

# 2021 Public Budget Performance Report



March 2022



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**AMAN**  
Transparency Palestine



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## Introduction

The Palestinian government adopted in 2021 a strategy to enhance public funds management (2021-2023). The strategy focused on promoting transparency in the management of public funds and debt, elimination of tax evasion, and solving net lending and other important issues. It also adopted an increase in the budget allocations to the sectors of social protection, health, and education. After the elapse of the first year and assessment of the progress achieved by the government and Ministry of Finance (MoF) in their financial reform efforts and solving the challenges related to expenditure, it appears that the progress is weak toward achieving the stated goals and that the public budget continues to suffer from structural problems.

Although the government has adopted a policy of budget cuts and austerity, indicators of the public budget management in 2021 do not show any cuts in the expenses. Consequently, the budget deficit continued as expenses still exceed revenues.

The report aims to highlight the revenues collected, and expenditure compared to the budget allocations, mainly to the social sector (health, education, and social development) and the agricultural sector. It also focuses on public debt, net lending, arrears, and pension fund. It is based on the annual financial reports and public budget for the year 2021. It examines the interventions related to the management of public funds, as described in the public funds' management strategy.

## Monitoring transparency of public budget

A review of the MoF data, with an assessment of their compliance with the international standards of public budget transparency, defined by the Global Initiative for Fiscal Transparency (8 basic budget documents), shows that MoF published four of the eight documents. It should be noted that publication must meet three basic criteria, namely, comprehensiveness of data, compliance with publication deadlines, and easy access to the data.

The following table shows the main documents:

Document	Published	Unpublished
Pre-Budget Statement	Published	
Executive's Budget Proposal		Unpublished
Enacted Budget	Published (in brief)	
Citizens Budget	Published	
In-Year Reports (monthly & quarterly)	Published	
Mid-Year Review		Unpublished
Year-End Report 2021		Unpublished
Audit Report 2019		Unpublished

تمّ نشر أربع وثائق من ضمن الوثائق الثماني المذكورة في الجدول أعلاه، وبناءً على ذلك يمكن إدراج الملاحظات التالية:

Four of the eight basic budget documents in the above table were published, while the following remarks are made:

- Compliance with the publication of the pre-budget statement on the MoF website.
- The Executive's budget proposal was not published or discussed with representatives of the civil society.
- The enacted budget approved by MoF was published but in a short summary without any detailed allocations or centers of responsibility.
- The citizens' budget was posted on the MoF website, but after the elapse of the first half of the year.
- The annual reports were posted on the MoF website but not on the set schedule.
- The semi-annual year was not published on the date set, while the year-end report of 2021 was not published at all. MoF publishes an accumulative report that does not fulfill the criteria of a year-end report. The year-end report must include an analysis of the performance and monitoring of the progress in achieving the goals, not only spending numbers.
- The 2019 audited report (final accounts) was not published although according to the international criteria of public budget transparency, it should be published within a maximum period of 18 months following the end of the fiscal year, i.e., within 6 months following the preparation of the final accounts.

## 2021 public revenues:

The net revenues in the 2021 budget<sup>1</sup> were estimated at NIS 13.57 billion while the net revenues on an accrual basis reached NIS 13.71 billion, which is NIS 135 million higher than the projected revenues.

Public revenues comprise (1) local revenues including taxes and fees collected by the PNA. Local revenues were estimated at NIS 4.6 billion in 2021. (2) Tax and customs clearance money collected by Israeli on the international crossing points on behalf of the PNA, on which Israeli deducts 3% as management fees as per the Paris Economic Protocol. These revenues were projected at NIS 9.3 billion.

### Local Revenues (Directly collected by the PNA)

The total local revenues collected in 2021 on an accrual basis reached NIS 4.9 billion, marking an increase of NIS 345 million of the projected local revenues. Tax revenues accounted for NIS 3.2 billion while non-tax revenues represented NIS 1.3 billion and special collections reached NIS 458 million.

The table below shows that the collected local tax revenues were higher by 10% of the projected revenues due to the increase in the customs duties collected (which represented NIS 936 million), indicating a rise in direct importation.

The table shows continuing reliance on indirect taxes; the largest income is generated by the Value Added Tax (VAT), which accounts for NIS 1.1 billion and customs. Both taxes are imposed on all citizens. Income tax revenues reached NIS 722 million, marking a rise of 11% of its projections. The Public Funds Management Strategy states that the income tax law will be amended while a law on VAT will be prepared. None of these draft laws has been prepared prior to the publication of the present report.

Table (1) Local revenues per type of taxes (NIS millions)

	Collected revenue in 2021	Projected in 2021	Ratio of collected to projected
Local tax revenues	3221.4	2921	110%
Income tax	722.4	648	111%
VAT	1199.4	1251	96%
Customs	936.4	648	145%
Excise on alcohol	4.9	370	94%
Excise on tobacco	343.2		
Property Tax	15.1	4.6	328%

<sup>1</sup> See Public Budget Law of 2021: <http://www.pmf.gov.il/pmfof/documents/budget/2021/budgetBook2021SignedByPresident.pdf>

**Clearance Revenues:** (Taxes paid by the Palestinian citizens and collected by the Israeli authorities, which control crossing points and borders and deduct a 3% commission on the taxes collected. These revenues include customs duties, VAT, purchase tax, fuel tax, income tax (from workers inside the Green Line).

Revenue from clearance reached NIS 9.3 billion on an accrual basis, representing 100% of the projections. They represented 68% of the total public revenues indicating an ongoing reliance on clearance money, which is subjected to the occupation's piracy and blackmailing. Generally speaking, the revenues generated via the clearance in 2021 exceeded its 2020 levels by NIS 1 billion. These revenues reached NIS 8.09 billion in 2020. The increase resulted from rising economic and trade activity compared to 2020 when several lockdowns were imposed due to the Covid-19 pandemic. As a result, the Israeli deductions on the clearance money became more visible and estimated at NIS 51 million, under the pretext that they were paid as subsidies to families of prisoners

Clearance revenues from customs duties accounted for NIS 4.4 billion, which is four times the duties collected via direct importation, indicating continued dependency on importation via the "Israeli" side in spite of the risk of losses due to financial leakage. Fuel tax represented NIS 2.5 billion, followed by VAT at NIS 2.02 billion. The actual collected VAT is significantly higher than the projections, representing 179% of the estimates.

Table (2) Revenues from clearance money divided by type of taxes (NIS millions)

	Collected in 2021	Projections in 2021	Actual to projected ratio
Clearance revenues	9328.8	9320	100%
Customs	4483	4194	107%
VAT	2026.2	2236.8	91%
Purchase Tax	-18.4		
Fuels Tax	2577.9	2796	92%
Income Tax	260	93.2	279%



## Expenditure Analysis

Total expenses and net lending for the year 2021 were estimated at NIS 17.1 billion. The total expenses and net lending made reached NIS 17 billion on an accrual basis and NIS 13.1 billion on a cash basis (i.e., what was actually paid), marking a difference of NIS 3.9 billion, the government's arrears.

Table (3): Total expenses on an accrual basis compared to the actual expenses on a cash basis and to 2021 projections (NIS millions)

	2021 actual expenses on an accrual basis	2021 actual expenses on a cash basis	2021 projections	Ratio of actual to projected on an accrual basis	Ratio of actual to projected on a cash basis
Total expenses	17005.8	13056.8	17169	99%	3949
Salaries and wages	7795.9	6435.5	7434	105%	1360.4
Social assistance	741.8	45.6	687	108%	696.2
Use of goods and services	2606.8	1169.8	2564	102%	1437
Transformational costs	3686.6	3399.9	4784	77%	286.7
Capital expenses	105.6	26.2	211	50%	79.4
Interest rate	403.2	610.6	364	111%	-207.4
Net lending	1207.7	1207.7	800	151%	0
Special payments	458.2	161.5	325	141%	296.7

**Salaries and wages:** Spending on salaries and wages on an accrual basis reached NIS 7.7 billion, accounting for 105% of the projections for 2021. Spending on salaries and wages reached NIS 6.4 billion on a cash basis, marking a difference of NIS 1.3 billion compared to the spending on an accrual basis. The remaining difference is the government's financial obligations. It stemmed from the non-payment of full salaries in November and December of 2021, as only 75% and 80% of the salaries were paid respectively. Furthermore, the administrative bonuses and promotions were not paid to staff of the civil and military sectors. Consequently, the government's financial liabilities multiplied.

**Social contributions:** This includes the government's contributions to the pension plans of public servants. The government's share must be transferred with the deductions on staff pay (staff contribution) to the pension fund in compliance with the Public Pension Law to ensure the Fund's sustainability and transfer to pension pays to retired staff. However, only NIS 45.6 million out of NIS 741.8 million has been transferred, which confirms the government's policy of accumulation of debt vis-à-vis the Pension Fund, which is at risk of collapse soon if the government continues to accumulate such debt. In recent months. The Pension Fund was only able to transfer 75% to 80% of the pension payments to retired staff although these funds are a right to these staff members regardless of the government's budget deficit. Furthermore, social contribution on the accrual basis increased by 8% of its projections for 2021.

**Use of goods and services:** Operational cost on an accrual basis reached NIS 2.6 billion, marking 102% of this year's projections. The actual operational cost on a cash basis accounted for NIS 1.1 billion, which is less than half of the actual expenses on an accrual basis. As such, the government's obligations reached NIS 1.4 billion, in the form of arrears to the private sector. This compromised the quality of services including hospitals' services and supplies as well as some infrastructure projects.

**Transformational Cost:** The actual transformational cost on an accrual basis represented NIS 3.6 billion, being 77% of the estimates, indicating a huge gap between the estimates and that actual spending, which contradicts with the Budget Law of 2021. Transformational cost represents the expenses that benefit a third party, including cash assistance to the poor, allocations to the families of prisoners, martyrs and wounded persons, and pension payments. The value of these expenses on a cash basis reached NIS 3.3 billion, marking a gap of NIS 286 million of the actual spending on an accrual basis. The remaining sum remains as a financial liability of the government. It should be noted that in 2021, only one transfer has been made to the allocations to the poor, which deprived them of 3 transfers.

**Capital expenses:** The actual capital expenses on an accrual basis amounted to NIS 105 million, being 50% of the projections for this year while they accounted for NIS 26.2 million on a cash basis.

**Net lending:** Net lending refers to the deductions made by Israel on the clearance revenues to settle debts due to the Israeli utilities (electricity and water to municipalities and distribution companies in the West Bank and Gaza) and health providers. Spending on net lending reached NIS 1.2 billion, representing 150% of this year's projections. The Public Fund Management Strategy (2021-2023) provides for settling the problem of accumulation of net lending. It prescribed that MoF shall cooperate with the Ministry of Local Government (MoLG) and other stakeholders to establish the necessary mechanisms via a dedicated net lending unit supervised by the Accountant General to reduce net lending by 20% every year. However, some municipalities do not pay the utility bills (water, electricity, and sanitation services) to the Israeli providers. Furthermore, the cost of treatment in Israeli hospitals increased under the restrictions on auditing these bills and deducting their value on the clearance money. It seems that the government is not quite serious in addressing this situation because of factional alliances of heads of large local authorities and the Minister of Finance's failure to fully implement the budget law.

**Allocated payments:** These allocations include the taxes and revenues entitled to the local authorities including the property tax (90% of which is allocated to the local authorities), and fines collected on traffic violations (50% go to the local authorities). These allocations reached NIS 458 million on an accrual basis, being 141% of the projections for this year.

## 2021 developmental expenses

The 2021 developmental cost was estimated at NIS 2.3 billion, which represents twice the actual spending in previous years. They include NIS 1.5 billion to be financed by the Public Treasury and NIS 858 million from foreign aid and grants.

The actual developmental expenses on an accrual basis accounted for NIS 780 million, constituting 33% of the projections noting that the developmental expenses on a cash basis reached NIS 540 million (23% of the estimates).

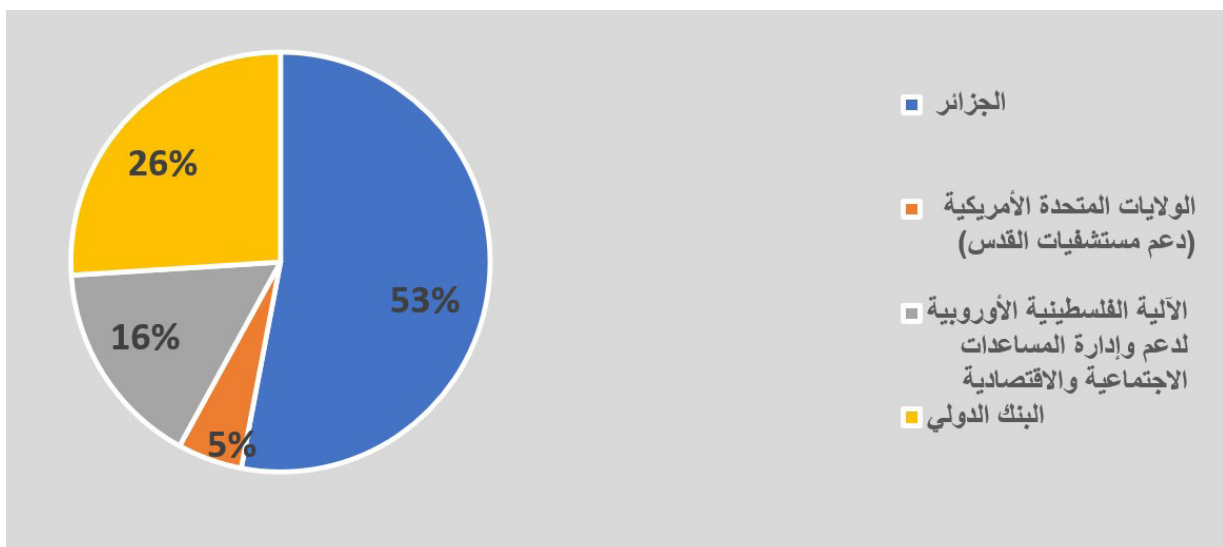
An examination of the distribution of developmental expenses to the centers of responsibilities on an accrual basis shows that the highest share on an accrual basis was transferred to the Ministry of Education (NIS 117 million), followed by the Water Authority (14%, equivalent of NIS 114 million) and then the Ministry of Interior and National Security (MoINS), which received 11% or the equivalent of NIS 87 million. But the developmental expenses of the Ministry of Health (MoH) represented only 3% of the total actual developmental expenses on an accrual basis in 2021. This indicates a key reason behind the deterioration of the quality of health services.

The developmental expenses financed by the Public Treasury amounted to NIS 182 million (11% of the projections). NIS 78 million were spent on “rehabilitation of the security agencies”, NIS 18 million on “supporting the President’s political and security program. The total of both items was NIS 96 million or 52% of the developmental financing by the Public Treasury.

## Grants and Assistance – Funding and Deficit

The total pre-funding deficit was estimated at NIS 5.9 billion. External funding was estimated at NIS 2.2 billion while the Budget Law preserved a funding deficit of NIS 3.6 billion. The Public Budget financial deficit reached NIS 4.97 billion while foreign funding reached NIS 1.02 billion, being 44% of the projecting funding for 2021.

Distribution of external funding included budget financing of NIS 601.4 million, developmental funding (NIS 424.6 million). The external sources of funding of the budget are presented in the following figure:



## Public Debt:

The public debt at the beginning of 2021 reached NIS 11.7 billion and increased to NIS 11.9 billion by the end of the year, marking a rise of NIS 257 million. The total accumulated arrears in 2021 amounted to NIS 4.1 billion, being 238% of the projections. Arrears were estimated at NIS 1.7 billion, knowing that the total accumulated arrears reached NIS 18 billion at the end of 2020. They included arrears to the private sector and to the Pension Fund (due to non-transfer of government's share to the Pension Fund) and salaries, bonuses, and other expenses.

## Allocations to the Social Sector and the Security Sector:

### I. Allocations to the Health Ministry:

#### Expenses of the Ministry of Health in 2021

The budget of the Ministry of Health in 2021 reached NIS 2.3 billion, being 13.2% of the total public expenses of the public budget in 2021. The total expenditure on an accrual basis to the Ministry of Health reached NIS 2.3 million, being 100% of the projections for this year. They represent 14% of the total public expenses of 2021.

Compared to 2020, spending on MoH increased by 2021 by NIS 470 million. It was NIS 1.8 billion in 2020, representing 11% of the public spending. The increase was concentrated on operational costs, salaries, and wages.

Table (5) Expenses of MoH in 2021 compared to projections (NIS)

Ministry of Health	2021 projected budget	Actual spending on an accrual basis	Ratio of actual spending to projections
Total expenses	2,325,173,065	2,316,089,330	100%
Salaries and wages	789,730,957	892,607,850	113%
Social contributions	64,956,878	74,225,760	114%
Use of goods and services	1,208,859,919	1,302,876,360.00	108%
Transformational expenses		7,700.00	
Capital expenses	29,319,599	20,653,970	70%
Developmental expenses	232,305,712	25,717,690	11%

Spending on salaries and wages reached 113% of the 2021 projections. Social contributions amounted to 114% of the projections while the operational expenses "goods and services" accounted for 108% of the projections. 70% of these expenses are paid to medical transfers, representing NIS 900 million of the overall operational expenses.

The actual capital expenses on an accrual basis represented NIS 20 million, being 70% of the projections. The actual developmental expenses on an accrual basis reached NIS 25 million, being only 100% of the estimated budget. Although MoH spending increased, the developmental expenses remained below the projections in 2021, noting that most development projects are funded via external grants and aid. Thus, the shrinking of foreign grants affected the developmental projects.

## Expenses of the Ministry of Social Development (MoSD) in 2021

13% of the public expenses were allocated to the social protection sector (totaling USD 620 million or NIS 2.03 billion). The funds include allocations to the families of martyrs, wounded and prisoners and to MoSD. The Ministry receives NIS 819 million, which is 2.2% below its previous year's allocations. (MoSD's budget in 2020 was estimated at NIS 837 million).

Spending on MoSD and the allocations to the families of the martyrs reached NIS 930 million on an accrual basis, being 6% of the total public expenses of 2021.

Table (6): MoSD expenses in 2021 compared to projections (in NIS)

Ministry of Social Development	Projections 2021	Actual spending on an accrual basis, including the allocations to the families of the martyrs in 2021.
Total expenses	818,915,145	930,998,110
Salaries and wages	49,742,500	60,384,660
Social contributions		6,275,610
Goods and services	7,907,645	7,773,320
Transformational expenses	751,430,000	848,814,690
Capital expenditure	200,000	240,560
Developmental expenditure	9,635,000	7,509,270

The actual expenses of MoSD with the allocations to the families of the martyrs accounted for NIS 930 million. The transformational expenses represented 91% of the total. The actual transformational expenses represented NIS 848 million, including the transfers to the families of the martyrs, wounded, and prisoners as well as the cash assistance. It should be noted that only one of 4 transfers of the entitlements of the poor households was delivered, at the value of NIS 86 million. There is additionally spending on quasi-salaries to 11,850 individuals in public placements who have been receiving a monthly allowance of NIS 1500 since 2005, accounting for an annual sum of NIS 213 million.

## Expenses of the Ministry of Education and Higher Education 2021

The budget of the Ministry of Education and Higher Education reached NIS 3.5 billion, representing 20.4% of the total public expenditure in 2021. The actual spending on an accrual basis accounted for NIS 3.1 billion, being 19% of the total public expenditure of 2021.

Table (8): Expenses of the Ministry of Education and Higher Education in 2021, compared to projections (in NIS)

MoEHE	Projections for 2021	Actual spending on an accrual basis 2021	Ratio of actual spending to projections
Total expenditure	3,546,173,317	3,140,744,000	89%
Salaries and wages	2,312,740,833	2,517,550,240	109%
Social contributions	223,250,504	258,771,260	116%
Goods and services	379,598,919	247,006,710	65%
Transformational expenses		7,700	
Capital expenses	225,488,667	3000	
Developmental expenses.	405,094,395	117,405,210	29%

The actual spending of MoEHE on an accrual basis reached NIS 3.1 billion, being 89% of the projections. Spending on salaries and wages reached NIS 2.5 billion, constituting 109% of the projections. Furthermore, the actual operational expenses on an accrual basis accounted for NIS 247 million, being 65% of the projections.

There were no capital expenses as per MoF data although projections referred to NIS 225 million of capital expenditure for this year. Furthermore, developmental expenses were projected at NIS 405 million while only NIS 117 million were actually spent (being 29% of the 2021 projections)

## Expenses of the Ministry of Agriculture 2021

The 2021 Citizens Budget published by MoF showed a 115% increase in the allocations to the agricultural sector, compared to previous years. The allocations to the agricultural sector amounted to NIS 215 million, including USD 37 million (NIS 120 million or 56.6% of the developmental expenses) to support the agricultural clusters projects.

The actual spending on an accrual basis accounted for NIS 142 million, being 66% of the planned budget. It included 56% on salaries and social contributions, 1% on operational cost and 34% on developmental cost.



Table (9) Total expenditure of MoA

Ministry of Agriculture	Total expenditure	Salaries and wages	Social contributions	Goods and services	Transformational expenses	Capital expenses	Developmental expenses
2021	142,575	74,059.50	6,430.85	13,627	19.67	236.4	48,201
2020	139,014	69,472	6,756	18,376	4	100	44,306

The government allocated USD 37 million (NIS 120 million) to the developmental expenses of the agricultural sector but spent only NIS 48 million on an accrual basis, being 40% of the projections. This raises question about how serious the government is in supporting the agricultural sector and implementing the said projects (agricultural clusters, green Palestine, aid to the areas affected by the Wall and settlement activities, compensations of the Agricultural Insurance and Risk Mitigation Fund).

## II. Expenses of the Ministry of Interior and National Security in 2021

The security sector continues to receive the largest share of the budget; it was allocated USD 944 million (NIS 3.09 billion), being 20% of the public budget. The actual spending on the security sector reached NIS 3.5 billion, marking an increase of NIS 500 million of the projections. With this increase, spending on the security sector reached 22% of the total public expenses in 2021. Expenses of MoINS cover salaries, social contributions (transfers by the government to the Pension Fund), which amount together to 85% of the total expenses of this Ministry. However, due to the non-publication of the Ministry's financial data in previous years, we cannot compare this year's expenses with 2020.

Table (7): Total expenditure on the Ministry of Interior and National Security in 2021 compared with the expenses in 2020 (in NIS 1000)

Ministry of Interior and National Security	Total expenses	Salaries and wages	Social contributions	Goods and services	Capital expenditure	Developmental expenditure
2021	3,557,207	2,753,487	274,917	433,782	7,908	87,114
2020	3,395,448	2,566,927	266,177	434,041	6,562	121,740

The above table shows that spending on the MoINS has not relatively changed compared to 2020, while it increased by NIS 160 million following an increase in salaries, noting that the security sector employs around 50,000 military agents.

## Findings:

Based on the previous analysis, the following findings are made:

- 1) The publication of financial data continues to be untransparent, irregular, untimely, and incomplete with weak public participation in the preparation of the budget. The Budget Law was published in brief without any details of the budget allocations to the centers of responsibility.
- 2) Weak compliance with the Public Funds Management Strategy, mainly in the area of transparency and combatting tax evasion.
- 3) There was an increase in the locally generated revenues and clearance revenues as a result of increased trade and economic activities after a year of the pandemic and its subsequent lockdowns.
- 4) The local (tax and non-tax) revenues and clearance revenues represented 80% of the total expenditure. They represent the money paid by citizens in the form of taxes and other fees to the public treasury. Most of these funds are used to cover public servants' salaries and operational costs.
- 5) There is a gap between the actual spending on an accrual basis and on a cash basis, which indicates a continuing increase in the arrears to staff or to the private sector.
- 6) The net lending continues to deplete the public budget and it was not cut in the year 2021 although these cuts are part of the goals of the public funds' management strategy.
- 7) Expenses of the security sector continue to receive the highest share of the actual spending (22%), mainly used for salaries and wages.
- 8) Poor families have been deprived of their social benefits and received only on transfer of their entitlements.
- 9) There is a gap between the allocations to the agricultural sector and the actual spending during the year on this sector, including the Ministry of Agriculture.



## Recommendations

- The government must act with transparency and publish the information related to the public budget throughout the public budget cycle, whether it be during the preparation, ratification, or implementation phases. The publication of comprehensive, accurate, and timely information and data is a key condition to enable citizens, taxpayers, and their representatives to exercise their right to social accountability.
- MoF needs to be more open and consult the civil society organizations during the preparation and ratification of the budget in order to maximize the benefits and address national priorities. Timely publication of the relevant data is essential to facilitate access in accordance with the law.
- The government needs to comply with the Public Funds Management strategy and implement the necessary reforms to achieve transparency and combat tax evasion.
- The developmental spending priorities must be identified, especially under the current circumstances, to allocate the necessary budgets without reliance on grants and assistance and without any external interference in the identification of the development priorities.
- Expenses must be aligned with the capacities available without depending on external aid, which is increasingly shrinking not to mention the change in the priorities and scope of international support.
- The government should adopt a clear plan to rationalize expenses in a manner that accounts for the different centers of responsibilities without compromising the rights of the poor and social justice.
- It is important to sustain aid to the poor and MoF should allocate the necessary funds to MoSD to transfer the full payments to the beneficiaries.
- A comprehensive and mandatory health insurance system must be adopted to increase the Fund's revenues and rationalize expenses while upgrading the health services provided to citizens.
- Clear mechanisms must be applied to decrease the burden of net lending on utility invoices (electricity, water, and water desalination) to minimize the Israeli cuts to cover these bills and to empower the competent authorities to collect such fees from their subscribers.