

# Fayad's Reform Plan: Difficulties and Political Implications

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## Brief Analysis

**A** month after visiting Washington, Palestinian prime minister Salam Fayad continues to face significant political, economic, and security challenges to his reform plan. Fatah, the ruling political party in the West Bank, has resisted many aspects of his agenda and is critical of his cabinet's composition and performance. And although Fayad has spearheaded several important initiatives, his plan is in jeopardy, and the Palestinian Authority (PA) is still far from representing a compelling alternative to Hamas. To make matters worse, the PA has received just \$260 million out of the \$7.7 billion pledged during the December international donors conference in Paris, leaving the prime minister with month-to-month uncertainty about fulfilling the PA's salary commitments.

## The Reform Plan

Fayad's Palestinian Reform and Development Plan (PRDP) calls for \$5.6 billion in donor assistance to the PA over three years -- an amount actually exceeded by the pledges made at the Paris conference. The plan allocates \$3.9 billion for direct budgetary assistance (including paying down the PA's deficit and arrears) and \$1.6 billion for "public investment" aimed at improving governance, social service delivery, economic development, and infrastructure.

The plan also focuses significantly on reforming the PA's security services and governance structures, as well as enhancing the public sector's performance. The "Security Sector Reform and Transformation" program seeks to create a small but well-trained and well-equipped security apparatus coupled with an improved civil and criminal justice system. In addition, the PRDP devotes \$506 million to the social sector to increase the efficiency and quality of health care, education, and social welfare programs.

Fayad hopes to implement several fiscal reforms as well: reducing public employment to its 2004 levels after it ballooned to 189,000 employees in 2007; cutting the practice of "net lending," or the noncollection of public utility bills, which cost the PA more than \$500 million in 2007; and improving tax collection and administration.

## Progress and Continued Challenges

Even while awaiting delivery of donor pledges to advance his investment plans, Fayad has undertaken several important measures. He deployed security forces in most West Bank cities, particularly Nablus, to help restore basic law and order. He has also enacted a ban on armed militias throughout the territory. Although some groups continue

to defy his disarmament call, he helped negotiate an agreement with Israel not to arrest or target fugitives who have submitted their weapons to the PA. His greatest security challenge remains the lack of coordination with Israel, as highlighted in a February 11 speech to the American Task Force on Palestine in which he bemoaned Israeli restrictions on the PA security services. This problem stems from the fact that Israel has little faith in the capability of these services -- a notion that will undoubtedly grow after the March 6 Jerusalem attack that killed nine Israelis.

Regarding fiscal reforms, Fayad reduced the number of civil service employees from 189,000 in mid-2007 to 150,000 by the end of the year, and he is advancing a pension plan to reduce the security forces (currently 70,000 strong) by encouraging early retirement. He is also requiring PA employees to bring proof that they have paid their utility bills in order to receive their monthly salaries.

All of these measures have created serious difficulties with Fatah, however. The civil servant syndicate -- effectively headed by Fatah -- is protesting the utility payment requirement through a series of strikes, and its leaders have rejected the early pension plan. More problematic is the effort by certain Fatah elements to pressure Fayad into expanding his cabinet from sixteen to twenty-four ministers, and to publicly question his ministers' qualifications and competence. Fatah feels threatened by Fayad's attempts to exert control over public finances and the security services -- its leaders fear the public will view them as irrelevant if the prime minister begins to deliver genuine reforms and tangible social improvements. As a result, Fayad will have to find a way to deal with Fatah if he plans to accomplish his objectives and remain in office.

#### Learning from the Past

Fayad's PRDP hinges on three assumptions:

- \* that reforming the security services will improve coordination with Israel and ultimately ease restrictions on movement and access, improving the economy and daily life
- \* that reforming PA institutions will ensure a sustained flow of donor assistance following aid suspensions throughout much of 2006-2007; consistent aid is essential to maintaining the government's solvency and increasing public confidence
- \* that spending in Gaza will give the PA leverage and enhance the prospects of restoring its authority there

The first two assumptions guided Fayad's work during his 2002-2007 tenure as finance minister. He made only limited progress at the time; although the PA followed a strict reform plan supervised by the European Union, the reforms and donor aid (\$3.5 billion between 2003 and 2006) did not prevent Hamas from winning decisively in the 2006 elections or seizing Gaza in June 2007. Currently, the economic siege in Gaza has collapsed the private sector, increasing unemployment from 35 percent in 2006 to nearly 80 percent in 2008, with nearly two-thirds of the population living under the poverty line. No realistic amount of PA spending in Gaza can combat these challenges.

By 2010, Fayad aims to restore the Palestinian economy to where it was in late 2005. But that was the very period in which he resigned as finance minister, in part because he could not reduce government salaries below the World Bank-recommended \$120 million per month. Moreover, the PA's financial and economic situation has worsened over the past two years -- unpaid salaries, pension contributions, private sector services, and utility subsidies have created a public debt totaling nearly \$2 billion. Even if Fayad manages to meet his fiscal objectives, it remains to be seen whether his reforms will yield political benefits for the PA while undermining Hamas.

#### Conclusion

With most donor pledges yet to materialize, minimal prospects of Israeli security coordination, ongoing internal political battles, and insistent public denunciations by Hamas, it is difficult to imagine Fayad's PRDP succeeding in the near future. Improving the Palestinians' economic situation is essential to building support for moderate

politicians and driving public support away from Hamas. But without Fatah's acquiescence, Fayad lacks the political base needed to implement his reforms. At the same time, Fatah realizes that it cannot benefit from international political and economic assistance without the prime minister. Therefore, both sides can reach their objectives if they unite and overcome their substantial differences. President Mahmoud Abbas, who has so far avoided mediating this conflict, could play a significant role in bridging these issues.

As for the security situation in the West Bank, it will continue to deteriorate unless the PA and Israel improve their coordination. The United States currently has three senior generals focused on Palestinian security reform, monitoring obligations under the Quartet "Roadmap" and planning the security parameters of an eventual peace agreement. Unfortunately, none of these teams is engaged in advancing Israeli-Palestinian coordination on the immediate issues that undercut Fayad and the delicate peace efforts.

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