



Position Paper on:

Decree Law On Public Budget for the Year 2021

Prepared by

**Civil Society Team for Enhancing Public
Budget Transparency**

APRIL 2021

Position Paper on: Law Decree on Public Budget for 2021

The President promulgated a decree law on public budget for the fiscal year 2021, after an *in camera* approval by the government, three months following the normal scheduled deadline for ratification of the budget, and on the last day of the grace period granted for exceptional cases. The law was published in a summative form without any details clarifying the allocations to the centers of responsibility, and without any involvement or consultation with civil society representatives. All citizens have been ignored in the process excluding large segments and tax payers.

The 2021 budget was promulgated under a state of emergency, but in terms of a regular rather than a contingency budget. Despite the grave health challenges, the budget allocated 13% to the health sector, 12% to social development and protection, 16% to education and 20% to security.

Main features of the 2021 public budget law:

Revenues:

The total net revenue was estimated at NIS (13,579) million, which is higher than the actual net revenues of 2020 (NIS 1,746 million). This represents 14% of the revenue generated in 2020, and is higher than the revenue achieved over the years 2016-2020. These revenues include local revenues from taxes and fees in addition to tax clearance revenues collected by Israel on behalf of the Palestinian Authority, and disbursed with a 3% deduction in administrative fees in addition to the deduction of the sums allocated to prisoners and their families.

The government expects that local revenues that will be collected directly by the Palestinian government will amount to (NIS 4,634 million); while it expects tax clearance money to be (NIS 9,320 million), which is higher than its rate in previous years (2016-2020) by NIS 1 billion.

Expenses:

The overall expenses and net lending¹ together with developmental expenses were estimated at (NIS 19,562 million), marking a rise of the annual rate in previous years (2016-2020); they include:

- **Salaries and wages** (without the quasi-salaries): The salaries and wages have been projected to be (NIS 8,121 million), which represents 47% of the total expenses and net lending (without developmental expenses). This marks an increase compared to last year by NIS 563 million.
- **Current expenses:** The current expenses have been estimated at NIS 8,248 million; they include operational cost (NIS 2,564 million). The estimates are higher by NIS 300 million compared to the actual expenses in 2020. Financial transfers (NIS 4,784) remained unchanged compared to the previous year, noting that they include the sums transferred by the public treasury to a third party, including cash assistance to poor families. As for capital expenditure,

¹ Net lending: the sum deducted by the Israeli side for water, electricity, medical transfers and other bills.

it was estimated at NIS 211 million while interests reached NIS 364 million and allocated expenses stays at NIS 325 million.

- **Net lending:** The Palestinian government estimated net lending to be NIS 800 million (while in previous years, it has been NIS 1 billion).
- **Developmental expenses:** These were estimated at NIS 2,392 million, which is more than double the expenses in previous years. These expenses include NIS 1,435 million of direct funding from the public treasure, and NIS 858 million through foreign grants and assistance.

Financial Gap:

The total pre-funding deficit was estimated at NIS 5,982 million, while external funding was estimated at NIS 2,298 million; therefore, the public budget law preserved a financial gap of NIS 3,684 million.

Public Debt:

The public debt reached end December 2020 around NIS 11,735.8 million, with accumulated arrears till end 2020 of around NIS 6,613 million. Since arrears are considered part of the public debt, the total public debt payable by the government reached NIS 18.4 billion. According to the public budget law, these arrears for 2021 have been estimated at NIS 1,716 million without any explanation of how these arrears will be handled.

Allocations to the social sector and security sector

The Ministry of Finance announced through social media that it had allocated 13% of the total budget to the health sector (USD 650 million), which represents an increase from previous year by around USD 100 million. It allocated 12% to the social protection sector (USD 620 million), 16% to the education sector (USD 860 million). It should be noted that spending on education has dropped as it represented 18% of the total spending in 2020. The security sector was allocated 20%.

Comments of the Civil Society Team for Enhancing Public Budget Transparency on 2021 public budget:

- The public budget maintained the 2020 budget, considering that all figures and data for 2021 are indicative, amendable and updatable in light of any future changes during the fiscal year. Monthly monetary plans have been prepared based on rationalization according to the priorities approved by the Council of Ministers CSTEPB underlined the necessity to make good use of this article, which adapts the law to actual conditions. On the other hand, the budget has not provided for any expenses rationalization plans while the Council of Minister has not ratified any comprehensive plans with clear and precise bases for rationalization of expenses and improvement of expenditure performance.
- The data published about the budget remain succinct without any clarifications on the way the budget and its estimates have been constructed or any indication of how realistic they are.

It did not show the policy applicable to collection of revenues or to expenses. It is therefore insufficient to formulate a detailed and precise opinion.

- Estimates of tax clearance revenues for 2021 are overoptimistic, compared to actual revenues in the past five years. Under the political blackmailing and deductions of the allocations to prisoners and their families, the estimates do not indicate any potential economic emancipation to counter the tremendous losses endured by the Palestinian government because of the financial leakage, which amounts to NIS 0.5 billion per year. Israel has not honored its economic obligations while economic agreements are unfair and government measures to counter this leakage are very weak.
- Data showed an overall rise in estimated expenditure of 2021 for salaries, operational and developmental costs but no increase in financial transfers, which cover the assistance disbursed to the poor. Clarification is needed for the items in which expenses will be rationalized, as stated in the speech of the Head of the Council of Ministers.
- Data of the 2021 public budget showed an increase in the salaries item without explanation of the reasons behind this increase. Explanation is needed to show whether this stems from creation of new jobs in the centers of responsibility or from addressing the Gaza Strip files.

Based on the above stated core notes on the 2021 public budget, the Civil Society Team for Enhancing Public Budget transparency:

- I. Reiterates the necessity to publish the entire budget law with all details on the allocations to the centers of responsibility and the economic indicators and bases for the financial estimates of revenues and expenses for the year 2021. It calls on the government and Ministry of Finance to be more open to the civil society and to involve it in defining the priorities of the public budget, including expenditure priorities and fiscal collection policies in addition to transparency of developmental spending and sources of funding.
- II. Denounces the secretive and sole decision making, which represents a flagrant contradiction with the National Policy Agenda and the government's declared commitments – as repetitively mentioned in the speeches of the Prime Minister – to apply a participatory and more open approach with the civil society.
- III. Underlines that the government and Ministry of Finance must comply with transparency and publication of periodic reports, on the dates defined by the Palestinian law.
- IV. Underscores the necessity to abide by the principle of transparency in enforcing the budget, especially developmental expenses and their sources of funding as well as spending on social protection to ensure protection of the poor and segments affected by the recent pandemic.
- V. Reiterates the necessity to adopt a clear plan for rationalization of expenses, which accounts for every center of responsibility and does not harm the rights of the poor or social justice.
- VI. Closely monitors the rise in the allocations to the social sector and calls for publication of detailed spending plans on the said sectors, noting that the security sector still receives the largest share of the budget.

- VII. Invites the government to comply with the principles of transparency and publish full details and schedules of internal and external debts, showing the creditors, instalments, loans, interest rates and repayment mechanisms, in application of the regulations government public debt.
- VIII. Calls for publication of full details on arrears due to suppliers and the overall debt due to the Pension Fund with clarification of the mechanisms to solve these debts, mainly to the public pension fund.
- IX. Reiterates that net lending still depletes the public budget while there is a problem to cut down on this item.