



مؤتمر الحوار الوطني الاقتصادي
National Economic Dialogue Program

حوار .. شراكة .. تنمية
Dialogue .. Partnership .. Development

Duplication of Authority Effect on the Private Sector

(Banking and Insurance)

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لمؤسسات القطاع الخاص
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FINDINGS

A. Banking Sector:

1. Duplication of Laws and Procedures

- The Minister of Finance's decision to de-activate PA accounts and to cancel all approved authorized signatures for Gaza-based officers and ministries. Banks committed to all those requirements, in addition to transferring all PA balances to PA accounts in the West Bank.
- The de facto government in Gaza reacted negatively to the banks' actions and began to work in a strict manner and non-welcoming pattern with banks. It also activated the post office bank resulting in banks losing many useful accounts and transactions in addition to those lost as a result of transferring businesses to the West Bank.
- The Ministry of Interior in Ramallah ordered the cancellation and deactivation of many NGO licenses, permits and bank accounts affected the local banks in Gaza. The decisions were transmitted to banks through Palestinian Monetary Authority (PMA).
- The de facto government's decision in Gaza to assign new signatures on municipality and NGO accounts placing the banks in a very critical position.
- Absence of Police personnel from Gaza as well as the president's decision to consider all armed and semi-armed forces illegal in Gaza left banks in Gaza without any protection or security provisions. The banks contracted private security companies, which were later prohibited from doing business by local authorities in Gaza. Gaza banks were then forced to employ unarmed - untrained individuals to conduct the security function, which remains a costly and unsafe process.
- The Israeli court order to consider the Gaza Strip as a hostile entity resulting in Israeli banks to stop all dealings with banks in Gaza creating a clear shrink in cash availability in the Gaza Strip and difficulty in transferring funds. In addition, other bank services were also affected negatively.
- The Israeli authorities' decision to freeze and de-activate the customs code to the Gaza Strip affecting all banking transactions related to import and export operations.
- The Israeli authorities' decision to impose a full closure on all Gaza Strip crossing points which reflected on banking operations including decision making capacity and communication among banks' management personnel in both areas due to restriction of movement.
- The Minister of Interior of the de facto government's decision in Gaza to prohibit

local banks from "movement of cash outside the Gaza Strip" which affected the capacity of local banks to conduct business as usual, even if borders are re-opened.

- Direct request to banks in Gaza to directly deal with the de facto government in Gaza in various services including opening and dealing accounts, dealing with the post office bank, receiving armed security services through the police department, as well as payment of local taxations and commitment to government resolutions and decisions. No tangible solutions were developed for this matter.
- Issued decision from the prime minister in Ramallah to freeze the property (land) authority in Gaza which physically paralyzed the work of land, construction and housing mortgage programs. This defect came as a result of the absence of the basic guarantees to be provided.
- The status quo has led to the inability of Banks to operate correctly in the Gaza Strip. This status has also forced banks in Gaza to postpone its programs, development priorities and expansion programs in the West Bank and especially in the Gaza Strip due to the lack of clarity of the political climate.
- Banks' operations in the West Bank were not affected where some branch budgets previously allocated for Gaza branches were transferred to serve the operational area (WB).

It is clearly worth mentioning that the Palestinian Monetary Authority and the de facto government in Gaza are trying (WITHOUT COORDINATION) to keep the flow of banks' operations in the Gaza Strip and to avoid any possible shut down.

2. Payment of Government taxes and Fees

- A presidential decree was issued on June 28, 2007 exempting all Gaza tax eligible bodies and individuals from all taxes and government fees.
- The above decree carried positive as well as negative impacts. The positive impact on banks and banks' staff was represented in the relief of those tax and fee payers from paying those taxes under the weak economic conditions. Meanwhile, the negative impact was clear through depriving banks from collection of taxes and fees in cash affecting bank operations.
- The de facto government and legislative council in Gaza decided to consider the president's decision invalid, as it was not presented to the legislative council in the legally assigned period. Therefore, the de facto government continued to collect taxes and fees putting the local banks in Gaza in a confrontational position ready to explode negatively at any given time.
- In 2007, banks deducted tax amounts from their staff in Gaza but did not pay it to the

tax authorities in the West Bank nor Gaza Strip. Meanwhile and in 2008, the banks stopped deducting these amounts and paid the previously deducted amounts to their staff.

- The Prime minister in Ramallah issued a decree to change income tax brackets in Palestine and the de facto government in Gaza refused to implement such a decision. This might affect the level of amounts deducted from bank employees in Gaza's branches in comparison with their West Bank peers which is a serious problem for banks to operate under these tax laws.
- The Prime Minister's decision to exempt Gaza residents from taxes and fees translated to stopping these payments to banks from local municipalities and government bodies. The de facto government continued to collect and issued instructions for locals to pay in post office banks and to related service providers and government bodies. Banks did not pay these service fees (i.e. municipal fees, civil defense, banks vehicles license fees, etc.), which could put them in an illegal position.
- The De facto government's request from some banks to pay randomly estimated taxes.

3. Relations with the judicial system with focus on the courts

- The attorney general's office and activities were put on hold on June 15, 2007, which affected many of the banks' operations in terms of bounced check handlings and complaints. This continued until the judicial system was later also put on hold.
- Gaza courts were partially operative from June 15 and until July 15 of 2007 due to prevailing security and political conditions at the time. This resulted in putting a halt on many collection and banking cases which were left with no decision or order.
- Gaza courts remained in operation until November 26, 2007 in various cases including banks' cases. Courts completely stopped upon higher judicial council's decision to halt all court work in the Gaza strip upon control of the de facto government's "higher justice council's" of these courts.
- The Higher judicial council issued a press release on November 27, 2007 announcing the full halting of court work in the Gaza Strip and the complete annulment of all decisions taken in these courts. In addition, the attorneys' syndicate also paused all work related to these courts and requested lawyers to stop appearing in these courts.
- Work resumed in Gaza Strip courts in December as per the order issued by Gaza authorities yet depriving all banks to follow up on these courts and appear in the cases, which resulted in these courts dropping charges against debtors.
- The head of the higher judicial court in Ramallah issued a statement asking banks and insurance companies to stop all relations and dealings with court decisions taken in Gaza after November 27, 2007. Banks complied and this resulted in many court orders against banks that were not implemented.

- The beneficiaries of the decisions against banks filed complaints in the executive bodies in Gaza, which have in turn ordered official proceedings against banks' managers in Gaza.
- Negative effects of not dealing with Gaza courts included loss of many cases due to no bank representation in due time and duplication of payment of fees.
- Negative effects of not dealing with Gaza executive authorities included lack of ability to collect and file non-payment complaints, implementing due court orders, etc.
- The attorneys' syndicate issued a statement on February 10, 2008 allowing lawyers to work with Gaza courts.
- Upon issuance of the above statement, most banks requested their legal representatives to proceed in defending their cases. This came as a precaution procedure to maintain operations in Gaza and avoid direct confrontation with de facto government in Gaza.

4. Availability of cash and replacement of torn cash notes

- Supply of cash to the Gaza Strip continued for several months after Israeli banks announced their disengagement with Gaza banks.
- Since September 2007, the Israeli army began refusing entry of foreign currency to the Gaza Strip due to security reasons, which resulted in disorder of the cash system in Gaza and inability of payments of salaries or other amounts in US dollars and Jordanian Dinars.
- The black market prevailed to provide hard currency in the Gaza Strip for huge differences in price. (DO YOU MEAN RATE OF EXCHANGE?)
- The shortage of hard currency also created a lack of trust between banks and the local market.
- The New Israeli Shekel was also later banned to enter the Gaza Strip creating an additional problem.
- In July of 2007, Gaza banks held over NIS 80 million of torn currency notes, which would not be approved by the Israeli army to be replaced. Gaza banks were forced to cooperate to cover the public sector salaries during the months of June, July, and August of 2008.
- Continuous efforts from the Palestinian presidents' office, the Prime Minister in Ramallah, PMA and other international bodies, intervened to allow money to enter into Gaza, and finally succeeded in making NIS 100 million available to all banks in Gaza during August 2008.
- No clear indicator of any policy to deal with this matter is available until now.

5. Delay in clearance of checks with Israeli banks

- Since 2006 and upon legislative council elections results, Israeli banks began hinting at disengagement with Palestinian banks.
- In June of 2007, Israeli banks decided to proceed with the above threat for Gaza Strip based banks and branches.
- Clearance of checks (Trading operations amounts) and wire money transfers (especially in hard currencies) were greatly affected by this decision and delays in these functions became the norm.
- No clear indicator of any policy to deal with this matter is available until now.

B. Insurance Sector:

1. Payment of Government taxes and Fees

- A presidential decree was issued on June 28, 2007 exempting all Gaza tax eligible companies and individuals from all taxes and government fees.
- Insurance companies attempted to make use of this decision but the de facto government in Gaza refused to recognize this decision and decided to continue with the collection of these fees and taxes.
- Insurance companies tried to make use of this decree to relief tax and fee payers from paying those taxes under the weak economic conditions. Meanwhile, these companies tried to keep their operations running. The effect of the duplication of authority was felt hard on this sector.
- The de facto government in Gaza refused to recognize the previous government; dues to insurance companies which resulted in a large financial burden on these companies and which also added another reason to withholding payment of their due taxes in Gaza.
- In comparison with Banks, the insurance companies suffer from a higher pressure from the de facto government in Gaza where the latter refused to recognize the insurance companies' general assembly meeting decisions unless those meetings are attended by their representatives and sometimes unless due taxes are paid.

2. Relations with the judicial system in terms of insurance cases

- The attorney general's office and activities were put on hold on June 15, 2007, which affected insurance companies' operations in terms of bounced checks handling and complaints. This continued until the judicial system was later also put on hold.
- Gaza courts were partially operative from June 15 and until July 15 of 2007 due to prevailing security and political conditions at the time. This resulted in halt of many

collection and banking cases, which were left with no decision or order.

- The halting of attorney general's office and police operations in Gaza Strip reflected negatively on insurance companies' work in the Gaza Strip. The companies were deprived from the ability to file complaints, follow up on collection issues, etc. Investigation on filed complaints, false claims, and other issues directly adding to the financial burdens of these companies.
- The halting of courts also affected the insurance companies, as they could not follow up their court cases.

3. Insurance relationship to Registration

- Palestinian law associates the duration of issued insurance policies to the expiry of the vehicle registration.
- Since June of 2007, and in accordance with the Presidential decree and the Prime Minister's decision in Ramallah, Gaza vehicle registration fees are exempt and registration is considered valid until further notice.
- The de facto government in Gaza rejected the decisions and continued to collect fees in various forms. This created chaos in the operations of insurance companies.
- The de facto government's minister of transportation issued a decision to stop connecting registration to insurance, which is against the insurance law.

4. Legal and Security Protection to Insurance Companies:

- The halt of the police force's operations in the Gaza Strip reflected negatively on insurance companies work. The police, in accordance with the law, are the legal body to investigate road accidents and issue responsibility reports, then present the person at fault to the Palestinian courts.
- The insurance companies and the union of insurance companies held several meetings to address the new status and allocate solutions to major problems, such as the cancellation of all Gaza PA vehicles insurance policies, if possible.
- The unavailability of police and security bodies that insurance companies can cooperate with created an insecure environment for the companies.
- As for banks, insurance companies are not able to raise legal proceedings against non-paying debtors and bad check issuers. This has affected the companies' cash flow status as well as a 70% lower production and profitability in these companies.
- Some insurance companies laid off many of their long experienced staff due to these conditions.
- No communication among the insurance company branches in the West Bank and Gaza Strip is possible due to lack of mobility.

- The companies have all stopped any development or expansion plans and efforts in the Gaza Strip and are awaiting political developments.

C. Companies Registrar and Insurance Observer:

The assignment of a new companies' registrar in the Gaza Strip by the de facto government created a huge dilemma for banks and insurance companies in particular and the private sector in general. The result is two company registrars and different application of commercial laws.

The existence of two registrars and the lack of any coordination between the two, has created chaos in the publicly shared and owned companies, changes in boards of directors, general assemblies' resolutions, as well as the non-recognition of any certificates issued by the other!



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