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Palestine Central Bank's Tricky Path

Hamas Threatens Reprisals In Gaza; Haggling for Shekels

By Bob Davis

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RAMALLAH, West Bank -- Ben Bernanke worries about being held hostage to the global economy. The central banker for the Palestinian territories frets about hostage-taking of a different kind.



Jihad Al-Wazir

"Sometimes people take a gun to the head of a branch manager," says Jihad al-Wazir, governor of the Palestine Monetary Authority. "Then I get a phone call."

The PMA is a most unusual central bank. It lacks a currency and a country. It can't control interest rates or fight inflation, like other central banks. And it communicates with its Gaza branch office by videoconference because Israel regularly blocks the border to PMA officials. Meanwhile, Hamas, the militant Islamist party that rules Gaza, wants to boot out the central bank's leader.

The PMA is playing a critical role nonetheless, pressing banks in the West Bank and Gaza to modernize. Its efforts have made it easier for well-off Palestinians abroad to

invest back home. That's a big reason households' bank deposits rose by 20% in 2007, according to the International Monetary Fund.

The PMA also is encouraging enterprise in the territories, where much of the population now depends on make-work government jobs. It aims to turn itself into a "full-fledged central bank" by 2010, meaning one with the ability to manage a currency in case a Palestinian state is created.

With the U.S. making another push for a Middle East peace deal, the PMA also has an important political function. It's run by technocrats who are trusted by the West and seen as part of the economic spine of any future Palestinian state.

The rumpled Mr. al-Wazir, 45 years old, embodies the agency's contradictions. He is the son of a Palestine Liberation Organization co-founder who ran PLO military operations and was assassinated by Israeli commandos in Tunisia in 1988. The son says he won't meet with Israeli Defense Minister Ehud Barak, who as an Israeli commando directed the raid. He cracks bitter jokes about what he imagines to be Israel's "Office of Evil Intent," anonymous bureaucrats who make life difficult for the Palestinians.

But he also has a pragmatic bent. He is close to Israel's central banker, Stanley Fischer, who helps him cut through Israeli bureaucracy. He has an engineering degree and a doctorate in business administration. In the late 1990s, he headed a trade center in Gaza and put together a software venture with an Indian partner.

He loves the glamour of international finance, recounting his adventures at a conference in London. "We were toasting the Queen," he says. "I thought I was on a movie set."

Mr. al-Wazir has to navigate politics far more complex than most central bankers face. While the West Bank is run by a secular government, the Palestinian Authority, Gaza is ruled by Hamas, a party that doesn't accept Israel's right to exist and that the U.S. and Europe consider terrorist.

The PMA counts on Mr. Fischer to keep Israeli banks working with Palestinian ones to clear checks and provide cash. But the more Mr. al-Wazir relies on Israel, the less credibility he has with many Palestinians, especially Hamas.

"Jihad [al-Wazir] is a weak person and his personal interests aren't with the Palestinian interests," says Atef Udwan, a senior Hamas lawmaker who handles economic issues, speaking in a whitewashed compound in Gaza City. Mr. al-Wazir responds that his goal is to "preserve and protect the Palestinian banking sector in both the West Bank and Gaza."

Over the past six months, according to the PMA, Hamas has stepped up pressure on the central bank by seizing PMA cars and interrogating PMA officials. Mr. Udwan says Hamas might name a PMA deputy governor to regulate Gaza banks.

At the central bank's seaside office in Gaza City, Abdul al-Mashharawi, a senior PMA official, says: "Every morning we come to work and we say, 'Thanks to God [Hamas]

didn't come to take away our business.'"

In the U.S., lawyers for terrorist victims are suing the PMA for damages, alleging it is part of a Palestinian regime that murdered civilians. The PMA has won several decisions in U.S. courts, by proving its independence from those who govern the Palestinian territories. But the ongoing cases, which are on appeal, have spooked Israeli banks, which fear being dragged into similar lawsuits.

The PMA was created in 1995 after the Oslo accords sought creation of a Palestinian state. Jordan vetoed a proposal to let the Palestinians issue their own currency, according to Israeli and Palestinian officials. Palestinians use Israeli shekels, along with U.S. dollars, Jordanian dinars and the euro.

The PMA itself now discourages the idea of a Palestinian currency. Although it collects data on economic activity and intends to begin forecasts of demand for electricity and cement, to manage a currency the PMA would need a capacity for sophisticated economic analysis that it lacks. As a reminder that a nationalist currency dream can go sour, Mr. al-Wazir keeps a photo of a Zimbabwe \$100,000 note, now all but worthless after years of ruinous economic policies.

Over the years, the Palestinian economy has crumbled. Israel has barred thousands of Palestinians from working in Israel and erected a web of roadblocks that hobble Palestinian businesses, responding to what it saw as a security threat. The economy of the West Bank and Gaza shrank 40% between 1999 and 2006, after accounting for inflation, and has barely grown since then, the IMF estimates. Its annual output is about \$5 billion.

After Yasser Arafat's death in late 2004, a cadre of Palestinians trained at the IMF and World Bank sought to remake agencies that were known for corruption and cronyism. A former IMF staffer, George Abed, took over the PMA, and described it in a central-banking journal as "tense, fearful, demoralized and fractured." He shrank its staff, ousting those without sufficient economic training.

In the West Bank, the PMA created a modern credit bureau to help banks check borrowers' backgrounds. It insisted that family-owned banks add outside directors, to reduce self-dealing. It is working on an electronic system to speed business payments.

In its small headquarters building in Ramallah, shared with the Palestinian water agency, Mr. al-Wazir recently updated two dozen bankers. Fielding complaints that Israel hadn't replaced damaged or worn-out shekel notes, he said he would turn to Mr.

Fischer, the Israeli central banker, and others for help. (Later, he managed to get 40 million shekels in new bills, worth roughly \$11 million.)

New Code

Seated at a table with a model of Jerusalem's Dome of the Rock mosque in the center, Mr. al-Wazir said the central bank soon would issue a new corporate-governance code. Thanks to the PMA's rules, Palestinian banks don't do business just with well-connected families, as they used to, say banking experts. Hashim Shawa, CEO of Ramallah-based Bank of Palestine, says his institution is starting to make mortgages, student loans and loans to smaller businesses. Mr. Fischer says the PMA "leadership is operating at a very high level."

To make sure the 21 banks the PMA regulates can continue doing business internationally, the authority demands they enforce rules against money laundering. Essentially, transfers are supposed to be matched against lists of terrorist groups to ensure that money doesn't go to their accounts. The PMA says depositors must sign checks in Roman as well as Arabic letters, to make it easier for outsiders to check, and that depositors must have identification numbers registered with Israel and the PMA.

"From our perspective, the PMA has done a really challenging job well," says Daniel Glaser, a U.S. Treasury official responsible for combating terrorist financing.

Israel wants the PMA to go further and press money changers and charities to cut off entities involved in terror financing and supporting Hamas. "If they want to clean out their stables, they still have a lot to do," says Yehuda Shaffer, Israel's top anti-money-laundering official. Mr. al-Wazir says a crackdown on money changers would backfire by driving them underground.

In Gaza, the PMA's job is especially hard. Hamas, having taken control after a 2007 civil war, is on international terrorist lists, as are many Gaza charities and Hamas partisans. So to stay in business, Gaza banks are under PMA instructions to cut off a good chunk of the Gaza population.

The reaction to PMA rules sometimes has been violent. After Arab Bank shut down Hamas accounts in late 2006, someone detonated a bomb in a Gaza branch (while it was closed). Around the same time, Bank of Palestine found a hand grenade wired to a door.

'Armageddon' Scenario

Mr. al-Wazir, who has deep roots in Gaza, became deputy head of the PMA in 2006, before taking the top job at the end of 2007. He put together contingency plans for dealing with potential threats, which he dubbed "Hamas-minus," "Hamas-stan" and "Armageddon."

The Armageddon scenario would involve Hamas robbing banks, cutting off power to them and kidnapping managers. It hasn't happened. But to prepare, the PMA ordered banks to buy backup generators. They came in handy after a different challenge: Israeli attacks that crippled Gaza power plants.

The PMA and the Hamas government have especially tussled over Palestinian Islamic Bank. That bank paid the salaries of some Hamas security people last year, claiming it

had received mistaken orders from the West Bank's secular government. The PMA ordered it to shut down the Hamas accounts and seek to have the money returned.

Hamas then seized a bank manager, pressuring him to make further payments, which he refused to do. The PMA pressed Hamas to release the man by threatening to shut down the entire banking sector. Hamas released the kidnapped manager after several hours, but didn't repay the money it had received. Afterward, the PMA fined the bank heavily, convinced that the bank had meant to help Hamas.

"We don't know how to deal with one government in Gaza and another one in Ramallah," says a regional manager at the Palestinian Islamic Bank, Imad al-Sadi.

"Two governments for a people that don't have a state."

Hamas doesn't insist that Gaza banks refuse to pay interest, as some interpretations of Islamic law would require. But the confrontation prompted Hamas to look again at how it could strip power from the secular PMA, says Mr. Udwan, the Hamas lawmaker.

One possibility is to appoint a Hamas deputy PMA governor -- who would order local banks to ignore Mr. al-Wazir's dictates. Another idea is to recruit banks that would process overseas payments for Hamas in spite of threats of being blacklisted by the U.S. Treasury. "Will it be a risk, yes," says Mr. Udwan, a quiet man in steel-rimmed glasses. "But we think we can manage it."

Mr. al-Wazir says he doubts Hamas would be able to persuade local banks to participate. Besides, he notes, Israel controls the shipment of shekel notes into Gaza. If Hamas tried to get banks to ignore the PMA's orders, Israel might shut off the flow of shekels and leave Gazans with no way to withdraw cash, says an Israeli security official.

Already, Israel often delays shekel shipments because of divisions within its own government. Some Israeli security officials favor starving Gaza of money to try to turn the populace against Hamas; economic officials say that would backfire.

Mr. al-Wazir says he recently turned to former British Prime Minister Tony Blair, who is now a Mideast negotiator, for help in getting 70 million shekels shipped to Gaza. But he worries that future shipments will be blocked by unknown foes in the "Office of Evil Intent" and deepen the misery in Gaza. "Palestinians deserve something better than a failed state," he says.

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