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Where Does the Money Go?

A Study of the Palestinian Authority

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This report could not have been written without the help of Mr Ilan Weinglass.

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THE PALESTINIAN AUTHORITY: WHERE DOES THE MONEY GO?

The following is an examination of how the PA, led by Yasser Arafat, has systemically and systematically used corruption and crime, and diverted funds donated for the development of the Palestinian state, to fund terrorism and to enrich its leadership.

The PLO

In the efforts to stop terrorist financing, the US and international law enforcement agencies might do well to examine how it evolved. The model is hardly new. In fact it dates back more than three decades, and is the prototype for many of today's terrorist organizations: the Palestine Liberation Organization (PLO).

The PLO was classified as a terrorist organization from its inception in 1964 until the Oslo Accords in 1993. Yet, throughout this entire time, it continued to receive financial and political support from the Soviet Union and its satellites in Europe, Latin America and Africa, and from members of the Arab League, as well as other Third World countries. This legitimization, and the accompanying financial backing, allowed the PLO not only to continue its terrorism and criminal activities with impunity, but also allowed the organization to fund a world-wide propaganda campaign, win great popularity and increase its influence.

The PLO used drug trafficking, arms smuggling, money laundering and counterfeiting to amass a fortune estimated by the British National Criminal Intelligence Services (in 1993 & 1994) at about \$10 billion. Its connections with international criminal organizations, drug cartels, other terrorists groups and every rogue state, from Libya, Iran and Iraq, to North Korea and the Sudan, set the pattern for others to follow. The PLO's transformation into the Palestinian Authority (PA) in 1993, as a result of the Oslo Accords, did not impede the organization's illegal activities. On the contrary, it enhanced them. As the whole world gave the PA legitimacy, it abused this status to expand its illegal activities.

With the current intifada, the PA has undergone another change, incorporating religion into its political rhetoric and adding jihad to its agenda. As a result, the PA gained even more support financially and politically within the Arab/Muslim world, much as al Qaeda did later. According to a soon to be published report, in 2001, the first year of the current intifada, the amount of money officially donated to the PA jumped 80%, from US \$555 million to US \$1.002 billion.¹

Often "political priorities", along with corruption and hypocrisy all over the world, have made illicit funds easy to launder and to hide. Such had been the case with funds for terrorism. Off-shore banking centers from Monaco, Nauru and Cyprus to Hong Kong and the Bahamas, as well as major international financial organizations, were used not only to launder the money, but also to invest it. At the forefront of the money laundering activities was the PLO.

Historically, the PLO has had nine principal sources of income:

- Official contributions from Arab states.
- The Palestinian Liberation Tax Fund, a 5% tax of every Palestinian's income.
- Income from legitimate and illegitimate investments.
- Donations from wealthy Palestinians and international organizations such as the UN and the EU.
- Extortion of "protection" charges from companies and states to not use terrorist activities against them.
- Charitable organizations, such as are now used by al-Qaeda, Hamas, and Hizballah.
- Illegal arms deals.

- Fraud, money laundering, counterfeiting, and other criminal activities.
- Drug trafficking.

The use of drug trafficking as a tool to fund terrorism was developed by the former Soviet Union as part of its unconventional warfare doctrine. The PLO simply adopted this use of drug trafficking as an excellent source of funding. Other terrorist organizations, such as the IRA, the Basque ETA, the Colombian FARC, and radical Muslim organizations like Hamas, Hizballah and al-Qaeda, have understandably followed suit.

The official decision to use the drug trade for funding was made under the chairmanship of Yasser Arafat in 1983, six months after the PLO was expelled from Lebanon, at a secret emergency session of the Finance Committee in Algiers. As stated by Sallah Dabbagh, then PLO treasury chief, "...the entire future of the PLO operation for liberation may hinge on our exporting more drugs throughout the world".

For decades, the West has turned a blind eye to the PLO's fundraising endeavors, allowing the PLO to continue operating both legitimate and illegitimate businesses. These ventures, in turn, laundered money for the organization, which used the revenues to further the PLO's terrorist agenda. This established a precedent that surely did not escape bin Laden when he set out to create the financial infrastructure of al Qaeda. Indeed, U.S. and British law enforcement agencies have detailed by now how the al Qaeda organization has also been reaping huge profits from the illicit drug trade and other criminal activities. Just last month, U.S. authorities presented evidence that illegal drugs operations within the U.S. were funding a host of Middle East terror organizations linked to Palestinian groups and al Qaeda.

Clearly, the PLO and its successor, the PA, have played an indispensable role in creating the financial model for today's terrorist organizations. Close examination of the methods and institutions that account for the PLO's success can help us to better track how al Qaeda and other terrorist organizations operate financially. More importantly, it can ensure that history will not repeat itself - unless we let it.

The PA

The Palestinian Authority's leadership and its chairman Yasser Arafat sponsor terrorism. It uses funds from its salary budget, EUR 10 million each month, to do it.

- The PA has deliberately sent money (from its EU-aided salary account, among other sources) to individuals and groups involved in terrorism;
- The EU's denials of this do not stand up to scrutiny;
- According to the EU's own statements, it should cease aiding the PA.

The corruption of the PA was known for a long time. In October 1999, Azmi Shuaibi, chairman of the Palestinian Legislative Council Budget Committee, had harsh words for the PA at the 9th International Anti-Corruption Conference in Durban, South Africa: "The recent corruption found in the PA is similar to the corruption that exists in the rest of the Arab countries' governments."² This was finally acknowledged by President Bush when he called to change the Palestinian leadership and to bring reform, accountability, and transparency to the Palestinian Authority.³ Condoleezza Rice, the national security adviser, accurately summed up the situation in the San Jose Mercury News: "Frankly, the Palestinian Authority, which is corrupt and cavorts with terror... is not the basis for a Palestinian state moving forward."

The funding of the PA is based on two sources:

- International donors
- Crime and corruption

Funding to the PA from International Donors

The Palestinian Ministry of Planning and International Cooperation (MOPIC) 2001 1st and 2nd Quarterly Monitoring Report of Donor's Assistance, which is current as of June 30, 2001, cites receipts to date from donors of \$3,392,634,000. That is 66% of the \$6.1B promised.⁴ The Arab States donated \$45 million per month from April 2001- April 2002 and \$55 million per month since then. Further documents show that the EU has donated EUR 10 million a month since June 2001,⁵ which together add \$806 million, for a total of \$4,198,634,000. This figure is the absolute minimum that can be documented according to the most recently available public sources. This amount does not take into account the amount of international aid from sources besides the EU and Arab States subsequent to -June 30, 2001. There is no readily available data on the scope of this aid. However, it is estimated to be in the \$400 – 500 million range, consistent with the yearly average and range given in the Palestinian Ministry of Planning and International Cooperation report.

Based on all available documents, a very low estimate of \$4.5B was donated to the PA since the Oslo Accords.⁶ This figure does not include aid to UNRWA (United Nations Relief and Work Agency), examined below.

1998	416,271
1999	522,756
2000	408,142
2001	N/A

Table 1 Year-by-Year Data, According to the Palestinian Ministry of Planning and International Cooperation (Since 1998) [Thousands of US Dollars]

However, there are independent sources, such as Info-Prod, an economic research center, that provide a different account, maintaining that the PA has received a much larger sum.

Info-Prod's figures are as follows (in thousands of dollars):⁷

1998	422,000
1999	491,000
2000	555,000
2001	1,002,000

Table 2 Year-by-Year Data, According to Info-Prod [Thousands of US Dollars]

The 2001 figure is an 80% increase over 2000. These sums do not include UNRWA figures.

A partial breakdown for 2001 is:

- US: \$114 million
- EU: \$250 million
- Arab States: \$400 million

Info-Prod's figures detail \$4,466,868,000 through the end of 2001. Based on these figures, and taking into account the known scope of EU and Arab Aid to the PA (EUR 10 million per month from the EU, and 45 million per month until April 2002 then 55 million per month from the Arab states), a minimum of \$4,938,868,000 was given to the PA by the end of August 2002.

Following the Oslo Accords, donations from the EU included demands for accountability. Similar demands were attached to the EU's direct budgetary assistance following the intifada. However, despite ostensible EU claims to the contrary, no real efforts to monitor how the money was spent has ever taken place. “”Everybody has known for quite some time that money ended up in the

wrong hands”⁸ noted an EU diplomat. The EU claims that the IMF ostensibly monitors the PA budget. This claim, however, is contradicted by the IMF statement that “the Fund has not been monitoring spending under individual budget lines nor can it ascertain whether a particular spending commitment has been actually disbursed for the reported purpose. This is an auditing function that goes beyond the fund’s present mandate.”⁹ Nor was there ever any reason to expect that the PA would meet any demands for accountability, in light of the fact that Yasser Arafat declared as early as July 1994:

“I refused and I will never accept!” Arafat said of the conditions imposed for economic aid. “I completely refuse any controls by anybody on Palestinian Autonomy, except the Palestinians themselves. We didn’t finish military occupation to get economic occupation”¹⁰

Clearly, the international donor community did not take Arafat at his word. This follows the same school of thought that holds that he does not really mean it when he calls for suicide bombing and Jihad.

- The US has given \$548,766,000 in direct aid to the PA, according to Palestinian Ministry of Planning and International Cooperation figures¹¹. But the total sum, including the amount given through relief and development organizations, is \$1.1B.¹² In addition, following the 1998 Wye River Memorandum, the CIA has been training the Palestinian Authority Security Services.¹³ The budget for this is unknown, though in September 2002, an additional \$20 million has been allocated for an ostensible reform of the Palestinian security services.¹⁴ Clearly, previous attempts to create a law-abiding security force for the Palestinian people have utterly failed. One hopes that this time better selection methods are being implemented to exclude the terrorists from the ranks of the PA security forces.
- The EU has donated EUR 1B in loans and grants to the PA. Its donations to UNRWA since 1994 total at least EUR 407 million.¹⁵ In addition, EU member countries have donated at least \$1,260,022,000, according to Palestinian Ministry of Planning and International Cooperation figures. All together, aid from Europe to the PA totals at least \$2.52B. In addition to these amounts, the EU sends 2 – 5% of its donated sum for individual projects.¹⁶
- The United Nations Relief and Work Agency (UNRWA): UNRWA is slated to have total disbursements of \$521.7 million for 2002,¹⁷ of which \$110 million was to come from the US. The US has provided 30% of the UNRWA budget in recent years.¹⁸
- The major increase by the Arab states followed a decision by the Arab League in October 2000. The money was sent through the Islamic Development Bank (IDB), and was transferred to the Palestinian Ministry of Finance.

Funding to the PA from Crime and Corruption

The total amount of money accumulated by the PLO from its inception has been estimated by several sources. A 1990 CIA report estimated that the PLO had between \$8 – 14B in assets.¹⁹

Two British National Criminal Intelligence Service (NCIS) reports, (1993 and 1994) estimated that “despite denials to the contrary, it is estimated that they [the PLO] have worldwide assets approaching \$8-10 billion USD and an annual income of about \$1.5-2 billion.” The report noted that the PLO was in fact the wealthiest of the world’s terrorist organizations.²⁰ The U.S. General Accounting Office performed an investigation into this matter in 1995, but its findings were kept secret, due to “national security reasons.” However, a source familiar with the investigation said that the report found that Arafat and the PLO indeed held “well over \$10 billion in assets, even at a time when he was publicly claiming bankruptcy.”²¹

The assets the PLO held were an open secret. Yet, the PA was never asked to use the assets on behalf of the Palestinian people, and there was no demand to account for the whereabouts of these assets.

MAJOR SOURCES OF THE PA'S ILLEGAL REVENUES

Since the PA has been engaging in criminal activities since its inception, the full extent of the organization and its leadership's illegal income is impossible to determine. However, the following sources of revenue have been documented:

- Palestinian Martyrs' Sons Enterprises (Samed)
- Monopolies and the Palestine Commercial Services Company (PCSC)
- Personal Corruption
- Crime.

• PALESTINIAN MARTYRS' SONS ENTERPRISES (SAMED)

The PLO formed Samed in 1970, to control and operate its economic activities. Since then, Samed has been led by Ahmed Qurie, AKA Abu Ala, currently the speaker of the Palestinian Legislative Council.²² He served directly under Yasser Arafat, who signed the checks for all of the transactions and was no doubt aware of virtually every detail.²³ Samed had a flexible accounting system that included bank accounts not identified as belonging to the PLO but registered in the names of private individuals, including Abu Ala. The value of the PLO investments in farms, industry, weapons and clothing factories, real estate, newspapers, duty free shops, and airlines was estimated by the British National Criminal Intelligence Services (NCIS) in 1993 and 1994 at about \$10 billion.²⁴

According to the US House of Representatives Task Force on Terrorism and Unconventional Warfare (October 1991), Samed had a penchant for airport-related investments. These investments gave the PLO a base for the procurement of forged travel documents and airline tickets.²⁵ It owned duty-free stores at airports in Nairobi, Kenya and Lagos, Nigeria.²⁶ Through Samed it also had interests in airlines from the Maldives to Nicaragua. Until 1993, Samed also received approximately \$50 million a year from the "Palestine Liberation Fund Tax," of 5%, of the income of all Palestinian worldwide.²⁷ Overall, in the 1970's and 80's, the PLO through Samed earned an estimated \$5 million per day.²⁸

In December 1999, hackers that broke into the PA's computer system discovered at least "five billion pounds in numbered bank accounts in Zurich, Geneva and New York," as well as smaller sums in Europe, Asia, and North Africa. None of the accounts were registered in the PLO's name. The PA records revealed that it owned shares "on the Frankfurt, Paris, and Tokyo stock exchanges," including stocks in Mercedes-Benz. It also owned property in prime locations in such as Paris, London, Geneva and New York.²⁹

• MONOPOLIES AND THE PALESTINE COMMERCIAL SERVICES COMPANY (PCSC)

The scope of revenues from the monopolies in the PA was estimated in 2000 at \$300 million annually.³⁰ None of this amount is accounted for. The damage to the Palestinian economy goes beyond the loss in revenues, because it prevents competition and results in higher prices for fewer products. Coupled with the fact the monopolies are "on basic goods such as wheat, cement, petrol, wood, gravel, cigarettes and cars are in the hands of Arafat's aides and they exploit their positions to extract high profits,"³¹ the dead-weight loss must be staggering.

The Palestine Commercial Services Company is the economic arm of the Palestinian Authority. Yet it is not supervised by its legislature or Finance Ministry.³² It is run by Mohammed Rashid, Arafat's economic advisor, and it controls most economic activities in the PA territories. The Palestine Commercial Services Company has "large minority stakes... in a Ramallah Coca-Cola bottler... and myriad other businesses, plus full ownership of a cement plant that had long enjoyed a government protected monopoly. The Palestine Commercial Services Company had the single

biggest holding in the Jericho casino until it was shut down, with a \$60 million stake. It has a 30% stake in the Palestinian Cellular Communications Company and an 8% stake in the Palestinian Telecommunications Company. It also has investments in the Palestine Development and Investment Company (PADICO).³³ The company was also, until recently, the direct recipient of sales taxes – more than \$500 million in the past two years alone, collected by Israel but owed to the PA under the 1993 Oslo peace accords.³⁴ The tax receipts were placed in a Tel Aviv account controlled by Arafat and Rashid.³⁵ The latest estimate of the value of the Palestine Commercial Services Company's holdings is at least \$345 million in cash and equity.³⁶

Researchers have noted that “since the establishment of the PA, scores of monopolies have been created by Arafat and are being operated by individuals and organizations close to Arafat. These monopolies control and subvert almost every potentially profitable aspect of daily Palestinian life.”³⁷ The Palestine Commercial Services Company has a 100% stake in the local cement monopoly that was worth \$50million in 2000.³⁸ Other Palestine Commercial Services Company monopolies include flour, oil, cigarettes, iron, commercial sand, and the PA prohibits other companies from operating in these fields.³⁹

Media investigations and sources within the Palestinian territories revealed that Palestinian officials close to Arafat that control monopolies include: Arafat's personal economic advisor Muhammad Rashid, who together with Suha Arafat (Yasser Arafat's wife) and communications advisor Nabil Abu-Roudayna co-own pharmaceutical and apparel monopolies.⁴⁰ Rashid, together with another Arafat advisor, Hassan Asfour, co-own an oil monopoly; Nabil Shaath, the Minister of Planning and International Cooperation has a computer monopoly,⁴¹ and Ahmed Qurie, speaker of the Palestinian Legislative Council and founder of Samed, is co-owner of cigarettes, conserves, and dairy monopolies.⁴²

The U.S. General Accounting Office's (GAO) 1995 investigation into the PA's finances received no cooperation from the PA. But by 1997, following local pressure, the Palestine Legislative Council (PLC) conducted an investigation into PA corruption. This report, was suppressed by Arafat, but leaked. Jarar Kidwa, head of the PA's financial monitoring institution, disclosed that the PA had lost \$326 million – 40% of its annual budget for 1996 – to corruption and mismanagement. The PLC report also implicated PA officials, some still serving in the cabinet.⁴³

The PA system of monopolies has a long-term effect that is not immediately quantifiable, because of lost economic opportunities.

• PERSONAL CORRUPTION

Recent reports by Israeli government officials put **Arafat**'s personal holdings at about \$1.3 billion. This includes \$500 million of the Palestine Liberation Organization's money that Arafat also controls. Wearing three hats, Arafat is the president of the Palestinian Authority, chairman of the PLO, and is the head of the Fatah terrorist organization and its al Aqsa Martyrs Brigades and the Tanzim.⁴⁴ As such, he controls the funds of all the terror organizations under the PA umbrella.

There has been a great deal written about Yasser Arafat's secret bank account in Tel Aviv. Under the 1994 Paris Agreement, Israel is supposed to transfer the tax receipts it collects on imported gasoline for the PA territories directly to the PA. The account number they were asked to deposit the funds in is located in the Chashmonaim branch of Bank Leumi in Tel Aviv, and only Arafat and his trusted advisor Mohammed Rashid have the authority to access it, though some speculate that Treasury Minister Ahmed Zohari Nashashibi has access to it as well. The money collected by this procedure totaled around \$400 million by November 2000.⁴⁵

The rest of the taxes that Israel collects on imported goods goes into four accounts in the Bank of Palestine and the Arab Bank of Gaza. According to a leaked IMF internal report, “the account is not under the supervision of the PA Treasury Ministry.”⁴⁶ At least half the money was indeed put there to bypass the supervision demanded by international donors, to finance inflated security

services and civil service payrolls, which were not approved by the donors.⁴⁷ A PA source had a different explanation, claiming that the money was there for emergency use.⁴⁸

Throughout the years, the donor countries led by the US, demanded transparency and accountability from the Palestinian Authority. Clearly, they were not insistent enough.

Some of Arafat's corruption is simply in the form of outright theft of aid funds. For example, the Kuwaiti newspaper Al-Watan reported on June 7, 2002 that Arafat had deposited \$5.1 million into his personal account, siphoned from funds that were donated by Arab states as aid to the Palestinians.⁴⁹ In a perverse case of profiteering from the war that the PA created, Mohammed Rashid invested some of the stolen funds in the Jordan Cement Company on behalf of the Palestine Commercial Services Company, in order to profit from the rise in cement prices due to the demand for building materials following Operation Defensive Shield.⁵⁰

Jawad Ghussein, until 1996 the Secretary General of the Palestinian National Fund, told the Haaretz newspaper in August 2002 that Arafat "took aid money and contributions that were earmarked for the Palestinian people to his own account." Ghussein should know, since it was he who for years deposited \$7.5-8 million each month into Arafat's personal bank account. By 1993, these deposits had totaled \$540 million.⁵¹

A member of the Palestinian Legislative Council from Nablus, Muawiya Al-Masri, was interviewed on July 3, 2002 by the Jordanian publication Al-Sabil about Arafat's regime. When Al-Masri went public about PA corruption back in 1999 he was nearly killed in retaliation. Undeterred, he again spoke at length about the endemic corruption of the PA and Arafat. "No minister can appoint a driver or a delivery boy in his ministry without the president's consent," said Al-Masri. "There is no institutional process. There is only one institution — the presidency, which has no law and order and is based on bribing top officials."

Following the Oslo Accords, Arafat even took over PECDAR (the Palestinian Economic Council for Development and Reconstruction), that was founded under strict European conditions, as soon as it began operating. "His [Arafat's] became the authorized signature. Today, no amount, no matter how small, leaves the PECDAR funds without the president's signature."⁵²

Siphoning off the Pension Fund: In compliance with the Oslo Accords, Israel transferred the pension funds of Palestinians who worked for the Israeli Civil Administration, to the PA. The Gaza employees' fund alone was worth \$160 million.⁵³ The PA used part of these funds to pay the salaries of the bloated police force they created in violation of the accords.⁵⁴ Parts of the pension fund were used for an investment in telecommunications. These unauthorized expenditures amounted to \$36 million. By September 1997 only \$20 million remained in the fund; \$104 million disappeared.⁵⁵

• CRIME

- **Counterfeiting Merchandise.**⁵⁶ Under the PA's control, massive merchandise counterfeiting enterprises flourish, "making millions of dollars a year," with royalties going to "senior Palestinian Authority figures."⁵⁷ The merchandise includes CD's, DVD's, clothing, cosmetics, and schoolbooks. This is done in cooperation with Hamas and other Palestinian terrorist organizations.
- **Counterfeiting Money:** According to media reports,⁵⁸ counterfeiting of Israeli, Jordanian, and Kuwaiti currency, is an ongoing activity in the Palestinian territories.⁵⁹ In April 2002, the IDF found large quantities of counterfeit Israeli currency in 50, 100, and 200- Shekel denominations in Arafat's compound in Ramallah.⁶⁰
- **Shakedowns:** According to confidential Palestinian sources,⁶¹ arbitrary charges of traffic violations, demands of large bribes, kidnapping for money, and extortion of 70 – 90% from the income of private businesses, are rampant in the PA. These methods are similar to those employed by PLO in Lebanon.

- **Car theft** from Israel is rampant in the PA-controlled areas, frequently with the connivance of senior PA officials. Former PA Police commissioner **Ghazi Jabali** is accused of licensing thousands of cars stolen from Israel, charging \$7000 for a permanent license. However, Jabali was fired only when charges of embezzlement of \$20 million from the PA were made. Despite that, Arafat appointed him as advisor on police affairs.⁶² According to reports by the Israeli police and eyewitnesses, cars stolen from Israel have special identification on their PA-issued license plate.
- **Faisal Husseini:** Documents found in Orient House in August 2001 show that \$1.8 million was funneled by Faisal Husseini's into his private bank accounts in Switzerland and Austria. The money was donated by the Gulf Emirates for business development in the Palestinian territories.⁶³
- **Mohammed Dahlan:** According to Palestinian and Israeli sources, Mohammed Dahlan, head of the PA security services in the Gaza Strip, supplements his salary by collecting "more than 1 million Shekels per month in protection money (from suppliers of oil and cigarettes, etc.), kickbacks for issuing licenses...and (since 1997), border crossing fees."⁶⁴
- **Nabil Shaath and Yasser Abd Rabboh:** The 1997 Palestine Legislative Council investigation into PA corruption implicated Minister of Planning and International Cooperation Nabil Shaath, and Minister of Information and Culture Yasser Abd Rabboh. The report claimed that both used government money for personal purposes. The report determined that Shaath had embezzled ministry funds, transferring them to accounts not subject to PA inspection.⁶⁵ The report also demanded that Shaath be removed from his position.⁶⁶ Yet, according to media reports, he has a monopoly on imported computer hardware into the PA⁶⁷ and both he and Abd Rabboh still hold the same posts. Of special concern should be the implication of Shaath, who as minister for Planning and International Cooperation, coordinates international aid and the negotiations to reform the PA.
- **Jibril Rajoub,** Preventative Security Head in the West Bank, was widely reported in the media to extort protection money from oil distributors, to receive kickbacks from the Jericho casino until it closed, and to steal intellectual property, presumably in concert with the other counterfeiting rings operating in the PA territories. Jibril Rajoub and his men are also implicated in car theft networks.⁶⁸

INTERNATIONAL AID DIRECTED TO TERROR

Recent statistics provided by the Israeli Foreign Ministry show that since the beginning of the intifada two years ago, one homicide bomber was sent to Israel every five days from the Palestinian territories.

Despite EU attempts to refute and downplay allegations that EU aid money was used to fund terrorism, PA documents found by the IDF clearly show that the PA diverted international aid to fund its terrorist activities. Since we already know that the EU did not closely monitor the use of the money, if even a single dollar went to finance terror, the donor countries are guilty of aiding terrorism.

In December 2000, Israel stopped transferring import tax revenue to the PA as required by the 1994 Paris Protocol. Since April 2001, the Arab states have been transferring \$45 million a month, raising their contribution to \$55 million per month in April 2002. The EU has been transferring EUR 10 million a month since June 2001, all explicitly to cover PA salary expenses.

The PA documents found in Ramallah and elsewhere in the West Bank demonstrate how the PA used international aid money to further its terror agenda. The following facts come to light:

- The PA maintains a double reporting system for its salaries.
- The PA performs exchange rate fraud and keeps the difference.
- The PA deducts a “Fatah membership fee” of 1.5 –2% of salaries paid to its security forces.
- The PA recruits and employs Fatah activists, including al Aqsa Martyrs Brigades and Tanzim members who are involved in terrorism.

The EU’s first response to these facts was to deny them. Yet, the Palestinian Authority’s own documents substantiate these facts.

- **FACT: THE PALESTINIAN AUTHORITY KEEPS A DOUBLE REPORTING SYSTEM FOR ITS SALARIES.**

It claims it needs around \$60 million per month for salaries. But in fact, it needs only about \$40.5 million. The balance is unaccounted for.

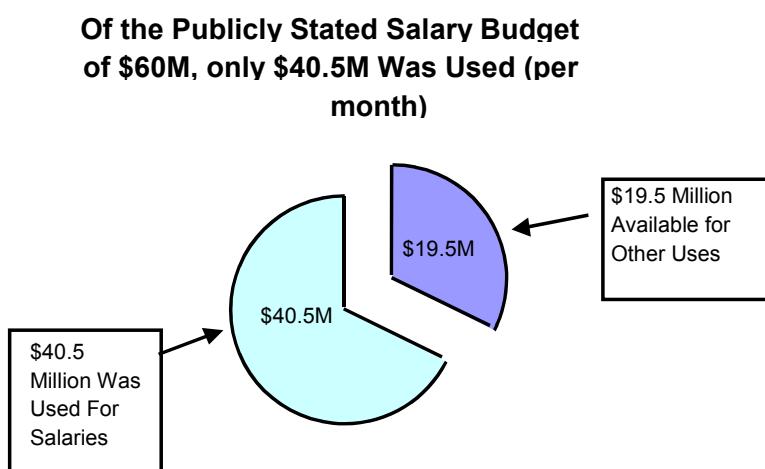


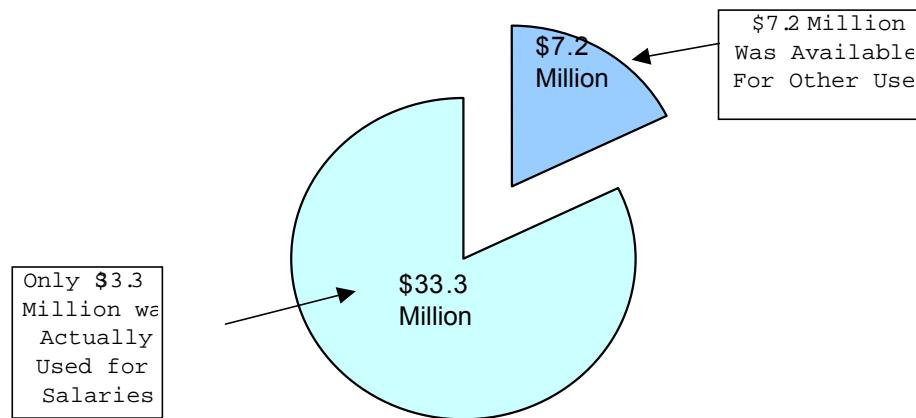
Figure 1 The EU Claims v. Reality

Unwilling to assume responsibility, the EU claims that the IMF monitors the Palestinian Authority budget.⁶⁹ The EU says, “the IMF conducts a close review of monthly fiscal information covering the whole of the PA budget, including ...the wage bill.”⁷⁰ In stark contrast, the IMF

itself states that “the Fund has not been monitoring spending under individual budget lines nor can it ascertain whether a particular spending commitment has been actually disbursed for the reported purpose. This is an auditing function that goes beyond the fund’s present mandate.”⁷¹

- **FACT: THE PALESTINIAN AUTHORITY WAS PERFORMING EXCHANGE RATE FRAUD, PAYING SALARIES AT AN ARTIFICIALLY LOW EXCHANGE RATE (3.7 SHEKELS/DOLLAR VS. 4.4 AT THE END OF 2001)**

The following chart shows how \$7.2 Million of the \$40.5 Million used for salaries was available for other uses, due to exchange rate fraud:



EVIDENCE: Captured documents show the use of a 3.7 exchange rate.⁷²

EU CLAIM: “The economic aggregates, which the IMF monitors, include: the total salary bill, the total number of employees, and the average salary. Any “leakage” would be seen in discrepancies in these aggregates. There is no evidence of this. On the contrary, the salary bill is consistent with expectations.”⁷³

EVIDENCE: There is direct evidence contradicting this: PA documents from late 2001 clearly show that dollars for salaries were converted at a rate of 3.7.⁷⁴ The PA’s new Finance Minister, Salaam Fayed is reported to have ended this process recently.⁷⁵

CONCLUSION: The EU’s claims are directly contradicted by documentary evidence. In addition, the IMF stated that it does not monitor the details.

- **FACT: THE PALESTINIAN AUTHORITY DEDUCTS A “FATAH MEMBERSHIP FEE” FROM ALL PA SECURITY PERSONNEL.**

EVIDENCE: PA documents show that the PA deducts 1.5 – 2% from all PA security personnel salaries. The sum, which is equivalent to \$260,000 – 345,000 per month, is sent to Fatah.⁷⁶

It is interesting to note that while not refuting this evidence, the EU tries to argue that Fatah, a terrorist organization, is comparable to European trade unions: “This system is not dissimilar to the mandatory deductions from salaries for trade union members’ fees in some EU countries.”⁷⁷

As is evident in the PA documents, Fatah, the Tanzim, and the al Aqsa Martyrs Brigades are the same organization. Documents with letterheads carrying a joint al Aqsa Martyrs Brigades and Fatah logo attest to that.⁷⁸ The al Aqsa Martyrs Brigades is classified as a terrorist organization by both the US and EU. Further, the PA’s own documents contain, for example, a letter on Fatah letterhead requesting money for members that carried out terror attacks.⁷⁹ There are many other documents listing grants to known Fatah terrorists.⁸⁰ Yet other PA documents demonstrate cooperation between Fatah, Hamas, and the Palestinian Islamic Jihad.⁸¹

CONCLUSION: Fatah is a terrorist organization, and membership fees originating from salaries paid by the EU help fund it.

- **FACT: THE PALESTINIAN AUTHORITY PAYS SALARIES TO FATAH ACTIVISTS AND HAS RECRUITED FATAH MEMBERS INTO ITS RANKS⁸²**

EVIDENCE: PA documents show that it pays the salaries of Fatah terrorists in the amount of \$640,000 to \$1 million per month.⁸³ There are letters of request to Arafat to approve putting Fatah activists and other persons known to be involved in terrorism onto the PA security apparatus payroll to pay for their terrorist activities.⁸⁴ The documents are addressed to Arafat, and frequently have his comments in own his handwriting on them.⁸⁵

By claiming that there is no indication that any actual recruitment took place, and that effective approval would require some other notation from Arafat,⁸⁶ the EU is simply obfuscating the evidence. Even if Arafat did not literally sign off on the hiring of certain terrorists, he gave his tacit approval by forwarding the requests for their hiring.

The EU makes the claim that “there is no evidence that any person involved in terror attacks has actually been recruited into the PA security services.”⁸⁷ This claim is demonstrably false. The PA’s own documents show that many PA-salaried people were engaged in terrorist activities.

Consider the following:⁸⁸

- **Marwan Barghouti** - Leader of the terrorist organization Fatah/Tanzim in the West Bank. Despite his arrest and indictment for the murder of 26 Israelis, he continues to receive a salary of \$2500 per month from the PA.⁸⁹ In addition to his personal involvement in these murders, Barghouti allocated special funds for terrorists, and to carry out attacks against Israel, with Arafat’s full approval.⁹⁰
- **Nasser Awis**⁹¹ - Was an officer in General intelligence and General Security apparatuses and received regular salaries from the PA. Head of al Aqsa Martyrs Brigades in Samaria, was captured by IDF on 13 April 2002. Awis was the link between Barghouti and the Fatah military arm in West Bank and Gaza. Awis was responsible for attacks since January 2002 that killed 20 Israelis and wounded 120, including the attack on the Bat Mitzvah in Hadera. The PA knew this. Not only was his name was on Israel’s most wanted list, but he was listed by the PA report as heading the al Aqsa Martyrs Brigades in Tulkarm. Awis was also engaged in smuggling, acquisition and production of heavy weapons systems.
- **Zadki Zeru**⁹² - From Hebron, Tanzim activist involved in shooting attacks against the Jewish settlement in Hebron. He shot a baby girl on 26 March 2001 in Hebron.
- **Marwan Zallum**⁹³ also a senior Fatah activist involved in “many lethal shooting attacks,”⁹⁴ who was given an official position in the PA.
- **Fuad Shubaki**⁹⁵ - PA Chief Financial Officer, who was involved in the Karine-A arms purchasing and smuggling operation.⁹⁶ He allocated \$80,000 for a heavy arms factory on behalf of the al-Aqsa Martyrs Brigades. Several PA documents, on PA stationery, show PA officials requesting funding for known Fatah terrorists, while praising their “fighting abilities.”⁹⁷ Palestinian Ministry of Finance official documents dating back to 1998/1999 explicitly state “payment to Fatah movement.”⁹⁸ Other documents from 2001, including documents with Arafat’s own approval, list payments to Fatah/Tanzim activists. Marwan Barghouti, head of Fatah/Tanzim in the West Bank, wrote the checks.⁹⁹

CONCLUSION: Despite all the evidence, the EU ignored even the PA’s own documents explicitly requesting and granting funds for members of Fatah/Tanzim and al Aqsa Martyrs Brigades terrorists. Instead, the EU claimed that it needed the actual checks as proof.¹⁰⁰

Arafat's Personal Involvement in Funding Terrorism

Palestinian Authority documents show that Arafat personally directed a transfer of \$600 to known terrorists, such as Ziad Muhammad Da'as, who commanded the murder attack during the Bat-Mitzvah party in Hadera.¹⁰¹ There are many other documents showing similar allocations by Arafat.¹⁰²

Another PA document shows that Arafat personally allocated \$350 dollars each to 24 Fatah members, including Atef Abayat, who headed the main terrorist cell in the Bethlehem area, and who was involved in the murder of Israelis.¹⁰³ Not only did Arafat fund Abayat's terrorism and send him to his death, but following his death, Arafat authorized a payment of \$800 to his family.¹⁰⁴ In the same documents, Arafat approved a total of \$126,000 to fund terrorism.¹⁰⁵

By July 26, 2002, the al Aqsa Martyrs Brigades was heavily engaged in homicide bombing. Yet, in response to Die Zeit's questioning if PA funds were going to this terrorist organization, the EU responded:

"The EU and the international community continually demand that the PA prevent terror attacks, dismantle terror groups and arrest terrorists. If any evidence comes to light that the PA is knowingly employing members of terrorist organizations, the PA will need to act immediately to take these people off the payroll and bring them to justice. The EU will not accept that funds fall into the hands of terrorist organizations."¹⁰⁶

Despite all the evidence, the EU seems to argue that it will only accept that Euros fund terrorism if there were mechanisms to identify how each individual Euro is spent. But money is fungible, and since the EU gave direct funding towards the PA salaries, the EU is responsible for the money that the PA allocated to fund terrorism.

ADDITIONAL UNACCEPTABLE ACTIVITIES FUNDED BY THE PA

Fostering Hate in Schools

The international donor community funds the Palestinian education system through UNRWA (the United Nations Relief and Work Agency). UNWRA-paid teachers in UNRWA-built schools are teaching from textbooks with vicious anti-Semitic, anti-Israel, and anti-coexistence messages. Such incitement is against the Joint Declaration by the European Parliament, the Council and the Commission Against Racism and Xenophobia, 11 June 1986, which states:

"(4). Considers that incitement to racism, as well as the dissemination and promotion of any type of revisionist thesis concerning the Holocaust or denial that the Holocaust took place, should be considered a criminal offence at Union level and calls on all the Member States accordingly to adapt their legislation against the perpetrators of acts of racism."

Significantly, the Palestinian Authority is obligated by treaty to end such messages, as stated in the preamble to the Oslo II Interim Accord:

The government of Israel and the PLO reaffirm "their mutual commitment to act, in accordance with this Agreement, immediately, efficiently and effectively against acts or threats of terrorism, violence or incitement, whether committed by Palestinians or Israelis."¹⁰⁷

Examples from Palestinian Textbooks

A 7th grade textbook asks a question referring to the poem "The Shahid," asks: which of the following is the meaning of the expression "honorable death"?

- Death from illness
- Sudden death
- Martyrdom (shahada) while defending the homeland.¹⁰⁸

From a 7th grade textbook “National Education”: “Question: how many of the Palestinian villages have been destroyed and replaced by imperialist settlements?”¹⁰⁹

Maps of Palestine do not include Israel at all. This is not unique to the school system; official maps of the PA do not include Israel either. This, in effect, denies the existence of Israel.¹¹⁰

In the Alamari refugee camp in Ramallah, in an UNRWA-run school, “there were posters displayed prominently glorifying suicide attacks, armed struggle, and the leaders of the terrorist wing of Hamas”¹¹¹

Fostering hate and encouraging homicide bombing is not limited to the Palestinian educational system. Chairman Arafat himself, on many public, well-documented occasions, has encouraged children to become *shahidim* (homicide bombers), and even as this report is being written, Arafat repeated his promise to continue the armed struggle against Israel.¹¹²

Another example of the Palestinian Authority leadership’s mindset is best illustrated by Mahmud Abas, Arafat’s Deputy’s statement to the Kuwaiti newspaper Alzamin (Arabic) on June 20, 2002 that Palestinian Children are given 5 shekels (about \$1 US) for each pipe bomb they throw.

Hate Propaganda

On August 28, 2002, Julie Stahl of CNSNews.com reported that US aid money is funding a group that engages in pro-Palestinian propaganda in the US and Europe. Since 1997, the United States, through the US Agency for International Development (USAID), has given \$1.2 million to the Palestinian Academic Society for the Study of International Affairs (PASSIA). The group, according to Stahl, “teaches Palestinians how to lobby, raise money for political causes and win favorable media coverage and support.”¹¹³ Among the skills taught by PASSIA are fundraising, advocacy and lobbying. One assignment was to make a fundraising proposal for information booklets on the al Aqsa Intifada – in other words, armed struggle against Israel. There are other publications in which PASSIA advocates the right of return for Palestinian refugees to all of Israel – which is tantamount to the destruction of Israel.¹¹⁴

In a speech given July 6, 2001, UNWRA representative Saheil Alhinadi praised suicide attacks.¹¹⁵ Following Alhinadi’s appeal, there are specific reports of UNRWA camps being used for terrorism. Former US ambassador to Morocco Marc Ginsburg explains: “the refugee camps indeed are not policed by anyone but the Palestinian Authority, with the UNRWA personnel administering the lion’s share of the programs. But other organizations, including extremist Islamic organization, operate freely in the camps.”¹¹⁶ “Israel, during recent searches of UNWRA camps, has uncovered illegal arms caches, bomb factories and a plant manufacturing the new Qassam-2 rocket, designed to reach Israeli population [sic].”¹¹⁷

In conclusion, the Palestinian Authority, led since its inception by Yasser Arafat, has been engaged in massive-scale corruption and terrorism. Yet, all this time, the international community has turned a blind eye and continued its support.

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