



## Two Years After Palestinian Reform and Development Plan: The Poor Are Still Paying the Price

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After Hamas took over Gaza in June 2007 the United States of America decided to be more involved in the training of the PA security forces. Lieutenant General Keith Dayton, head of the US Security Coordinator office, was selected to supervise the training. According to the report of the US House of Representatives submitted to the Committee on Foreign Affairs and its Subcommittee on the Middle East and South Asia, the US allocated -over the past three years- some \$392 million as assistance to the PA to help achieve US strategic goals as well as goals related to the Middle East Road Map. Most of the money was used to train and equip new PA security forces that are deployed in the West Bank.<sup>1</sup> The training targeted four battalions totaling to about 2500 security personnel. Courses included military training, English language skills, communication skills as well as other skills. Within the framework of the project non-lethal equipments were purchased. These included ambulances, surveillance vehicles, video cameras, rappelling gloves, climbing ropes, climbing ladders, trucks, extendable mirrors as well other similar equipments. Out of the total amount \$3 million was used to improve security conditions on the borders between Gaza and Egypt.<sup>2</sup>

To ensure loyalty and commitment all potential trainees, whether new or existing, were examined prior to admission to the training courses. Names are checked against data maintained by the Israeli Security Agency (Shin Bet), the Israeli Police, the Jordanian Government and the Palestinian Authority to make sure that these persons have no criminal records and “terrorist” links. Another important selection criterion was that the trainee was not a member of the “Old Guard”. None of the PA military officers who fled to the West Bank after Hamas took over the Gaza Strip were allowed to participate in the training. All of them were excluded. This may be interpreted as punishment for

the two conflicting parties, especially the “defeated” one.

The project was the subject of strong criticism by the Palestinian opposition. Strong statements were issued against the project, described as an obstacle before the national conciliation efforts. Dayton, himself, was described as the “general of war”.<sup>3</sup> There was much exaggeration in regard to the impact of the project. Meanwhile other unnoticed developments that affect the daily lives of ordinary people were taking place. Nobody paid attention to those developments. The Ramallah Municipality and the Palestinian Police agreed to assign certain areas within the streets of the city for car parking. Special car park ticket machines were installed in streets. Users must buy tickets before they park their cars. Some opposition parties argue that this system would contribute to the organization of the city. The Municipality said that the system would help covering some of its expenses by adding some money to its budget. The interest of the main stakeholder in this, the ordinary people who are suffering the burdens of unemployment and poverty, were ignored. Such a step may be seen as prelude to the privatization of this service by assigning it to a private company. This is what happened with the Central Bus Stations in the various Palestinian cities which were initially run by municipalities and then were assigned to private companies by the PA. This was justified under the reasoning the Municipalities’ management was not efficient.

In 2009 the World Bank financed a project to develop pre-paid electricity billing system. The Electricity Company argued that such a system would reduce the stealing of electricity and help the Company collect its dues from customers, especially in the refugee camps. The opposition parties favored the argument of the Company as they were against the culture of “free-of-charge services”. The same argument was used with respect to water services. The Palestinian Cabinet issued a decision on 7 June 2010 supporting pre-paid billing system. The Decision stated that pre-paid billing system is necessary and that the government would bear 50% of the cost. The Ministry of Social Affairs was to conduct a study to examine the

feasibility of such a system. Bids to install water meters had been advertised even before the study of the Ministry was accomplished. In a televised interview with a local TV station Majedah al- Masri, Minister of Social Affairs and a representative of one of the leftist political parties in the government, said that there are currently 139 thousand Palestinian families in the (OPT) living under the poverty line.<sup>4</sup> She added that her Ministry provides aids to 65 thousand families out of the total hardship cases. But she said nothing about the above mentioned practices that burden people and push more people to the verge of poverty. According to Central Bureau of Statistics unemployment rates reached 33% during the last third of 2010<sup>5</sup>. At the same time the World Bank praised the reforms that the PA has achieved in certain areas. Most probably reference here is to what seemingly appears to be economic growth. The Bank urged the PA to enforce reform in other areas as provided in its reform plan. These areas include amendments to wages rates, civil service law, retirement age, security apparatus as well as billing system. As regards billing system the Bank proposed assigning the task to the private sector.<sup>6</sup> This indicates that the fight against “the culture of free-of-charge services” came upon a request by the World Bank rather than upon an initiative by the PA. Most vulnerable to the PA economic policies and measure are the poor. As a requirement to get any document from any public department like birth certificate for a child, passport or even driving license people were required to get discharge certificate from service providers (electricity company, water undertaking ...etc). In doing so the PA is viewing the poor as a burden on the development process rather than a target and a goal. The poor are held responsible for the deficiency in the government budget. Similar proposals by the World Bank in other countries were resisted and created friction between the public and the governments. In the PA-controlled areas these calls are very much welcomed. Some Palestinian officials view the construction of new building and the opening of restaurants (in Ramallah for example) as a reflection of an economic growth. In fact, such growth is fake as the PA is dependent on international aid and the tax revenues that Israel pays back to the Palestinian authority. According to Osama Kan’an, representative of the IMF in the OPT, the reform plan that is being implemented by the government is central to the economic growth achieved by the government.<sup>7</sup> The essence of the reform plan is the reduction of expenses on public services. This reduction manifested itself in the form of “economic growth”. However, this alleged growth has not reflected itself positively on the poor.

Together with the private service providers the government saw in the inhabitants of the refugee camps a good target for incitement to pay their dues. According to a reliable source in the Water Undertaking the dues of camps inhabitants is 27% of the total dues while the dues of the government reach up to 12.5%. Other people and companies are also required to cover their dues. It would have been better for the government to pay its dues rather than demanding the inhabitants of the camps, who are most vulnerable to unemployment, to cover their dues. It is worth mentioning that the inhabitants of refugee camps pay tax to the government. This comes in the form of income tax and other tax that is imposed on different goods. However, they do not receive services from the PA in return. health, education and sanitation services are basically provided by the

UNRWA. Further, the issue of the Palestinian refugees is abused by the government to recruit foreign funds. This is done through a discourse that does not fully recognize the rights of Palestinian refugees. The right of return was replaced with “a just solution to the problem of refugees”.

The Fayyad government has recently decided to impose tax on pension retirement funds. This will be done by a law that is awaiting endorsement by the President. Reaction to this was not strong. Only few voices were heard. Sha'th, head of the Workers' Union at Birzeit University, was shocked when he learned about the new law.<sup>8</sup> He said that this law comes at a time when the Union is trying to lobby for the enactment of retirement law. The proposed law will re-shape the relationship between the Union and the administration of the University, he added. “The whole retirement compensation that an employee receives for thirty years of work can barely cover his/her expenses for four years. At the same time the government wants to share compensation with us. This will definitely push us to declare strike soon”, said Sha'th. Teachers Union in the Government Schools reacted to this too. A meeting was held to discuss the threats that this law poses to the future of workers in the public sector. The result of the discussions was disseminated in a press release.

Retirement age was extended to 65 after it had been 60. Reaction was almost next to zero. When a similar decision was taken by the French government recently hundreds of thousands of people went out to streets to protest and defend their rights. It might be useful to mention here that life expectancy in France is higher than in Palestine. This means that the extension of retirement age to 62 affects people but still they have more time than the Palestinians to relax and enjoy their pension. This is not the case with the Palestinians as death may not wait until they enjoy some of their compensation.

According to Minister of Planning, the government strives to reduce the deficiency in its budget from 20% in 2007 to less than 3% in 2013.<sup>9</sup> This is attainable through tax increase, external loans and bonds or debt securities. The government declared its intent to issue bonds next spring. Surprisingly, the government took such a decision in the absence of a Palestinian currency, de jure or de facto sovereignty and a central bank. The government was even confused with respect to the currency of the bonds. They had to choose between the US dollar and the Israeli Shekel.

Egypt had similar experience with the bonds. According to Ala' Kamal, an official in the Central Bank of Egypt, the government issued bonds few years ago to fill up deficiency in the budget. The period of the bonds was initially 3 months and was then extended to 6 months and later was again extended to 5 years. People rushed to buy government bonds as the interest rate on the Egyptian pound was 21%. The government then decreased the interest rate on the US dollar. Thus it had a reserve of hard currency. The government used the hard currency abroad so that it can cover the high interest on its bonds. The loss was as twice the profit. The government decreased the interest rate to 7% and thus people withdrew their bonds and bought shares in companies. The impact was catastrophic on people and the economy.<sup>10</sup> According to Ahmad al- Najjar, the editorial director of the al-Taqrir al-Eqtissadi Journal that is issued by the Al-Ahram Center for Political and Strategic Studies, the government resorted to bonds to cover the deficit in the budget. The value of the bonds that the government issued was 830 billion Egyptian pounds. The government is

planning to increase this number to 1 trillion pounds next year. “This policy is unwise as the government is using the money of the bonds to cover its expenses. This will increase the debts of the government”, said al-Najjar.<sup>11</sup>

The plan of the Palestinian Authority is in many ways similar to that of Egypt. The PA will also resort to external loans. The Ministry of Finance estimates the loans of the PA until 2005 by 1 billion US dollar. Of the total amount only 55 million US dollars had been returned. This amount is less than the interest of the total amount. Some Palestinians believe that Israel may invest in these bonds. If this happened, this would be the worst scenario that one can imagine. Israel would then be perceived by the international community as a state that is supporting the PA to fill the deficiency in its budget rather than an occupying power. Palestinian officials may deny the existence of such plans. However, the free market policies may make this reality. Nobody could ever imagine that China, the main economic rival of the US, would one day be main investor in the American bonds. This is the worst case scenario but if it comes true, the PA would drown in its debt.

This is basically the essence of Netanyahu's economic peace plan. After the signing of the Oslo Accords between Israel and the PLO the Palestinian Authority was given grants that were in fact equal to the what Palestinian workers gained from their work inside of Israel before they had been dismissed.. It was clear that the grants given on the expense of political rights on the Palestinian and that the inhabitants of the West Bank would drown in debt. Under such circumstances people were encouraged to take loans from banks and banks were requested to facilitate loan granting. It has become possible to get a loan that equals the value of a real estate or a car that the person intends to buy. Employees could get a loan that equals thirty times as much as their salary. Loans were not used in development projects. They were mostly going to services sector. Today, the total amount of loans granted to people is almost 3 billion US dollars. This amount is mostly the debt of the middle class people in the West Bank. The question that remains is how did the middle class people drown in debt? According to an official in the Palestinian Monetary Authority this big amount of loans on people was the result of the global recession. When the recession started Palestinian banks decreased the rate of external investments. The rate was originally 65% of investors' deposits. But it was then decreased to upon a directive by the Monetary Authority to 55%. The remaining 10% were granted to people in the form of loans.<sup>12</sup>

The successive Palestinian governments endorsed the establishment of industrial zone in the al-Jalameh village in the north of the West Bank. Again the poor were used as pretext to justify the projects of the government. This time the government argued that this project would solve unemployment problems. In June and October of 2010 Bisan conducted field research on industrial zones in Jordan and Egypt. Local labor force in the two countries did not meet the conditions of foreign investors especially with respect to wages. Investors, therefore, relied on cheap labor force from abroad. Under such circumstances local workers remained unemployed and were obliged to work in those industrial zones for low wages that do not exceed 150 US dollar per month. As such the argument of the Palestinian government is rebutted.

Within the framework of its development inclinations the government put Area C as a target for its development projects.

This will be done irrespective of the will of Israel, the occupying power. After conducting investigations to understand the motives behind the decision of the government it turned out that the joint Israeli-Palestinian projects are to be carried out in this zone. In June 2010 Valerie Hoffenberg a French businesswoman, was delegated by President Nicolas Sarkozy to visit the region to manage joint Palestinian-Israeli projects in Area “C”. Hoffenberg told Haaretz newspaper “While studying the situation I understood that the mistake others had made was to carry out projects in Area C [under full Israeli control]. They thought this would make it easier for them to create a connection between Israelis and Palestinians. But the Israelis I spoke to advised me to focus on Area A – on projects between the French and the Palestinians, without Israeli involvement, in order to steer clear of politics. I decided to do something in Bethlehem. I spoke with [Palestinian Prime Minister] Salam Fayyad and asked him for land. He gave me 500 dunams [125 acres] of public property and we started to work fast. I created a Franco-Palestinian company – 50-50. Fayyad agreed to change the law for me, because before that it was impossible to establish a company unless the Palestinians had 51 percent. I started to work with the private sector<sup>13</sup>.”

All of these negative developments have taken place without genuine opposition. The Palestinian Legislative Council is paralyzed and the opposition parties are silent. Every party has its own explanation for inaction. Some have not been able to understand these developments critically, others did not see these developments as a good reason to oppose Fayyad's government while some stayed silent as their economic interests so require.

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