



European Leadership Funding

INVESTING FOR PEACE IN THE MIDDLE EAST

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A new perspective on Investment for Peace in the Middle East
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The Union's action on the international scene shall be guided by, and designed to advance in the wider world, the principles which have inspired its own creation, development and enlargement: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, equality and solidarity, and for international law in accordance with the principles of the United Nations Charter.

Article III-193 of EU Draft Constitution²

Abstract

The European Union and its member states represent the largest single donor bloc financing the Palestinian Authority and its affiliated institutions. We believe that European taxpayers' money was and probably still is being channelled to the PA and its affiliates in ways that contradict core EU principles, contributing to the prevailing culture of corruption and incitement whilst failing to address the underlying causes of Palestinian poverty. We note recent efforts by the Commission to begin to address many of the issues outlined in this paper and propose an alternative funding model, which we believe is more in line with interests and values of the European Union as a whole.

I. Overview

The amount of European funding to Palestinian Authority has increased dramatically since the outbreak of the *Palestinian intifada* in September 2000. The EU and its 25 member states currently donate some €500 million a year to the PA and its affiliates, more than half of which comes directly from the EU budget.³ In October 2005, Commissioner Benita Ferrero-Waldner proposed doubling that amount in the wake of Israel's disengagement from the Gaza Strip and called on member states and other donors to follow her lead.⁴

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² 'Draft Treaty establishing a Constitution for Europe', as submitted by The European Convention to the President of the European Council in Rome, 18 July 2003.

³ EC press notice IP/05/1159: 'European Commission to support the Palestinians with €280 million in 2005', 19 September 2005.

⁴ EC press notice IP/05/1224: 'European Commission proposes comprehensive EU strategy for support to Palestinians', 5 October 2005; See also: 'EU proposes doubling annual aid to PA to euro 500m' *AP/Ha'aretz*, 5 October 2005 (<http://www.haaretz.com/hasen/spages/632184.html>).

Although by its own admission, the EU is the largest single donor to the PA, foreign aid from literally all over the world continues to pour into the Palestinian areas. According to Nigel Roberts, the World Bank's senior representative for the West Bank, other donors have meanwhile doubled their annual disbursements to almost \$1 billion, the equivalent of over \$310 per person per year. This makes the level of foreign contributions to the Palestinians the highest per capita aid transfer in the history of foreign aid anywhere.⁵

Due to such a well-meaning flow of aid one would rightly expect the social situation under Palestinian Authority control to have improved dramatically over recent years. However United Nations figures indicate that the situation in the Palestinian areas continues to be one of deep poverty and great need. UK-based Charity *Christian Aid* claims that more than 2.2 million people in the territories survive on less than £1.05 a day (approx. €1.50). The situation is even worse in Gaza where citizens live on average on £0.85 a day (approx. €1.24) – way below the official UN poverty line.⁶

The question of what happened to all the money is partially answered by high-ranking Palestinian officials themselves. Mohammad Dahlan, the current PA Minister for Civil Affairs and former Interior Minister under Yasser Arafat told Kuwait's *Al Watan* newspaper in August 2004 that of all of the funds which foreign countries had donated to the Palestinian Authority, a total of \$5bn have “gone down the drain, and we don't know to where.”⁷

The misuse of foreign aid within the PA is apparently on such high level, that immediately after Israel's disengagement from the Gaza Strip the Harvard trained Governor of the Palestine Monetary Authority, George T. Abed stated: “If you poured in a lot of financing at this time, it would not have a big impact. It would not be very effective. Governance is poor. It would be wasted.”⁸

Less outspoken on the whereabouts of the missing millions are the EU institutions themselves. A carefully formulated statement of the European Commission ombudsman and official antifraud agency OLAF earlier the same year simply says that the, “...risks of misuse of the PA budget and other resources cannot yet be excluded. This is primarily due to the fact that the internal and external audit capacity in the PA remains underdeveloped.”⁹

⁵ World Bank News Release 2004/451/MNA: 'World Bank Paper Urges Major Easing of Israeli Closure Measures and Stepped-up Palestinian Reform Efforts', 24 June 2004. Both points were re-iterated by Nigel Roberts in separate interviews with *Scotland on Sunday*, 29 February, 2004 and *The Middle East Times*, 27 April, 2005

⁶ Figures provided by UNWRA in November 2004 and the United Nations Office for the Coordination of Humanitarian Affairs in January 2004 and cited by Christian Aid: 'Christian Aid in Israel and the Occupied Palestinian Territories,' July 2005: <http://www.christian-aid.org.uk/world/where/meecca/isrpalp.htm>

⁷ 'Arafat "ruining his people" says protégé,' *The Guardian*, 2 August 2004

⁸ 'Expert says Palestinians don't need financial aid,' *San Francisco Chronicle*, 4 September 2005

⁹ OLAF, EU anti-Fraud Division, Press Release, March 2005

II. Scale of European Aid

Between 1994 and 2001, the EU and its member states contributed €3.47 billion to the Palestinians, either directly to the PA or through affiliated organizations,¹⁰ far exceeding initial pledges made in the 1993 post-Oslo international donor conference in Washington D.C.¹¹

In response to the economic collapse in the Palestinian territories brought on by the *intifada*, the EU alone has given in excess of €1 billion since 2002 and now plans to double annual disbursements from 2006.¹² Member states have kept pace with sustained donations reaching similar levels.

Thus, in the decade following the signing of the Oslo accords (1993-2003), the €650 million pledged by the EU itself was followed up with some €1.8 billion in aid; while the total European funding package, together with member state contributions, commitments and loans, increased fourfold to a staggering €4.5 billion – a figure more than twice the amount initially pledged in 1993 by the international community as a whole.¹³

The same pattern is duplicated globally. From 1993 to the start of 2004 it is estimated that the PA received the equivalent some €4.4 billion in direct and indirect aid contributions from other western nations, the World Bank and members of the Arab League, in addition to the €4.5 billion in funds from Europe.¹⁴

III. Use of European Aid

As the *European Coalition for Israel* we believe that there is a fundamental discrepancy between the foundational moral and ethical values of the Union as outlined in the Draft EU Constitution¹⁵ and the rapidly expanding €500m annual aid program to the Palestinians.

Furthermore, we believe that European taxpayers' money was and probably still is being channelled to the PA and its affiliates in ways that contradict core EU values,

¹⁰ Figures originally taken from website of the European Commission Technical Assistance Office for the West Bank and Gaza Strip, <http://www.delwbg.cec.eu.int>, and quoted by the *Funding for Peace Coalition* in their study 'Managing European Taxpayers Money', August 2004; p. 7. All links to specific annual EU aid totals to the Palestinians prior to 2003 have since been removed from this site.

¹¹ EC Background Briefing, 'EU Relations with West Bank and Gaza Strip,' Section 4: 'EU financial assistance to the Palestinians; http://europa.eu.int/comm/external_relations/gaza/intro/

¹² EC press notice IP/05/1224

¹³ EC Background Briefing 'EU Relations with West Bank and Gaza Strip' *op cit*.

¹⁴ 'Managing European Taxpayers' Money,' Appendix A, p. 35. The global estimate for aid received by the Palestinians via the PA and other agencies from 1993-2004 is over US \$10 billion, which approximates to some €8.9 billion using the 2003 annual average dollar-euro exchange rate of 0.89. €4.5 billion of this has been identified by the EC as coming from the EU and Member States, illustrating the scale of the European aid program to the PA when contrasted with the efforts of the rest of the international community combined. For a full breakdown of non-European aid to the Palestinians during this period, see Appendix.

¹⁵ Cf. Article III-193 of Draft EU Constitution, cited above.

contributing to the prevailing culture of corruption and incitement whilst failing to address the underlying causes of Palestinian poverty.

As stated by James Price, a consultant to the Palestinian Investment Fund and co-author of 'The Economic Road Map,' a detailed analysis of the Palestinian economy published in July 2005,¹⁶ the funds have not done much beyond ensuring a minimum standard of living. "Many of the donor programs have not only been ineffective, they have harmed the economy," Prince told the *San Francisco Chronicle* in September 2005. "Cash is not the issue."¹⁷

A. Corruption

Behind the reported disappearance of billions of dollars of international aid donated to the Palestinians since 1993, stands a PA culture of nepotism, graft, extortion and theft that characterised the chaotic rule of late PLO leader and PA Chairman, Yasser Arafat and continues to haunt the government of Mahmoud Abbas (Abu Mazen).

As far back as the mid 1990s when the post-Oslo euphoria was beginning to wear thin, ordinary Palestinians living in the territories became increasingly aware that international aid was not reaching them and began openly criticising the monopolies for fuel, cement, cigarettes and other key commodities held by senior cabinet ministers and Arafat loyalists.

The Palestinian Legislative Council meanwhile began challenging Arafat over his attempts to exclude them from the annual budgeting process. In 1997, the PA Cabinet offered to resign en mass after an internal report found widespread corruption by PA ministries, including the Office of the Ra'is –Arafat himself. The audit, which was ordered by Arafat and conducted by a close relative, concluded that \$326 million – or 37 percent of the PA's budget – was unaccounted for due to fraud, corruption and mismanagement.¹⁸

In December 1999, the UK-based *Daily Telegraph* reported that disgruntled PLO officials had hacked into the organisation's computers at its Tunisian headquarters and discovered about £5 billion (approx. €3.5 billion) in numbered bank accounts in Zurich, Geneva and New York, extensive PLO-owned shares in the Frankfurt, Paris and Tokyo stock exchanges, plus lucrative properties acquired in several Western European capitals.¹⁹

In September 2003 the International Monetary Fund (IMF) published a study stating that they had identified \$900 million in public assets that had been diverted into the private accounts of the Palestinian leadership including "\$591m in PA Tax revenue"

¹⁶ Glenn Yago and James Prince, 'The Economic Road Map: Beyond the Israeli-Palestinian Conflict,' Milken Institute, July 2005.

¹⁷ 'Expert says Palestinians don't need financial aid', *San Francisco Chronicle*, 4 September 2005.

¹⁸ '16 PA ministers offer to resign', *The Jerusalem Post*, 3 August 1997.

¹⁹ 'Hackers uncover secret billions of Arafat's PLO', *The Daily Telegraph*, 5 December 1999.

and "\$300m profits from commercial investments."²⁰

Two months later reformist PA Finance Minister Salaam Fayad assisted CBS News with a '60 Minutes' exposé that claimed Arafat had diverted nearly \$1 billion in public funds to secret bank accounts.²¹ Fayad's openly acknowledged contribution to the program also included details that the then PLO leader was channelling an additional \$100,000 each month to his wife Suha in Paris.²²

In July 2004, former Palestinian Legislative Council Speaker Rafik al-Natsheh described Arafat as the "protector of corruption and the corrupt," adding that the PA did not need foreign aid. There were billions of dollars that were in the possession of the Authority, he said, "but no one knows anything about the funds."²³

By January 2005, not long after Arafat's death, the pan-Arab satellite network *Al-Jazeera* estimated his private fortune at between \$4.2 billion and \$6.5 billion, some \$1.5 billion more than it had been reportedly worth in 1996.²⁴

Notwithstanding the efforts of Abbas since his election in January 2005, the engrained culture of corruption within the PA and the associated intra-Palestinian violence appears only to have worsened during the post-Arafat era and continues to this day.

In July 2005, PLC Deputy Speaker Hassan Harisha told the London-based Arabic daily *Al-Quds Al-Arabi*, that Abbas was incapable of rooting out corruption since he was surrounded by Arafat-era advisors who were "just as corrupt" as ever.²⁵

An investigate panel of the Legislative Council, meanwhile, concluded in October the same year that the cabinet of Prime Minister Ahmed Qurei had neither discussed the security chaos in the territories nor was ever asked to do so. Legislators concluded that there was a "clear failure," by Qurei's government to implement the PA's own reform agenda or prosecute the "war against corruption."²⁶

²⁰ 'Economic Performance and Reform Under Conflict Conditions,' International Monetary Fund Report on West Bank and Gaza, 15 September 2003.

²¹ 'Arafat's Billions', *60 Minutes*-CBS News, 9 November 2003. Transcript available at: <http://www.cbsnews.com/stories/2003/11/07/60minutes/main582487.shtml>. Fayad went on to release a scathing PA Finance Ministry report on 17 November detailing how Arafat was continuing to control as much as 10% of the total PA Budget in private bank accounts, siphoning off the money at a rate of NIS 1 million (€200,000) a day.

²² The Paris public prosecutor confirmed to Reuters on 10 February 2004 that French authorities had opened an inquiry into money transfers totalling \$11.5 million into bank accounts held by Suha Arafat in France.

²³ Cited in 'Managing European Taxpayers' Money' Appendix A, p. 37.

²⁴ PLO financier Jaweed al-Ghussein estimated that Arafat's financial empire was worth between \$3 billion and \$5 billion when he quit in 1996. Cf. 'Arafat's Millions Could Slip Away,' *AP/ABC News*, 9 November 2004.

²⁵ 'PA Speaker: Abbas can't beat corruption', *Yediot Ahronot*, 4 July 2005.

(<http://www.ynetnews.com/articles/0,7340,L-3069420,00.html>)

²⁶ 'Panel: PA has done nothing to impose order', *Ha'aretz*, 9 October 2005

B. Terrorism and Incitement

"[T]errorism constitutes one of the most serious threats to democracy, to the free exercise of human rights and to economic and social development. Terrorism can never be justified whatever the target."

'Framework decision of the EC to combat Terrorism,' 19 September 2001²⁷

A second major discrepancy between Europe's funding of the Palestinians and its own basic value system is the money flow into a regime that directly and indirectly supports and fosters terrorism.

The al-Aqsa Martyrs Brigades, the terrorist group behind countless suicide bombing atrocities during the recent *Intifada*, remains an integral part of PA Chairman Mahmoud Abbas' governing Fatah party. Furthermore many of the group's active members continue to draw regular payments from the PA salary budget, provided each month directly from the EU.

In a BBC interview in November 2003 both al-Aqsa leaders and Fatah officials confirmed that there was no distinction between the 'political' and 'military' arms of the movement, and that al-Aqsa members had received some \$50,000 in monthly expenses from the PA.²⁸

In June the following year, the point was reinforced by PA Prime Minister Ahmed Qurei who, speaking in Arabic to the London-based newspaper *Asharq al-Awsat* said that the political leadership of Fatah took full responsibility for the group, effectively promising them immunity from punishment for terrorist acts.²⁹

The al-Aqsa Martyrs Brigades remain outlawed by the EU as a terrorist organisation, being responsible for the maiming and killing of hundreds of civilians, both Israeli and Palestinian³⁰. It is incomprehensible, therefore, that the EU has continued to fund the PA in recent years in the full knowledge that European taxpayer's money with which they are charged could be directly used in the financing of terrorist acts.

It is also incomprehensible how the EU continues to justify its half-hearted dealings with both Hamas and Hizb'Allah. Both organisations openly confess an ideological commitment to fundamentalist Islamic terror but at all levels of the Union are still considered viable political and social entities capable of being co-opted into the cause of peace.

²⁷ 'EC Proposal for a Council Framework Decision on Combating Terrorism,' Brussels, 19 September 2001.

²⁸ 'Palestinian Authority Funds Go to Militants', BBC News, 7 November 2003:

http://news.bbc.co.uk/2/hi/middle_east/3243071.stm

²⁹ 'Fatah committed to Aksa Martyrs', *The Jerusalem Post*, 21 June 2001.

³⁰ According to PA statistics on fatalities in the first 9 months of 2005, the terrorist factions were responsible for more Palestinian deaths than the IDF, and the al-Aqsa Martyrs Brigades more than Hamas. 'Fatah gangs run rampant in Gaza,' *The Jerusalem Post*, 13 October 2005.

That Hamas will be allowed to participate in EU-funded elections in January 2006 is unacceptable. Hamas openly calls for the destruction of the state of Israel and is responsible for the death of hundreds of civilians in Israel.

But it is not only the existence of the numerous PA-backed terrorist factions that should cause greatest concern to Europe amidst its own attempts to foster a just and lasting Middle East peace, but the systematic indoctrination of a whole new generation of Palestinian children.

Despite countless studies and press reports, spanning right back to the inception of the Oslo accords, school textbooks issued by the PA Ministry of Education continue to incite against Jews, glorify *shahids* (suicide terrorists) and avoid any acknowledgement of the very existence of Israel.³¹

The extent to which the EU is directly responsible for funding these books is still a matter of debate. But what is without doubt is the gravity of the PA's violation of its most basic undertakings to Europe and the EU's adamant refusal, as the largest single donor bloc, to hold the PA to account despite having the matter brought to the attention of the Commission time and time again.

C. Perpetuating Refugees

Almost 50% of the €500m annual European aid to the Palestinians is accounted for in direct, voluntary contributions to UNWRA, the United Nation's dedicated relief arm for Palestinian refugees. Although the importance of ensuring these people are not left destitute is without question, the way UNWRA operates throughout the Middle East puts the Arab population of 1948 Palestine in a unique category that flouts the universal norms of global refugee work, maintains their descendants in unacceptable poverty and contravenes the foundational principles of both the UN and EU.

Founded in the wake of UN efforts to address the massive refugee crises in the years immediately following the end of World War II, UNWRA was established along the lines of the older, and highly successful sister agency UNRRA: the United Nations Relief and Rehabilitation Administration, which operated between 1943 and 1948.³²

UNRRA's mandate was to resolve the (largely Jewish) refugee problem created by the war. In so doing it set vital precedents for the future work of United Nations High Commission for Refugees (UNHCR), established two years after UNRRA's dissolution in 1948.

But while UN agencies successfully finished their post-war refugee work in most countries within the early 1950s, they have continued to oversee an ever-expanding operation among Palestinians in Gaza, the West Bank and in camps across the

³¹ 'Jews, Israel and Peace in the Palestinian Authority Textbooks,' Center for Monitoring the Impact of Peace, June 2005: <http://www.edume.org/>

³² Harold Fruchtbaum, 'Assisting the victims of War,' *UN Chronicle*, 1 December 1994.

Middle East until now. The reason for this lies in the UN's unique definition on who constitutes a Palestinian refugee:

“Under UNRWA's operational definition, Palestine refugees are persons whose normal place of residence was Palestine between June 1946 and May 1948, who lost both their homes and means of livelihood as a result of the 1948 Arab-Israeli conflict. UNRWA's services are available to all those living in its area of operations who meet this definition, who are registered with the Agency and who need assistance. UNRWA's definition of a refugee also covers the descendants of persons who became refugees in 1948. The number of registered Palestine refugees has subsequently grown from 914,000 in 1950 to more than four million in 2002, and continues to rise due to natural population growth.”³³

While it appears strange to define a refugee as a person that resided in Palestine in such a narrow window of time as the two short years between June 1946 and May 1948,³⁴ the crux of this definition is that it *“also covers the descendants of persons who became refugees in 1948.”* This is not only in disharmony with the “UN Convention relating to the Status of Refugees”³⁵ which allows no room for a refugee status to be conferred on the descendants of the person originally displaced, it also explicitly foresees and discourages the integration of refugees in their countries of refuge.

According to §34 of the “UN Convention relating to the Status of Refugees” host countries are called upon to “facilitate the assimilation and naturalization of refugees” and to “make every effort to expedite naturalization proceedings.” This is not only ignored by UNRWA but has been repeatedly and explicitly discouraged by the UN itself.³⁶

In addition, the work of UNRWA, (the “large majority” of whose 25,000 staff are also “refugees”)³⁷ has, from time to time, come under suspicion of indirectly supporting armed Palestinian ‘resistance’ against the State of Israel,³⁸ financial mismanagement, corruption and graft.³⁹

³³ 'Who is a Palestinian Refugee,' UNRWA operational definition: <http://www.un.org/unrwa/refugees/whois.html>

³⁴ According to Howard Sachar in the second edition of his seminal study *A History of Israel* (New York, 1996) large parts of the residents of Palestine at that time were “guest workers” from neighbouring countries finding employment through the British Administration or in Jewish Settlements.

³⁵ 'Convention relating to the Status of Refugees', adopted on 28 July 1951 by the United Nations Conference of Plenipotentiaries on the Status of Refugees and Stateless Persons convened under General Assembly resolution 429 (V) of 14 December 1950.

³⁶ Cf. United Nations Resolution 31/15, 23 November 1976 and UN Resolution 34/52, 23 November 1979 which calls on Israel “to desist from removal and resettlement of Palestinian refugees in the Gaza Strip and from destruction of their shelters”

³⁷ 'UNRWA: employment: organisation, structure and staffing': <http://www.un.org/unrwa/employment/organization.html>

³⁸ Cf. 'Mofaz: Palestinians Smuggled Body Parts in UN Ambulances,' *Yediot Ahronot* (Hebrew), 14 May 2004: <http://www.ynet.co.il/articles/0,7340,L-2916529,00.html>; UNRWA Press Notice HQ/G/09/2004: 'UNRWA Calls on All Parties to Respect the Neutrality of its Ambulances,' 13 May 2004.

³⁹ 'Corruption cover-up in UNRWA?' *Al-Ahram Weekly*, 1-7 April 1999: <http://weekly.ahram.org.eg/1999/423/re6.htm>

The totality of the agency's activity, therefore, could be summarised as an aid program that supports a self-proliferating refugee problem in the region. It does little to dissolve one of the greatest long-term human disasters in the Middle East but instead helps to artificially sustain and prolong what has become one of the major obstacles for lasting peace.

The unique Palestinian "right of return" in addition begs the question why a further half a million Jewish refugees, (who together with their descendants constitute some two million people), cannot claim similar charges on the bottomless purse of international beneficence following their expulsion from their native Arab lands shortly after the State of Israel came into being.

IV. Light on the horizon

Despite the scale and severity of the issues outlined above and their detrimental impact on the lives of ordinary Palestinians and the prospects of future peace, the *European Coalition for Israel* recognises that much is being done to address them.

The Democracy caucus in the European Parliament and the efforts towards establishing increased transparency with regard to the Commission's dealings with the outside world are commendable steps. The infamous cash payments to the PA and particularly the notorious "Presidential budget" of Chairman Arafat have been abolished.

However more needs to be done in order to ensure that the funds from Europe serve the interests and purpose of the European Union and its member states.

To this end the recent draft EC recommendations to member states on 'non-profit' accountability⁴⁰ are particularly noteworthy. In particular, we would endorse the suggested development of a "European Label" that requires a "Code of Conduct" based on the understanding of a basic set of human rights values.

As the *European Coalition for Israel*, however, we also would call upon the EU to address its own suggested steps with more determination. We strongly believe that European NGO funding directed to non-EU states should be firmly attached to clearly defined benchmarks with a view to increasing freedom, human rights and democracy as universally understood in the founding treaties of the Union.

For that reason we propose the following model of "Moral Leadership Funding" which could serve as a distinctive "European Label" for funds disbursed not only to the PA but to all other external recipients of EU aid.

⁴⁰ EC Draft Discussion Document: 'Draft Recommendations to Member States Regarding a Code of Conduct for Non-Profit Organisations to Promote Transparency And Accountability Best Practices,' 22 July 2005

V. Moral Leadership Funding

The Union shall seek to develop relations and build partnerships with third countries, and international, regional or global organisations, which share these values [of democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, equality and solidarity, and for international law in accordance with the principles of the United Nations Charter.]

Article III-193 of the EU Draft Constitution⁴¹

The *European Coalition for Israel* believes that the EU and its members have a unique global leadership role, which should be asserted in a more positive way in the Middle East.

Over the course of the last century, Europe, together with the United States of America, has set *the* international standard of democracy, human rights and the rule of law. These values today are adopted and accepted by more and more nations worldwide, a fact attested to by the voting behaviour in the UN General Assembly where many nations now consistently follow the European lead.

We therefore believe that the EU should utilise its potential to the fullest extent in using its resources and funds to foster and spread the very values that define Europe and the free world.

Window of Opportunity

The political landscape in the Middle East is currently undergoing an unprecedented shake up which could usher in new hope and perspectives to the citizens of the region. The masses that filled the streets of Beirut precipitating an end to Syrian military rule, unprecedented elections in Saudi Arabia, Egypt and in the Palestinian Territories give rise to a new hope for the whole region. And if the World Community will be determined to confront the Islamic terror militias in Iraq, the region might soon have a second functioning democracy alongside that of Israel.

We believe that Europe can have a far greater influence in this process if it will assume a more responsible leadership position within the Middle East. Talk of applying human rights benchmarks across the region is not new to the EU, but the policy has never been enforced. Instead funds have been made available for well-meaning purposes to a large number of totalitarian systems. These regimes in turn, have consistently failed to live up to their commitments and the funding has left a legacy of failure and fraud.

⁴¹ 'Draft Treaty,' European Convention, July 2003; 'Combating Terrorism,' EC Framework Document, Brussels, 19 September 2001.

The greatest example of this is the funding of the Palestinian Authority and its affiliated institutions under the leadership of Yasser Arafat. As outlined above, since the 1993 Oslo Accords Arafat received billions of dollars in global aid and proceeded to use it to foster a culture of terrorism and hatred among his people.

But there are other examples stemming from what, at times, appears to be the unreflected optimism of the Barcelona Process. The recent EU free trade agreement with the failing regime of Syrian dictator Bashar Assad is a case in point. Assad's Syria is a totalitarian state that openly supports and hosts the region's most implacable terrorist organisations.

We therefore urge the European Union to adjust its funding philosophy towards the Middle East and to apply a “European Label” to aid given to countries and NGOs outside the Union. We propose the following model of “Moral Leadership Funding” to be the “label” earmarking all such EU funds.

Funding Principles

Moral Leadership Funding (MLF) is founded on four principles: accountability, human rights, zero-tolerance towards terrorism all within the framework of a long-term perspective. These are more fully outlined below.

A. Accountability

All funds given by the EU to Middle East states or NGOs should be strictly audited in order to avoid misuse and corruption. Cash payments similar to those made in the past to the PA should never be repeated in any form.

The *European Coalition for Israel* recognizes that the, so far unpublished, findings of the OLAF investigation into European funding of the Palestinian Authority encouraged a more controlled giving regime. We suggest that audits need to follow the following guidelines.

Independent: An independent auditing mechanism needs to be implemented at every level of the transfer of EU funds to all external recipients. In particular we strongly suggest that the PA and all affiliated Palestinian organisations in direct *and* indirect receipt of European aid should be audited on an annual basis by an independent, internationally recognised and preferably European-based accounting firm.

Budgeted: We suggest that on average at least one percent of the given funds both from the Union and the member States should be set aside to allow an independent auditing process.

Networked: It is of no use if only European funds are being audited. Europe should take a lead and ask for audit reports of money given to the PA from all other donor countries. These can then be compared to the EU funding profiles.

Fair: We urge the EU to use its funding leverage to enforce the elimination of the many goods and commodity monopolies controlled by individual officials within the PA.

Transparent: Since all European funds originate with the taxpayers of member states it is incumbent on the European Commission to ensure that they are given in a responsible and transparent manner.

B. Human Rights

All funds, in particular long-term assistance, should be tied to a strict set of benchmarks on human rights. The Middle East and the Southern Mediterranean Area, which enjoys a privileged partnership with the European Union through the Barcelona Process, host some of the most undemocratic and inhuman regimes in the world today. A recent *Newsweek* report revealed that, in the entire region, only Israel received a respectable ranking for its adherence to the principles of democracy and human rights.⁴²

We believe that Europe has a moral obligation to tighten its policies towards these countries in order to effect positive change for the ordinary citizens of Middle East. This includes asserting fiscal pressure tied to the advancement of democratic freedom, the rule of law, freedom of press, women's rights, freedom of religion and education, all of which are currently ignored or paid lip service only.

We do recognize that some of these nations are not yet ready to fully adopt democracy. As has happened in Algeria in the 1990s and could yet happen in the Palestinian areas and other nations across the region, free elections today might bring radical religious elements to power that would further restrict basic freedoms and undermine human rights.

However, in order to establish a framework for a stable society a set of basic values needs to be established consistent with the universal norms of the UN Charter. At the forefront of our concern across the Arab world today is the freedom of press, women's rights, freedom of religion and the widespread incitement to hatred against the Jewish people and the State of Israel.

We believe that if children from an early age are educated in a culture of peace and tolerance that these societies can in the future be true partners in peace with Israel and can also be considered true partners of the European Union.

However if those nations fail to address an ingrained culture of religiously-sanctioned sectarian and racially motivated hate, the EU should apply strict measures to enforce

⁴² Graphic illustrating conclusions of 2004 'Freedom in the World,' survey issued by Freedom House reprinted alongside 'What Bush Got Right', Fareed Zakaria, *Newsweek*, 14 March 2005.

the required change in each society. The flow of funds should be interrupted and, in the face of persistent violations, the status of “Partnership” with the EU should be reconsidered.

Partnership with Europe should be only given to countries which share the same basic values or which show determination to work towards them.

C. Zero Tolerance of Terror

Where necessary to achieve the objectives [...], as regards prevention of and fight against organised crime, terrorism and trafficking in human beings European laws may define a framework for measures with regard to capital movements and payments, such as the freezing of funds, financial assets or economic gains belonging to, or owned or held by, natural or legal persons, groups or non-state entities.
Article III-49 Draft EU Constitution⁴³

European funds should neither directly nor indirectly be used to aid terrorist sponsoring organisations or states, as it is clearly stated in the EU draft constitution and its framework document on combating terror.⁴⁴

We therefore call upon the EU to:

- **Develop** consistent guidelines for the EU and its member states that reflect a zero tolerance approach to terrorism.
- **Review** and enlarge international cooperation to effectively block the international transfer of funds for terrorist supporting organisations and states
- **Ban** and freeze assets of any Palestinian group supporting terrorism
- **Impose** conditions on bilateral relations with Syria, Iran and the PA. These countries need to cease their funding and support for Hizb’Allah, Hamas and other armed organisations.
- **Ensure** that no part of EU taxpayers’ money can be used to honour and glorify the murder of civilians by terrorists.

In our view, any continuing funding of the Middle East region should reflect the EU position that “terrorism constitutes one of the most serious threats to democracy, to the free exercise of human rights and to economic and social development,” and that it “can never be justified whatever the target.”⁴⁵

⁴³ ‘Draft Treaty,’ European Convention, July 2003

⁴⁴ ‘Combating Terrorism,’ EC Framework Document, Brussels, 19 September 2001.

⁴⁵ *Ibid.*

D. Long-Term View

All EU funding in the Middle East should have long-term perspective and should not only address the immediate needs of the target population. We urge the European Union to establish long-term objectives for the following areas.

- **Education**

Increased funds should be invested in youth education with a view to fostering peace and democracy throughout the Middle East. The EU should assist in developing new curricula for all areas of education in order to promote the prospects of a peaceful solution to the conflict while bolstering respect and tolerance among neighbours. Passages which encourage intolerance against Israel, Christians or the western world should be removed.

- **Economic Development**

Long term funds which are used to address social needs (like food programs) should be decreased and redirected into a economic infrastructure which will attract further investments and induce economic growth. Funds should be used to encourage a free market economy. If necessary this needs to be enforced by dismantling the monopolies over goods and commodities controlled by PA officials.⁴⁶

- **Refugee Integration**

Funds should not be used to maintain the refugee problem (as UNRWA has done for more then 50 years) but should be rather used to integrate refugees in their countries of residence as the UN actually suggests for all other displaced peoples. The UNWRA definition on who constitutes a refugee should also be revisited and revised.

Since UNRWA's policy appears to be to prolong the suffering of Palestinian Refugees rather than alleviate it, the ECI calls upon the EU to establish in cooperation with UN, a new refugee organisation which has the aim of absorbing the refugees in their respective country of residence. In particular the refugee camps in Gaza need to be dismantled immediately and a strategic integration programme should be developed which could serve as a model for other nations and areas.

⁴⁶ For a more detailed analysis see Yago and Prince, 'The Economic Road Map', July 2005.

Conclusion

In conclusion we believe that the European Union can play a more positive and constructive role in the Middle East than it has done in the past. Since the EU is the largest single donor to the region we believe that European money should be used more as a lever to bring peace, freedom and eventually democracy to this troubled part of the world. It is unacceptable that very little is heard and read of European criticism towards states which foster terrorism and show grave disregard of basic levels of human rights while Israel, as the only democracy in the region, appears constantly to be in the crosshair of criticism.

As soon as the rest of the Middle East understands that Europe will no longer tolerate a culture of terrorism and incitement it will either produce political change or raise the question whether the offered Partnership with states like Syria and the PA is indeed valuable to EU interests.

This is particularly important since these nations are our immediate neighbours. If we cannot be certain that the countries of the Middle East share and uphold our basic values, a close partnership could represent a serious threat to our own internal security and can eventually bring terrorism to our own homes.

However, we believe that were European funds to be linked to firm benchmarks of human rights while being invested in proactive education for peace, the end result could be the emergence of a stable and educated middle class, not only in the Palestinian areas, but throughout the region.

In doing this the EU has the opportunity to establish a solid foundation upon which to build a new democratic order in the Middle East, which in turn will be of benefit to the wider world.

Appendix

Non-European Funding to the PA

US and Western Nations

According to USAID, the official arm of US development and assistance programs overseas, America is the largest single-nation bilateral donor in the West Bank and Gaza, having given some \$1.5 billion (approx. €1.25 billion) in the period 1993-2004.⁴⁷

Many other non-EU nations, as diverse as Norway, Japan, Canada and New Zealand have consistently paid out generous aid allocations to the PA in excess of their existing commitments to UNWRA. Japan, for instance, a nation with little perceived strategic interest in the fate of Israel and the Palestinian territories, gave \$767 million (€640 million) in the ten years following 1993.⁴⁸

World Bank

The World Bank, meanwhile counts itself the “fifth largest donor in the West Bank and Gaza,” having disbursed some \$260 million (€216 million) to the PA since the start of the *intifada* in September 2000, “including over \$100 million on behalf of other donors.”⁴⁹

In recent months the organisation has increased its role mediating potential solutions for the economic recovery of the Gaza Strip post-disengagement soliciting substantial increases in international aid commitments for large-scale structural projects, such as the proposed Gaza seaport and airport.

Arab League

Harder to trace are the donations of Arab League members, which have been estimated at anywhere between \$1 billion⁵⁰ and \$2 billion.⁵¹ vast quantities of which have been funnelled through private accounts of pan-Arab financial institutions. In February 2004 an IDF raid on Ramallah Branch of The Arab Bank uncovered a raft of documentation that, according to Israeli authorities, proved the Bank's instrumental role in the systematic laundering of funds for both terrorist activities and graft.⁵²

⁴⁷ USAID West Bank and Gaza Program Budget: <http://www.usaid.gov/wbg/budget.htm>

⁴⁸ Ministry of Foreign Affairs, Japan: http://www.mofa.go.jp/region/middle_e/palestine/summary.html

⁴⁹ World Bank press notice 2004/333/MNA: ‘World Bank Launches Multi-Donor Trust Fund To Support Reform Program,’ 27 April, 2004.

⁵⁰ For a discussion of the disbursement of the openly pledged \$1 billion in funds from Arab League members since 2000 see ECI Issue Brief ‘European Funding of Palestinian Institutions,’ January 2004, p. 14.

⁵¹ ‘Managing European Taxpayers’ Money’ cites a now expired link on Saudi Arabia’s UK Embassy website indicating that the Kingdom alone has given close to \$2 billion in aid to the ‘Palestinian cause’ (Appendix A, p.36)

⁵² For a more detailed discussion of Israeli allegations that the Arab Bank has played a leading role in laundering funds for terror see: <http://www.intelligence.org.il/eng/finance/bank.htm>

Israel

Partly due to the fungible nature of much of the aid from the Arab world, Israel, by the end of 2000, began withholding substantial sums of VAT revenue and excise owed to the PA for fear it would be used to fund terrorist attacks against its citizens. Under growing US pressure, however, Jerusalem was forced to abandon this policy following the 2002 appointment of Salaam Fayad to head up the PA Finance Ministry. Fayad, an internationally respected US-trained IMF official, began instituting major reforms in the handling of PA funds, introducing the direct payment of PA salaries through banks rather than by cash and even confronting PA Chairman Yasser Arafat's personal control of the vast PA Presidential budget.

Between January and August 2003 Israel had paid out NIS 1.15 billion (€232 million) of the NIS 2 billion (€404 million) held back in tax revenue during 2001 and 2002.⁵³ The remaining NIS 850 million (€172 million) was used, by order of the Israeli courts to pay outstanding Palestinian Authority debts to Israeli hospitals, public authorities and utility companies.⁵⁴

⁵³ Figures Based on the Representative Shekel (NIS) - Euro (€) exchange rate of 4.95 on 1 August 2003.

⁵⁴ 'Israel Completes Hand-Over of Tax Levied for PA,' *Ha'aretz*, 5 August 2003.