good faith efforts to reinstate the truce and, with reciprocal Israeli steps, its ability to extend it to Islamic Jihad and others; it also should include the government's ability to restore law and order in Gaza. Indeed, should it reach those goals, it will have achieved more than Fatah did and much of what is of critical importance to the international community. Politically, while recognition of Israel would be desirable, it should not be the immediate test. Neither Egypt nor Jordan provided such recognition at the outset of negotiations, and such Western-friendly Arab governments as Saudi Arabia and Morocco continue to withhold it; indeed, Fatah itself never explicitly accepted recognition. What should be requested, in its place, is acceptance of the Prisoners' Initiative and the formation of a national unity government on its basis, recognition of the PLO's 1988 Algiers Program (proclaiming statehood within the occupied territories the national movement's strategic goal), and/or endorsement of the 2002 Arab League Beirut Initiative; all three, through their endorsement of a two-state solution, implicitly entail recognition of Israel.

Adoption of the Arab League initiative may be the more likely, as Hamas may wish to link policy changes directly to Arab leaders and collect dues from them, rather than conducting itself like a junior player through the agency of rival Palestinians. Other significant benchmarks include whether the PA allows contacts with Israeli counterparts

to promote mutual security, delivery of services and commercial activity;²⁷⁷ begins to prune the pay-roll of fraud; and initiates efforts to remove arms from the streets, assert control over heavy weaponry and integrate or demobilise militiamen.

As a means of encouraging these steps, the Quartet (or, if the U.S. were to object, the EU) and Arab countries should signal unambiguously that their implementation would trigger a positive reaction, in terms of both resuming pre-election PA funding levels and engaging in ministerial contacts with the government. So far, neither the Quartet nor any other leading international actor has issued a clear statement of what the Islamists could expect were they to meet the demands, either in full or in part,²⁷⁸ strengthening the view within Hamas that it would be subjected to a never-ending list of requests without concomitant payoff.²⁷⁹

An alternative approach would require some regular channel of communication short of high-level diplomatic contact; one idea would be for a UN-appointed mediator

²⁷⁷ Prominent Hamas official Mahmoud Ramahi said he was willing to engage in "technical contacts" with Israeli officials. Stating he would refuse to meet with Israeli politicians who were not government officials since any such meeting would necessarily be political, he expressed no hesitation about meeting Israel's defence minister if the purpose was to discuss arrangements that would ease daily life in the occupied territories. Crisis Group interview, Ramallah, May 2006. For a similar statement from Haniya, see Danny Rubinstein, "Haniya tells *Haaretz*", *Haaretz*, 23 May 2006.

²⁷⁸ Speaking to Crisis Group, EU diplomats intimated that were Hamas to take the initiative by accepting the Beirut Initiative, "this will create divisions within Europe. Some will consider this significant enough to initiate a dialogue with the Palestinian government, while others will remain committed to Washington's all or nothing approach". Crisis Group interview, May 2006. A Jordanian commentator despaired at Hamas's failure to take a step that all Arab governments – including Syria and Saddam Hussein's Iraq – endorsed: "Shortly after the Palestinian elections I met with a Jordanian Islamist leader. I told him, 'if you're in contact with these people, tell them I advise them to quickly accept the Arab League initiative'. Why? Because it will make it all but impossible for Arab states to line up with Washington if Hamas has accepted their own initiative, and probably will affect the Quartet's positions as well". Crisis Group interview, Adnan Abu Odeh, Jordanian political analyst and member of the Crisis Group Board, Amman, February 2006. However, it is one thing to assume the EU or others would react favourably; it is another for them to indicate it explicitly.

²⁷⁹ Crisis Group interview, Hamas leader, March 2006. An Abbas adviser, highly critical of Hamas, nonetheless pointed out: "Don't expect them to do a full striptease in a month. Give them time, but make clear there are limits. Don't help them by punishing my people. And remember that if I were them, I would do nothing without a quid pro quo". Crisis Group interview, Ramallah, March 2006.

to act as a go-between, gauging Hamas's willingness to compromise and communicating what the Quartet would do in return.²⁸⁰ The success of this approach would not require direct U.S. participation; indeed, given its strict laws and constraining domestic environment, it is hard to imagine that anything short of full Hamas acceptance of the three conditions would lead to a significant policy change by Washington.²⁸¹ But it would necessitate renunciation of the de facto tertiary boycott of the PA, including guarantees of non-retribution for foreign banks, other institutions and entities implementing programs for or handling funds received on behalf of those international organisations such as the UN and the World Bank that transfer funds to the PA, conduct business with it or contribute to its humanitarian institutions.

In short, for as long as the PA government does not meet these benchmarks (but undertakes a good faith effort to impose a ceasefire), the European mechanism, with the modification proposed in this report, should be maintained. The EU would not have diplomatic contacts with the government (though the UN channel would operate), and funds would be disbursed through UN agencies and/or the World Bank. Should, however, the PA government accede to them and show good faith compliance, direct budgetary support coupled with diplomatic engagement ought to be forthcoming.

A Palestinian Authority/Israeli Accommodation

Avoiding an all-out resumption of violence between Israelis and Palestinians a prospect made all the more difficult by

the 9 June killing of Abu Samhadana,²⁸² the subsequent shelling of a Gaza beachfront that killed six members of the Ghalia family²⁸³ and Hamas's decision to renounce the ceasefire and launch numerous rockets into Israel – will necessitate a series of coordinated steps. The priority today is to stop the escalation, reinstate Hamas's truce, and achieve a more comprehensive, reciprocal ceasefire that includes all Palestinian groups and Israel.

Because direct PA/Israeli negotiations are unlikely in the short term, a series of security guarantees probably will need to be indirectly negotiated. On past performance, Egyptian mediation may be both necessary and desirable, though Quartet involvement (e.g., via a UN-appointed mediator) could prove more effective. Islamist leaders have proclaimed their willingness for quiet and "to prevent any operation against any civilian provided Israel reciprocates".²⁸⁴ According to PA interior ministry spokesman Khalid Abu Hilal:

We're not like the previous government which claimed it could implement a ceasefire but couldn't. We say we can, but won't do it freely. We have the ability to prevent armed attacks, but we are not Israel's employees. We won't serve the occupation while they besiege us and attack us. The occupier should agree to a ceasefire.²⁸⁵

A former senior Israeli intelligence officer noted: "We are not accepting this kind of regime. But as long as it avoids terrorism, our interest is in stability despite a Hamas regime".²⁸⁶ The sentiment was echoed by a current security

²⁸⁰ Unlike the EU or the U.S., the UN is not barred from having contacts with Hamas, which does not figure on its list of terrorist entities. Reports in March that the world body was limiting its contacts with Hamas were characterised as the result of an error by a junior staff member and followed by contacts at ministerial level encouraged by Secretary-General Kofi Annan. Crisis Group interview, senior UN official, Amman, March 2006. Such political contacts are said to require prior coordination with Annan. Crisis Group interview, Jerusalem, May 2006.

²⁸¹ Indeed, by U.S. standards, the administration's approach might well be characterized as moderate. In late May, the House of representatives voted 361-37 to adopt the Palestinian Anti-Terrorist Act of 2006 (H.R. 4681) which would, inter alia, sever all relations and contacts with the PA and prevent any individual affiliated with the PA from obtaining a U.S. visa; designate territory controlled by the PA a "terrorist sanctuary"; deduct the sum of all UN expenditures that in any way benefit the PA from U.S. contributions to the world body; instruct the U.S. representative to the World Bank to oppose projects in the occupied territories; prohibit Palestinian representation on U.S. territory; and expel the PLO mission to the United Nations. It would also "cut off aid to non-governmental groups working in the West Bank and Gaza except for health programs...and limit the President's authority to waive the aid bans".

²⁸² Abu Samhadana's 9 June funeral was reported as the most heavily attended in the Gaza Strip since that of Hamas leader Abd-al-Aziz Rantisi in 2004. Thousands more participated in the Ghalia family's funeral cortege the following day. Underlining the potential severity of these incidents, an Israeli foreign ministry official compared them to the traffic accident that set off the 1987-1993 uprising and the January 2002 assassination of local Fatah militant Ra'id Karmi, which precipitated the movement's first suicide bombings. Crisis Group interview, Jerusalem, June 2006.

²⁸³ In a further series of strikes within the Gaza Strip later that same day, at least ten more Palestinians, including at least seven civilians, were killed and over 40, many of them children, wounded. With a total toll of some fourteen dead, it was one of the bloodiest days since the installation of the Hamas-led PA government. *Haaretz*, 9 June 2006.

²⁸⁴ "Resistance is a right, but I'm ready to stop attacks on civilians". Crisis Group interview, Bardawil, Khan Younis, May 2006. He additionally proposed EU observers monitor the ceasefire.

²⁸⁵ Crisis Group interview, Khalid Abu Hilal, PA interior ministry spokesman, Gaza City, May 2006.

²⁸⁶ Crisis Group interview, Peri Golan, former head of the Shin Bet anti-terrorism department, Tel Aviv, February 2006.

official: "Their behaviour on the ground is what counts. If there's no terror, that's very important".²⁸⁷

Beyond that, the objective coincidence of interests between the two governments' agendas presents intriguing possibilities. Neither the Hamas-led PA nor Israel wants to deal with the other; neither believes (at this point at least) in a long-term comprehensive agreement; both are primarily preoccupied with their own agenda (rebuilding and transforming the Palestinian entity for the former; implementing the realignment plan for the latter); and the two ideally would prefer quiet.

Indeed, if Hamas's government is to succeed in delivering services and restoring law and order, it needs Israel's acquiescence: military operations would doom any attempt to achieve domestic calm; restrictions on movement, trade and money supply would compromise economic stability; and prolonged withholding of Palestinian tax revenues would scuttle efforts at budgetary solvency. Likewise, if Israel is to succeed in implementing its unilateral withdrawal, it needs a relatively calm environment lest public opinion and the political class sour on the plan amid accusations of "surrendering to terror".²⁸⁸

Moreover, and paradoxically, because Israel needs stability within the occupied territories and contact with the PA, it conceivably could end up leading the way toward a more pragmatic approach. A senior UN official half-jokingly stated: "we are counting on the Israelis to restrain the Americans from pursuing some of their more extreme proposals".²⁸⁹ In short, "Israel can frustrate the Islamists' project, but needs their cooperation if its own plan is to succeed; the Islamists can hinder Olmert's objectives, but require his complicity if their own ambitions are to be realised".²⁹⁰

Assuming the PA implements measures to rein in militant groups and restore law and order, Israel should relax its most punishing restrictions: lifting checkpoints, allowing freer movement for people and goods and handing over withheld Palestinian tax revenues in accordance with existing agreements – all of which amount to revoking collective and punitive restrictions which have no legitimate security purpose. As further confidence-building measures, Israel could consider release from detention of all Palestinians who have not been charged with an offence, and the PA government could respond favourably to offers from Israeli politicians for talks. Further prisoner releases by Israel should follow.

Politically, the end result could be a pair of "parallel unilateralisms": each party could tacitly accept the other's domestic priorities, clearing a space for internal development. In practice, this would entail the PA attending to domestic issues while taking credit for Israeli evacuation of additional West Bank territory, and Israel withdrawing from parts of the West Bank under cover of a Palestinian *tahdi'a*. Under this scenario, and assuming an internal Palestinian consensus is achieved, Abbas's role would be to parley with the international community to ensure that the withdrawal does not adversely affect longer-term Palestinian interests.

In particular, he would seek credible Quartet-backed assurances from Israel that there would be no further settlement expansion, especially in and around Jerusalem; that the controversial E-1 project would not be pursued;²⁹¹ and that whatever line is established by the withdrawal will not be accorded political and legal recognition, since permanent borders will require a comprehensive Israeli-Palestinian agreement. These assurances will be critical to ensure quiet on the Palestinian side during the period leading up to and including withdrawal.

The Quartet should play an even more important role. While providing strong diplomatic backing to Israel's withdrawal, it should at the same time take steps to reassure Palestinians about where the process is heading. In particular, it ought to put forward, with strong U.S. participation, a more detailed vision of what a final agreement would look like.

Jerusalem/Amman/Brussels, 13 June 2006

²⁸⁷ Crisis Group interview, Tel Aviv, February 2006.

²⁸⁸ Crisis Group interview, Israeli foreign ministry official, Jerusalem, June 2006.

²⁸⁹ Crisis Group interview, senior UN official, April 2006. Israeli diplomats claim they already have asked Washington to moderate some of its harshest measures to allow continuation of humanitarian project within the occupied territories whose interruption would be detrimental to Israeli interests. Israel has voiced particular concerns about the suspension of infrastructure projects leading to untreated sewage contaminating its territory, be it the beaches of Ashkelon or the coastal plains receiving run-off from the West Bank. A recent swarm of mosquitoes descending on the Jerusalem settlement of Ramot was blamed on untreated effluent from Ramallah. "Mosquitoes plague Ramot", *The Jerusalem Post*, 6 June 2006. "This puts us in an awkward position. We don't want the U.S. to accuse us of undercutting their anti-terrorism policy, but we also don't want to see environmental degradation or health hazards that will spread to us!" Crisis Group interview, Israeli diplomat, Washington, May 2006.

²⁹⁰ Malley and Miller, "For Israel and Hamas", op. cit.

²⁹¹ The E-1 project, involving a major extension of the settlement of Ma'ale Adumin between Jerusalem and Jericho, functionally bisects the West Bank and further isolates Arab neighbourhoods in East Jerusalem from other West Bank population centres. See Crisis Group Middle East Report N°44, *The Jerusalem Powder Keg*, 2 August 2005.

APPENDIX A

MAPS OF THE OCCUPIED TERRITORIES

MAP OF THE GAZA STRIP



<http://www.cia.gov/cia/publications/factbook/geos/gz.html>

MAP OF THE WEST BANK



<http://www.cia.gov/cia/publications/factbook/geos/we.html>

APPENDIX B

EXCERPTS FROM PRISONERS' INITIATIVE DOCUMENT

The following eighteen points were presented on 18 May 2006 by its signatories, all prominent Palestinian prisoners, to the Palestinian leadership and people, in the occupied territories and exile, as the operative part of a document that it was hoped would be considered "as one whole package" and could "achieve unanimous endorsement and contribute to achieving a Palestinian national conciliation..." The translation below is from the Associated Press.

1. The Palestinian people at home and in exile seek to liberate their land and realise their right of freedom, return and independence, and their right to self-determination, including their right to establish an independent state with Jerusalem as its capital on all the land occupied in 1967, guaranteeing the right of return for the refugees, liberating all the prisoners and detainees, drawing upon our people's historic right in the land of our ancestors, the U.N. charter, international law, and what international legitimacy guarantees.
2. Expediting the realisation of what was agreed upon in Cairo in March 2005 regarding developing and activating the role of the PLO, and the joining of Hamas and Islamic Jihad in this organisation as the legitimate and sole representative of the Palestinian people wherever they exist; and in line with development on the Palestinian front according to democratic bases and to strengthen the representation of the PLO, the legitimate and sole representative of our people, in a way that would enable it to carry out its responsibilities in leading our people at home and in exile, in mobilising them, defending their national, political, and human rights in all domains and functions, regional and international; the national interest constitutes that a new national council be formed before the end of 2006 in a way that guarantees the representation of all the forces, factions, national and Islamic parties, and groups everywhere, all sectors, institutions, and personalities on the basis of proportional representation, attendance, and effectiveness in the political, struggle, social, and popular domains, and in protecting the PLO as a wide frontal framework, a comprehensive national coalition, and a national framework that assembles all Palestinians at home and abroad as a higher political reference.
3. The Palestinian people's right to resistance and upholding the choice of resistance by all means, and concentrating the resistance in territories occupied in 1967, alongside political action and negotiations and diplomatic work, and continuing popular resistance against the occupation in all its forms, places and policies, and giving importance to expanding the participation of all sectors, fronts, groups and public in this popular resistance.
4. Devising a Palestinian plan for comprehensive political action, unifying the Palestinian political discourse based on the Palestinian national consensus program, Arab legitimacy, international resolutions fair to our people, which are represented by the PLO, the PA – Its chief and government, national and Islamic factions, civil society groups, public figures – to be able to reactivate and develop and mobilise Arab, Islamic, and international political, financial, economic and humanitarian assistance to our people and national authority and in support of our people's right to self-determination, freedom, return, independence, and confronting the Israeli plan to impose the Israeli solution on our people, and stand up to the unjust siege on us.
5. Protecting and developing the Palestinian National Authority as the nucleus for the upcoming state, this authority that was founded by our people, and their struggle, sacrifices, blood and suffering of its children; higher national interest requires the respect of the temporary constitution of this authority, and the laws in effect, respecting the responsibilities and authorities of the elected president for the will of the Palestinian people in free, democratic and fair elections, and respecting the responsibilities and authorities of the government which was granted confidence by the parliament, and the importance and need of creative cooperation between the presidency and the government, and joint action, convening periodical meetings between them to settle any disputes with brotherly dialogue on the basis of the temporary constitution and the higher national interest, and the need to carry out a comprehensive reform for all national institutions, particularly the judiciary, and respecting the law on all levels, and implementing its decisions, and supporting and strengthening the rule of law.
6. Forming a national coalition government in way that would guarantee the participation of all parliamentary blocs, particularly Fatah and Hamas, and the political forces who want to participate on the basis of this document and a common program to alleviate the Palestinian situation locally, on the Arab front, regionally and internationally; and facing the challenges with a strong national government that has the popular and political Palestinian support from all forces, as well as Arab and international support, and can carry out the reform program, combating poverty, and

unemployment; and providing the best possible assistance to the sectors that endured the responsibilities of steadfastness, resistance, the uprising, and was the victim of the criminal Israeli aggression, particularly the families of martyrs, injured, and the owners of houses and properties destroyed by the occupation, as well as the unemployed and the graduates.

7. Managing the negotiations is the authority of the PLO and president of the PA on the basis of upholding Palestinian national interests and realising them, provided that any fateful/decisive agreement be presented to the new PNC to ratify or be put up to public referendum if possible.
8. Liberating the prisoners and detainees is a sacred national duty that must be carried out by all national and Islamic forces and factions, the PLO and the PA's president and government and the PLC and all resistance formations.
9. Efforts must be redoubled to support and look after refugees and defending their rights. A popular representative conference of the refugees must be convened, which would yield agencies that would follow up on reaffirming the right of return, upholding it, and calling on the international community to implement Resolution 194 calling for the right of refugees to return and compensation.
10. Working to form a united resistance front called the "Palestinian resistance front" to lead and carry out the resistance against occupation and to unify and coordinate the resistance action and form a unified political reference for it.
11. Upholding the democratic path, holding general and periodic free, democratic and fair elections according to the law, for the president and the legislature, and the regional and local councils; and respecting the principle of peaceful rotation of power; and pledging to protect the democratic Palestinian experience and democratic choice and their results; and respecting the rule of law, the necessary and public freedoms, freedom of the press, and equality between citizens in rights and duties without discrimination; and protecting the gains made by women, promoting and strengthening them.
12. Rejecting and condemning the unjust siege on our people led by the United States and Israel, and calling on Arabs, publicly and officially to support the Palestinian people and the PLO and its PA; and calling on Arab governments to implement Arab summit resolutions, the political, financial, economic, and public ones that are in support of our Palestinian people, their steadfastness, and their national cause, and reaffirming that the PA is committed to Arab consensus and joint Arab action.
13. Calling the Palestinian people to unity and cohesion and closing ranks, supporting the PLO, the PA's president and government and supporting the steadfastness and resistance in the face of the aggression and siege, and rejecting the interference in internal Palestinian affairs.
14. Rejecting all forms of disunity, division and what leads to strife (sedition), condemning the use of weapons regardless of the justifications to settle internal disputes, banning the use of weapons between the children of the same people and reaffirming the sacredness of the Palestinian blood; and committing to dialogue as the only means to resolve disputes, expressing opinions by all means, including opposing the authority and its decisions according to the law; and the right of peaceful protest, organising rallies and demonstrations and strikes provided they are peaceful, clear of weapons, and do not transgress on people and their property or public property.
15. National interest requires searching for the best appropriate means to continue to engage our people and their political forces in Gaza in their new situation in the battle for freedom, return and independence, liberating the West Bank and Jerusalem in a way that forms a real force for the steadfastness and resistance of our people there. National interest requires a reevaluation of the most successful ways and means of struggle against the occupation.
16. The need to reform and modernise the Palestinian security institution and its sectors to make it more able to carry out its role in defending the nation and citizens, facing up to the occupation and aggression, maintaining public order and security, implementing laws, ending chaos, public display of guns, confiscating weapons of chaos, which greatly harm the resistance and defame its image and threaten the unity of the Palestinian society; and the need to coordinate and organise the relation between the forces and resistance groups, and to organise and protect their weapons.
17. Calling on the legislative council to continue to issue laws that regulate the work of the security institutions and their different branches, and to ensue a law that would ban political party membership (action) for those who are members of the security bodies, and committing to the elected political reference stipulated in the law.

18. Work to expand the role and presence of international solidarity committees and groups, lovers of peace, to support the steadfastness of our people and their just struggle against occupation and settlements, the racist separation wall politically and regionally, and for the implementation of the International Court of Justice decision to remove the wall and the settlements and their illegalities.

Signed by:

Marwan Barghouti, Fatah, Secretary General

Shaikh Abd-al-Khaliq Natshe, Hamas, senior leadership

Shaikh Bassam Saadi, Islamic Jihad

Abd-al-Rahim Malluh, Popular Front for the Liberation of Palestine (PFLP), Deputy Secretary General

Mustafa Badarna, Democratic Front for the Liberation of Palestine (DFLP)

- Note:
1. Saadi expressed reservations on the item pertaining to the negotiations.
 2. Natshe and Saadi on 11 June withdrew their signatures to protest Abbas's "unacceptable abuse" of the document in the referendum announced for 26 July.

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with nearly 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made available simultaneously on the website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policy-makers around the world. Crisis Group is co-chaired by the former European Commissioner for External Relations Christopher Patten and Boeing's Senior Vice-President, International Relations and former U.S. Ambassador Thomas Pickering. Its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

Crisis Group's international headquarters are in Brussels, with advocacy offices in Washington DC (where it is based as a legal entity), New York, London and Moscow. The organisation currently operates fifteen field offices (in Amman, Belgrade, Bishkek, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Pretoria, Pristina, Seoul and Tbilisi), with analysts working in over 50 crisis-affected countries and territories across four continents. In Africa, this includes Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, the Sahel region, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe;

in Asia, Afghanistan, Indonesia, Kashmir, Kazakhstan, Kyrgyzstan, Myanmar/Burma, Nepal, North Korea, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia, the Andean region and Haiti.

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June 2006

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APPENDIX E

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