CHRONIC KLEPTOCRACY: CORRUPTION WITHIN THE PALESTINIAN POLITICAL ESTABLISHMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE MIDDLE EAST AND SOUTH ASIA

OF THE

COMMITTEE ON FOREIGN AFFAIRS
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CHRONIC KLEPTOCRACY: CORRUPTION WITHIN THE PALESTINIAN POLITICAL ESTABLISHMENT

TUESDAY, JULY 10, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST
AND SOUTH ASIA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:03 p.m., in room 2172, Rayburn House Office Building, Hon. Steve Chabot (chairman of the subcommittee) presiding.

Mr. CHABOT. The committee will come to order.

Good afternoon. This is the Foreign Affairs Subcommittee on the Middle East and South Asia. We appreciate everyone being here this afternoon, and I will begin by making an opening statement. We are going to have votes relatively soon, so we will try to squeeze in as much as we can before we have to run over to make votes.

Since taking office, President Obama has repeatedly emphasized his belief that a resolution of the Israeli-Palestinian conflict is one of America's core interests in the Middle East. Throughout these 3½ years, aid to the Palestinian Authority to assist its state-building effort has consistently remained a central pillar of the administration's policy toward the Israeli-Palestinian conflict.

For years, however, concerns have mounted about deep and widespread corruption within the Palestinian political establishment, including potential fraudulent use of U.S. financial assistance. This hearing has been called to offer members an opportunity to hear testimony on the extent of the corruption, who within the Palestinian political leadership can be trusted and who cannot, how the Palestinian political environment and the state-building effort are affected by corruption, and how the U.S. should respond.

Reading the papers and listening to television news reports, however, one would have the sense that the only barrier to prosperity for Palestinians living in the West Bank and Gaza is Israeli intransigence. We are shown the plight of the Palestinians in Gaza, but instead of highlighting the ways that the Hamas terrorist leadership mismanages the local economy or gives Israel justifiable cause for concern, we are told that an Israeli blockade is to blame. Similarly, instead of calling attention to the omnipresent and insidious corruption within the PLO and Fatah leadership in the West Bank, we are told that Israeli settlements, many of which will surely not

be a part of any future Palestinian state are the true problem, despite the fact that many of these locales employ Palestinian laborers.

Well, I disagree with those points that I just made. If the Arab Spring has taught us nothing else, it has shown us that we must be concerned not just with how governments interact with each other but also with how they treat their own populations. For years, our top priority vis-à-vis Egypt was the regional stability that Mubarak helped to provide, and in exchange for his cooperation, we far too often turned a blind eye to the plight of average Egyptians.

Similarly, our grossly exaggerated emphasis on a final resolution to the Arab-Israeli conflict warped our policy toward countries like Syria. Instead of going after Syria for malign actions like ushering jihadis into Iraq, we allowed our policy to be hostage to the ill-conceived notion that Syrian cooperation in the peace process, no matter how slight, might just break decades of stalemate.

Instead of doing everything possible to promote good governance within Palestinian political parties and institutions, we propped up whoever would go through the negotiating motions, even if time and again he proved unwilling or unable to make peace. We expended all of our influence getting these countries to the negotiating table, and, in exchange for their real or imaginary cooperation, we looked the other way on issues like corruption and bad governance that have proved far more consequential. No longer.

As our witnesses will testify to today, the corruption within the Palestinian political establishment has been endemic for decades. Reports suggest that Palestinian President Mahmoud Abbas, like his predecessor, Yasser Arafat, has used his position of power to line his own pockets as well as those of his cohort of cronies, including his sons, Yasser and Tareq.

The Palestinian Investment Fund, for example, was intended to serve the interests of the Palestinian population and was supposed to be transparent, accountable, and independent of the Palestinian political leadership. Instead, it is surrounded by allegations of favoritism and fraud. President Abbas is reported to have asserted complete control over the fund, filled its board with his own allies, and has rejected all attempts to audit its operations.

Even more disturbingly, Yasser and Tareq Abbas, who have amassed a great deal of wealth and economic power, have enriched themselves with U.S. taxpayer money. They have allegedly received hundreds of thousands of dollars in USAID contracts. This is not to say that they do not have a legitimate right to compete for these contracts, but it does raise questions as to whether they received preferential treatment of any kind as well as if and to what extent they are involved in corrupt practices within their own government.

In addition to strengthening maligned actors, this corruption short circuits any progress that credible leaders, like Prime Minister Fayyad, have been able to achieve. A lack of accountability and transparency undermines the trust of the Palestinian people in their political institutions and renders them ineffective. How can democratic institutions be established or the economic wellbeing of the Palestinian people be advanced if their own leadership is raid-

ing the common coffers? And if one of these leaders, against all empirical evidence, were to be willing to make peace with Israel, which will surely require unpopular even if necessary concessions, how can we expect the Palestinian people to respect an agreement negotiated by a hollow leader devoid of legitimacy among his own people?

The endemic corruption within the Palestinian political establishment must go ignored no longer. Questions must be asked and answers must be demanded, including about our own assistance programs. Our objective cannot and must not be to strengthen whoever recites the same prescribed lines about negotiations. Rather, our policy must aim to empower those leaders who genuinely seek to establish the transparent and accountable institutions of government that will be necessary for any future Palestinian state to be viable and to live side-by-side with Israel in peace, security, and prosperity.

Our policy must aim to empower those who seek to serve the Palestinian people instead of themselves. Peace with Israel is objectively in the interest of the Palestinian people, but only a leader who is willing to put the wellbeing of the Palestinian people ahead of his or her own pocketbook will be willing or able to make the requisite sacrifices. I fear much of the current Palestinian leadership is not up to the task.

And I would now yield to the gentleman from New York, the ranking member of this committee, the very distinguished Mr. Gary Ackerman.

Mr. ACKERMAN. Thank you, Mr. Chairman.

There was a moment in the recent past when corruption may have actually prevented a breakthrough moment in the Israeli-Palestinian peace process. At that moment, but for the fact that one of the leaders of the two peoples was compromised by his own alleged misdeeds catching up to him, things could have turned out very differently. Unfortunately, that leader was Ehud Olmert, Israel's then-Prime Minister, who because of impending corruption charges had announced his intention not to seek reelection only 2 months before putting Israel's third comprehensive peace plan on the table for the Palestinians. The other two peace plans were both offered by current Defense Minister and once Prime Minister Ehud Barak.

And the problem in all three cases is that the Israeli Prime Minister was, politically speaking, a very lame duck. Thus, for the Palestinians, saying "yes" or even "yes, but" would have meant accepting in principle all the downsides a compromise would entail but without having secured any of the benefits, as that would then depend on the outlook of the next Israeli Prime Minister.

The decision not to accept is based on an understandable political calculus, but for the Palestinians it has been a very losing strategy. Avoiding domestic political risk, the consistent choice of Palestinian President Mahmoud Abbas has been a path which has kept him in office but has not achieved any of the Palestinian people's legitimate goals.

And let's be very clear: It is the failure of the Palestinians to say "yes" that has prevented them from having a state of their own—not settlements, not defense, not the Israeli Defense Forces, not the

Israeli right, not Prime Minister Netanyahu, and not anything else. With a bit more courage from their leaders, Palestinians could well be getting ready to celebrate their 10th independence day.

Corruption in the Palestinian Authority is unquestionably serious and in some areas debilitating. But for the Palestinians, it has not been the deciding factor between the ongoing conflict or peace, or at least not in the way that people might expect.

I am reminded of a funny story about an important negotiating session with all the Israeli and Palestinian principals attending. One of the Palestinians in the room, who I will not name—I will just refer to him as "Abu A"—launched into a furious diatribe about Israeli settlement activity and construction of the security barrier, particularly in and around Jerusalem. After a moment, in response, the Israeli Prime Minister simply and with a mysterious smile asked, "Are you sure you want to stop all the construction?" The room was filled with laughter, hardly suppressed, and a lot of snickers. It was well known among all of the principals in the room that the Palestinian advocate, who had just been holding forth so vehemently about the construction being the deterrent to peace, had a major financial interest in the Palestinian cement company that had a monopoly in the cement that was being used for the settlements and the security barrier that the Israelis were constructing in the Jerusalem area.

For ordinary Palestinians, the situation is rather more serious, in that he or she realistically has only two viable political options: Radical, violent Islamic Hamas or feckless, corrupt Fatah. It is not much of a choice and, thus, no surprise that so many Palestinians have given up on their own political system altogether.

But for us, as an interested outside party and as a friend of both sides in the conflict, our interests in the question of corruption are limited to three.

One, in so much as one of the two political factions that favors peace and claims to be willing to accept negotiated settlement of the conflict is compromised—that means corrupt—in the eyes of the Palestinian people, we should be concerned about the possibility that the political option for peace they favor will be likewise undermined. Happily, polling results for nearly a decade show little change in the Palestinian preference for a two-state solution. Less happily, at the same time, an overwhelming number of Palestinians have also concluded that that outcome is also extremely unlikely.

Two, as a major political donor to the Palestinians, we need to be concerned that our aid will be construed as supportive for a corrupt regime. I will say that again. As a major political donor, we need to be extremely concerned that our aid will be construed as support for a corrupt regime. This is a problem not just with Palestinians but, likewise, in many other places of much greater strategic import, like Egypt, Pakistan, Afghanistan, and Iraq.

The fact is, there is no easy answer for this question. We deal with corrupt governments out of necessity, because we need a partner with which to work on problems that reflect our national interests and our national security. Inevitably, dealing with rotten governments taints our reputation and, in the long term, jeopardizes our interests. Unfortunately, the only thing worse than dealing

with rotten governments is trying to preserve and advance our interests should we ignore them.

Three, we need to ensure that our assistance programs are achieving the goals that we set. If it is our intention to improve school attendance or decrease infant mortality or provide potable water and sanitation, then that is what the programs have to do. If they unintentionally wind up enriching loathsome regime figures and boosting the power of people we dislike, then we have a hard choice to make. Is our support for the people outweighed by the unintended, undesirable consequences of that flow?

Obviously, I am not talking about outright corruption, waste, or fraud in our own aid programs. Such outcomes are always unacceptable and never to be tolerated. I am referring to the undesirable consequences of, say, buying concrete from the wrong Palestinian bigwig.

Finally, we need to keep our eyes on the big picture, on where our strategic interests lie. Corruption is bad. Corruption here is bad. Corruption is bad in the P.A. Corruption is bad everywhere. We could all stipulate to that. It is agreed; we don't like it. Once that question is settled, then what? How do we move forward toward a peace that enables Israel to remain secure both as a democratic and Jewish state and for the Palestinians to have a national homeland of their own that poses no threat to others? That is the central question and the point from which our assessments about the seriousness of corruption must begin.

Mr. CHABOT. Thank you very much.

It is the practice of the committee to recognize committee members if they would like to make a 1-minute opening statement.

Mr. Connolly, were you interested in doing such?

Mr. CONNOLLY. Thank you, Mr. Chairman.

And welcome, to our panel.

Mr. Chairman, I would hope that here in the House Foreign Affairs Committee we maintain a tradition of straightforward intellectual pursuit. The title of this subject presupposes an answer. We don't ask about the magnitude of corruption or its impact. We actually say, "Chronic Kleptocracy: Corruption within the Palestinian Political Establishment." That virtually says to anyone reading the title that it is chronic, it is a kleptocracy, not a government, and it permeates Palestinian political establishment.

Now, it seems to me if that proposition were true, that is the purpose of hearing from the panel of expert witnesses. But for us to prejudge the case I think somewhat—more than somewhat—affects the whole tone and tenor of this hearing. And I would hope as we move forward in the future we would be a little more neutral in the wording so we can actually get at the facts.

I certainly want to hear today from our witnesses about to what extent is there corruption, to what extent does that corruption prove an impediment to self-governance, to the prospect of a two-state solution anytime soon, to the fact that we, as Mr. Ackerman indicated, don't yet have Palestinian Government assent to participate in Middle East negotiations, and to what extent this is a barrier for any prospect of efficient service delivery.

And so I would just hope that we try our best to resist the temptation to put the conclusion to a hearing in the title itself as we move forward.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you.

The gentleman's time has expired.

The gentleman from Florida is recognized for 1 minute.

Mr. DEUTCH. Thank you, Chairman Chabot, Ranking Member Ackerman, for holding today's hearing on corruption within the Palestinian political establishment. It is an issue I have been concerned with for sometime now. I believe it warrants our continued attention.

And while there is no doubt that, under the leadership of Prime Minister Fayyad, the P.A. has made great strides in routing out corruption and reforming and restricting its financial system, I remain concerned about aspects of the P.A. that are not under Mr. Fayyad's control and remnants of those who for years profited under the corrupt system of Yassir Arafat.

Reformers like Prime Minister Fayyad have come a long way in building the institutions necessary for a viable Palestinian state, but it is well known that the P.A. faces a massive budget shortfall. Unfortunately, allegations of corruption among those in power continue to be a source of serious concern for the U.S. and other donor states.

Earlier this year, I, along with my colleagues Congresswoman Nita Lowey and Congressman Steve Israel, requested an investigation into U.S. contributions to the Palestine Investment Fund. We are hopeful that an investigation will not only provide a mechanism for accountability of U.S. dollars but provide additional transparency and clarity as to the functions of the PIF. I know that these are issues which our witnesses have investigated, and I look forward to their testimony here today.

Mr. CHABOT. Thank you very much. We appreciate that.

We have been called for votes on the floor. I am told that we are looking at about 40 minutes' worth of votes, so we will be in recess in that period of time. But we will come back promptly and begin with Mr. Abrams' testimony.

Thank you. We are in recess.

[Recess.]

Mr. CHABOT. The committee will come back to order.

We will now have the introduction of our panel here this afternoon. And we will begin with Elliott Abrams, who is the senior fellow for Middle Eastern studies at the Council on Foreign Relations; served as Deputy Assistant to the President and Deputy National Security Advisor in the administration of President George W. Bush, where he supervised U.S. policy in the Middle East for the White House. Prior to this position, Mr. Abrams spent 4 years working for the United States Senate and served in the State Department during the Reagan administration. In 1988, Mr. Abrams received the Secretary of State's Distinguished Service Award from Secretary George P. Shultz for his work in the State Department. Mr. Abrams was educated at Harvard College, the London School of Economics, and Harvard Law School.

And we welcome you here this afternoon.

And our second witness will be Dr. Jonathan Schanzer, who is vice president for research at the Foundation for Defense of Democracies. Previously he worked as terrorism finance analyst at the U.S. Department of the Treasury. He has worked for several think tanks, including the Washington Institute for Near East Policy, the Jewish Policy Center, and the Middle East Forum. Dr. Schanzer earned his Ph.D. from Kings College London, where he wrote his dissertation on the U.S. Congress and its efforts to combat terrorism in the 20th century.

And we welcome you here, as well, Doctor.

And our final witness will be Jim Zanotti, who is a specialist in Middle Eastern affairs at the Congressional Research Service. Since joining CRS in 2008, Mr. Zanotti has provided objective and nonpartisan research and analysis on the Middle East to Members, committees, and staff of both houses of Congress. He specialized in Palestinian, Israeli, and Turkish affairs. In 2010, he was detailed to the Pentagon as a Turkey and Romania policy desk officer for the Office of Secretary of Defense. From 2007 to 2008, Mr. Zanotti was a Bosch Transatlantic Fellow in Berlin, which included time working on Middle East issues for a leading member of the German Bundestag. Mr. Zanotti holds a B.A. In history from the University of Southern California, a J.D. From Harvard Law School, and an M.A. In international peace and conflict resolution from American University.

And we welcome you here, as well, Mr. Zanotti.

And we will have 5 minutes for each witness. I am sure you are familiar with the lighting system here. A yellow light will come on when you have 1 minute to wrap up. When the red light comes on, we would appreciate if you would wrap up. We usually give a little leeway, but if you could stay within that, we would appreciate it.

And without further ado, Mr. Abrams, you are recognized for 5 minutes.

STATEMENT OF THE HONORABLE ELLIOTT ABRAMS, SENIOR FELLOW, COUNCIL ON FOREIGN RELATIONS

Mr. ABRAMS. Thank you, Mr. Chairman, for the invitation to appear before the subcommittee. Thank you, Mr. Ackerman. I apologize for this cold. I am counting on 4 minutes of testimony and a minute of coughing. It should even out at the end.

I wanted to say that I guess I don't agree with Mr. Connolly, in the sense that we all know the magnitude of this problem. In my written testimony, I mentioned the famous cement issue that Mr. Ackerman mentioned and which has been—it was actually 20,000 tons of cement that was bought from Egypt, and the purpose was to rebuild buildings in Gaza, but it ended up in Ashkelon and then on to build what the Palestinians were then calling the Apartheid Wall. And I won't identify "Abu A" any more than the ranking member did.

But this is a serious problem. Polls have shown recently that more than 80 percent of Palestinians think it is a serious problem. And it matters politically, too, because if you have a government that is not elected—and, as you know, they haven't had elections since 2006, so everybody's term is up—and it is viewed as corrupt,

the legitimacy necessary to rule and the legitimacy necessary to compromise in any negotiation simply are not there.

Nor are we allowed to talk about corruption. Just an example of this: In 2008, there was a Web site covering corruption matters. It was simply blocked by the Palestinian Authority. President Abbas issued an order to block the site after dozens of articles about corruption had appeared. And the Web site did an article about this called, "The Ramallah Banana Republic."

There have been efforts against corruption by Prime Minister Fayyad since he became Prime Minister in 2007 and even before that when he was Finance Minister. But I think you would have to say, in the last year, maybe 2 years, his efforts have been circumscribed, and his powers are not as great as they were a couple of years ago.

People point to two things that have happened recently as signs that, oh, it is getting better. The anticorruption court convicted Mohammed Rashid, who had been a financial advisor to Yassir Arafat, but he hasn't really been a figure of importance in Ramallah since Arafat died in 2004. He is on the outs. So convicting him really is more like vengeance against an unpopular figure than it is really taking on corruption on the inside.

This month, there were 150 arrests made in the West Bank, a kind of police sweep. And The Jerusalem Post reported, this is a crackdown on crime and corruption in the West Bank. I am not so sure about that. Maybe it is a crackdown on crime. I don't see it as a crackdown on corruption in the Fatah Party. And, again, it seems more like one faction against another.

You have mentioned in your opening statement, Mr. Chairman, the sons of President Abbas, and you mentioned the Palestine Investment Fund. And I think it is really important that that investigation of the PIF go forward. It was removed from Fayyad's oversight, from the oversight of the finance ministry a couple of years ago. I can't believe that the reason for that removal is anything positive.

Final point: What are we doing about this in our aid programs? I took a look at our AID programs and our MEPI programs, and on their Web sites they list all the things they are involved in, all of which are, I think, quite beneficial. But the word "corruption" does not appear. And if you ask, people will say, well, some of the governance programs deal with corruption, help deal with corruption. But what are Palestinians to conclude if we don't have what we call an anticorruption program, what is labeled and named an anticorruption program?

If the suggestion is, in their minds, that we don't really want to talk about this, we don't think it is all that important, we don't want to have any visible AID or MEPI or other U.S. Government programs against it, that suggests that we are uninterested or at least we are minimizing it, which I think is a huge mistake for us for the reasons that all of you have already mentioned.

So I think you are zeroing in, in this hearing, on a very serious issue, a key one for you as authorizers of assistance and key for anybody who wants to see the development of a responsible, transparent, democratic government in the West Bank.

Thank you.

Mr. CHABOT. Thank you very much.
[The prepared statement of Mr. Abrams follows:]

COUNCIL on FOREIGN RELATIONS

July 10, 2012

Chronic Kleptocracy: Corruption Within the Palestinian Political Establishment

Prepared statement by
Elliott Abrams
Senior Fellow for Middle Eastern Studies
Council on Foreign Relations

Before the
Committee on Foreign Affairs, Subcommittee on Middle East and South Asia
United States House of Representatives
2nd Session, *112*th Congress

Hearing on Chronic Kleptocracy: Corruption Within the Palestinian Political Establishment

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to appear before the Subcommittee.

The subject you address today is of great interest not only to American taxpayers, but to Palestinians as well. While you may be criticized in some quarters, including in Ramallah, for this hearing, a poll taken this past May by a Palestinian NGO, the Jerusalem Media and Communications Center, revealed that over 82 percent of Palestinians believe there is corruption in the Palestinian Authority (PA). [http://www.jmcc.org/documentsandmaps.aspx?id=855]

In fact corruption is an insidious destroyer not only of Palestinian public finance but of faith in the entire political system. And it has certainly had an impact on potential donors. I can tell you from my own experience, as an American official seeking financial assistance for the PA from Gulf Arab governments, that I was often told "why should we give them money when their officials will just steal it?"

This was the case for a very long time under the leadership of Yasser Arafat. He was notoriously corrupt, using public funds--funds donated to the Fatah party, to the PLO, or later to the PA-- for his own purposes, which ranged from buying an expensive life style in Paris for his wife, to buying and retaining the support of Palestinian politicians, to

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paying for the thirteen so-called "security" organizations he ran-- organizations that Prime Minister Sharon used to call "security-terror organizations."

And we, the United States among other Western donors, were actually complicit in all that corruption. We persuaded ourselves that it was smart to overlook it, to make believe it was a minor peccadillo of no real weight or import. The Clinton administration invited Arafat to the White House thirteen times, more times than any other foreign visitor, and you can be sure that among the many possible subjects being discussed his personal corruption did not appear on the list. That was a very damaging position for our country to take, for it just encouraged even more corruption. It signaled to Palestinians who were disgusted with public corruption that we were not interested and were not going to hold Arafat to account. And it was condescending, suggesting that we thought Arabs, or Palestinian Arabs, could not really be expected to have honest public institutions.

Perhaps the apogee of the corrupt practices came in 2002-2004, when Israel began building the security barrier separating it from the West Bank to prevent terrorism. Officially, the PA called this the "apartheid wall," but while the barrier was being denounced it was apparently being built with Palestinian cement, corruptly diverted to that purpose by PA officials. As the account of the Palestinian Human Rights Monitoring Group, a Palestinian NGO, put it:

"thousands of tons, nearly 20,000, of cement, imported from Egypt for rebuilding Palestinian homes and buildings devastated by years of Israeli Defense Forces (IDF) incursions and destructions, particularly in the Gaza Strip where entire areas were completely demolished, had been resold at huge profits to the Israelis for use in constructing Israel "apartheid" separation barriers and settlements throughout the West Bank territory. The cement was trucked through two border crossings between Sinai and the Gaza Strip but, instead of going to the Gaza Strip, it ended up in the Israeli town of Ashkelon."[http://www.phrmg.org/Corruption%20in%20the%20Palestinian%20Authority.htm]

We have progressed since those days, but not far enough. Listen to the words of the man who was charged with rooting out public corruption, Fathi Shabaneh, and who resigned in 2010:

"In his pre-election platform, President Abbas promised to end financial corruption and implement major reforms, but he hasn't done much since then. Unfortunately, Abbas has surrounded himself with many of the thieves and officials who were involved in theft of public funds and who became icons of financial corruption." [http://www.jpost.com/MiddleEast/Article.aspx?id=167194]

We saw an example of this in 2008, when a web site that was covering corruption matters was simply blocked by the PA. "Abbas issued the order to block the site without any due process, legal notice or opportunity for defense," the web site, Donia al-Watan, claimed, saying it had published dozens of stories about corruption between 2003 and 2008-- and noting that even in the Arafat years the editors of the site would get complaints but never be totally shut down. The web site's article about all of this was entitled "The Ramallah Banana Republic." [http://electronicintifada.net/content/ramallah-palestinian-authority-blocks-website-reporting-corruption/7814]

Now, we know that a major effort against corruption has been made by Prime Minister Salam Fayyad since he took office in 2007, and indeed before then as Finance Minister. Shabaneh's evaluation was that "Salam Fayyad is a good man and I have a lot of respect for him. He's really working to build professional institutions and good government, but the corrupt Fatah people around Abbas are doing their utmost to thwart his efforts." And unfortunately, in the last year we have seen the authority of President Abbas and of Fatah grow, while I believe that of Prime Minister Fayyad has been circumscribed.

More recently, the PA's anti-corruption court convicted Mohammed Rashid, the former financial adviser of Yasser Arafat, of various offenses. Yet this event is not particularly reassuring. Rashid hasn't been a figure of importance

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since Arafat's death in 2004, and has rarely even visited the West Bank since then. He was convicted in part because he never appeared or mounted a defense--and in part because he is associated with a man who is now out of favor with the powers that be in Ramallah, the former security chief Mohammed Dahlan. Indeed Rashid is the only person of influence ever convicted of corruption, while dozens of investigations of people who today have clout have ended up being dropped.

"It looks like a reaction to a political dispute, not a continuous fight against corruption. Why Mohammed Rashid now?" Hani al-Masri of the Palestinian Center for Policy Research and Strategic Studies told the *Washington Post*. "The act would be more powerful if it were taken against someone inside the political system," he quite rightly said. [http://www.washingtonpost.com/world/palestinian-anti-corruption-court-secures-conviction-but-raises-questions-of-bias/2012/06/20/gJQAySXjpV_story.html]

This month, about 150 arrests have been made in the West Bank in some kind of sweep. The *Jerusalem Post* reports that "An ongoing Palestinian Authority crackdown on crime and corruption in the West Bank, including the arrest of senior security officers, is being viewed in Israel as a milestone for the PA as it imposes its rule and authority throughout the territory." [http://www.jpost.com/LandedPages/PrintArticle.aspx?id=275952] I am not so sure this is accurate. For the PA, and Fatah, to assert authority may be a good thing if it involves suppressing common crime, but that does not mean it is related to the fight against Fatah corruption. These arrests may be a form of progress, but may equally or more likely be a form of retribution by one faction against another.

There are a number of significant matters related to corruption that deserve real investigations, such as the business activities of the sons of President Abbas. He has been particularly allergic to such inquiries, and his reaction to allegations has often been swift--and illegal. Nor has there been a genuine investigation into the PIF, the Palestine Investment Fund, whose board of directors has been accused of self-dealing. That 82 percent of Palestinians who see corruption in the PA will not be reduced until there are real investigations into serious allegations.

But the challenge here is not only to President Abbas, and to the PA. It is, for one thing, a challenge to the Fatah Party, whose future ability to defeat Hamas is surely tied to public perceptions of whether it remains a home to corruption. And it is a challenge to us, to the United States. If we turn a blind eye to corruption, and to persecution of those who expose it, we are in a very real way contributing to the problem and undermining those Palestinians who wish to build public integrity into their system. It is widely understood that donors, in the Arab states and Europe as well as we ourselves, look favorably on Prime Minister Fayyad. But that is not enough, nor can we pick leaders for the Palestinians; support for Fayyad is not a sufficient policy. I urge the Subcommittee to abandon our own history of applying double standards and overlooking corruption, and instead build anti-corruption efforts and evaluations into our own aid program.

In preparation for this hearing I took another look at our assistance program, run by USAID. AID's summary is as follows:

"USAID supports the development of institutions necessary for a future Palestinian state by promoting the rule of law, increasing civic engagement, and enhancing respect for human rights. These initiatives will support the capacity of the Palestinian Authority (PA) to meet constituents' needs, enhancing its ability to serve effectively as a governing body. Toward this end, USAID worked closely with PA ministries to create 16 modern service centers that issue basic documents to Palestinian citizens. In the justice sector, USAID supported the establishment of the first Palestinian Judicial Institute and helped the Palestinian Ministry of Finance create systems that increased property tax collection by 56 percent. Customer satisfaction with government services has increased by an average of 14 percent since 2009."

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Then AID lists three projects: the Civic Engagement Program, which "Through community-focused grants, this program aims to improve the quality of life for Palestinians and to increase confidence in the Israeli-Palestinian peace process;" the Civic Participation Program, which "is intended to support citizen engagement with the Palestinian Authority (PA);" the Palestinian Authority Capacity Enhancement Project, which "is strengthening the institutional capacity of PA ministries and institutions, including the Ministry of Finance, the Ministry of Transportation, the Ministry of Public Works and Housing, the Ministry of Interior, and the Ministry of Telecommunication and Information Technology;" and the Palestinian Justice Enhancement Program, which "strengthens public confidence and respect for justice sector institutions and the rule of law in the West Bank and Gaza."

I also looked at the Middle East Partnership Initiative, whose web site states that "MEPI projects in the West Bank and Gaza support capacity-building, good governance, and political party reform projects. Important strides have been made to upgrade the technical capacities of Palestinian media and to increase educational opportunities for Palestinian youth. Additionally, MEPI activities are helping women and young people become more engaged in Palestinian civil society."

Missing there for MEPI, and for USAID, is even the word "corruption." Are we taking this issue sufficiently seriously if, as appears to be the case, we have not one program dedicated to fighting corruption and to assisting those Palestinians who are doing so, for example in NGOs? I urge you to put this question to the responsible officials. The response may be that, hidden in some of the programs I have just mentioned, there is an anti-corruption element. But if so, why is it hidden? Why do we not make it a stated and central goal of our aid?

Mr. Chairman, I believe you are zeroing in on a most serious issue in this hearing--key for you as authorizers of assistance, and key for all of us who wish to see the development of responsible, transparent, democratic governance in the West Bank.

Thank you for holding this hearing and for the opportunity to appear today.

4

Mr. CHABOT. And, Dr. Schanzer, you are recognized for 5 minutes.

STATEMENT OF JONATHAN SCHANZER, PH.D., VICE PRESIDENT FOR RESEARCH, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. SCHANZER. Chairman Chabot, Ranking Member Ackerman, members of the subcommittee, on behalf of the Foundation for Defense of Democracies, I thank you for holding this important hearing.

I have recently devoted months of research to this problem of Palestinian corruption. I believe the problem is pervasive, and I also believe that it is, to some extent, one of our own making. After the Palestinian civil war of 2007, during which Hamas overran the P.A. and seized control of Gaza, Washington panicked. We threw all of the resources at our disposal at Mahmoud Abbas in the belief he was the moderate alternative to a terrorist organization. Yet, in providing him with the cash, intelligence, military assistance, and other valuable services to shore up his rule, we convinced Abbas there was virtually nothing he could do to shake our support. And over the last 5 years, he has consolidated both economic and political power.

In recent months, however, Abbas has come under fire for corruption from within. A recent poll indicates that no less than 71 percent of West Bankers believe the Abbas government is corrupt. This is for good reason. Abbas silences political opponents. His forces crush protests and arrest writers who criticize him. His government shuts down Web sites that make allegations against him. Meanwhile, his allies and family members have benefited handsomely from his rule. I summarize these problems in my written testimony.

Mr. Chairman, I would like to speak for a moment about Mahmoud Abbas' sons, Yasser and Tareq. On June 5, I wrote an article for Foreign Policy that identified some of the business holdings, based on online sources, of these two individuals. Since then, someone has removed some of the Web sites that I cited.

But there is more to uncover. I recently spoke with a current foreign intelligence official and two former U.S. intelligence officials who confirmed and shared additional information relevant to this testimony. According to these officials, in 2009 the P.A. granted diplomatic passports to two business partners of the Abbas brothers, Issam and Devincci—also known as Assem—Hourani.

The Israeli press covered aspects of the story in 2011, but according to these intelligence officials, it did not report that Yasser Abbas worked with Devincci Hourani to pursue an oil business in Sudan called Caratube International Oil Company, otherwise known as CIOC. Devincci Hourani and Yasser Abbas, according to these officials, received "help from the Palestinian Authority Ambassador to Sudan to win three oil blocks on behalf of CIOC."

The intelligence officials suggest that the Sudan operation may be a violation of U.S. sanctions because Devincci could be a U.S. citizen. The intelligence officials note that Devincci Hourani "partnered with Yasser Abbas to initiate other business projects in Sudan, including construction of a hotel and other real estate

projects." The officials further add that Yasser and Tareq have "been in continuing contact with the Hourani brothers about business opportunities in Kazakhstan, the Ukraine, and Montenegro." Open source information about these businesses, if they are active, is not readily accessible.

Mr. Chairman, shifting gears, in congressional testimony last year I raised concerns about the Palestine Investment Fund. Since then, I have had several discussions with PIF's representation in Washington. Without getting too detailed, my most serious lingering concerns stem from indications that the fund is not as transparent as it was first intended to be.

But there is also the question of PIF operations in Gaza. PIF claims to have ceased working there after Hamas seized its assets in 2011, but an official at the American International School in Gaza now claims that PIF representatives have "taken over the office of a vice principal." Admittedly, PIF owns the school through a subsidiary, but if PIF maintains a presence in Hamas-controlled Gaza, it requires an explanation. PIF should also explain the Fund's presence in a school receiving USAID funds. PIF counsel has indicated that they will look into this matter.

There are more issues to raise, but I will wrap up in the interest of time. Mr. Chairman, Washington should first acknowledge there is a problem. The consulate in East Jerusalem knows what is happening, but the State Department has yet to openly address this issue. If steps are not immediately taken, Hamas will exploit the problem. Hamas, after all, won the 2006 elections on a campaign that centered on fighting corruption, and frustrations over corruption fueled the Arab uprisings that recently toppled several leaders.

The Palestinians must know that Israel is not the only obstacle to independence. If self-governance is the goal, they must also grapple with corruption. Washington can also leverage its $600 million in annual aid. We squander our influence if we fail to withhold portions of this aid when we identify areas of corruption and restore it only when the problems are addressed.

Finally, with enough political will, Congress could even press for an Executive order on Palestinian corruption. This would send a signal to violators that Washington will no longer tolerate this problem.

Mr. Chairman, thank you again for the opportunity to testify.

Mr. CHABOT. Thank you very much.

[The prepared statement of Mr. Schanzer follows:]

Congressional Testimony

Chronic Kleptocracy

Corruption Within The Palestinian Political Establishment

Jonathan Schanzer, PhD
Vice President of Research
Foundation for Defense of Democracies

Hearing before House Committee on Foreign Affairs
Subcommittee on the Middle East and South Asia

Washington, DC
July 10, 2012

1726 M Street NW • Suite 700 • Washington, DC 20036

Jonathan Schanzer July 10, 2012

Chairman Chabot, Ranking Member Ackerman, and distinguished members of the subcommittee, on behalf of the Foundation for Defense of Democracies, I thank you for the opportunity to discuss the problem of Palestinian corruption.

Over the last 10 months, I have devoted the majority of my research to this very topic, but it has only come to light recently, thanks to several scandals, how pervasive the issue has become.

Unfortunately, this problem is, to some extent, one of our own making. In the aftermath of the Hamas coup in Gaza in 2007, during which the terrorist group overran the Palestinian Authority (PA) and seized control of the territory, Washington panicked. We threw all of the resources at our disposal at Mahmoud Abbas, in the belief that he was the moderate alternative to Hamas. Yet in providing him with cash, intelligence, military assistance, and other valuable services to shore up his rule, we convinced Abbas that there was virtually nothing he could do, short of starting a war with Israel, that could prompt Washington to challenge his authority.

Over the last five years, Abbas' rule has reflected his complete sense of security. He has refused to engage in bilateral talks with the Israelis. He has attempted to declare a state unilaterally—outside the scope of the Palestinians' international agreements—at the United Nations. And in the process, he has consolidated both economic and political power to the extent that few, if any, Palestinians can challenge his rule. The West, consumed with other challenges, including a teetering European economy, Iran's nuclear program, and the Arab Spring, has given Abbas a free pass.

In recent months, however, Abbas has come under fire, facing charges of corruption from within his own ranks. A recent poll indicates that no less than 71 percent of West Bank residents believe that government institutions under Abbas are corrupt.[1] In other words, the Palestinian people are keenly aware that Abbas has hoarded political and economic power. Unfortunately, Washington's foreign policy elites are largely unaware of the problem, or have chosen to ignore it. It is for this reason that I commend the subcommittee for holding this hearing. I hope we can begin to shed light on a problem that threatens the viability of both the Palestinian Authority and a two-state solution with Israel. If the problem goes unsolved and Palestinian frustration festers, it could threaten regional stability.

"Corruption Wars"

In May 2012, the PA announced that it would try Mohammed Rachid, a former economic advisor to late Palestinian leader Yasser Arafat, for corruption and embezzlement.[2] The PA charged Rachid with stealing tens of millions of dollars from its coffers—a charge he

[1] "Palestinian Public Opinion Poll No. 44," Palestinian Center for Policy and Survey Research, June 25, 2012, www.pcpsr.org/survey/polls/2012/p44epressrelease.html.
[2] Karin Laub and Mohammed Daraghmeh, "Arafat's Moneyman Targeted in Corruption Probe," *Associated Press*, May 16, 2012, http://news.yahoo.com/arafats-moneyman-targeted-corruption-probe-173916721.html.

denies. In a lightning trial on June 7, Rachid was found guilty in absentia, fined $15 million, and sentenced to 15 years of hard labor.[3]

The trial was not necessarily about justice. It was the result of a personal dispute between Abbas and Rachid.[4] Abbas ordered the investigation and trial of Rachid at least partly out of a grudge dating back to the peace talks during the waning days of the Clinton era.[5] In that intense period, Rachid advocated negotiating with Israel, while Abbas called diplomacy a "trap that was laid for us."[6] Abbas also resented Rachid for being an Iraqi Kurd—not even a Palestinian—who gained Arafat's trust and became part of his inner circle, while Abbas was on the outside looking in. According to a former Palestinian advisor, "There was a huge amount of jealousy."[7]

The feud now continues online. Through the anti-Abbas website InLight Press, Rachid has fired back, charging Abbas and his inner circle with a litany of wrongdoings. Other websites have made similar allegations. While these charges are difficult to verify, they have unquestionably rattled the Palestinian leadership. The following represent a sample:

- In early June 2012, Rachid charged that Abbas's Fatah maintained a secret bank account in Jordan worth $39 million. According to Rachid, who claims he has documents proving his allegations, Abbas and two close associates are the only ones with access to the account, which contains at least $13 million provided by the United States. $5 million from the fund was apparently allocated for Fatah's most recent conference in 2009, but the rest allegedly serves as a slush fund.[8]

- Another allegation, made by the anti-Abbas website Kofia Press, claims that Abbas sold property belonging to the Palestine Liberation Organization (PLO) in Lebanon that was worth $20 million for no less than $160 million.[9] While not stated outright, it is implied that this was a case of money laundering.

- Writing for InLight Press, Rachid alleged that the Abbas family owns lavish properties worth more than $20 million in Gaza, Jordan, Qatar, Ramallah,

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[3] Isabel Kershner, "Middle East: Sentence for Former Adviser to Arafat," *The New York Times*, June 7, 2012, www.nytimes.com/2012/06/08/world/middleeast/sentence-for-former-adviser-to-arafat.html.
[4] Karin Brulliard, "Palestinian Anti-Corruption Court Secures Conviction But Raises Questions of Bias," *The Washington Post*, June 20, 2012, www.washingtonpost.com/world/palestinian-anti-corruption-court-secures-conviction-but-raises-questions-of-bias/2012/06/20/gJQAySXjpV_story.html.
[5] Hugh Naylor, "Palestinians' Enforcers Work Together 'to Crush Dissent'," *The National*, June 27, 2012, www.thenational.ae/news/world/middle-east/palestinians-enforcers-work-together-to-crush-dissent#full.
[6] "Abu Mazen: Had Camp David Convened Again, We Would Take the Same Positions Part II," *The Middle East Media Research Institute*, Special Dispatch No. 250, August 6, 2001, www.memri.org/report/en/0/0/0/0/0/0/490.htm.
[7] Phone interview with former Palestinian Authority advisor, June 4, 2012.
[8] Khaled Abu Toameh, "'Fatah Has Secret Bank Account in Jordan'," *The Jerusalem Post*, June 9, 2012, www.jpost.com/MiddleEast/Article.aspx?id=273253.
[9] "Documents... Where Did Abbas Deposit An Amount of $160 Million?," *Kofia Press*, June 11, 2012, www.kofiapress.net/ar/node/107838.html. (Arabic)

Tunisia, and the UAE.[10] Rachid has also claimed that Abbas has pocketed at least $100 million in ill-gotten gains.[11]

The Sons of Mahmoud Abbas

While Abbas prosecutes Rachid for conspicuous wealth, he conveniently avoids the controversy surrounding his own sons, Yasser and Tarek, who became rather well known in 2009, when Reuters published a series of articles tying them to significant business deals, including a few that were funded in part by U.S. taxpayers.

Yasser, the elder son, owns Falcon Tobacco, which reportedly enjoys a monopoly on several tobacco products in the Palestinian territories.[12] According to the *Toronto Star*, Yasser also chairs Falcon Holding Group,[13] a Palestinian corporate conglomerate that owns Falcon Electrical Mechanical Contracting Company (also called Falcon Electro Mechanical Contracting Company, or FEMC),[14] an engineering interest that was established in 2000 and boasts offices in Gaza, Jordan, Qatar, the United Arab Emirates, and the West Bank.[15] This business success has come with a helping hand from Washington. According to a Reuters report, in 2005, Yasser Abbas' company received $1.89 million from USAID to build a sewage system in the West Bank town of Hebron.[16]

According to Yasser's biography, other arms of Falcon Holding Group include Falcon Global Telecommunication Services Company and Falcon General Investment Company, companies about which less is known.[17] Yasser boasted to an Emirati magazine in 2009 that the Falcon companies' revenues totaled some $35 million per year.[18]

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[10] Mohammed Rachid, "Abbas and His Mufti," *InLight Press*, May 26, 2012, www.inlightpress.com/index.php?option=com_content&view=article&id=16153:2012-05-26-16-47-53&catid=59:2011-07-04-18-42-19&Itemid=302. (Arabic)

[11] Khaled Abu Toameh, "Former Arafat Aide Rashid Says Abbas Worth $100m," *The Jerusalem Post*, June 14, 2012, www.jpost.com/MiddleEast/Article.aspx?id=273778.

[12] Khaled Abu Toameh, "PA Officials Scandalized at Disclosure by Abbas's Son of Vast Personal Fortune," *The Jerusalem Post*, April 16, 2009, www.jpost.com/MiddleEast//Article.aspx?id=139339. Also see: Oakland Ross, "Canadian Links Us to Palestinian Political Elite," *The Toronto Star*, April 27, 2009, www.thestar.com/article/624798--canadian-links-us-to-palestinian-political-elite.

[13] Oakland Ross, "Canadian Links Us to Palestinian Political Elite," *The Toronto Star*, April 27, 2009, www.thestar.com/article/624798--canadian-links-us-to-palestinian-political-elite.

[14] Adam Entous, "USAID Contracts With Firms Headed by Abbas's Sons," *Reuters*, April 22, 2009, http://uk.reuters.com/article/2009/04/22/idUKLV965456.

[15] "About Us," *Falcon Electro Mechanical Constructing Company Website*, Accessed July 5, 2012, www.falconemc.com/profile/profile.html.

[16] Adam Entous, "EXCLUSIVE-Firms Run by President Abbas's Sons Get U.S. Contracts," *Reuters*, April 22, 2009, www.reuters.com/article/2009/04/22/us-palestinians-aid-abbas-idUSTRE53L2Q220090422.

[17] "Corporate," *First Option Project Construction Management Company Website*, Accessed July 5, 2012, http://webcache.googleusercontent.com/search?sugexp=chrome,mod=12&sourceid=chrome&ie=UTF-8&q=cache%3Ahttp%3A%2F%2Fwww.firstoptionem.com%2Fen%2Ftabid%2F59%2FDefault.aspx.

[18] Khaled Abu Toameh, "PA Officials Scandalized at Disclosure by Abbas's Son of Vast Personal Fortune," *The Jerusalem Post*, April 16, 2009, www.jpost.com/MiddleEast//Article.aspx?id=139339.

And the Falcon group doesn't even account for everything. Yasser is listed by the New York-based financial database CreditRiskMonitor.com as the chairman[19] of the publicly traded Al-Mashreq Insurance Company,[20] with 11 offices across the Palestinian territories.[21] The company is valued on the Palestinian stock exchange at $3.25 million.[22]

Finally, Yasser is managing director of the First Option Project Construction Management Company, whose website (recently taken down) suggests that it does public works projects, such as road and school construction, on behalf of the Palestinian Authority.[23] First Option employs at least 15 people in offices in Amman, Tunis, Cairo, Montenegro, and Ramallah.[24] This enterprise has also benefited from U.S. government support. As Reuters reported, between 2005 and 2008, First Option was awarded nearly $300,000 in USAID funds.[25]

The president's son is certainly entitled to do business in the Palestinian territories. But the question is whether there is a conflict of interest. Yasser has reportedly served in an official capacity for the PA, including as a special envoy to Canada in 2007,[26] and Kazakhstan in 2008. [27] According to a former Bush administration official, Yasser "regularly accompanies his father on official travel."[28]

Tarek Abbas appears less inclined than his older brother to take part in Palestinian politics, but is just as ambitious in business. His principal enterprise, Sky Advertising, had 40 employees and earned $7.5 million in sales in 2010.[29] Once again, the firm has worked with the U.S. government. Reuters reported in 2009 that Sky received a USAID

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[19] "Al Mashreq Insurance Company PLC," *CreditRiskMonitor.com,* Accessed July 5, 2012, www.crmz.com/Report/ReportPreview.asp?BusinessId=11274114.
[20] "Al Mashriq Insurance Company," *Zawya,* Accessed July 5, 2012, www.zawya.com/middle-east/company/profile/1005909/.
[21] "Al Mashriq Insurance Company," *Sahem Trading and Investments Company,* Accessed July 5, 2012, www.sahem-inv.com/listing.php?company=30.
[22] "Al Mashriq Insurance Company," *Zawya,* July 5, 2012, www.zawya.com/company/quote/1005909/Al_Mashriq_Insurance_Company/MIC.PSE/.
[23] "Projects," *First Option Project Construction Management Company Website*, Accessed July 5, 2012, http://webcache.googleusercontent.com/search?sugexp=chrome,mod=12&sourceid=chrome&ie=UTF-8&q=cache%3Ahttp%3A%2F%2Fwww.firstoptioncm.com%2Fen%2Ftabid%2F56%2FDefault.aspx
[24] "Contacts," *First Option Project Construction Management Company Website*, Accessed July 5, 2012, http://webcache.googleusercontent.com/search?q=cache:http://www.firstoptioncm.com/en/tabid/62/Default.aspx.
[25] Adam Entous, "EXCLUSIVE-Firms Run by President Abbas's Sons Get U.S. Contracts," *Reuters,* April 22, 2009, www.reuters.com/article/2009/04/22/us-palestinians-aid-abbas-idUSTRE53L2Q220090422; Adam Entous, "FACTBOX - USAID Contracts With Firms Headed by Abbas's Sons," *Reuters,* April 22, 2009, http://uk.reuters.com/article/2009/04/22/uk-palestinians-contracts-sb-idUKTRE53L2R120090422.
[26] Oakland Ross, "Canadian Links Us to Palestinian Political Elite," *The Toronto Star,* April 27, 2009, www.thestar.com/article/624798--canadian-links-us-to-palestinian-political-elite.
[27] "Cooperation of the Republic of Kazakhstan with the State of Palestine," *Ministry of Foreign Affairs of the Republic of Kazakhstan,* May 16, 2012, http://portal.mfa.kz/portal/page/portal/mfa/en/content/policy/cooperation/asia_africa/16.
[28] Phone interview with former George W. Bush administration official, June 4, 2012.
[29] "Annual Report 2010," *Arab Palestinian Investment Company Website,* Accessed July 5, 2012, www.apic-pal.com/pdfs/annual_english2010.pdf.

grant of approximately $1 million to bolster public opinion of the United States in the Palestinian territories.[30]

Tarek is also listed by the Arab Palestinian Investment Company (APIC), as the vice chairman of "Arab Shopping Centers."[31] This is presumably shorthand for the Arab Palestinian Shopping Center Company, valued on the Palestine Exchange at $4.2 million.[32] The company, a project of APIC, now has two shopping centers, three supermarkets, and two indoor play facilities in the West Bank.[33]

I should note that since I first published this information about the Abbas brothers on Foreign Policy.com on June 5, someone has undertaken the effort to remove some of the websites listed here.[34] In response to my article, Yasser Abbas has also reportedly threatened legal action.[35] But all this information was gleaned from readily available sources online.

New Information on the Abbas Brothers

Since publishing that piece on June 5, I have also had conversations with a current foreign intelligence official and two former US intelligence officials with additional information about the Abbas brothers' international operations.

According to information supplied and confirmed by these officials, the Palestinian Authority granted diplomatic passports in 2009 to two business partners of the Abbas brothers: Issam and Devincci (Assem) Hourani. The passports, according to these officials, "entitle them to travel internationally with immunity" normally afforded to Palestinian diplomats. The Israeli press covered aspects of this story in 2011.[36]

According to the intelligence officials, Yasser Abbas worked with Devincci Hourani to pursue an oil business in Sudan called Caratube International Oil Company (CIOC). The company also appears to have an office in Kazakhstan.[37]

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[30] Adam Entous, "FACTBOX - USAID Contracts With Firms Headed by Abbas's Sons," *Reuters,* April 22, 2009, http://uk.reuters.com/article/2009/04/22/uk-palestinians-contracts-sb-idUKTRE53L2R120090422.
[31] "Tarek Abbas," *Arab Palestinian Investment Company Website,* Accessed July 5, 2012, www.apic-pal.com/articlepage.php?artid=64.
[32] "Arab Palestinian Shopping Centers Company," *Zawya,* Accessed July 5, 2012, www.zawya.com/company/quote/474038/Arab_Palestinian_Shopping_Centers_Company/PLAZA.PSE/.
[33] "The Arab Palestinian Shopping Centers Company PLC - PLAZA," *Arab Palestinian Investment Company Website,* Accessed July 5, 2012, www.apic-pal.com/articlepage.php?artid=52.
[34] Jonathan Schanzer, "The Brothers Abbas," *Foreign Policy,* June 5, 2012, www.foreignpolicy.com/articles/2012/06/05/the_brothers_abbas.
[35] "Abbas Son Says to Sue US Magazine Over Wealth Claims," *Ma'an News Agency,* June 12, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=494599.
[36] Nir Yahav, "Abu Mazen Gave Diplomatic Passports to Wanted Persons," *Walla,* June 29, 2011, http://news.walla.co.il/?w=/13/1836033 (Hebrew); Ohad Hemo, "Abu Mazen Gave Wanted Persons Diplomatic Passports," *Channel 2,* June 28, 2011, www.mako.co.il/news-military/israel/Article-c6ce879b847d031004.htm&reason=0. (Hebrew)
[37] *Caratube International Oil Company Website,* Accessed July 9, 2012, http://caratubekz.com/.

Devincci Hourani and Yasser Abbas, according to these officials, received "help from the Palestinian Authority ambassador to Sudan [Sayed al-Masri] to win three oil blocks on behalf of CIOC."

The US and foreign officials suggest that the operation in Sudan may be a violation of US sanctions laws because Devincci is believed to be an American citizen.

The intelligence officials also note that Devincci Hourani has "partnered with Yasser Abbas to initiate other business projects in Sudan, including construction of a… hotel and other real estate projects."

The officials further add that the "sons of Mahmoud Abbas have also been in continuing contact with the Hourani brothers about business opportunities in Kazakhstan, the Ukraine, and Montenegro."[38] Open source information about these businesses, if they are active, are not readily accessible online.

The Palestine Investment Fund

In my testimony before the House Foreign Affairs Committee last September, I raised concerns about the Palestine Investment Fund (PIF).[39] After that testimony, I received a somewhat threatening letter from the Fund's Washington-based counsel. We have had several productive discussions about my findings, including one with the fund's chief investment officer, who has also spent time talking to influential staffers on Capitol Hill.

Without getting into too much detail, my most serious lingering concerns stem from indications that the fund is not as transparent or independent as it was first intended to be. While PIF insists that it remains transparent and true to its bylaws, Abbas has reportedly installed his own allies as board members, through whom he maintains effective control of the fund.[40] Several sources have confirmed this assessment. It is also worth noting that prime minister Salaam Fayyad has zero oversight of the PIF, despite his celebrated mandate for transparency.[41]

Finally, although PIF now claims to have ceased operations in Gaza after the terrorist group Hamas took over its assets in 2011,[42] I have received a report that senior PIF representatives have established a presence in an elementary school there. According to an official at the American International School in Gaza, the PIF representatives have "taken over the office of a vice principal."[43] It should be noted that PIF owns the school through one of its subsidiaries. But if PIF maintains a presence in Hamas-controlled

[38] This information was confirmed and fact-checked by phone with all three individuals on July 6, 2012.
[39] Jonathan Schanzer, "Promoting Peace?," *House Committee on Foreign Affairs*, September 14, 2011, http://foreignaffairs.house.gov/112/sch091411.pdf.
[40] Interview with former Palestinian Authority official, Jerusalem, September 8, 2011.
[41] Interview with Palestinian Authority official, Ramallah, September 8, 2011.
[42] Jonathan Ferziger and Saud Abu Ramadan, "Palestine Fund Says Hamas Seized Control of Gaza Office," Bloomberg, *March 3, 2011*, www.bloomberg.com/news/2011-03-03/palestine-fund-says-hamas-seized-control-of-gaza-office.html.
[43] Phone interview with an official from the American International School in Gaza, July 5, 2012.

Gaza, it requires an explanation. It would also be useful to understand the reason for the fund's presence in a school receiving assistance from USAID. In a conversation prior to submitting this testimony, PIF counsel indicated that they would look into this matter.

The Gaza Power Plant

An explanation should also be provided about the Palestinian Authority's arrangement with the power plant in the Gaza Strip. As I noted in my testimony to the full committee last year, electricity in Gaza is produced by a power plant that is guaranteed by the PA. And although the PA produces the electricity, Hamas collects the money that is billed to the customers.

As one former advisor told me, "the Hamas authorities collect their bills from customers in Gaza, but never send the funds back to the West Bank. And the PA continues to foot the bill." It should also be noted that Hamas government institutions and prominent Hamas members simply don't pay their bills. The PA covers them, as well.[44]

In other words, Abbas allows Hamas' cadres to raise funds by collecting money from Gazans for electricity that they don't generate. And because U.S. taxpayer money supports the PA, Washington is enabling Hamas to add to its coffers with those funds.

Limiting Press Freedoms

Washington also appears to be enabling the Palestinian Authority to suppress domestic dissent. In April, Ma'an News Agency reported that Palestinian officials had "quietly instructed Internet providers to block access to news websites whose reporting is critical of President Mahmoud Abbas."[45]

All signs suggest the order to shut the websites came straight from the top. Ma'an reported that Palestinian Authority Attorney General Ahmad al-Mughni personally delivered the order, but that he "was acting on instructions from higher up in the government—either from the president's office or an intelligence director."[46]

Mughni had already come under fire for other draconian efforts to muzzle free speech. In January 2012, Palestinian security forces arrested *Al-Ahram* reporter Khaled Amayreh for criticizing Abbas and referring to Hamas strongman Ismail Haniyeh as the "legitimate Palestinian prime minister."[47] The Palestinian Authority had also detained several journalists and bloggers for critical writing.[48] Among them was Jamal Abu Rihan, a Palestinian blogger who ran the Facebook page "The people want an end to corruption."[49]

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[44] Interview with former Palestinian Authority advisor, London, July 21, 2011.
[45] George Hale, "Palestinian Media Clampdown Spreads to the Web," *Ma'an News Agency*, April 23, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=478726.
[46] Ibid.
[47] Khaled Abu Toameh, "PA Security Forces Summon Palestinian Journalist Who Criticized Leadership," *The Jerusalem Post*, January 10, 2012, www.jpost.com/MiddleEast/Article.aspx?id=252914.
[48] "Concern About Health of Woman Journalist Held for Facebook Comments," *Reports Without Borders*, April 6, 2012, http://en.rsf.org/palestinian-terr-concern-about-health-of-woman-06-04-2012,42271.html;

According to the Palestinian human rights group al-Haq, "It is difficult to know exactly how many people have been detained in violation of the right to freedom of expression because victims, in many cases, are charged with or accused of penal offenses to mask the political motivation behind their arrest."[50] In some cases, arrests appear to be roundups of Hamas supporters. In others, they appear to be aimed at non-violent political opponents or critics of the Abbas regime.

The repression also extends beyond Palestinian outlets. In July 2009, the Palestinian Authority banned Al-Jazeera from operating in the West Bank[51] for a few days after the news channel reported on allegations that Mahmoud Abbas and former Gaza security chief Mohammad Dahlan were accomplices in the death of Yasser Arafat.[52] In January 2011, following the channel's publication of the "Palestine Papers,"[53] internal documents related to Israeli-Palestinian peace negotiations, Palestinian security officers attempted to storm Al-Jazeera's Ramallah offices.[54]

In April 2011, Human Rights Watch issued a 35-page report titled "No News is Good News: Abuses Against Journalists by Palestinian Security Forces." It revealed that Palestinian journalists in the West Bank "have had their equipment confiscated and been arbitrarily detained, barred from traveling abroad, assaulted, and, in one case, tortured, by Palestinian security services."[55]

The PA has not only silenced critical voices through official channels. At times, it has also resorted to extrajudicial means. This was revealed through a series of cyber attacks on the aforementioned InLight Press.

On January 28, hackers took down InLight Press,[56] after the site alleged that Abbas had ordered his security forces to tap his political opponents' phones.[57] When InLight Press

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"Palestinian Security Forces Question 2 Journalists," *Associated Press,* February 1, 2012, www.guardian.co.uk/world/feedarticle/10071661.

[49] Khaled Abu Toameh, "PA Arrests Man for Facebook Anti-Corruption Drive," *The Jerusalem Post,* April 7, 2012, www.jpost.com/MiddleEast/Article.aspx?id=265181.

[50] "PA Arrests Palestinian Cartoonist," *Al-Haq,* April 19, 2012, www.alhaq.org/documentation/weekly-focuses/562-pa-arrests-palestinian-cartoonist-.

[51] "Palestinians Ban Al-Jazeera for Airing Arafat Conspiracy Allegations," *Reuters,* July 15, 2009, www.haaretz.com/news/palestinians-ban-al-jazeera-for-airing-arafat-conspiracy-allegations-1.280060.

[52] Khaled Abu Toameh, "PLO Calls Estranged Leader Qaddoumi 'Deranged'," *The Jerusalem Post,* July 15, 2009, www.jpost.com/MiddleEast/Article.aspx?id=148684.

[53] "The Palestine Papers," *Al-Jazeera,* Accessed July 5, 2012, www.aljazeera.com/palestinepapers/.

[54] Robert Mackey, "Palestinian Police Are Said to Have Participated in Protest Against Al Jazeera," *The New York Times,* January 25, 2011, http://thelede.blogs.nytimes.com/2011/01/25/palestinian-police-are-said-to-have-participated-in-protest-at-al-jazeera/.

[55] "West Bank/Gaza: Stop Harassing Journalists," *Human Rights Watch,* April 6, 2011, www.hrw.org/news/2011/04/06/west-bankgaza-stop-harassing-journalists.

[56] Challah Hu Akbar, "Mahmoud Abbas Launches Attack Against InLightPress," *Israellycool,* January 30, 2012, www.israellycool.com/2012/01/30/mahmoud-abbas-launches-attack-against-inlightpress/.

[57] Challah Hu Akbar, "Report: Mahmoud Abbas Monitoring Phones of Top Palestinian Figures," *Israellycool,* January 20, 2012, www.israellycool.com/2012/01/20/report-mahmoud-abbas-monitoring-phones-of-top-palestinian-figures/.

returned online, its editors claimed the cyber attack "came from the Palestinian Authority with the approval of President Abbas."[58]

A week later, on February 3, InLight Press was hacked again,[59] but it continued to publish scathing criticism of Abbas and the Palestinian Authority as soon as it came back online. In response, the Palestinian leadership blocked access to InLight Press in the territories.[60] Days later, the Gaza-based website Amad, which is also critical of Abbas, reported that Palestinian users could not access its website because the Palestinian government had blocked it.[61]

In an apparent confirmation, InLightPress quoted a Telecommunications and Information Technology Ministry official who claimed that the site was spreading "sedition and lies to break up the structure of Palestinian society." As a result, he claimed, the PA had the "right to defend... against this malicious and suspicious campaign."[62]

The West Bank erupted in scandal when Ma'an revealed the extent of the censorship.[63] On April 25, the Palestinian Telecommunications Company (Paltel) issued a statement admitting it had "no choice except to abide by" orders from Palestinian officials to block websites.[64] On April 26, Palestinian Minister of Communication and Information Technology Mashour Abu Daka resigned, citing "personal reasons" for his departure.[65]

Though Abbas has since reversed the censorship order, there appears to be no law criminalizing what the PA has done.[66] Washington, meanwhile, has failed to demand an explanation.

Crushing Political Opposition

Our inability to hold President Abbas accountable has wider implications. The Palestinian leader is 77 years old, and smokes heavily. He will not be around forever. Moreover, he is now years past the end of his legitimate presidential term, which expired in 2009. Yet

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[58] Challah Hu Akbar, "InLightPress Slams Mahmoud Abbas Over Hacking Attack," *Israellycool*, February 1, 2012, www.israellycool.com/2012/02/01/inlightpress-slams-mahmoud-abbas-over-hacking-attack/.
[59] Challah Hu Akbar, "Mahmoud Abbas Orders Another Attack On InLightPress," *Israellycool*, February 3, 2012, www.israellycool.com/2012/02/03/mahmoud-abbas-orders-another-attack-on-inlightpress/.
[60] Challah Hu Akbar, "Palestinian Authority Blocks Access To InLightPress," *Israellycool*, February 9, 2012, www.israellycool.com/2012/02/09/palestinian-authority-blocks-access-to-inlightpress/.
[61] "Palestinian Intelligence Ordered the Telecommunications Company to Block Amad," *Amad*, February 12, 2012, www.amad.ps/arabic/?action=detail&id=76964. (Arabic)
[62] "Palestinian Communications Ministers Admits to Targeting InLight Press," *InLight Press*, February 14, 2012, http://inlightpress.com/index.php?option=com_content&view=article&id=9094:2012-02-14-10-02-03&catid=3:2011-07-04-18-39-20&Itemid=304. (Arabic)
[63] George Hale, "Palestinian Media Clampdown Spreads to the Web," *Ma'an News Agency*, April 23, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=478726.
[64] George Hale, "PalTel: No Choice in Web Censorship Orders," *Ma'an News Agency*, April 25, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=479638.
[65] Khaled Abu Toameh, "PA Minister Resigns Amid Censorship Row," *The Jerusalem Post*, April 26, 2012, www.jpost.com/MiddleEast/Article.aspx?id=267666.
[66] George Hale and Wajde al-Jafari, "Abbas Lifts Ban on Critical Websites," *Ma'an News Agency*, May 5, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=482586.

he has no vice president, and no heir apparent. Worse, he has engaged in an aggressive campaign to neutralize his political opponents.

Most notably, Abbas has hounded Mohammad Rachid, fining and sentencing him to prison in a predictably swift trial. But other potential political challengers have suffered, too.

On January 9, at Abbas' behest, Jordan's Central Bank reportedly seized the assets of former Gaza official Mohammed Dahlan. Reports suggest that Dahlan's assets in Jordan amounted to 10 million Jordanian dinars ($14.1 million) or more.[67]

The allegations of Dahlan's corruption are not easily refuted. During the heyday of the Oslo process in the 1990s, he and a cadre of Arafat loyalists controlled Gaza's border with Israel, extracting taxes from every truck that entered. One former Palestinian Authority official confirms that these men skimmed funds, and kept most of their finances off the books until Prime Minister Salaam Fayyad began to implement transparency measures in 2003 and 2004.

But this is not why Abbas went after him. The feud between Dahlan and the Palestinian leader dates back to the mid-1990s, when Dahlan, a young PLO member, was named head of preventive security in Gaza, making him one of the more powerful figures in the PA. Abbas, who was among the earliest Fatah members in the 1950s, reportedly viewed Dahlan as little more than a young thug from Gaza.

When Abbas became president in 2005, he surprisingly kept Dahlan on as national security advisor. Like many other senior officials, Dahlan knew too much about the way that the PA operated, so it was safer to keep him on the inside. Dahlan further ensured his political survival when he won election to the Palestinian Legislative Council in 2006.

The unraveling occurred in the summer of 2007, when Hamas overran the Gaza Strip and decimated the PA forces there. Someone needed to be blamed. Although Dahlan had been out of the country for medical treatment, Fatah figures began calling for his removal. Dahlan resigned, though he affirmed his loyalty to Abbas.[68]

At the time, amid fears of a similar Hamas takeover in the West Bank, the PA was in complete disarray. Bush administration officials moved quickly to stabilize the situation, and sought out people they could trust in Ramallah. By October, Washington was actively pushing Dahlan, who maintained strong ties with U.S. intelligence and the Israeli defense establishment, to serve as Abbas' deputy in the newly-formed emergency government. Abbas rejected this suggestion, and the feud went public.

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[67] Khaled Abu Toameh, "Jordan Seizes Assets of Mohammed Dahlan," *The Jerusalem Post,* January 11, 2011, www.jpost.com/MiddleEast/Article.aspx?id=253088.
[68] Isabel Kershner, "Abbas Aide Resigns in Wake of Fatah Rout in Gaza," *The New York Times,* July 27, 2007, www.nytimes.com/2007/07/27/world/middleeast/27mideast.html.

By 2008, Dahlan spent most of his time in Cairo. But his popularity had not waned within Fatah. In 2009, the party named him to the Fatah central committee, a group responsible for many key decisions.[69] Emboldened, Dahlan brazenly challenged Abbas' lack of transparency and increasingly tight grip on power. He even went as far as to call for Fatah elections to select new leadership—a direct affront to Abbas.

In 2009, Dahlan opened a TV station, *Falastin al-Ghad* (Palestine Tomorrow), in the West Bank. In early December 2010, however, Abbas shut it down.[70] Amid reports that Dahlan was maneuvering to succeed him, Abbas ordered an investigation into allegations that Dahlan had embezzled public funds.[71] By the end of 2010, Abbas had Dahlan's membership in Fatah's central committee suspended.[72]

In July 2011, Abbas arrested 15 of Dahlan's supporters,[73] and Palestinian security forces raided Dahlan's villa in Ramallah, arresting more than 20 security guards and confiscating two cars and more than a dozen weapons.[74] In view of Dahlan's immunity as a member of the Palestinian Legislative Council, this was widely viewed as illegal.

Dahlan fired back, alleging that Abbas stole more than $1 billion from the PIF.[75] The Abbas camp responded with a 118-page report alleging Dahlan had stolen $300 million in aid from the United States, and poisoned Arafat.[76] In August 2011, an official noted that Dahlan's expulsion from Fatah "is now final. It can't be appealed or canceled."[77]

Another casualty of the Abbas regime is prime minister Salaam Fayyad. Once hailed as the Palestinian leader who could deliver "transparent, accountable administration and services,"[78] Fayyad is now marginalized.

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[69] "PENPIX-Influential Figures in New Leading Fatah Body," *Reuters,* August 11, 2009, www.reuters.com/article/2009/08/11/idUSLB698962.
[70] "PA Closes TV Station Linked to Dahlan," *Ma'an News Agency,* December 4, 2010, www.maannews.net/eng/ViewDetails.aspx?ID=338711.
[71] Khaled Abu Toameh, "'Abbas Fears Dahlan Trying to Take His Place'," *The Jerusalem Post,* December 5, 2010, www.jpost.com/MiddleEast/Article.aspx?id=198141.
[72] Maher Abukhater, "WEST BANK: Onetime Fatah Strongman Dahlan Struggling to Get Out of a Quagmire," *Los Angeles Times,* December 29, 2010, http://latimesblogs.latimes.com/babylonbeyond/2010/12/west-bank-fatah-strongman-dahlan-struggling-to-get-out-of-a-quagmire.html.
[73] Khaled Abu Toameh, "Palestinian Security Forces Nab Mohammed Dahlan Supporters," *The Jerusalem Post,* July 26, 2011, www.jpost.com/MiddleEast/Article.aspx?id=230978.
[74] "Palestinian Police Raid Home of President's Rival, Arrest 23 Guards," *Associated Press,* July 28, 2011, www.haaretz.com/news/diplomacy-defense/palestinian-police-raid-home-of-president-s-rival-arrest-23-guards-1.375754.
[75] Khaled Abu Toameh, "Abbas 'Feels He's Above the Law,' Charges Dahlan," *The Jerusalem Post,* July 31, 2011, www.jpost.com/MiddleEast/Article.aspx?id=231686.
[76] "Fatah: Ex-Gaza Strongman Mohammed Dahlan Poisoned Arafat," *Associated Press,* August 8, 2011, www.haaretz.com/news/middle-east/fatah-ex-gaza-strongman-mohammed-dahlan-poisoned-arafat-1.377635.
[77] "Fatah Ratifies Dahlan's Final Sacking Decision," *WAFA,* August 14, 2011, http://english.wafa.ps/index.php?action=detail&id=16988.
[78] Thomas Friedman, "Green Shoots in Palestine," *The New York Times,* August 4, 2009, www.nytimes.com/2009/08/05/opinion/05friedman.html.

Ironically, Abbas has marginalized this genuine reformer by charging Fayyad's cabinet with corruption. Last November, the Palestinian prosecutor-general charged former Economy Minister Hassan Abu Libdeh with corruption.[79] The charges—breach of trust, fraud, insider trading, and embezzlement of public funds—date back to Abu Libdeh's tenure as director of the Palestinian Capital Market Authority in 2008. In August 2011, the Palestinian Anti-Corruption Commission also charged former Agriculture Minister Ismail Daiq with corruption.[80]

In the Palestinian Authority, corruption probes aren't launched unless the president wants them launched. In this case, Abbas has engineered these latest scandals to discredit Fayyad and cast doubt on the prime minister's ability to deliver on his celebrated mandate of countering corruption. After all, the corruption goes to the highest levels of the Palestinian Authority, and Fayyad himself appointed the officials in question.

According to officials who work with them, the two figureheads of the Palestinian Authority are barely on speaking terms. Fayyad has become a glorified accountant, capitalizing on his strong relationship with international donors to collect checks that allow his government to pay salaries, while Abbas pursues a provocative foreign policy that endangers those sources of funding.

Other victims of Abbas' campaign against his political opponents include former Gaza-based Fatah official Samir Mashharawi,[81] PLO secretary-general Yasser Abd Rabbo,[82] and long-time PLO and Fatah insider Farouk Kaddoumi.[83]

Cracking Down on Protests

On June 30, Palestinians began challenging Abbas' rule. It started when young Palestinians in Ramallah protested a scheduled meeting between Abbas and Israeli vice premier Shaul Mofaz. According to the Ma'an News Agency, the protesters "were blocked by riot police and some plain clothes agents." Palestinian forces attacked protesters and journalists. Ma'an reported that at least six people were injured, and six others were detained.[84]

The following day, as protesters organized with the help of social media, Palestinians took to the streets again calling on the PA to "end negotiations with Israel" and for "the

[79] Khaled Abu Toameh, "PA Economy Minister Charged With Corruption," *The Jerusalem Post*, November 29, 2011, www.jpost.com/MiddleEast/Article.aspx?id=247466.
[80] "Anti-Corruption Committee: Minister to Face Court," *Ma'an News Agency*, August 22, 2011, http://maannews.net/ENG/ViewDetails.aspx?ID=415389.
[81] "Fatah Central Committee Expels Member Of Revolutionary Council Mashharawi," *WAFA*, January 30, 2012, http://english.wafa.ps/index.php?action=detail&id=18863.
[82] "Palestinian President Sacks Abed Rabbo From Media Position," *Al Quds Al Arabi*, April 25, 2012, www.alquds.co.uk/index.asp?fname=today\25z500.htm&arc=data\2012\04\04-25\25z500.htm. (Arabic)
[83] "Civil Sore," *Newsweek*, July 22, 2009, www.thedailybeast.com/newsweek/2009/07/22/civil-sore.html.
[84] "PA Security Clash with Protesters in Ramallah," *Ma'an News Agency*, June 30, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=500066.

police to respect free speech."[85] According to Ma'an, "Police attacked protesters with batons, beating and injuring at least seven people. Another seven protesters were taken to a police station along with at least two journalists."[86]

Eyewitnesses told the Palestinian Center for Human Rights "that the Chief of Police in Ramallah… Colonel Abdul Latif Qaddoumi and his assistant, Mohammed Abu Bakr, were present and participated in the use of force against the demonstrators."[87] Palestinian activists have since called for the dismissal of Ramallah's police chief.[88]

On July 3, protesters once again took to the streets of Ramallah, calling on the Palestinian leadership to end negotiations with Israel and to respect freedom of speech. After beginning in the central Manara Square, the protesters headed for the presidential Muqata compound. Outside of Abbas' offices, protesters chanted, "The people want to bring down Oslo," "Down with military rule," and "No to negotiations."[89]

After a third rally, the demonstrations subsided, but the people remain unsatisfied with the status quo.

Recommendations

Corruption allegations, power struggles, hacking scandals, and this summer's demonstrations are all increasing pressure on Mahmoud Abbas. This creates an opportunity for Washington to help effect change.

For starters, Washington should simply acknowledge that there is a problem. The staff at the U.S. Consulate General in East Jerusalem reportedly knows that Palestinians believe their ruling elites are corrupt. But for reasons that are not entirely clear, the State Department has yet to issue a clear statement to address the issue, or what it intends to do about it.

Washington's decision-makers are apparently concerned that weakening Abbas in any way could open the door for Hamas to take power. But this is shortsighted. If steps are not immediately taken to hold the Palestinian Authority responsible for corruption, Hamas will exploit the problem. Hamas, after all, won the 2006 legislative elections on a campaign that centered on fighting corruption. And frustrations over corruption were an

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[85] "Injuries, Arrests Reported at New Ramallah Demo," *Ma'an News Agency,* July 1, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=500424.
[86] "PA Police Crush New Ramallah Demo," *Ma'an News Agency,* July 1, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=500441.
[87] PCHR Strongly Condemns the Use of Force Against Peaceful Demonstrations in Ramallah," *Palestinian Center for Human Rights,* July 2, 2012. www.pchrgaza.org/portal/en/index.php?option=com_content&view=article&id=8591:pchr-strongly-condemns-the-use-of-force-against-peaceful-demonstrations-in-ramallah-&catid=36:pchrpressreleases&Itemid=194.
[88] "Activists Call for Ramallah Police Director Dismissal," *Ma'an News Agency,* July 2, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=500566.
[89] "Live Report: Ramallah Protests," *Ma'an News Agency,* July 3, 2012, www.maannews.net/eng/ViewDetails.aspx?ID=501059.

important element of the Arab Spring uprisings that have toppled several leaders across the region.

More broadly, there is an important message the Palestinians must hear: The conflict with Israel is not the only obstacle to independence. If self-governance is their goal, Palestinians must grapple with corruption, too. Are American diplomats ready to impart that message?

Washington also has other tools at its disposal, namely $600 million in annual aid.[90] This does not mean we should threaten to cut all of it. But we squander our influence if we fail to warn the Abbas government that unless it tackles the corruption problem, we may begin to withhold certain line items. When we identify specific areas of corruption, we should withhold aid from them, and restore it only when the problems are addressed.

Finally, with enough political will, Congress could even press the President for an executive order on Palestinian corruption. Such a move would underscore the seriousness of the problem and send a signal to violators that the U.S. government will no longer tolerate the widespread corruption that has become prevalent in the Palestinian Authority.

Mr. Chairman, on behalf of the Foundation for Defense of Democracies, I thank you again for the opportunity to testify.

[90] Jim Zanotti, "U.S. Foreign Aid to the Palestinians," *Congressional Research Service*, May 31, 2011, www.fas.org/sgp/crs/mideast/RS22967.pdf

Mr. CHABOT. And, Mr. Zanotti, you are recognized for 5 minutes.

STATEMENT OF MR. JIM ZANOTTI, SPECIALIST IN MIDDLE EASTERN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE

Mr. ZANOTTI. Chairman Chabot, Ranking Member Ackerman, and other distinguished members of the committee, thank you for inviting me here today. I would like to begin with a brief overview of the topic within a broader U.S. policy context.

The Palestinian National Authority was established in 1994 by agreement between Israel and the PLO to exercise limited self-rule under supervening Israeli control in the Gaza Strip and parts of the West Bank. Substantial material assistance from international donors backed the formation of the P.A. and continues in support of improving the P.A.'s capacities to govern and provide public security and services.

U.S. bilateral assistance appropriated for Palestinians in the West Bank and Gaza since 1994 has exceeded $4 billion. Since the 2007 de facto split between the Fatah-led P.A. in the West Bank and Hamas in Gaza, this has included more than $1 billion for direct budgetary assistance to the P.A. It has also included $645 million for nonlethal security and criminal justice sector assistance in the West Bank.

Successive U.S. administrations and Members of Congress have routinely asserted that this aid supports at least three major U.S. policy priorities: One, preventing terrorism against Israel from Hamas and other militant organizations; two, fostering stability, prosperity, and self-governance in the West Bank that inclines Palestinians toward peaceful coexistence with Israel and a two-state solution; and, three, meeting humanitarian needs.

Since the 1990s, allegations have swirled around the Fatah-led P.A. and its two Presidents, first Yassir Arafat and now Mahmoud Abbas, accusing them and/or various of their associates of avoiding transparency and accountability with funds they have controlled, misusing or diverting assets intended for public benefit, and/or fostering a general environment in which corrupt or unaccountable practices are encouraged or accepted as the norm.

The popular Palestinian perception of entrenched corruption within Fatah is commonly cited as one reason that Hamas, running under the moniker of the Change and Reform List in January 2006 elections, won a majority of Palestinian legislative council seats.

Some Palestinian leaders have attempted over the years to curb corruption and institute reform with mixed results. P.A. Prime Minister Salam Fayyad, for example, established a reputation as a reformer in the early 2000s after becoming Arafat's Finance Minister. He exposed and discontinued various unsanctioned practices and strengthened P.A. accountability mechanisms. Many Western officials and analysts laud and support Fayyad's continuing P.A. reform efforts in the West Bank under Abbas' Presidency.

A June 2012 poll indicated that 71 percent of Palestinians in the West Bank and Gaza believe that corruption exists in the West Bank's P.A. institutions. A Washington Post article from June quoted an analyst as saying that favoritism and off-the-books payments continue within the P.A. However, the same article cited antigraft activists who say that the problem has diminished since

Arafat's death. And surveys published last year by the World Bank found that, generally speaking, Palestinians' perceptions of corruption exceed their personal experience with it.

Apparently in response to corruption allegations leveled against various P.A. officials in 2010, President Abbas appointed an anticorruption commission and empowered a court to adjudicate cases resulting from the commission's investigations. The first conviction resulting from the commission's activities occurred in June 2012 against Arafat's former financial advisor, Mohammed Rashid, for embezzlement. Rashid has responded publicly with allegations of corruption and nepotism against Abbas, and multiple reports indicate recent increases in official efforts to arrest and silence media and civil society critics of Abbas and the P.A.

So what are the implications for U.S. policy? A next step for U.S. lawmakers and officials could be to determine whether various allegations of P.A. corruption are true, likely, plausible, or none of these. In determining whether and how to respond to corruption allegations deemed to have merit, they might weigh the following considerations: How important is preventing or limiting P.A. corruption in the context of overall U.S. priorities with respect to the Palestinians? How effective are existing U.S. laws and policies in addressing these priorities? And how might changes to U.S. laws and policies pertaining to aid and oversight affect this picture, along with regional public opinion and political trends?

Thank you very much. I look forward to your questions.

Mr. CHABOT. Thank you very much.

[The prepared statement of Mr. Zanotti follows:]

TESTIMONY OF JIM ZANOTTI
SPECIALIST IN MIDDLE EASTERN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE

"CHRONIC KLEPTOCRACY – CORRUPTION WITHIN THE PALESTINIAN POLITICAL ESTABLISHMENT"
TUESDAY, JULY 10, 2012 – 2:00 P.M. – 2172 RAYBURN HOUSE OFFICE BUILDING, WASHINGTON, DC

HOUSE COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

Chairman Chabot, Ranking Member Ackerman, other distinguished Members of the Committee, thank you for inviting me here today. I will begin with a brief overview.

The Palestinian National Authority (PA) was established in 1994 by agreement between Israel and the PLO to exercise limited self-rule—under supervening Israeli control—in the Gaza Strip and parts of the West Bank. Substantial material assistance from international donors backed the formation of the PA, and continues in support of improving the PA's capacities to govern and provide public security and services. U.S. bilateral assistance appropriated for Palestinians in the West Bank and Gaza since 1994 has exceeded $4 billion. Since the 2007 de facto split between the Fatah-led PA in the West Bank and Hamas in Gaza, this has included more than $1 billion for direct budgetary assistance to the PA. It has also included $645 million for non-lethal security and criminal justice sector assistance in the West Bank.

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Since the 1990s, allegations have swirled around the Fatah-led PA and its two presidents—first Yasser Arafat, and now Mahmoud Abbas—accusing them and/or various of their associates of

- avoiding transparency and accountability with funds they have controlled;
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Some Palestinian leaders have attempted over the years to curb corruption and institute reform, with mixed results. PA Prime Minister Salam Fayyad, for example, established a reputation as a reformer in the early 2000s after becoming Arafat's finance minister. He exposed and discontinued various unsanctioned practices and strengthened PA accountability mechanisms. Many Western officials and analysts laud and support Fayyad's continuing PA reform efforts in the West Bank under Abbas's presidency.

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So what are the implications for U.S. policy?

A next step for U.S. lawmakers and officials could be to determine whether various allegations of PA corruption are true, likely, plausible, or none of these. In determining whether and how to respond to corruption allegations deemed to have merit, they might weigh the following considerations:

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- How effective are existing U.S. laws and policies in addressing these priorities?
- How might changes to U.S. laws and policies pertaining to aid and oversight affect this picture, along with regional public opinion and political trends?

Thank you. I look forward to your questions.

[1] Palestinian Center for Policy and Survey Research, Palestinian Public Opinion Poll No. 44, June 21-23, 2012. Reported margin of error: 3%.
[2] Karin Brulliard, "Palestinian anti-corruption court secures conviction but raises questions of bias," *Washington Post*, June 20, 2012.
[3] World Bank, *West Bank and Gaza: Improving Governance and Reducing Corruption*, 2011 (citing surveys conducted in 2010).

Mr. CHABOT. We appreciate all three of the witnesses' testimony here this afternoon. And we will now have 5 minutes to ask questions, and I will recognize myself for that purpose at this time.

Mr. Abrams, in your written testimony you stated that, and I quote:

> "The challenge here is not only to President Abbas and to the P.A. It is, for one thing, a challenge to the Fatah Party, whose future ability to defeat Hamas is surely tied to public perceptions of whether it remains a home to corruption. And it is a challenge to us, to the United States. If we turn a blind eye to corruption and to persecution of those who expose it, we are in a very real way contributing to the problem and undermining those Palestinians who wish to build public integrity into their system. It is widely understood that donors in the Arab states and Europe, as well as we ourselves, look favorably on Prime Minister Fayyad, but that is not enough."

And you said some other things, as well.

Could you please elaborate on specific measures that you believe should be taken by the various parties—the U.S., the Palestinians, and the Arab donor states—to stem future corruption?

Mr. ABRAMS. Of course, one would hope—and it has been an idle hope over the past years—but, for the most part, one would hope the Palestinians would clean this up themselves. And there was some real progress made when Fayyad first became Finance Minister, 2003 if I remember, and then became Prime Minister. For example, they put the P.A. budget on the Internet. For the first time, you could get a sense of where things were going.

But he is not a member of Fatah, Prime Minister Fayyad. And the pervasive corruption of the Fatah Party is, as has been said, I think, one of the things that contributed to their defeat by Hamas in the 2006 elections. And they have not been willing to do that kind of self-policing. And it starts, as Dr. Schanzer said, it really starts, I think, at the top of the Fatah Party with President Abbas and his family.

So I don't think we are going to get a lot more from that direction. I think it really depends more on us and whether, for example, it is possible to build into our aid, whether it is through AID or MEPI or the National Endowment for Democracy, some specific anticorruption activities. I mean, they have an anticorruption program now, but when it, instead of going after anybody who is in the inner circle, it goes after outcasts, it goes after enemies of President Abbas, I think we have to draw the conclusion that it is not a serious program.

Mr. CHABOT. Thank you very much.

Dr. Schanzer and Mr. Zanotti, in your testimonies you referenced numerous specific instances of Palestinian corruption. What actions do you believe the U.S. Government should take in investigating past instances and combating future ones? Do you believe the current Palestinian leadership is corrupt beyond salvation? And if so, how should U.S. policy accommodate that reality?

And if either one of you wants to go first, and then I will take the other one after that.

Mr. SCHANZER. I suppose I will go first.

First of all, you know, I think that the importance here is to take a look at this problem and to try to address it with the current Palestinian leadership. When we look at the importance of the Palestinian Authority, I think it can't be understated, this was designed to be a caretaker government that would help build up institutions while the Israelis and Palestinians tried to hammer out core issues in the peace process and ultimately midwife a state. And what we have seen here is that it has gone off the rails. This Palestinian leadership has decided that it doesn't want to negotiate any longer. We are seeing that right now under the top leadership. They are going unilaterally to the U.N. and basically going outside of the Oslo process to which we believe they had been bound. And now, on top of this, we are seeing blatant instances of corruption.

And so I think we need to bring this back to where it was, which was a fledgling state designed to help bring together the institutions necessary for statehood. I think we have lost sight of that, and that is why I think it is important that the United States focus on this. I believe it is good for the Palestinians; I believe it is good for the peace process.

In terms of what we can do specifically, you know, I did mention that I think that we could probably remove areas of our aid when we identify specific line items where there is corruption. In other words, when we identify, we say, this is a problem, we are going to remove funds until you rectify the situation, and we will replace it. Right now we just hand it over blindly. It is just given to the Palestinians as if it is owed to them, and there are no expectations on the part of the Palestinians that they need to deliver anything in return. I think this is a problem. It has ultimately undermined this project of the Palestinian Authority.

Mr. CHABOT. Thank you.

Mr. Zanotti?

Mr. ZANOTTI. Yes. And to clarify, my citing various reports did not advocate any sense of whether corruption has taken place within the P.A. or not. I have very few means of actually independently verifying those.

But without advocating any investigative measures per se or specific means of U.S. policy, you know, one approach would be to relate back to the U.S. priority for our political support, our material support with the P.A., one of which I enunciated in my earlier remarks, talking about helping the P.A. develop capacity for self-governance and stability and prosperity in the West Bank.

And if the Palestinian Authority, through establishing an anticorruption commission, through seeking to address this problem, has not done so in a way that evokes confidence from its people, then—a World Bank survey that was conducted last year in 2011 said, not only do you have to effectively pursue corruption, but you also have to convince your people that it is not politically motivated and that there is enough transparency that there can be discussion of it within the West Bank. And some of these reports that have come out in the last few months have cast some doubt as to whether there is this credibility.

As for specific measures, specific ways that U.S. policy could perhaps address the situation, of course there are a range of options, going from more stringent oversight of various P.A. or P.A.-related

bodies or accounts to the notion of revisiting various conditions on U.S. aid, adding to, changing those conditions; and then, of course, also addressing various types and levels of the aid itself; and then, you know, other measures having to do with having the issue raised on a more common basis.

Mr. CHABOT. Okay. Very good.

Mr. ZANOTTI. So these are some of those measures that——

Mr. CHABOT. Okay. Thank you very much. I appreciate it. My time has expired.

The gentleman from New York, the ranking member, Mr. Ackerman, is recognized for 5 minutes.

Mr. ACKERMAN. Thank you.

I would just like to comment first on something that Dr. Schanzer said. I believe that the money that we give the Palestinian Authority directly is to pay bills, which means that that money that we give them is really a passthrough to Israel to pay their bills for their electricity so that Israel keeps their lights on. So I don't know what we investigate there. I am not saying there is no corruption, but as far as that is concerned, that pays the electric bills to Israel, and we are really paying Israel for their electric bills by giving them the money so that they are paying their electric bills.

And that is a couple hundred million dollars' worth. And almost equal, slightly more—or slightly less goes to AID in contracts. And I think that is where we really have to watch what is being spent. But that is not direct aid to them that is being handled by AID.

I just want to sound a cautionary note as to where we are going with this and what we do with the information as far as policy and what others do with the information here as policy and whether that is helpful or not. If we stipulate, as I said before, that there is corruption, there are those who would use that information solely and exclusively to say, "You see? The Palestinians are unworthy, and we should not be giving them any aid or assistance."

I would divide the camp up into those who want to help the peace process, and then there is a small splinter group of people who are so blinded in their support, trip over themselves, that say we should do everything we have to do to help Israel, and helping the Palestinians get their act together so that they achieve their legitimate goals and do not act in ways that are disruptive to the international community, Israel included, would also be something that is helpful to Israel.

But there are those who would use this, they see this corruption there, let's cut them off until, you know, they act like Mother Teresa would act. That is not going to happen. There is corruption everywhere. I think on a scale of all the nations, 1 to 184, I think Sweden or Finland is number one with the least corruption and North Korea is 184. We come in, like, 24th. So, you know, everybody is somewhere on this spectrum. Palestinians don't get rated because they are not a country. I assume they would be closer to North Korea than Scandinavia if they were.

But there was a race once in Louisiana for Governor in which the former Governor, whose name I believe was Edwards, was running. And he had been known primarily because he was thoroughly corrupt. And he was running in a primary, and suddenly the guy who

challenged him turns out to be David Duke, the well-known Nazi leader. So people had that choice. It wasn't their ideal. So bumper stickers were springing up, some of which said, "I am with the crook."

You know, you don't always get your ideal choices.

If we come to the conclusion that you have to put your money down somewhere, you know, who are you going to be with? And this is not necessarily a good choice. There is one group that wants to completely destroy Israel, and that is their lifeblood. The other one, you know, Fatah, at least contends that they are interested in a negotiated settlement, and if we take them at their word, even despite that, they are the group that is known to be corrupt.

One of those groups is going to win. We don't want to pull away altogether. If you completely embarrass and humiliate the guys that are crooks, you force the voters or the electorate to go to the guys that are the Nazis, in relative terms. I am not calling them that. But, you know, in life you don't always get to pick your choices. You get two choices that confront you; sometimes they are bad and terrible.

What is it that we do here to keep enough pressure and spotlight on the Palestinians, who are the guys that we might prefer win this battle, so that they clean up their act so that the guys who are the terrorists don't win?

That was a 5-minute question, but maybe I can have a short answer.

Mr. SCHANZER. Well, thank you for raising all of these points. I will try to address them just very quickly.

First of all, on the issue of paying the electricity bills, I am actually very glad that you raised that. It is something I brought up about a year ago in this very building.

Part of the problem with the electricity bills that we are paying, or that we are giving funds to the Palestinian Authority to pay, is they are, in turn, financing the operations of the Gaza power plant. The Gaza power plant is operated under the auspices of Hamas. Interestingly, Hamas goes out and asks people to pay their electricity bills but does not remit those funds back to the Palestinian Authority. So, in many ways, when we give funds to the P.A. to fund electricity, we are actually funding Hamas.

Mr. ACKERMAN. Well, everything is fungible. We know that.

Mr. SCHANZER. Of course it is fungible, but, again, you know, it is not as simply as just we are paying the electricity bills. And so, you know, I would just say that, you know, even those sorts of line items that appear very straightforward have a wrinkle to them that can impact this question of Palestinian corruption.

Now, as for those who would say that we shouldn't fund the Palestinian Authority, period, because of the problem of corruption, I would say that they are very few. I certainly am not one of them. But I do believe that just saying that of course there is going to be a problem of corruption within the P.A., it is—what is the term—it is the soft bigotry of low expectations. In other words, if we don't ask them to do what is right for their own people, we are complicit in what is happening inside the P.A.

And the frustration level, sir, is rising. We have seen it in recent demonstrations against the Palestinian Authority. You can see it in

terms of the way the people are writing against the P.A. right now online. This is a growing sentiment. It is important that we try to address this now.

Now, just on one other point here, yes, of course, corruption is an issue that every country faces, and, of course, we know that it is rife in the Arab world. But here I think when we talk about our choices, we can find a way to make sure that the choice of the Palestinians isn't Hamas in the end. In other words, as long as the Palestinian Authority continues to pursue this path of corruption, the Palestinian people will undoubtedly go running in the direction of Hamas. We saw it in 2006. I believe that if we don't tackle it now, the next time there is an election—I am not sure that we will ever actually see one held, but if there was an election, I think Hamas would win hands down.

But then there is also just the question of the people rising up against the P.A. We are now in the middle of an unprecedented time in the Arab world. Some people call it the Arab Spring, the Great Unrest. All of this is about corruption, sir. All of this is about people being very angry at their leaders for squandering American aid, for allowing their children, whether it was Gamal Mubarak or Saif al-Islam Qadhafi, they all got rich off of their parents' systems. What we are looking at right now is the potential for this to come back to the Palestinians. If it does, it will have grave ramifications for the potential of a Palestinian state as well as the two-state solution.

These are the all the reasons why I think it is important that we try to tackle this now. And whether we do it by addressing line items in the aid, whether we do it through proclamations through the State Department, we have to start to think about these problems more seriously.

Mr. CHABOT. The gentleman's time has expired.

The gentleman from Pennsylvania is recognized, Mr. Marino, for 5 minutes.

Mr. MARINO. Thank you, Mr. Chairman.

Good afternoon, gentlemen. Thank you for being here.

I am just a country lawyer, a country prosecutor from Pennsylvania but with an insatiable appetite for foreign policy. I have four questions I would like to ask each of you, and if you could please be as succinct as possible, if there are answers to these questions.

Who is more inclined to deal with the U.S., Hamas or Fatah? And why or why not?

Mr. Abrams, please.

Mr. ABRAMS. Oh, Fatah, Mr. Marino. Hamas continues to view the U.S. as an enemy.

Mr. MARINO. Okay. And why Fatah?

Mr. ABRAMS. Well, they have always been, first of all, a secular group, not an Islamist group. And they have generally seen the possibility of getting what they want, which is a Palestinian state under their own leadership, as more likely to be brokered by the United States because of our status as a close friend of Israel.

Mr. MARINO. Does anyone want to supplement that? No?

Second question: Could more of a wedge be cultivated between Hamas and Fatah? Doctor?

Mr. SCHANZER. Congressman Marino, I would say that—probably not. I like to say that the two factions can't agree on the color of hummus. There is very little that the two sides can agree on one right now. One is very secular; the other one is Islamist in nature. One is at least nominally inclined to work with the United States; the other, absolutely not. And so the wedge is rather large, the divide is large.

I don't necessarily think that would be a good thing for U.S. policy moving forward, because it means that we lack a credible interlocutor on the Palestinian side, which would make peace discussions that much more difficult.

Mr. MARINO. Thank you.

Mr. Zanotti—and, again, if others have a response—what realistically happens if we cut all aid to Palestine?

Mr. ZANOTTI. Well, I mean, there is a universe of possibilities. You know——

Mr. MARINO. Narrow it down to the galaxy.

Mr. ZANOTTI. Dr. Schanzer spoke previously, in previous testimony, talked about the possibility of other countries, other influences stepping in, that this situation in the region is not simply a vacuum, that you have Iran looking to influence matters. There have been some reports, not saying that Abbas is cultivating a financial relationship with Iran, but there have been reports that Mr. Abbas might be attending some kind of a meeting in Iran in the near term.

Other states, the European Union, other donors, not saying that these are all bad influences, necessarily, but they are influences other than the United States, that if the United States leaves the playing field at that point, there is an argument to be made that some of these other actors can step in.

Mr. MARINO. Anyone else? Doctor?

Mr. SCHANZER. I would say that, yes, we leave the playing field open to other bad actors to step in, whether it be Iran, Saudi Arabia, Qatar. I think there is no shortage of actors. Of course, the Muslim world is notorious for not making good on its pledges to the Palestinians for aid. But, nevertheless, if we stepped out, we certainly would lose our leverage and potentially yield it to other actors that are working against U.S. interests, and I would warn against it.

Mr. MARINO. I hear this more and more from State Department people. Give me an example. How could it get worse, and what could happen?

Mr. SCHANZER. Okay. So, for example, let's say Iran steps in. What we look at right now in the Gaza Strip, with the number of rockets that Hamas currently has in its possession that have been furnished by an Iran, somewhere in the vicinity of, let's say, 20,000 to 30,000 rockets, reinforced bunkers, they are preparing for another war against Israel. That is in one small area about the size of metropolitan Washington, DC. Now imagine you have another territory, the West Bank, roughly the size of the State of Delaware, with equal capacity, equal preparations for war, possibly more weaponry. You are destabilizing the region further.

Mr. MARINO. All right. Very complex.

Mr. SCHANZER. Yes.

Mr. MARINO. Last question. Mr. Abrams, how much U.S. cash did Arafat steal from us? And does his family still have it?

Mr. ABRAMS. It was thought by the time that some money began to come back that he had stolen over $1 billion. That is not to say that it was all U.S. cash, because he was getting money from Europe, he was getting money from many Arab donors.

But the original funding of what is now called the Palestine Investment Fund was, if I remember correctly, money that he stole and that he was forced to turn back over. Of course, it has grown, but you are talking, round numbers, $1 billion.

Now, how much they still have, I think no one—well, somebody knows the answer to that. Perhaps his widow knows the answer, and perhaps Mohammed Rashid knows the answer, the guy who used to handle money for him.

Mr. MARINO. Thank you, gentlemen. I could talk with you for hours, but I yield back.

Mr. CHABOT. Thank you. The gentleman's time has expired.

The gentleman from Florida, Mr. Deutch, is recognized for 5 minutes.

Mr. DEUTCH. Thank you, Mr. Chairman.

Mr. Chairman, I have a series of questions that I was prepared to ask about—corruption and transparency and where we might need to shine the light in order to succeed in routing out some of this corruption—but then the day's events took hold.

And, Mr. Abrams, as you point out, we have now seen there has been this long history. The last parliamentary elections were in 2006. New parliamentary and Presidential elections were supposed to take place in January 2002, until the P.A. abandoned them; municipal elections in July of last year, then pushed back to October of last year; legislative and Presidential elections again by some point in the spring of this year.

So, given that history, there is probably little reason for me to even ask. Nevertheless, in today's news we learn that there are now municipal elections that have been called for October—October 20th, 2012.

Given everything that the three of you have talked about in terms of public opinion, the 70 to 71 percent figure that several of you referred to, 71 percent of the people who think that there is some level of corruption, Abbas is corrupt, the regional public opinion, let's talk about these elections. I mean, to what extent, given that backdrop, will this issue be one that is part of these municipal elections if they take place?

And, Dr. Schanzer, as you pointed out a couple times, it is corruption which in many ways is at the heart of so much that we have seen take place over the past 1½ years in the region. Is there reason for us to think that it may play an important role in determining the direction that these elections go, as well?

Mr. SCHANZER. Well, Representative Deutch, thank you for this question.

First of all, I think that the likelihood, at least based on the track record, is rather low that we will see elections. We continue to see the Hamas and Fatah factions talk about elections because we know that reconciliation between these factions and the unity discussions are important for them to talk about to the public, be-

cause the current state of quasi-civil war is deeply unpopular. It very much undermines the very question of Palestinian nationalism that there are now two separate quasi-states governed by two separate governments.

But at the end of the day I believe that both of these factions are very satisfied with the little fiefdoms that they control. In fact, I think they are looking to perhaps take over the other, but neither one is willing to chance it, I believe, in an election.

I do believe that the question of corruption will come to pass if and when elections do take place. It will be an important issue. We are hearing right now, that same survey that I mentioned also indicates that a majority of Gazans believe that Hamas is involved in some sort of corruption. The problem is, for us it is a lot harder to get at. It is a much less accessible society for a lot of us.

Mr. DEUTCH. Right.

And just, if I may—and I bring this to the entire panel—who is going to raise it? Where is the movement in the West Bank, let alone in Gaza? Who is going to raise this issue? And who will be the candidates who will take up fighting corruption as their top priority?

Mr. Abrams?

Mr. ABRAMS. Thus far, Mr. Deutch, the answer is very few people. Hamas and Fatah have really gotten the vast majority of Palestinian political activity and votes. Other parties, including Fayyad's party, for example, he got two seats in the Parliament. When Abbas ran in January 2005, he got about 67 percent of the vote. The next candidate down got, I think, 14 percent.

So organizing other parties has been almost impossible. They seem to have a dual monopoly here on political life.

Mr. DEUTCH. Mr. Zanotti?

Mr. ZANOTTI. I mean, again, this is somewhat of a hypothetical, but if you are thinking of it analytically, you look at—as Dr. Schanzer said, I mean, Hamas, you know, they have a track record now. So, you know, they are perhaps vulnerable in a way that they might not have been in 2006.

That being said, we don't have very good insight into the dealings in Gaza. And so when you are looking at it from an international standpoint, you have a much longer track record that Fatah has. And so Hamas, I mean, that perhaps leaves it a little bit more vulnerable.

Mr. DEUTCH. Let me ask it a different way. We have all of the different ways, all of the different actions that we can take in this country as it relates to our foreign aid and ensuring that the aid is tied to these anticorruption measures. But who is it—or is there anyone on the West Bank or in Gaza, is there anyone who is willing to stand up and speak out against these issues, that, according to these polls that you cite, would be the popular position to take?

Mr. SCHANZER. I will try to answer that.

I think there is only one, but I am not sure that he is still the man who can do it, and that is Salam Fayyad, the current Prime Minister. He has a track record of fighting corruption.

But, unfortunately, he has been undermined recently by Mahmoud Abbas himself. The two are reportedly at odds over this very issue. You know, Fayyad is trying to clean up the P.A., and

Abbas has a system that he is quite happy with, and so it has been a power struggle.

It is also unclear—in the Palestinian territories, as well as in a lot of places Middle East, if you don't control the guns and the money, you don't have a lot of power. And Fayyad is not associated with Hamas, he is not associated with Fatah. He is a true reformer. And I think he is the best bet for the Palestinians, but I don't believe that the system right now could sustain him.

Mr. DEUTCH. Mr. Chairman, could I ask for just an additional——

Mr. CHABOT. Yeah. Without objection, the gentleman is granted 1 additional minute.

Mr. DEUTCH. Thank you, Mr. Chairman.

Just on the issue of guns and money, particularly on the issue of guns, we have been reading in the past day or so about the issue of the Russian guns that have been delivered and warehoused, not yet delivered.

I mean, when we get back to what role can we play, shouldn't part of the discussion about the delivery of those guns include a very specific discussion about fighting corruption, Mr. Abrams?

Mr. ABRAMS. I think it should, Congressman. And I would urge you to just take a look at the Web pages of AID for the West Bank and MEPI. Because it is all—you know, it reads very nicely, but nowhere do you see, "We are going to work with Palestinian NGOs on a major anticorruption drive. We are going to try to fund some NGO that is really pushing this issue. We are going to try to help broadcasters who are pushing this issue." It is just not there. And it ought to be.

Mr. DEUTCH. All right. Thank you.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you very much.

The gentleman's time has expired. We will go into a second round at this point for any members that are interested. And I will recognize myself for not more than 5 minutes.

Mr. Abrams, in your testimony, again, the written testimony, you stated that, and I quote you again, "Corruption is an insidious destroyer, not only of Palestinian public finance, but of faith in the entire political system."

Would you explain how corruption affects the confidence of the Palestinian population in their own government and what the impact of this has been or probably will be in the future?

Mr. ABRAMS. Thanks, Mr. Chairman.

I think the best photo of this is the elections in 2006 when, to our surprise, Hamas won. How is it possible? Palestinians were supposed to be secular, educated people. How is it that they voted for an Islamist group like this?

I don't think there is one simple answer, but I think the heart of it is corruption. They were tired of the kind of governance that they saw, which was, they knew, making them a laughingstock throughout the Arab world and the rest of the world, where they had a terrorist leader, Arafat, whose wife was living the high life in Paris with their money. So what does it produce? In that case, it produces a Hamas victory at the election.

Now they look around and see the elections in Libya, which seem to have been pretty good elections, judging from what the observers said. They have to be asking themselves, what is going on here? How is it that Libya, after 30 years of Qadhafi, can have free elections but we don't seem to be able to have elections here?

So I think it is this combination of political frustration and the sense that the top figures are corrupt that leads Palestinians really into a kind of cul-de-sac. How do you get out of this? They keep hearing about elections being scheduled, and they are never held. And my fear is, of course, that ultimately this leads to some kind of violence as the level of frustration rises.

Mr. CHABOT. Okay. Thank you.

Let me ask each of the panel members here a question. This may be unfair, but I am going to do it anyway.

As far as the U.S. Aid that goes to the Palestinians, if you had to put a percent, based upon your expertise, common sense, things you have read, what you believe, if you had to put a percentage of how much of that aid gets siphoned off to somebody's pocket or to something that went to a relative for some reason and they had an unfair advantage over other people in the competition, so a percent of how much of our aid that the U.S. taxpayers send over there that goes to corruption, gets siphoned off in some manner or form, what percent would you put on that?

And I will give you that unfair question first, Mr. Abrams. What would you say?

Mr. ABRAMS. I would imagine, Mr. Chairman, that the number is reasonably low, partly because so much of our money is given in programming, so we know exactly where it is going; partly because to the extent that Fayyad has his hands on it, he would prevent the corruption.

In some of these cases where we are looking at, say, the Palestine Investment Fund, we are not putting money into that now. It is a huge block of money that I think is being mishandled. But I suspect the percentage of our money that is actually being stolen, in the way it was stolen in the Arafat days, is now low.

Mr. CHABOT. Okay.

And I saw a nod from Dr. Schanzer. So you would concur with that?

Mr. SCHANZER. I would concur, with a caveat. I do believe that it is also probably low. I think that the idea that anyone would be so brazen as to simply pocket money, you know, I think it would be a difficult thing to imagine on a very large scale.

But I will also add this, that I believe that the funds that we are providing to the Abbas government, all of it—you have to look at it in the big picture. What they have done is they have used this funding to shore up and consolidate economic and political power. So all of the institutions help reinforce the power of Abbas, which is, you know, at this point not anything that we can really challenge. You are not going to see elections; he is not interested in stepping down anytime soon. And so his forces crack down on demonstrators, as they did recently. His cyber teams hack Web sites that are critical of him. So, in other words, by contributing to the broader Palestinian Authority, they are using it for political or economic corruption.

Mr. CHABOT. Okay. Thank you.

Mr. Zanotti?

Mr. ZANOTTI. Mr. Chairman, I have no reason to disagree with my colleagues on the panel.

I would add that the State Department since 2008 has certified to the Committees on Appropriations that all money contributed from the United States to the Palestinian Authority's budget goes—that the Palestinian Authority has established a single Treasury account, eliminated parallel financing mechanisms, and has a comprehensive civil service payroll. And then there are additional safeguards such as a 3-year power of audit and refund that we attach to the money that is given to the Palestinian Authority.

The remainder of the Economic Support Fund money that we provide for the benefit of Palestinians in the West Bank and Gaza is distributed to various private organizations for programs in the West Bank and Gaza. And, by law, that is routinely renewed in appropriations legislation each year. Each of these vendors, if you will, have to be vetted and also are subject to audits at least annually by USAID.

Mr. CHABOT. Okay. Thank you very much.

My time has expired. The gentleman from New York is recognized for 5 minutes.

Mr. ACKERMAN. Thank you, Mr. Chairman.

The corruption and the money from corruption, both under the regime of Yasser Arafat and under the current government of Mahmoud Abbas, seems to center on them and their families acquiring all of this money. Is the corruption for basically self-aggrandizement, or is it a powerful tool for control and politics?

And tie that in with the word or the concept or the excuse that we really haven't brought up here at all, the occupation, which usually gets blamed in the Palestinian territories for everything, and everything is justified because of the occupation. "I steal because of the occupation." "We can put off the election because it doesn't really matter because of the occupation." Everything is the occupation.

If there was no so-called occupation, would this become a Sweden or a Finland? Would corruption cease? Would democracy take full root? What would happen? And what do we do about this?

Elliott?

Mr. ABRAMS. Just as a beginning, Mr. Ackerman, I think we should not look at this as an Abbas family problem only. If we look at, for example, the Palestine Investment Fund, his sons are not on the board of that. But if you look at the board of that, it is cronies, it is Fatah guys.

Mr. ACKERMAN. Yeah.

Mr. ABRAMS. And the accusation, which I personally believe to be true, is one of self-dealing. It is doing business with your cousin and my cousin and your wife and my sister, and it is a very old-fashioned form of who gets what and making sure that your friends and relatives get it. That is what is going on, and the friends and relatives and cronies are all part of the old Fatah Party establishment.

So it is one of the ways both of keeping Fatah in power by making sure there is money around in the machine and also keeping

its popularity, unfortunately, down, because Palestinians are not stupid and they know that this kind of activity is going on.

Mr. SCHANZER. I will agree with Elliott again here. I think that certainly the funds are—it is a tool for politics. It enriches the inner circle. And from a recent trip that I took to Ramallah actually late last year, talking with a number of, let's call them senior insiders, or former insiders of the P.A., the idea here is that you have to play ball. You have to work within the system if you want to get business done. And it is a known fact that if you try to go out of the system, you will be edged out of business. So it is about wielding power. That is what a lot of this is about.

As for the occupation or Israel's presence in the West Bank and the Gaza strip, I think that it, to a certain extent, is the best thing that ever happened to the Palestinian leadership, in the sense that they can blame this presence on—or they can say that this presence is the root of everything. And you hear it from Abbas now, that he can't tackle some of these important issues because of Israel's presence in the West Bank and the Gaza strip.

And so, if that were to be gone tomorrow, I think the Palestinian leadership would be left looking around, saying, well, geez, now how do we shift the blame? And it really has become a convenient crutch for this leadership.

Mr. ACKERMAN. Let me ask an additional question. What happened to all those young people I met some years ago that were young reformers trying to get into the Fatah Party? They were full of—we used to say piss and vinegar. I don't know if that is an appropriate term anymore. But they were filled with a lot of spunk and wanted reforms and wanted in. Were they coopted, or did they just tire and go away?

Mr. SCHANZER. Many of them have been pushed out. I think one of the individuals who we had identified as a potential up-and-comer was Mohammed Dahlan——

Mr. ACKERMAN. Yeah.

Mr. SCHANZER [continuing]. Who was a West Bank security chief. And I have actually written about this for The Weekly Standard. Abbas has gone after him tooth and nail.

Mr. ACKERMAN. He is the one with the bad knee.

Mr. SCHANZER. What was that?

Mr. ACKERMAN. He is the guy with the bad knee, disappeared during the shooting?

Mr. SCHANZER. Yeah. And so Dahlan was basically railroaded out of the Palestinian Authority. Abbas has recently tried to seize his assets in Jordan. There has been a campaign to malign him.

Now, I am not going to tell you that he didn't have his own problems with corruption. The allegations are out there. I can't verify them one way or the other. But certainly he became a political opponent of Mahmoud Abbas, and this became yet another grudge match that played out in the public sphere. It was rather ugly.

Mr. ACKERMAN. If I could abuse my time and ask one additional question?

Mr. CHABOT. The gentleman has permission to ask an additional question.

Mr. ACKERMAN. Thank you.

The neighbors, they all make pledges. They promised the Palestinians a lot of money. They always seem to default big league. One of the excuses that they use for not coming through with their pledges is the corruption. But can't, in fact, they be of assistance by contributing money for projects in other ways, through other international projects, through the international community, project assistance, multilateral programs, the World Bank, et cetera? Can't they really do that, without putting money in someone's pocket directly or indirectly?

Mr. ABRAMS. Mr. Ackerman, I think you are exactly right. They certainly can. They don't give zero. In the case of—we are talking about the oil producers who have plenty of cash. But they give late. They give smaller amounts than they pledge. Months and months go by when they give nothing. And, in fact, Fayyad, the day before yesterday, made another speech in which he said, we have about a $1 billion deficit because the Arab pledges have not been paid.

So if they are worried about corruption, they could talk to him about it and work out ways to try to ensure that the money is not abused.

Mr. ACKERMAN. In some synagogues, they call out your name to ask you what you are pledging and actually give a shout-out to everybody as to what they gave and what they didn't give based on last time.

Do you think it is possible that they get more specific, rather than just generically blame their cousins, their brothers, for not coming through?

Mr. ABRAMS. Not realistically, because they don't want to make them angry.

Mr. ACKERMAN. Yeah.

Mr. ABRAMS. So we know——

Mr. ACKERMAN. Because then they might not give again.

Mr. ABRAMS [continuing]. What the Arab League level of pledges are. And, in fact, we do a lot of cajoling. I mean, the reliable money they get is from the United States and Europe. And we are passing the tin cup constantly. I can't remember a meeting with Saudis or Emirates or Algerians or Qataris in which were not saying, "By the way, how about giving money to the Palestinians?" It is actually quite disgraceful.

Mr. CHABOT. The gentleman's time has expired.

Before I recognize the gentleman from Pennsylvania to ask questions, it had been brought to my attention that you have a 4 o'clock program you are supposed to speak at, Mr. Abrams. I am going to try to stop over there, although I have three things at 4 o'clock, as well. So you are free to go if you need to get over there.

Mr. ABRAMS. Thank you.

Mr. CHABOT. So thank you.

Mr. Marino, you are recognized for 5 minutes. There are still two witnesses left.

Mr. MARINO. Mr. Abrams, going out the door, as you are walking out the door, I happened to be in Israel several months ago, and the Prime Minister came and talked to a group of us. That alone was a good indication—the Prime Minister of Palestine. He clearly wanted to become friends or negotiate with us. How do we foster that?

Doctor?

Mr. SCHANZER. Representative Marino, Salam Fayyad is a partner to the United States. I think that is without question at this point. And he has been very open to working with us, to conditioning the support. I mean, he will work with us pretty much no matter what and has that track record.

So the question is not how we foster that relationship with him. I think the question now is, how do we empower him further? Because I believe that he has been weakened over time. At one point, it was the columnist Tom Friedman that had celebrated his approach to governance. He called it Fayyadism. And, you know, everybody sort of celebrated this new era of Palestinian politics. I would argue that his power has sort of eroded over time and Fayyadism is really on the wane.

Mr. MARINO. But can we not work into him some control over the aid that we give to Palestine?

Mr. SCHANZER. I have not seen that political will yet.

Mr. MARINO. Okay.

And my second question. I had the opportunity to be in Egypt, in Cairo, several weeks ago, among other things, observing the elections. And we know how the elections went. But women in traditional garb were lined up for blocks and blocks and blocks to vote, and they voted for the Muslim Brotherhood. In most countries—in some countries over there, women are not even second- or third-class citizens.

Why is this happening?

Mr. SCHANZER. I am not sure I am equipped to answer that, other than it is something that needs to be addressed.

But I can assure you that that is not the case in the Palestinian territories. Women inside the Palestinian territories are equal citizens. I would say that the Palestinians, because of their education, their exposure to the West over the years as a result of being in the diaspora, it is a very forward-leaning society in that way. And so that is really not what the problem is in this area.

Mr. ZANOTTI. Again, I am also not—Egypt is not my area of expertise, but there are a multiplicity of factors that could, you know, have some influence on the phenomenon. One, this was, I think in their perceptions, their first real opportunity to effect something at the ballot box. And, number two, there are, you know, conservative values throughout the region. There are conservative values in many places around the world. So those are a couple of reasons that can explain some of this phenomenon in Egypt.

Mr. MARINO. Gentlemen, thank you.

I yield back.

Mr. CHABOT. The gentleman yields back his time.

And the final questioner will be the gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman. And forgive me for being in and out. I have two hearings at the same time, and so I am trying to make both of them.

Let me ask both gentlemen, first of all, I mean, the title of this hearing, "Chronic Kleptocracy"—maybe I will start with you, Mr. Zanotti. I mean, what do we know about how pervasive corruption is in Palestinian governance, both in the Gaza and West Bank?

And does it really stand above, for example, corruption in other countries in the region?

Mr. ZANOTTI. Mr. Congressman, thank you for your question.

As I had mentioned earlier, there was a 2011 World Bank study on the topic of Palestinian governance and corruption, and one of the quotes from it says, "Given the fact that corruption is an activity which is concealed and hidden, it is generally difficult to identify specific acts when they occur or to ascertain the scale of the problem through observable indicators." So, of course, that is a problem not confined to the Palestinian context, but that is a situation——

Mr. CONNOLLY. Excuse me, but it does sound like kind of traditional bureaucratic gobbledygook. I mean——

Mr. ZANOTTI. Sure.

Mr. CONNOLLY [continuing]. I have been in the development world for 30-plus years, and the World Bank has always had a little bit of a difficulty identifying corruption and doing anything about it.

Mr. ZANOTTI. So that being said, Mr. Congressman, the conclusions of this study, which were based on some surveys of both public officials and households within the West Bank and Gaza, came to the conclusion that when you are talking about, kind of, at the lower and the mid levels throughout the West Bank and Gaza, that the perceptions of corruption, particularly with regard to bribery and preferential treatment of family members and personal connections, the perceptions are significantly higher than the actual experience with it. And they compared the incidence in the West Bank and Gaza with Egypt and Yemen as benchmarks, and it was significantly lower in those cases.

Mr. CONNOLLY. So are you saying that the title of our hearing here, "Chronic Kleptocracy," might be a bit of an overstatement?

Mr. ZANOTTI. I am not necessarily saying that. I am just citing the evidence that the World Bank had offered.

Also, they had offered some evidence having to do with perceptions of the investment climate in the West Bank and Gaza compared with others in the region——

Mr. CONNOLLY. And?

Mr. ZANOTTI [continuing]. And whether corruption——

Mr. CONNOLLY. No, no, but what did they find?

Mr. ZANOTTI. Well, what they found was the perception, at least, was that corruption, compared with similar surveys from 1996 and I believe 2002, had declined quite a bit from it being one of the main factors to dissuading potential investors from entering the market.

Mr. CONNOLLY. And what they found was, whatever that barrier was, it was diminished as a barrier.

Mr. ZANOTTI. Correct.

Mr. CONNOLLY. Dr. Schanzer?

Mr. SCHANZER. It is a very interesting question about how pervasive this is. First of all, you know, just looking at the polls, the recent polls that were taken inside the Palestinian territories, West Bankers in particular, 71 percent of West Bankers in particular believe that corruption is a chronic problem within the Abbas govern-

ment. And so I think, you know, to a certain extent we need to take their word for it.

But in my study of the problem of corruption, we can look at it in two ways. That is typically the way political scientists look at it anyway. One is the idea of systemic corruption, and then the other one of empirical.

The empirical model is, you know, if you have been to maybe some countries in the Southern Hemisphere, you get pulled for allegedly going through a stop sign; a policeman will shake you down, you give him $10, and you go on your way, and this happens every couple of miles while you are there, constantly people making sure that you pay them for, sort of, bogus reasons.

Then there is the question of systemic corruption, which is the consolidation of power, economic and political. This is what I believe we are seeing right now inside the Palestinian territories. The insiders get wealthy, the insiders gain more power. And those who are not insiders suffer, and they blame the occupation for it, as opposed to taking responsibility for helping to bring up a middle class.

Mr. CONNOLLY. I am running out of time, but let me ask you both one more question.

When I was last in the West Bank, I met with Dr. Fayyad. And the impression at the time was that he was sort of a clean government type and actually was making strides to clean up that corruption, to discourage it, to highlight it, and to set a different kind of model, to show that the Palestinians were very capable of self-governance and that he was committed to making local services work.

Your comment on—I heard what you said to Mr. Marino's question, but I would like you to expand just a little bit. Are you saying he stalled in that effort or failed in that effort or there has been a little bit of regression? Or what thought are you leaving us with with respect to the Prime Minister?

Mr. SCHANZER. Thank you, Representative Connolly. It is a terrific question, and it is something that I think we need to look into a bit more.

I believe that when Salam Fayyad first became Finance Minister and then rose to Prime Minister, he really had a good head of steam. I mentioned the Fayyadism piece that Tom Friedman had written, and there was this celebration that the Palestinians were really turning a corner and that there was a realization among the leadership that something needed to be done about the question of corruption. This was particularly the case after the second intifada broke out in the early part of the last decade. There was this sense that something needed to be done.

But I would argue that over the last several years Fayyad has sputtered, and not necessarily of his own doing. I believe that he has been undermined by the Abbas government. Abbas, in his hunt for alleged corruption inside the Palestinian Authority, he has gone after really primarily either outsiders, which doesn't affect Fayyad, but then has also gone after some of Fayyad's cabinet, which Fayyad appointed. And these were not for things that they did while they sitting in government; it was for what they did before they came into government.

But the idea here is that Abbas has sort of undermined Fayyad in many ways. We hear that the two of them are not talking very much, that it is not a terribly close relationship, they are not coordinating on the question of corruption. So, as a result, I think Fayyad has been stripped of some of his power. And I find this very disconcerting, because we continue to hold up Fayyad as the answer to the Palestinians, but, meanwhile, his power has decreased significantly.

Mr. CONNOLLY. Would the chairman just allow Mr. Zanotti to answer the same question?

Mr. CHABOT. Absolutely. Yes. Mr. Zanotti is recognized.

Mr. CONNOLLY. I thank the chair.

Mr. ZANOTTI. Again, there are these reports about the current dynamic between Mr. Fayyad and Mr. Abbas. Without directly approaching them, to give you a little bit of a historical basis for the office of the Prime Minister, this office was established in 2003, actually installing Mr. Abbas as Prime Minister when Mr. Arafat was still President. And some of the peculiarities of how this has evolved over the years may shed some light on perhaps what is going on right now, which is sometimes hard for current observers to fully glean exactly what the facts are.

So you have a situation where Mr. Abbas was installed as Prime Minister largely to be able to take some of the powers away from Mr. Arafat, be a different interlocutor with Israel, to battle some of the corruption that was talked about at the time. Then, of course, Mr. Arafat passed away, Mr. Abbas was elected President. And a year later, Hamas was elected and we had a Hamas person occupying the seat of the Prime Minister, in which case many people from the international community, the United States included, looked to empower the President a bit more.

So then when you had this split in June 2007 between Hamas and Fatah, then Mr. Fayyad was appointed by Mr. Abbas. But, again, you have a dynamic of personalized rule, where Mr. Abbas to some extent stands in the shoes of Mr. Arafat at this point.

And in addition to that, what you don't have now that you even had back in 2003 is a functioning legislature that could act as a check on power. The ranking member referred to this notion of kind of a young group of people in Fatah. They had turned into a bit of a check on Mr. Arafat and holding his feet to the fire a bit. You don't have that currently because the Palestinian Legislative Council is not in session because you have the split between Hamas and Fatah.

Mr. CHABOT. The gentleman's time has expired.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. CHABOT. Thank you. Absolutely.

And I want to thank the panel here this afternoon for their excellent testimony, and Mr. Abrams, in his absence, as well.

And, without objection, members will have 5 legislative days to extend their remarks or submit questions. And if there is no further business to come before the committee, we are adjourned. Thank you very much.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

Subcommittee on the Middle East and South Asia
Steve Chabot (R-OH), Chairman

July 9, 2012

You are respectfully requested to attend an OPEN hearing of the Subcommittee on the Middle East and South Asia, to be held in Room 2172 of the Rayburn House Office Building **(and available live, via the Committee website at http://www.hcfa.house.gov)**:

DATE: Tuesday, July 10, 2012

TIME: 2:00 p.m.

SUBJECT: Chronic Kleptocracy: Corruption within the Palestinian Political Establishment

WITNESSES: The Honorable Elliott Abrams
Senior Fellow
Council on Foreign Relations

Jonathan Schanzer, Ph.D.
Vice President for Research
Foundation for Defense of Democracies

Mr. Jim Zanotti
Specialist in Middle Eastern Affairs
Congressional Research Service

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON MESA HEARING

Day Tuesday Date 7-10 Room 2172

Starting Time 2:03 Ending Time

Recesses 1 (2:22 to 2:59) (to) (to) (to) (to) (to)

Presiding Member(s)

Steve Chabot

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☐
Electronically Recorded (taped) ☐
Stenographic Record ☐

TITLE OF HEARING:

Chronic Kleptocracy: Corruption within the Palestinian Political Establishment

SUBCOMMITTEE MEMBERS PRESENT:

Chabot Ackerman Carney Deutch Manne Keating

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ No ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED 4:14

Subcommittee Staff Director

House Foreign Affairs Subcommittee on the Middle East and South Asia July 10, 2012

"Chronic Kleptocracy: Corruption with the Palestinian Political Establishment"

Bilirakis question:

We are all here today to discuss "corruption with the Palestinian political establishment," and this, I believe, is something that needs to be seriously addressed, without further delay.

This Administration, as with previous, have provided aid to the Palestinians, and it was and is done with the purpose of maximizing U.S. political interests, which include preventing terrorism against Israel.

We are all in agreement that having a stable and peaceful region is in the best interest for us all. However, it seems as though our efforts of fostering peace, has been met with more corruption and instability. Particularly in regards to the rise and ever growing threat of terrorist organizations, such as Hamas.

My question is to all on the panel and it is directed toward our steps moving forward in the region. Using Egypt as a recent example, several of my colleagues and I understood the situation was dire and we successfully added restrictions to U.S. aid. However, as we are all well aware, the Administration waived the restrictions on "national security" grounds.

If we were to now put in place restrictions on aid to the Palestinians, until they can flush out corruption and terrorist elements that linger, how can we be sure that this Administration would not assert "national security" and release the aid without first putting a mechanism in place that would make certain that the aid does not wind-up in the wrong hands?

Moreover, would you say that if Congress were to implement restrictions on aid until State could certify to us that reforms were in place, is that a good start and would you care to share with us what restrictions you would put in place moving forward?

Thank you

[NOTE: No responses were received prior to printing.]

The Honorable Gerald E. Connolly (VA-11)

MESA Subcommittee Hearing:
Chronic Kleptocracy: Corruption within the Palestinian Political Establishment
Tuesday July 10, 2012; 2pm

Last fall, the Palestinian Authority (PA) forced a unilateral statehood vote at the United Nations Educational, Scientific & Cultural Organization (UNESCO). This vote increased scrutiny on U.S. aid to the Palestinian Authority and to UN entities. It is perplexing that President Mahmoud Abbas would bypass any multilateral negotiation by pursuing such an agenda at the UN. U.S. policy on the issue of statehood has remained the same since 2002—the U.S. supports a two state solution. If the PA continues its quest at the UN, we may be farther from peace negotiations than we previously thought.

One year ago, by a vote of 407-16, the House passed H. Res. 268, which urged Palestinian leaders to "cease all efforts at circumventing the negotiation process, including through a unilateral declaration of statehood or by seeking recognition of a Palestinian state from other nations or the United Nations." The vote total displays the "firm belief that any Palestinian unity government must publicly and formally forswear terrorism, accept Israel's right to exist, and reaffirm previous agreements made with Israel."[1] The Resolution also "reaffirm[ed] the United States' statutory requirement precluding assistance to a Palestinian Authority that includes Hamas" unless the PA and all its ministers abide by the three previously mentioned conditions, which have long been a part of the United States' Middle East policy.

For FY13, the U.S. State Department proposed $370 million through USAID to the Palestinian people for four specific sectors: governance, rule of law, civil society; health, education, social services; economic development; and humanitarian assistance. State also proposed $70 million in funding through the International Narcotics Control and Law Enforcement Account. It is important to note that USAID has strict vetting requirements for its programs,[2] which subjects West Bank and Gaza programs to a specialized process for non-U.S. organizations and to annual audits to ensure that no terrorist groups intercept the funds. Moreover, annual appropriations bills routinely prohibit aid for Hamas or Hamas-controlled entities. The United States also funds training of and non-lethal equipment for PA security forces in the West Bank, along with funding for the rule-of-law infrastructure (such as building police stations) and the justice sector.[3]

Though USAID funds programs in Gaza, the situation there necessitates a different model. The United Nations Relief and Works Agency (UNWRA) provides basic services for about 4.8 million Palestinians. The humanitarian situation in Gaza is dire, and cutting off aid would be devastating to the millions of Palestinians who rely on the multilateral aid organization.

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[1] House Resolution 268, 112th Congress.
[2] As outlined in Public Law 111-117.
[3] For FY12, State proposed $77 million for Training, non-lethal equipment, and garrisoning assistance, supporting efforts by the U.S. Security Coordinator; funding for justice sector and rule-of-law infrastructure was proposed at $36 million.

The Honorable Gerald E. Connolly (VA-11)

The United States has strategic reasons for ensuring that Palestinians have access to basic services. It has been longstanding policy to endorse a two state solution, which, by its very nature, requires governments that can provide basic services for their people. In the case of the Palestinians, this is a work in progress. The United States and its allies are laying the groundwork by providing aid for specific purposes, in the hopes that a future, long-lasting peace is viable. Such a long-lasting peace will not suddenly materialize—it will require a thorough and fair negotiating process with a commitment from all parties. I look forward to having the U.S. be the honest broker in such a negotiating process, and to having an unwavering commitment to such a process by all parties involved.

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