



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.



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 revenues¹ 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 Quartet⁵ (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 occurred 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

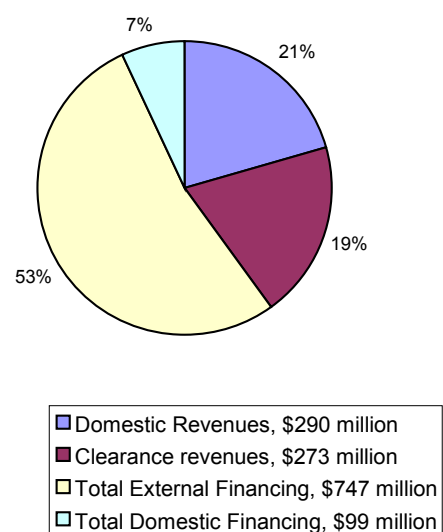
the newly-created TIM, disbursed some \$170 million. The balance came from approximately \$70 million that was carried into the Gaza Strip and the remainder was provided in early 2006 prior to Hamas taking office.

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

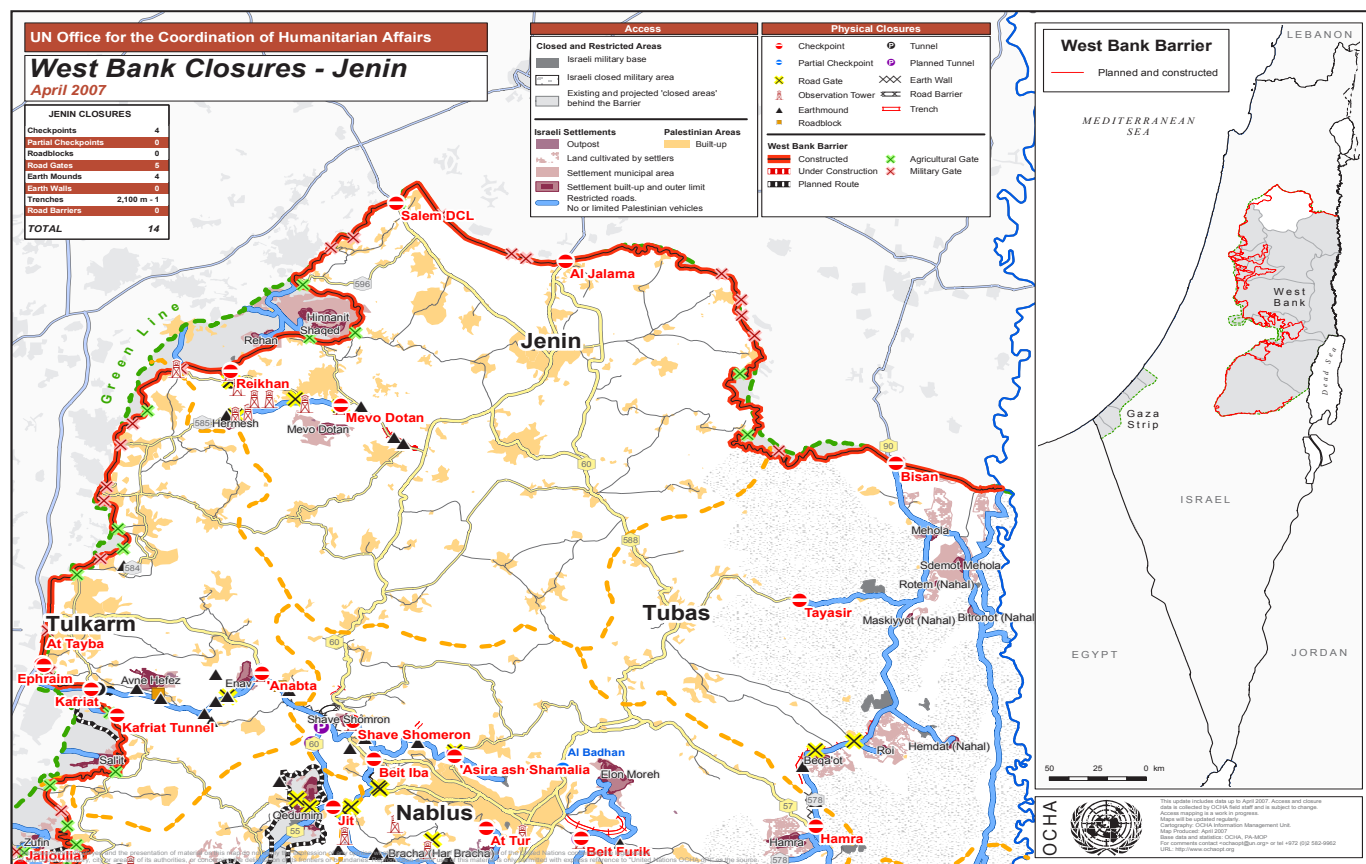
The withholding of PA revenues by the GoI, coupled with uncertain and alternative channelling of funds throughout 2006, meant that PA employees received on average only about 50 to 55% of their salaries in 2006, including payments made by the OoP and the TIM.⁷

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 employee⁹ 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 Développement (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,

“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

meat and milk for children has sharply decreased); borrowing money from friends/relatives; moving abroad; taking credit from shops; selling jewellery; and selling land.

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 1,500 (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 residents¹¹ 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

"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.

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

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.



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.