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A Year of Decline: The Financial and Institutional Status of The Palestinian Authority

1- Palestinian Finance Under Siege: Economic Decline and Institutional Degradation by Karim Nashashibi, the former head of the International Monetary Fund (IMF) in the West Bank and Gaza Strip

2-The Impact of the Palestinian Authority's Year of Decline on its Employees. The Case of Jenin.

These two Special Focus papers concerning the situation in the occupied Palestinian territory (oPt) are published one year after the withholding of customs payments by the Government of Israel (GoI) and the change of policy of Western donors towards the direct funding of the Palestinian Authority (PA.)

In a thought-provoking thesis, Karim Nashashibi documents the economic decline and institutional degradation that have followed in the wake of what he calls "the financial siege" of the PA.

He laments what he sees as "the loss of transparency and accountability" following the establishment of parallel payment mechanisms, including the Temporary International Mechanism (TIM), which he claims is "causing a reversal in progress attained over a decade of reforms and capacity building".

Dr Nashishibi's report is an independent analysis. In his own words, as former head of the IMF in the West Bank and Gaza Strip, it provides a stimulating and timely debate.

To complement this article, OCHA conducted its own field research into the humanitarian impact the financial crisis is having at a community level and the extent to which parallel payment systems are providing relief to PA employees who have not received full salaries for more than a year.
A series of interviews with PA employees were carried out in Jenin, which has one of the highest percentages of PA employees in the West Bank, and where the population has been deeply affected by the loss of regular salaries.

Key findings and observations of the two papers:

- The transparency and accountability of the PA—built up over a decade at the insistence and expense of the international donor community—has been severely undermined by the withdrawal and withholding of funds.

- Palestinian communities and PA employees in particular, resent their forced return to dependency on welfare, their 'de-development' and loss of self-reliance. They call for a return to fully salaried work and the restoration of basic services provided by the PA.

- Interviewees, particularly the educated, acknowledge the downturn in their fortunes was triggered by the election of Hamas in January 2006 and the subsequent collapse of the PA, but blame their plight on the continuing Israeli occupation and the policies of the international community.

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I) Palestinian Finance under Siege: Economic Decline and Institutional Degradation

by Karim Nashashibi
A paper commissioned by the UN's Office for the Coordination of Humanitarian Affairs*

Executive Summary

Shortly after Hamas won the legislative elections in January 2006 and formed a new government two months later, it faced two major sanctions which caused a sharp economic downturn:

i) a financial siege imposed by Israel, the US and other OECD countries, and
ii) a tightening of restrictions on trade and movement of people, by the Government of Israel (GOI), culminating in a virtual lockdown of the Gaza Strip, and frequent incursions by Israel Defense Forces (IDF) into Gaza and the northern West Bank, following the capture of Corporal Gilad Shalit on June 25, 2006.

Contrary to the Agreement on Movement and Access (AMA) reached in November 2005, which aimed at facilitating the movement of people and trade, the number of checkpoints and other barriers increased by 40 % between the unilateral disengagement from Gaza in August 2005 and end of 2006. Gaza's exports and other economic activities had been devastated by the frequent closures of Karni during most of 2006 and the sharp fall in electricity supply, following the destruction of its power plant transformers by the IDF.

The downward pull on the economy caused by the intensification of the closure regime was compounded by a financial siege of the Palestinian Authority (PA) by Israel and OECD countries following Hamas' accession to power. The most damaging sanction was the withholding of Palestinian tax revenue collected by Israel (clearance revenue) beginning in March 2006 by GOI, thereby depriving the PA of two thirds of its monthly tax revenue. Unlike the first year of the Intifadah (2002) when Arab countries transferred $ 450 million to the PA to offset a similar revenue freeze, foreign budget support was denied to the PA and its public institutions.

OECD donors also stopped communicating directly with PA high level officials, disrupting progress on institution building and on-going development projects. At the same time, the financial siege prevented commercial banks from dealing with the PA. Arab League countries could only transfer funds to the Office of the President (Presidency) forcing the Palestinian authorities to transport cash across borders, liquidate assets held by the Palestinian Investment Fund (PIF) and pay its employees in cash.

This marked a reversal to progress attained over the last decade, under strong donor pressure, in establishing financial accountability and transparency. Nevertheless, the financial siege failed if measured by its ability to reduce external assistance to the Palestinian government. In 2006, OECD, Arab and other donors provided about $ 900 million in external assistance – more than double the assistance obtained in 2005 - by setting up parallel payment systems by-passing the PA, and by channeling transfers in cash. On the other hand, the financial siege succeeded in disempowering the PA, cutting off its funding and severely damaging its institutions. While the increase in external assistance made

*The paper was commissioned by the UN Office for the Coordination of Humanitarian Affairs. It is however solely the work of Karim Nashashibi and is independent of the thoughts and conclusions of UNOCHA.

up for the loss of tax revenue, frozen by GoI in 2006, only a small part reached the PA. The parallel payment systems established with the Presidency and the Quartet's Temporary International Mechanism (TIM) contributed to a fragmentation of public finance accounts and a paralysis in decision making. However, it did provide substantial financial relief, averting a humanitarian crisis now affecting the majority of Palestinians.

Nevertheless, the large decline in PA resource availability resulted in a gradual implosion of PA institutions through large shortfalls in salaries, disenfranchisement of the civil service and inability to deliver basic services to the population. Loss of transparency and accountability has been particularly egregious. There is no systematic consolidated accounting of revenues and expenditures by the two parallel governments but broad estimates of inflows and outflows of funds would indicate that some expenditures were not recorded and some external assistance was unaccounted for.

Rather than shortfalls in external assistance, it is the financial threat of sanctions on commercial banks which had a debilitating effect on PA resource availability. Banks denied any credit to the PA, called outstanding loans for repayment and virtually froze PA banking activity. The combined effects of the freeze on Palestinian tax revenues and the turnaround in the commercial banks relation with the PA undermined the PA's ability to pay salaries on a regular basis to its 164,000 employees in 2006. Taking into account dependents of PA employees, one million people, over a quarter of the Palestinian population, were left with their income reduced by half.

The sharp decline in the PA's resource availability, coupled with the tightening of restrictions on movement and trade has had a downward multiplier effect on the economy in all sectors, reducing expenditures on consumption and even more sharply on investment, particularly residential construction. Partial indicators of economic activity in 2006 suggest a contraction in GDP by 7% but when adjusted for the effects of the reduction in consumption and shortfalls in government services, an economic decline of about 10% is far more likely. This decline has resulted in severe humanitarian hardship which has spread to the majority of the population. Unemployment is now estimated at 24 % and poverty has spread to 26 % of the population (17% in 2005).

The financial siege, the conflict among Palestinian factions and the persistence of the GoI restrictions on movement of people and trade, has brought investment and economic decision making to a standstill. The establishment of parallel payments mechanisms and the focus by donors on welfare instead of trade facilitation and revival of production has marginalized PA institutions, causing a reversal in progress attained over a decade of reforms and capacity building.

Greater movement of Gaza exports through Karni towards end 2006, the release by GoI of $ 100 million in clearance revenue in January 2007 and the formation of a unity government following the Mecca agreement (February 8, 2007) may lead to an improvement in economic conditions in 2007. However, the key ingredients of an economic revival would be the release of Palestinian tax revenues collected by GOI, the lifting of banking restrictions on the PA and the easing of barriers on movement and access of people and trade, in and out of Gaza and in the West Bank. Of equal importance would be a rehabilitation of Palestinian public institutions to reverse the damage they have sustained and a strengthening of PA governance and security towards the build-up of a future Palestinian State.

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Introduction

This paper is concerned with the impact of the financial siege imposed on the PA by the GoI and the international community. It addresses the consequences of the GoI withholding two thirds of the PA's tax revenues as well as the withholding of external budget support to the PA by Western donors. It documents the inability of the PA to pay salaries to its staff or to finance the most basic operational expenditures which triggered a contraction in the Palestinian economy and substantial humanitarian hardship, particularly in the health sector. This decline, which exacerbated the already tightened restrictions on trade and the movement of labor, is discussed in the context of measurement issues and data inadequacies.

The paper also addresses the long standing financial surveillance of the oPt and the impact of banking restrictions imposed on the PA. In particular, it looks at how the scramble by PA officials and by the Presidency for alternative sources of financing, has challenged the regulatory and legal framework established in the oPt over the last decade of capacity building. This paper examines the gradual institutional degradation in the oPt, particularly the loss of transparency and accountability in public finance, stemming from the establishment of parallel payment mechanisms and the fragmentation of accounts.

1. Economic and Humanitarian Degradation in the oPt

One way to measure the extent of the economic contraction would be to compare the resources spent by the PA in 2005 with spending projections for the PA, the Presidency and the TIM in 2006. In 2005 the PA spent $ 2 billion[1](Table 1), a 41% increase in current expenditures over 2004, partly financed by exceptional revenues and bank borrowing. It explains both the 6.3% economic growth estimate for 2005 as well as its unsustainability.[2]

Table 1: oPt Consolidated Fiscal Accounts
(in millions of US dollars)

	2005	2006
Expenditures	1994	1368
Wages	1001	655
Non Wage	649	373
Operations	218	128
Transfers	375	220
Other	56	25
Net Lending	344	340
Revenues	1233	577
Clearance	757	287
Domestic	476	290
Deficit	761	791
Financing	761	1205
Withheld clearance	137	0
PIF transfers	173	200
Net bank financing	304	-95
Payment arrears	-202	200
External budget support	349	900

In 2006, revenue mobilization by the PA was stymied by the withholding of PA tax revenue collected by GOI, in violation of the Paris Protocol[3]. Averaging $ 68 million per month[4], during the last quarter of 2005, this freeze deprived the PA of two-thirds of its revenue, taking away a potential $800 million in 2006, had economic activity remained on its 2005 path. Nevertheless, GOI has released about $ 12 million per month from these revenues to pay Israeli utility and other service providers to the PA[5]. In addition the PA collected monthly about $ 30 million in taxes in 2005, although these may have declined to $20 million by June 2006, bringing total PA estimated revenues for 2006 to $ 530 million[6].

Estimates of public spending in 2006 - by consolidating disbursements by the PA, the Presidency and the TIM - are $ 1.36 billion, a 31 % decline from 2005, with only half of the wage bill paid. Wage arrears incurred in 2006 were estimated by the PA in the 2007 budget submitted to the PLC at $ 604 million, which would have brought total expenditures in 2006 at about $ 2 billion, in line with 2005 spending.

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On the financing side, external assistance in 2006 is estimated at $ 900 million, mostly from Arab countries, (see table below)[7]. This is over 2.5 times the budget support obtained in 2005.

Arab League	European Union	World Bank[7]	Bilateral	Cash[8]
$448 million	$219 million	$42 million	$11 million	$180 million

Estimates of other sources of financing, brings total resource mobilization by the Palestinian authorities and the donor countries to $ 1.2 billion[8].

This exceeds the estimated budget deficit in 2006 of $ 791 million by over $ 400 million, suggesting both unrecorded expenditures and estimation inaccuracies. Aside from the need to complete the picture by refining estimates and recording all expenditures, the most significant aspect of this gap is the breakdown in transparency and accountability which resulted from the fragmentation of public finance accounts into three different sources of funding and which is discussed further in section 4 below. Of particular concern, is the extent of wage arrears incurred in 2006, as discussed above, occurring simultaneously with large over-financing.

The Decline in Relations with the Banks

Between 2003 and 2005, the PA relied heavily on commercial bank credit to manage its budget and Treasury operations. In 2005 it borrowed $182 million from banks and another $149 million between end December 2005 and February 2006,[9] raising PA public debt to $ 714 million.[10]

Beginning March 2006, there was a turnaround in the PA's relationship with banks. After the formation of a Hamas cabinet, credit lines were cancelled and banks insisted on repayments, extracting from the PA $ 212 million between March and October 2006. With a financial siege imposed on the PA and dwindling prospects for its political survival, banks followed sound prudential practices and started deducting debt repayments from PA domestic revenue and from external transfers. Banks also started liquidating Palestinian Investment Fund (PIF) assets, which they were holding as collateral, to service their debt and reduce their exposure.

The negative turnaround in the PA's relationship with banks is equivalent to over $400 million in 2006, when both debt repayments and normal credit lines are taken into account (10% of GDP). Additional debts were repaid during the first quarter of 2006 to the Israeli private sector, ($50 million) particularly to the DOR fuel supplier and another $ 50 million reclaimed by USAID[11], taking away resources which could have been used to pay salaries to PA employees.

Confronted with rising expectations from PA employees who managed to extract major wage increases in mid 2005, and a financial siege which gave precedence to debt repayment over salaries, the PA and the Presidency were only able to disburse 40% of salaries owed to its 164,000[12] employees in 2006. Additional income relief was provided by the TIM raising the ratio of paid salaries to 55 % (see below), and by bank credit to PA employees, which may have reached $ 280 million by end 2006.

Greater Restrictions on Access and the "Prison Economy"

The impact of the reduction in PA spending on the economy was compounded by a sharp tightening of the closure regime. The increase in checkpoints and various impediments to movement and access for people and goods in the West Bank started after the disengagement from Gaza, during the last quarter of 2005, and picked up momentum after the Hamas electoral victory and the June events in Gaza. OCHA has counted 527 checkpoints[13] and other obstacles by the end of December 2006, a 40% increase since the Gaza disengagement benchmark (August 2005). This increase went counter to the AMA, brokered by Secretary Rice on November 17, 2005, which specified measures for trade facilitation in the West

Bank, greater movement of trade and people in and out of Gaza and a reliable transportation link between Gaza and the West Bank[14].

In Gaza, there was a virtual lockdown until October 2006, although movement through Karni has been facilitated since then. Erez has been closed since March 12 for Palestinian workers and Rafah has only been opened 10% of the scheduled time since June 12, 2006. Karni has been closed half the time this year causing large losses to Gaza farmers attempting to export agricultural goods during the 2005/06 season to Israel and the EU. Gaza's exports had only reached 11% of the AMA target set for end 2006. The Israeli control over the external and internal market access has been forcefully described as "the prison economy,"[16]

In addition to the effect of the closures on daily economic activity, about $200 million in development expenditures financed by donors have come to a virtual standstill. This is particularly the case in Gaza where the breakdown of security and a blockade on imports of construction material and other inputs since end June 2006, have brought most investment work, both public and private, to a stop[17]. Some of the decline in income and investment has been managed by coping mechanisms, such as reduction in consumption, higher indebtedness and remittances from abroad[18]. There has also been an increase in humanitarian assistance, through UNRWA and other UN agencies.

All in all, the combination of the sharp reduction in government spending and the tightening of the closure regime have resulted in a severe economic decline, notwithstanding record levels of external assistance. Quarterly economic indicators monitored by PCBS in 2006 indicate a 7% yearly reduction in GDP. However, these indicators mostly evaluate production by tracking the utilization of major inputs such as cement and electricity. Therefore they would not reflect the impact of the fall in income, due to non payment of half the salaries, on consumption. PCBS also estimates government wages on an accrual basis (i.e. as if they were fully paid), as a proxy for the value of government services provided. Yet the delivery of government services deteriorated sharply in the second half of the year, particularly during the fourth quarter due to demoralization, absenteeism among PA employees and strikes. When PCBS estimated 2006 GDP on a cash basis, the decline in GDP turned out to be 14%. Maintaining the accrual methodology but taking the decline in consumption and the deterioration in PA service delivery into account, the economic contraction in 2006 would be of the order of 10 %[19]. Per capita income may have declined by 13% in 2006, with cumulative decline since 1999 of 40%.

A Worsening Humanitarian Situation

The humanitarian consequences of this economic decline on the oPt have been periodically described by OCHA and UNRWA briefing notes, the Humanitarian Monitor, the UNICEF Humanitarian Action and by OCHA's Humanitarian Briefing at the Stockholm conference on September 1, 2006. Without dwelling on details, suffice it to say that the ratio of the Palestinian population in poverty has risen from 17% in 2005 to 26 % in 2006[20]. Unemployment has reached 24% and 70% of the Gaza population is now dependent on food aid.

The financial and human hardship stemming from the withholding of financial resources to the PA and suspension of salary payments to its employees, has been particularly hard on women, as they account for 30% of the civil service, while their participation in the labor force is only 19%.

Gaza is much more dependent on PA employment (44%) than the West Bank (15%), and is also more dependent on PA welfare transfers which have been sharply reduced. The closure regime is also much tighter in Gaza than in the West Bank, which remains porous, resulting in a complete loss of jobs in Israel, in the settlements (after disengagement) and in the industrial zones[21]. Most of the jobs associated with exports, including those of the 4000 workers in the greenhouses purchased from the settlers, have also been lost. Even the Palestinian fishing sector has been virtually shut down since the IDF does not allow boats to reach fishing areas.

The financial siege has also been particularly hard on the most vulnerable groups of the population who mostly reside in Gaza. The Ministry of Social Affairs (MOSA) had identified – with World Bank assistance - 48,000 poor, who were provided allowances amounting to $6.5 million per month in 2005. The PA has only been able to provide $ 10-15 million for these allowances during the year, although they have been supplemented by the TIM[22] during the last quarter of 2006.

Electricity was only available half the time during the summer following the destruction of the electrical transformers by the IDF. This has reduced the availability of water, and adequate sanitation. It has also impeded the operations of workshops and factories, reducing productive capacity and incomes. Since December 2005, most of the electricity production at the Gaza power plant has been restored, thanks to Swedish and Egyptian assistance, but capacity is 30% lower than it was before the bombing.[23]

Absenteeism among PA employees had reached 32 % in 2006 and education has been set back by a teacher strike between September, and early November, 2006. A simultaneous strike among other PA employees lasted till January 15, 2007. There has been a decline in test scores in schools as well as school attendance, and the deterioration in health conditions reached crisis levels[24].

However, because the majority of the Gaza population consists of refugees, the social safety net extended by UNRWA has cushioned the humanitarian hardship. UNRWA has also been able to maintain education and health services whereas PA services have been sharply reduced, particularly in the West Bank.

2. Financial Surveillance of the oPt

The financial siege imposed on the PA did not occur overnight but followed a gradual build-up, beginning in 1996 after a rash of suicide bombings in Jerusalem and Tel Aviv. Partly as a result of external pressure, the Palestinian Monetary Authority (PMA) responded to the growing risks of illegal fund transfers by establishing an Anti Money Laundering and Financing of Terrorism (AMLFT) unit with USAID assistance. It began operations in October 2001 by requiring banks to document any transfer of $10,000 and above. Since 2004 these transfers were held for 24 hours, to allow for greater scrutiny. However, the unit lacked the legal framework and independence from political interference needed for effective surveillance. The unit also needed substantial capacity building.

How 9/11 Changed The Financial Environment

Such regulations have been applied in most countries by their central banks and as long as they maintained required standards (monitored by the IMF), countries were able to police their own financial transactions. This changed in the aftermath of 9/11, when capital movements and financial transactions across countries became subjected to much greater oversight by other governments who felt threatened by terrorism. Financial transactions to and from the oPt and other Arab and Muslim countries were particularly scrutinized. Private financial transactions, innocent of any wrongdoing and, hitherto protected by bank secrecy laws, were no longer immune to government surveillance.

The US Treasury was mandated under federal law to enforce regulations against financing of terrorism. Its Office of Foreign Asset Control (OFAC) has put in place monitoring mechanisms to trace suspected financial transactions across countries. As revealed by the press[25], the US government has been able to obtain the entire SWIFT data base documenting international bank transfers (11 million transactions

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daily averaging six trillion US dollars)[26]. Bank deposits and credit card data within the United States had also been made available to the authorities.

Anti-terrorism legislation in the US resulted in a much wider reach of surveillance and potential sanctions, well beyond US borders. Such legislation also provided a political and legal environment conducive to private litigation by "victims of terrorism" against the PA and banks in the oPt which, by their location and size, offered opportunistic targets to such litigation. Thus, since 2003, well before the accession of Hamas to power, the PA has been sued by both Israeli citizens and businesses (e.g. Egged bus company) under Israeli laws and by US citizens, under US laws. In response to these private law suits, Israeli courts froze various amounts ($ 160 million in 2004) from PA tax revenues collected by Israel.

While most of these court cases were eventually dismissed, some PA tax revenues remain frozen, pending resolution of the litigation. Even though the PMA had established an AMLFT unit and had regular contacts with the Israeli authorities about suspicious movements of funds, the IDF raided the Ramallah headquarters of the Arab Bank and the Cairo Amman Bank in April 2004 and took away $ 8.5 million in cash from the banks' vaults. This was equivalent to the balances of about 600 accounts, mostly those of the Islamic University of Gaza and of several welfare organizations[27] alleged by the IDF as having links with terrorist activities. On September 19, 2006 the National Bank of Jordan and several money changers were also raided in the oPt by the IDF, taking away $ 2.6 million.

These raids sent a chill through the private sector in the oPt since they did not follow legal procedures or due process. The banking system which had shown great resilience during the second Intifadah and the Israeli incursions in 2002 and 2003[28] was now being threatened by these raids and seizures. Many of the banks customers transferred their accounts to Amman and remittances from abroad, through bank transfers, declined.

In the US, the consequences of anti-terrorism legislation to the PA were even more damaging. In March 2005, the courts ruled in favor of plaintiffs in Providence, Rhode Island awarding them $116 million[29], with the consequence that all PA assets—even those belonging to autonomous PA agencies—became subject to seizure when falling under US jurisdiction. Thus, the PMA clearing balances in New York (about $ 30 million), were frozen by court order and subjected to lengthy litigation, which was only resolved in April 2007 when the court in New York ruled that the PMA was indeed an autonomous agency and could not be held responsible for the PAs actions. However, liquid assets held by the Gaza Pension and Insurance Company (GPIC) and the PIF are still frozen. Even World Bank funding for projects in the oPt were seized while being transferred to the PA.

More recently, Arab League funds held in trust in a Cairo bank and destined to the Presidency have been threatened by court seizure. Because US jurisdiction only applies to dollar transactions (which must be all cleared by the Federal Reserve Bank in New York), donors avoided potential seizures of funds by converting their financing into Euros or Yen and carefully choosing the banks effecting the transfer.

Nevertheless, the court verdict in the Rhode Island case, which can be used as a precedent, has encouraged other plaintiffs to prosecute, leading up to eleven additional court cases against the PA, claiming over $ 1 billion in damages. Hence, even if the PA reconstitutes itself as a functional government, a dark financial cloud will be hanging over its resources until the court cases are dismissed or a settlement is reached with these plaintiffs.

The Arab Bank, based in Amman but holding about 50% of Palestinian private sector deposits in its oPt branches, has also been facing litigation by a class action of plaintiffs, claiming over $ 4 billion in damages. While the Bank has mounted a strong defense against these suits it was nevertheless forced to close down its branch in New York and curtail its operations in the US. It also became very cautious with respect to its operations in the oPt and any potential allegation of "financing terrorism", as became clear when Hamas won the legislative elections in January 2006.

3. The Financial Siege

Against this backdrop, it is not surprising that Hamas' electoral victory, followed by the formation of a Hamas cabinet, resulted in a financial meltdown for the PA. Declared to be a terrorist organization by the US, EU and Israel, Hamas has been subjected to a tight financial embargo. In addition to the freeze by GOI of PA tax revenues which it collects, both the EU and the US ceased any financial assistance to the PA. More significantly, under US federal sanctions law, OFAC designated PA ministries as terrorist organizations and blacklisted the Hamas leadership, thereby banning all financial dealings with the PA.

This wholesale ruling immediately reduced external budget support which could materialize into salary payments to PA employees. It also prevented direct contacts between members of the donor community and higher PA ministry officials. However, OFAC exempted the President's office and two autonomous agencies reporting to it, the PIF and the PMA. These exemptions were critical, as they opened the door for a resumption of external budget support to the PA, albeit through the back door and at a substantial institutional and welfare cost.

The World Bank's Budget Trust Fund, which had transferred to the PA $158 million[30] in 2005, or about 40% of all budget support received that year, became inoperative. Donor countries searched for alternative ways to sustain PA institutions - a process which took three months - and shifted some of their assistance to emergency supplies. However, the rulings against Hamas also blocked funding from Arab countries, even though they did not want to participate in this financial boycott. Initially, Arab League funds were blocked in Cairo banks which refused to transfer any funds to PA accounts. Eventually funds were transferred to the Presidency, which benefited from the OFAC exemption.

While US and EU sanctions were very effective in reducing official transfers from abroad to the PA, they also paralyzed its domestic bank transfers. As mentioned above, US jurisdiction only covers transactions in US dollars, but most banks would be unwilling to risk the business which they may have through their clients with US correspondent banks or to have their reputation damaged by allegations of financing terrorism. Consequently, the Palestinian banking system stopped handling any transfers to the PA, unless originating from sources authorized by OFAC. Even more damaging, the progress achieved over a ten year period in building up PA institutions and financial accountability was being rapidly reversed.

4. Institutional Breakdown

It should be recalled that in order to ensure financial accountability and transparency and prevent leakage of revenue and corruption, the PA, bowing to strong donor pressure set-up the Single Treasury Account (STA) at the Rimal branch of the Arab Bank in Gaza. The Arab Bank became the PA's treasurer by managing the account and by providing bridge loans and advances against expected transfers from donors. All revenues and expenditure orders were consolidated into this account, culminating in 2005 with PA security personnel being paid through bank accounts instead of cash. This fulfilled a major benchmark imposed by the donors after two years of strong resistance by the upper ranks of the security services. Since 2003, PA budgets, together with monthly reports on budget execution, have been posted on the MOF website. By 2005, the PA had achieved standards of transparency and accountability which rivaled any country in the region[31].

The Undermining of Reform

With the stated objective cementing the peace process and building state institutions, donor countries had been supporting institutional reform since 1994 through technical assistance and generous budget support. The reform process was underpinned by a donor coordinating committee (AHLC), chaired by Norway and by the Task Force on Palestinian Reforms, established by the Quartet in 2002. Their objective was to assist the PA in developing and implementing a comprehensive action plan in seven areas: financial transparency and accountability; market economy; local governments; civil service; judicial and legal framework; elections and civil society.

In support of this reform program, the donor community, including Arab League countries, provided $ 2.5 billion in budget assistance (Table 2 second row) in addition to $ 4 billion in development funding (third row). Humanitarian assistance during this period could be roughly estimated at $ 2.6—3.0 billion.

Table 2. Budget support for the PA and development funding, in millions of US dollars

93	94	95	96	97	98	99	00	01	02	03	04	05	total
0	132	150	157	20	10	23	54	531	468	261	353	349	2508
98	85	134	450	500	520	474	456	318	229	359	256	200	4079

This is the highest per capita level of aid (excluding Israel) received by any developing country. It is worth noting that the reform process was having some success by 1998 and 1999 when the PA was recording a surplus in its current budget and was weaning itself out of external budget support. This process was reversed however with the sharp decline in revenues during the Intifadah and the rise in PA employment and salaries, resulting in a structural budget deficit.

Ironically, one of the most successful areas of reform, in addition to financial accountability, has been the establishment of a robust electoral process, managed by an independent electoral commission to ensure free and fair elections. The electoral victory of an opposition party (Hamas) in the 2006 election was a testimony to the fairness and transparency of the elections. Yet it is this institutional success story which, due to its undesirable outcome in the perception of OECD donor countries, has lead to the institutional degradation in all of the reform areas.

Alternative Sources of Funding

Where progress was hardest to achieve –in the financial transparency and accountability sphere- is where institutional damage was most severe.

The twin objectives of donor countries' boycotting of the PA, while maintaining humanitarian support by using alternative payment channels, resulted in two accountability and transparency casualties:

i) PA transfers and payments in cash, as well as extra budgetary spending, and

ii) fragmentation of accounts, making it nearly impossible to establish a consolidated and accurate picture of public finance as shown in Table 1.

Shortly after the Hamas electoral victory, the Arab Bank notified the PA that it will cease to act as its treasurer and effectively terminated most transactions with the PA. Outstanding advances and loans to the previous Fatah government were consolidated into a term loan and while PA accounts were maintained, they became largely inactive. The home grown Bank of Palestine which was founded in 1960[32] with the largest number of branches (28), filled in the gap, by maintaining all PA accounts (26), while notifying the PA that it will not accept transfers into these accounts, either domestically or from abroad, unless the source of the transfer is exempted by OFAC.

With foreign donor assistance suspended or frozen by banks, PA tax revenue withheld by Israel, and banks pressing the PA to repay its loans, PA officials and the Presidency started seeking alternative sources of funding to pay salaries to its employees. Legal safeguards which were laboriously established, with donor country assistance, to protect independent PA institutions from being raided for their assets, were now being challenged. Thus, the Presidency's first line of defense against the financial siege was to liquidate some of the PIF assets ($ 30 million) to pay for fuel products supplied by the Israeli DOR Company to the oPt[33].

The liquidation of PIF assets also exceeded the bounds of legality, considering that the PA can only obtain advances from the PIF against expected profits[34]. Additional PIF assets were liquidated, drawing down the $ 1.2 billion estimated by end 2005 to about $ 500 million by end September 2006. Some of the liquidation was executed by banks in repayment of loans while most of the remainder paid for overdue bills.

The PA also approached the Palestinian Monetary Authority (PMA), seeking a $100 million loan, from the required reserves it holds for the 21 banks in the oPt. Yet the PMA banking law restricts lending to the PA while the budget law prohibits the PA from borrowing from the PMA, in line with sound central bank practices. Consequently the request was denied.

Suitcases Full of Cash

After exhausting these financing options, PA officials fell back on transporting cash. Starting June 2006, Hamas officials traveling to Gaza from Cairo brought with them suitcases full of cash at the Rafah border crossing, initially with relatively small amounts ($800,000), but increasingly with larger shipments ($5 million; $20 million). As recently as December 19, 2006 attempts by the Prime Minister to bring with him $ 35 million in cash to Gaza failed but other attempts succeeded[35]. A tally of various press reports of PA cash transfers through Rafah amounts to about $ 180 million, including the $ 120 million provided by Iran, although it is not known how this funding has reached the PA. When banks refused to transfer salaries to the accounts of PA employees, the PA paid them in cash through post office branches.

Aside from the loss of transparency and accountability when dealing with cash payments, transporting cash in the oPt, with over 500 checkpoints and other barriers, is costly and brings with it opportunities for theft and corruption. Another consequence of being forced into cash transactions is a likely decline in the tax revenue collected by the PA. If withholding tax liabilities from PA employee bank accounts cannot be carried out, income tax collections would fall.

The loss of transparency and accountability can be illustrated by the $ 400 million gap which has emerged between known expenditures and financing, as discussed above in section 1. This gap has arisen because of the lack of accurate consolidated estimates of revenues and expenditures by the PA, the Presidency and the TIM, resulting from the fragmentation of authority and accounts.

The institutional breakdown illustrated by this gap can be further highlighted by the following:

- Instead of monthly reports on budget execution, as was the case in 2005, there was only one report on budget operations for the first half of 2006. This violates article 52 of the Organic Budget Law of 1998 which requires quarterly reports. It also had a number of inconsistencies noted by the PLC Budget and Financial Affairs Committee[36]. Nor has the Presidency made public comprehensive data on its expenses, transfers from abroad and other sources of financing such as the PIF. In turn, the PIF has not fully reported on its financial transactions with the Presidency and with banks[37].

- The Ministry of Finance (MOF) was divested of any control over revenues and expenditures. PA officials could not pay salaries through their bank accounts or execute expenditure orders. Revenues accruing to their bank accounts cannot be debited unless authorized by the Presidency. Line ministries would appeal directly to the Presidency to obtain funding, undermining.

- With the sharp decline in resources and the fragmentation of accounts between the PA, the Presidency and the TIM, the MOF was unable to draw up a budget for 2006. In effect, all expenditures in 2006 were conducted without a legal budgetary framework.

- With virtually no transfers to cover their operating expenditures, line ministries have been running large payment arrears to suppliers[38]. While arrears to the private sector have been reduced in 2005 by about $ 200 million, arrears have been building up in 2006 without any systematic monitoring.

- The GPIC is depleting its assets, because the PA does not have the resources, either to transfer its own pension contribution, or the employee contribution. If transfer of pension contributions are not resumed, assets of the GPIC maybe depleted within six months. The PA was unable to pay retirees in the West Bank (under the pay as you go system) and the TIM had to provide them with allowances under its low income scheme.

- The 2007 budget submitted to the PLC in December 2006 lacked the major building blocs of a functional budget. In particular, it did not have a macroeconomic framework which establishes the working parameters for 2007s (growth, inflation and the exchange rate). Nor did it have any detail on 2006 revenues and expenditures which would normally constitute the baseline for 2007 estimates. While it had a projection for the wage bill in 2007 and proposed additional hiring of 6000, it did not provide the number of PA employees or their wage bill by end December 2006. Consequently, this budget was rejected by the PLC's Budget and Finance Affairs Committee[39].

Decline in Basic Services

The institutional breakdown caused by the financial siege and boycott of the PA went well beyond the loss of transparency and accountability. The PA as a governing body essentially ceased to function. With suppliers increasingly demanding cash payments, line ministries have been experiencing shortages of fuel, medical equipment, school supplies, all of which reduced their capacity to deliver services. Sanitation, education, health services have all sustained protracted periods of disintegration[40]. Employee strikes due to non payment of salaries and absenteeism have curtailed the provision of services in public hospitals, forcing people in need of health care to resort to private clinics which most people could not afford. Interruptions in fuel and medicine supplies in public hospitals and breakdowns in water and waste water infrastructure particularly in Gaza have aggravated the humanitarian hardship, further undermining the PA and contributing to a growing sense of despair.

5. Parallel Payment Mechanisms

In addition to the PA own sources of funds— domestic revenues, cash transfers through Egypt, donations— two parallel payment mechanisms have been established by donors. OFAC's exemption for the Presidency enabled President Abbas to set up accounts in local banks and establish a secretariat in charge of coordinating payments with the donors and with the PA. Beginning June 2006, Arab countries and other donors could legitimately transfer funds from abroad to the Presidency's accounts. In a second step, the Presidency would transfer funds to local banks, giving them instructions to disburse advances to PA employees, following a payroll roster provided by MOF. In effect, the same PA employees who would have been paid, had external financing been directly channeled to the PA, have been paid through this parallel mechanism.

The major difference has been the creation of another layer of bureaucracy in the Presidency with duplication of functions with the MOF. Thus, some high level PA officials, have been "seconded" to the Presidency, further weakening existing PA institutions.

Partial Payments

While the first salary advance ($ 350) in June 2006 was provided to PA employees in cash through post offices—the second payment (in July) was made through banks at PMA's request. This enabled banks to make deductions (ranging between 20 and 35%) in repayment of advances provided to employees when salaries could not be paid[41]. This created tensions between a number of banks and their PA clients, culminating in some attacks on banks. While these payments only provided 40% of a full salary (one third of a typical teacher salary), they succeeded in channeling back to PA employees (including security personnel) some regular income through the banking system.

The TIM launched by the Quartet on May 9, 2006, introduced a third payment system. This mechanism established an account with HSBC (London) channeling funds directly to suppliers and to PA beneficiaries. It established three windows (chronologically): i) payment of fuel and utility bills[42], starting in March 2006, ii) payment of allowances to Ministry of Health employees and allowances to low income PA employees, pensioners and social hardship cases, starting in August/September 2006, iii) payment of essential supplies and non wage bills to the ministries of health, education, social affairs and operational and maintenance costs for the power and water/sanitation sectors, which started end October 2006. The European Commission (EC) set up a management unit to disburse payments under the first two windows in coordination with local banks, while the World Bank manages the third window[43].

While it took the TIM more than three months to disburse allowances, it did provide significant financial relief to PA municipalities and health facilities as well as to a large segment of its civil service[44]. It also provided a social safety net by giving allowances to the poor and by maintaining the operations of health facilities, particularly in Gaza. By end 2006 allowances provided to PA employees and hardship cases reached 144,000 individuals[45].

Both the Presidency and the TIM took equity and welfare considerations into account in their mechanisms providing a higher share of salaries due to the lowest ranks of PA employees who were able to obtain more than two-thirds of the salaries due to them, whereas higher paid staff only got one-quarter or less of their salaries.

More Red Tape

However, three issues can be raised with respect to the TIM's conception and operations. By adding another layer of bureaucracy and by-passing the civil service, the TIM has contributed to the institutional fragmentation of the PA. TIM payments have been disbursed on an ad-hoc basis with uncertainty surrounding future payments underscoring the welfare aspect of the operation. The civil service, particularly employees in social services who are directly serving the population, felt disenfranchised, with loss of ownership over decision making. For instance, the PA has not been able to induce municipalities to pay their utility bills, a $ 30 million monthly drain on PA resources. Neither the EC nor the Presidency or the World Bank can administer an efficient distribution mechanism for supplies and allowances without the assistance, follow up and paper work of the ministries high officials and technical staff. The donors refusal to work directly with high ministry officials, and engage decision makers who are formulating policies, resulted in both an efficiency cost and a morale problem. Two important capacity building projects (PATACS, ASYCUDA) involving a comprehensive computerization of tax and customs administrations, have been suspended with the financing freeze enacted by the EC.

Fair and Square

The second issue faced by the TIM is one of coverage and equity. While the PA's 12,000 health employees have been initially favored by the EC for allowances averaging $ 475 per person, the 36,000 education teachers and employees have not. Strong protestation by European Union member countries led to the cancellation of this preferential treatment, and the inclusion of teachers and health workers in the TIM's allowances for the low income civil servants[46]. On the other hand, security personnel (about 85,000) who are poorer and mostly recruited by Fatah prior to the January elections, were excluded by the TIM. This inevitably created both political and professional tensions, although security personnel were eventually paid by the PA and the Presidency. Prisoners' families and other vulnerable groups have also been excluded from the allowances provided to the poorest segments of the population.

Finally, allowances to the civil service were perceived as a form of welfare rather than a salary payment for services provided. This process brought with it some degree of humiliation and resentment.

6. Unraveling of the Integrated Banking System?

It should be recalled that under the Paris Protocol, Palestinian and Israeli banks were integrated in a single payment system, in parallel to the integration of the two indirect tax systems, within the Customs Union envelope. They established correspondent agreements and a joint clearing system for their checks to ensure payment within two days – instead of sending the checks for "collection" as one would do with a check drawn on a bank residing abroad, a process which can take over two weeks. Thus a check drawn by a Palestinian importer on his bank account in Ramallah, in payment for goods delivered by an Israeli supplier, would be treated as an Israeli check and vice-versa.

A clearing system managed by three Israeli banks (Bank Hapoalim; Israel Discount Bank; and the Mercantile Bank) would clear all checks drawn on Israeli and Palestinian banks in shekels (NIS). In Israel, the Ministry of Justice, in coordination with the central bank, has set up an independent administration to oversee the AMLFT mechanism. Under Israel's anti-terrorism legislation, sanctions could be imposed on any bank which transfers funds to the PA or to any organization or individual affiliated with Hamas. Such banks would also be subject to private litigation and may face sanctions from OFAC.

Following the formation of a Hamas government, which raised the possibility of sanctions or litigation, the clearing banks did not want to assume responsibility for unknowingly clearing payments to the PA or members of the Hamas organization. Consequently they decided to stop their clearing function within a three month deadline and cancel their correspondence agreements with Palestinian banks for both shekel and non shekel transactions.

Given the high degree of integration between the Palestinian and Israeli economies, such an action would, at the very least, destabilize trade relations. The oPt imported about $2.7 billion from Israel in 2005, (90% of total imports) while exporting over $ 550 million to Israel. Virtually all of these transactions are paid for in NIS through bank checks and wire transfers. The PMA reports clearance of over 2 million checks in NIS in 2005 with a value of NIS14.6 billion. This exceeded the highest level reached prior to the Intifadah in 1999 of NIS 14 billion. Should Israeli banks refuse to honor checks in NIS drawn on Palestinian bank accounts, trade between the two countries would be disrupted with possible short term shortages of essential goods in the oPt. Beyond the negative effects on trade, the cancellation of clearing arrangements may also have negative consequences on the choice of currency in the oPt and existing Customs Union arrangements between the two countries.

The end of the NIS in the oPt?

Since 1967 the NIS has been the transaction currency in the oPt. All prices are quoted in NIS and private sector transactions are in NIS with the possible exception of real estate transactions, as in the case of Israel. All PA revenue is collected in NIS as well as payments of salaries and other expenditures. The PA budget law is issued in both NIS and in dollars. A rough back of the envelope estimate for outstanding NIS currency with the Palestinian public would be in the range of 3-4 billion[47]. This is equivalent to about 17-22% of WBG GDP. The demand for NIS currency is met by Israeli banks through their correspondence agreements with Palestinian banks, for which the GOI would get seignorage revenue, about $30 million annually[48]. A process of "deshekelization", in favor of the Jordanian Dinar or the US dollar would also be disruptive to currency markets and payment patterns in the short run.

Finally, since the Customs Union arrangements between Israel and the WBG have been in jeopardy since the Gaza disengagement[49], a breakdown of the single payment system between Israel and the WBG, coupled with the withholding of PA tax revenue collected by Israel, may result in the collapse of the customs union, the last functioning vestige of the Oslo Agreements.

Given the risks to the long term relations between the two economies from the cancellation of the payment agreement, and the disruption to Israeli and Palestinian trading interests, the Bank of Israel, in close consultation with the PMA, has been working on establishing a framework of data sharing and appropriate procedures for both Israeli and oPt banks to maintain their joint clearing system while establishing safeguards which would protect Israeli clearing banks from litigation. For instance, the identity of the check provider and the beneficiary would have to be clearly established and vetted against negative lists. Palestinian banks have started to provide such information on a regular basis with every batch of checks they send for clearance.

Third party checks which could not be fully documented would not be accepted and a new check system providing depositor data on the checks is being worked out. The Israeli banks have been seeking guarantees against litigation but they have also been receptive to the process initiated by the Bank of Israel, with substantial progress being made towards attaining a workable framework.

7. Impact on the Private Sector

The financial boycott of the PA by OECD donors and Israel, coupled with the withholding of PA tax revenue by Israel has undermined the ability of the PA to function as an employer and service provider. But to what extent has the squeeze on the banking system through the threat of potential sanctions affected the private sector? Discussions with bankers and traders in the oPt reveals that the direct effects have been small. Banks in the oPt know their clients and continue to service their needs. Based on cash flow projections and profit and loss statements banks continue to provide credit, loans and overdraft facilities. They have adapted to the siege and as mentioned above, a number of banks provided advances to their PA employee clients when their salaries were not paid.

Palestinians abroad continue to transfer funds to their families, but, with the blacklisting by OFAC of dozens of welfare institutions in the oPt and the region, both internal and external bank transfers to oPt institutions have declined. There has also been some business and factory relocation from Gaza to Egypt and from the West Bank to Jordan, although it is difficult to quantify. More troublesome, and for the first time since the first Intifadah (1987-93), there has been significant out migration of middle class families in search of work opportunities abroad.

Depositors receiving transfers from abroad have been particularly cautious in an environment where an account can be frozen at any time without due process. The enhanced bank scrutiny of large transfers across countries may have discouraged some senders but in most cases they will simply find alternative ways of executing their transfer. Thus, there has been a shift of private transfers to the "hawala" system[50]. The vast network of money changers in the Middle East, some of them larger than banks, makes it possible for anyone, to transfer funds to family in the oPt.

While it would be difficult to identify any single transfer through this system, money changers and remittance agents are subject to PMA and Central Bank regulations. Since they all hold their accounts in established banks and rely on large bank transfers in their daily operations they cannot afford to be cut off by the banking system, and have been scrutinizing their clients transactions much more closely[51].

Movement Restrictions Kill Business

While the direct effects of US sanctions on the private sector may not have been very significant, given the strong resiliency of the Palestinian public and banking system, the crippling effect of the tightening of restrictions on movement and access, coupled with the sanctions on the PA's ability to pay salaries has sharply reduced private sector activity. Data during the first eleven months of 2006 indicate that the ratio of non-performing and classified loans in the banking system have risen from15.5% in December 2005 to 20 % in November 2006[52]. During 2006 private sector deposits increased by 5.7 %, reflecting continued confidence in the banking system by the public. Loans increased by 7.8%, but they mostly went to PA employees who were not paid and to businesses which were in need of loan rescheduling, rather than to finance expansion of private sector activity.

Providing credit to the PA in 2005 has been the banks largest source of profits. With that source of income mostly gone, on top of the fall in income from financing trade with the sharp decline in both imports and exports, it would not be surprising if some banks experienced difficulties. With rising PA payment arrears to the private sector, and loans to PA employees at risk, banks have helped their customers who are unable to service their loans to convert their liabilities into new loans, thereby avoiding provisioning charges. Nevertheless, this type of lending only raises the overall risk level while disguising temporarily the fundamental deterioration.

8. Conclusion

The financial siege imposed on the PA, coupled with the tightening of restrictions on the movement of people and goods by GOI triggered a sharp decline in economic activity. The international community succeeded in reconfiguring the disbursement of its financial assistance to the oPt so as to by- pass the PA, while providing financial relief to most PA employees and the poor. But it ended up paying the same PA employees as it had done prior to the accession of Hamas to power. EU funding covered the civil service and hardship cases, while Arab assistance and PA revenues paid for security personnel. Even though external financial support was more than double the level attained in the previous year, it was mostly absorbed by growing humanitarian needs in the face of a shrinking economy and disinvestment.

With the viability of the PA at risk, banks forced substantial loan repayment on the PA while denying it any new credit. This, coupled with the withholding of Palestinian tax revenue by GOI undermined the PA's ability to pay salaries and to deliver services causing growing discontent and a breakdown in governance.

Thanks to the financial and technical support of PA institutions by the international community over the last decade, the PA had succeeded in establishing a large measure of financial accountability and transparency in 2004-05. Donor countries have now contributed to a reversal of this process: a fragmentation of public accounts, transfer of public cash in suitcases, a gradual breakdown of Palestinian institutions and paralysis in policy making. Preliminary estimates of consolidated budgetary operations in 2006 reveal lack of systematic recording of public transactions and possibly substantial understatement of expenditures, underscoring the loss of transparency and accountability. The civil service, which had assumed ownership of the reform process and a large measure of empowerment, now feels disenfranchised and removed from any decision making.

Yet, while PA institutions have become largely dysfunctional, they have not disintegrated. After a decade of reforms and capacity building, these institutions have established a solid set of procedures, accounting practices, elaborate and transparent budgets and financial controls, which have all been codified by their staff. While, these institutions have been largely marginalized by the parallel payment mechanisms, the civil service has not yet deserted its functions, migrated to the private sector or abroad.

The banking sector is also fundamentally strong, benefiting from widespread confidence among the public and one of the highest rates of banking penetration in the Middle East and North Africa. A lifting of OFAC restrictions leading to a resumption of normal financial flows and a pick up in economic activity would spark its financial intermediation into action, and improve the quality of its portfolio.

A Solution is Needed ... and Fast

Nevertheless, the time dimension is critical. The Palestinian population and civil service have proven to be quite resilient through previous bouts of conflict. This may not be the case under the current crisis. With continued uncertainty with respect to the sustainability of a unity government and the conflict with Israel there is a risk that outward migration will accelerate. By bringing an end to their strike in mid January 2007, civil servants were given full salaries for the first time since March. If the PA is not able to sustain this commitment, the institutional degradation will continue. Private sector entrepreneurs in small and medium enterprises may simply give up and leave. The socio- economic fabric may not be able to absorb the rising poverty and unemployment for very long.

With the formation of a Palestinian unity government, and its recognition by some members of the donor community, prospects for improved governance have risen. Provided external assistance is channeled to the new government, human capital and institutional memory can be quickly mobilized towards a restoration of full public services. It is essential however, that the integrity of public finance is restored by lifting the banking restrictions and reactivating the Single Treasury Account. Clearance revenue and external assistance should be transferred to this account on a monthly basis. After dismantling their parallel payment mechanisms the donors can resume their working relation with the PA to repair the institutional damage which has been done and refocus their efforts on development and capacity building towards the establishment of a future Palestinian State.

The re-engagement of the donor community with the unity government would trigger a resumption of the reform process which has lost ground since mid 2005. In this respect, the most urgent task would be to restore expenditure controls and to establish a clear time path towards PA wage bill sustainability. Redefining the financial relation between the PA and local governments is equally important to avoid the large accumulation of unpaid utility bills. The record of the past decade has shown that only through the pro-active engagement of the donor community in cooperation with the Palestinian authorities would there be steady progress in achieving financial viability as well as transparency and accountability. The easing of restrictions on trade and the movement of people by the GOI, coupled with a strengthening of security and the rule of law in the oPt would create the enabling growth environment, where such structural reform and diminishing reliance on budget support would be possible.

Biography: Karim Nashashibi

Karim Nashashibi obtained his Ph.D. in economics from the University of California at Berkeley. He joined ECOSOC at the UN headquarters, subsequently moving to the IMF where he spent most of his career.

At the IMF he worked with countries in Africa and the Middle East specializing in international trade and public finance. Between 2001-05 he headed the IMF resident representative office in the West Bank and Gaza, working closely with the Palestinian Authority Ministry of Finance and the Palestinian Monetary Authority.

Since the spring of 2006 he has been with a think tank in Ramallah—Al Mustakbal Foundation—and undertaking consulting work with various organizations in the West Bank and Gaza.

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The paper mostly relied on data provided by the MOF, PCBS and the PMA. Donor country websites and those of international organizations, most notably the IMF and the World Bank, were particularly helpful.

End Notes

1. Ministry of Finance (MOF): The World Bank estimate is of $ 2.15 billion. See, "The Palestinian Fiscal Crisis," May 7, 2006
2. For the most recent discussion of the fiscal crisis facing the PA, see World Bank, "West Bank and Gaza: Public Expenditure Review" February 2007
3. Para 15 of Protocol on Economic Relations, Paris April 9 1994. This is the third instance when GOI withheld clearance revenues from the PA, after Dec 2000-Nov 2002, during the second Intifadah, and a few months in 1996 after a resurgence of violence. For a discussion of the policy issues surrounding this withholding see Geoffrey Aronson's paper on "Financing the Palestinian Authority" pp13-15, May 25 2006.
4. This was the monthly average for 2005. With the decline in economic activity in 2006, domestic revenues may have fallen to $60 million in the second quarter of 2006 and $54 million thereafter. IMF, Recent fiscal and financial developments, October, 2006.
5. In January 2007 GOI released $ 100 million out of PA clearance revenues to the Presidency, and $ 36 million for Jerusalem hospital bills. The Humanitarian Monitor, p2 January 2007
6. These revenues include a strong first quarter of $236 million, prior to the accession of Hamas to power. If the last three quarters of the year are annualized, tax revenues would be $ 392 million, or 32% of what was collected in 2005
7. PCBS estimates external assistance in 2006 at $ 1 billion. See Preliminary estimates of quarterly national accounts, PCBS February 25, 2006.
8. For external assistance, see "Recent fiscal and financial developments" IMF website, www.imf.org/wbg. October 2006, the IMF mission concluding statement of December 17, 2006 and TIM fact sheets.
9. Including a $ 100 million loan from Arab Bank (London)
10. PMA monthly data from its monetary survey. This debt carries an interest burden of about $ 3.5 million per month.
11. These were financed by liquidating PIF assets
12. MOF: 150,000 payroll employees by end 2006 plus 14,000 security trainees. IMF; WBG: Fiscal Performance in 2006. March 2007
13. OCHA, Report No 29, Jan. 8, 2007
14. Agreement on Movement and Access, November 17, 2005 can be found on www.worldbank.org
15. OCHA, report 28, December 15 2006.
16. Statement by Dr Mohammad Mustafa, local Development Forum, Ramallah, November 15 2006
17. There was a 15% decline in construction in 2006, and a 20% decline in the second half of that year. PCBS National accounts estimates, February 25, 2007
18. Survey polls in June 2006 revealed that only a small number of households (up to 10%) benefit from assistance from family and friends living abroad. NEC monthly bulletin on Palestinian perceptions towards politics and economics. June 2006
19. The IMF and the World Bank estimated the GDP contraction in 2006 at 8%. However, because of data and measurement uncertainties they put the decline within a 5-10% range. See IMF-the World Bank "Economic Developments in 2006-A First Assessment" p7, IMF web site.
20. PCBS. Poverty defined on minimum consumption needs of $ 2.10 per individual, per day. For a discussion of the humanitarian impact of the financial siege, see UNRWA, Recent Socio-economic Impacts, November 2006
21. The Erez industrial zone used to employ 10,000 workers. Another 25,000 used to work in Israel in 2000 and 7000 in the Israeli settlements in Gaza.
22. The TIM provided two allowances of NIS 1500 to 74,000 hardship cases. See TIM General Facts, January 19, 2007.
23. OCHA, The Humanitarian Monitor # 9 January 2007
24. The Health of Palestinians: Growing Crisis and Seeds of Hope by Heidar Abu Ghosh and Norbert Goldfield, October 2006
25. New York Times, June 23, 2006
26. The Society for Worldwide Interbank Financial Telecommunication is based in Brussels with a membership of 7,800 banks in 206 countries and territories. Each bank has a SWIFT code which enables instant fund transfers.
27. No evidence was provided for this seizure beyond the list of accounts. The accounts remain frozen and the issue is still unresolved between the GOI and the PA.
28. See "Economic Performance And Reform Under Conflict Conditions", by Adam Bennett and Karim Nashashibi, IMF 2003, pp44-49
29. This decision was upheld by a US federal court, and was based on a 1991 law allowing US citizens to sue foreign organizations for terrorism in civil court.
30. Including $26 million under the ESSP
31. Financial Accountability Assessment, World Bank, 2005. For a discussion of reforms in public finance see: West Bank and Gaza: Economic Performance and Reform under Conflict Conditions, by Bennett and Nashashibi, chapter 5, pp 44-49, IMF 2003. For a more recent discussion of the reform process and the impact of the financial siege see Nathan brown "Requiem for Palestinian Reform" Carnegie Papers Nb 81, February, 2007.

32. The bank was closed by GOI in 1967 and reopened only in Gaza in 1989 following a favorable Israeli court decision. Beginning 1995 it received licenses from the PMA to establish branches in the oPt.
33. DOR had shut off supplies after payment arrears by the PA's Energy Authority had accumulated. The Palestinian Energy Authority buys petroleum products exclusively from DOR and distributes them in the oPt. The PA has recently awarded the contract to another company. While the Energy Authority should have been making a profit margin which, would be transferred to the PA, it has incurred losses through inappropriate pricing policy (subsidies) It has also transferred petroleum sales proceeds to the PA when liquidity shortages arose.
34. In 2005 $ 120 million in PIF profits were realized. In addition, $ 156 million were withdrawn in 2005 "on account of future profits". This would raise questions about the legality of any PIF asset liquidation in 2006. See "O experts have mercy on the truth" by Dr Salam Fayyad, May 4 2006 PLC (Third Way)
35. Since Egypt, Israel and the WBG are open economies to capital movements, it is legal to bring in any amount of cash, as long as it is declared to customs officials.
36. PLC , Budget and Financial Affairs Committee, Dec 12 2006.
37. These lapses in transparency have been noted in the World Bank Public expenditure review, p42, February 2007
38. Payment arrears to suppliers had been reduced to about $50 million by end 2005. See " O experts have mercy on the truth" by Dr Salam Fayyad, PLC May 4, 2006. There is no data on 2006 arrears, but various sources indicate that they could have easily reached $ 200 million.
39. PLC, Budget and Financial Affairs Committee, January 31, 2007
40. See, "Coping with crisis: Palestinian Authority Institutional Performance" World Bank, November 2006
41. The Bank of Palestine and smaller banks elected not to avail themselves with the deduction.
42. The EC started paying for the fuel costs of the Gaza power plant, as early as March 2006, before the TIM was established and until the plant's transformers were destroyed by the IDF in late June, after which the TIM was providing fuel directly to generators and water pumps of public facilities in Gaza ,providing 3.3 million liters of fuel by mid November 2006.
43. This is a resumption of the Emergency Service Support Program which the Bank managed during 2003/05.
44. See TIM General Facts, January 19, 2007.
45. Ibid
46. In line with their strike settlement in November 2006, teachers were promised full salaries beginning January 2007 in addition to a monthly share of what was owed to them in 2006.
47. Since the PMA does not issue a currency, but instead allows three currencies to be legal tender (NIS, US dollar, Jordanian Dinar) it is difficult to estimate the cash held by the public.
48. Assuming a 4% rate of interest.
49. Under The Agreement on Movement and Access of November 17, 2006, brokered by Secretary Rice, the presence of international monitors at the Rafah border and a commitment to the CU envelope by the PA, made it possible to maintain Gaza within the common external tariff.
50. The hawalla, (transfer in Arabic) system became significant in the early 1970's, when the oil boom caused large labor movements in the Middle East and Asian sub-continent. Today with much greater labor globalization, this system has become widespread.
51. As in the case of several banks in the oPt, a number of money changers have been raided by the IDF in Ramallah and Nablus in September, 2006
52. See the Palestinian Economic bulletin, January 2007 by the Portland Trust, interview with Jihad al Wazir, PMA deputy governor.

2) The Impact of the Palestinian Authority's Year of Decline on its Employees. The Case of Jenin.

Introduction

This field study was conducted by OCHA between November and February 2006/07 to discover what effects the withholding of Palestinian clearance revenues[1] by the Government of Israel (GoI) and the change of policy of Western donors towards the direct funding of the Palestinian Authority (PA) has had at a local level.

This document is intended to provide more qualitative insights into the humanitarian situation and complement the more detailed field research and quantitative data compiled monthly by humanitarian agencies in the *Humanitarian Monitor*[2] and macro-economic reports recently released by organisations such as the World Bank and International Monetary Fund (IMF) on the PA's fiscal situation in 2006.

Methodology

This report draws from group discussions and individual interviews with approximately 70 PA employees, including women, refugees and security/police forces in Jenin governorate.[3] We asked our interviewees a number of questions about the humanitarian impact of the PA institutional crisis including about the non regular payment of their salaries, their perceptions of funding channels set up to bypass the Hamas-controlled PA and what coping mechanisms they are employing.

Jenin was chosen as the focus of research primarily due to the sharp decline in socio-economic conditions in the governorate following the start of the second intifada and because of its relatively high number of PA employees (approximately 11,000).

Key Findings

Whether they are PA employees who have not received their full salaries, their families who depend on them for support, businesses whose customers have lost spending power or those who have been unable to access basic and emergency services in the face of strikes and shortages, Jenin's residents have all been affected by the rapid decline of the PA.

The PA crisis has exacerbated an already deteriorating economic and humanitarian situation throughout the West Bank triggered by the GoI's closure regime, including the construction of the West Bank Barrier, and continuing Israeli/Palestinian violence.

From the perspective of those interviewed for this report, the future looks very bleak. Coping mechanisms are being depleted, with mounting debts and rising unemployment, Jenin's PA employees fear their living standards can only worsen. The funding support mechanisms set up to pay salaries and provide financial assistance are not considered by interviewees to be anything other than an emergency stop-gap. Their irregularity also makes it almost impossible for households to budget effectively.

A theme expressed by the majority of those interviewed was the regret at having to resort to welfare handouts after a long period of self-reliance. The restoration of the PA as an employer and service provider was a wish expressed frequently during discussions and interviews for this report.

According to our interviewees, the Temporary International Mechanism's (TIM) alternative channel for humanitarian assistance has created tensions between PA employees who are and are not eligible to receive partial salary payments or 'allowances'. However, both recipients and non-recipients reported feelings of distress at their loss of salaries, their mounting debts and drop in self-esteem at not being able to provide adequately for their families.

The majority of those interviewed cited the ongoing Israeli occupation for rising joblessness and lack of alternative sources of income in the wake of the collapse of the PA. A significant number also said they felt "punished" by the international donor community following the election of Hamas in January 2006.

Context: PA Institutional Crisis

Following Hamas' victory in legislative elections in January 2006, the GoI began withholding the transfer of Palestinian clearance revenues including customs taxes that it collects on behalf of the PA. According to the IMF, approximately one third ($270 million) of the estimated $730 million in clearance revenues collected by the GoI was transferred either directly or indirectly to fund PA spending and most of this went directly to Israeli companies owed money by PA municipalities.[4]

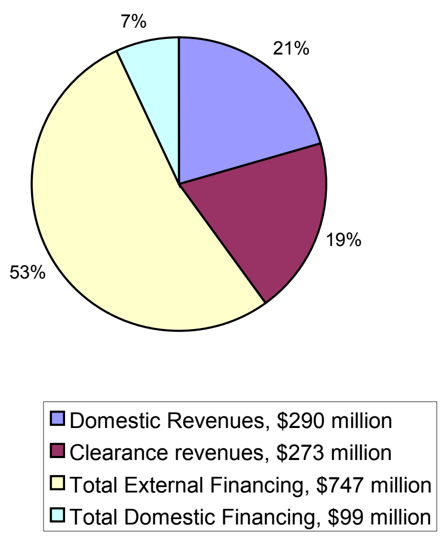
In addition, the Middle East Quartet[5] (as well as Canada, Norway and Japan) suspended its direct financial assistance to the Hamas-controlled PA. By June 2006 international donors had set up alternative ways through which to pay the salaries of some PA employees and provide humanitarian relief while bypassing the Hamas-controlled government. According to the IMF, external financing, amounting to almost $750 million came in to support PA expenditures, but occured indirectly not through the PA. Arab donors mostly channelled their support through the Office of the President (OoP) ($290 million) while the European Union, through the newly-created TIM, disbursed some $170 million. The balance came from approximately $70 million that was carried into the Gaza Strip and the remainder was provided in early 2006 prior to Hamas taking office.

Despite an increase in external financing, total financial resources fell from $2.2 billion in 2005 to $1.4 billion in 2006, mainly the result of a sharp decline in PA revenues.[6]

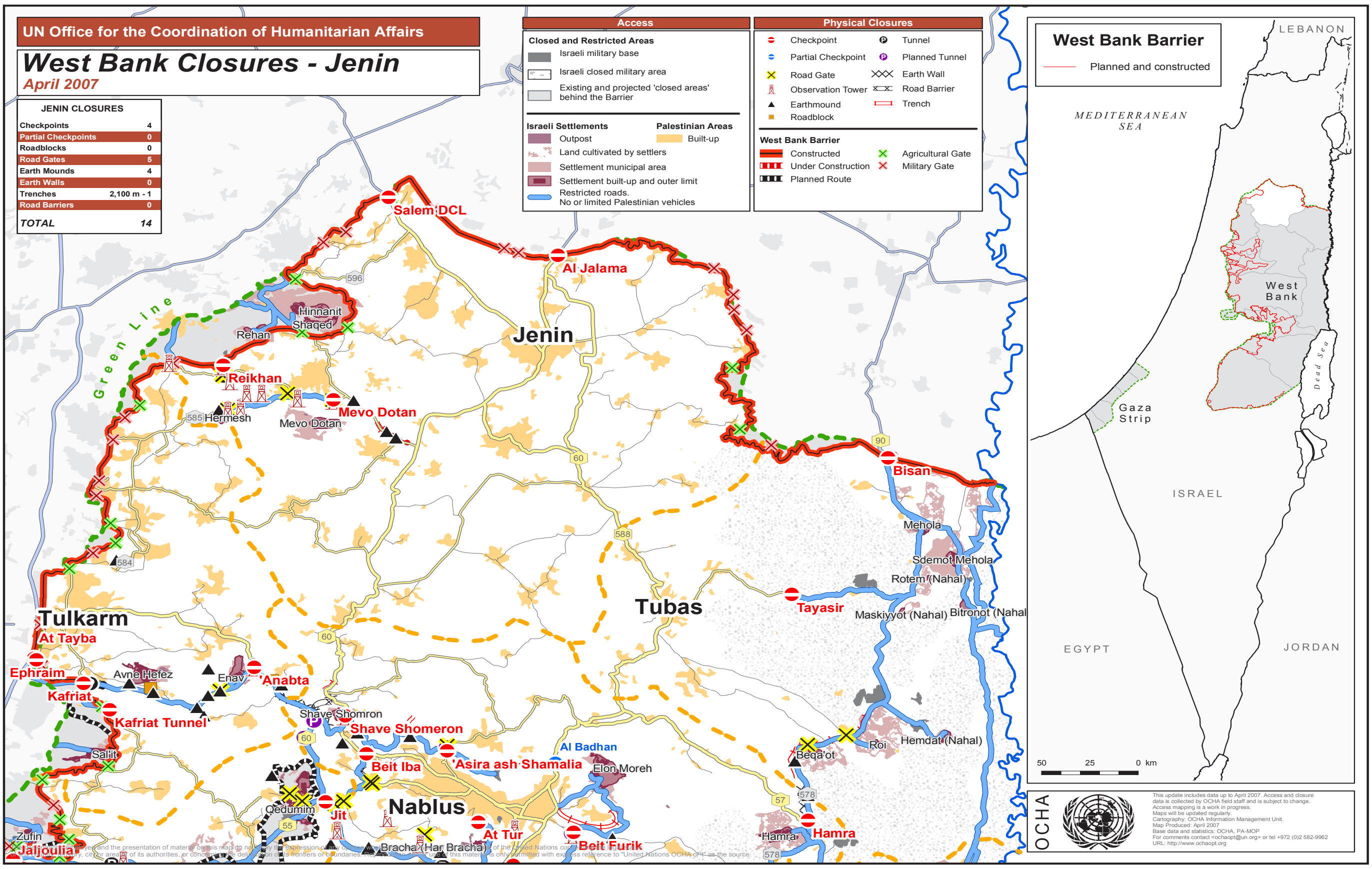
The withholding of PA revenues by the GoI, coupled with uncertain and alternative channelling of funds throughout 2006, meant that PA employees received on average only about 50 to 55% of their salaries in 2006, including payments made by the OoP and the TIM.[7]

Since March 2006, the irregular payment of approximately 11,000 PA employees in Jenin, including police and security forces personnel, has had numerous negative socio-economic impacts which will be explored in greater detail in this report.

Figure 1: The West Bank and Gaza Strip: Financial Resources, 2006



Source: IMF



Discussion Points

i) How has the PA's financial crisis affected Jenin's PA workers?

The loss of PA wages since the start of the financial crisis has particularly affected the population of Jenin. In 1999, 31.5% of Jenin's workforce had jobs in Israel, the highest rate in the West Bank. Since then, Israel's increasingly strict closure regime and the construction of the Barrier has seen almost all of those jobs lost (only 6% of Jenin's workforce held jobs in Israel in 2006), rates of unemployment soar to 28.4%[8] and an increasing reliance on PA salaries by workers and their dependants.

Jenin's PA employees have traditionally occupied an important position in their communities and local economies. Their regular salaries provided support not only to the average of six dependants per employee[9] but injected much-needed cash flow into local businesses which were struggling to thrive in the face of movement restrictions and the construction of the Barrier. The loss of these livelihoods has dealt a severe blow to the community.

ii. What coping mechanisms are they employing?

According to the most recent report by Institut Universitaire d'Etudes au Development (IUED)[10] in Geneva, after just a few months of non-payment of their salaries in 2006, more PA employees were resorting to coping mechanisms traditionally used by Palestinian households without the financial support of a PA employee. Where they were once able to support a large proportion of the population, PA employees are now experiencing a drop in their social economic status and facing a significant deterioration in their own standards of living.

Our group discussions revealed that PA employees are resorting to the following coping mechanisms in the face of their loss of salaries: failing to pay utility bills since March 2006; reducing the quantity and quality of food consumption (the buying of fruit, meat and milk for children has sharply decreased); borrowing money from friends/relatives; moving abroad; taking credit from shops; selling jewellery; and selling land.

> *"When I received my partial salary (NIS 1,000), the bank deducted a part of my debt, leaving me with only NIS 100 in my bank account."*
> PA security forces' member

PA salaries are paid directly into bank accounts and in the last year many of these account holders have had to take out loans from banks in order to make ends meet. The majority of PA employees interviewed have taken out loans which they are not in a position to repay. A number of those in debt complained that banks have deducted debt repayments directly out of the OoP and the TIM partial payments into their accounts, leaving them with very little money on which to live.

While a significant number of interviewees said they still held out hope for an improvement in their economic futures, many said they were extremely anxious because they did not know when or how they would be in a position to repay their debts.

iii. Access to health services

The difficulty in paying for or accessing health care was a recurring theme during interviews, especially during the period when PA health workers were on strike. Research revealed that for the past year, the majority of interviewees and their families have not been able to pay for medication to treat chronic diseases, or have avoided going to the doctor altogether, since food remains their priority purchase.

One interviewee, whose ten year-old son is intellectually disabled, said that he used to take him to Jerusalem twice a month in order to receive treatment. However, since March 2006, he has had no funds to pay for transport, doctor's fees and medicine and so the child is no longer receiving treatment. Another interviewee said he had had to take his pregnant wife to a private clinic to give birth, leaving him with a medical bill which was twice what it would have been in the public hospital, which was closed due to the strike.

According to the Palestinian Ministry of Health (MoH), 10% of nurses are working in private clinics and hospitals in Jenin. One nurse reported that her workload did not increase during the period of the strike because the demand for private healthcare did not rise. This appeared to reflect the views of those interviewed that most people were unable to afford private treatment. Jenin Health Centre reported the case of one desperate PA employee who demanded medicine at gunpoint for his sick mother.

> *"I have been a teacher for eight years and because my salary was so low, I have been unable to save any money… I want to do something for my daughters, for their future. The cutting of my salary has delayed my plans to save to go abroad, but as soon as I have the opportunity, I will not hesitate to leave."*
> Chemistry teacher and father of two, earning NIS 2,300 a month.

iv. Finding alternative incomes

The steady rise in unemployment in Jenin has led to a migration of its labour force to other parts of the West Bank as well as overseas. According to the Jenin Chamber of Commerce, since the start of the second intifada 25,000 inhabitants of Jenin have moved to Ramallah in search of work and a better quality of life, among them many skilled PA employees.

a- Job creation

Since the start of the PA institutional crisis, job creation programmes implemented by the ICRC, NGOs and UN agencies such as WFP and UNRWA, have increased their number of beneficiaries, but remain unable to deliver a sustainable solution due to their emergency nature. During the strike, PA employees looking for new ways to earn a living were generally not allowed to apply for job creation programmes which target priority hardship cases and newly poor people.

b- Construction work

Nevertheless, during the strike period a number of Jenin's PA employees managed to find some alternative work – or at least attempted to - in order to compensate for their lack of PA income. A small number said they had taken short-term work in the construction sector during the strike, however Jenin's job market is very limited. In addition, the Palestinian Ministry of Labour (MoL) issued a number of PA employees with certificates of work to assist them in applying for jobs in the Gulf States. Data is not available, however, to indicate in what numbers civil servants, or skilled employees, have moved or are moving overseas.

The TIM: How it is funded and where the money goes

The TIM consists of three channels of humanitarian assistance, to provide: (1) goods and services for health, education, social affairs and utilities (electricity, water/sanitation); (2) fuel supplies by financing the procurement of fuel for the benefit of hospitals in both the West Bank and Gaza Strip; and (3) the continued delivery of need-based assistance by providing cash assistance to the most vulnerable Palestinians.

The TIM was initially set up to operate for three months and has been extended for further periods since then, however its temporary nature makes it an unpredictable source of income for recipients.[12]

The TIM identified its direct beneficiaries under the third window to be health care workers, low income public sector workers (those earning less than NIS 2,500/month), pensioners and social hardship cases.[13] The TIM works in agreement and in coordination with the OoP which provides data on eligible beneficiaries. As of the end of March 2007, the TIM had made the following payments:

1/ 12,000 health care workers have received eight allowances of on average NIS 2,000 (approximately $455);
2/ 65,000 low income public service providers and pensioners have received six allowances of on average NIS 1,500 (approximately $340); and
3/ 75,000 social hardship cases have received three payments of on average NIS 1,5000 (approximately $340).[14]

Approximately 13,330 PA employees, pensioners or social hardship cases in Jenin have been provided with allowances through the TIM. Of these, approximately 6,380 employees benefit under the Low Income Scheme, including health workers, while a further 6,947 benefit from allowances under the Social Hardship Scheme.[15]

c- Agricultural work

PA employees in Jenin living in rural areas appeared more able to cope without regular salary payments than urban residents[11] because of their ownership of land and olive groves which provide them with produce to eat and sell. In addition, people in rural areas claimed to receive more support from their communities than those in urban areas.

According to the Palestinian Central Bureau of Statistics (PCBS) data, the percentage of people working in the agriculture sector in Jenin Governorate reached 41% between May and August 2006 (when salaries were not being paid and parallel payment systems had not yet been set up) compared to 27% during the previous four months. This compares to 1999 when barely 20% of the workforce were employed in agriculture.[16] Once partial salary payments were being made by the TIM and the OoP, the percentage of Jenin's workers employed in agriculture fell to 31%. This sudden rise indicates that many civil servants temporarily resorted to agricultural work in an attempt to alleviate their loss of livelihoods.

In rural areas, there is also a growing tendency to replace jobs lost in Israel and the settlements with jobs in local economies, with family businesses relying on unpaid labour and/or self-employment initiatives.[17] Like many other communities in the West Bank, the Barrier has left a number of Jenin's farming communities cut off from large tracts of agricultural and grazing land and water sources which are now on the 'Israeli' side of the Barrier.[18]

v. How is the TIM perceived by recipients?

According to interviewees, PA employees with low incomes who are receiving payments via the TIM have not had to resort to desperate coping mechanisms.

Among this category of PA employees, the perception of the TIM appears to be favourable, although there is some confusion about whether the money is a form of humanitarian assistance, or part of the outstanding salaries they are owed.

Interviewees also reported having no prior knowledge about when they might be paid and how much they expected to receive, which was a source of some frustration. The irregularity and unpredictability of payments by both the TIM and the OoP put many PA employees in what they considered to be a stressful situation, leaving them unable to budget for their household expenditures. For example, PA teachers interviewed reported receiving two payments in successive months, one at the end of November and another on 11 December, both from the TIM, but the next payment came only at the beginning of February, with the PA making no salary payments in the interim period.[19]

> *"We are also PA employees, why do we not benefit from cash assistance from the European Union? We were forbidden to miss work, while "they" [teachers, health's workers, etc.] were calmly at home."*
> PA security forces' member, earning NIS 2,200 a month with four children to support.

They also reported that most of the time, the source of the payment was not always obvious to the holders of accounts into which the funds were paid. Media reports appeared the only way for interviewees to have any idea that allowances had been paid. However, many interviewees said that they did not necessarily care about the source of the money, only that they were receiving help.

> *"I do not spend time with my children anymore, because I cannot buy them things like toys or chocolate."*
> PA police officer, and father of two, (earning NIS 1,800/month.)

vi. How is the TIM perceived By non-recipients?

A large number of PA workers are not among the beneficiaries of TIM payments including PA security/ police forces and civil servants whose normal income is above NIS 2,500/month. In general, this last category of employees has received four partial or full salaries since March 2006 through the OoP, according to the interviewees. In addition, according to the Ministry of Social Affairs (MoSA) in Jenin, 550 hardship cases have been excluded from any cash assistance. Despite the fact that they are registered by MoSA they are not considered as eligible beneficiaries by the EU.[20] PA security and police forces, who are also not beneficiaries of TIM allowances, have to date received nine partial payments from the OoP.

"There is no more dialogue between people, only aggressiveness because everybody is focused on his own personal problems. There is no social life any more!"
Woman working in MoSA

Not surprisingly, the TIM is perceived negatively by these categories of non- eligible PA employees who, in interviews said they presumed the international community believes those who earn more than NIS 2,500/month are able to cope financially under the present circumstances, which they said is not necessarily the case. A number of interviewees accused the TIM payment system of treating civil servants with a degree of inequality. Furthermore, and possibly because of the complexity of the TIM payment process, some interviewees claimed that a number of PA employees were receiving allowances from the TIM despite not being eligible for them, leading to resentment among the civil service workforce.

PA security and police forces appeared to be the most frustrated by the TIM payment system and reported feelings of discrimination. Most of them earn a low income, less than NIS 2,000/month and are eligible for partial salary payments from the OoP, representing between 30% to 40% of their monthly wage. Interviewees from these sectors cited the fact that some other PA employees are entitled to payments from both the OoP and the TIM and are receiving payments much closer to their full salary entitlement. They also highlighted the fact that they did not join the PA workers' strike and their workload had increased significantly over the last year, which has seen a rise in criminal activity.

vii. What has been the psycho-social impact of the financial crisis?

Group discussions among interviewees provided an insight into the psycho-social impact the financial crisis has had on many PA employees. The inability to provide for basic household needs left many interviewees reporting a loss of self-confidence and self-esteem and a feeling of distress at being dependent on their community and welfare handouts. All interviewees citing these negative feelings said it had affected their ability to carry out their work. A PA police employee reported that he had become humiliated and depressed at not being able to repay his creditors after receiving his payments.

Other interviewees among PA security personnel said they often preferred to stay longer at work than return home at the end of their working day because they felt unable to effectively provide for their families.

The lack of spending power in Jenin has also had a detrimental impact on the social aspect of life in the community with many feeling unable to participate in important celebrations such as weddings and religious festivals or even frequenting local coffee shops to meet up with friends and contacts. Many interviewees described how a lack of money had affected their social networks and relationships with neighbours and family.

viii. How do PA interviewees now view the Hamas-led PA?

A number of interviewees were keen to highlight the fact that they did not hold the Hamas authorities responsible for the irregular payment of their salaries. While nearly all of our interviewees said their standards of living had deteriorated since the election of Hamas, a significant number said they felt they were being punished by the international community for voting them into power. Most interviewees cited Israel's ongoing occupation and economic sanctions imposed by the international community for the downturn in their fortunes.

A number of interviewees claimed they had been accused by non-striking PA employees as well as non-PA employees of taking industrial action for political purposes, in order to undermine the Hamas government. They were anxious to stress that their actions had been motivated only by a legitimate demand to be paid their salaries on time and in full.

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End Notes

1. According to the IMF, Palestinian owed clearance revenues include customs duties, VAT on imports and excises on petroleum products. IMF, Mission Statement, West Bank and Gaza, 17 December 2006.
2. Available at www.ochaopt.org
3. Conclusions are based on nine focus groups (each with between five and six persons) and 15 individual interviews. All quotations in the text are from interviewees or focus group participants in Jenin governorate.
4. IMF (Middle East and Central Asia Department), West Bank and Gaza: Fiscal Performance in 2006), March 2007. Israel made only one direct transfer in 2006 of $68 million to the PA. Between March and December 2006, the IMF estimates that the GoI deducted over $150 million from the withheld revenues to pay Israeli utility companies owed by Palestinian municipalities.
5. The Middle East Quartet is made up of the United States, European Union, Russia and United Nations.
6. IMF (Middle East and Central Asia Department), West Bank and Gaza: Fiscal Performance in 2006), March 2007.
7. Ibid
8. PCBS Labour Force Survey, 2006. The rise in unemployment in Jenin between 1999 and 2006 of more than eight percentage points is the second highest increase among all West Bank governorates, second only to Hebron governorate in the southern West Bank.
9. World Bank, The Impending Palestinian Fiscal Crisis, Potential Remedies, 7 May 2006.
10. IUED, Palestinian Public Perceptions, Report November 2006
11. According to PCBS data, more than 45% of PA employees are working in rural areas all over the West Bank.
12. The mandate of the TIM has been extended by the Middle East Quartet until the end of June 2007.
13. These hardship cases include those registered by MoSA and some WFP beneficiaries: e.g. female headed poor households, unemployed females, widows, orphans, disabled persons, elderly in need, as well farmers, daily wage, and Bedouins). European Commission, Press Release, September 2006
14. Data provided by the TIM team.
15. Ibid
16. PCBS Labour Force Survey,
17. UNSCO, Economic Fragmentation and Adaptation in the Rural West Bank, 2005
18. See OCHA Special Focus: Humanitarian Impact of the West Bank Barrier - Crossing the Barrier: Palestinian Access to Agricultural Land, January 2006.
19. Date of payment orders issued by the TIM: 23 August 2006, 13 October 2006, November 2006, 11 December 2006, 2 February 2007
20. Three reasons were given: (1) their ID number is wrong; (2) they are new hardship cases registered after February 2006; and (3) old hardship cases, according to new updated information on the family are not included by TIM.

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