

A Palestinian Authority Steeped  
In Paralysis And Corruption  
The Electronic Intifada  
19 February 2004

Cement Scandal Highlights Corruption  
By Khalid Amayreh in the West Bank  
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FUNDING FOR PEACE COALITION

# Managing European Taxpayers' Money: Supporting the Palestinian Arabs - A Study in Transparency

Citing Corruption, Ashrawi resigns  
from Palestinian Cabinet  
CNN.com

Arafat urged to end corruption  
after unrest

Leader forced to sack cousin  
as security chief after two days  
THE GUARDIAN

EU Funds Diverted

Corruption rampant  
in PA

Arafat Diverted \$1.35bn: IMF  
From correspondents in Dubai, United Arab Emirates  
NEWS.COM.AU

Where has the money gone?

A Palestinian Authority Steeped  
In Paralysis And Corruption  
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19 February 2004

EU Funds Diverted  
Lack of Transparency



Citing Corruption, Ashrawi resigns  
from Palestinian Cabinet  
CNN.com

Unemployment, Poverty Grips  
Palestinian Workers

International Labour Organization  
1 June 2004

Palestinian Poverty Rate Triples  
From 20-60% Since 2000  
World Tribune.com  
Monday June 14, 2004

Where has the money gone?

August 2004

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The *Funding for Peace Coalition* is an international ad hoc group of concerned citizens interested in peace and alarmed at the absence of adequate controls and fundamental responsibility in the management of European aid to the Middle East.

*All of the funds which foreign countries had donated to the  
Palestinian Authority, a total of \$5bn "have gone down the  
drain, and we don't know to where."*

Mohammad Dahlan, Former Palestinian Authority Interior Minister,  
'The Guardian', Monday August 2, 2004

[www.guardian.co.uk/israel/Story/0,2763,1274051,00.html](http://www.guardian.co.uk/israel/Story/0,2763,1274051,00.html)

## **Mission Statement**

This study will determine and summarise the uses to which European aid money for Palestinians has been applied since 1993. Specifically, the study focuses on three critical questions:

- Has European aid transparently reached and benefited its intended target population, or has it been diverted towards corruption and violence?
- Following criticisms by members of both the EU and the EC, have these organisations gone beyond the call of duty to ensure that proper procedures have been followed?
- Even if European leaders truly believe that their reports have given Parliament and the public in general an honest appraisal of the risks involved, can it honestly be stated that European taxpayers' money has been managed in accordance with the spirit in which it was collected?

This study does not address the issue of whether or not aid should be given to the Palestinians, or what level of aid would be appropriate; it deals solely with the questions of whether such aid is accomplishing the stated goals of the donor community and whether it is managed transparently.

## **Executive Summary**

Since 1993, the European Union (EU) has contributed over €2 billion directly and indirectly to the Palestinian Authority (PA). Member states have contributed a further €2 billion over the past decade. Following the outbreak of the Intifada against Israeli civilians in 2000 and the resulting military clampdown, direct budgetary support to the Palestinians rose dramatically.

With the additional support received from international NGOs, as well as massive donations from the World Bank, from the Arab League and from other countries, total financial aid to the Palestinians becomes '*...the highest per capita aid transfer in the history of foreign aid anywhere,*' according to Nigel Roberts of the World Bank.

In the summer of 2002, a dispute broke out between the respected German newspaper *Die Zeit* and the European Union's Secretariat for External Relations regarding the effectiveness of EU aid to the Palestinians since 1993. Investigative journalism revealed the startling indifference of European politicians and civil servants as to how taxpayers' money was being allocated and spent.

The Funding for Peace Coalition has studied the issue of European funding extensively and has determined the following:

### ***Where the funds come from:***

- Over the years, from 25% to 60% of the PA budget has been supported by overseas donations.
- The EU has become the largest single contributor of direct budgetary assistance, giving €112 million between January 2003 and June 2004 alone.

### ***Where the funds are going:***

#### **Fraud and Nepotism**

- Despite assurances from the European Commission (often based on details provided by Palestinians) that the PA's payroll is monitored, evidence discovered in 2004 shows that the payroll has been consistently bloated, including at least 7,000 fictitious names – about 5% of the total.
- In the words of former PA Prime Minister Abu Mazen, there are too many '*fat cats*' who are living off the cream of the milk. Nepotism is rife and it begins with Chairman Arafat's family, who can be found in leading positions of the security services and of wealthy NGOs. A cement scam is said to involve many leading Palestinian politicians, including the Prime minister, Ahmed Qurei (Abu Ala).

#### **Support of Terrorist Organizations**

- Although the EU outlawed the Al-Aksa Martyrs as a terrorist organisation, it has been and remains part of the PA payroll.

- There is documented evidence to show that other Palestinian paramilitary groupings, such as 'Force 17' and the 'Tanzim', are also part of the PA and are each headed by Chairman Arafat.
- Many members of these PA-funded militias have been involved in acts of terror against civilians, including acts against Europeans. The most notable is Marwan Barghouti, the leader of the Tanzim. He has been convicted on charges of murder and yet, unbelievably, he is still drawing a salary from the European-supported PA budget.

### **Promoting Violence and Hatred**

- Despite consistent denials, the EU has funded inflammatory material found in the Palestinian educational system – material that breaches UNESCO standards.

### **Money Laundering**

- Funds have been transferred to the Palestinian Authority through the PA's bank accounts, including The Arab Bank. This bank stands charged with being a funding mechanism for terrorism.
- The EU argument that funds are deposited into a single account, 'mingled' with other monies, is a statement of money-laundering. No enforcement body can accept this defence for funding either terrorism or corruption.

The transfer of EU funds to the Palestinian Authority is anything but transparent. Claims that EU allocations are monitored have been proved inaccurate and misleading. What is particularly disturbing is that there are few attempts by the EC to show proper audit of the actual expenditures of the allocations. Elected politicians and their civil servants, in Brussels and in other European capitals, are failing to protect the interests of those who gave them a mandate.

The ability of the EU's fraud squad, OLAF, to safeguard taxpayers' money remains unclear. It only launched an investigation of Direct Budgetary Assistance for the period 2000 to 2002, once 169 MEPs called for an inquiry. After a further 18 months, it has yet to report. Despite declarations from Palestinians themselves to the contrary, OLAF has issued an interim statement that there is no evidence of EU funds being applied to terror. It has yet to comment on funding diverted to corruption and waste. It has yet to confirm that the allocations were made according to EU Parliamentary statutes. Furthermore, it is not addressing the hundreds of millions of Euros in indirect aid.

No one can argue with the Palestinian population's need for assistance. Aid must be provided to assist this community – a community battered by violence, corruption, and poverty. However, simply investing more money in the Palestinian territories is not the solution to poverty, as the World Bank has explained. In fact, since the signing of the Oslo Accords in 1993, a staggering \$10 billion is estimated to have been transferred to Palestinian causes. Recently, a Palestinian human rights activist expressed the frustrations of many Palestinians: *'The biggest problem the Palestinians are facing today is the fact that they have a leadership that is continuing to steal their money.'*

**Managing European Taxpayers' Money:**  
Supporting the Palestinian Arabs – A Study in Transparency

Significant portions of the money donated have not reached the intended recipients. If the aim of this investment was to support a Palestinian Authority and new society that would work towards peace, the result has been very much the opposite. It is up to the European community as a whole to determine where their taxpayer funds have gone and how to ensure that future contributions do not continue to be misdirected to corruption, to supporting terrorist activities, and to promoting hatred through inflammatory materials.

## **EU Support for the Palestinian Authority and Israel**

EU financial support for the Palestinians began in 1971<sup>1</sup>. It was increased substantially after the signing of the Oslo Accords in 1993. One of the main reasons for the increase was the desire of the Europeans to provide a counterbalance to the substantial aid that the United States regularly gives to Israel and which the EU perceives as one-sided. (See Appendix A for details of American and other aid to the Palestinians.)

After the outbreak of the second Intifada in 2000, European aid to the Palestinians again rose substantially. More important than the increase itself was the change in how this aid was distributed. Initially, aid had been awarded largely on a project-by-project basis. Following the outbreak of renewed violence, European aid has moved towards direct budgetary support (DBS)<sup>2</sup> for the Palestinian Authority. As the World Bank has suggested, the PA is the largest source of employment in the Palestinian territories and is the main source of social services.<sup>3</sup>

No one can argue against the genuine need to help the local populace, and this study does not refute the importance of such help in any way. The outbreak of violence was largely directed against the Israeli civilian population and one immediate result was the border closure by the Israeli government. This prevented Palestinians who had been employed by Israelis from reaching their places of employment. They represented some 21% of the Palestinian workforce. They had received relatively high wages compared to other Palestinians.<sup>4</sup>

This cause and effect, the violence leading to the closure, can easily be discerned in terms of hardships in Palestinian homes. Reports from the World Bank and from leading charities have established that poverty levels have risen since Palestinian militias launched their war against Israel in September 2000.<sup>5</sup>

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<sup>1</sup> [http://europa.eu.int/comm/external\\_relations/gaza/intro/index.htm](http://europa.eu.int/comm/external_relations/gaza/intro/index.htm)

<sup>2</sup> By March 2003, the World Bank considered that DBS was 'essential to maintain PA governance..'. The reader is left to judge whether accepted norms of 'governance' have been met. See [http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/WBGsummary-ENG/\\$File/WBGsummary-ENG.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/WBGsummary-ENG/$File/WBGsummary-ENG.pdf)

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> These conditions of squalor, as anywhere else in the world, are unacceptable. Unfortunately, the importance of the reports is often diminished by their politicisation. They often lack background and context. They generally assign blame for Palestinian poverty solely to Israeli policies. They ignore the massive rise in poverty in Israel, especially amongst children, as a result of the Intifada. There is no attempt to analyse why the Palestinians need such heavy aid, when other countries receive far less despite greater poverty levels.

Similarly, while demonstratively detailing increases in malnutrition and other deteriorating factors, the reports do not mention the significant rise in health standards since Israel began to govern the Palestinian territories. '... Palestinians' health has improved under occupation. Mortality rates have fallen in the past 30 years in the West Bank and Gaza, and the life expectancy of Palestinians has jumped from 48 to 72 years – rather better than the Arab or North African averages'.

<http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2004/05/10/ccpers10.xml&sSheet=/money/2004/05/10/ixcoms.html>

The Brussels establishment frequently cites these documents to justify<sup>6</sup> its assistance to the Palestinians. What is left unmentioned is that despite the large injections of financial aid that have already been pumped into the Palestinian territories over decades, the financial hardships remain. This situation must force Europeans to ask the simplest of questions. If the money has not gone to those for whom it was donated, where then has this money gone?

This study would not be complete if it did not balance the issue of EU funding to the Palestinians by mentioning EU support for Israel. The authors note that the EU considers the Israeli economy strong enough not to require financial aid. Israel does benefit from a free-trade agreement with the EU, and Israeli companies take part in technology-transfer projects with European partners under EU sponsorship. Thus it is fair to say that while Israel does not receive the kind of support from the EU that the Palestinians do, it does significantly benefit from its association with the EU.

## **Overview of Concerns**

In recent years, concerns have been raised about European aid for the Palestinians. The doubts fall into four main categories:

1. There is growing suspicion that much of the aid, rather than reaching its intended beneficiaries, is being diverted to enrich the Palestinian leadership and/or to fund terror organisations. This is the most serious of all categories.
2. The current Palestinian leadership includes many of the same leaders who have managed the Palestinian national movement for the past 40 years. Clear, documented evidence exists to tie these leaders with some of the most infamous acts of terrorism, such as the Munich Olympic massacres and numerous suicide attacks. The Oslo Accords of 1993 called for an unambiguous commitment by these people to distance themselves from the strategy of violence. No such undertaking has been given nor has a proposal been submitted that includes the existence of Israel as a viable state.<sup>7</sup> Given Europe's clear stance against terror and in favour of a two-state solution to the Palestinian/Israeli conflict, it is unclear why European leaders have consistently made a point of financing this same Palestinian leadership. Why do they not demand real electoral reforms and accountability, using the aid as leverage towards this goal?
3. Aid to the Palestinians appears disproportionate to overall poverty conditions in other places of the world. While the Palestinians are definitely experiencing serious economic problems, the amount of aid

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<sup>6</sup> [Ibid.](#) The World Bank is very clear. Even if donor funds were to double, they 'can cushion the impact of a crisis...but they do not amount to a solution.'

<sup>7</sup> <http://www.haaretz.com/hasen/pages/442160.html>

directed to their governing bodies is not matched by similar or larger donations to other communities that currently experience economic and even health crises of the same magnitude or greater. A striking example is the 2004 humanitarian disaster in Sudan, where tens of thousands have been attacked, killed, or raped.<sup>8</sup> This places a greater onus on the donors to justify the opportunity cost of their decisions and to prove that the money for Palestinians has been used efficiently.

4. Many have expressed concern that the EC has acted outside its remit and has overseen unauthorised spending. In particular, the questions refer to moneys sent to fill the Israel tax deficit of 2002/3.<sup>9</sup>

Despite the public interest and moneys concerned, European leadership has demonstrated extreme reluctance to deal with these issues. The Rt. Hon. Christopher Patten, the outgoing External Relations Commissioner of the EU, has been among the most prominent of those civil servants and politicians who have aggressively downplayed suspicions about misuse of EU-provided aid funds. In October 2002, in response to a question from Dr. C. Tannock MEP in Strasbourg, Mr. Patten said that he wanted an investigation *'like a hole in the head.'*<sup>10</sup>

From the perception of the taxpayer, this attitude from an administrator of vast amounts of public money is worrisome and unacceptable.

## **Magnitude of EU Aid to the Palestinian Arabs**

Mr. Nigel Roberts, the World Bank's senior representative for the West Bank, described the total international aid effort intended to benefit the Palestinians as *'the highest per capita aid transfer in the history of foreign aid anywhere.'*<sup>11</sup> The EU is a major player in this game. (See Appendix A.)

Between 1993 and 2001, the EU and its member states contributed €3.47 billion to the Palestinians<sup>12</sup>, either directly to the PA or through affiliated organisations. In July 2003, a report from the Secretariat in Brussels to the Working Group on Palestine showed that EU contributions for 2002 and 2003 were €325 and €245 million respectively.

Contributions for 2004 have been set at approximately €250 million, of which €65 million has been assigned to a new reform trust fund established by the World Bank. In the words of Mr. Patten: *'I am particularly pleased to be contributing to the new World Bank Trust Fund. I am keen for other donors to follow suit which will enable the whole donor community to build on the EU's record of achieving Palestinian Authority reform by attaching clear conditions to the delivery of financial assistance.'*<sup>13</sup>

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<sup>8</sup> As mentioned above, this concern lies outside the bounds of the present document, and so it will not be discussed further in detail.

<sup>9</sup> This concern is similarly outside the scope of the present document.

<sup>10</sup> <http://www.charlestannock.com/101102.asp> and <http://www.guardian.co.uk/israel/Story/0,2763,889025,00.html>

<sup>11</sup> <http://scotlandonsunday.scotsman.com/international.cfm?id=238542004>

<sup>12</sup> <http://www.delwbg.cec.eu.int/en/partnership/02/aid.htm>

<sup>13</sup> [http://europa.eu.int/comm/external\\_relations/gaza/intro/](http://europa.eu.int/comm/external_relations/gaza/intro/)

In total, known contributions to the Palestinians over the past decade from the EU and its member states come to more than €4 billion, of which the EU contributed approximately €2 billion.<sup>14</sup>

These figures do not include donations from individual countries for the years 2002 through 2004. (See Appendix A for a more thorough discussion of aid amounts.) The figures also ignore EU and single-country contributions to NGOs assisting Palestinians in the West Bank and Gaza Strip.<sup>15</sup>

In order to put these numbers into perspective, it is worth noting that the total annual EU budget for 'external action' is around €5 billion.<sup>16</sup> Iraq, which has a much larger geographical area and population, and which has been ravaged by a despotic regime for decades, is reported to be receiving around €370 million in EU foreign aid and reconstruction support in 2004.

As outlined above by Mr. Patten, it is important to recall that EU policy towards the Palestinians often serves as a model by which individual countries determine their own policies. A typical example is the United Kingdom. The British Foreign Secretary, Mr. Jack Straw, confirmed in the House of Commons on June 24, 2004 that:

- The UK is 'spending over £21 million on assistance programmes in Gaza and the West Bank'
- £19 million has been donated to UNRWA.
- £7 million will be handed to the new World Bank Trust Fund.

This is in accordance with a package described by Baroness Amos on May 27, 2004<sup>17</sup> and was deemed by the DFID to be in accordance with EU strategy. (See Appendix B for further information on UK contributions).

## **European Funding Tied to Palestinian Reform**

As more reports of incessant and fundamental corruption within the PA surface, EU leaders are scrambling to demand some form of accountability and reform from Palestinians.

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<sup>14</sup> For a breakdown of similar numbers, see

[http://europa.eu.int/comm/external\\_relations/gaza/intro/](http://europa.eu.int/comm/external_relations/gaza/intro/)

<sup>15</sup> A typical example is Medical Aid for Palestinians, which in 2003 received over £1 million from the EU and the UK Department for International Developments. See <http://www.ngo-monitor.org/editions/v2n09/v2n09-2.htm>

<sup>16</sup> <http://europa.eu.int/comm/budget/pdf/budget/syntchif2004/en.pdf>

<sup>17</sup> Baroness Amos went on to state that: *'We acknowledge that there is a degree of fiduciary risk in putting our aid through direct budget support... The potential development benefits have to justify the risk and the assessments are explicitly recorded as part of the decision-making process to provide assistance. In the case of the Palestinian Authority, we share the World Bank's assessment that there is some risk but that the level of risk is not unusual in countries where we provide budget support.'*

Hansard 27 May 2004 column 1437 ff <http://www.parliament.the-stationery-office.co.uk/pa/ld199697/ldhansrd/pdvn/lds04/text/40527-02.htm>

The problem with this policy is that European leaders have repeatedly claimed in the past that aid to the PA has been conditional on financial and political reform, and that such reform has indeed been ongoing within the PA. A typical example was the response by Gunnar Wiegand to *Die Zeit* on behalf of Mr. Christopher Patten in 2002. *'We insisted, for example, that the finances of the PA should be consolidated into one account under the control of the PA Minister of Finance, monitored by the IMF. This has contributed to greater transparency and sounder budget management. We secured a freeze on the payroll...'*

EC officials frequently wave the IMF 'magic wand' in order to convince others that the Palestinians are moving towards reform.

- *'The use of our funds is closely monitored by the IMF.'*<sup>18</sup>
- *'The EU exercises control over the use of its funds, and all budgetary assistance is strictly vetted with the intervention of the International Monetary Fund Office in Ramallah.'*<sup>19</sup>

Sadly, this claim was and remains untrue. In the online edition of the IMF's official publication 'IMF Survey', Vol. 31, Number 16, dated September 2, 2002, IMF Middle Eastern Department Director George T. Abed, a Palestinian and a Jordanian national, noted that *'With weak institutions and a budget of nearly \$1 billion, there has, no doubt, been some abuse; the Palestinian Legislative Council itself has complained about this ... Of course, the IMF does not and cannot control downstream spending by the various Palestinian agencies. This matter remains between the Palestinian Authority and the donors.'*<sup>20</sup>

In their own words, the IMF cannot and does not monitor the use of EU contributions to the PA. By claiming that the IMF is doing the job of monitoring the PA's use of aid, the European Commission is in fact ensuring that these funds are not being effectively monitored at all.

In September 2003, the IMF issued its own report on *'Economic Performance and Reform Under Conflict Conditions'*.<sup>21</sup> An analysis of pages 72 to 105 results in a sad but not surprising conclusion: the PA began to implement genuine reforms only when international donors stopped sending funds blindly. In other words, when

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<sup>18</sup> EU President Prodi, November 19, 2001

[http://europa.eu.int/comm/110901/memo231101\\_en.htm](http://europa.eu.int/comm/110901/memo231101_en.htm)

<sup>19</sup> Ambassador Giancarlo Chevallard, Head of EU Commission Delegation to Israel, November 2003,

<http://www.haaretzdaily.com/hasen/pages/ShArt.jhtml?itemNo=225866&contrassID=2&subContrassID=16&sbSubContrassID=0&listSrc=Y>

See also. Mr C. Patten's comments on May 6, 2002 at

[http://europa.eu.int/comm/external\\_relations/gaza/news/me02\\_90.htm](http://europa.eu.int/comm/external_relations/gaza/news/me02_90.htm).

It may be coincidence, but shortly after this comment, Baroness Amos reported to the British parliament that *'payments are transferred to the Palestinian Authority only after the IMF has verified that the money has been properly spent according to the agreed purpose.'* See

<http://www.publications.parliament.uk/pa/ld199900/ldhansrd/pdvn/lds02/text/20507-03.htm>

<sup>20</sup><http://www.imf.org/external/pubs/ft/survey/2002/090202.pdf>

<sup>21</sup> <http://www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf>

European leaders claimed that investing in the PA would produce reforms, they were at best deluding themselves and their constituents; and at worst, they were actually hampering the chance for real reform to take place.

The little reform that has occurred has been slow, halting, and difficult.<sup>22</sup> Even in areas of social policy, an emergence of true pluralism, including full women's rights and fair treatment of religious minorities, is not clearly signalled.

The true shallowness of the statements from Prodi, Chevillard and other senior Europeans is revealed by the astonishing and growing number of Palestinian activists and ordinary citizens who have begun to speak out against the disappearance and misuse of funds.

- Former Prime Minister Abu Mazen referred to these frustrations in his resignation speech of September 7, 2003.<sup>23</sup> *'There is also the issue of monopolies... I think that the people were greatly pleased when these were canceled, especially in the sector of petroleum, which was cheated upon an official decision. ... This means \$72 million were **stolen** annually.'* (Emphasis added.)
- In early February 2004, 300 Fatah activists resigned from the movement, citing corruption among the top echelons as the main reason for their dissatisfaction.<sup>24</sup>
- The former head of the Palestinian Authority's Preventive Security Forces in the Gaza Strip, Mohammed Dahlan, has called for genuine reform within Fatah and the Palestinian Authority: *'The Palestinian leadership must share the blame for this result. It's not just the occupation.'*<sup>25</sup> In a separate interview, he added that a total of \$5bn *'have gone down the drain, and we don't know to where.'*<sup>26</sup>
- In May 2004, Abu Mazen echoed prior criticisms made by King Abdullah of Jordan, decrying the corruption of the top Palestinian leadership.<sup>27</sup> *'...fat cats were benefiting from the absence of transparency and accountability.'*

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<sup>22</sup> For example, see the comments of PA Finance Minister Salaam Fayyad in the CBS report from November 9, 2003. <http://www.cbsnews.com/stories/2003/11/07/60minutes/main582487.shtml>

<sup>23</sup> [http://www.adf-berlin.de/html\\_docs/schwerpunkte/nahost\\_krise/rede\\_abbas.html](http://www.adf-berlin.de/html_docs/schwerpunkte/nahost_krise/rede_abbas.html)

<sup>24</sup>

[http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article\\_Type1&c=Article&cid=1076195408386&call\\_pageid=968332188854&col=968350060724](http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article_Type1&c=Article&cid=1076195408386&call_pageid=968332188854&col=968350060724)

<sup>25</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1080979159921&p=1078027574121>

<sup>26</sup> <http://www.guardian.co.uk/israel/Story/0,2763,1274051,00.html>. The FPC also has reservations regarding Dahlan's true motives. See the next section.

<sup>27</sup>

<http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1084857505900&p=1078397702269>

As of April 2004, the expenditures of the Palestinian Authority were still not being properly supervised. What monitoring does exist focuses on compliance with overall agency budgets, while not dealing with the actual details of how money is spent. The most conspicuous example of an unsupervised and unaccountable departmental budget is Chairman Arafat's office, where expenditures during 2003 averaged almost \$6 million per month – \$12 million for the month of August 2003 alone.

Even the payroll reforms of 2004, which Europeans initially claimed were implemented back in 2001 (see below), came about only as a result of intense international pressure that included threats of a cessation of funding. It is worth noting that within days of the implementation of this reform, Norway, Japan, Canada and the UK announced tens of millions in additional budgetary support to the PA, to be administered by the World Bank.<sup>28</sup>

It is possible to list many more specific accusations, including claims that UNRWA supplies and medical equipment have been diverted from their intended recipients.<sup>29</sup> Even the Palestinian Prime Minister has now been accused of profiteering by supplying cement to build Israel's separation barrier.<sup>30</sup> In short, there is now a plethora of documented expressions of Palestinian disgust with a leadership that has skimmed off vast amounts of wealth from aid funds and from ordinary revenues. This is the very behaviour that European leaders have led others to believe was eradicated.

Incredibly, in May 2004, Mr. Patten was still insisting that EU efforts had brought about reform: '*EU budgetary support and its conditions as well as US support, has over the past years been successful in advancing key reform measures such as financial accountability.*'<sup>31</sup>

The conclusion of the *Funding for Peace Coalition* is that the EC, according to its own criteria, has failed itself, failed its taxpayers, and failed the Palestinians.

## **Riots in Gaza: A Lesson in Reform for Europeans?**

As this study was being prepared in July 2004, Fatah members in Gaza began to riot at what they described as nepotism and corruption.

Although one cannot condone the violence and rioting, it is possible to understand the deep frustration that must be felt by average Palestinians. They

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<sup>28</sup> <http://odin.dep.no/ud/engelsk/aktuelt/pressem/032171-070234/dok-bn.html> ,  
<http://www.mofa.go.jp/announce/announce/2004/5/0515.html>, and  
[http://www.dfid.gov.uk/News/PressReleases/files/hb\\_statement\\_palauthority\\_17may04.html](http://www.dfid.gov.uk/News/PressReleases/files/hb_statement_palauthority_17may04.html)

<sup>29</sup> For several documented examples, see some of the works at  
<http://www.intelligence.org.il/eng/default.htm>

<sup>30</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1086836432222>

<sup>31</sup> [http://europa.eu.int/comm/external\\_relations/gaza/intro/](http://europa.eu.int/comm/external_relations/gaza/intro/)

know that vast amounts of funding have been channelled for their needs, only to end up in the pockets of a very few corrupt leaders<sup>32</sup>.

The *Funding for Peace Coalition* feels obliged to insert a voice of caution. There are indications that, sadly, even the voices calling for change are suspect. For example, Muhammad Dahlan, the Minister for Security in the government of Abu Mazen and former head of Preventive Security Services in the Gaza Strip, is known to co-own a monopoly of hatcheries and chicken farms in the Gaza Strip. Dahlan has been accused of using his former security position to extract protection money, taking kickbacks for providing licenses, and pocketing border crossing fees.<sup>33</sup> Many commentators see his manoeuvrings, and those of others, as preparation for Israel's anticipated disengagement from Gaza in 2005.

Meanwhile, despite these messages from the Palestinian streets, from the international media, from international organisations and from financial experts, the EU and EC continue to send vast amounts of aid – without insisting on true accountability and fiscal responsibility.

## **Is European Money Transferred to Terrorists?**

Mr. Patten stated on June 19, 2002: '*...I repeat, we have found no evidence of EU funds being used for purposes other than those agreed between the EU and the PA... So there is no case for stating that EU money has financed terrorism, has financed the purchase of weapons, or any similar activities. In the documents provided to us there is no evidence that the PA budget as a whole provides funds for terror activities.*'<sup>34</sup>

Despite this categorical assurance, in January 2003, 169 MEPs signed a petition demanding an inquiry into how the EU finances the PA. This led to the establishment of a Working Group of MEPs on Budgetary Assistance to the PA. Its deliberations were conducted over a year.

An indication of its proceedings can be discerned from the statements of MEP Johannes Swoboda from Austria. In a session where evidence was being taken, he declared that '*Israel really shouldn't exist,*' that it '*should be replaced by Palestine,*' and that as a consequence '*Only if the DNA of the suicide bombers will match the DNA of those who received Euros will we accept it as evidence.*'<sup>35</sup>

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<sup>32</sup> For example; stories surrounding the maintenance of the entourage of Chairman Arafat's wife, Suha, in Paris; Brigadier General Ghazi Jabali, the recently deposed Chief of Palestinian Police in the Gaza Strip; Palestinian Foreign Minister Nabil Sha'ath, and others.

<sup>33</sup> Ehrenfeld, R *Funding Evil*, <http://www.eufunding.org/terror/FundingEvil.pdf>

<sup>34</sup>

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/02/293&format=HTML&aged=0&language=en&guiLanguage=en>

<sup>35</sup> <http://www.nationalreview.com/comment/ehrenfeld200312100915.asp> and Dr Rachel Ehrenfeld, as interviewed by the *Funding for Peace Coalition*.

In March 2004, a majority report of the Working Group was released. It concluded that:<sup>36</sup>

- *'It is not possible to make a link between any specific revenue (funds)... and payments made (to terrorists).'*
- *'There is no conclusive evidence, to date, that the EU non- targeted Direct Budgetary support was used to finance illegal activities, including the financing of terrorism.'*
- *'There is no evidence that EU budget support has not been fully transferred into the PA budget or that it was used outside the budget.'*

The credibility of these statements has been challenged from at least three different and independent sources. Together, these voices present a powerful argument and suggest that money from European taxpayers has indeed been diverted from the average Palestinian and directed towards terror and corruption.

### **1) Critique from Within – MEPs:**

The original 169 MEPs, around 30% of the Parliament, had been influenced by several sources of information:

- Israeli government translations of documents captured in the course of military incursions into Palestinian territories<sup>37</sup>;
- Presentations by Palestinian Media Watch<sup>38</sup> and by the Middle East Media Research Institute (MEMRI)<sup>39</sup> disclosing the content of PA-sponsored media, especially relating to a culture of hate fostered by EU-funded PA budgets. These messages were found to permeate television, radio, children's programs, summer camps etc.;
- A report from The Prism Group.<sup>40</sup> This cited the internationally renowned Human Rights Watch (HRW), which concluded that: *'Regrettably, President Arafat and other senior Fatah officials did provide financial assistance to people involved in planning and carrying out armed attacks that included attacks on civilians (other than suicide bombings). In doing so, these officials seriously abrogated their responsibility as the governing authority to prevent such attacks.'*

The aforementioned European Parliamentary inquiry that resulted from the demands of these 169 MEPs had far less authority than the petitioners had intended. It produced a split verdict. The conclusions of the majority of 7 MEPs, cited above, downplayed all the documentary evidence available and even ignored the concerns of HRW.<sup>41</sup> A minority report of 6 MEPs assists in making some very different observations:<sup>42</sup>

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<sup>36</sup> <http://eufunding.org/accountability/WGPA-DRA.pdf>

<sup>37</sup> For example, see [http://www.intelligence.org.il/eng/bu/pa\\_cd/cd.htm](http://www.intelligence.org.il/eng/bu/pa_cd/cd.htm) and several other papers on this site.

<sup>38</sup> <http://www.pmw.org.il/> As this report was in preparation, Sky TV released coverage of a Palestinian summer camp, funded from overseas donations, which encouraged children to kill. See <http://www.sky.com/skynews/article/0,,30000-13154917,00.html>

<sup>39</sup> <http://www.memri.org/>

<sup>40</sup> <http://www.theprismgroup.org/euinquiry.htm>

<sup>41</sup> <http://www.eufunding.org/accountability/WGPA-DRA.pdf>

<sup>42</sup> <http://eufunding.org/accountability/DraftConclusionsLaschet.pdf>

- All overseas aid to the PA is transferred to a single general-purpose bank account, where it is mingled with funds from other sources. Once funds have become mixed in this way, they are fungible – that is, there is no way to distinguish the Euro that will be put to one purpose from the Euro that will be put to another purpose.<sup>43</sup> [In fact, this form of money laundering, where different funds are mixed together and used for different purposes in a way that disguises their true origin, has been known to be common practice amongst many subversive organisations for some decades.<sup>44</sup>]
- In at least two cases, these 6 MEPs found clear evidence that money from the combined account had been diverted to terrorism. Given that the vast majority of disbursements from this account have not been adequately identified and traced, these cases can be assumed to be just a small sampling of a concerted effort aimed at funding terrorism from the monies that were intended as aid for the Palestinian people.

Both the majority and minority reports found that substantial control flaws over EU-funded budgets were rampant. What went unmentioned was that the same people who administer these uncontrolled budgets were caught red-handed by the IMF diverting at least \$900 million from other Palestinian taxes and revenues.<sup>45</sup>

Nevertheless, in both reports, the pivotal issue was one of ‘standard of proof’. Because there may not be enough evidence to convict someone in a court of law, they could not conclude that EU monies had been diverted to terror. They required a clear and unbroken trace from a specific act of terror to a specific, marked, EU-provided banknote that had funded the act.

It seems that the EU has merely been looking for a way to be able to say that its contributions to the PA have not been abused. Certainly MEP Swoboda’s outburst and the embarrassed silence of his colleagues would support this conclusion.

The *Funding for Peace Coalition* believes that this self-exoneration is contrary to both simple logic and internationally accepted standards regarding responsibility for the application of commingled funds. The EU cannot absolve itself of responsibility by simply having its contributions channelled through a financial structure whereby it would be impossible to link specific EU money to corruption and terror. The EU actions can be interpreted as money laundering.

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<sup>43</sup>According to standard financial and legal practice, *all* components of such fungible (or interchangeable) revenues are considered as having contributed proportionally to *all* purposes to which the revenues are applied. In such cases it is meaningless to say that one’s individual contribution to the account cannot be specifically linked to a specific expenditure, since by its very nature such a financial structure makes such linkages impossible.

<sup>44</sup> *Funding Evil*, R. Ehrenfeld, Bonus Books 2003 and many others.

<sup>45</sup> <http://www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf> Table 5.2

## **2) Critique from the Palestinians:**

In addition to the concerns expressed by at least 169 MEPs, growing criticism continues to flow from within Palestinian society. Until recently, most of the evidence of PA funding of terrorists has consisted of papers captured by the Israeli authorities and then published on the Internet.<sup>46</sup> The fact that these documents have been found, translated, and publicised by Israel has always enabled the Europeans to make light of this evidence.

Yet more and more, evidence of the misuse and misappropriation of EU funds by the PA is coming from other sources.

Previous sections illustrated the exasperation of Abu Mazen and others. Arguably, the most revealing indications that the Palestinians themselves are tired of the corruption and nepotism are in the words of former Palestinian Legislative Council Speaker Rafik al-Natsheh.<sup>47</sup>

Since the 1970s, al-Natsheh's career has paralleled the rise of Fatah and Chairman Arafat. However, in July 2004, he described Arafat as the '*protector of corruption and the corrupt.*' He added that the PA did not need foreign aid. There were billions of dollars that were in the possession of the Authority, '*but no one knows anything about the funds.*'<sup>48</sup>

## **3) Critique from the 'Taxpayer':**

As the major proponents of the MEPs petition began to 'gather their troops' towards January 2003, they estimated that they received many thousands of messages of support from EU areas alone. An interesting pattern of thought was detected amongst the words of encouragement. European leaders may have felt that the aid they were providing was justified and even legal – a theme continued in the MEPs' majority report later on – but for taxpayers this form of politics broke a bond with the voter.

It is not difficult to see from where these concerns stemmed. By 2002,<sup>49</sup> around 60 percent of the PA budget came from overseas aid, with the EU as one of the largest contributors. In turn, the PA is clearly involved in inciting, initiating, coordinating, and maintaining violence and terrorism:

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<sup>46</sup> See the multiple evidence at <http://www.intelligence.org.il/eng/default.htm>

<sup>47</sup> [http://www.countrywatch.com/cw\\_wire.asp?vCOUNTRY=140&UID=1168833](http://www.countrywatch.com/cw_wire.asp?vCOUNTRY=140&UID=1168833)

<sup>48</sup> Al-Natsheh also accused the 'corrupt' of 'toppling' the government of former Palestinian prime minister Mahmoud Abbas 10 months ago '*because he had sought to organize matters and achieve reforms.*' See also <http://www.albawaba.com/news/index.php3?sid=282020&lang=e&dir=news>

<sup>49</sup> The World Bank declared that 'By providing 57 percent of the PA's cash expenditures in 2002, donors enabled the PA to pay full salaries and to avoid any layoffs, thereby maintaining the structure and the essential functions of central government.' See page 86 of the World Bank report at

[http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/27+Months+of+Intifada,+Closures/\\$File/27+months+Intifada,+Closures...An+Assessment.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/27+Months+of+Intifada,+Closures/$File/27+months+Intifada,+Closures...An+Assessment.pdf)

- The PA operates a series of security forces (Tanzim, Force 17, the police and others), many of whose members have taken part in operations against Israeli civilians. It is inconceivable that these PA employees did not use official resources to plan and carry out their attacks. (See section below on salaries.)
- The PA has been responsible for large-scale weapons smuggling, including the *Karine A* incident. The captain of the ship *Karine A*, Omar Akawi, is a member of Fatah.
- The PA's Palestinian Youth and Sports Department runs children's summer camps named after 'martyred' suicide bombers and other terrorists, including Ayyat al-Akhris and Wafa Idris.<sup>50</sup> UNICEF is also a sponsor of some of these camps. PA-supported sports teams are also routinely named after terrorist 'martyrs'.<sup>51</sup>
- The Palestinian Education Ministry commissions and distributes books of an inflammatory and racist nature. (See the section below on Palestinian textbooks).
- The PA helps to build and maintain weapons-smuggling tunnels.<sup>52</sup>

By paying salaries to active terrorists, smuggling arms, glorifying terrorist 'martyrs', and creating an atmosphere of intolerance and hatred, the PA supports terrorism in a general sense in addition to its specific involvement local terror and crime.<sup>53</sup> For an insight into how PA income is laundered, see the analysis of The Arab Bank in Appendix C. To the extent that EU aid is supporting such PA practices, it is actually making the lives of ordinary Palestinians worse instead of better.

Put simply: This form of funding is not in the spirit of the mandate which politicians are given by their electorates. Assertions that EU foreign aid does not line the pockets of a certain elite nor fund terrorism fail to convince.

## **The Palestinian Authority's Salary Budget**

The PA's salary budget and its disposition is one of the most contentious of the issues surrounding possible abuse of international donor funds. Salaries for the 124,000 PA employees consume approximately 70% of the annual budget.<sup>54</sup> European leaders have long argued that in order to support a stable Palestinian state, the PA needs to be strengthened. They claim that paying for the salaries of PA employees, which they then insist are duly monitored, is the best way to do this.

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<sup>50</sup> <http://www.pmw.org.il/>

<sup>51</sup> <http://www.imra.org.il/story.php3?id=13110>

<sup>52</sup> <http://www.frontpagemag.com/articles/ReadArticle.asp?ID=13697>

<sup>53</sup> For further details see

[http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article\\_Type1&c=Article&cid=1076195408386&call\\_pageid=968332188854&col=968350060724](http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article_Type1&c=Article&cid=1076195408386&call_pageid=968332188854&col=968350060724)

<sup>54</sup> World Bank statistics show that salaries reached 67% of the total Palestinian Authority expenditure in 2002. See Table 6 on Page 22 of their report at [http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/27+Months+of+Intifada,+Closures/\\$File/27+months+Intifada,+Closures...An+Assessment.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/27+Months+of+Intifada,+Closures/$File/27+months+Intifada,+Closures...An+Assessment.pdf)

Conversely, Israeli authorities have contended<sup>55</sup> that the salary budget of the PA is in fact open to abuse. Their reports have received wide coverage, most prominently by Thomas Kleine-Brockhoff of the prestigious German newspaper *Die Zeit* in June 2002.<sup>56</sup> They revolve around five main claims:

- Documents captured from the PA reveal that in 2002, the actual PA payroll was some 40% – 45% less (or \$27 million per month less) than the payroll budget being funded by the EU. A significant portion of the surplus money was diverted to terrorist activities.
- Fatah activists and others directly involved in terrorist activities received their livelihood from the EU-funded PA payroll.<sup>57</sup>
- A compulsory levy was placed on all public salaries by the PA and was paid into the coffers of Fatah. This money was used to finance terrorism.
- The PA used differing rates of exchange in order to receive millions of Euros more from the EU in payroll-support funds than were actually paid out in salaries.
- The Al-Aksa Martyrs' Brigades (recognised by the EU as a terrorist organisation) is an integral part of Fatah. Both are directed by the head of the PA, Chairman Arafat,<sup>58</sup> and both have been involved in acts of terror.

What follows is an analysis of the facts available.

### **The PA Payroll And The EU**

The EC has been categorical when commenting on the composition of the PA payroll and the ability to monitor it. *'There is also no evidence that any person involved in terrorist acts has actually been recruited into the PA security services.'*<sup>59</sup>

Discussing the charge that Arafat's personal bureau (also funded by EU aid) may have been used for terrorist purposes, the EC commented: *'...there is no evidence that any budget funds have been misappropriated for financing terror...'*<sup>60</sup>

And in reference to Israeli concerns: *'The salaries are paid through the banking system to verifiable individual accounts and according to the detailed monthly payroll that the [PA] Finance Ministry now fully controls since September 2001, as part of our earlier conditionalities.'*<sup>61</sup>

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<sup>55</sup> <http://www.intelligence.org.il/eng/bu/financing/pdfs/09.pdf>

<sup>56</sup> [http://www.zeit.de/2002/24/Politik/200224\\_arafat\\_haupttext.html](http://www.zeit.de/2002/24/Politik/200224_arafat_haupttext.html) translated at <http://www.usefulwork.com/shark/arafatbombs.html> with references to original documents at [http://www.zeit.de/2002/34/Politik/dokumente\\_hilfsgelder.html](http://www.zeit.de/2002/34/Politik/dokumente_hilfsgelder.html)

<sup>57</sup> <http://www.intelligence.org.il/eng/bu/financing/pdfs/05.pdf>

<sup>58</sup> [http://www.intelligence.org.il/eng/bu/ya/ya\\_hp.htm](http://www.intelligence.org.il/eng/bu/ya/ya_hp.htm)

<sup>59</sup> <http://www.zeit.de/2002/34/Politik/akten4.pdf>, item 5

<sup>60</sup> <http://www.zeit.de/2002/34/Politik/akten4.pdf>, item 6

<sup>61</sup> <http://www.zeit.de/2002/34/Politik/akten9.pdf>

In February 2003, following the call of 169 MEPs for an inquiry, Mr. Patten began to backtrack: *'International donors cannot check each and every one of the 124,609 names on the PA payroll... The EU and other contributors do not finance any specific salaries, but participate in the financing of the PA budget.'* He continued: *'With the internal auditors [PA Finance Minister] Fayyad has dispatched to the different administrations and the introduction of direct salary deposits, he is now in a position to fully control the PA payroll.'*<sup>62</sup>

Fayyad's boss, Palestinian Prime Minister Mahmoud Abbas (also known as Abu Mazen), directly contradicted these assertions. In his resignation speech to the Palestinian Parliament in September 2003, Abbas complained bitterly about the fact that the practice of paying salaries in cash was continuing unabated for the Palestinian security services. It was, he asserted, *'a cover for theft'*.<sup>63</sup>

The IMF dryly records these deviations from the EC's assurances. It notes that 12 months after the EC's statement in 2001, at least 33,000 security personnel were still being paid through a system of cash payments.<sup>64</sup>

And when a definitive list of names and bank account numbers was finally produced in order to implement these belated controls, the size of the theft referred to by Abu Mazen became clear. 7,000 'employees' could not be identified at all. Initial reports accused the head of the PA Security Forces, General Haj Ismail Jabber, of pocketing the millions of dollars in monthly salaries of these fictitious salary earners.<sup>65</sup>

In May 2004, despite strenuous objections from Chairman Arafat, international donors finally succeeded in forcing the final elements of the Palestinian Security Services payroll to be made via cash deposit. This was two years after Mr. Patten had led his listeners to believe such a reform had been completed.

### **PA Employees Involved In Terror**

The PA is an umbrella organisation whose main component is Fatah. The leader of the PA, Fatah and most of the main Palestinian militias is Chairman Arafat. The PA has consistently denied that its employees are involved in terror, and it has promised to take swift action should conclusive evidence of such involvement be brought forward.

In fact, there are many PA employees, at all levels, who have been involved in terrorist activities. These facts have been brought to the attention of the EU on more than one occasion. Appendix D lists more than 20 illustrative cases.

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<sup>62</sup> [http://europa.eu.int/comm/external\\_relations/mepp/eufundspa.htm](http://europa.eu.int/comm/external_relations/mepp/eufundspa.htm)

<sup>63</sup> The speech was first published in Arabic, in the London *Quds* newspaper, and then translated to German and subsequently English. The German & English translations can be seen at:

[http://www.adf-berlin.de/html\\_docs/schwerpunkte/nahost\\_krise/rede\\_abbas.html](http://www.adf-berlin.de/html_docs/schwerpunkte/nahost_krise/rede_abbas.html)

<sup>64</sup> <http://www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf> – page 102

<sup>65</sup> <http://www.haaretz.com/hasen/spages/411056.html> (copy at <http://middleeastinfo.org/article4172.html>)

The most notable is Marwan Barghouti, the leader of the Tanzim and answerable only to Chairman Arafat, who was found guilty on five specific counts of murder.<sup>66</sup> The EU did not insist that his monthly salary be suspended while he was under detention and trial in Israeli courts. Even today, after his conviction, there is no evidence to suggest that Barghouti has ceased to receive his EU-funded salary.

The tragedy of UK citizen Steven Bloomberg also illustrates this theme. In a drive-by shooting near his home in Ginot Shomron, Bloomberg and his daughter Tsippi were crippled and his pregnant wife, Tehiya, was killed. Farid Azouni, a senior officer in the Palestinian Authority police force, was identified as the gunman who fired the fatal shots, and Samar Abu Hania, the head of the PA police force in Tulkarm, allegedly gave the order to attack.<sup>67</sup> As Palestinian civil servants, both drew their salaries directly from funds provided in part by the EU.

Of particular irony was the statement of Ambassador Giancarlo Chevallard, Head of the EU Commission Delegation to Israel. Trying to deny EU culpability for the crime, he wrote in October 2002: *'[T]his monthly EU financial allocation to the PA is designed to fund payment of salaries to its staff in the fields of education, health, social services and police.'*<sup>68</sup>

### **The Fatah Levy and Exchange Fraud**

One of the methods of diverting PA salaries to terror is via a levy placed on salaries and handed over to Fatah, the largest faction of the PLO and Yasser Arafat's principal power base. It seems that all members of the Palestinian security forces pay this levy, amounting to around 5% of their income. Despite the direct link between Al-Aksa terrorists and Fatah, the EU dismissed this transfer of PA salary budgets as *'not dissimilar to the mandatory deductions from salaries for trade union members' fees in some EU countries.'*<sup>69</sup>

In 2002, dismissing Israeli claims that exchange rate fraud was used to divert EU-funded salary budgets, the EU called the practice merely a technical device that had no financial impact and that in any case was no longer used.<sup>70</sup> But when the final switch from cash salaries to bank deposits was made in 2004, it was revealed that these very exchange rate techniques were still being very effectively used by General Jabber, commander of the PA's National Security force, to extract an extra half million dollars per month in illegitimate payments from the PA salary budget.<sup>71</sup>

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<sup>66</sup> <http://www.imra.org.il/story.php3?id=13580>

<sup>67</sup> <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2002/11/03/wmid103.xml>

<sup>68</sup>

<http://www.haaretzdaily.com/hasen/pages/ShArt.jhtml?itemNo=225866&contrassID=2&subContrassID=16&sbSubContrassID=0&listSrc=Y> November 1, 2002

<sup>69</sup> <http://www.zeit.de/2002/34/Politik/akten4.pdf>, item 4

<sup>70</sup> <http://www.zeit.de/2002/34/Politik/akten4.pdf>, item 3

<sup>71</sup> It is reported that Jabber received cash to pay salaries according to an exchange rate of NIS 4.5 to the dollar, while paying actual salaries at an artificial rate set by the PA at 3.7. A simple calculation of the 37,000 reported salary earners at even the salaries of \$300–400 a month earned by the lower

## Does PA Money Reach the Al-Aksa Brigades?

In its correspondence,<sup>72</sup> *Die Zeit* asked: 'The EU has put the Al Aksa Martyrs Brigades on its list of terrorist groups. How has the EU insured that some of the Al Aksa members are not indirect recipients of EU aid in their capacity as PA public servants?'

The EC response was unequivocal. '...If any evidence comes to light that the PA is knowingly employing members of terrorist organisations, the PA will need to act immediately to take these people off the payroll and bring them to justice.'<sup>73</sup>

In fact there is a swell of evidence from differing sources to confirm that the Al Aksa Martyrs' Brigades are an integral part of the Fatah organisation, funded at least in part by the PA. It should be noted that Chairman Arafat, who receives a salary as Chairman of the PA and as the leader of Fatah, is the leader of the Al Aksa Martyrs' Brigades.

An interview with PA officials and Fatah leaders on the BBC in November 2003<sup>74</sup> revealed that the PA had reimbursed \$50,000 of monthly expenses to the Al-Aksa Martyrs' Brigades. The programme emphatically demolished the fine distinction between the Brigades and Fatah, a distinction consistently expounded by the EC. 'Fatah has two sections: a military wing, led by the military, and a political wing, led by politicians. But there is no difference between Fatah and the Al-Aksa Martyrs' Brigades.'

In fact, shortly after the 7,000 phantom employees were removed from the PA security forces payroll (see above), the Al-Aksa Martyrs' Brigades publicly complained that their salary payments had been stopped, and threatened to break from Fatah.<sup>75</sup> Arafat immediately proposed to solve the Brigades salary crisis by co-opting them into the official Palestinian security forces.<sup>76</sup>

This dispute has begun to threaten the Fatah support base of the Arafat regime, with some saying that the Al-Aksa Martyrs' Brigade should be disowned. Prime Minister Ahmed Qurei quickly acted. He formally admitted what the European Commission had so firmly denied, and he promised the Brigades official protection. He publicly confirmed the Brigades as an integral part of the Fatah movement and the Palestinian Authority leadership.<sup>77</sup>

'We have clearly declared that the Aksa Martyrs' Brigades are part of Fatah,' Qurei said in an interview with the London-based *Asharq al-Awsat* newspaper. 'We are committed to them and Fatah bears full responsibility for the group.' Qurei went on to

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ranks would indicate that the size of this exchange difference would, in fact, be around four times the reported \$500,000 per month. <http://www.haaretz.com/hasen/spages/411056.html> (copy at <http://middleeastinfo.org/article4172.html>)

<sup>72</sup> <http://www.zeit.de/2002/34/Politik/akten4.pdf>, item 11

<sup>73</sup> *ibid.*

<sup>74</sup> [http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/middle\\_east/3253529.stm](http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/middle_east/3253529.stm) and [http://news.bbc.co.uk/1/hi/world/middle\\_east/3243071.stm](http://news.bbc.co.uk/1/hi/world/middle_east/3243071.stm)

<sup>75</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1087182010628>

<sup>76</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1087025356512>

<sup>77</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1087725478828>

promise them a salary from the PA payroll. He declared his reliance on the Quartet, including the EU, to ensure their immunity from punishment for their terrorist activities.

In a carefully worded statement, however, Qurei avoided renouncing their participation in terror. *'The Aksa Martyrs Brigades will not be dismantled,'* he explained. *'The resistance is not only an armed struggle. As long as there is an occupation, there will be resistance, but the resistance should take different forms.'*

Nevertheless, the unrest continued to spread. Khaled Abu Toameh is an experienced Arab journalist, based in Jerusalem. He reported that: *'Hani Uwaidah, the commander of the Aksa Martyrs Brigades in Tulkarm, [had complained] that the PA had stopped paying his salary a few months ago. He said that was the main reason why he and his friends had halted their attacks against Israel. ... The Fatah Central Council [the main faction of the PA, led by Chairman Arafat] has decided to form a special committee to study the demands of the Aksa Martyrs Brigades militia. It is the first time that the Palestinian leadership has acknowledged its responsibility for the armed group.'*<sup>78</sup>

Specifically, Mohammed Dahlan, the former Minister for Security Services, commented to *'Ashraq al-Awsat'*,<sup>79</sup> a newspaper based in London, that Chairman Arafat knew that the PA financed and armed the terrorist Jenin Martyrs Brigades and the Abu Rish Brigades, and that the members of both groups are employees of the PA.

And none of the above considers how the PA continues to underwrite and encourage terrorism through 'insurance policy' payments to the families of terrorists killed, imprisoned or wounded in the conflict.

It is now painfully clear that of the money sent by the EU and other donors to support the Palestinian Authority's general budget, some has been paid out in turn to the Al-Aksa Martyrs' Brigades and other terror groups. When the money is no longer available, or when improved financial controls make it too risky for the PA to continue diverting funds, the terrorists lose their livelihood and must find other ways to support themselves.

One can only conjecture that had the EU honestly confronted the problems in its administration of aid to the Palestinians when concerns were originally raised in 2001, many innocent lives – both Palestinian and Israeli – might have been saved.

If the Palestinians themselves have confirmed Israeli claims about the use of the PA budget to support terrorism against Israel and its citizens, why do European leaders refuse to accept that taxpayers' money is being diverted from the needs of ordinary Palestinians towards corruption and the industry of violence? In the meantime, despite repeated assurances to MEPs and the public, Al-Aksa members remain on the PA payroll, which is supported by EU and member states.

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<sup>78</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1087182010628>

<sup>79</sup> <http://www.asharqalawsat.com/>

## **Does the EU Know Where its Money Goes?**

Aid to the Palestinians is transferred both directly to the Palestinian Authority and indirectly, through NGOs and specific project funding.

### **Direct Aid**

European commissioners have often stated that direct aid is not given for specific purposes but is part of the overall Palestinian Authority budget. Thus the question remains: Where, according to the Europeans, does the money end up?

Mr. Patten has noted that<sup>80</sup>: *'What I can say is we are doing everything we possibly can to ensure that the money that you vote is properly used and properly monitored and we will follow any other sensible advice that anybody has to offer us.'* Comparing the control over these budgets with his experience in administering Northern Ireland, Mr. Patten observed that it is impossible to guarantee totally that any financial transfer is not abused.

Even if that is true, it has been noted above how despite mounting evidence – and his acknowledged personal experience of the likelihood of such abuse – Mr. Patten has repeatedly refused to acknowledge that money may have been diverted.

The Commission has added that *'Given the fungible nature of general EU budgetary support it is not possible to link any salary payment directly to the EU funds.'*<sup>81</sup> An analysis of salaries appears above, but essentially a statement like this can only be taken to indicate that the EC doesn't really know how its money is being spent.

The Europeans can argue with some plausibility that they have tried to monitor their payments. A team, led by Henry Siegman of the New York-based Council on Foreign relations and by Michel Rochard, MEP and former French Prime Minister, enabled the EC to conclude that payments were subject to the *'most extensive and intrusive monitoring system in any post-conflict situation'*.<sup>82</sup> The reader is left to draw conclusions as to the adequacy of this monitoring system, in light of the evidence presented in this study.

And, it should be recalled that European officials have frequently invoked the name of the IMF in defence of their conduct. However, as shown previously, the IMF itself has admitted that it does not monitor the expenditures of the Palestinian Authority.

The interim conclusion is that the EU has not put itself in a position adequately to monitor the progress and use of its funds.

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<sup>80</sup> [http://europa.eu.int/comm/external\\_relations/euromed/publication/euromed\\_report47\\_en.pdf](http://europa.eu.int/comm/external_relations/euromed/publication/euromed_report47_en.pdf)

<sup>81</sup> [http://europa.eu.int/comm/external\\_relations/mepp/eufundspa.htm](http://europa.eu.int/comm/external_relations/mepp/eufundspa.htm)

<sup>82</sup> Letter to Die Zeit by Gunnar Wiegand, Spokesman for External Relations, on behalf of C. Patten

## **Indirect Aid**

Indirect aid is usually dedicated to a specific project. One of the main conduits for transferring cash assistance is ECHO, the European Commission's Humanitarian Aid Office. Since September 2000, this office has transferred €148 million to UNRWA for rehabilitation of schools, repairs of sewage systems and such.<sup>83</sup>

European assistance has been targeted towards many different areas of society. Examples from previous years include €17.2 million transferred since 1997 under Europe's counter-terrorism programme in the West Bank and Gaza. This ironically entitled project 'has been severely affected by Israeli military operation in the Palestinian Territories.'<sup>84</sup> Another €10 million was transferred for projects focusing on human rights training and rule-of-law advocacy.

The allocations for projects are usually accounted for as specific line items in the accounts of western governments and in Brussels. What is of greater concern is the control over the expenditure.<sup>85</sup> Are the costs monitored and shown to be of a true nature? Are the suppliers genuinely independent? To what extent does a humanitarian problem lend cover to established graft? These are questions to which the taxpayer rarely receives a full answer.

Evidence of corruption relating to European and other aid projects has been published over the years.<sup>86</sup>

And it is not just the Europeans who have cause to doubt that project aid, even of goods and services instead of cash, is protected from abuse. Egyptian subsidized cement to provide housing for refugees came under scrutiny in 2004.

PA officials, including the current Palestinian Prime Minister, are accused of selling the cement to Israel for the building of settlements and of its anti-terrorist fence. Aside from the ironic contradiction of Palestinian policy, these Palestinian legislators made super-profits of approximately \$29 million – diverting approximately \$35 million of cement at wholesale value. The real losers were the many thousands of Palestinian families who should have been provided with proper housing from this Egyptian philanthropy.<sup>87</sup>

The ironic aspect of this story from a European point of view is that ECHO has announced the allocation of a further €1.35 million for victims of house

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<sup>83</sup>

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1027&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>84</sup> Similarly, and in another example of how member states often follow the lead of the EC, the UK government sent a team of British police to train Palestinians in anti-terrorism tactics in the spring of 2004. The success of this programme is currently being evaluated.

<sup>85</sup> For example, there is now a series of documented claims from journalists and Palestinians alike contending that assistance under the World Food Aid and UNRWA programmes has not always reached the targeted populations. In some cases, the supplies are believed to have been smuggled into Israel.

<sup>86</sup> See, for example, the many cases quoted at <http://www.intelligence.org.il/eng/corruption.htm>

<sup>87</sup> [http://www.palestine-info.co.uk/am/publish/article\\_6930.shtml](http://www.palestine-info.co.uk/am/publish/article_6930.shtml)

demolitions in Rafah.<sup>88</sup> Journalist Khaled Abu Toameh reported that Rafah's PA-appointed governor, Izzat Abu al-Khair, was forced at gunpoint to make a commitment to the Al-Aksa Martyrs Brigade that he would distribute the ECHO money to displaced persons.<sup>89</sup>

It should again be emphasised that the *Funding for Peace Coalition* is not concerned about the types of projects or the level of support. The issue is that monitoring and transparency are frequently kept to the minimum acceptable levels. Interestingly, if the vast sums of direct aid were traced, one would be able to assess how much of this indirect aid was genuinely required.

### **EU claims against Israel**

The European Commission has stressed on many occasions that Israel has destroyed Palestinian property purchased with EU aid.<sup>90</sup> The total estimated value of such damage has reached €30 million. Israeli authorities have responded with their own set of claims, asserting that destroyed structures had been abused as bases for terror and were thus legitimate military targets as defined under the Geneva Conventions.

It is not within the scope of this report to judge the extent of or reasons for the damage to EU-funded infrastructure. We note that €30 million was subsequently damaged. The large balance still remains the subject of this report.

## **European Involvement with the Palestinian Education System**

The extent to which the children on both sides of the conflict are educated toward mutual tolerance is pivotal to any hope of long-term peace. Thus, the funding of the Palestinian textbooks and education system is a crucial element in any discussion of funding of the Palestinian Arabs.

On May 15, 2002, the General Secretariat of the Council of the European Union published a policy statement<sup>91</sup> summarising the EU position on the new textbooks published by the Palestinian Authority (PA) since the year 2000. This document has become the heart of EU policy on Palestinian education and has been adopted by many other countries.

The statement maintains that the PA is gradually replacing racist textbooks in Palestinian schools with more acceptable materials. It finds that allegations against the new materials are either mistaken and/or unproven.

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<sup>88</sup>

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1027&format=HTML&aged=0&language=EN&guiLanguage=en> .

<sup>89</sup> <http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1092280016704>

<sup>90</sup> See

<http://www3.europarl.eu.int/omk/omnsapir.so/debatsL5?FILE=20020515EN&LANGUE=EN&LEVEL=DOC&NUMINT=3-138> and

<http://www.publications.parliament.uk/pa/cm200102/cmstand/eurob/st020123/20123s01.htm> }

<sup>91</sup> [http://ue.eu.int/ueDocs/cms\\_Data/docs/pressdata/en/misc/70923.pdf](http://ue.eu.int/ueDocs/cms_Data/docs/pressdata/en/misc/70923.pdf)

European leaders have stressed time and again that the EU does not purchase or provide textbooks for Palestinian children.

The *Funding for Peace Coalition* finds these statements unjustifiable for four reasons.

1. Palestinian schoolbooks are purchased by either the Palestinian Ministry of Education or UNRWA. The former receives its income from the Palestinian Ministry of Finance or from donations by mainly European countries. Over the years, between 25% and 60% of the PA's budget has come from foreign donors, of which the EU is one of the largest contributors. As for UNRWA, the EU and members states have donated around € 1.5 billion to the organisation since 1993.

Ergo, while European commissioners may not be writing the schoolbooks themselves – nor even rushing out to the stores to buy the books themselves for the Palestinian children – they are definitely funding the creation and distribution of these books. Further, the Italian and Belgium governments have made direct contributions towards this project.<sup>92</sup> And the Finnish government allocated FIM 12 million between August 1999 and May 2001.<sup>93</sup>

2. IPCRI, a joint Palestinian/Israeli project, has noted that 'these textbooks fail to apply the principles and concepts (of religious tolerance) to include Jews and the State of Israel...'. Their report<sup>94</sup> lists many conceptual faults in these texts and indicates that the texts are overtly racist.

In the summer of 2004, IPCRI released a second report.<sup>95</sup> Many of its conclusions are similar to its sister work. In particular, while there are signs of improvement in more recent books, the '*Jewish historical connection...to the Holy Land is virtually missing*'.<sup>96</sup>

Many of IPCRI's findings have been confirmed by The Center for Monitoring the Impact of Peace (CMIP),<sup>97</sup> which specialises in monitoring textbooks in the Middle East. In fact, CMIP has produced a series of surveys that all consistently come to the same conclusions: the new, supposedly improved textbooks are inflammatory. They may not use the same overtly racist language as the previous versions, but they are totally unacceptable in a pluralistic society.

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<sup>92</sup> See <http://www.eufunding.org/Textbooks/NewSchoolbooks.html>

<sup>93</sup> <http://global.finland.fi/hankkeet/dokumentit/palfin.pdf>. Many of the textbooks printed prior to 2000 contained the full content of old anti-Semitic texts from the Jordanian and Egyptian curricula.

<sup>94</sup> <http://www.ipcri.org/files/textbooks.pdf>

<sup>95</sup> <http://www.ipcri.org/index1.html>

<sup>96</sup> IPCRI has also published a critique of books in the Israeli educational system. A nearly clean bill of health was declared. See [ibid](#)

<sup>97</sup> <http://www.edume.org/index.htm>

3. The books fail to live up to international standards outlined by UNESCO.<sup>98</sup> They would be most unlikely to receive the approval of a ministry of education in any Western country. Principle 10 of the 1959 Geneva Convention on the Rights of Children states that '*a child shall be brought up in a spirit of understanding, tolerance, friendship among peoples.*' European money assists the flouting of this basic humanitarian goal.
4. When confronted with evidence of inciteful educational materials, the EU refers to a 'replacement process', which has been taking place since 2000. However, this is inaccurate. There is currently no commitment to replace the books for 17- and 18-year-olds. It is known that there are no plans to introduce new materials in kindergartens and universities. And few attempts have been made to withdraw offensive materials from other grades. Not all racist texts are being replaced.

It is time to face the facts. The Palestinian Ministry of Education has imposed a curriculum that fails to meet international standards. It uses inflammatory and racist messages, albeit in somewhat less obvious forms than were found in previous versions. The materials carefully exclude all Jewish presence from the contemporary and historical Middle East. When a child is taught that every Muslim has the personal obligation to eject a foreign presence by Jihad<sup>99</sup>, the intent to indoctrinate is clear. The result of this education can be seen in the expanding and escalating violence in the region, and in the increasing number of young perpetrators<sup>100</sup>.

### ***The Fallout from the EU Statement***

The EU policy on Palestinian education leaves European governments free to support the Palestinian Ministry of Education and UNRWA, the UN's official 'guardian angel' for Palestinian education and social welfare. One of the most obvious examples of this knock-on effect is a letter from Baroness Symons of the UK Foreign Office. On January 27, 2004, in response to a question from a church leader in Wales, she wrote that '*We have looked into concerns previously expressed on this issue and have concluded that the quotations which, it is claimed, are taken from Palestinian textbooks have not been found in new schoolbooks funded by some EU Member States. Those textbooks benefiting from funding by some member states funds are free from negative, inciteful content...*'<sup>101</sup>

Such reasoning probably contributes to the UK government's justification for increasing its contributions to UNRWA in 2004.

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<sup>98</sup> For samples of texts, see <http://www.eufunding.org/Textbooks/NewSchoolbooks.html>

<sup>99</sup> <http://www.memri.org/bin/articles.cgi?Page=archives&Area=sr&ID=SR2203>

<sup>100</sup> For an example, see [http://www.eufunding.org/Textbooks/UNRWA\\_Kalandia.html](http://www.eufunding.org/Textbooks/UNRWA_Kalandia.html)

<sup>101</sup> The FPC holds a copy of the correspondence.

Meanwhile, a new generation of Palestinians is being raised in a spirit of hatred and violence<sup>102</sup>.

## **OLAF, the European Ombudsman**

OLAF, the European Union's Anti-Fraud Office, is the internal investigative arm of the EU, tasked with ensuring that EU Charters are protected and that EU funds are used properly. Its website notes:<sup>103</sup> *'The European institutions therefore have the duty to guarantee, with regard to the taxpayer, the best use of their money and in particular to fight as effectively as possible against fraud.'*

The petition of 169 MEPs in January 2003 refers in its preamble to the EC Treaty, and in particular to Part 5, Title II (Financial Regulations), Article 280. This clause states that the Community and Member States must demand from third-country authorities measures to combat fraud, especially when the financial interests of the Community are involved. Further, the petition notes that Articles 3 and 4 of the European Council's Common Position on Terrorism, adopted in 2001, clearly state that funds shall not be made available directly or indirectly for the use of terror.

Given the concerns that have been raised regarding EU funding of the Palestinian Authority, it is appropriate for OLAF to be involved in the issue, in order to reach definitive and impartial conclusions as to how this funding is being used.

In fact, OLAF officials have been gathering information on direct budgetary assistance between 2000 and 2002 for over 18 months,<sup>104</sup> a process that was jump-started after the 169 MEPs fought for an inquiry. Delegations have visited the region as part of this effort, and more are expected.<sup>105</sup>

OLAF itself still maintains provisionally that *'To date, there is no evidence that funds from the non-targeted EU Direct Budget Assistance to the Palestinian Authority have been used to finance illegal activities, including terrorism.'*<sup>106</sup>

This statement leads to three intermediate observations:

- There has been no indication that OLAF is investigating the considerable sums spent on indirect financial assistance, which remain unsupervised.

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<sup>102</sup> The use of Palestinian minors in acts of violence and terrorism against Israeli targets has been thoroughly reported throughout the Intifada. The fact that it is a crime under the Geneva Convention has not stopped the number of recruits coming forward, partly encouraged by the education system. As this report was being prepared, Israeli security forces revealed that at least three attempts by Arab terrorists to use minors were foiled during the summer of 2004. In one case, a group of 11-14-year-olds were caught smuggling weapons between Egypt and Israel. In another case, a 17-year-old Arab youth blew himself up in an attempted attack near the Arab village of Jinsafut, 11 miles east of Kfar Saba. And in yet another incident, three Arab youths aged 13-15 were stopped at an IDF checkpoint in Jenin on their way to carry out a shooting attack in the town of Afula.

<sup>103</sup> [http://europa.eu.int/comm/dgs/olaf/mission/mission/index\\_en.html](http://europa.eu.int/comm/dgs/olaf/mission/mission/index_en.html)

<sup>104</sup> [http://europa.eu.int/comm/anti\\_fraud/press\\_room/pr/2003/2003\\_03\\_en.html](http://europa.eu.int/comm/anti_fraud/press_room/pr/2003/2003_03_en.html)

<sup>105</sup> <http://portal.telegraph.co.uk/news/main.jhtml?xml=/news/2004/08/05/wmid05.xml>

<sup>106</sup> [http://europa.eu.int/comm/anti\\_fraud/press\\_room/pr/2004/15\\_en.html](http://europa.eu.int/comm/anti_fraud/press_room/pr/2004/15_en.html)

- OLAF appears to be concentrating on the illegal use of funds for terror. The provisional findings do not comment on the widespread corruption and waste that diverts fund from their intended purpose. It is unclear why audit records of actual expenditure by Palestinians are not produced.
- As delay follows delay, the EC has exploited the fact that no report has been published in order to justify the continued flow of uncontrolled aid.

There is a further sphere for OLAF to consider, one that is beyond the scope of this document but has drawn MEP criticism. It is not clear if all the payments to the Palestinians have been made with European parliamentary approval, especially the payments over nearly two years to replace the deficit created by Israel's delayed transfers of customs and excise. (Similarly, see Appendix B for possible breaches of UK Parliamentary procedures.) It is in the interest of the taxpayers that this matter receives urgent clarification.

OLAF was provided a draft of this report, but declined to comment.

## **Other Reports on Contributions to the PA**

While OLAF has refrained from publishing any findings on the use of EU aid by the Palestinian Authority, a number of earlier investigations have unequivocally concluded that the PLO and the PA have incorporated a culture, which facilitates corruption and violence. This study has already detailed the comments of IMF official George Abed in 2002 and the IMF report from September 2003. Other documents include:

- In 1981, a former junior minister at the British Foreign Office wrote:<sup>107</sup>  
*'In essence the 'two-track' strategy is extremely simple; while the PLO strives energetically to build upon its reputation as a political and diplomatic mission, it deputises its less 'moderate', and consequently more embarrassing, activities to other extremists on its payroll.'*  
(It is evident that the PA's strategy of funding terrorism at arm's length is not new to the Palestinian national movement.)
- In 1991, the Pakistani-owned Bank of Credit and Commerce International collapsed. An investigation revealed that assets held there by the PLO amounted to at least \$10 billion.<sup>108</sup>
- In 1993, Britain's National Criminal Intelligence Service (NCIS) described the PLO as *'the richest of all terrorist organizations'*.<sup>109</sup>
- Reports from the CIA in 1990 and from the General Accounting Office (the investigative arm of the U.S. Congress) in 1995 reached conclusions similar to those of the NCIS.<sup>110</sup>

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<sup>107</sup> *'Left, Right'* by John Tomlinson, John Calder Publishers, 1981; P2

<sup>108</sup> *'Funding Evil'* by Rachel Ehrenfeld, Bonus Books, 2003

<sup>109</sup> Ibid

<sup>110</sup> Ibid

- In 1997, a report commissioned by the Swedish foreign aid department was prepared by Professor Sune Persson. It concluded that the PA was corrupt and was run in a totalitarian manner. Its recommendations were simple: money should no longer be channelled to the PA. The report was kept hidden until January 2004.<sup>111</sup>
- Also in 1997, a report<sup>112</sup> from Jarar Kidwa of the PA's own audit office noted dangerous financial negligence among several leading personalities, including Nabil Sha'ath, the current Palestinian Foreign Minister. And it identified staggering unexplained losses of tens of millions of dollars from PA coffers.

It is clear, then, that internationally respected sources have been publishing evidence of Palestinian corruption and funding of violence for years. European politicians and bureaucrats have ignored – intentionally or otherwise – a substantial body of work relevant to the subject of European aid to the Palestinians. As political agendas have been fulfilled, the interests of European taxpayers and citizens of the Middle East have been misplaced.

## **The EU and the PA – Where To Now?**

*'Let me repeat once more that if there is to be a Palestinian State, there needs [and] has to be a Palestinian Authority.'*<sup>113</sup>

Here, the European Commission through Mr. Patten argued the continuing necessity of support for the PA. Such thinking is also probably behind the British Parliament's approval of a series of grants to the PA and its associates, amounting to around £90 million over 3 years, starting from 2004.

The logic of the argument is not in dispute here. What is open for debate, however, is the nature of the Palestinian institutions that the European Union and individual governments are supporting – especially given that these institutions will be the foundation upon which an eventual independent Palestinian entity will be established.

There are strong arguments to be made in favour of supporting institutions for Palestinian self-governance. However, these arguments are seriously weakened when the institutions are repeatedly and openly associated with fraud, mismanagement, and misdirection of funds. This is an important lesson for Europeans considering future policy.

During 2004, the EU joined the World Bank's programme, "Public Financial Management Reform Trust Fund".<sup>114</sup> The EU will transfer funds to the PA through the World Bank, combining the Direct Budgetary Support (DBS)

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<sup>111</sup> *Sydsvenska Dagbladet*, and *Expressen* from March 1 – 7, 2004

<sup>112</sup> For a longer critique of PA corruption, see Palestinian website <http://electronicintifada.net/v2/article2432.shtml>

<sup>113</sup> [http://europa.eu.int/comm/external\\_relations/news/patten/sp02\\_293.htm](http://europa.eu.int/comm/external_relations/news/patten/sp02_293.htm)

<sup>114</sup> <http://domino.un.org/unispal.nsf/0/126ae88e18e7652985256e84006d6d21?OpenDocument>

previously provided separately by the EU and the World Bank. The World Bank will use its reputation to encourage other countries to join and increase their aid donations. As yet it is unclear how this consolidation will improve the controls over aid. It will remove the EU one further step from responsibility towards the taxpayer. However, it will still involve DBS for the PA, which will probably flow through the same channels as before. Moreover, there appears to be no attempt to introduce accountability for actual expenditures.

As noted previously, in recent years the world has repeatedly called on the PA to reform.<sup>115</sup> The need for reform relates to all sections of Palestinian governance: the police and judicial systems, political institutions, women's rights,<sup>116</sup> rights for homosexuals<sup>117</sup> and other minorities, press freedoms, and more. There is concern that such reforms may once again be pushed past the horizon, as demonstrated by the attempts in 2004 to disenfranchise residents of refugee camps in PA elections.<sup>118</sup>

For example, it is difficult to imagine a successful Palestinian state without a proper legal system for enforcing the law and resolving disputes; but the Palestinian areas have become a haven for vigilante street executions, protection rackets, cronyism, and other abuses – often carried out by salaried members of the PA's security forces.<sup>119</sup> If civil order cannot be maintained, how can donated money be distributed securely?

The efforts of Mr. Salim Fayyad, the Palestinian Minister of Finance, are impressive, but they also illustrate the limitations of European expectations. He has forced through a relaxation of monopolies on petrol, and he has made certain aspects of financial reporting procedures more transparent. However, he seems to be a lone voice – 'the acceptable face of Palestinian reform' – fighting an uphill battle against powerful entrenched interests. No other Palestinian minister can be cited for devoting such energies towards reform, or even for lending meaningful support to Fayyad's efforts.

Despite the presence of Minister Fayyad, there are still many examples of recent abuse of the Palestinian Authority treasury:

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<sup>115</sup> Even the United Nations' Middle East envoy, Mr Terje Larsen, launched a rare attack on Palestinian Authority Chairman Yasser Arafat and the failure of the Palestinians to implement reforms. Speaking in New York on 13 July 2004, he said: '*The PA, despite consistent promises by its leadership, has made no progress on its core obligation to take immediate action on the ground to end violence and combat terror and to reform and reorganize the Palestinian Authority,*'

<sup>116</sup> <http://www.theprismgroup.org/bookreviewhonor.htm>

<sup>117</sup> [http://news.bbc.co.uk/2/hi/middle\\_east/3211772.stm](http://news.bbc.co.uk/2/hi/middle_east/3211772.stm)

<sup>118</sup> '*The Supreme National Committee for the Protection of the Right of Return – announced yesterday that it opposes the participation of the refugee camps in the local elections that are expected to take place in the Palestinian territories. The committee justified its objection as protecting the unique status of the refugee camps in Gaza and the West Bank, considering them testimony to the crime that the occupation state made against our nation for 56 years. The committee warned of the dangers of integrating the refugee camps into the urban housing units...*' [Al-Hayat Al-Jadida, June 29, 2004, as translated by Palestinian Media Watch <http://www.pmw.org.il/Latest%20bulletin.html#RefugeeOrganization>

<sup>119</sup> <http://www.mercurynews.com/mld/mercurynews/news/world/9073245.htm?1c>

- The IMF issued a report in September 2003 stating that they had identified \$900m in assets 'diverted' from Palestinian taxes and revenues to private accounts of the Palestinian leadership. They also noted severe control weaknesses over the separate EU-funded budgets presided over by this same leadership.<sup>120</sup>
- The American television news program *60 Minutes* reported in November 2003<sup>121</sup> that Chairman Arafat had stashed close to one billion dollars in a secret portfolio, with investments in companies like the Coca-Cola bottling plant in Ramallah, a Tunisian cell-phone company, and venture capital funds in the US and the Cayman Islands. The money came from public funds that were supposed to be used for the benefit of the Palestinians.
- A BBC investigation in the same month<sup>122</sup> revealed that Arafat was distributing \$50,000 monthly to hundreds of members of the Al-Aksa Martyrs' Brigade.
- French authorities are investigating the alleged transfer of \$11.5 million to the bank accounts of Suha Arafat, Chairman Arafat's wife who lives in a Paris hotel, between July 2002 and September 2003.<sup>123</sup>
- Hasan Abu Nimah is a leading Jordanian diplomat. In February 2004, he noted that Chairman Arafat had refused to take action against leading Palestinians suspected of financial irregularities.<sup>124</sup> In June 2004, he observed how senior Palestinians were profiting from building the security wall for the Israelis.<sup>125</sup>

There are many similar instances of financial abuse.<sup>126</sup> What Europeans must also consider is that though aid may help to relieve some of the poverty, it won't cure the problem. The World Bank has been consistently clear on this subject. Two things are required in tandem: a relaxation of Israel's military regulation of Palestinian economic life and, equally important, *'on its part, the PA needs to make credible security efforts and to commit itself to a reinvigorated program of reforms...'*<sup>127</sup>

It is abundantly clear that despite massive flows of aid, the situation of the ordinary Palestinian has not improved. NGOs in the field point out that the average Palestinian must survive on around \$2 per day.<sup>128</sup> The intended target of EU financial support, the Palestinian civilian trying to survive and raise a family in Gaza or Ramallah, is not receiving the true benefit of this aid.

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<sup>120</sup> <http://www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf>

<sup>121</sup> <http://www.cbsnews.com/stories/2003/11/07/60minutes/main582487.shtml>

<sup>122</sup> [http://news.bbc.co.uk/2/hi/middle\\_east/3243071.stm](http://news.bbc.co.uk/2/hi/middle_east/3243071.stm)

<sup>123</sup> [http://news.bbc.co.uk/2/hi/middle\\_east/3479937.stm](http://news.bbc.co.uk/2/hi/middle_east/3479937.stm)

<sup>124</sup> <http://electronicintifada.net/v2/article2432.shtml>

<sup>125</sup> <http://electronicintifada.net/v2/article2843.shtml>

<sup>126</sup> <http://www.accessmiddleeast.org/document.aspx?did=f2f174bc-a40b-4328-8f0c-356053fab214>

<sup>127</sup>

[http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20217834~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365\\_00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20217834~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365_00.html)

<sup>128</sup> <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/uc1107-ii/uc110736.htm>

On April 21, 2004, Mr. Patten reported to the European Parliament Plenary Session in Strasbourg.<sup>129</sup> He noted that: -

*'Only recently I received a letter from the Palestinian Finance Minister Salam Fayyad which noted that with the help of the European Union the PA has now delivered on all of the reform commitments it had made to the Palestinian Legislative Council a year and a half ago. There is now a high degree of accountability with transparent budget procedures.'*

*'Parliament has had its own enquiry into these matters. OLAF has investigated these allegations. I have no more to say on the subject save to pay tribute to my officials who have tried to implement an important but difficult policy honestly, transparently and with integrity. I have to say that when I look at what has happened in the last few years, I can see all too little that has achieved as much as they have.'*

Bearing in mind the evidence produced in this paper, particularly the direct contradiction of previous European statements and the complaints of leading Palestinians, the *Funding for Peace Coalition* cannot help but pose the following questions to the EU, EC and in fact, the PA itself:

- Why, after decades of deceit, does the PA continue to issue false reports?
- Why, despite everything, do European political leaders and their civil servants believe these reports so readily?
- Why do EU funds continue to flow unchecked and unmonitored, when the Palestinian people themselves are in the midst of an uprising against corruption and against misuse of the funds that by rights should be used to improve the quality of their lives, their educational systems, and their health care?

It is time to give both the Palestinian Arab and the European taxpayer a better and more just deal.

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<sup>129</sup> <http://www.europa-eu-un.org/article.asp?id=3417>

## Summary

Europeans have provided vast sums of aid money to assist Palestinian Arabs.

The stated aim of this aid is to alleviate poverty, ensure a civil Palestinian society, bring about wide reforms, and provide a basis for peaceful resolution of the regional conflict.

With the launch of the Palestinian Intifada against Israel in September 2000, Palestinian poverty has deepened. This has been paralleled by an increase in violence, as well as nepotism, corruption and incitement. Hopes of a peaceful solution seem as far away as ever.

Despite repeated calls for massive reforms, only minor reforms have been implemented. These measures have been limited to the financial arena and introduced only insofar as they were absolutely necessary to ensure the ongoing flow of foreign aid. Huge sums remain uncontrolled. From all quarters, evidence continues to accumulate that EU aid money is diverted from its intended purpose.

As a Palestinian human rights activist recently stated, *'The biggest problem the Palestinians are facing today is the fact that they have a leadership that is continuing to steal their money.'*<sup>130</sup>

European politicians and civil servants became deeply entrenched in the defensive denial of any possible misuse of the funds Europe provided, as well as in a determination to provide more aid. Many of the statements provided by the EC and EU have already been proved false – often by evidence provided directly from publicly available Palestinian sources.

While funds continued to flow and Europe insisted that all was in order, recently the Palestinians themselves started to riot and call for reform. The situation continues to be extremely volatile, with little real change among the ruling Palestinian hierarchy or its strategy.

In our study, we have found that the European taxpayer has been treated with contempt and deception, both by the Palestinian leadership and by their own leaders. At the same time, over and above European concerns, the clear losers remain the Palestinian people themselves, who are joining many others in demanding accountability, fiscal responsibility, and clear and defined accounting procedures to prevent the diversion and misuse of EU funds.

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<sup>130</sup> <http://www.accessmiddleeast.org/document.aspx?did=5d9cf3db-2f45-41ee-866b-78b2c1194cfb>

## **Appendix A: Other Aid to the Palestinian Arabs**

Tracing how much money has been promised, given and absorbed by Palestinian society from overseas taxpayers is an academic task that has defeated agencies with far greater resources than the *Funding for Peace Coalition*.

According to The World Bank, '...donor disbursements to the Palestinians currently amount to approximately US\$1 billion per year or US\$310 per person—one of the highest per capita rates in the history of foreign assistance...' <sup>131</sup>

This document has consistently linked together funds given either directly to the PA or to related agencies such as UNRWA or NGOs on the ground. Palestinian society is very centralised, with nepotism a dominant feature.

It is known that many NGOs are linked to the top echelons of the PA.<sup>132</sup> They are not always free of corruption nor of involvement in violent activity. For example, the honorary president of the Palestinian Red Crescent Society (PRCS) is Dr. Fatchi Arafat, who is the brother of Chairman Arafat. PRCS has also received money from Europe via the ECHO programme from Brussels, the Italian government and others.<sup>133</sup> The Swiss Red Cross has reprimanded the PRCS in the past for using its resources for military purposes.<sup>134</sup>

Another case involves the leadership of the Palestinian Society for the Protection of Human Rights and the Environment (LAW), which has been accused of stealing \$4 million in donations from various European countries and institutions.<sup>135</sup> And recent Reuters' film footage in Gaza showed UNRWA ambulances being used to ferry gun-toting Palestinian militants in an intense combat situation.<sup>136</sup> (UNRWA has often denied that their facilities have been used for improper purposes.)

The question remains: aside from the EU, who gives all this aid? What follows is an analysis of legal contributions, necessarily excluding illegal transfers via the Arab Bank and other such means. It also excludes monies channelled through local charities, political organisations, etc.

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<sup>131</sup>

[http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20217834~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365\\_00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20217834~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365_00.html)

<sup>132</sup> Also see <http://www.ngo-monitor.org/editions/v2n08/v2n08-5.htm>

<sup>133</sup> [http://www.palestinercs.org/aid/humanitarian\\_support\\_to\\_pracs.htm](http://www.palestinercs.org/aid/humanitarian_support_to_pracs.htm)

<sup>134</sup> <http://image.thelancet.com/extras/02art8008web.pdf>

<sup>135</sup>

<http://www.haaretz.com/hasen/pages/ShArt.jhtml?itemNo=276395&contrassID=2&subContrassID=1&sbSubContrassID=0>

<sup>136</sup> <http://www1.idf.il/DOVER/site/mainpage.asp?sl=EN&id=7&docid=31540.EN> (The actual film footage was available on the internet for some time at an independent news site and was viewed by members of the *Funding for Peace Coalition*. We remain perplexed as to why this footage was suppressed from general distribution.)

A leading donor has been the USA. Through USAID, approximately US\$1.3 billion has been donated towards Palestinian development since 1993.<sup>137</sup> In light of this, it is hard to comprehend the complaints of European leaders that the Americans singularly support the Israelis.<sup>138</sup>

Other leading Western countries<sup>139</sup> known to make healthy financial contributions to the Palestinian economy include Norway<sup>140</sup>, Japan<sup>141</sup>, Canada<sup>142</sup>, Sweden<sup>143</sup>, Australia<sup>144</sup>, Switzerland<sup>145</sup>, New Zealand<sup>146</sup>, Finland<sup>147</sup> and Ireland<sup>148</sup>. Appendix B contains a discussion of the UK contribution.

The World Bank is also a significant contributor to the coffers of the PA: *'since September 2000, the Bank disbursed approximately \$260 million to the Palestinian Authority, including over \$100 million on behalf of other donors. It is currently the fifth largest donor in the West Bank and Gaza.'*<sup>149</sup>

What has yet to be traced successfully is the level of aid flowing in from countries associated with the Arab League. Vast sums of money flowed in via the banks BCCI and The Arab Bank. In private correspondence between a British MEP and a constituent from October 2003, the MEP quoted from an EC paper: *'It is estimated that Arab donors contributed US\$299 in the period June to Dec 2001'*. Saudi

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<sup>137</sup> <http://www.usaid.gov/wbg/budget.htm>

<sup>138</sup> For a summary and particular discussion, see <http://www.israeleconomy.org/strat11/strategic11.pdf>

<sup>139</sup> The list of countries is not exhaustive, but it is indicative of the widespread goodwill and delivery of aid, the orders of magnitude of the sums involved, and the worldwide interest that *should* exist in ensuring proper controls over aid money provided to the Palestinian Arabs. The footnotes to this paragraph do not provide comprehensive summaries of each country's aid to the Palestinian Arabs. This is a task beyond the scope of the current work, and would not significantly change the point being made. The notes give examples of aid for each country and indicate the orders of magnitude.

<sup>140</sup> <http://odin.dep.no/ud/engelsk/aktuelt/pressem/032131-070014/dok-bn.html>

<sup>141</sup> For example [http://www.mofa.go.jp/region/middle\\_e/palestine/summary.html](http://www.mofa.go.jp/region/middle_e/palestine/summary.html) and <http://www.mofa.go.jp/announce/announce/2004/5/0515.html> and <http://www.mofa.go.jp/announce/announce/2004/3/0301.html>

<sup>142</sup> <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/vLUDocEn/D370CB2ACF2EB43785256D6C004C82CB?OpenDocument>

<sup>143</sup> <http://www.sida.se/Sida/jsp/polopoly.jsp?d=3694&a=25275>

<sup>144</sup> For example [http://www.usaid.gov.au/media/release.cfm?BC=Media&Id=1461\\_3592\\_1893\\_9265\\_583](http://www.usaid.gov.au/media/release.cfm?BC=Media&Id=1461_3592_1893_9265_583) and [http://www.usaid.gov.au/media/release.cfm?BC=Media&Id=8593\\_2067\\_6166\\_248\\_2849](http://www.usaid.gov.au/media/release.cfm?BC=Media&Id=8593_2067_6166_248_2849)

<sup>145</sup> <http://www.reliefweb.int/w/rwb.nsf/6686f45896f15dbc852567ae00530132/fa31a3582999d69c85256ead0054229e?OpenDocument>

<sup>146</sup> For example <http://www.haaretzdaily.com/hasen/spages/445710.html> and <http://www.scoop.co.nz/mason/stories/PA0305/S00748.htm>

<sup>147</sup> <http://www.reliefweb.int/w/rwb.nsf/0/3795e6104c0830d849256e4a000fdbac?OpenDocument>

<sup>148</sup> <http://www.dci.gov.ie/palestine.asp>

<sup>149</sup>

[http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20195950~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365\\_00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:20195950~menuPK:294370~pagePK:141137~piPK:141127~theSitePK:294365_00.html)

Arabia alone declares that it has given close to \$2 billion in aid to the 'Palestinian cause'.<sup>150</sup>

The website of the Palestinian Ministry of Finance provides details of official direct donor aid from January 2003 to June 2004.

<b>Direct Budgetary Aid to the Palestinian Authority</b>		
<b>Jan 2003 – June 2004</b>		
<b>Country/Program</b>	<b>\$US m</b>	<b>%</b>
Emergency Services Support Project (ESSP)	81.63	
World Bank – Other Grants	20.00	
World Bank – Loans	7.21	
<b>World Bank Total</b>	<b>108.84</b>	<b>25.26%</b>
EU	112.79	26.18%
Saudi Arabia	107.80	25.02%
Norway	22.03	5.11%
United Arab Emirates	21.45	4.98%
Libya	12.05	2.80%
Algeria	9.40	2.18%
Kuwait	7.50	1.74%
Canada	7.00	1.62%
Britain	6.00	1.39%
Palestinians Abroad	5.42	1.26%
Qatar	4.40	1.02%
Bahrain	3.30	0.77%
Japan	1.26	0.29%
Egypt	1.00	0.23%
South Africa	0.50	0.12%
Greece	0.15	0.03%
<b>Total Direct Budgetary Aid</b>	<b>430.89</b>	<b>100.00%</b>

Source: Palestinian Authority Ministry of Finance  
<http://www.mof.gov.ps/Reports-E.htm>

It should be noted that many international agencies also operate independent programmes and substantial budgets in the region, with their projects receiving funding from specific countries as well as UN allocations and private donations. Besides the previously mentioned UNRWA, UNESCO, and UNICEF, these include the UN Food and Agricultural Organisation (FAO), the International Committee of the Red Cross (ICRC) and others. UNRWA alone employs over 20,000 local Palestinians.

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<sup>150</sup> <http://www.saudiembassy.org.uk/publications/middle-east-peace-process/middle-east-peace-process-3.htm>. Also, the world media reported extensively donations from Libya and Iraq to families of Palestinian homicide bombers. These are assumed to have totalled hundreds of thousands of dollars.

In summary, the above discussion does not attempt to detail all overseas contributions to the Palestinians since 1993. What is clear is that the level of aid has been huge – possibly \$10 billion. What remains unclear is where all this money has gone, and whether any of it is recoverable.

In this context, it is worth repeating the words of former Palestinian Legislative Council Speaker Rafik al-Natsheh, who said that the PA did not need foreign aid. There were billions of dollars that were in the possession of the authority, *'but no one knows anything about the funds.'*<sup>151</sup>

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<sup>151</sup> [http://www.countrywatch.com/cw\\_wire.asp?vCOUNTRY=140&UID=1168833](http://www.countrywatch.com/cw_wire.asp?vCOUNTRY=140&UID=1168833)

## **Appendix B: UK Aid to the Palestinian Arabs**

The UK has consistently contributed aid to Palestinian agencies and causes. Comments from British ministers often reflect viewpoints sustained in Brussels, as this study has noted. In November 2003, the Department for International Development (DFID) submitted three memoranda to a Parliamentary Select Committee.<sup>152</sup>

The submissions are interesting for 4 reasons:

First, they reflect the levels of UK financial support. The UK has given £190 million for EC funding to the West Bank and Gaza between 1994 and 2003, and a further £12 million via the World Bank. On average, another £25 million has been handed over annually to social projects, which include UNRWA. This is a total approaching £450 million over a decade.

Second, breakdowns are provided for some of the allocations made, including classrooms and drainage systems. However, what are not detailed are the auditing efforts that were (or were not) implemented to ascertain the true costs of these projects and what money was paid to whom. As previously observed, in a society pervaded by nepotism, there is a clear danger of taxpayers' money being misused.

Third, the reader might infer an attempt to deflect MPs' attention from the detailed positions of the World Bank regarding aid to the Palestinians. The DFID wrote that *'World Bank analysis suggests that DBS is the most effective aid instrument for reducing poverty in the Palestinian Territory.'*

In fact, the World Bank stated very clearly that although international contributions will continue to alleviate poverty, even a doubling of the aid would not alleviate the problem. The World Bank went on to specify that the ongoing problems of poverty and hardship would be alleviated only by the relaxation of Israeli military controls combined with the wholesale reform of the Palestinian financial management of these contributions.<sup>153</sup>

It can only be left to speculation why MPs were presented with this misleading statement.

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<sup>152</sup> <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/uc1107-ii/uc110702.htm> and <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/uc1107-ii/uc110703.htm> and <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/uc1107-ii/u110714.htm>

<sup>153</sup> [http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/WBGsummary-ENG/\\$File/WBGsummary-ENG.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/WBGsummary-ENG/$File/WBGsummary-ENG.pdf) (pp3 - 4)

Finally, the DFID outlined four criteria for supplying direct budgetary assistance (DBS) to governments.

1. A thorough evaluation of public financial management and accountability systems, and associated risks, has been carried out.
2. The government has a credible programme to improve standards of these systems.
3. The potential development benefits justify the risks, taking account of any safeguards that can be put in place to buttress and develop these systems.
4. These assessments are explicitly recorded as part of the decision-making process to provide assistance.

Despite the arguments of the DFID in the memoranda, the PA has not met such criteria.

The DFID has stated openly that it has yet to provide DBS to the PA. However, the DFID hands out money to the EC and the World Bank, knowing openly that these organisations have funded and will continue to fund the PA directly, thus breaking the spirit of its own criteria. It is unclear to the *Funding for Peace Coalition* if this policy has been approved by the Parliament in Westminster.

It would appear that there is room for further clarification by the DFID.

## **Appendix C: The Arab Bank – Laundering PA Income**

The case of the Arab Bank indicates the extent to which the Middle East is awash in untraceable money, much of which ends up funding terrorism or enriching the corrupt.

The Arab Bank is one of the largest banking institutions in the Muslim world. On 25 February 2004, Israeli security services temporarily closed down the Arab Bank branch in Ramallah and confiscated various records of the accounts held there. Documents released by Israeli authorities<sup>154</sup> have established the following:

- The bank acted as a conduit for money from Iran and elsewhere to Palestinian groups such as Hamas and the Islamic Jihad, which are defined as terrorists by the European Union.
- The precise extent of these activities is as yet unknown. They have clearly been ongoing at least since the previous decade, and the total dollar amount involved is at least in the six-figure range.
- Money has also been transferred to operatives of Fatah, the main component of the PLO, whose members are involved in terror activities. Fatah, the PLO, and the Palestinian Authority are all led by Chairman Arafat.
- The Bank has been used to transfer money to families of Palestinian combatants who have 'died in battle'.
- There are significant links between the directors of the Arab Bank and the leading echelons of the PA. Moreover, the PA was clearly aware of the bank's activities, because it was forced twice to close some of the Hamas accounts in the bank due to international pressure but reopened them.
- The Palestinian Security Services, headed by Chairman Arafat, were aware of the nature of the bank's activities.

In July 2004, the French journal *Capital* released a four-page exposure of Chairman Arafat's methods of financing his campaigns.<sup>155</sup> The final page showed how Chairman Arafat's personal financier, Mohammed Rashid, has been personally involved in illicit bank transfers, in particular when using accounts at the Arab Bank. European lawmakers have recently also expressed concern about Yasser Arafat's transfer of millions of dollars to his personal account with the Cairo branch of the Arab Bank.<sup>156</sup>

At the time of this report's preparation, the Arab Bank was being sued in US courts for its alleged facilitation of 'insurance policy' payments to families of those who were captured, were wounded or died while committing terrorist

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<sup>154</sup> According to our sources, the Israeli authorities have yet to analyse most of the captured documentation. See <http://www.intelligence.org.il/eng/finance/bank.htm> and [http://www.intelligence.org.il/eng/sib/6\\_04/int.htm](http://www.intelligence.org.il/eng/sib/6_04/int.htm)

<sup>155</sup> <http://eufunding.org/terror/Nielson2.html>

<sup>156</sup>

<http://www.jpost.com/servlet/Satellite?pagename=JPost/JPArticle/ShowFull&cid=1090466085170&p=1078113566627>

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acts. It is also accused of being a money-laundering operation for illicit charities such as the Holy Land Foundation, which funnels money to the Hamas terrorist organisation.<sup>157</sup>

Inquiries from members of the *Funding for Peace Coalition* have revealed that at least some of the EU aid passes through the Palestinian Authority's accounts at the Arab Bank.

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<sup>157</sup> [http://www.usatoday.com/money/industries/banking/2004-07-06-arabbank\\_x.htm](http://www.usatoday.com/money/industries/banking/2004-07-06-arabbank_x.htm) and <http://releases.usnewswire.com/GetRelease.asp?id=109-08102004>

## **Appendix D: A Sample of PA Employees Known Involvement in Terror**

As noted in the body of this report, representatives of the EU have consistently denied that PA employees, who are paid from an EU-funded payroll, were involved in terror.

The following is a sample of known cases of such persons. While not intending to be comprehensive, the list demonstrates that all levels of the various Palestinian Security Services have members involved in terrorism. Chairman Arafat heads all these services.

**Marwan Barghouti** – leader of the terrorist organization Fatah/Tanzim in the West Bank. Despite his arrest and indictment for the murder of 26 Israelis, he continued to receive a salary of \$2500 per month from the PA.<sup>158</sup> In addition to his personal involvement in these murders, Barghouti allocated special funds for terrorists, and for attacks against Israel, with Arafat's full approval.<sup>159</sup> Although cleared in the majority of the 52 charges against him, Barghouti was found guilty of five counts of murder and additional counts of involvement with a terrorist organization.

**Nasser Awis**<sup>160</sup> – an officer in General Intelligence and General Security apparatuses. He received regular salaries from the PA. Head of Al-Aksa Martyrs Brigades in Samaria, he was captured by the IDF on 13 April 2002. Awis was the link between Barghouti and the Fatah military arm in West Bank and Gaza, responsible for attacks since January 2002 that killed 20 Israelis and wounded 120, including the attack on a family Bat Mitzvah in Hadera. The PA knew this. Not only was his name on Israel's most-wanted list, but he was listed by the PA report as heading the Al-Aksa Martyrs Brigades in Tulkarm.

**Yousef Hanani**, a member of the Palestinian Preventive Security in the West Bank, which duty it is to thwart and prevent terror attacks, killed 50 year old Shlomo Miller in a shooting attack on 13 August 2004.<sup>161</sup>

**Naif Abu Sharah** – killed by the IDF in June 2004. He was the head of the Al-Aksa Martyrs Brigades in Nablus, which was responsible for attacks in which 25 civilians were killed, most of them in Tel Aviv. Sharah allegedly also killed Palestinians who did not follow his orders.<sup>162</sup> IDF security sources identify Sharah as a former employee of the PA's General Intelligence Unit.

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<sup>158</sup> IMRA September 10, 2002, [www.imra.org.il](http://www.imra.org.il)

<sup>159</sup> <http://www.intelligence.org.il/eng/bu/financing/pdfs/09.pdf> 'International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements,' May 10, 2002, p. 51.

<sup>160</sup> <http://www.intelligence.org.il/eng/bu/financing/pdfs/05.pdf> 'The Palestinian Authority Employs Fatah Activists Involved in Terrorism and Suicide Attacks.' p. 8.

<sup>161</sup>

<http://www.jpost.com/servlet/Satellite?pagename=JPost/JParticle/ShowFull&cid=1092377977773>

<sup>162</sup> <http://washingtontimes.com/upi-breaking/20040627-074359-2858r.htm>

**Hathem Yousef** – arrested in April 2004 Born in 1976, he is a Tanzim terrorist and a member of Bashir Nefah's special force (PA) in Bethlehem. He has been involved in terrorist attacks.<sup>163</sup>

**Jamal Hamamreh** – arrested in April 2004. Born in 1967, he is one of the senior terrorists leading the Tanzim in the area of Bethlehem. He is an officer in the Palestinian Preventive Intelligence apparatus, and he was engaged prior to his arrest in planning of suicide attacks that were to be carried out in Jerusalem.<sup>164</sup>

**Muin Abdel Aziz Atallah** – an officer in the Palestinian Preventive Security Service. He was involved in dispatching the two suicide bombers who carried out the attack on Ashdod Port<sup>165</sup> in which 10 people were killed and 16 wounded. He was arrested on March 14, 2004.<sup>166</sup>

**Raad Mansour** – an officer in the Palestinian Authority (PA) Police. He served as a senior Tanzim-Fatah terrorist and a commander of the Black Arms, one of the organization's military wings. He was arrested in March 2004 in the village of Kalil, near Nablus. He admitted that his activities were directed and guided by former PA Minister and current PA Legislative Council member **Abdul Fatah Khamil**, by senior Fatah member **Hasin Al Sheikh**, and by **Hosam Shahin**. The latter, prior to his arrest by Israel, had been appointed by **Jibril Rajoub** to liaise with various terrorists and supervise the transfer of funds.<sup>167</sup>

**Ali Ja'ara** – a Palestinian policeman and a member of the Al-Aksa Brigades. He killed at least 10 people in a suicide terror attack on a Jerusalem bus on January 29, 2004.<sup>168</sup>

**Ikram Tubasi Ja'ara** – a Palestinian policeman. He admitted paying Egyptian youths to smuggle weapons, which he then sold to senior officials in the PA security services.<sup>169</sup>

**Mahmud Abu Shmallah** –in April 2003, head of the Hamas terrorist group in Rafah. Abu Shmallah continued his terrorist activity with Hamas while serving

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<sup>163</sup> <http://www.mfa.gov.il/mfa/terrorism-%20obstacle%20to%20peace/terrorism%20and%20islamic%20fundamentalism-/Arrest%20Tanzim%20terrorists%20in%20Bethlehem%201-Apr-2004>

<sup>164</sup> <http://www.mfa.gov.il/mfa/terrorism-%20obstacle%20to%20peace/terrorism%20and%20islamic%20fundamentalism-/Arrest%20Tanzim%20terrorists%20in%20Bethlehem%201-Apr-2004>

<sup>165</sup>

[http://www.mfa.gov.il/MFA/MFAArchive/2000\\_2009/2004/3/Suicide+bombing+at+Ashdod+Port+14-Mar-2004.htm](http://www.mfa.gov.il/MFA/MFAArchive/2000_2009/2004/3/Suicide+bombing+at+Ashdod+Port+14-Mar-2004.htm)

<sup>166</sup> <http://www.mfa.gov.il/mfa/terrorism-%20obstacle%20to%20peace/terrorism%20and%20islamic%20fundamentalism-/Palestinian%20security%20officer%20arrested%2022-June-2004>

<sup>167</sup> <http://www.mfa.gov.il/mfa/terrorism-%20obstacle%20to%20peace/terrorism%20and%20islamic%20fundamentalism-/Arrest%20Tanzim%20terrorist%2029-Mar-2004>

<sup>168</sup> <http://www.cnn.com/2004/WORLD/meast/01/29/jerusalem.blast/>

<sup>169</sup> <http://www.aipac.org/Smuggling.pdf>

simultaneously in the Palestinian civilian police.<sup>170</sup> The EU has outlawed Hamas as an illegal terrorist organization.

**Alaah Zarwaki** – a Palestinian policeman who in January 2002 admitted to being part of the Al-Aksa Brigades and to planning terror attacks.<sup>171</sup>

**Tawfik Tirawi** – head of the Palestinian General Intelligence Service. In July 2002, it was reported that several arrested Palestinian terrorists identified him as being directly involved in directing terror attacks.<sup>172</sup>

**Fuad Shubaki**<sup>173</sup> – while PA Chief Financial Officer, involved in the *Karine-A* arms smuggling operation.<sup>174</sup> He allocated \$80,000 for a heavy arms factory on behalf of the Al-Aksa Martyrs Brigades. Several PA documents show PA officials requesting funding from him for known Fatah terrorists, while praising their 'fighting abilities.'<sup>175</sup> Palestinian Ministry of Finance official documents dating back to 1998/1999 explicitly state 'payment to Fatah movement.'<sup>176</sup> Other documents from 2001, including documents with Arafat's own approval, list payments to Fatah/Tanzim activists. Marwan Barghouti, head of Fatah/Tanzim in the West Bank, wrote the checks.<sup>177</sup>

**Muhamed Hashaiki** – a Palestinian policeman who committed a suicide attack in March 2002<sup>178</sup>

**Farid Azouni** – a Palestinian policeman who on August 5, 2001, conducted a drive-by shooting in which UK citizen Steven Bloomberg and his daughter Tsippi were crippled. Bloomberg's pregnant wife, Tehiya, was killed. The attack was ordered by Tulkarm (PA) regional police chief **Samar Abu Hania**.<sup>179</sup>

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<sup>170</sup> <http://www1.idf.il/dover/site/mainpage.asp?sl=EN&id=7&docid=21329.EN>

<sup>171</sup>

<http://66.102.9.104/search?q=cache:pTfRzUGZ4aoJ:www.jpost.com/Editions/2002/01/15/News/News.41679.html+%22Palestinian+policeman%22+terror&hl=en>

<sup>172</sup>

<http://www.haaretzdaily.com/hasen/pages/ShArt.jhtml?itemNo=182970&contrassID=1&subContrassID=0&sbSubContrassID=0>

<sup>173</sup> 'International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements,' May 10, 2002, p.55.

<sup>174</sup>

[http://www.mfa.gov.il/mfa/mfaarchive/2000\\_2009/2002/5/The%20Involvement%20of%20Arafat-%20PA%20Senior%20Officials%20and](http://www.mfa.gov.il/mfa/mfaarchive/2000_2009/2002/5/The%20Involvement%20of%20Arafat-%20PA%20Senior%20Officials%20and) Dani Naveh et al, 'The Involvement of Arafat, PA Senior Officials and Apparatuses in Terrorism against Israel, Corruption and Crime,' p. 50.

<sup>175</sup> 'The Palestinian Authority Employs Fatah Activists Involved in Terrorism and Suicide Attacks,' pp. 15, 17.

<sup>176</sup> 'International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements,' May 10, 2002, p. 40.

<sup>177</sup> 'International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements,' May 10, 2002, pp. 51-54.

<sup>178</sup> Israeli security services information

<sup>179</sup> <http://www.mfa.gov.il/MFA/Terrorism-+Obstacle+to+Peace/Memorial/2001/Tehiya+Bloomberg.htm> and <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2002/11/03/wmid103.xml>

**Tarek Handjaki** – a member of Arafat's personal guard, Force 17. He was involved in a shooting attack at the Beka roadblock in the year 2000.<sup>180</sup>

**Nazid Ahmed Sawafta** – a member of Arafat's personal guard, Force 17. He was arrested by Israel for involvement in terror activities.<sup>181</sup>

**Marwan Zallum** – a senior Fatah activist involved in 'many lethal shooting attacks'.<sup>182</sup> He was given an official position in the PA.

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<sup>180</sup> Israeli security services information

<sup>181</sup> Israeli security services information

<sup>182</sup> 'The Palestinian Authority Employs Fatah Activists Involved in Terrorism and Suicide Attacks.' p. 14.