

Accounting and Accountability: Defining Donor Requirements for Palestinian Reform

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Brief Analysis

Following preparatory meetings on Palestinian reform between Deputy Assistant Secretary of State Elizabeth Cheney and European officials, the Quartet (the United States, the European Union [EU], the UN, and Russia) met this week in New York. The Quartet established an International Task Force on Palestinian Reform with seven subcommittees, which are to meet quarterly. As talks about Palestinian political reform progress, the donors intend to find an acceptable means enabling the group to begin disbursing \$1.2 billion in donor funds to the Palestinians.

European Disenchantment with Arafat

To date, the EU has rejected President George W. Bush's call to replace Arafat with a leadership "not compromised by terror." In fact, just days before the president's June 24 speech, EU external affairs commissioner Chris Patten described Arafat as an "indispensable" partner, and EU ministers refused to endorse Bush's position a few days later at the G-8 summit in Canada. However, German foreign minister Joschka Fischer has now proposed a plan to create a Palestinian prime minister, who would run the daily affairs of government while Yasir Arafat served as a largely ceremonial president; in addition, a UN overseer with broad authority would supervise the Palestinian Authority (PA).

Evidence that Arafat has continued to approve funding for Palestinian terrorists, including a June payment of \$20,000 to the al-Aqsa Martyrs' Brigades just as the group claimed responsibility for a suicide bombing in Jerusalem, persuaded American policymakers of the need to find Palestinian interlocutors other than Arafat. European decisionmakers have not reacted as decisively to this evidence, but should be increasingly concerned and embarrassed that at least some of the funds funneled to terrorist groups were made available through creative accounting schemes and old-fashioned laundering of EU donor funds. Documents Israel seized in Arafat's compound and elsewhere in the West Bank establish that while condemning terrorist attacks (albeit not as acts of terror per se, but rather as harming the national interests of the PA), Arafat personally authorized the financing of groups and individuals engaged in terror attacks against Israeli citizens.

The Palestinian Money-Laundering Machine

No specific Euro can be traced to the purchase of a specific bullet. For that reason, Chris Patton's insistence that "the

EU [has] not seen any hard evidence that the EU funds have been misused to finance terrorism or for any other purpose" misses the real question: has EU funding facilitated Palestinian terrorism?

In a report entitled "International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements," Israeli government analysts carefully documented disturbing evidence about misuse of EU donor funds to finance other, unbudgeted expenditures in support of terrorism. While the PA has abused development funds too (such as the failure to account for the 8 percent tax levied against project-specific donor funds), the biggest problem has been the cash budgetary support that the EU began providing the PA in June 2000. Indeed, there are serious questions about how the PA uses this cash aid, amounting to 10 million Euros (\$10 million) per month, which is not tied to specific humanitarian or development projects:

Unsubstantiated claims about PA needs. The PA claims that it needs \$58 million per month to cover the salaries of its public servants. However, seized PA documents summarizing salary disbursements to Palestinian security officers indicate that PA salary expenses came closer to \$40 million; the actual figure should be substantiated. In addition, a review of who is on the PA payroll and why should take place. The seized documents show that Fatah branch offices requested that the PA pay the salaries of its activists, adding their names to the rolls of one of the many Palestinian security agencies. Such requests were frequently justified on the basis of the "quality attacks" and "successful operations" carried out by the "fighting brothers." Moreover, some sectors of the PA budget seem considerably exaggerated, raising the prospect that some of the money is being used for dubious purposes. In 2000, the PA doubled the amount budgeted for Arafat's personal office, and increased the budget even more in 2001.

Exchange rates. The EU provides the PA with budgetary assistance in Euros, and the PA spends the money in other currencies, especially Israeli shekels (NIS) and U.S. dollars. Any accounting for the funds therefore must include what exchange rate is used. Documents seized show exchanges at rates well out of line with the market exchange rate. For instance, in December 2001, when the donor disbursements could have been converted at a rate of NIS 4.4 per dollar, it appears that only NIS 3.7 per dollar went into the fund used to pay salaries. Perhaps the difference was deposited in an "adjustment fund," as some have suggested, but to date no information has been made public about any such fund, and the monies remain unaccounted for.

Diversion of money from salary expenses. The seized documents provide evidence that the PA deducted 3 percent of gross income from PA employee salaries (paid in part by EU funding) that was earmarked for Fatah. Additionally, Israeli authorities discovered over sixty copies of checks made out to various Fatah branch offices in the West Bank from the PA Finance Ministry's "salaries account," account number 01810058/4 at the Al-Urdan bank (Bank of Jordan P.L.C.). While many checks were dated as early as 1998-1999, predating direct EU budgetary assistance to the PA, investigators found identical documentation from 2001. For instance, in a letter on Fatah letterhead dated October 22, 2001, senior Fatah official Jamal Lafi asks that the bank allow Fatah activist Ziad Hamis Hussein Bahar to cash a NIS 10,500 check drawn on the salaries account and payable to the "Palestinian National Liberation Movement, Fatah/Abu Dis." Even assuming that the money actually went for salaries, the salaries account is intended only to fund the salaries of PA employees, not Fatah activists (and if those being paid were actually PA officials, then these payments in cash are improper: the PA should record which individual was paid how much, deducting the legally required taxes). Disturbingly, however, there is no indication that the money went for salaries; the checks made out to the Fatah branches could have been used to finance any kind of activity, including terrorism.

Controlling the purse strings. The EU is now insisting on consolidating the PA's accounts so that no funds are channeled into off-budget accounts controlled personally by Arafat. It is worrying to note that the irregularities cited above were from official accounts of the Ministry of Finance for which only Yasir Arafat and the minister himself were authorized signatories. Streamlining can increase transparency and accountability, but this has not yet taken place, in no small part because the PA does not provide a full public accounting of the use of its funds. And there is a

deeper problem: if the PA is determined to fund terrorists, streamlining and efficiency may only facilitate the transfer of more money to the terrorists.

Conclusion

As long as the donor community is providing cash support to the PA, then it has to be concerned that its cash is allowing the PA to spend money (either the donor funds or -- money being fungible -- the PA's own money freed up thanks to the donor funds) on terrorism. PA funding of terrorism is well documented, both from the seized documents and from the millions spent on arms purchases, such as those discovered on the Karine-A seized by Israel in January 2002. Despite renewed denials from the EU's Office of External Affairs about the misuse of EU funds, the problem remains that there is no complete, publicly available accounting of how the PA spends its money -- including the cash it gets from the EU. Before the International Task Force on Palestinian Reform endorses any release of funds to the PA, the issue of public accounting for all PA spending needs to be addressed.

Matthew Levitt is a senior fellow in terrorism studies at The Washington Institute.

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