AMAN
Transparency Palestine

The Reality of Public Debt and Private Sector Arrears in Palestine

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Executive Summary

The public budget is affected by deficit if annual expenditures are higher than annual revenues. Expenditures mainly consist of operating expenses, including public sector wage bill. These also include development expenses, such as infrastructure and economic development projects. Revenues primarily comprise local taxes, customs and duties, as well as foreign grants and aid. The latter can be in the form of direct support to the public budget or through development projects. Usually, the government resorts to borrowing to offset the budget deficit. Borrowing can be internal through local banks, other local institutions and citizens by purchasing bonds, or external through loans from governments or international institutions.

Local tax collection by the Palestinian government accounts for almost 25 percent of total revenues. Including support from government or international institutions, external grants and contributes represent 25 percent of revenues. The remaining 50 percent comes from clearance revenues collected and transferred by the Israeli government in consideration of Palestinian import taxes through Israeli ports. This composition varies from time to time, depending on clearance transfers, foreign grants, and government capability of local tax collection. On the other hand, current expenses make up the majority (85 percent) of Palestinian budget expenditures. The rest (15 percent) comprises development expenditures. Overall, the 2018 budget deficit was as high as US$ 1 billion. Compared to US$ 5 billion in revenues, expenditures amounted to US$ 6 billion. In these circumstances, the Palestinian government resorts to public debt to finance the outstanding deficit.

In reality, public debt is an important issue. It affects living standards, essential services of present and future generations, and social justice. Accumulation of public debt, private sector arrears and outstanding wages coincide with an economic crisis, which cripples the Palestinian National Authority (PNA). One underlying cause of this crisis is attributed to the USA, which suspended US$ 400 million in annual support to the Palestinian government. Additionally, the Israeli occupying authorities have not transferred clearance revenues to the PNA. As a consequence, a real crisis and financial distress have put at risk the stable performance of the PNA.

Against this background, this study provides a detailed account of the public debt and private sector arrears. It is informed by a descriptive, analytical approach to extrapolating data of the Palestinian public budget and arrears. The study is premised on statements released by the Ministry of Finance (MoF), Palestine Monetary Authority (PMA), and Palestinian Central Bureau of Statistics (PCBS). Data on private sector arrears were collected in interviews with, and field visits to, relevant institutions. The research methodology also includes a review of the most relevant literature, laws, and regulations on public debt.

Overall, the study findings show that the Palestinian public budget is impaired by a fragile and unsustainable financial position. On an ongoing basis, the public budget is undermined by deficit in the current balance. As 75 percent of the budget revenues are affected by political conditions, public debt increases, and so does the amount of private sector arrears. The study findings demonstrate that rising Palestinian public debt is driven by growing expenditures, PNA institutional expansion, and an absent sound basis of the development process. Attention is not paid to economic conditions, resources under PNA control, plummeting local taxes, and PNA inability to levy other taxes. More importantly, the Israeli occupying authorities are in full control of local resources, borders, and clearance transfers. These are all substantial causes of the large public debt.

The study recommends that current expenses be maximally controlled and rationalised in line with a specific agenda of priorities. A particular focus will be placed on wages, salaries, recruitments, and promotions. A gradual change is needed in view of the operating expenses that outweigh development

expenses. Expenditure should be channelled to projects, which promote investments with a view to increasing production, exports, and employment opportunities in productive agricultural and industrial sectors, subsequently scaling up local tax collection by the government.

According to the study recommendations, the private sector needs to reach an agreement with the PNA to provide the latter with health and education requirements within a time bound framework for repayment on fair and transparent grounds. The study also stresses that the MoF should ensure a more transparent and accountable public debt management by civil society organisations. A more stringent approach will be in place to combat misappropriation of government funds, provide a summary disposition of embezzlement cases, and return misappropriated funds to the public budget. Serious thought should be given to increasing local revenues either by unleashing the potential of local economy or by enhancing tax collection. To do so, horizontal tax equity will be extended. Tax evasion and fiscal leakage will also be eliminated.

1. Introduction

The term government budget refers to an annual document prepared by the government and approved by the parliament to ensure transparency and credibility among citizens. The budget document reflects the government estimates of expected public revenues and expenditures of the next fiscal year. Hence, the government budget comprises two main items: revenues and expenditures.

Revenues mainly consist of tax revenues, such as income tax, value added tax (VAT), and custom duties on imports and exports. Revenues also include duties imposed by the government, e.g. licence fees, dividend income of government companies and agricultural land, etc. Generally, because they are specified by clearly defined rates and regulations, tax revenues and duties generate a regular income for the government. Government revenues are also boosted by grants and aid, which the State receives from other friendly countries or international cooperation agencies, such as the French Development Agency (AFD), United Nations, United States Agency for International Development (USAID), World Bank, etc.

Expenditures make up the other part of the government budget. These mainly involve current expenses, which government institutions need to continue to carry out administrative tasks and social roles. These include civil servant salaries, government contributions to pension and health insurance funds, expenses of tools and equipment necessary for day-to-day operations, subsidies on the prices of basic supplies and social assistance provided to the poor, and public debt service expenditure. Development expenses are earmarked for infrastructure construction (e.g. roads and dams) or public facilities (e.g. schools, hospitals, ministries, and security headquarters).

The difference between total revenues and total expenditures is called the budget balance. It can be positive if revenues are higher than expenditures, in which case it is called a budget surplus. By contrast, it can be negative, where revenues are less than expenditures. In this case, the government budget is said to be in deficit. In the latter situation, which is most often the case, the government usually resorts to borrowing in order to offset the budget deficit. Borrowing may be internal through local banks, institutions and citizens by purchasing bonds, or external through loans from world banks, international financial institutions, or foreign governments.

In the Palestinian context, the 2018 budget of the Palestinian National Authority (PNA) amounted to US$ 5 billion.[1] To finance its expenditures, the PNA relies on three sources.[2] Firstly, various types of local taxes mainly include income tax, VAT, and property tax. Estimated at US$ 1.25 billion on a yearly basis, local taxes account for as much as 25 percent of total revenues of the Palestinian government. Secondly, clearance revenues comprise taxes and duties on Palestinian imports through Israeli ports, as well as tax levied on Palestinian purchases from Israeli importers in accordance with the 1994 Paris Economic Protocol. Worth US$ US$ 2.5 billion a year, these make up approximately 50 percent of the PNA's overall revenues. Thirdly, foreign aid represents almost 25 percent of the budget financing, totalling US$ 1.25 billion per annum from different international and Arab development agencies.

According to the 2018 budget, Palestinian budget expenditures include US$ 4.98 billion for current expenses and net lending, and US$ 821 million for development expenses. The deficit was more than US$ 1 billion.[3] Under current economic conditions, in early February 2018, the Israeli occupying authorities suspended clearance transfers to the PNA. In late 2018, the USA also cut off support to Palestinian projects and grants, creating a significant funding gap. If no States offset the aid delivered by the USA, and in light of unpredictable clearance transfers, the PNA will be encumbered by the largest fiscal deficit in its history, effectively putting at risk its capability of continuity and stability.

1 *Maan News Agency*, (2018). "5 Billion: Enactment of the 2018 Budget", http://www.maannews.net/Content.aspx?id=940826 (in Arabic).
2 Abu Amer, Khaled, (2017). "Will the Palestinian Authority be Affected by Suspended US Aid." *Arabi 21*, https://arabi21.com/story/1058081/ (in Arabic).
3 *Ultra Palestine*, (2018). "A Deficit of US$ 1 Billion in the 2018 Budget, https://ultrapal.ultrasawt.com (in Arabic).

In this case, the PNA will resort to finance institutions, such as the World Bank and International Monetary Fund (IMF), as well as to other countries to access financing and bridge the current deficit. In this case, the PNA will have to place its sovereign assets as security to access loans from these institutions. Otherwise, the PNA can seek more internal borrowing from local banks and allocations to local institutions, increasing the burden on the private sector, potential growth and sustainability, to secure repayment of these loans. In addition, the PNA will defer outstanding arrears owed by the private sector, including pharmaceutical companies and suppliers of equipment for daily operations. As a result, these companies will not be able to meet government needs and cover procurement orders.

According to the Palestinian government, together with private sector arrears, internal and external public debt dropped in the period between 2013 and 2019. It is necessary to investigate this claim and review the historical development of public debt and build-up of arrears. The investigation will also address the impact of growing public debt on the private sector ability to meet government needs. It will also explore the influence of this debt on social and economic living standards among Palestinian citizens. Combined with the increasing public debt, half of the public sector wage bill was paid to civil servants in 2019. Accordingly, findings and recommendations can be reached with a view to reducing the high levels of public debt and private sector arrears.

2. Objective

This report looks into the historical development of Palestinian public debt and private sector arrears. It provides an overview of internal and external borrowing mechanisms, as well as applicable laws and criteria. On the other hand, the report seeks to arrive at as an accurate figure of current public debt and arrears as possible and verify data and statements released by the Ministry of Finance (MoF) and government bodies in this context. Figures vary due to multiple publishing agencies and different exchange rates. Public debt and arrears are substantially affected by exchange rates.

The report also diagnoses the underlying causes of rising public debt and its connection with austerity policies and government plans to rationalise expenditure in line with the current emergency budget. It lays out the impact of public debt and private sector arrears on the quality and sustainability of social, education and health services and response to community needs in these vital sectors. In addition to potential instances of extortion or risks, some private creditors may use favouritism or pay bribe to be given priority for payment of arrears due to the extensive number of creditors, including suppliers and contractors who have had transactions with the public sector.

3. Significance

The value of this report stems from the importance of public debt and private sector arrears. These are an issue that affect living standards, essential services of present and future generations, and social justice. Public debt is among the most pivotal pillars of the government fiscal sustainability and capability of continued social and economic service provision, particularly in the health and education sectors. In the Palestinian context, public debt is all the more important in light of the unique situation of the Palestinian government, which does not have its own national currency, central bank, monetary instruments, and control over financial transfers and transactions.

The importance of this report derives from the current situation of the Palestinian government, namely, scarce resources after the Israeli occupying authorities deducted a portion of clearance revenues, which used to be paid to the families of Palestinian martyrs and to political prisoners. As a result, the PNA has refused to receive clearance transfers altogether. Worth as much as US$ 200 million, these transfers provide the largest revenue of the PNA Public Treasury.[4] Furthermore, the USA suspended

4 Al-Rujoub, Mohammed, (2018). "Clearance Revenues: The Israeli Occupying Authorities' Tool to Extort Palestinians", https://www.alaraby.co.uk/economy/2018/6/6/ (in Arabic).

US$ 400 million in annual support to the Palestinian government. This amount used to include US$ 363 million for development projects and US$ 36 million for security agencies.[5]

The declining volume and frequency of US aid have given an clue to the PNA to gear this controversy towards available and potential alternatives or options to adopt a national fiscal policy for an upcoming phase, where US aid continues to be lacking either wholly or partly.

Evidently, these difficult economic conditions, soaring public debt, private sector arrears and wages will affect citizens' purchasing power, commercial activity, and markets. This may be the first sign of the Palestinian economy ending up in recession. Terminating foreign aid and rising private sector arrears will create the problem of high unemployment. Implemented by the private sector, financed development projects provide employment opportunities to thousands of unemployed persons. The private sector sustainability is also impacted due to decreasing liquidity ratios as a result of increasing arrears. Operating projects are further undermined due to suspended foreign aid.

Importantly, the report also looks into the causes and periods of accumulating public debt and private sector arrears with a view to curbing a further increase in these amounts. Both the public debt and the arrears limit the private sector's capability of growth, expansion and liquidity. This report is launched at a time the amount of the public debt and revenues are not agreed by relevant actors. A key outcome of this report is, therefore, arriving at as an accurate amount as possible, which can be credibly relied on in economic indicators.

4. Methodology

The report is informed by a descriptive, analytical approach to analysing data of the Palestinian pubic budget, including expenditures and revenues, size of public debt, and private sector arrears owed by the Palestinian government. It is premised on secondary statements released by the MoF, Palestine Monetary Authority (PMA), and Palestinian Central Bureau of Statistics (PCBS). Data on private sector arrears were collected and validated in interviews with, and field visits to, relevant institutions, including the Association of Banks in Palestine, pharmaceutical companies, Union of Importers, State Audit and Administrative Control Bureau (SAACB), Ministry of Health (MoH), Ministry of Higher Education (MoHE), and specialised agencies. The methodology also reviews and determines the cumulative net public debt due for the Palestinian Pension Authority (PPA) as a result of irregular transfers.

In addition to field work, the report is informed by desk research, including a review of the most relevant literature on the concept of public debt, arrears, and economic indicators. In particular, the report provides a review of online MoF reports and publications as well as applicable legal framework, regulations, bylaws and mechanisms for internal and external borrowing in the Palestinian context.

5. The concept of public debt

Public debt can generally be defined as the cumulative outstanding balance of the total government debt, which the government makes publicly available. The total cumulative debt is an addition to the current deficit in the public budget.[6] Public debt takes on several forms, including short- or long-term bonds issued by the government, financial instruments, securities, loans, or other bank facilities. For it to be included, debt must be outstanding. Paid debt does not fall within public debt. On the other hand, a decisive factor relates to whether the creditor preserves a claim against the debtor. In other words, debt usually arises from an institutional unit, namely the creditor, which offers an economic value, i.e. financial or nonfinancial assets, including commodities, services, income, or all these to another institutional unit, namely the debtor. Usually, this takes place under a contractual arrangement, which

5 *Haaretz*, (2018). "Fact Check: How Much Funding Does the U.S. Give Palestinians - and What Would Happen if Trump Cuts It", https://www.haaretz.com/middle-east-news/fact-check-how-much-funding-does-u-s-actually-give-palestinians-1.5630320.
6 Al-Shatri, Fahd Ibrahim, (2011). "Public Debt, Why?" *Jaridat al Arab al Iqtisadiyyah ad Dawliyyah*.

sets conditions for repayment of the due amount.[7] By creditor source, public debt can also have multiple classifications, such as official creditors (governments, financial institutions controlled by government, or international entities) vis-à-vis nonofficial creditors (private sector).[8]

Article 1 of the Palestinian Law on Public Debt No. 24 of 2005 defines public debt as "[t]he outstanding balance of the unpaid financial liabilities of the Government, which the Government must pay in fulfilment of its liabilities." The law divides public debt into:

1. External debt: The debt borrowed from states and external international commissions or institutions.
2. Internal debt: The financial liabilities payable by the Government in satisfaction of the funds it borrowed in line with government securities or from local banks or other local financial institutions, in addition to the debt owed by the Treasury to PPA fund.

Internal public debt includes loans from financial institutions and government bonds. Accordingly, MoF statements cover these categories of internal public debt only. These essentially consist of PNA liabilities, including arrears owed to private suppliers of commodities and services. Internal public debt is a matter of essence because it exerts an immediate and direct impact on economic activities altogether. In addition, MoF statements do not cover the PPA debt of approximately US$ 2 billion, which is owed by the MoF. With this amount included, the Palestinian government debt is over and beyond the PNA annual budget rate.[9]

6. Borrowing mechanisms

Borrowing considerations are subject to the Palestinian Law on Public Debt No. 24 of 2005. To this avail, Article 30 of the Law provides that "[t]he outstanding balance of the public debt may not, at any time, exceed 40 percent of the Gross Domestic Product at the current prices of the latest year for which data are available." These are also subject to the Law on the Regulation of the Public Budget and Financial Affairs No. 7 of 1998. Article 55 of this Law spells out the borrowing mechanism: "The annual budget shall fix the National Authority's maximum limits the new borrowing and overdrafts from the local banks and shall formulate specific provisions for the payment of interests and repayment of the principal debt which is to be paid during the year against the gross debt." In other words, the loan amount, instalment payments, and interest payments are determined by the annual budget.

Outstanding private sector arrears owed by the Palestinian government – i.e. the amounts owed to the private sector for providing various commodities and services to the government – are theoretically part of the public debt. Therefore, government public debt ratio to nominal gross domestic product (GDP) must remain within the ceiling authorised by the Law on Public Debt. However, the definition of public debt does not, in any case, include the amount of arrears, noting that the growth of arrears contrasts with the GDP growth. There is an overlapping relation between the GDP and public debt or total outstanding public debt, including arrears. Generation of this GDP is financed by domestic and other external sources. Combined, public, private and other sectors contribute to producing this GDP. The government sector pays interests on debts. Hence, public debt is often linked to the GDP indicator.

Article 12 of the Public Debt Law sets the objectives of government borrowing: "(1) To finance the public budget deficit; (2) to support the balance of payments; (3) to finance projects included on the Public Budget Law or any other law in order to cope with emergencies; and (4) to restructure the public debt."

7 IMF, (2014). *External Debt Statistics: Guide for Compilers and Users*.
8 International Organization of Supreme Audit Institutions (INTOSAI), (2018). *Audit of Public Debt Management – A Handbook for Supreme Audit Institutions*.
9 Palestine News Agency (WAFA), 2018. Economic Harvest 2018: A difficult year paving the way to a more difficult one in 2019, http://www.wafa.ps/ar_page.aspx?id=Xbgifma845165229777aXbgifm (Arabic).

It is noted that, according to the Law, the causes of public debt are flexible. Restrictions are not placed so as to reduce public debt. For example, borrowing for financing consumption current expenditure is not restrained. Accordingly, loans would be allocated to feasible investment and development projects that generate revenues capable of repaying the principal and interest on debt. Alternatively, at least a certain portion of public debt would be earmarked for developing infrastructure projects to promote private investments, which increase the production capacity of economy, particularly in productive agricultural and industrial sectors. To this end, Article 22 of the Public Debt Law allows the government to borrow from local banks or any other financial institutions as needed by the annual public budget. Hence, government accounts become current accounts receivable, facilitating over-borrowing from Palestinian banks. From a legal perspective, Article 11 of the Public Debt Law provides that the Minister of Finance is authorised to borrow on behalf of the government, provided that each case of borrowing is presented to, and approved by, the Council of Ministers.

For the MoF to monitor and manage public debt, the Public Debt Department was established in co-operation with the United Nations Conference on Trade and Development (UNCTAD). The department carries out several tasks, inter alia: (1) collect and closely examine all loan agreements signed with different lending institutions; (2) collect data and information on loan disbursements and withdrawals; and (3) collect information on future liabilities, and calculate and show interest on these liabilities in the public budget.

In Palestine, the borrowing policy is laid out by the Draft Public Budget Law of 1999. This policy places restraints on borrowing for financing current expenses so that future generations do not bow under the weight of the debt burden created by the current generation. Based on economic feasibility studies, borrowing is limited to supporting development projects, particularly those which the private sector does not finance, such as roads and public facilities. PNA domestic resources should be capable of debt servicing by instalment and interest payments, without placing any financial burden on the PNA. According to the stated policy, concessional loans should be accessed whenever possible.

The reality is different from this policy, however. To finance operating expenses, amounts are borrowed from local banks at high cost due to time restraints and paucity of alternatives. The size of internal and external public debt is also as high as half of the PNA annual budget. When the arrears line item is added, public debt is equal to the PNA annual budget size. Although the borrowing policy prescribes that debt service should be covered by Palestinian domestic resources, the large debt and high interest costs have resulted in a growing annual amount of debt service. Annual instalments and interests on internal and external public debt are close to US$ 325 million. This is almost 65 percent of PNA-controlled local revenues accruing from local tax collection, which registered an annual amount of US$ 515 million during the preceding time period.

Against this background, the PNA is faced by a growing public debt, particularly at the internal level. Consequently, to cover current expenses, the MoF borrows from local banks in line with applicable mechanisms, depending on the capacity of each bank and volume of PNA balances in these banks. The PNA keeps different accounts in various banks operating in Palestine.

The PNA accesses loans in line with specific mechanisms. Loan withdrawals and payments are also governed by other mechanisms. A joint committee of the MoF and PMA sign loan agreements. Project funding is proposed to donor countries or institutions. After a donor approves funding of a project either by loans or by grants, a draft agreement between the PNA and donor is compiled. Technical and procedural details are negotiated until a final agreement is signed.

The project implementing agency submits invoices on completion for disbursement against the signed project funding allocation. After invoices are audited by the MoF, due payments are made. Using the same mechanism, outstanding loans are repaid. Before a loan payment is mature, the lending institu-

tion submits a request, including due amounts, to the MoF. The MoF Public Debt Department examines the request and prepares a letter almost a week before the maturity date to be signed by the Minister of Finance. Accordingly, the amount is wire transferred to the lending institution's bank account in due form.

7. Historical development

Signed between the Palestine Liberation Organisation (PLO) and Israeli government, the Oslo Accords vested the then nascent PNA full civil powers in Areas A and B, allowing management of economic resources in these areas. However, the Oslo Accords deprived the PNA of substantial sovereignty, precluding Palestinian control over borders, land use in Area C (61 percent of the West Bank area), and the majority of natural resources. Also, the Israeli occupying authorities maintained control of collection of custom duties and VAT on Palestinian imports. Transfers of these revenues are subject to arbitrary security and political considerations.[10] This has been exactly the case since February 2019. As at the time of writing, the PNA has refused to receive due clearance revenues after the Israeli government compulsorily deducted a portion of these revenues, allegedly to seize the amounts paid to Palestinian martyrs' families and to political prisoners. The deducted amount is estimated at NIS 41 million.[11] Monthly clearance transfers were close to NIS 700 million.

Depending on economic and political conditions, internal or external public debt increased in comparison to other amounts, such as the GDP, amount of exports, etc. At other times, external was greater than internal public debt or vice versa. In that light, external public debt-to-GDP ratio can be divided into three stages: (1) rise of external public debt-to-GDP ratio; (2) decrease of external public debt-to-GDP ratio; and (3) sharp drop of public debt in comparison to the other two stages.

7.1 Between 2000 and 2010

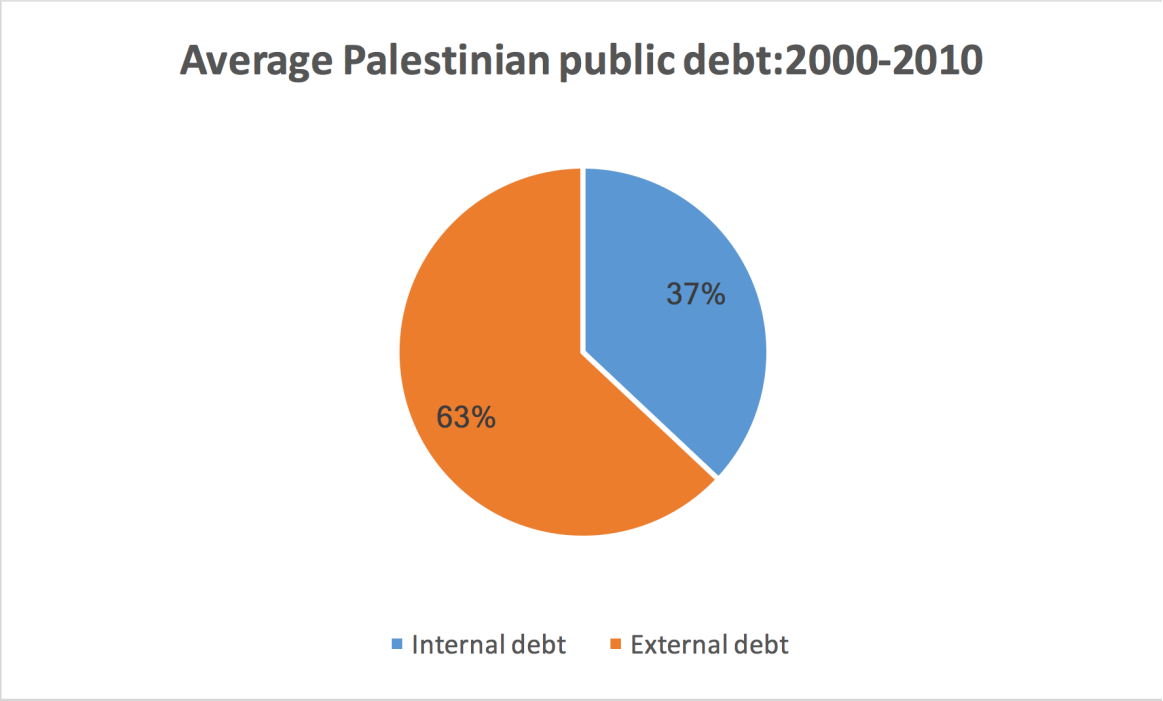
The problem of indebtedness dates back to 1995. Then, the PNA was in need of a substantive amount of expenditure to build institutions, increase the number of public sector staff, and enhance the deteriorating infrastructure inherited from the occupation. This resulted in an accelerated pace of public debt, reaching as high as 8.3 percent of GDP during the reporting period. Public debt ratio began to rise rapidly, standing at US$ 863 million, or almost 20 percent of the GDP. Public debt continued to climb gradually, eventually hitting the limit of US$ 1 billion (or approximately 23 percent of the GDP) by the end of 2004. This was the first time public debt touched this threshold. While 60 percent was owed to States and foreign institutions, 40 percent of this public debt was financed by local banking institutions. Israeli practices were one reason for rising public debt, especially in the aftermath of the Palestinian Intifada, incursion into Palestinian cities, and destruction of Palestinian infrastructure and service institutions.

During this period, public debt continued to build up. The highest public debt-to-GDP ratio was registered in 2007, accounting for 26 percent of the GDP, or almost US$ 1.5 billion.[12] However, the public debt-to-GDP ratio dropped slightly to 23 percent in 2010. This drop was driven by GDP growth, rather than by a decline in public debt. On the contrary, the amount of public debt maintained an upward trajectory, reaching as much as US$ 2 billion towards the end of 2010 and mid-2011.

In general, the average of public debt was US$ 1.250 billion, or 23 percent of the GDP, during the reporting period. On average, external public debt was up to US$ 760 million while internal public debt amounted to US$ 445 million. Rather than sliding down, public debt continued to rise incrementally on

10 Subeih, Majed, and Nasser Abdul Karim, (2016). *The Challenge to Fiscal Sustainability of the Palestinian National Authority and Policies to Face it in Light of Unstable Political and Economic Conditions: 1996-2015* (in Arabic).
11 *Arab 48*, "The Occupation Transfers Incomplete Clearance Revenues and the Authority Refuses to Receive them", 27 February 2019 (in Arabic).
12 In this paper, public debt does not include the amount of private sector arrears. According to the definition provided by the Palestinian Public Debt Law, public debt excludes the amount of arrears despite the fact that the latter is impliedly understood as part of public debt.

an annual basis. During the reporting period, public debt reached the threshold of US$ 2 billion. This was a massive amount in comparison to the number of Palestinian population. At the time, while the ratio of public debt per capita was US$ 355, GDP per capita was US$ 1,530.



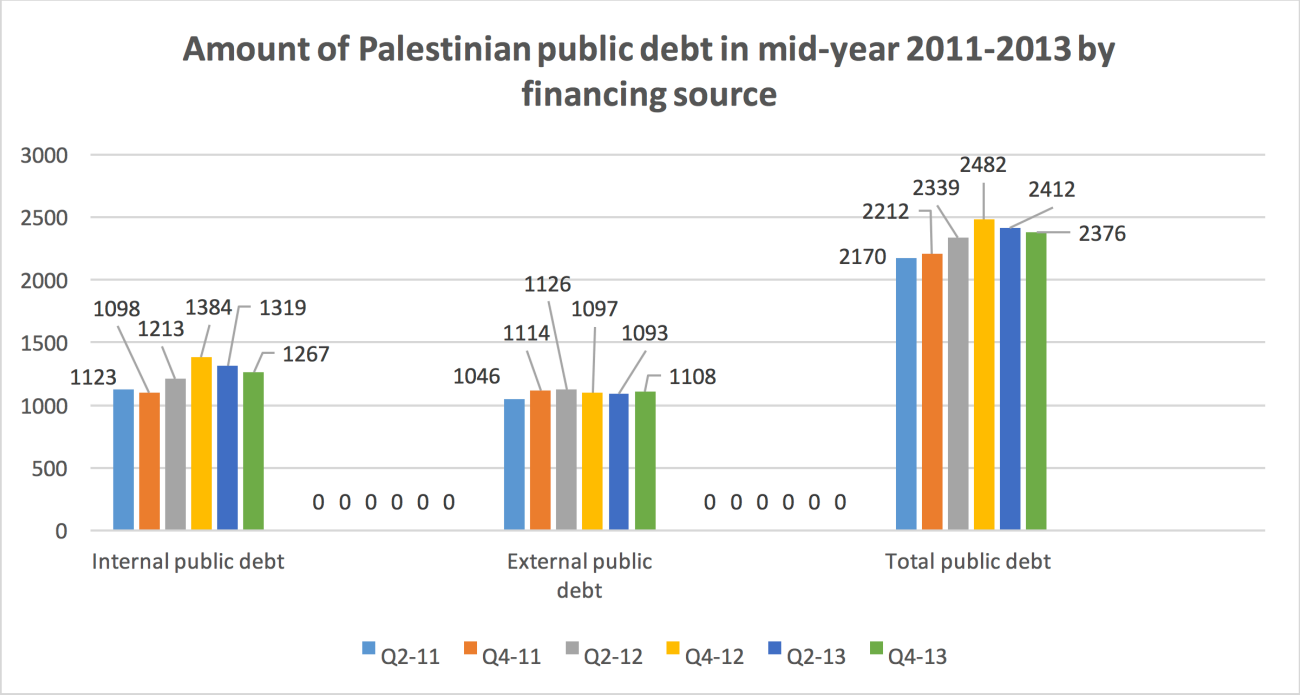
Source: Researcher accounts based on PMA, MoF and PCBS data

7.2 Between 2011 and 2013

During this reporting period, public debt continued to rise, albeit at a slower pace. By the end of 2013, public debt accounted for almost US$ 2,376 million, or

19 percent of the GDP. The reporting period saw a fluctuation in the amount of public debt, increasing or decreasing in comparison to previous quarters. In this context, Q3 2011, Q3 2012, Q1 2013, and Q3 2013 registered a drop compared to preceding quarters. The decrease in public debt over these quarters was generated by paying part of the due internal debt. For example, internal public debt dropped from US$ 1,123 million to US$ 827 million over just one quarter. In other words, approximately US$ 296 million (or 27 percent) of the internal debt was paid. External public debt also experienced ups and downs, dropping slightly in Q3 2012 and Q1 2013, but rising during other quarters over this period.

In terms of the public debt-to-GDP ratio, the reporting period marked a drop compared to the period before 2010, with the highest ratio (22 percent) scored in mid-2011 and late 2012. By contrast, the least ratio (19 percent) was registered in Q3 2011 and at the end of 2013. It is noted that the GDP maintained an upward trend throughout the reporting period, and so did the gross public debt.

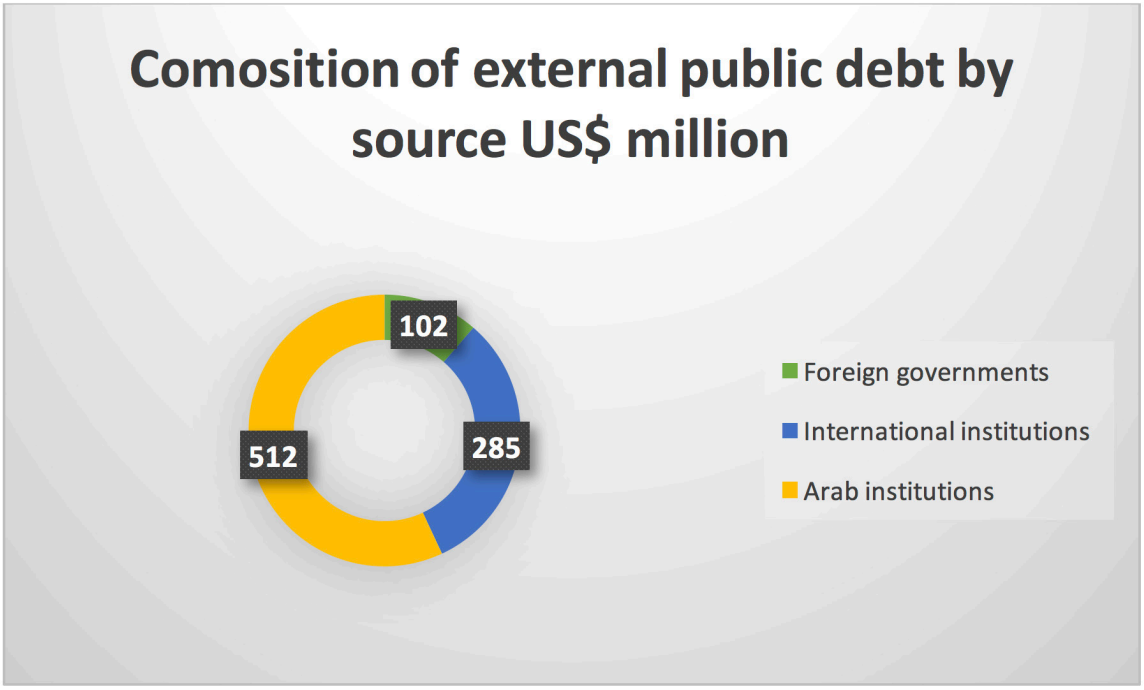


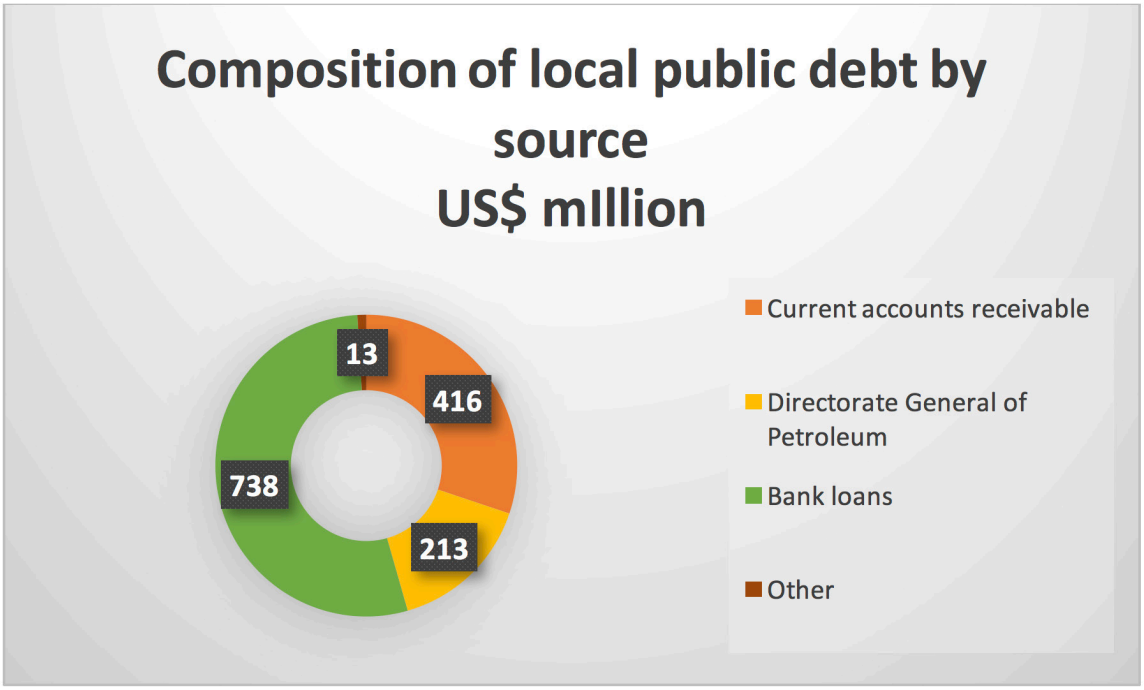
Source: Researcher accounts based on PMA, MoF and PCBS data

Overall, both internal and external public debt fluctuated during the 2011-2013 period, averaging US$ 2,245 million, or 21 percent of the GDP. This meant that the public debt per capita rose to US$ 535 at the time GDP per capital registered US$ 2,595. This period also witnessed an increase in local debt over external debt. Having stood at 37 percent during the previous period, local debt jumpstarted to 51 percent. It is also noted that the internal debt cost is higher than that of external borrowing. The former is short term and mostly depends on local expenses. The rate of interest on internal borrowing was almost 5.5 percent for JD accounts, 6.5 percent for NIS accounts, and 4 percent on US$ accounts. Though generally exhibiting lower rates, interest on external debt varies according to the donor and nature of debt.

7.3 Between 2014 and 2018

This period differed from previous ones in terms of the public debt amount and public debt-to-GDP ratio. In Q1 2014, public was around US$ 2,330 million. During this period, public debt generally increased or decreased, ultimately standing at US$ 2,370 million by the end of 2018. The public debt-to-GDP ratio hit a record high in 2016, representing 19 percent of the GDP. Although it displayed the same trend in H2 2016, the public debt-to-GDP ratio dropped to 16 percent, the least ratio since the PNA was established. On average, public debt amounted to US$ 2,421 million during this period, including US$ 1,061 million in external debt and US$ 1,360 million in internal debt. It is noted that the internal-to-external debt ratio was on the rise over this span of time, registering 56 and 44 percent of total public debt, respectively.





Source: Researcher accounts based on PMA, MoF and PCBS data

In terms of debt composition by source, Arab institutions accounted for 57 percent of external public debt. A major portion of this (US$ 0.5 billion) was provided by the Al-Aqsa Fund. The Islamic Development Bank (IDB) and Arab Fund for Economic and Social Development also contributed some US$ 40 million and US$ 50 million, respectively, to external public debt. International institutions covered 32 percent of external public debt, with the most contribution made by the World Bank (US$ 28 million), followed by European Investment Bank (approx. US$ 50 million), and International Fund For Agricultural Development and OPEC Fund for International Development (approx. US$ 23 million). Foreign governments contributed 11 percent of the total external public debt, including by Spain, Italy and China.

The composition of internal or local public debt is different from that of external public debt. Palestinian banks take on the major share of internal public debt, with 84 percent provided in the form of loans and current accounts receivable. While the latter represented 30 percent, the former were as much as 54 percent of internal public debt. Of this amount, 15 percent was contributed by the General Directorate of Petroleum and an average of 1 percent (or US$ 13 million) by other public institutions.

It is noted that internal public debt saw a gradual rise or fluctuated at particular points in time. Although it increased between 2014 and 2017, internal public debt from banks dropped by almost US$ 100 in 2018. Though maintaining an average amount, loans from the General Directorate of Petroleum and other institutions oscillated as well: US$ 0.25 billion from the General Directorate of Petroleum and US$ 14 million from other institutions between 2014 and 2018.

Over 2014-2018, external public debt experienced a gradual decline by approximately US$ 75 million: from US$ 1,105 million in early 2014 to US$ 1,032 million in late 2018. The decline covered the majority of sources of debt, including Arab financial institutions and funds, as well as international and regional institutions, such as the World Bank. On the other hand, some foreign governments, e.g. Spain, maintained their share of public debt. The amount borrowed from Italy increased from US$ 32 million in 2012 to US$ 52 million in 2018.

Overall, data demonstrate an upward trajectory in the amount of Palestinian public debt. As the Palestinian government moves to increase internal vs. external borrowing, internal public debt outweighed external public debt in 2012, and so it continues to do so as at time of reporting. Later, external public debt witnessed a drop, which was offset by local public debt, particularly from Palestinian banks in the form of current accounts receivable and loans. By the end of 2018, public debt-to-GDP ratio was record low, down to 16 percent. In other words, public debt per capita comprised US$ 488 while GDP per capital was up to US$ 3,010.

8. Causes of increasing public debt

Since its inception, the Palestinian government has resorted to borrowing. Causes are attributed to factors specific to the Palestinian context. Originally associated with the current political setting, these factors are mainly driven by political and economic conditions. Borrowing is also a product of general factors, as in the case of developing countries affected by borrowing, as well as debt restructuring and payment of interest.

The leading cause underlying PNA borrowing and build-up of public debt is the Israeli occupation, unpredictable measures, and control over all Palestinian natural resources, borders, and economic capacities. Palestinian revenues mainly generate from clearance transfers after amounts payable to the Israeli government are deducted. Approximately 50 percent of monthly revenues are discounted by Israel. Transfer, or postponement of transfer, of due amounts to the PNA is always subject to political conditions. To maintain basic operating expenses, the PNA seeks to offset the deficit through borrowing from local banks. Loans from local banks comprise almost 99 percent of internal debt, and 60 percent of total debt (both internal and external). Half of the remaining revenues originate from external grants and contributions. The sustainability of these revenues, too, cannot always be relied upon.

A reason of rising public debt lies in the lack of a valid foundation of the local development process. The PNA simulates developed countries in building institutions, which have weighed heavily on the Palestinian economy. Government institutions have swelled up, overlapped, and contested over powers. These institutions have continued to grow, without taking into account the broader political and social circumstances surrounding the PNA. This is also the case of developing countries, which have

implemented some economic activities (e.g. manufacturing certain commodities along the lines of capital countries), while at the same time turning a blind eye to prevalent domestic political and socioeconomic conditions. These particularly include the volume of natural resources, human capital capable of commodity production, and other economic conditions and resources.

Compounded by lacking transparency and oversight, public debt mismanagement inevitably leads to increasing public debt. In particular, mismanagement affects setting the goals of borrowing, sound planning, and expenditure control. Industrial countries that rely on leverage aim at investing borrowed amounts in productive enterprises, which enable these countries to export new commodities and services. In other words, industrial countries resort to borrowing in order to purchase, manufacture and resell raw materials at high prices. This definitely generates a significant return on investment. On the other hand, in the Palestinian context, borrowing is driven by financing essential operating expenses (e.g. commodities and services for health, education and social protection sectors). Borrowing is not geared towards development projects, which increase investment by purchasing, reproducing and exporting raw materials. Lately, the MoF has blocked access to monthly and quarterly fiscal reports and statements on public debt, expenditure and revenues, [13] resulting in the absence of civil society oversight. In view of harsh economic conditions, civil society organisations need these reports, which often help to exercise community oversight and promote social justice by securing due payments, earmarking expenditures, and engaging in priority-setting.

In reality, the increase in operating expenses is another cause of accumulating PNA internal and external public debt over the past years. Informed by a collation of PMA reports on Palestinian government finance and public debt, researcher accounts indicate that the public sector wage bill has risen by 100 percent over the past ten years. By contrast, the population increased by 27 percent in the same period, and so did public expenditure by nearly 70 percent. Meantime, development expenses did not only remain unchanged, but further dropped by various percentages during the past ten years. For example, having stood at US$ 310 million in 2007, development expenses dropped to US$ 162 million in 2014 and further to US$ 277 million by the end of 2018. This is roughly 7 percent of total public expenditure.[14]

The widening gap between tax revenues and public expenditure, especially operating expenses, results in an increasing budget deficit and, by consequence, size of public debt due to government borrowing both internally and externally. PNA revenues generating from local taxes and duties is just 25 percent of total public revenues.[15] Compared to 25 percent of revenues from foreign aid, revenues (taxes, customs, duties, etc.) collected through the Israeli occupying authorities amount to 50 percent. It is noted that these percentages differed from time to time, depending on the flow of clearance revenues, external grants, and local tax collection capacity. Compared to 30 percent in late 2018,[16] local duty and tax collection was close to 65 percent between early 2019 and May 2019. This is due to suspended clearance transfers, and consequent decrease in clearance revenues, as well as steep decline in foreign grants and support.[17] As tax rates are high and governed by agreements, the PNA finds it difficult to impose new, or raise current, taxes, including VAT and income tax. This will have a substantial impact on living standards of Palestinian citizens, who are already affected by low annual income. It can also bring about economic or political reactions.

13 Public access to MoF statements continued to be blocked during the preparation of this study. Last accessed in May 2019, the MoF website did not post statements, reportedly due to suspended clearance transfers.
14 Researchers have relied on historical quarterly reports released by the PMA, particularly reports on the Palestinian government finance and public debt. Tables attached to these reports provide a detailed account of revenues, expenditures, arrears, and public debt during the reporting periods under review.
15 PMA (2015). *Government Finance and Public Debt Developments: Q4 2015*. PMA: Research and Monetary Policy Department. February 2016.
16 PMA (2019). Government Finance and Public Debt Developments: Q4 2018. PMA: Research and Monetary Policy Department.
17 Ministry of Finance and Planning (2019). *Monthly Reports. May Report: Consolidated Statement on Fiscal Operations: Revenues and Arrears. May 2019*.

9. Amount of outstanding debt

With the emerging challenge of clearance deductions by the Israeli government in February 2019, and in view of the precarious financial position of the PNA, particularly after US financial aid was suspended, the Palestinian MoF has blocked public access to all monthly and quarterly fiscal reports on the MoF website. Hence, data on Palestinian public debt derives from the PMA, who used to rely on the MoF to provide these data.

Against this backdrop, the latest Palestinian public debt data cover the period towards the end of 2018. It is also noted that 2019 data unveil the difficult fiscal situation of the Palestinian government. For example, public sector deposits in bank accounts by depositing party decreased. In comparison to US$ 588 million in April 2018, public sector deposits dropped to US$ 341 million in April 2019, a 42 percent decrease in a single year.[18] Additionally, while facilities-to-deposits ratio (i.e. bank facilities offered to government) amounted to 200 percent in late 2018, these jumped to 388 percent at the end of April 2019, a rise of 95 percent over one and a half years.[19]

The table below shows Palestinian public debt data towards the end of 2018 and developments at a five-year interval, of course without consideration of arrears:

Palestinian public debt size and development

Public debt amount in US$ million

Year	Local public debt	External public debt	Total public debt	Debt-to-GDP ratio	External debt-to-exports ratio	Debt per capita ($(US
2000	342.85	520.12	862.97	20%	60%	283
2005	572.55	624.31	1196.86	25%	106%	341
2010	839.57	1043.27	1882.84	21%	76%	468
2015	1466.50	1070.70	2537.20	20%	46%	560
2018	1337.90	1032.00	2369.90	16%	36%	488

Source: Researcher accounts based on PMA, MoF and PCBS data

Data show that Palestinian public debt remained within the permissible limit as prescribed by the Palestinian Public Debt Law (i.e. a maximum of 40 percent of GDP). Compared to 25 percent in 2005, public debt declined gradually to 16 percent towards the end of 2018. On the other hand, public debt data demonstrate a decrease in external debt-to exports ratio. This indicator measures the Palestinian government's capability of paying external debt and using hard currencies to pay international loans. The lower this indicator the higher the exports or lower the public debt or both. The least level of this indicator was marked in 2018, registering 36 percent in comparison to preceding years. This is mainly due to growing Palestinian exports. Doubling over the past eight years, exports rose from US$ 1,367 million in late 2010 to as much as US$ 2,904 million by the end of 2018.

In July 2019, the MoF resumed publishing fiscal reports, which had been withheld earlier. According to fiscal reports, public debt increased by almost US$ 300 million, standing at US$ 2,600 million in May 2019. Reflecting the highest amount since the PNA was established, public debt scored a record high of NIS 9,404 million, including NIS 5,670 million in internal debt and NIS 3,733 in external debt.

18 PMA, (2019). *Table (16): Distribution of Public Sector Deposits by Depositing Party and Type*.
19 Researcher accounts based on PMA data released in April 2019: *Table (22): Distribution of Gross Facilities by Sector, Currency and Region*; *Table (16): Distribution of Public Sector Deposits by Depositing Party and Type*; and *Table (18): Distribution of Gross Facilities by Sector, Currency and Region*.

Still, these data do not reflect the real status of public debt and its relevant categories without taking account of private sector arrears owed by the Palestinian government. Arrears are due amounts payable by the Palestinian government to vital sectors, including private hospitals, pharmaceutical companies, and suppliers of equipment and logistical support to ministries, particularly the Ministry of Education. Arrears also include the public sector wage bill, private sector development spending on MoF-financed projects, and due amounts to public financial institutions, such as the PPA. It should be noted that all these amounts are at zero interest. Therefore, these significant amounts should be highlighted. A different perspective needs to be presented for a complete picture. Arrears are directly associated with public debt and government ability to pay local and external debt.

10. Amount of due arrears

As local revenues are unable to finance current expenses of the Palestinian budget, the government uses one of two options: (1) borrow from local banks and other financial institutions at fixed rate by the type of currency and loan period; or (2) delay and postpone payment of private sector arrears based on budget surplus. While the amount of loans from local banks falls within internal public debt accounts, private sector arrears within the account of due and cumulative arrears are kept in a separate account. Regardless of designations, arrears are nothing but debt payable by the Palestinian government to the private sector.

Arrears affect critical sectors, particularly health and education. Failure to, or delay in, the payment of private sector arrears put private companies at risk, undermining their ability to continue to provide services and equipment to these vital sectors. For example, according to a press statement by the Chairman of the Union of Private Hospitals, a total of US$ 150 million was owed by the MoH to community-based and private hospitals towards the end of 2016.[20] This amount rose to approximately NIS 1 billion by the end of 2018, representing a monthly increase of NIS 30 million.[21] These amounts are huge and should be repaid in order to alleviate the pressure on suppliers to hospitals and pay staff salaries as well.

Accumulated arrears were as high as US$ 3,410 million at the end of 2018. It is noted that arrears doubled over the preceding five years, increasing from US$ 1.5 billion to US$ 3 billion. Arrears had already doubled in 2011 and 2012. Analysis of PMA 2018 data shows that the greatest portion of arrears were owed to the private sector. Operating expenses, i.e. a non-wage item, was close to 53 percent of gross arrears. While 14 percent of arrears are due for development expenses, 23 percent comprise public sector salaries and increments.[22] The remaining amount includes paid allowances and tax refunds (10 percent).

It can, therefore, be concluded that 67 percent of total arrears are directly owed to the private sector for procuring logistical and operational support, as well as for implementing government development projects. Adding private sector tax refunds, the private sector's gross share of arrears reaches 72 percent, or approximately NIS 2.5 billion. This massive amount cripples private sector growth and provision of the liquidity needed for imports. Usually, private sector institutions are interconnected in various production sectors, where many operating in health, education, industry, infrastructure and other areas. Still, all these sectors are linked to the banking sector. Needless to say, these arrears have an immediate bearing on the banking sector and its financing capacity, putting both the government and the banking sector in a vicious circle: the government borrows from banks to repay private sector

20 *Ajyal Radio Network*, "Union of Hospitals: Government Debt is in Excess of US$ 150 Million".
21 Interview with Chairman of the Union of Private Hospitals, 26 May 2019.
22 The structure of arrears reflects 2018 data. Hence, the public wage bill's share of arrears may change after the government paid half the salary, starting from Q1 2019.

arrears; the government repurchases equipment from the private sector on account of arrears; the private borrows from the banking sector to finance these government procurements; and so forth.

Arrears volume and development Arrears in US$ million											
Item	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**	**%**
Salaries and wages	29	101	309	444	547	1,142	708	653	784	4,718	23.88
Operating expenses	57	256	501	889	1,697	1,662	2,194	2,025	1,807	11,085	56.10
Development expenses	8	75	96	132	356	208	460	425	477	2,236	11.32
Tax refunds	12	101	160	181	137	346	177	163	170	1,447	7.32
Allowance payments	-	-	-	-	-	104	-	-	170	274	1.39
Total	106	533	1,065	1,646	2,737	3,462	3,538	3,265	3,409	19,760	100
Percentage	**0.54**	**2.70**	**5.39**	**8.33**	**13.85**	**17.52**	**17.90**	**16.53**	**17.25**	**100**	**100**

Source: Researcher accounts based on PMA, MoF and PCBS data

The table above clearly shows that accumulated arrears have been on the rise over the past years. The increase has affected almost all line items. Although it maintained an upward trend, the public sector wage bill dropped after 2015. On the other hand, in comparison to development and operating expenses, private sector arrears witnessed a gradual and progressive increase. Despite the fact that it registered a slight drop in the end of 2018, the amounts of private sector arrears continue to be significant, accounting for over half of total arrears. Tax refunds fluctuated throughout the previous years. The Tax Department is working towards offsetting tax refunds through the periodic monthly amount. In general, building up such amounts of government arrears reduces the government ability to bring down both internal and external debt. Compounded by outstanding arrears, private sector pressure and claims may force the government to borrow from the banking sector or access external loans in order to repay arrears so that it can maintain operations as well as salary and wage expenses.

Outstanding debts owed to the private sector, which provides basic services to such vital sectors as health care, negatively impact the quality, level, and timely provision of government public services, compromising the interests of beneficiaries from these services. The conduct of private contractors may also be adversely affected. Arrears can increase the risk of using favouritism, ultimately giving rise to bribery so that these contractors can be given priority for payment of due arrears.

The Palestinian MoF announced the first version of a US$ 40 million programme for reimbursement though government payment orders to reimburse suppliers of medicines and medical supplies, which account for the largest portion of private sector debt. The programme is designed to pay private sector arrears of new contracts. According to the MoF, this financial product is an outcome of extensive engagement, consultation and coordination with key partners in the project, including representatives of banks, pharmaceutical companies, and private sector. The programme is a precedent in the government public financial management (PMF) and payment systems. Once applied, this method of payment to the private sector will bring arrears down to almost US$ 200 million.[23] After this experience, however, a review shows that the amount of private sector arrears did not drop, standing at US$ 3,400 million at the end of 2018. The Palestinian government continues to pay arrears by means of payment orders. In this context, according to MoF reports, a total of NIS 217 million of arrears was paid between early

23 *Maan News Agency*, (2016). "Launch of a programme for reimbursement through government payment orders".

2019 and late May 2019. It is noted that the amount of arrears has risen gradually throughout 2019. Compared to nearly NIS 3,157 million in January 2019, net arrears jumped to NIS 4,070 by the end of May 2019.[24] In reality, the main problem lies in the availability of funds and Palestinian government's willingness to pay private sector arrears, rather than in the method of payment itself. The ability and willingness to pay private sector arrears are, therefore, key to reducing cumulative arrears.

11. Public debt indicators

Debt indicators receive great attention from economists and decision-makers. These help to analyse the government's current position and capacity of public debt management, debt service, and payment of instalments and accrued interests. Civil society organisations also pay attention to these data in view of their economic significance and impact on individual rights, development, and institutional capacity of sustainability. In Palestine, debt indicators take on additional dimensions as the Palestinian government does not have a central bank, local currency, and the ability to control interest rates. More importantly, the Israeli occupying authorities seize control over access to funds, imports and exports. This has recently been the case after Israel deducted amounts from Palestinian clearance revenues. As a result, the Palestinian government did not receive the clearance amount, which makes up half of the Palestinian public budget.

In view of these economic events, it is necessary to monitor public debt indicators in order to diagnose the Palestinian government's current positon and ability to repay local public debt owed to the private sector as well as external public debt to international institutions and foreign governments. The ability to pay external and internal debts has a direct bearing on of credibility, and confidence in, the government and foreign investments. It also improves private sector confidence in the government capacity to pay arrears, consequently driving economic growth and development, providing cash flow to private sector institutions, and monitoring the impact of cumulative private sector debt on public service delivery or opportunities of corruption among private contractors and public officials in charge of scheduling arrear payments.

Against this background, public debt indicators can fall with two categories. Firstly, a set of indicators that measure outstanding indebtedness vis-à-vis the performance and size of economy, e.g. public debt-to-GDP ratio or ratio of external public debt owed by the government to GDP, gauge the burden of external debt. This ratio demonstrate the Palestinian economy's potential capacity of affording external debt sustainability. In addition, the ratio of external public debt to exported commodities and services measures the burden of external debt by assessing the economy's capability of covering external debt through export returns, public debt growth rate, etc.

Secondly, a set of indicators assess the economy capacity to pay public debt, including interests on loans or due instalments. In other words, these indicators evaluate the government ability to service internal and external debt. A review of Palestinian public debt evolution, it is noted that internal is higher than external public debt, requiring attention to and government ability to repay public debt. Of particular note, borrowing from the local banking system is short-term, on commercial terms, and at high cost.

11.1 Public debt-to-GDP ratio

Public debt-to-GDP ratio is the most important public debt indicator. States and economic institutions measure and analyse this indicator in comparison to previous periods in the same state or with neigh-

24 MoF, Monthly Reports. May 2019 Report: Table (3): Consolidated Statement on Fiscal Operations: Revenues and Arrears. May 2019.

bouring countries. Public debt-to-GDP ratio measures the amount of debt relative to economic activity within the state, as well as the state capacity to repay public debt. The rate of decline in this indicator is driven either by growing public debt or declining economic activity and growth. However, Palestinian GDP increases because of grants and expenditure channelled to consumption, rather than by investment. In other words, the return on expenditure is at the expense of real economy growth.

According to Article 30 of the Palestinian Public Debt Law No. 24 of 2005, the outstanding balance of the public debt may not exceed 40 percent of the GDP. In view of the historical development of Palestinian public debt, public debt-to-GDP ratio reached a climax (26 percent) in 2007, but was record low (16 percent) in 2018. Nonetheless, when added, arrears introduce a realistic diagnosis of the actual amount of public debt. With arrears, the largest amount of public debt was registered at the end of 2015, accounting for 47 percent of the GDP. The least amount (22 percent) was recorded in 2010.

The steady and sustained increase in the amount of arrears, now scoring double the public debt, is indicative of the difficulty the Palestinian government faces in accessing internal or external loans. As a result, the government is forced to postpone due payments to the private sector and fails to comply with paying arrears to suppliers of different commodities and services, particularly in vital sectors. In spite of a gradual decrease in external public debt, data also show an increase in internal public debt and arrears, placing further pressure on the private sector, which provides services, commodities, and financing.

Compared to other countries, public debt-to-GDP ratio is low in Palestine. Taking into account a number of risks, however, this low ratio does not reflect the nascent Palestinian public finance sustainability. In Palestine, public finance mainly relies on financial resources beyond national control, rendering these external resources unstable and irregular. In addition, available financial resources are limited due to Israel's control over natural resources and borders.

Comparison of public debt-to-GDP ratios in some countries

International Monetary Fund (IMF) data, 2019

Country	Public debt-to-GDP ratio	Population
Jordan	90.83%	10,069,794
Iraq	54.44%	40,412,299
Lebanon	160.57%	6,065,922
Egypt	87.08%	101,168,745
United Arab Emirates	19.35%	9,682,088

Source: IMF database of world population census

Public debt-to-GDP ratios differ according to economic conditions within the state. As shown in the table above, while it stood at 80 percent in 2014, public debt-to-GDP ratio climbed to 91 percent by the end of 2018 in Jordan. However, the countries above are in a different position than Palestine, which is impaired by Israel's control over monthly clearance transfers. Compounded by budget reliance on foreign grants and contributions, Palestine is challenged by critically inadequate PNA-controlled local revenues, which do not cover salary expenses.

11.2 Public debt-to-exports ratio

Rates of this indicator vary from one country to another. Essentially relying on the size and growth of exports over a specific time period, public debt-to-exports ratio also depends on the amount of external public debt from countries and international institutions. Public debt-to-exports ratio indicates that

sovereign debts are increasingly higher than a state's resources of hard currencies. Exports are traded in hard currencies, the most critical source of income to the state. In the Palestinian context, decline in public debt-to-exports ratio does not necessarily reflect available foreign currencies and greater capacity to repay external loans. The majority of Palestinian commodities are exported to Israel, using the same currently in circulation in Palestine. This necessarily entails a decline in foreign currencies in Palestine. More than 85 percent of exports are traded in NIS. Seven percent of Palestinian exports go to Jordan, where JD is also a currency in circulation in the Palestinian local market. Overall, exports to other countries, including the Arab Gulf and USA, are just 5 percent.[25]

Of note, although it displayed a downward trajectory, external public debt-to-exports ratio fluctuated over the past years. This is mainly due to the rising volume of Palestinian exports. For instance, compared to approximately US$ 1 billion in 2009, Palestinian exports rose to US$ 3 billion in 2019.[26] Although it stood at US$ 1 billion between 2007 and late 2018, external public debt continued to be volatile. Hence, external public debt-to-exports ratio also oscillated, despite the fact that it maintained an overall declining trend. Having peaked to 155 percent in 2007, this ratio steadily declined, reaching a low of 36 percent at the end of 2018. This is the least external public debt ratio relative to the exports of commodities and services.

11.3 Palestinian public debt per capita

When governments are in debt, particularly long-term external debt, individual welfare of future generations and state ability to repay loans are affected. Individuals remain at the mercy of economic and political stakes, which are difficult to assess during the repayment period. Public debt per capita rises or falls, depending on the population growth and increasing or decreasing public debt. Supposedly, public debt per capita should match GDP per capita. Studies indicate that public debt per capita should not be more than 50 percent of an individual's annual income.[27]

At the end of 2018, the Palestinian population was around 4.85 million in the West Bank and Gaza Strip. Excluding arrears, public debt per capita reached 16 percent of individual annual income. Including arrears, public debt per capita would be as much as US$ 1,190. According to 2018 end of year statements, GDP per capita registered US$ 3,011. In other words, per capita to annual income ratio was about 40 percent; i.e. theoretically within the safe limits. This ratio hit a record high in the end of 2015, with the public debt per capita relative to individual annual income registering 47 percent.

11.4 Ratio of hard currency reserve to external public debt

This indicator reflects the volume of hard currency reserves in relation to external public debt. Over the past years, hard currency reserves fluctuated. With an average of 50 percent, hard currency reserves reached the highest level (60 percent) in 2013 and the lowest level (just 30 percent) in 2016. This is a serious indicator as it raises concerns for potential external borrowing in upcoming years. It explains the increase internal debt, either by borrowing or by postponing payment of private sector arrears at the expense of external debt in spite of the low cost of the latter. Overall, according to 2017 World Bank data, hard currency reserves across Arab countries were close to 85 percent.[28] By contrast, in Pales-

25 *Al Iqtisadi*, "What does Palestine Export to the World and Who are the Largest Importers from Palestine?" http://www.aliqtisadi.ps/article/14298/
26 For a calculation and comparison of public debt indicators, based on from the PCBS data, the estimated amount of exports was used in the GDP formula.
27 Mohammed, Omar, (2004). *The Concept of Public Debt: Indicators and Impacts*. A research paper submitted to the Symposium on Public Debt Management. Al-Azhar University: Saleh Kamel Centre for Islamic Economy, Egypt.
28 World Bank, *Total reserves (% of total external debt)*, https://data.worldbank.org/indicator/FI.RES.TOTL.DT.ZS?end=2017&name_desc=-false&start=1973&view=chart

tine, hard currency reserves rose from 43 percent in 2017 to 52 percent in late 2018.

11.5 Comparison of public debt growth rate to GDP growth rate

This indicator measures public debt growth rate as a percentage in comparison to annual GDP growth rate as a percentage as well. The higher the GDP growth rate than public debt growth rate, the better. The converse is also true: more risks arise if public debt growth rate exceeds that of the GDP. In Palestine, GDP growth rate was on a volatile trend in comparison to public debt growth, with the former being generally higher than the latter. In 2007, 32 percent of public debt growth rate contrasted with 12 percent of GDP growth rate. In 2015, public debt grew by 15 percent while GDP marked a zero growth. On average, data on the past ten years indicate a 8 percent growth in GDP compared to a 4 percent growth in public debt.

11.6 Public debt in relation to the volume of local revenues

This indicator articulates the real situation of Palestinian public debt in comparison to revenues. In the Palestinian budget, revenues are divided into three main sections: (1) local tax collection revenues, including total income tax and VAT from Palestinian local companies and individuals; (2) foreign grants and contributions, where Arab and international institutions support the budget either directly or through development projects; and (3) clearance revenues, which comprise as much as 50 percent of Palestinian gross revenues.

Accordingly, public debt ratio to local tax collection revenues is so high. Excluding arrears, while public debt amounted to US$ 2,370 million at the end of 2018, local tax collection revenues – under PNA control – just totalled US$ 640 million. In other words, public debt ratio to PNA-controlled local revenues is four times higher. With arrears added to public debt, the percentage is still swelling. According to the end of 2018 data, combined with arrears, the amount of public debt was around US$ 5,778 million. That is, the ratio of public debt and arrears to PNA-controlled local revenues was nine times higher – a very high ratio in all cases. On the other hand, public debt with arrears is almost double the local revenues, inclusive of clearance revenues. 2018 revenues registered US$ 3,100 through local tax collection and clearance transfers.

12. Public debt service

In addition to debt sustainability and assessment, other indicators are used to measure debt burden and service. Debt service means that due interests on, and instalments of, public debt are paid to creditors. In the Palestinian context, according to published data, it is noted that internal debt is higher than external debt, generating additional interests and increasing burden of debt-servicing costs. Further compounding the situation is that banks sometimes withhold part of the government's public revenues to reduce debt, particularly current accounts receivable, negatively affecting the economy, government's cash flow, accuracy of government fiscal planning, and commitment to fulfil government obligations.

Notably, the average of internal public debt service is almost 95 percent of the total expenditure for

debt servicing. This is due to high interest rates on local debt on one hand, and limited time period of loans, particularly in relation to current accounts receivable on the other. Also, the majority of internal loans are issued in NIS, with a larger interest rate than other currencies. With an average of US$ 4 million a month, the amount of interests on public debt is high in light of monthly expenses, placing an additional burden on the public budget. Ninety (90) percent of interests on public debt are internal, originally paid to the same banks which keep public sector deposits. This means that interests are deducted automatically.

12.1 Public debt service-to-revenue ratio

With an average of 13 percent overall, the ratio of public debt service to local revenues has fluctuated depending on the volume of local revenues. The average of debt service was around US$ 325 million, including US$ 278 million in instalments and US$ 47 million in interests on loans. During the same period of comparison, local revenues, including clearance and local tax collection, totalled US$ 2,580 million a year. A review of public debt interests in relation to local and clearance revenues shows that an average of 2 percent of local revenues is exhausted by interests on loans. In other words, the Palestinian public budget is overburdened by the consequences of these loans, particularly internal ones. In such circumstances, this is further aggravated by the suspension of clearance transfers from the Israeli government. Local revenues rely completely on internal local tax collection. On average, while annual interests on internal and external public debt amount to US$ 47 million, local tax collection revenues are close to US$ 630 million. This means that as much as 8 percent of local revenues are consumed by interests on internal and external debt. These interest rates are so high in view of local revenues, currently under control of the Palestinian government.

12.2 Public debt service-to-exports ratio

Another aspect of analysis draws a link between public debt service and the volume of exports. Albeit oscillating, public debt service-to-exports ratio has maintained a general trend of a steady increase. While it registered US$ 1,367 million in 2010, public debt service-to-exports ratio dropped to US$ 2,904 million at the end of 2018. In other words, public debt service accounted for almost 11 percent of total exports.

12.3 Public debt-to-equity ratio

In general, in light of current economic conditions and high public debt and arrears, bank lending capacity will decline. Therefore, local banks will increase the amount equity in line with the PMA recommendations. In Palestine, compared to 80 percent at the end of 2017, public debt-to-equity ratio stood at 70 percent in late 2018. This indicators measures bank capacity to handle shocks resulting late repayment of the government's local debt. Beyond doubt, the lower the public debt-to-equity ratio is, the higher the equity of local banks and lower local public debt. Consequently, risks posed by government debt on banks is less.

13. Impact of public debt

Before borrowing, governments examine a number of options, including causes of borrowing, debt service methods, loan conditions, due interest cost, and impact of loans on economic development. These, and other, important factors determine the volume and timing of borrowing. Current govern-

ment decisions on borrowing will definitely impact future generations, which will repay the amount of accumulating loans. Hence, taxpayers will pay the loan bill. Future generation can easily repay loans if loans are of significance to development as the return on investment will be high, ensuring debt is serviced easily. However, if decisions on borrowing are made to spend on items that do not bring about economic growth, the government will face difficult choices, including re-borrowing in order to repay both the debt and the original interests. Therefore, the government is doomed to an endless circle of loan repayment, debt restructuring, and incapability of debt service. In this case, the country is affected by a real crisis, which can only be solved through austerity measures, emergency budgets, increasing tax burden, new taxation both horizontally and vertically, or removal of subsidies on some commodities and services. This results in suspension of economic growth and loss of growth opportunities as growth is no longer contemplated. The government will only be preoccupied with how to proceed with covering debt servicing costs and other basic arrears.

The Palestinian government is challenged by an inability to repay internal debt as well as private sector arrears. The latter are of paramount importance because they represent significant economic sectors, including health and education. Data on arrears to pharmaceutical companies indicate that the government owes excessively high amounts of debt to these providers. The government paid the arrears due in 2015 at the beginning of 2016. After 2016, however, the government was not committed to paying arrears due to lacking the capacity of repayment. Arrears climbed to US$ 3,524,808 at the end of 2016, US$ 22,982,662 in 2017, and US$ 41,200,564 in late 2018.[29] Arrears in NIS have also been on a similarly upward trajectory. Multiplying arrears over the time span of three years can limit the ability of the private health sector to meet local demand or, as a minimum, keep acceptable quality standards, in view of short liquidity and competition over the repayment of arrears. As a result, representatives of pharmaceutical companies and private hospitals have demanded repayment of a simple portion of arrears so that they could pay medical staff salaries and arrears to suppliers. An austerity policy, reduction of service quality at hospitals, and reliance on less expensive alternatives to reduce cost in the health sector will result in a high mortality rate. Citizens will also have to purchase treatment at a high cost as service is unavailable or of poor quality at governmental hospitals.

Generally speaking, the impact of rising internal or external debt and arrears inevitably and negatively impacts the Palestinian economy at various levels and in advanced stages. Public debt curbs GDP growth in real economic development terms, causing a growth crisis, or at least slower growth of GDP. In this context, a portion of the funds to be earmarked to development projects will inescapably go to public debt repayment and service, hence wasting investment and development opportunities. Increasing debt and GDP growth slowdown will reduce individual annual income per capita. In other words, the standard of living among individuals will deteriorate both quantitatively and qualitatively. At that point, commodity and service prices will rise, limiting individuals' saving capacity. In advanced stages, a food crisis will be in place once in a while. Therefore, in addition to planned, effective and efficient borrowing, public debt control within sound economic limits and ratios can achieve desired goals, avoid adverse economic consequences, and bridge any gaps that create an opportunity for corruption.

29 According to data from the Palestinian Medical and Pharmaceutical Suppliers Associations, these arrears are due for the Palestinian pharmaceutical industry sector. Interview with a representative of the Palestinian Medical and Pharmaceutical Suppliers Associations, 29 May 2019.

14. Findings

The study findings show that the Palestinian public budget is impaired by a fragile and unsustainable fiscal position due to restrictions placed by the Israeli occupying authorities. On an ongoing basis, the public budget is undermined by deficit in the current balance and balance after grants and aid. This is driven by inadequate revenues, climbing expenses, and lack of government ability to collect revenues. In 2018, quarterly deficit amounted to US$ 637 million compared to US$ 778 million in the same period of 2017. The reason behind this deficit is attributed to decreasing revenues vis-à-vis annual expenditure. Findings reflect an overall vulnerable position of local revenues, grants, and sustainability of revenues. Annual revenues amount to approximately US$ 5 billion. While 25 percent of revenues come from local tax collection, 50 percent are clearance transfers (Palestinian revenues generating from imports and taxes) from the Israeli occupying authorities. The rest, 25 percent, is earned from foreign grants and international aid in the form of budget support and development projects. As much as 85 percent of public spending goes to operating expenses. Just 15 percent of the public budget is spent on development projects.

Faced by this deficit, inadequate revenues and increasing expenses, the Palestinian government resorts to internal or external borrowing in order to cover operating and development expenditure. In addition, the government either postpones or delays payment of due amounts (arrears) owed by the private sector. Resulting from short local revenues and foreign grants and aid, a financing gap forces the government to put off financial commitments to the private sector, including commodity suppliers, service providers, and contractors. Moreover, the government postpones payment of the public sector wage bill, contributions to the pension fund, and social transfers to beneficiaries. Otherwise, the government is obliged to borrow from local banks. Findings show that internal public debt was higher than external public debt in mid-2012. While the latter has been relatively static, internal debt continues to rise due to limited options of external public debt and government reliance on local banks to secure short-term loans and current accounts receivable. By the end of 2018, public debt reached US$ 2,370 million, including US$ 1,032 million in external debt and US$ 1,338 in internal debt. Amounting to US$ 3,409 million in late 2018, arrears owed by the Palestinian government totalled US$ 5,778 million. Huge as it is, this amount is larger than the annual public budget. Rather than investment, government borrowing is mostly used to cover current consumption expenditure, such as the public sector wage bill, operating and transfer expenses, and net lending. As a result, the public fiscal policy is unsustainable on the long run.

External sources of financing generate from foreign governments and international and Arab institutions. Internal loans include current accounts receivable, bank loans, loans from the Directorate General of Petroleum, and loans from public financial institutions. The governments of China, Italy and Spain have provided a gross amount of financing of US$ 123 million. Arab institutions, including the Al-Aqsa Fund and IDB, contributed approximately US$ 600 million. International institution, such as the World Bank and European Investment Bank, made contributions of nearly 340 million. Current accounts receivable were roughly US$ 403 million. While bank loans reached US$ 647 million, loans from the Directorate General of Petroleum and other institutions averaged US$ 186 million and US$ 15 million, respectively. External debt is usually subject to political positions and sovereign economic conditions. On the other end, internal loans increase debt burden due to high cost and liquidity. Arrears place restrictions on the private sector's sustainability and liquidity to maintain imports and financing.

Findings show that public debt has undergone various stages. Having peaked at times, public debt-to-GDP ratio started to drop, hitting a record low at the end of 2018. This decrease was driven by a growing GDP, rather than a dwindling amount of public debt. While public debt-to-GDP ratio was downward, government arrears to the private sector increased sharply. Towards 2010, average public debt was US$ 1,205 million, or 23 percent of GDP. However, public debt experienced a surge of US$ 2,245 million, or 21 percent of GDP, between 2011 and 2013. By contrast, public debt dropped to 16 percent in 2018, registering the least rate since the PNA was established. The amount of public debt was around US$ 2,370 million. Against this background, it is noted that public debt was volatile, but

also rising incrementally. Public debt-to-GDP ratio has seen a constant and gradual decrease due to a slight drop in the amount of external debt and rise in the amount of GDP. This contrasted with a sharp increase in the amount of arrears. Compared to less than US$ 350 million in the end of 2010, arrears jumpstarted to US$ 1,645 million in late 2013. Towards the end of 2018, this amount doubled, climbing up to US$ 3,409 million, marking an increase of almost 107 percent over the past five years. This runs counter to the government statement that public debt decreased between 2013 and 2018. It is true that public debt-to-GDP dropped, but the amounts of public debt and arrears rose. This means that the PNA indebtedness soared over this period.

Findings demonstrate that the rise in public debt is driven by growing expenditures, PNA institutional expansion, and an absent sound basis of the development process. Attention is not paid to economic conditions, resources under the PNA control, plummeting local taxes, tax evasion, and PNA inability to levy other taxes. More importantly, the Israeli occupying authorities are in full control of domestic resources, borders, and clearance transfers. These are all substantial causes of the largely swelling public debt. In an attempt to simulate developed countries, the PNA has opted for a rapid growth in civilian and military government institutions, increasing annual expenditures that overstretched the budget vis-à-vis the volume of resources in hand. Compounded by absent transparency and oversight, misappropriation of funds was on the rise, particularly in early years of the PNA establishment. While public debt was increasing, the PNA was incapable of raising tax rates and controlling local revenues, namely, clearance amounts. Additionally, the Israeli occupying authorities are in full control of borders and natural resources, including gas, petroleum, and water. Combined, these factors constrain the volume of revenues, forcing the PNA to offset the deficit by means of internal or external debt and by postponing repayment of arrears to relevant suppliers.

Arrears affect critical sectors, particularly health and education. At the end of 2018, arrears owed to pharmaceutical companies amounted to US$ 42 million. In the same period, private hospitals had arrears of almost NIS 1 billion. Findings show that 75 percent of total arrears were due for the private sector. The remaining amount comprised salary and wage arrears. While salary and wage arrears fluctuated, data indicate that private sector arrears have been rising rapidly, affecting all items and sectors. Failure to repay or delayed repayment of private sector arrears put private companies at risk, undermining their ability to continue to provide services and equipment to these vital sectors. According to end of 2018 balances, arrears to the private health sector alone amounted to US$ 315 million, undermining the capacity of private health providers to ensure efficient functioning and quality service provision at the same prices. Some relevant data show that the prices of services earmarked to the Palestinian government have risen due to postponed payment of arrears.

Public debt-to-GDP ratio in other Arab countries are different from that in the Palestinian context. Public debt, including arrears, might be as high as 40 percent of the GDP – a low ratio in comparison to other countries. For example, public debt-to-GDP ratio represented 91 percent in Jordan, 160 percent in Lebanon, and 87 percent in Egypt. However, taking a number of risks into account, these low ratios do not reflect the real situation. These countries are at parity with Palestine, which suffers from Israel's control over monthly clearance transfers. In addition to budget reliance on foreign grants and contributions, local revenues are so inadequate that they do not cover salary expenses. Palestine also lacks control over national borders and natural resources. Particularly challenging is Israel's control over almost half of Palestinian monthly revenues. In other words, when counted, the ratio of public debt to local revenues is as high as 700 percent. This is an exorbitantly swelling ratio. Such force majeure is not experienced by other countries.

Increasing internal debt entails additional interests and increasing burden of debt-servicing costs in the Palestinian public budget. The average of debt service was around US$ 325 million. Of this, interests alone accounted for as much as US$ 4 million a month. This means that, on average, 2 percent of local revenues, including clearance transfers, are exhausted by interests on loans, placing a huge burden on the Palestinian budget. Further compounding the situation is that banks sometimes

withhold part of the government's public revenues to reduce debt, particularly current accounts receivable, negatively affecting the economy, government's cash flow, accuracy of government fiscal planning, and commitment to fulfil government obligations. Findings show that the average of internal public debt service takes up almost 95 percent of the total expenditure for debt servicing. Also, the majority of internal loans are issued in NIS, with a larger interest rate than other currencies. The situation is even worse with suspended clearance revenues and shrinking foreign grants. This means that as much as 8 percent of PNA-controlled local revenues, which amount to US$ 630 million per annum, is consumed by interests on internal and external debt. Hence, debt servicing cost is high in view of the Palestinian economic conditions as well as total interests and instalments.

Finally, it can be concluded that the Palestinian government has been incapable of internal borrowing at ease due to soaring internal debt. At the same time, the government's margin of flexibility to continue to postpone repayment of private sector arrears has shrunk in view of the rising amount of accumulating arrears. It is also difficult to borrow from external sources, which are either unavailable or conditional, if any. Available alternatives have, therefore, decreased due to lower current revenues, accumulating salary and wage arrears, and high operating expenses. At the same time, this study is of the view that rising current deficit, especially following February 2019 as a result of suspended clearance transfers and foreign grants, reflects a shortage of liquidity, which does not fall within public debt. When clearance transfers to the Palestinian government are resumed, the current deficit will be repaid and eliminated.

15. Proposed policies

The PNA is challenged by limited financial resources and reliance on external resources beyond national control, namely, clearance revenues and foreign grants and contributions. The PNA is further crippled by an untenable structural change of current expenses, which dominate the wage bill and transfer expenses. Therefore, doing away with the root causes of deficit and achieving a surplus in the public budget remain an elusive goal, at least in the short to the medium run. Conducive political conditions need to be in place so as to allow the PNA to control its borders, natural resources and, by consequence, revenues. Driven by short domestic resources, reliance on foreign grants and aid will continues to be existing, pressing and indispensable in the foreseeable future in spite of recent shocks that resulted in suspension of US annual aid of US$ 400 million in late 2018. Still, controlling current expenses, improving and expanding the local tax collection base are critical steps towards reducing current deficit in the public budget, consequently alleviating the need for borrowing. Against this backdrop, the study recommends a set of proposed policies, which may reduce the need for borrowing in these circumstances.

The study recommends that current expenses be maximally controlled and rationalised in line with a specific agenda of priorities. A particular focus will be placed on salary and wage expenses by limiting new employments in the education and health sectors. Employment will also be limited to necessary vacancies resulting from retirements in other sectors. In addition to a terminal phase-out of net lending, citizens' awareness will be raised about increasing investment, rather than savings. Over the past years, the public sector wage bill has witnessed volatile reductions. In terms of commitment, salary expenses dropped by 15 percent in 2018 in comparison to 2017. Expenditure should also be under control. To this avail, the increase in operating expenses will be on par with inflation rates only. Transfer expenses will be rationalised by ensuring that government support and assistance are accessible by beneficiaries. Net lending will be drastically eliminated. The study also recommends that the PNA and civil society organisations raise citizens' awareness about rationalising consumer spending and promoting investment. Citizens need to be encouraged to invest, rather than rely on savings. In the Palestinian context, saving refers to keeping funds and savings outside the banking system, declining to establish small enterprises, and associating the establishment of, and investment

in, these businesses with political conditions. **According to the study recommendations, a gradual change is needed in view of the operating expenses that outweigh development expenses. Expenditures should be geared towards projects, which promote investments with a view to increasing production, exports, and employment opportunities in productive agricultural and industrial sectors, subsequently increasing the government domestic tax collection. In this context, one of the most important government instruments is the Palestine Investment Fund (PIF).** 2018 data show that development expenses did not exceed 7 percent, or US$ 277 million, of total public expenditure. More spending on income generating projects will result in increasing GDP. An area of gradual change in the composition of expenditure is to control and keep operating expenses to a minimum by reviewing and converting detailed budget line items to development expenses. Economic infrastructure projects, including electricity, water, sanitation and road construction across new regions, will definitely promote private sector investment and prepare infrastructure for establishing productive enterprises. Not only do these generate income indirectly, but they are also a key factor of increase in income through the private sector.

According to recommendations of the study, borrowing for financing consumption current expenses, such as salaries and wages, needs to be minimised as much as possible. Borrowing on difficult terms and at high costs will be reduced. Loans will be designated for meaningful investment and development projects with returns that are capable of repaying principal and interest on debt or developing infrastructure projects. These would promote private investments, which boost the production capacity of economy, especially in productive agricultural and industrial sectors. Accordingly, local economy will be more capable of meeting local demand, creating employment opportunities, and enhancing tax and local collection capacity. In fact, in view of political conditions that manipulate the volume and transfers of revenues to the Public Treasury, the Palestinian government is forced into debt in order to finance operating expenses. However, once geared towards investment projects, borrowing can lead to increasing GDP. For example, historical data demonstrate that the Palestinian agriculture sector's performance has receded. The agriculture sector contributed 40 percent to Palestinian GDP in 1969. This contribution dropped to 20 percent in 1980, 8 percent in 2000, and further down to 5.5 percent in 2010. Currently, the agriculture sector contributes just 3 percent of Palestinian GDP and receives only 1 percent of the PNA budget. Local tax collection and return on investment can be increased when borrowing is channelled to investment projects, particularly in the agriculture sector, construction of new rural roads, and enhance PIF focus on these agricultural projects.

For the fifth month in a row, clearance transfers from the Israeli occupying authorities have been suspended. As clearance revenues constitute a substantial portion of gross public revenues, a long-term strategy needs to be devised to get rid of the clearance system in order to handle Palestinian public revenues, which generate in and through the Israeli economy. States and international institutions should be demanded to place pressure on Israel to release withheld clearance money. The PNA must approach international institutions and foreign governments to urge Israel to release and transfer Palestinian clearance revenues, complete and undiminished.

Serious thought should be given to increasing local revenues either by unleashing the potential of local economy or by enhancing tax collection. To do so, horizontal tax equity will be extended. Tax evasion and fiscal leakage will also be eliminated. It should be noted that the current tax rate has not increased. GDP per capita is as low as US$ 3,000 per annum. In comparison to other countries, the ratio of tax to annual individual income is high.

The study further recommends that the private sector reach an agreement with the PNA to provide the latter with health and education requirements within a time bound framework for repayment on fair and transparent grounds. On this basis, the Palestinian government should place its demands in a timely fashion and avoid stockpiling perishable medicines and medical disposables in warehouses. Reducing requested quantities and using a minimum of items stored in warehouses can decrease investment in commodities. Hence, funds will go to other investments and priorities with a view to supporting the private sector or government on an equal footing. Reliance on a minimum stockpile of

commodities and equipment will result in declining private sector arrears and facilitating repayments in smaller amounts by the Palestinian government.

The study stresses that the MoF should ensure a more transparent and accountable public debt management by civil society organisations. A more stringent approach will be in place to combat misappropriation of government funds in line with deterrent laws, provide a summary disposition of embezzlement cases, and return misappropriated funds to the public budget. Recently, the MoF has blocked access to all monthly, quarterly and fiscal reports on the MoF webpage, citing suspended clearance transfers and emergency budget. In these circumstances, fiscal reports and financial position should be principally made publicly available so that budgeted allocations are fairly distributed to all sector in line with set priorities, resilience, and precedence of longstanding and accumulating arrears. For the government, it is more effective to focus on publishing disbursement mechanisms and prioritisations so that relevant institutions are duly informed. This will surely eliminate preference in repayments to particular suppliers or sectors. More stringent control should be in place to prevent any misappropriations, which increase the financial burden on the public budget. Serious action needs to be taken to return misappropriated funds to the Palestinian Public Treasury.

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The Coalition for Integrity and Accountability (AMAN) which was accredited by Transparency International (TI) as a national chapter in Palestine since 2006 - established in 2000 by an initiative of number of CSOs working in the field of democracy, human rights and good governance towards reaching its vision of Palestine free of Corruption.

The Coalition is keen to create and lead a social movement against corruption and to contribute in the production, transferring and localization of the necessary knowledge in anti-corruption at the local, regional and international level.

The Coalition is also keen to play its monitoring/watchdog role on the National Integrity System through focusing on community participation, activating the role of civil society institutions and media in monitoring management of public money and affairs, and creating a work environment that contributes to unclose corruption crimes and restrict its spread.

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