

Gaza's Economy: How Hamas Stays in Power

by [Ehud Yaari \(/experts/ehud-yaari\)](/experts/ehud-yaari)

Jan 6, 2011

ABOUT THE AUTHORS



[Ehud Yaari \(/experts/ehud-yaari\)](/experts/ehud-yaari)

Ehud Yaari is a Lafer International Fellow at The Washington Institute.



Brief Analysis

Since Israel's August 2005 withdrawal from the Gaza Strip, Hamas has evolved from a relatively small movement into a well-funded conglomerate. Instead of being crippled by sanctions and siege, the organization has found ways to surmount early difficulties -- such as frequent payroll delays -- and establish an effective system of governance, ever tightening its grip over its fiefdom. As a result, Hamas has been able to empower loyalists while leaving the main burden of responsibility for Gaza's 1.6 million residents to others. Unfortunately, both the Ramallah-based Palestinian Authority (PA) and international donors have tolerated this situation, effectively contributing, if indirectly, to Hamas coffers.

Gaza's Economy

Reliable data regarding Gaza's finances is very difficult to obtain. Hamas has tight lips, the Israel Defense Forces (IDF) release little information, and international agencies such as the International Monetary Fund (IMF) and World Bank generally aggregate Gaza and the West Bank when presenting statistics. Much of the information in this article is derived from Palestinian news reports and interviews with informed sources in Gaza; accordingly, most of the figures below should be treated as rough approximations.

The IMF estimated Gaza's 2009 gross domestic product (GDP) growth at 12 percent, an impressive number. According to a September 2010 IMF report, the total Gazan and West Bank GDP was \$7 billion, while the gap in per capita income between the two areas was 48 percent; this data, combined with other relevant statistics, implies that Gaza's per capita GDP was around \$1,400, much of which derives from payments by the PA. Transfers and remittances added 50 percent more income, implying that average total per capita income was, in fact, \$2,100. Yet much of this income does not represent productive economic activities, and unemployment remains high -- probably around a third of the workforce.

One must also take into account the considerable trade conducted via the more than 800 tunnels into Egypt. Based on fragmentary evidence, this trade likely peaked at around \$600-850 million per year. Much attention has already been devoted to the goods smuggled into Gaza, such as fuel and cement. Less well understood is the fact that, in exchange for these goods, cash has been steadily exported out of Gaza through the tunnels, at a rate of roughly \$750 million per year. Cash is also flowing out of Gaza -- through the tunnels and via bank transfers -- to safe havens in

Persian Gulf countries and Europe. The new wealthy class -- many associated with Hamas -- as well as established capital owners are concerned about keeping their money inside Gaza, preferring to move it abroad. And even with huge sums flowing out of the territory, there is still more cash than opportunities to invest it. In February 2009, for example, Gaza banks actually turned to Israel's Central Bank with an odd request: to deposit excess cash reserves in Israel.

Where does all this cash come from? Many assume that substantial sums have been entering Gaza via the tunnels since 2008, but this can be only partially confirmed. Instead, the cash inflow seems to come primarily through banks. According to Palestinian banking officials, an average of \$2 billion per year has been transferred into Gaza via the Palestinian banking system since Hamas's June 2007 military takeover. The PA alone wires an estimated \$1.2 billion per year into Gaza banks, much of it as pensions and salaries for the 77,000 employees kept on the payroll even though they are not working. In fact, this estimate may be conservative; according to PA prime minister Salam Fayad, 54 percent of the PA's \$3.17 billion 2010 budget went to Gaza. Most of that figure appears to be salaries, although it also covers what the PA pays directly for electricity, fuel, and water provided to Gaza by Israeli firms.

In addition, the UN Relief and Works Agency annually transfers about \$200 million in cash to Gaza, along with \$250 million per year worth of goods, grains, and fuel. Cash is also transferred into Gaza by the 160 nongovernmental organizations operating there, by international organizations such as the World Bank, and by foreign government aid organizations, although much of what they spend arrives in the form of goods shipped via Israel.

Hamas Resources

Hamas officials consistently refuse to disclose budgetary details or any other information regarding their sources of income. One official, Jamal Nasser, claimed that the group derives only \$60 million per year from fees and taxes, with the rest coming from gifts and foreign aid. That does not appear to be the case, however. According to Israeli military intelligence, Iranian subsidies to Hamas total around \$100 million annually, or less than 20 percent of the group's proclaimed budget, stated to be \$540 million in 2010. Iranian funds are directed mostly toward the Hamas Political Bureau in Damascus, primarily for weapons purchases and shipments, rather than toward Gaza. PA president Mahmoud Abbas has offered a much higher estimate, claiming that Iranian aid is approximately \$250-500 million, but little evidence supports his figure.

Hamas likely raises as much as \$250 million annually via taxes. The group has imposed all sorts of new fees and taxes, such as charging three Israeli new shekels (NIS) on every pack of cigarettes (which may generate around \$80 million annually) and an NIS 1,400 auto registration fee (which may generate an additional \$25 million based on estimates of 60,000 registered cars in Gaza). Hamas also regulates many types of businesses -- from street vendors to Gaza's twenty money-changing companies -- requiring them to pay license fees. In addition, taxes are collected on "luxury" goods coming from Israel, and even on motorcycles and carts.

Hamas also takes a hefty cut from the Egyptian tunnel trade, imposing high "customs" duties and a daily fee on local tunnel contractors. Such trade has been dramatically reduced since June 2010, when Israel quadrupled the number of trucks permitted to bring goods to Gaza through legal terminals. To replace lost tunnel income, Hamas is reportedly taking advantage of the relative drop in prices on goods arriving via official Israeli channels, imposing new taxes on various items. For example, from early July to September 20, 2010, the group barred the importation of new cars from Israel until the taxation issues were resolved.

Hamas is also exploiting its control over various Gaza resources, such as leasing government-owned heavy machinery to private contractors for a daily fee. This is one of many ways the group has been able to indirectly benefit from the international reconstruction funds flowing into Gaza.

Hamas Expenditures

In 2005, Hamas was a modestly sized organization of 4,000-7,000 military personnel, with a small charity and education network and a skeletal party bureaucracy. From 2006 to 2010, however, the funds at the group's disposal reportedly grew from \$40 million to \$540 million. At the same time, Hamas has gained full control over all government ministries and municipal councils in Gaza, as well as many civilian agencies. It also holds a monopoly of power over every security and intelligence service in the territory, such as the 10,000-strong "blue" police. In total, Hamas pays salaries to at least 35,000 employees, among them many of the 20,000-plus armed personnel. Given this apparent payroll and an estimated average monthly salary of NIS 1,500 (\$425), the group may be spending -- according to Prime Minister Ismail Haniyah -- as much as \$300 million per year on salaries, a sum greater than the entire PA payroll. Hamas also claims that it allocates \$30 million annually to its activities in the West Bank, without disclosing the methods by which funds arrive there.

To help curb illicit financing, the United States has designated the Hamas Islamic National Bank and the Gaza Postal Bank as "terrorist entities," but it is not clear how much this measure has affected their operations. Both banks continue to conduct business in NIS, and they seem to have developed ways of working with moneychangers used by individuals who receive their salaries in U.S. dollars. The Islamic National Bank even has sufficient liquidity at present to offer home mortgages.

This state of play demonstrates Hamas's major success in overcoming the system of blockade, boycott, and denial of recognition and assistance imposed by Israel, the PA, most Arab countries (especially Egypt), and the West. In addition to its own direct spending, Hamas has been able to tap into financial resources transferred by the PA and aid agencies, ensuring payments to supporters who have replaced Fatah loyalists in government jobs. Lists used by donors to screen for terrorists include very few Hamas operatives; even if this problem were addressed, the screening of PA employees is largely done by Hamas sympathizers. In total, thousands of Hamas members, including many military personnel with fake civilian positions, are paid by outside donors.

The movement has also recently turned to purchasing all sorts of businesses and initiating new ventures, such as the Islamic Bank, the al-Multazim insurance firm, housing projects, hotels, a shopping mall, resorts, agricultural farms, and a fish hatchery. In fact, Hamas's economic mini-empire is fast becoming the main player in Gaza's private sector. The group often forces businesses to close down in order to eliminate competition. It also coerces owners into selling items for cheap or "contributing" to Hamas either in cash or in kind (e.g., building materials). Frequently, new Hamas businesses are registered under the names of straw owners or individuals from Hamas cadres. The group has also taken over all the land belonging to the former Israeli settlement of Gush Katif, along with parts of the Gaza beachfront.

Conclusion

Soon after its 2006 electoral victory in Gaza, Hamas faced great financial difficulties, leading the group to smuggle millions of dollars in cash through Egypt. Today, however, Hamas has managed to develop local sources of steadily growing income, mainly by exploiting the huge aid sums transferred by the PA and international donors to sustain the general population. No effective mechanism is in place to prevent the group from taking advantage of the constant cash flow into Gaza; as a result, a significant part of the money intended to help alleviate the hardship of the region's inhabitants has gone to waste. More rigorous measures are needed to restrict Hamas's ability to siphon off such funding for its own purposes.

Ehud Yaari is an Israel-based Lafer international fellow with The Washington Institute. Eyal Ofer is a researcher specializing in the Palestinian economy. ❖

RECOMMENDED



ARTICLES & TESTIMONY

[How to Make Russia Pay in Ukraine: Study Syria](#)

Feb 15, 2022

Anna Borshchevskaya

[\(/policy-analysis/how-make-russia-pay-ukraine-study-syria\)](#)



BRIEF ANALYSIS

[Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy](#)

Feb 14, 2022

Simon Henderson

[\(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy\)](#)



BRIEF ANALYSIS

[Libya's Renewed Legitimacy Crisis](#)

Feb 14, 2022

Ben Fishman

[\(/policy-analysis/libyas-renewed-legitimacy-crisis\)](#)

TOPICS

[Arab-Israeli Relations \(/policy-analysis/arab-israeli-relations\)](#)

[Energy & Economics \(/policy-analysis/energy-economics\)](#)

Terrorism (/policy-analysis/terrorism)

REGIONS & COUNTRIES

Israel (/policy-analysis/israel)

Palestinians (/policy-analysis/palestinians)