

# Prospects for Palestinian Economic Reform

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## Brief Analysis

**T**he Palestinian economy has reached a situation like none it has ever experienced before. For several years leading up to 1999, average annual growth within the PA was estimated at 6.5 percent. Unemployment shrank to around 11.5 percent, poverty figures were on the decline, and, for the first time, the Palestinian economy was absorbing more Palestinian laborers than Israel. The economy might have been in an even better situation had trade and border conditions not been under strict Israeli control. Under such control, transported goods often had to be unloaded, checked, and reloaded, on top of several other impediments to the free flow of goods. Despite these impediments, however, the economy was progressing at a significant pace.

Today, the situation is much different. Within the PA, poverty stands at around 65 percent and unemployment at 50 percent, while the economy continues to shrink. Trade has come to a virtual standstill, with no movement of goods or people in any direction. The economic situation has deteriorated to such a degree that many Palestinians must rely on handouts in order to survive and feed their families.

### What Is Needed Today?

The official Palestinian delegation that visited Washington recently had hoped to secure not only economic aid but also a change in the situation on the ground. The siege on the Palestinian territories must be lifted; otherwise, trade and economic recovery will remain unachievable goals. Such a move is in the interests of both the Palestinian and Israeli economies -- the Israeli economy has also been dealt a severe blow and is suffering tremendously from the current cycle of violence.

The issue that seems to attract the most attention these days, however, is that of reform. Reform is not a new priority for the PA, but an issue that has been around for four years. Yet, if the process of reform is to succeed, it must be built on two key pillars: transparency and good governance.

With this in mind, Salaam Fayad, the new Palestinian minister of finance, is doing a great job in consolidating all the revenue and expenditure accounts of the PA into one account in the Ministry of Finance. This will put an end to all extra-budgetary expenditures and prevent all unauthorized persons from accessing the accounts. All government investments in the private sector will now be consolidated into one authority that will be known as "the Palestinian Investment Fund." The Ministry of Finance will also assign an internal auditor to each of the different ministries and agencies in the PA. These auditors will report to, and fall under the direct authority of, the finance minister himself.

In addition, a pension system is a necessity for any civil reform process. The PA cannot begin dismissing employees whose services are no longer needed until a full pension system is in place for these individuals. The PA is currently working on such a fund with the World Bank and other international organizations. The present pension system covers only Gaza Strip employees, not those in the West Bank.

Another important issue involves helping the private sector survive this financially difficult period. The private sector is currently low on cash due to lack of liquidity in the economy and has been forced to fire tens of thousands of employees. Moreover, Israel has withheld \$650-700 million from the PA, two thirds of which constitute payments

that the PA owes to the private sector; this has only added to the troubles of the private sector. With the help of U.S intervention, Israel has released about \$15 million of these funds, but a concrete schedule of payments must still be established. Meanwhile, the PA is attempting to establish an emergency fund for the private sector with the help of the U.S. Agency for International Development, the World Bank, and a number of donor countries. This fund would provide \$200 million in long-term loans, including a few years' grace period to weather the immediate financial crisis. This idea cannot be implemented, however, until certain obstacles are removed, some of which are related to security issues.

### Security Reform

In order for other types of reform to succeed and for all aspects of daily life to improve, security reform is essential. Security is, in fact, the backbone of any economy. The new Palestinian minister of the interior, Abd-el-Razak al-Yehia, is working diligently to set up a new structure for the Ministry of the Interior. Under the reformed system, he will be empowered with exclusive authority over the police, the Preventive Security Services, and all security in the territories. With the aid of the U.S. government, he is currently trying to build up his forces and rebuild the institutions of the Ministry of the Interior.

Yet, like everything else, it is difficult for security reform to move forward with the continued presence of the Israeli army in Palestinian towns and cities, and with the continuation of curfews on the Palestinian people. Moreover, there are no police stations or jails to hold prisoners. Still, if the United States persuades Israel to gradually ease the pressure on Palestinian towns, progress might be possible in the near term. As of today, the Palestinian Legislative Council is still unable to meet and approve the economic and security reforms submitted to it for ratification.

Currently, the Palestinians and the Israelis are caught in an unprecedented cycle of violence. The responsibility for such a situation falls on all parties involved, including third parties. It is true that President George W. Bush outlined his vision of independent Palestinian and Israeli states living side by side; however, the path that would lead to that vision has yet to materialize. The U.S administration has to play a more active role in getting the two parties together before they both sink in a sea of blood. The rise of suicide bombers threatens Palestinian as well as Israeli society. It is no longer a tactic restricted to religious fanatics; secularists have adopted it as well. The willingness to commit suicide is a direct result of the level of despair and hopelessness on the Palestinian street, and others must help in trying to improve the situation. The backbone of every society is its middle class, and the Palestinian middle class has been completely wiped out over the past two years. Hard-to-reach villages face the prospect of possible starvation conditions if something is not done soon.

Today more than ever, the PA is determined to see reforms through and restore its economic credibility among its people and the international community. For that to happen, average Palestinians must feel a tangible difference in their everyday lives. The PA is already doing its best to highlight the importance of economic reforms, but without the cooperation of Israel and other parties, it will have difficulty convincing Palestinians that these reforms will actually improve their situation. Without tangible improvements, the Palestinian people will not support the process of Palestinian reform.

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