

# The Funding for Peace Coalition

P.O. Box 2009, Rochford, Essex SS4 1DB United Kingdom  
Phone +44 (700) 593-0923 Fax +44 (700) 593-0984 info@eufunding.org

## Submission to the House of Lords Select Subcommittee on the European Union

### “The European Union and the Middle East Peace Process”

March 2007

The international effort on behalf of the Palestinians is “*the highest per capita aid transfer in the history of foreign aid anywhere.*” (February 2004)

Nigel Roberts, former World Bank country director for Gaza and the West Bank  
<http://scotlandonsunday.scotsman.com/international.cfm?id=238542004>

*“No one can give donors that assurance”* that donations reached their targeted destination.  
*“Where is all of the transparency in all of this? It's gone.”*(March 2007)

Salam Fayyad, a former World Bank executive and former PA Finance Minister  
<http://www.washingtontimes.com/world/20070311-091849-6710r.htm>

The **Funding for Peace Coalition (FPC)** campaigns to ensure that the financial commitments of the European Community towards the Palestinians reach their target population. The FPC has argued that the long term flow of funds without the proper checks and balances has encouraged a setting of corruption and violence at the expense of the Palestinian people.

The **FPC** has made numerous submissions to Parliamentary advisory groups around Europe, including to the UK Treasury Department in November 2005 and to the DFID.

**[EU Funding.org](http://EU.Funding.org)**

The Funding for Peace Coalition

An ad hoc group of concerned citizens interested in peace and alarmed at the absence of adequate controls and of fundamental responsibility in the management of European aid to the Middle East.

## 1. Executive Summary

1.1 There is substantial evidence to show how and to where international aid directed to the Palestinian Authority has been diverted away from intended destinations. The result is that under the existing systems, external support for the Palestinians has neither led to substantial reductions in poverty nor reaped a peace dividend.

1.2 The current situation is unacceptable and untenable.

- The generosity of western taxpayers is abused.
- The average Palestinian is left without resources promised, as monies are diverted to the needs of the corrupt or to the violent.
- Victims of other global conflicts are left with a smaller portion of the pie.

1.3 The *FPC* calls on all donor countries to the Palestinians, of which the EU is arguably the largest group, to find a moral set of proposals; proposals which will establish projects on behalf of the Palestinians themselves, and not just for an oligarchic leadership. This will have the added advantage of engaging the support and confidence of the government of Israel.

1.4 The *FPC*'s four specific proposals are:

- The selection of ethically defensible projects, with transparent monitoring.
- Investment in infrastructure projects on a "pound for pound" basis, securing Palestinian ownership, commitment and protection for the projects.
- Creating a seed fund to co-invest in a growing number of Palestinian start-ups.
- Decommissioning private militias as investment proposals are implemented.

1.5 As such, it is essential for both the Palestinian Authority (PA) and the donor community to enact the full recommendations of the World Bank, as issued in February 2007. Specifically:-

- The PA must reduce the level of the civil service and salaries
- The PA should reconsider its pension policy, which is fiscally unmanageable.
- Donors, who contribute directly or indirectly to the PA, must insist in advance on measures which install and sustain transparency and accountability.

1.6 It is time to apply accounting practices applied to all other domestic and overseas projects.

## 2. Background

2.1 Following the 1993 Oslo Accords, the EU decision to support the Palestinian Authority fiscally was not merely designed to balance American aid given to Israel. It was an attempt to prepare the Palestinians for statehood, securing good governance and a sound economy. From 2002 until mid 2007, 25% of PA expenditure has been financed by direct contributions from overseas, primarily from the EU and member states. This means that on-going PA activity is derived from European contributions.

2.2 The World Bank has continuously assessed the direct impact of Israeli control on the Palestinian territories. Between 1968 and 1999, economic growth as measured by real GDP in the Palestinian territories increased by 5.5% per annum on average (4.2% in Israel).<sup>1</sup>

2.3 Between, 1999 and 2006, citing Palestinian sources, the World Bank estimates<sup>2</sup> that real incomes dropped by approximately 30%. As will be explained below, while the World Bank attributes the proximate cause of this decline to Israeli military activity and the retention of taxes collected on behalf

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<sup>1</sup> <http://www.erf.org.eg/9th%20annual%20conf/9th%20PDF%20Presented/Finance%20-%20Macro/FM-P%20Sebastien%20Dessus.pdf>

<sup>2</sup> <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/PERV01Feb07.pdf> Pvi

of the Palestinian Authority (PA), they identify a series of fundamental and structural reasons for the sharp decline in wealth.

2.4 It is impossible to know exactly how much money has already been given to the Palestinians in direct and indirect aid since 1993. Research efforts of the **FPC** and others place the figure between \$14 and \$20 billion, including nearly US\$2 billion from USAID<sup>3</sup>. At the low end, that is around \$1 billion a year or about \$4,000 of aid per person- an astoundingly large amount, outstripping any other aid emergency, including Sudan and the Tsunami relief effort.

2.5 The World Bank<sup>4</sup> observes that at least US\$ 1 billion has been received on average every year for the past five years, with the amounts increasing annually.

2.6 The EU has frequently claimed to be the largest contributor to the Palestinians. In September 2005, an announcement<sup>5</sup> from the Commission noted that *'taking the contributions of the Commission and the EU member states together, the European Union provides around €500 million each year to promote stability, economic regeneration, and reform.'*

2.7 The question is how effective has it been in reducing poverty and has it encouraged a strengthening of the peace process?

### **3. The Effectiveness of European Investment**

3.1 Much of the EU aid has been distributed through a myriad of agencies within the EU such as ECHO<sup>6</sup>, as well as external bodies like UNRWA and the WHO. From the second half of 2005, USAID and the EU have channeled greater efforts through NGOs.

3.2 While the use of NGOs seems outwardly commendable, some of the beneficiaries of this public money - eg, ANERA, Badil and Adalah - have been linked to the political agenda of the PA as opposed to practicing wholly social goals. As the Strategic Studies Center<sup>7</sup> in Gaza commented, 85% of NGOs in Gaza are wasting resources and not serving society as required.

3.3 UNRWA and other agencies can point to the construction of classrooms or health care centres, the payment of teachers' salaries, or even the empowerment of specific local economic projects.

3.4 In parallel, there is an overwhelming appreciation that the large sums of money described in the previous section should have brought the donors and the Palestinian people a much higher return. For example, few families have moved out of the refugee camps, even when Israeli forces withdrew from the Gaza Strip in August 2005. The **FPC** is concerned that significant levels of the investments cannot be traced.

3.5 It was because of such fears that over 30% of MEPs requested a thorough report. OLAF, the ombudsman of the EU, investigated € 391.3 million in direct assistance from the EU between November 2000 and February 2005. For reasons still to be explained, this public body was never allowed to publish its work. However, in a press release, OLAF observed that:

...risks of misuse of the PA budget and other resources cannot yet be excluded. This is primarily due to the fact that the internal and external audit capacity in the PA remains underdeveloped..... There are consistent indications to support the hypothesis that it cannot be excluded that some of the assets of the PA may have been used by some individuals for other than the intended purposes.

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<sup>3</sup> <http://www.usaid.gov/wbg/index.htm>

<sup>4</sup> Ibid P36

<sup>5</sup> <http://eufunding.org/accountability/MissOutAgain.html>

<sup>6</sup> [http://europa.eu.int/comm/echo/finances/index\\_en.htm](http://europa.eu.int/comm/echo/finances/index_en.htm)

<sup>7</sup> <http://www.maanneews.net/en/do.php?name=News&file=article&sid=10334>

3.6 Of issue to donors, particularly from Europe, is that this concern of the seepage of money is still prevalent today. One of the major recommendations of the World Bank report in February 2007 – just as OLAF had hinted at 2 years previously - is the immediate improvement of internal controls with the PA financial system.

3.7 In other words, there is substantial evidence to suggest that European donations, whether disbursed directly or indirectly to the PA, via EU mechanisms or via the statutory bodies of various member states, have been diverted to other causes. The detailed examples of such misappropriation can be listed under 3 main categories:

- Corruption
- Financial mismanagement
- The support of a violent sub-strata

3.8 The following sections rely heavily on evidence gathered by the World Bank and its support staff in Ramallah in the Palestinian territories. As part of the implementation of the Road Map, the efforts of The World Bank have been accepted by most sides in the conflict.

### 3.9 Corruption

3.9.1 There are many manifestations of Palestinian financial misappropriation. In an interview with **FPC**<sup>8</sup>, a year before the triumph of Hamas at the polls, Matt Rees, the former correspondent for Time Magazine in Jerusalem observed that if you ask a Palestinian what is the root of his problems, he will quickly use the word "occupation". If you dig a little deeper, the phrases of nepotism, corruption and autocracy come rushing through.

3.9.1 At the top of the tree, public funds have supported an elite kleptocracy in conditions of opulence<sup>9</sup>, particularly the late Chairman Arafat<sup>10</sup> and his wife, Suha Arafat<sup>11</sup>, in her current lifestyle. Similar accusations can be leveled at leading members of the Palestinian diaspora<sup>12</sup>.

3.9.2 The Palestinian Attorney-General, Ahmed al-Meghami, uncovered<sup>13</sup> in February 2006 a trail of corruption involving expenditures of the Palestinian Authority (PA) involving dozens of officials. The total known value is \$700m, with a suspicion that the final figure will be larger.

3.9.3 On a day-to-day level, if the aid had been effective in alleviating poverty, the World Bank would not have been moved to comment that:

*"55% of those who receive emergency assistance are not needy.... 32% of the needy do not receive emergency assistance."*<sup>14</sup>

3.9.4 "Corruption hits hardest at the poorest in society," wrote Mary Robinson, the former UN High Commissioner for Human Rights. In his final report in November 2005, Nigel Roberts, the then World Bank country director for Gaza and the West Bank, stated that: -

"Consistently, 80% or more of the Palestinian population is reported in opinion polls as believing the PA is seriously corrupt, and demanding change.....Attacking corruption is very

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<sup>8</sup> <http://www.eufunding.org/Realpolitik/MattReesIIInterview.html>

<sup>9</sup> <http://eufunding.org/accountability/Nielson1.html> and <http://eufunding.org/accountability/corruption.html>

<sup>10</sup> <http://www.eufunding.org/terror/ProfitsOfTerror.html> and <http://eufunding.org/accountability/AbuIssah.html>

<sup>11</sup> <http://www.eufunding.org/Realpolitik/ArafatsDeath.html> Various agencies have reported in 2006 that Mrs Suha Arafat had left for Tunis after French prosecutors announced that they had launched an inquiry into the transfer of \$9 million into her French bank accounts.

<sup>12</sup> <http://www.eufunding.org/accountability/Nielson7.html>

<sup>13</sup> <http://eufunding.org/accountability/CorruptionInvestigation.html>

<sup>14</sup> <http://www.eufunding.org/accountability/Nielson3.html>

difficult. It requires..... transparency, clear penalties for violators, and a willingness to indict and punish those officials who have abused their office..."

### 3.10 *Financial Mismanagement*

3.10.1 In President Abbas' first year as President in 2005: -

- The IMF officially commented that thousands of new militants had been integrated into the PA.<sup>15</sup>
- Abbas sanctioned a scheme for the distribution of salaries and a range of fringe benefits<sup>16</sup> to terrorists imprisoned in Israeli cells. It is estimated that these payments have cost the internationally subsidised PA Treasury around \$100m over three years.
- He approved a 13 – 20% wage increase in the run up to the Palestinian elections, decried by the IMF as a “substantial breach of the Wage Bill Containment Plan”.<sup>17</sup>

3.10.2 By November 2005, the World Bank observed that "The PA has created a serious fiscal crisis for itself with salary expenditure essentially out of control."<sup>18</sup>

3.10.3 Fifteen months later, the World Bank has returned to its criticisms<sup>19</sup>. It does speak of certain progress in Palestinian reforms. However, the main focus is on many of the same maladies as reported by the *FPC*<sup>20</sup> in the Autumn of 2004; corruption, fraud, inflated pension schemes, ghosts and double dipping on the payroll, and others who do not perform the tasks they are nominally employed to do.

- i) "The PA's past irresponsible spending policies have exacerbated the current crisis."
- ii) "For a decade or more, the PA has been able to avoid hard choices with regard to its public employment policies..."
- iii) "In the public sector, employment is driven by a host of complex and powerful dynamics. Some are understandable ... Others are less so, such as the extensive use of employment within the PA for purposes of political patronage, payments to non-existent and/or non-attending workers, and illicit payments to double dippers.
- iv) "New social benefit programs were launched and pension laws adopted which have also increased the burden of social transfers for the PA. ....When viewed as a ratio of average employee earnings, PA pension schemes are among the most generous in the world — far more generous than those in many donor countries..."

And in a comment on poor management by donor:

- v) "Donor efforts to contain the wage bill through vehicles such as the Public Financial Management Reform Trust ....allowed the PA to expand recruitment as revenues went up"

3.10.4 To quantify the damage of these policies, the World Bank estimated that a return to wage levels of mid 2005 would save nearly US\$1 billion over 5 years. A further 25,000 reduction in PA personnel (civil and military) out of around 160,000 payees will have a similar effect.

### 3.11 *Funding an Arms Trade*

3.11.1 On Saturday, 16 December 2006, President Abbas gave a full address in Ramallah. CBC news<sup>21</sup> quoted Abbas as saying in referring to the Israeli withdrawal from Gaza,

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<sup>15</sup> <http://www.imf.org/external/np/dm/2005/121405.pdf> page 6

<sup>16</sup> <http://www.eufunding.org/Realpolitik/Nielson4.html>

<sup>17</sup> <http://www.imf.org/external/np/dm/2005/121405.pdf> (Page 4)

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<http://siteresources.worldbank.org/INTWESTBANKGAZA/Data%20and%20Reference/20732511/WBGUpdate-Nov.2005.pdf>

<sup>19</sup> Executive summary of February 2007 report:

<http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/PERVol1Feb07.pdf>

<sup>20</sup> <http://eufunding.org/FPC2004Report.pdf>

<sup>21</sup> <http://www.cbc.ca/world/story/2006/12/16/palestinian-election-call.html>

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Thank God, we liberated one important part of our lands. We received dozens of investment projects from Arab countries and Western countries and Japan and economic projects and tourism projects, but they never happened. Why? Because we are determined to fire rockets.<sup>22</sup>

Controversially, Abbas revealed here a prime rationale for the failure of foreign investment in Palestinian projects. The risk factor is simply too high. Money has been lost because of the fighting, both against Israel and inter-factional. Resources have either been diverted to financing weapons or have been sucked into political strife.

3.11.2 The **FPC** has consistently protested that European funding of the Palestinians has contributed to increased violence against both Israeli and Palestinian civilians. If there is any lingering doubt as to whether the PA's "underdeveloped" audit capacity had been exploited, Fuad Shubaki, who served as the finance chief in the Palestinian security forces, confessed<sup>23</sup>. He admitted that Chairman Arafat had strategically used donor aid to finance military missions against Israeli citizens.

3.11.3 Similarly, consider the US\$100<sup>24</sup> million in Palestinian tax withholdings released by Israel in early this year. The government in Jerusalem was pressured to hand over the funds, with promises that the investment was to be used for humanitarian causes and for salaries in the social services sector. When the money was received, a senior aide of Abbas, Rafiq Hussein, revealed<sup>25</sup> that Abbas will pay the security forces "from a fund of \$152 million (€118 million), including \$100 million (€78 million) in tax rebates recently transferred by Israel..."

3.11.4 Appendix D of the 2004 **FPC** report detailed over 25 direct instances of Palestinians involved in acts of terror and employed by the PA. At the very least, the **FPC** has detailed<sup>26</sup> how many of these terrorist activities have a direct detrimental effect on the Palestinian economy and the ability of the average Palestinian to live the semblance of a normal life.

3.11.5 Three more recent examples are presented here. They demonstrate how the pattern of abuse of Western taxpayer's largesse has not altered course in the past two years. The violence is orchestrated from the top and is endemic.

- In September 2005, Husam Khader, a Fatah member in the previous Legislative Assembly, pleaded guilty<sup>27</sup> to transferring PA finances to the Al-Aksa Brigades for military operations.
- On 20<sup>th</sup> February 2006, the Israeli security services released details of the capture Tanzim military operatives in the Bethlehem area, including the leader of the group, Jabr Fouaz Eid Akhras. They had repeatedly attacked Israeli neighbourhoods in the south of Jerusalem. The salaries of the Tanzim members are paid for by the PA.
- The attempted attack on the Karni<sup>28</sup> crossing point with Israel on April 26<sup>th</sup> 2006 was directed by Mamtaz Dougmoush. According to Israel military intelligence, "*Dougmoush routinely participated in meetings of senior Hamas leaders, in which Hamas authorized Dougmoush's planned terror activities. Hamas also supplies weaponry, professional guidance and assistance in terror training for Dougmoush's cell.*"

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<sup>22</sup> <http://eufunding.org/accountability/AbbasHomeTruths.html>

<sup>23</sup> <http://www.washtimes.com/upi/20060517-123004-4042r.htm>

<sup>24</sup> This is money collected by the government of Israel on behalf of the PA, under the terms of the 1993 Oslo Accords. Press reports say that Israel is currently withholding a further US\$500 million. It is understood that the funds will be handed over, when the PA can prove that the sums will not be diverted to Hams or fund actions against Israeli civilians.

<sup>25</sup> <http://www.eufunding.org/terror/Abbas.html>

<sup>26</sup> <http://www.eufunding.org/Realpolitik/Nielson1.html>

<sup>27</sup> <http://select.nytimes.com/gst/abstract.html?res=F30A12FF3E550C768CDDA00894DD404482>

<sup>28</sup> Karni is an important crossing point for Palestinian workers looking for employment in Israel and for the transfer of goods between the two sides. Due to constant attacks, it has remained closed for many weeks, which has also hampered humanitarian efforts in Gaza.

3.11.6 For further confirmation of Palestinian diversion of western donations for military purposes, it is necessary to read the conclusions of the World Bank:

The challenge of reducing the burden of wage expenditures for the security services will be a particularly difficult one. As noted in Chapter 3 on civil service reform, even at current staffing levels of around 65,000 (excluding trainees), the PA security services are unaffordable and the value for money received from these forces is poor.

3.11.7 The use of PA budgets, supported by various donor schemes, to fund a violent infrastructure extends well beyond the direct funding of militant salaries.<sup>29</sup> The generous pension schemes alluded to above, together with the Palestinian Prisoner Affairs ministry's annual budget of around \$ 50m, routes public funds to provide a social safety net for those terrorists imprisoned, maimed or killed in the line of their "duties" of attacking civilians on all sides.

3.11.8 Instead of bringing peace and prosperity, aid is being used for violence. It pays for the rifles and rockets pointed against both Palestinian and Israeli civilians. It is this madness, through enhanced controls of donors, which needs to be brought to a swift end.

#### **4. A Constructive Direction for the EU and other Donors**

4.1 The World Bank has established itself as a credible, neutral and sober voice of reason amongst the horrors and inconsistencies of the region. In its 13 pages of recommendations, the World Bank is quick to recognise that Israel has a key role to play in helping to create a stable environment. The overwhelming remainder of suggestions directly targets the PA and donors together.

4.2 To paraphrase its executive summary, the World Bank has spent over 7 years warning of the financial and fiscal excesses of the Palestinian Authority (PA). And again, in February 2007, it demands that aggregate expenditure must begin to match revenues and that the composition of the expenditures needs to relate to basic social issues. This involves:

- Reducing the level of the civil service and cutting salaries to the levels of 2005.
- Formulating a realistic pension policy
- The restoration of reforms of Salam Fayyad
- Greater transparency and accountability, backed up by proper internal audits

4.3 In parallel, the World Bank sees sustained donor support as essential. However, the assistance is not to be given *carte blanche*. Donors, such as the EU, are called upon to ensure that their aid will not go to waste yet again and that taxpayers' generosity is not further abused. In return for continuing to transfer sums to the PA, donors must insist on the implementation of wide structural reforms in administration. These include:

- Help the PA to institute controls on spending, including the wage bill.
- Ensure that monies are channeled through the PA accounting system, as opposed to the President's office, where the investment cannot be tracked.
- Bring the accounts into line with international standards so that transfers can be properly monitored.

4.4 The underlying theme is that donors can no longer invest in the PA as in the past. This has sent the wrong signals to policy makers, encouraging financial mismanagement. In the future, monies should be released as the PA demonstrates consistently that it is developing a system of open government, designed for the benefit of a nation and not elite groups.

4.5 The **FPC** is encouraged by the recommendations of the World Bank. In a policy paper submitted to the UK Treasury in November 2005, the **FPC** offered 4 concrete suggestions to bolster the Palestinian economy, similar to those now offered by the World Bank.

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<sup>29</sup> <http://www.eufunding.org/Realpolitik/Nielson4.html>

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[EU Funding.org](http://EU.Funding.org)

### *Recommendation No 1:*

Future help needs to be delivered in a transparent and accountable manner, directed towards ethically defensible projects. An independent and public monitoring system should immediately be introduced for all funds provided to the Palestinians.

It is difficult to justify pouring more resources into politicised NGOs or even UNRWA. As former UNRWA Commissioner-General, Peter Hansen, declared in 2005: *“There is no doubt that, at some point, the Palestinian Authority should take over all of UNRWA's capacity in Gaza and the West Bank.”*

### *Recommendation No 2:*

When considering infrastructure projects, donors are advised to consider the "Pound for Pound" concept. It will also encourage the local populace to take pride in its own economic revival and not rely on long-term charity.

The alternative was exemplified when Mr Wolfensohn sought overseas investors to purchase the greenhouses in Gaza left by the Israeli settlers. Once the Israelis had ceased to protect the region, Palestinians ransacked the agricultural facilities. It can be surmised that if the investors had included local personalities, such malicious waste may not have occurred.

### *Recommendation No 3:*

The EU should consider the creation of a seed fund to co-invest in a growing number of Palestinian start-ups. The ExpoTech 2005 in Ramallah, sponsored by the Palestinian Information Technology Association, demonstrated that there are clear opportunities for investment, which will encourage both employment opportunities and long-term economic growth.

### *Recommendation No 4:*

All investment recommendations should carry a pre-requisite of decommissioning of militias and private armies. Both in Northern Ireland and in Afghanistan, this stipulation has provided a greater sense of internal stability for the local population. It has also decreased the potential for distortions in the judicial, financial and democratic processes.