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Press Clippings:

Palestinian Authority Finances

December 1998



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December 1, 1998

New York Times

Aid and Corruption in the Mideast

President Clinton's call yesterday for a new multibillion-dollar international aid package for the Palestinians is a necessary complement to the peace agreement he helped put together in Maryland earlier this fall. That diplomatic deal remains wobbly. It can be reinforced by showing that peace delivers tangible economic and social gains to ordinary Palestinians. But outside financial assistance will be effective only if the Palestinians can curtail corrupt practices in administering the aid.

The additional \$400 million in American aid that Mr. Clinton endorsed can also be a means of dissuading Yasir Arafat from following through on his threats to proclaim an independent Palestinian state when the original timetable of the Oslo peace agreement expires next May.

About \$2 billion in international aid has been provided to the Palestinians since 1993. Most has gone into specific projects, supervised and monitored by the donor nations. The \$500 million already provided by Washington has been used to produce better water access for Palestinian towns, loans for local businesses and financing for Palestinian elections. Mr. Clinton now wants Congress to supply additional money for the industrial zones, airport and seaport agreed to in Maryland.

Through careful supervision, Washington and other donor nations can minimize the improper diversion of this assistance. But corruption poses a potentially serious problem in other areas. For example, the Palestinian Authority needs outside funding for community social welfare projects to keep up with those now offered by organizations like Hamas. But such money, much of it flowing through the hands of Palestinian political appointees, is especially vulnerable to misuse by corrupt officials.

An internal Palestinian audit last summer found instances of serious fraud and mismanagement within the Palestinian Authority. Mr. Arafat has not addressed the problem. That cannot be the end of the issue. Palestinian legislators and aid-giving nations must insist that he crack down on corruption. The Palestinian Authority will forfeit both domestic legitimacy and world respect unless it deals firmly with those who steal money meant to improve the lot of the Palestinian people.



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Investing In Yasser Arafat

By Michael Kelly

Washington Post

Wednesday, December 2, 1998; Page A29



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There was a wonderful moment in the annals of diplomacy this week. Yasser Arafat, the president of the Palestinian Authority, had come to town to attend an international conference convened by the White House to raise a new pile of money to give to President Arafat. And the conference had gone splendidly.

Everyone had behaved perfectly fine; no one had so much as mentioned the inconvenient London Sunday Times story the day before, which said that the Palestinian Authority had swiped \$20 million in British aid intended to build housing for the poor of Gaza, using the money instead to build luxury flats for Arafat's military and bureaucratic elite. After a day of pleasantries, representatives of 43 nations had pledged \$3 billion in new aid to the Palestinian Authority, including an extra \$400 million from the U.S. president. Arafat saw that it was good. "I am satisfied with the reality of this conference," he pronounced.

The reality? The reality is this: Since July 1, 1994, the day that Yasser Arafat arrived to take charge of Gaza, the international community has given the Palestinian Authority about \$2.5 billion in aid. In that time, to the confoundment of confident predictions, life in Gaza became, for most people, even more poor, nasty, brutish and short than it had been before the arrival of President Arafat. In the past four years, wage rates in Gaza have fallen 50 percent and unemployment has risen to highs of 50 percent; currently, it hovers at around 30 percent. The gross national product per Palestinian has declined by 35 percent. The number of Gazans legally working in Israel (where the jobs are) has fallen from a pre-Arafat figure of 116,000 to as low as 23,000. The percentage of goods manufactured in Gaza and marketed in the West Bank (where the consumers are) declined from about 50 percent to 2 percent by 1996. In the first two years of Arafat's rule, one-third of Gazan businesses folded. Foreign commercial investment in Gaza declined from \$520 million in 1993 to below \$300 million in 1997. The number of Palestinians living in poverty soared; one out of every four now lives below the poverty line.

In President Arafat's considered opinion, all of this is the fault

of Israel, for its habit of closing off the Gaza Strip from time to time, disrupting the flow of commerce. "The Israel closure policy is the primary and direct cause for the dangerous decline in the performance of the Palestinian economy over the past five years," he declared Monday.

It is true that periodically stopping the flow of goods and workers between Gaza and Israel has played an important role in the decline of Gaza's health. But what President Arafat was too diplomatic to mention was that Israel has a reason for its policy. The closures have been in response to the very many -- 279 fatalities since Oslo -- terrorist attacks on Israelis by Palestinians living under Arafat's rule. Neither did President Arafat see fit to note that, in the past two years, the government of Binyamin Netanyahu has greatly reduced the number of closures. Yet during the past two years, the economy of Gaza has improved only slightly.

Might there be some other reason for Gaza's decline? Well, tactlessly, yes. The other reason, as the Sunday Times story suggests, is that President Arafat has established in Gaza and the West Bank a nasty, thuggish little kleptocracy run by and for the benefit of President Arafat and his bureaucrats and gunsels and cronies, without benefit of law or semblance of order.

The Palestinian Authority has yet to draft a criminal and civil code. What passes for law is brute and capricious force, imposed by 41,000 members of seven separate police forces -- police forces that may arrest without warrant and detain without due process. The 41,000 are the muscle in an obesity of a bureaucracy: the Palestinian Authority boasts no fewer than 80,451 employees, spread among 24 different ministries. Salaries for these employees consume more than half of the entire Palestinian national budget, which ran to \$814 million in 1997.

Where does the rest of the money go? Almost all of it is stolen or dribbled away. The Palestinian Authority's own auditors reported last year that nearly 40 percent of the annual budget -- \$323 million -- was wasted, looted or misused. In President Arafat's regime, bribery is endemic, services are nil, connections are everything, and might is the only right there is.

This is the reality that inspires foreign investment to stay far, far away from Gaza. But it isn't diplomatic to say that. Let's give the old fellow a few billion more. Maybe he won't steal all of it.

Michael Kelly is the editor of National Journal.

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Wednesday, December 2, 1998

Arafat's Money Sieve

The U.S.-organized conference to solicit international financial support for Palestinians in the Gaza Strip and West Bank has produced more than \$3 billion in pledges, exceeding expectations and reflecting the sense of the more than 40 donor nations that without a sound economic base there can be little hope for political stability in the emerging Palestinian entity. The new round of aid promised over the next five years, including an additional \$400 million from the United States, follows on the \$2.1 billion in outside donations disbursed since 1993, when the Oslo accords between Israel and the Palestinians set in motion a peace process that, in fits and starts, continues to move toward the goal of a final settlement.

The unhappy fact is that despite earlier aid, the Palestinian economy has regressed. Unemployment has risen and an increasing number of families--totaling 23% in the West Bank and Gaza Strip, according to Palestinian figures--now live below the poverty line. Palestinian Authority Chairman Yasser Arafat blames Israel, citing its habit of banning tens of thousands of Palestinian workers from entering Israel whenever a terrorist act occurs. The border closings, along with terrorism, have undoubtedly contributed to the Palestinians' woes. But Arafat is being disingenuous when he ignores the toll that rampant corruption and incompetence within his own government have exacted. According to a Palestinian internal audit, hundreds of millions of dollars have been stolen or squandered. Most foreign aid, including American, is now earmarked for specific needs and monitored closely by donor countries. But the Palestinian Authority still has a lot of cleaning up to do.

A productive economy is essential to political stability, and Congress should not hesitate to approve the new aid pledged to the Palestinians. But even if reason and conciliation eventually prevail in the Israeli-Palestinian negotiations, the long-term economic viability of a Palestinian entity remains in question.

Demographers now project a tripling of the Palestinian population in the narrow confines of the West Bank and Gaza Strip over the next quarter-century, to 7.4 million. Barring some unexpected discoveries, the region simply does not have the vital resources--beginning with water--to sustain such an increase. Egypt is a nearby example of population growth eating up economic gain. It would be a grim irony if Palestinians finally achieve the state they seek, only to soon find there is no room in it for all who call themselves Palestinians.

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The Palestinians Need Money Like Yasser Needs Chutzpah

President Clinton yesterday kicked off an international conference designed to raise money for Yasser Arafat by announcing \$200 million in new U.S. aid to the Palestinian Authority.

"There has been too little tangible improvement in the life of the Palestinian people," Clinton declared, adding that real peace must "deliver results for ordinary people."

Clinton is correct: The average Palestinian has seen little improvement in his daily life since the current peace process began.

But the blame for that lies squarely with Yasser Arafat — and the festering problem will never be solved by sending billions more to his hopelessly corrupt regime.

Before the conference delegates pledged any new sums to Arafat, they should have read a secret internal financial-control report by European Union auditors that was reported this week by The Sunday Times of London.

The report found that millions in European money intended to build low-income housing in Gaza was instead turned into a luxury apartment complex that was given over to top PA officials and Arafat acolytes.

"In effect, \$20 million has been spent without any economic controls and is not recoverable," the EU report concludes.

Arafat may bluster on about how Israel supposedly is destroying his would-be state's economy, but the truth is that he's the greedy vulture preying on his own people.

The Palestinians in the autonomous territories know the truth about the corruption and thievery that run rampant in their government. But most are afraid to speak out.

Every industry in the PA-controlled areas is a monopoly controlled by an Arafat henchman; according to the State Department, there are 27 such monopolies in the territories.

The cement monopoly, for example, is run by Mohammed Rashid, Arafat's economic adviser; electronics are controlled by Yasser Abbas, son of top Arafat adviser Abu Mazen,

and Sami Ramlaweh, a top finance ministry official.

Palestinian officials demand kickbacks from those looking to do business in the territories. Every merchant and truck owner must pay the PA police to pass transit points. As a result, prices for basic consumer goods in Arafatland have tripled.

"They cut up the pie among themselves," a Palestinian legislator told the Israeli paper Ha'aretz last year. "The Palestinian leaders thought that our economy was some sort of inheritance due them and their children."

"Every honcho got himself a fat slice... One got the fuel, another got the cigarettes, yet another the lottery and his crony the flour. Gravel is a monopoly belonging to the security apparatus, and they earn a fortune from it."

Then there's Arafat's personal account in an Israeli bank, made up of tax "rebates" transferred by Israel — some \$150 million worth — to finance his personal expenses. The funds, according to an International Monetary Fund report, are "not under the control or supervision of the Palestinian finance ministry."

In his speech to the donors conference yesterday, Arafat charged that "the Israeli closure policy is the primary and direct cause for the dangerous decline in the performance of the Palestinian economy over the past five years."

No doubt many in Europe and Washington actually buy into such nonsense, which is why Arafat will leave town with his bank account replenished. Others maintain that bribes and payoffs go with the territory, and that Arafat must be propped up in the interests of "peace."

But until the West stops pumping more and more funds into the cesspool of Palestinian corruption, Arafat and his cronies will be the only ones in those territories with anything to celebrate.

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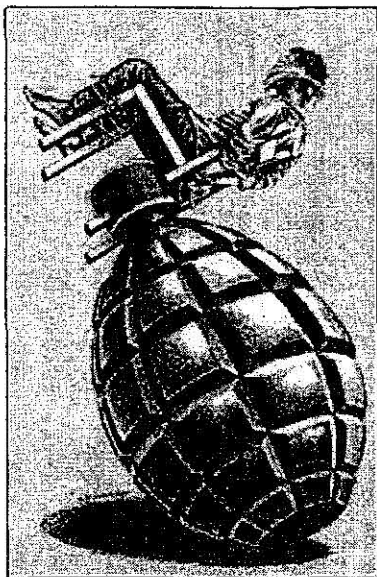
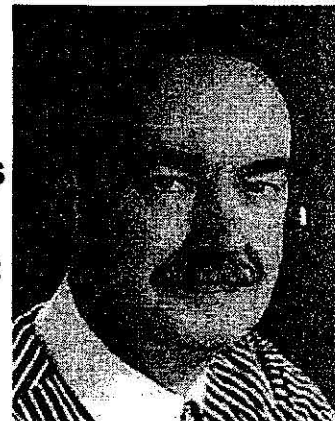
Dec. 3, 1998

Cal Thomas

Destroying Jewry on the installment plan

AFTER REPEATEDLY TELLING OVERBURDENED TAXPAYERS that there can be no tax cuts until "Social Security is saved," the Clinton administration has pledged to spend an extra \$400 million in aid for the Palestinians. This decision is flawed for at least two reasons.

First, British aid directed at housing projects for needy Palestinians in Gaza was siphoned off and used instead to construct luxury apartments for supporters of Palestinian Authority leader Yasser Arafat, according to the Sunday Times of London. Asked about this, Secretary of State Madeleine Albright said that misspent British aid "is not an issue for the United States." Albright assured reporters that "every dollar (of U.S. aid) is accounted for and is completely transparent."



Not exactly. A secret 600-page report last year by the PA's own auditing office found \$323 million, nearly 40 percent, of the PA's annual budget had been wasted, stolen or misused. A December, 1995, General Accounting Office report said it was "unable to independently verify (the Palestine Liberation Organization's) financial condition since the PLO was unwilling to provide us with requested accounting reports and supporting documentation."

Arafat claims there has been a decline in the living conditions of Palestinians since the current "peace process" with Israel began five years ago. He blames Israel because of its frequent border closures to curtail terrorism. But Arafat for more than 25 years has prevented outside aid, even in the refugee camps, in order to cynically manipulate world opinion against Israel and in favor of an independent Palestinian state.

The second flaw in the decision to sharply increase U.S. aid is the view held by this and previous administrations that Israel's enemies can be bought off and deterred in their unchanging objective to take all of the land for themselves. Even while accepting the new financial package, which totals more than \$3 billion when other nations' contributions are factored in, Arafat repeated his promise to declare a Palestinian state with Jerusalem as its capital. He even referred to Jerusalem as "occupied territory." The status of Jerusalem and of any Palestinian

entity is supposed to be reserved for talks on the final status between Israeli and Palestinian territory.

President Clinton is scheduled to go next week to the Middle East, where he will address a sham meeting of the Executive Committee and the Central Council of the PA. At that meeting, the PA supposedly will vote to repeal a section of the PLO Covenant calling for the destruction of Israel, which Arafat pledged to do at the agreement he and Israeli Prime Minister Benjamin Netanyahu signed last October in Maryland. But the Palestinian media reveal that its side takes a different view of the forthcoming meeting from the United States and Israel.

According to the Middle East Media and Research Institute, the Arabic version of the Wye agreement (unlike the English) states the meeting to be addressed by President Clinton "will reaffirm the decisions of the Executive Committee and the Central Council regarding the amendment of the (Palestinian) Covenant." The Arabic version says it will be President Clinton, not the Palestinian side, who will "reaffirm his commitment to the peace process." No Palestinian reaffirmation is mentioned. Nor is any decision to abrogate part of the PLO Covenant. The head of the Palestinian negotiating team, Saib Ereiqat, said the meeting of the various Palestinian bodies "will convene to listen to Clinton, not to vote."

Former U.N. arms inspector Scott Ritter told the Jerusalem Post Nov. 3: "The (Wye accord) is to be monitored by the CIA, but the real arbiter will be the State Department, and this is a cause for great worry. The entire effort has been politicized -- this is the Clinton administration's own Camp David, and they really can't afford to let it fail. Therefore they cannot be counted upon to be honest brokers."

So, the Jews are again being sold out. In World War II, the U.S. wouldn't spend the money or the political capital to save Jews from the Nazis. Today it is spending the money, but giving it to Hitler's ideological descendants to help them finish the job. It is shameful and it won't work because the PA has made it abundantly clear to everyone, except those who will not see, that their ultimate objectives have not changed. Instead of achieving them through war and terror, which they so far have been unable to do, they will now win on the installment plan --- with the United States making the payments. ●

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December 2 1998

MIDDLE EAST

Gaza scandal threatens aid

FROM CHRISTOPHER WALKER IN JERUSALEM

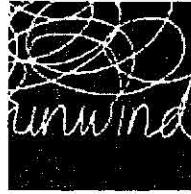
THE pledge by 50 foreign donors at a Washington conference this week of more than \$3 billion (£1.8 billion) in aid to the Palestinians has revived concern over the corruption already endemic in Yassir Arafat's fledgeling state.

Britain, with its increased pledge of £105 million over three years, is sending Derek Fatchett, a Foreign Office Minister, back to the West Bank and Gaza Strip next week with, among other aims, a determination to try to ensure accountability about how the money will be spent.

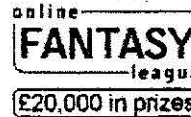
Whitehall officials are concerned because £55 million of Britain's contribution will go to European Union programmes. An EU report this week said that large sums from earlier contributions had been squandered on luxury villas for Arafat loyalists in Gaza. It showed that an estimated \$20 million earmarked to provide cheap housing for Palestinians had been used instead to finance luxury apartments for rich supporters of Mr Arafat. Although he is of ascetic personal habits, the Palestinian leader is known to surround himself with profligate big-spenders. EU auditors were quoted as saying the money was spent "without any economic controls and is not recoverable".

Ten of the apartments involved in one of the housing scandals have been built opposite the squalid Nusseirat refugee camp, south of Gaza City. Palestinian sources said that 90 per cent of the EU-financed apartments were given to "returnees", those cronies of Mr Arafat who had lived with him in his earlier sojourns abroad in Beirut and Tunis. Two of them were said to be in the direct control of the Palestinian Industry Ministry.

The housing project was part of an earlier \$60 million EU aid package and was administered by the Palestinian Housing Authority, which has refused to meet EU auditors, according to the



Times of London



Next page:
Thieves give
rich Parisians
sausage
treatment

Union's internal financial control report seen by
The Sunday Times.

It had been originally planned to use the package for a self-sustaining building programme to provide cheap mortgages to Palestinians on modest incomes. The proceeds from the mortgage repayments were intended to finance further construction. Instead, building costs rose to about \$50,000 a unit - 80 per cent higher than planned.

According to the EU auditors, this made the apartments "inaccessible to the layer of the population for which they were planned".

However, Abdel Rahman Hamad, the Palestinian Authority Housing Minister, yesterday disputed the claims. "I don't see any corruption in housing," he told a press conference.

He said that low-income Palestinians were the chief beneficiaries of subsidised housing in the West Bank and the Gaza Strip, claiming that 90 per cent of the buyers of 922 EU-funded housing units in Gaza had incomes of less than \$600 a month.

He acknowledged that buyers did include some Arafat associates who had returned from exile.

Earlier, an internal Palestinian audit found that half the Palestinian Authority's £194 million budget for 1997 had been lost to corruption or mismanagement.

[Next page: Thieves give rich Parisians sausage treatment](#)

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Report says aid for poor Palestinians diverted to Arafat's loyalists

From combined dispatches

British aid earmarked for housing projects for needy Palestinians in Gaza and the West Bank has been used to build luxury apartments for supporters of Palestinian Authority leader Yasser Arafat, the London Sunday Times reported yesterday.

The accusation comes with Mr. Arafat in Washington for a 45-nation conference today aimed at boosting financial support for projects in areas under his control. The Clinton administration has signaled plans to announce a substantial increase in aid to the Palestinian Authority at the conference.

The Sunday Times said a general, a police chief and "other acolytes" of the Palestinian leader had received luxury apartments financed with a contribution of more than \$20 million from the European Union, including some \$3.3 million from Britain. The funds were distributed by the EU.

About 90 percent of the apartments went to Arafat loyalists, the paper said, citing a secret EU internal financial report. Each apartment was described as having Italian granite-fitted kitchens, three bedrooms, 1,000 square feet of space and satellite television.

The newspaper said the money had been intended to provide inexpensive housing for poor and overcrowded areas. An unnamed EU auditor said the money had been spent "without any economic controls and is not recoverable."

The accusation could not come at more unfortunate time for Mr. Arafat, who hopes to see donors to his administration contribute generously at today's conference at the State Department.

A similar conference in October 1993 drew pledges of some \$2.3 billion for the Palestinians. Of that amount, \$2.1 billion has been disbursed in the past five years, according to U.S. officials.

The United States, which has given \$500 million in

assistance to Palestinian projects over the past five years, is planning to announce "a substantial increase" in such aid, they said.

In a speech yesterday, Mr. Arafat reiterated his intention to proclaim an independent state on May 4, the end of a five-year interim period under the 1993 Oslo peace accord between Israel and the Palestine Liberation Organization.

"We should, by that time, be prepared to declare an independent Palestinian state, with its capital the holy city of Jerusalem," he said in an address to the Arab American Institute.

The future of Jerusalem figures to be perhaps the most difficult issue in the so-called "final status" negotiations between Israel and the Palestinians, which are supposed to be concluded by May.

Israel has already declared the city its eternal and indivisible capital and threatened to annex huge chunks of Palestinian land if Mr. Arafat declares a state next May.

Mr. Arafat acknowledged yesterday that western Jerusalem would remain the capital of Israel while insisting there should be a Palestinian capital in the east, where all faiths would be respected.

"We're not going to erect a Berlin Wall between the two parts of Jerusalem. The two parts ought to be open to each other," he said.

"We're looking toward a new Middle East, in which our children and their children will live together in peace, in freedom, in safety, in security and in stability."

Mr. Arafat, who is scheduled to meet President Clinton at the White House today, also praised the president for his role in brokering an interim peace agreement at the Wye Plantation in Maryland last month.

"We need his continued support," he said. "There are enemies of this peace in more than one place. We need to be vigilant in order to protect the peace of the brave."

Mr. Clinton plans to visit Israel, the West Bank and the Gaza Strip in two weeks. He will address the Palestinian National Council and oversee implementation of a critical element of the Wye River peace accord.

The council, meeting in Gaza on Dec. 14, is due to reaffirm the revocation of clauses in the PLO charter calling for Israel's destruction.

Mr. Arafat also had lunch yesterday with Secretary of Commerce William M. Daley and 15 American business leaders.

Mr. Daley said he hoped today's conference, which will be attended by officials from more than 40 countries, will stimulate the private sector to be more active in investing in Palestinian areas.

"I am committed to helping Chairman Arafat involve the business community in the Middle East peace process," Mr. Daley said. "A lasting peace can only be built on economic

stability and jobs."

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November 29 1998

BRITAIN



Aid scandal: the misuse of housing cash will embarrass Tony Blair and Yasser Arafat
Photograph: David Thomson

British aid used to house Arafat elite

*by Stephen Grey
Brussels*

BRITISH aid earmarked for poor Palestinians has been used by the European Union to finance luxury flats - with Italian granite-fitted designer kitchens - for rich supporters of Yasser Arafat.

The scandal has benefited a general, a police chief and other acolytes of the Palestinian leader. The millions of pounds involved have been written off by Brussels.

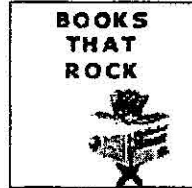
"In effect, \$20m [£12m] has been spent without any economic controls and is not recoverable," admit the EU's own auditors. At least £2m of this sum was contributed by Britain.

The money had been targeted for cheap housing in the desperately poor and overcrowded Gaza Strip and the West Bank areas controlled by the Palestinians. Instead, according to a secret EU internal financial control report, it was used for flats designed with "elegance and luxury".

Ten of the apartment blocks were built opposite a

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refugee camp at Nussairat, eight miles south of Gaza city. Each apartment is more than 100 square metres in size, with three bedrooms, a kitchen fitted with polished wooden cupboards and granite work-surfaces, and a bathroom complete with a large bath and shower area, decorated with either pink or blue ceramic tiles. Satellite television dishes sprout from the walls. The car parks are tightly packed with military vehicles and expensive civilian cars bearing red number plates, which are issued only to officials.

Palestinian sources said 90% of the EU flats had been given to "returnees" - loyalists who had been in exile with Arafat and now served in his administration. Three have been taken over by a Palestinian brigadier-general, Mazan Iss Did. Another was taken by a police chief, Tala Abo Zaidi. The Palestinian ministry of industry also controls two flats.

The housing project was part of a £60m aid package for the Palestinians announced after the Oslo peace accords with Israel. It has been administered by the Palestinian housing authority, which has refused to meet the EU auditors, according to their secret report.

The original plan was for a self-sustaining building programme: cheap housing association mortgages would be available for Palestinians on modest incomes, whose payments would then finance further construction.

Instead, building costs rose to £33,000 for each apartment, 80% more than planned, due to split-level construction, entry phone systems and expensive lifts. This made them "inaccessible to the layer of population for which they were planned and has instead allowed well-to-do people, who were not targeted, to benefit from EU aid", said the auditors.

Compounding the scandal, some of these affluent beneficiaries made low down payments - as little as £1,000, instead of the 20% required - and many are not keeping up their mortgage payments. "The degree of repayment of the loans on the part of the buyers in the Gaza Strip is zero," said the auditors.

The aid programme is under the control of Manuel Marin, the Spanish commissioner for EU relations with the Middle East, who is already

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facing widespread criticism over his handling of fraud allegations in the EU's humanitarian aid budget when he was aid commissioner.

The scandal has emerged as Britain prepares to announce in Washington tomorrow a doubling of aid to the Gaza Strip and West Bank. Derek Fatchett, the Foreign Office minister, will announce that more than £105m will be spent over the next three years, half through EU programmes. More than £1.2 billion has been given by all international donors to the Palestinians in the past five years.

Fatchett said Britain had already voiced concerns to Arafat about corruption involving aid and planned to use tomorrow's announcement to demand much greater accountability and openness from the Palestinians.

"Anyone going to Gaza is struck by its poverty and disadvantage. It is very important to ensure that the aid reaches those in the greatest need," he said.

The Palestinian Authority's own auditors have already embarrassed Arafat with an inquiry which showed that nearly 40% of his administration's budget was misused or stolen through "kickbacks." The EU auditors warn the same corruption could apply to money in its projects and demanded "extreme vigilance".

They are also critical of EU funding for a new hospital in Gaza, which was "not conceived correctly or run according to the principles of efficiency". More than £14m was handed over to build a "luxurious" clinic which was far too lavish for local needs. "The cost of maintaining and using this hospital will be well over the financial means of this country," said the report.

Additional reporting: Chris White and Matthew Kalman

[Next page: Brown blames Mandelson for paymaster-general row](#)

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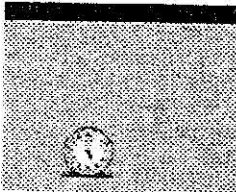
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PALESTINE: Pension fund puts openness in doubt

Judy Dempsey on the way the \$160m assets of the Gaza Pension Fund have been managed since they were handed over by the Israelis

Having transferred more than \$2bn to the West Bank and Gaza since 1993 and this week pledged a further \$3bn over the next five years, donor countries and international organisations have begun to ask uncomfortable questions about the lack of transparency in the Palestinian Authority.

Management of the Gaza Pension Fund (GPF) is but one example.

Established to finance the pensions of 6,500 Palestinians from Gaza who, until 1994, had worked for the Israeli Civil Administration (which ran Gaza and still oversees parts of the West Bank), the GPF amassed capital of some \$160m.

In an internal report last year, the International Monetary Fund criticised the authority's lack of a "central record kept on pension rights for employees". It said it had "no audited financial statements" and no "checks and balances to ensure financial integrity of the funds. . ."

Under the terms of the protocol on economic relations (part of the Oslo peace accords) signed in Paris in April 1994 by Israel and the Palestine Liberation Organisation, it was stipulated that the fund, contributed to by Palestinian and Israeli employers, be used only for pensions.

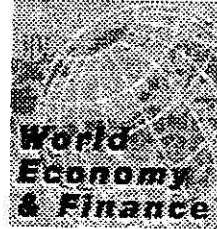
In 1996 Israel started transferring the fund in dollars to a US bank in New York under the terms of an agreement with the Palestinian Authority, which employed Morgan Stanley, the US investment bank, to manage the fund. In late 1996 the Authority dismissed Morgan Stanley's services.

"Morgan Stanley refused to give us more than 3.5 per cent interest," Freih Abu Meddein, Palestinian justice minister and chairman of the government-controlled Gaza Insurance and Pension General Corporation, said in an interview recently.

Morgan Stanley has declined to comment. A source close to the bank said it "disliked certain management aspects of the PA".

Yassir Arafat, PA president, then wrote to Israel, confirming the break with Morgan Stanley. He also instructed Israel to transfer the remainder of the fund to

special report



IMF and World Bank

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Financial Times

Dec. 2 '98

Credit Suisse, the Swiss bank, in Zurich and appointed Ballista, described by an Israeli government official as an Irish off-shore investment management company. The Irish Securities Authority said it had no record of Ballista. Credit Suisse would not comment.

By early 1997, Mr Meddein and Mohammad Rashid, also known as Khaled Salam, Mr Arafat's main economic adviser, ended the contract with Ballista. By that time Israel had completed transferring the \$160m.

Since then, according to Palestinian officials, the GPF has been the subject of much in-fighting between Nabil Shaath, Palestinian minister of international co-operation, and Mr Rashid, over how to invest it.

According to Palestinian officials, about \$8m was transferred to a branch of the Arab Bank, a large Middle Eastern bank, in Gaza.

In August of last year Mr Arafat wanted access to the fund to pay the police after Israel temporarily withheld transferring excise tax and other payments owed to the Palestinians.

"Arafat needed about \$28m," said a Palestinian official. The European Commission stepped in, allowing Mr Arafat to draw on a cash facility of Ecu30m (\$34.8m).

Still, about \$28m of the fund found its way to Gaza. "We wanted to invest some of it in projects, such as telecoms," said Mr Meddein. The vice-president and one of the main shareholders of Palestinian Telecommunications (Paltel), a publicly listed monopoly licensed by the Palestinian Authority, is Mr Rashid.

Regarded by many Palestinians as the *minence grise* in the Authority, Mr Rashid is also responsible for overseeing the PA-licensed monopolies for fuel, tobacco and cement as well as the casino in Jericho. He also controls Sky, an advertising company that operates as a monopoly.

None of the estimated annual \$150m revenues earned by the monopolies are consolidated in the finance ministry's annual accounts, despite repeated promises to the IMF and World Bank, just as no clear picture has emerged of how the Gaza pension fund is being managed.

Mr Rashid was not available for comment in spite of repeated attempts over the past five months.

The way the GPF has been managed may persuade Israel to be more than cautious in how it should transfer hundreds of millions of shekels of pension contributions it has paid into a separate fund to Palestinians who have worked in Israel since 1970.

Israeli labour ministry officials said they want to negotiate the transfer. But under the terms of the Oslo accords, it can only do so once the Palestinians establish a "relevant pension insurance institution". In

spite of repeated requests - and offers of assistance by the EU - the PA has yet to establish such a fund.

The Washington Times Opinion

Beware the policy fanatics!

By Frank Gaffney Jr.

Author and philosopher George Santayana once defined a fanatic as someone "who redoubles his effort upon losing sight of his goal." Unfortunately, this week is likely to be a big one for the fanatics who run what passes for security policy in the Clinton administration.

For example, at this writing, some 40 nations are converging in Washington. Their common purpose? To pony up perhaps as much as \$9 billion dollars in pledges to help launch a Palestinian state.

To be sure, no one on the Clinton team (with the notable exception of the first lady) has openly acknowledged that it is now U.S. policy to welcome and underwrite the creation of the 23rd Arab state in the Middle East. The fact remains, however, that the Palestinian Authority's Yasser Arafat continues to assert he will formally declare by May 4, 1999, an independent, sovereign state with Jerusalem as its capital.

The international donors talk glibly about needing to invest in such an endeavor to "keep the peace process on track" -- and ignore the corruption that has wasted previous grants to the Palestinian Authority. The reality, though, is that spending vast amounts of tax dollars (perhaps as much as \$900 million from the U.S. alone) to advance Palestinian independence is more likely to produce a deadly train wreck than the ostensible goal of this "process": a durable peace.

After all, such a state will inevitably give rise to a safe haven for terrorism (or worse). It will be run by a government -- whether under Mr. Arafat or Hamas -- that makes no secret of its intention to liberate what the Arabs consider to be the rest of Palestine (namely, pre-1967 Israel). And this Palestinian state's internationally recognized borders will greatly increase the costs associated with any prophylactic Israeli action against it.

In fact, the present exercise is reminiscent of the story about the man who is asked how he's doing as he passes the 20th floor of a skyscraper from which he has fallen and responds, "So far, so good." It makes no more sense to be so-called peace process than it would to re-up the free-falling man's life insurance policy.

Frank J. Gaffney Jr. is the director of the Center for Security Policy and a columnist for The Washington Times.

03/12/98 09:46

Ashrawi quits government, citing corruption, poor peace policy

4.07 p.m. ET (2007 GMT) August 6, 1998

By Samar Assad, Associated Press

RAMALLAH, West Bank (AP) — Hanan Ashrawi, one of the Palestinians' best-known political figures, quit her Cabinet job Thursday to protest corruption and what she called mishandling of peace efforts.

During Israeli-Palestinian peace negotiations in the early 1990s, Ashrawi gained a worldwide reputation as an articulate spokeswoman for the Palestinian cause. She is also a well-known human-rights and women's-rights activist.

Palestinian leader Yasser Arafat announced a new Cabinet on Wednesday, a year after legislators demanded the old one be dissolved because of widespread corruption. But all of the ministers accused of corruption kept their jobs.

Ashrawi, who had been minister of higher education since 1996, said she declined to accept a new appointment as tourism minister because "I believe that comprehensive reform was not addressed in this new government formulation."

"I assured President Arafat that once he conducts ...genuine reform, I will be willing to help him," Ashrawi told reporters in the West Bank town of Ramallah.

A second minister announced he was quitting, also citing a failure to crack down on corruption. Abdel Jawad Saleh, an Arafat critic who had served as minister of agriculture, called the new Cabinet a "tragedy."

Saleh said when he tried to fight corruption in his ministry, Arafat stepped in and shielded high-ranking officials.

Ashrawi also said she was unhappy with the Palestinian leadership's handling of peace talks and was sharply critical of the United States for what she said was a pro-Israel bias.

"Rather than facing up to its helplessness and powerlessness before Israel, the American administration is putting pressure on the Palestinians," she said. [an error occurred while processing this directive] Peace talks have been stalled for the past 16 months. The two sides have been holding high-level talks to try to restart them, but so far have not reached any accord.

Wednesday, June 4, 1997

Palestinians decry their government's corruption

by Karin Laub
Associated Press

RAMALLAH, West Bank - Visibly agitated, the Palestinian planning minister stepped before the legislature, took off his jacket and prepared to defend himself against charges of wasting public money.

Why had Nabil Shaath assigned four office cars and 12 drivers for his personal use? Why had he spent \$50,000 to entertain guests at Jerusalem's landmark American Colony Hotel?

Shaath, a prominent player in peace talks with Israel, demanded to know why the lawmakers were singling out him.

"Why only me? Why am I your scapegoat?" he said.

Officials in the 3-year-old Palestinian Authority are unaccustomed to such scrutiny. Only now are Palestinians in the West Bank and Gaza Strip beginning to complain openly about corruption in Yasser Arafat's government, after a government comptroller reported that \$326 million - nearly half the 1997 budget - has been squandered or dropped into private pockets.

The report, of which only an outline has been made public, struck a nerve in a society contending with 40 percent unemployment and classrooms stuffed with up to 50 students each.

Teachers say they are underpaid: Khaula Nasreddine, a Hebron teacher with 16 years of experience, earns \$320 a year.

"When the Palestinian Authority came, we had so many hopes that it would improve everyone's standard of living," he said. "But the opposite has happened. A small group of people is reaping all the benefits."

When 18,000 West Bank teachers went on strike earlier

this year - the first large-scale job action under Arafat's rule - the Palestinian leader responded by sending the union leaders to jail.

At the same time, Arafat has been spending millions of dollars to expand the already-bloated government payroll, adding more workers as a way of buying loyalty and repaying favors.

In his own defense, Shaath insisted that legislators were misguided in accusing him of misspending. The cars were his own, he said, and the bill at the hotel, a favorite hangout for Palestinian officials, was not so steep, considering his ministry had many guests.

The minister nevertheless said he is tightening his department's belt: He has restricted mobile phones to only senior officials - and limited their monthly phone bills to a \$150 ceiling.

The 88-member Palestinian parliament has begun to demand that ministers clearly explain where their money is being spent. Last week, the lawmakers debated the 1997 budget - presented for approval five months late - and the corruption report.

Several ministries had put the largest part of their budgets under "other expenses." The Agriculture Ministry, for one, had listed \$1.9 million of its \$2.5 million allotment in the elusive category.

Despite the disenchantment, Arafat's rule seems secure. He is backed by 30,000 armed, loyal men, and no rival is powerful enough to lead a revolt.

The Islamic militant group Hamas, which conducted suicide bombings in Israel to wreck the peace process, is not seeking confrontation with Arafat. Khaled Amayreh, a journalist from the movement, said Hamas is waiting.

"The collapse of the Palestinian Authority is only a matter of time," he said. "People are no longer giving Arafat the benefit of the doubt."

Ziad Amr, a Palestinian legislator, said he would submit a motion of no confidence in the government unless Arafat replaced his Cabinet within a month.

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Panel urges Arafat to sack 'corrupt' Cabinet

Kickbacks, payoffs alleged. Some critics say blame goes to the top.

Associated Press and Reuter

RAMALLAH, West Bank -- A Palestinian legislative panel reported wide-ranging corruption Tuesday in all 18 Palestinian ministries -- including diversion of foreign aid donations -- and urged Yasser Arafat to sack his entire Cabinet.

Arafat spokesman Marwan Kanafani praised the report and said it provides "a strong basis" for a Cabinet reshuffle that Arafat was already planning. Lawmakers and some members of Arafat's own administration faulted the panel for failing to examine Arafat's role in any wrongdoing.

"The mismanagement starts from the top -- way up on top," said Husam Khader, a legislator from Nablus.

The investigating committee was formed in response to a state comptroller's report that found \$326 million of the Palestinian autonomy government's \$800 million annual budget had been squandered through corruption or mismanagement.

While the legislative committee has no legal authority, its report put Arafat on the spot -- compelling him to either repudiate his political allies or face rising public anger over financial abuses.

Among allegations in the panel's 60-page report, read aloud Tuesday to the Palestinian Legislative Council:

* Information and Culture Minister Yasser Abed Rabbo used \$7,500 from the ministry budget to pay for central heating at his house.



Nasser Shiyoukhi / Associated Press

Palestinian leader Yasser Arafat, waving to supporters Tuesday in the West Bank city of Hebron, is reportedly planning to reshuffle his Cabinet.

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* Transportation Minister Ali Qawasmeh accepted bribes to license cars that did not meet road standards.

* Civil Affairs Minister Jamal Tarifi gave illegal exemptions from customs duties for more than 4,300 cars -- including a Jaguar for his father.

* Tarifi's Civil Affairs Ministry and Palestinian Planning Minister Nabil Shaath misappropriated funds from foreign donors. The commission's report did not specify which foreign donors or the sums of aid involved.

Committee members said Tuesday that state comptrollers' estimate of hundreds of millions of dollars in losses through corruption and mismanagement was too high and said an accurate estimate could only be determined after an investigation by the state attorney.

Arafat's government has been buffeted by a series of recent allegations of serious corruption and mismanagement.

The reports have raised concern among international donors, who overall have pledged \$1.5 billion to Arafat's 3-year-old government, including \$225 million from the United States. But far less has arrived, in part because of concerns about lack of accountability in Arafat's administration.

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