

Report on:

The reality of operational expenditures in the general budget and aspects of rationalization therein

Report No. 287





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June 2024



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Table of Contents

1. The general framework of the report	4
1.1 Introduction	4
1.2 Purpose of the report	5
1.3 Methodology for Preparing the Report	6
1.4 The report's areas of investigation	6
2. The legal framework governing the operational expenses of the Palestinian Authority	7
2.1 The legal framework governing civil operational expenditures	7
2.2 The legal framework governing military operating expenses	7
3. Operating Expenses in the General Budget: Concept and Size	10
3.1 Operating Expenses "Goods and Services"	10
3.2 Actual and Estimated Operating Expenses During the Period 2019-2023	11
3.3 Actual Operating Expenses by Main Sectors	15
4. Analysis of the change in operating expenses for key sectors during the period 2019-2023	18
4.1 Operating Expenses for the Education Sector	18
4.2 Operating Expenses for the Health Sector	22
4.3 Operating Expenses for Security Devices	24
5. Analysis of one of the operating expense	27
5.1 Operating expenses for vehicles and fuels	27
6. Possibilities for Rationalizing Operating Expenses	28
6.1 Possibilities for Rationalizing Operational Expenses in the Education Sector	28
6.2 Possibilities for Rationalizing Operational Expenses in the Health Sector	29
6.3 Possibilities for Rationalizing Operational Expenses in the Security Sector	30
7. Results and Recommendations	32
8. References	37

1. General framework of the report

1.1 Introduction

Since its establishment, the Palestinian National Authority (PNA) has sought to rehabilitate and develop the Palestinian economy. It focused its efforts on the building the public sector and state institutions, on the enactment of legislation and laws necessary to manage the economy, and on the implementation of infrastructural projects. However, despite the important achievements made by the Authority during the early years, the cost of these achievements was relatively high because they were made without a vision or a comprehensive development program to guide the Authority. In addition, it lacked mechanisms for transparency, monitoring, accountability and combatting corruption, which led to scattered efforts, waste of resources, compounded by the prioritizing one item over another in a haphazard manner and without a comprehensive national vision.

The absence of a comprehensive national vision for the PA, and its signing of the "Paris Economic Protocol" with the Israeli occupation government in 1994, along with the Oslo Accords, may be one of the most important reasons for the PA's inability to implement development plans during the transitional period, and for losing control over economic policy tools (financial, monetary and trade) as well as its crossings and natural resources.

All of the above, in addition to Israel's use of the tax clearance arrangement as a political blackmail card through frequent and increasing cuts, the latest of which was the Israeli finance minister's deduction of NIS 270 million per month from clearance funds, bringing the total annual deduction of clearance funds to \$1.5 billion annually, led the Palestinian Authority to suffer from stifling and successive financial crises.

However, what is new in the current financial crisis, and the imperatives of addressing it, is the deep and prolonged duration of the crisis. Data indicate that most of the main tributaries of the Palestinian Authority's treasury have dried up. This has directly reflected on the ability of the Palestinian Authority to meet its various obligations, especially the salaries of public sector employees, and limited its ability to fulfil its obligations to suppliers, the private sector and the pension fund, with the total accumulated monetary debts of the Palestinian government amounting to about \$11 billion¹.

The current financial crisis is the deepest and most complex since the establishment of the Palestinian Authority. It is multifaceted and adversely affecting various sectors of Palestinian society. However, the PA is also undergoing stifling financial crises that are not the result of the war on Gaza, but whose causes and repercussions span the past three decades. More than one report issued by the Coalition for Integrity and Accountability (AMAN) has indicated that, in the last decade, the Palestinian government has been deferring addressing the budget deficit crisis, the issue of accumulated debts and net lending, and thrusting the crisis forward instead of objectively tackling and reviewing revenues and expenditures.

Despite the eighteenth government's adoption of the financial and administrative reform agenda presented at the donors' conference in May 2022, and the announcement of reform policies related to reviewing administrative structures in April 2023, which included decreasing salaries and wages, reforming the health system and reducing net lending, the government has not yet been able to

¹ Palestinian Ministry of Finance, Monthly financial reports. Administrative processes - revenues, expenditures and sources of funding. May, 2024.

implement these reforms. These shortfalls have made the task of financial and institutional reform a national demand and an obligation, wherein the top priority of the nineteenth government should be continuing the implementation of the institutional reform process.

Operational expenses for goods and services are the most fitting items for streamlining expenditures and implementing austerity plans in the Palestinian budget. These expenditures include water and electricity, travel and official missions, communications and internet, heating fuel, car fuel and maintenance, rents, stationery, transportation expenses, subsidies for external treatment (medical transfers), purchase of medicines, special contracts under which ordinary employees or experts and consultants are temporarily appointed, as well as ministries' petty cash and other miscellaneous items. All these acquired rights or contractual entitlements can undergo austerity measures and their reduction would not lead to negative economic or social repercussions.

It must be noted that rationalizing operational expenses within feasible limits, regardless of their size, will not resolve the financial crisis of the Palestinian Authority because the crisis is fundamentally a matter of liquidity, meaning, the flow of revenues is significantly lower than its expenses and needs. Therefore, the expected goal of implementing the recommendations in this paper is to eliminate, postpone or freeze some operational expenses. This will lead to better management of public funds and a partial correction of the discrepancies in the budget. However, this is not a definitive solution to the budget deficit, and in the short term, it will not resolve the liquidity crisis since most operational expenses are deferred for lack of funds.

This report gains additional significance due to the timing of its release, as it coincides with the nineteenth Palestinian government's approval of a package of reforms and financial and administrative measures to downsize expenditures, based on the Cabinet's decision issued in its weekly session (04/19) held on April 23, 2024. The targeted items of expenditure in the reform package are certain operational expenses for governmental departments such as fuel allowances, travel expenses and contract arrangements. In general, to avoid the current government's reform measures from failing like its preceding programs and reform plans, there must be a decisive political will that gives rise to plans and policies, with skilled and capable cadres to carry out the activities, actions and resources necessary for implementing financial reform and achieving its objectives.

1.2 The purpose of the report

In the past few years, the AMAN Coalition has assisted the government in adopting plans and measures for streamlining expenditures. This was achieved through the preparation of various studies and reports, such as the Public Expenditure Rationalization Report, the Public Sector Gaps Report, the Financial Leakage Report and the Tax System Report, along with guidance for managing the financial relationship with the Israeli side. In view of the ongoing and deepening financial crisis, this report provides a detailed investigative analysis of the estimated and actual operating expenses for the period 2019-2023. It also addresses the diagnosis of the problems and difficulties faced by the centers of responsibility and proposes the necessary solutions to achieve better results. Therefore, the report aims to:

1. Identify the reality of operating expenses in the general budget and determining the most significant expenditure items.
2. Analyze the possibilities for downsizing operational expenses in specific items based on the analysis of the structure of operational expenses.
3. Propose suggestions to help in streamlining the operational expenses.

1.3 Methodology for preparing the report

The preparation of the report was based on a scientific analytical methodology following these steps:

1. Reviewing the legislation, literature, public budget documents and their reports to prepare a conceptual introduction on operational expenditures.
2. Collecting data on operating expenses from secondary sources and preparing comparative time sequences of those expenses (estimated and actual) for the last five years, then identify the centers of responsibility with the highest operating expenses to measure the extent of budget rationalization in accordance with the government's financial reform plans.
3. Analyzing the various items of operating expenses and identifying possible areas for optimizing cost reductions.
4. Designing interviews as a study tool based on relevant literature in a way that serves the study and its objectives, and conducting meetings with relevant parties to discuss operational expenditure items, their disbursement mechanisms, the governing legal conditions, violations and areas for rationalization.
5. Preparing summaries of operating expenses and areas for optimizing cost reductions.
6. Preparing practical recommendations for downsizing operating expenses.
7. Holding a focal workshop for stakeholders to discuss the study, its methodology, conclusions, and recommendations, and to benefit from their feedback in enriching the study and modifying it until it reaches its final form.

1.4 The report's areas of investigation

1. An introduction that includes the general objective and methodology.
2. The legal framework for the operational expenditures of the Palestinian Authority's budget.
3. The conceptual framework: The reality of operating expenses in the public budget during the period 2019-2023.
4. Analysis of the estimated and actual operating expenses for the main key sectors from 2019 to 2023.
5. Analysis of the estimated and actual operating expenses for some centers of responsibility from 2019 to 2023.
6. Possible solutions; opportunities for downsizing operational expenses.
7. Final results and recommendations.

2. The legal framework governing the operational expenditures of the Palestinian Authority

This part of the study is divided into two sections. The first section presents a review and analysis of the legal references upon which the definition and disbursement of civil operational expenses are based. The second section provides an analysis of military operational expenses and the procedures for their disbursement based on the applicable law in Palestine.

2.1 The legal framework governing civil operational expenses

Expenses for goods and services in Palestinian law are controlled by several legal references, the most important of which are, Law No. (7) of 1998 concerning the provisions of the public budget and financial affairs, Decree Law No. (3) of 2008 regarding the amendment of the law organizing the public budget, Law No. (9) of 1998 concerning public supplies and its amendments, Decree Law No. (8) of 2014 regarding public procurement, and Cabinet Decision No. (43) of 2005 on the financial system for ministries and public institutions.

Operating expenses are part of the current expenditures and are treated accordingly. Article (1) of the Council of Ministers Decision No. (43) of 2005 regarding the financial system for ministries and public institutions² states that current expenditures include salaries and supplementary wages, allowances, operating expenses and payments transferred to other executive bodies in the Palestinian Authority.

The decentralized approach is applied in the disbursement and prioritization of expenses, based on Article (2) of the previous decision, by which the ministry applies a decentralized method for disbursing operational expenses to departments by transferring the amounts stated in the financial orders to their bank accounts designated for expenses. However, according to the same article, no department is allowed to use its revenues for its expenditures or to dispose of them for any other purpose. Also, according to Article (120) of the aforementioned decision, the monetary advance for the operational expenses of the departments is preserved and managed through a bank account to which the advances from the treasury are transferred, wherein the minister is responsible for opening the account at the request of the relevant minister, specifying the names of those authorized to sign on it.

2.2 The legal framework governing military operational expenses

The Palestinian Basic Law defines the security and police forces as a regular force, considering them the armed force in Palestine. It limits their function to defending the homeland, serving the people, protecting society, and ensuring the maintenance of security, public order and public morals. They perform their duties within the boundaries set by the law, with full deference for individual rights and freedoms. The basic law also sets regulations specific to the organization of security and police forces.

² The official newspaper, 2005. The number 59. Council of Ministers Resolution No. (43) of 2005 regarding the financial system for ministries and public institutions. Ramallah - Palestine.

The security sector consists of:

1. The national security forces, which is a "regular military body".
2. Military Intelligence Service.
3. The Presidential Guard.
4. The General Intelligence, which is a regular security agency under the authority of the head of state.
5. The Internal Security Forces, which follow the Minister of Interior and are a security agency comprised of the police, preventative security forces, and civil defense.
6. Supporting bodies.

In the early days of its establishment, the Palestinian security relied on haphazard daily requests to secure its operational needs and requirements by obtaining funds through the direct orders of the President. The security agencies did not operate under established and approved financial rules and regulations, as required by the Public Budget Regulation Law No. (7) of 1998.

This gave rise to a number of problems that have harmed the reputation of security agencies and created conditions for improper financial practices. The security sector budget was not prepared according to the proper procedures and laws, with no approval of this budget by the Legislative Council. Additionally, there was no commitment to provide reports on how it was dispensed, which was always justified by the necessities of secrecy. As a result, these gaps caused a state of financial chaos and absence of established and mandatory procedures in the procurement system for security agencies³.

In general, it can be said that a number of legislations and regulations enacted in recent years seemed sufficient to regulate the financial affairs of the security sector, despite some shortcomings and gaps in the details of certain provisions. Many observers and experts in financial matters classify the Palestinian security budget as a quasi-secret budget⁴. This allows heads of security agencies to disburse funds through periodic payments, which makes it difficult to track those items, analyze them or provide recommendations for their dispensation.

Appendix No. (1) outlines the regulations governing financial affairs in the Palestinian security sector, either directly or indirectly. The Law of Service in Security Forces No. (8) of 2005, and the General Intelligence Law No. (17) of 2005, which defined the method for approving the public budget, are among the most important components of the legal framework governing military operational expenditures. The law granted the legislative council the power to hold the heads of intelligence accountable through specialized committees; it also gave it the authority to issue exceptional financial regulations, which is an unpublished regulation and constitutes a fundamental element in the legal system under which the military financial administration operates, even if not approved according to the proper procedures, and which are renewed by a decision from the Minister of Finance. The exceptional regulation is applied annually to all security agencies and institutions, including the intelligence service⁵.

The exceptional financial regulation grants the heads of security agencies and central administrations the authority to disburse amounts not exceeding 4,000 shekels for assignments of individuals and officers, and for providing social assistance on a monthly basis to security personnel from the

³ The Coalition for Integrity and Accountability (AMAN), Administrative and Financial Reform in the Palestinian Security Institution, September 2008, p. 7.

⁴ Abdul Karim Nasr. A paper presented at the Oman conference organized by the Institute of Law titled "Enhancing Good Governance in the Security Sector in the Arab Region. What role does civil society play?" June 2009.

⁵ The Coalition for Integrity and Accountability (AMAN), 2020. The budget for the Palestinian security sector for the year 2019: The foundations of the miscellaneous expenses in operational expenditures.

security institution's budget. It set the ceiling for this assistance at 15,000 shekels for each of the Palestinian police, general intelligence, preventative security, national security, presidential guard and military financial administration, with the authority to disburse 5,000 shekels for the remaining agencies⁶.

However, that exceptional financial regulation did not specify the officers who qualify for receiving allowances, so each security institution has its own system that defines the mechanisms for disbursing these allowances. Among these mechanisms are the job position held by the officer, their rank and the tasks for which they are assigned. Thus, there might be two officers of the same rank wherein one receives an allowance that the other does not⁷.

⁶ The Coalition for Integrity and Accountability (AMAN), 2017. The environment of integrity, transparency, and accountability in the work of the Central Military Financial Management Institution. Ramallah - Palestine.

⁷ The Coalition for Integrity and Accountability (AMAN), 2017. Previous reference.

3. Operating expenses in the public budget: concept and size

This part of the study is divided into two sections. The first section presents the concept of operating expenses, "goods and services," while the second provides an analysis of actual and estimated operating expenses during the period of 2019-2023. The third chapter deals with the analysis of operating expenses by major sectors.

3.1 Operating Expenses, Goods and Services

Operating expenses, also known as "goods and services," in the reports issued by the Palestinian Finance Ministry refer to the necessary expenditures for the operation of public institutions, such as building rentals, electricity, water, fuel, and the like, which are part of current expenditures⁸. Operational expenses in the Palestinian public budget are the total amounts spent by the centers of responsibility for various goods and services in one fiscal year. Examples of these expenses include transportation and housing allowances, travel expenses for official assignments, costs of medical treatment abroad, rents and hospitality, expenses for developing administrative capacities, enhancing the institutional structure of centers of responsibility, and the cost of public utilities such as water, power, communications and public debt services. Thus, it is the employee who dispenses these sums, not the service, that is the main driver of most of these expenses.

Operating expenses are considered essential budget items for managing responsibility centers. Operating expenses account for 17% of total public expenditures, including net lending for the year 2023, exceeding the estimated budget for the same year by more than 16%. Operational expenses of the Palestinian Authority's budget for 2023 account for 20% of the total current expenditures. This percentage is relatively high when compared to neighboring countries, as, for instance, the operational expenses in Jordan in 2022 accounting for 5.9% of total expenditures⁹.

Despite the Palestinian Authority's intention to present successive financial reform plans and austerity measures for operational expenses, the budget laws do not support the overall direction for rationalizing spending. The operational budget is still reported as a cumulative figure without detailed items explaining the nature of spending, or even the annual increase in estimates for operational expenses, all without bearing in mind decisions aimed at reform and rationalization.

Figure (1) illustrates the relative importance of operating expenses in relation to the current expenditures of the Palestinian Authority, which reveal the second largest current expenditure after salaries and wages. It also demonstrates the lack of considerations for rights, social and economic factors in its austerity plans, which affect government employees, those interacting with them as well as marginalized groups.

⁸ Miftah, 2023. Citizen's Budget 2023. Ramallah, Palestine.

⁹ The Ministry of Finance of the Hashemite Kingdom of Jordan, 2022. Public Financial Bulletin of the Government of Jordan, Amman.

The structure of current expenditures for the year 2023 in thousands of shekel.

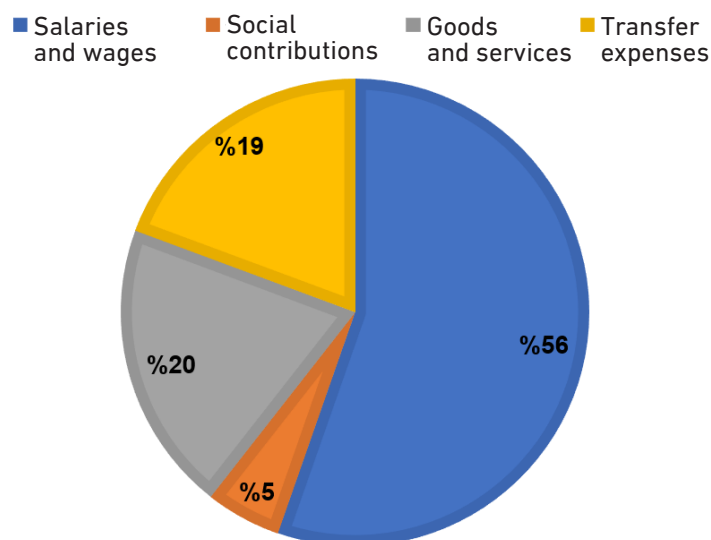


Figure (1): Structure of current expenditures for the year 2023, and the relative weight of operating expenses from current expenditures^{10, 11}

It is worth noting that public expenditures can be classified into two categories, the first is contractual expenditures that cannot be immediately legally stopped or suspended; and the second is non-contractual expenditures that do not entail legal or administrative obligations or any economic or social repercussions if canceled, such as operational expenses. Here, operational spending can be reduced in several areas, the most central of which are rentals, employee benefits, expenses related to travel assignments, vehicles, bonuses and the like.

3.2 Actual and estimated operating expenses during the period 2019-2023.

Actual operating expenses have increased during the period between 2019 and 2023 in a fluctuating manner, with an annual growth rate of 8.8%. Despite a decrease in 2019 with attempts to respond to the government's direction to control expenses, there still was a noticeable rise in 2023 because the eighteenth government raised the sums for operational spending, as with rents, travel expenses and employee benefits, to an extent that does not align with available capabilities and resources. This exacerbated of the deficit over the years, as will be clarified in an analysis later.

It was observed that the increase in operational expenses was consistent prior to the study period, in spite of the announced policy of the authority to downsize spending and reduce expenses during the same period. Instead, they rose from 1.5 billion shekels in 2015 to 2.3 billion shekels in 2019¹², indicating an increase of 53% over the five years preceding the period of when the study was conducted. During the years 2019 to 2023, actual operating expenses increased by 32%, despite previous estimates for a rise of only 13%. This may be because of exemptions granted to high-ranking officials to bypass these restrictions, justifying them as "necessary expenses." Therefore, it is essential to clarify what lawmakers mean by necessity that justifies overriding the austerity decision or eliminating the exemption clause from any future austerity plan.

10 The data in the original Excel spreadsheet is in thousands of shekels.

11 Source: Palestinian Ministry of Finance. Monthly financial reports. Administrative operations - revenues, expenses. and sources of funding, 2023

12 Palestinian Ministry of Finance. Monthly Financial Reports. Fiscal Operations: Revenues, Expenditures and Financing Sources- many years.

The following table shows the level of commitment of Palestinian Authority institutions to the budget allocated for operational expenses.

Year	2019	2020	2021	2022	2023
Estimated operating expenses	2397	2257.5	2564.0	2394.0	2718.9
Actual operating expenses	2397	2261.5	2606.8	2723.8	3154.6
Percentage of the actual of the budget	100% ¹³	100.18%	102%	114%	116%

Table (1): Comparison of actual total operating expenses on commitment basis with the estimated budget for the period 2019-2023 in millions of shekels.

Source: Palestinian Ministry of Finance. Monthly financial reports. Administrative operations - revenues, expenses, and sources of funding - over multiple years.

The above table shows that the actual operating expenses have exceeded the allocations set by the Public Budget Law for the fiscal years 2019-2023¹⁴ in the item of operating expenses for goods and services, which contravenes item (2) of Article (9) of the Public Budget Law of 2020, wherein it is stated that "No expenditure may be contracted or any advances disbursed that do not have allocations in this law, and no commitment may be made for any amount exceeding the allocations set in this law."

The increase has been noticeably consistent over the years, and the set reform goals have not been adhered to. According to the government report for 2020, operational expenses were supposed to decrease by 20%¹⁵ in 2020 compared to 2019; however, the drop did not exceed 6% in 2020 only because the mobility of personnel in some centers of responsibility during the Corona virus pandemic was limited. Operational expenses have also increased during the years 2021, 2022 and 2023, exceeding the allocated budget, reaching a deviation rate of 16% in 2023.

It should be noted that, despite its slight extent, this increase happens concurrently with the government's announcements over the years about taking austerity measures in operational expenses and other expenditures. Since 2011, the Cabinet has issued numerous decisions and executive regulations aimed at austerity in operational expenses, particularly concerning allowances and work assignment – travel, transportation, housing, communications and fuel, as well as administrative bonuses and others. The latest of these decisions was issued by the government in April 2024.

The reform agenda did not include any goals for downsizing operational expenses, and the financial reform agenda announced in 2022 focused solely on reforming the tax system to increase revenues (a tax collection goal,) restructuring service fees, evaluating the budget monitoring system and reducing the payroll bill. Thus, it is clear that the eighteenth government has avoided rationalizing spending on operational expenses or adopting effective policies for monitoring spending priorities. Additionally, it has not observed Law No. (26) of 2019, issued on 25/03/2019, which called for a halt of all appointments, obtaining leases for buildings, purchasing vehicles and any decisions that would create financial obligations that contradict the conditions of austerity. This deviation from the law caused the overall increase in operational expenses for most centers of responsibility.

¹³ If the 2018 budget for operational expenses estimated for 2019 is approved according to the decision of the Minister of Finance, then the actual percentage of the budget would be 115%.

¹⁴ In the fiscal year 2019, the Minister of Finance announced the adoption of an emergency budget that relies on cash rationing until the end of the clearing crisis with Israel. Monthly expenditures were made at a rate of 1/12 for each month based on the budget of the fiscal year 2018.

¹⁵ Council of Ministers – General Secretariat, 2020. Government Performance Report, April 15, 2019 to April 15, 2020. Ramallah, Palestine.

The Palestinian National Authority has relied on several national development plans since its establishment. Those are, the Palestinian Reform and Development Plan 2008-2010, the National Development Plan 2011-2013 "Ending the Occupation and Establishing the State," the National Development Plan 2014-2016 "Building the State and Realizing Sovereignty," the Public Financial Management Strategy 2017-2022 and the Government Reform Strategy 2022. The latest of these plans is the package of reforms and financial and administrative measures to rationalize expenditures according to the decision of the Council of Ministers of the nineteenth government issued in its weekly session (04/19) held on 23/04/2024, where measures were taken to downsize spending in government departments, and department heads were tasked with the immediate implementation of the decision without any exceptions¹⁶.

The operational budget of the Palestinian Authority has many structural problems, particularly in the funding gap between the economic and social sectors. The gap between actual and estimated figures is widening despite the sustained efforts to reduce operational spending. The following tables¹⁷ provide a detailed comparison by sector between the estimated budget for each sector and the actual operational spending during the years 2020-2023¹⁸.

Estimated and actual operating expenses for the governance sector during the period 2020-2023 in thousands of shekels.				
	2020	2021	2022	2023
Estimated operating expenses	1,083,078	872,173	883,368	946,164
Actual operating expenses	850,143	832,980	854,785	915,181
The percentage of the actual from budget	78%	96%	97%	97%

Table (2): Comparison of the actual total operating expenses for the governance sector on accrual basis with the estimated budget for the period 2019-2023 in thousands of shekels.

The operational expenses of the governmental sector increased by 7.6% during the years 2020-2023. However, this sector has shown commitment to the set ceilings of expenses for the operational budget throughout the period of the study, probably because it is now adhering to plans aimed at curbing operational spending. It should also be noted that operational expenses in this sector could be reduced to 83 million shekels if it were to abide by the expenses of 2021.

Estimated and actual operating expenses for the economic sector during the period 2020-2023 in thousands of shekels.				
	2020	2021	2022	2023
Estimated operating expenses	47,723	51,053	58,181	57,417
Actual operating expenses	38,955	38,066	54,059	60,267
The percentage of the actual from budget	82%	75%	93%	105%

Table (3): Comparison of the actual total operating expenses of the economic sector versus its commitment to the estimated budget for the period 2019-2023 in thousands of shekels.

16 The Coalition for Integrity and Accountability (AMAN), 2022. Monitoring Report: Public Financial Management Policies, Reform Strategies, and National Plans for Implementation 2017-2022. Ramallah, Palestine.

17 Source for tables (2, 3, 4, 5): Estimated operating expenses, Palestinian Ministry of Finance, 2024. The base of the budget dimensions disclosures for the Budget Department. An interview with Mr. Tarek Mustafa, General Director of Budget, for study purposes. The Public Budget Department. Actual operating expenses: Palestinian Ministry of Finance. Monthly financial reports. Administrative operations - revenues, expenses, and sources of funding - over multiple years.

18 There was no operational budget for the fiscal year 2019, and the Minister of Finance announced the adoption of an emergency budget that relies on cash rationing until the issue of clearance with Israel is resolved. Monthly expenditures were made at a rate of 1/12 for each month based on the budget of the fiscal year 2018.

The operational expenses of the economic sector increased by 54.7% during the years 2020-2023, which is significant. The table shows the sector's commitment to the operational budget ceilings in most years of the study, reflecting the effort made to reduce spending and adhere to plans for limiting operational expenditures. However, there is potential to further reduce operational expenses in the economic sector, allowing it to operate within its spending ceiling for the year 2021, which would save more than 22 million shekels annually.

Estimated and actual operating expenses for the social sector during the period 2020-2023 in thousands of shekels.				
	2020	2021	2022	2023
Estimated operating expenses	1,438,071	1,565,011	13,883,76	1,648,886
Actual operating expenses	1,292,916	1,677,495	1,762,386	2,117,556
The percentage of the actual from budget	90%	107%	127%	128%

Table (4): Comparison of the actual total operating expenses for the social sector based on its commitment to the estimated budget for the period 2020-2023 in thousands of thousand shekels.

The operating expenses of the social sector increased by 63.8% during the years 2020-2023, which is a significant percentage. The table shows a widening gap between the estimated and actual expenses, as the operating expenses for the sector were 10% lower than estimated in 2020 due to a decrease in assignments and travel expenses during the precautionary measures for the COVID-19 pandemic, after which they rose to more than 28% above the estimated budget. This can be attributed to the social sector's provision of essential and vital services to citizens, which makes the possibility of limiting operational spending in this sector a task fraught with many uncertainties.

Estimated and actual operating expenses for housing and local community sector during the period 2020-2023 in thousands of shekels.				
	2020	2021	2022	2023
Estimated operating expenses	66,439	64,161	641,61	60,019
Actual operating expenses	79,509	58,306	52,565	61,571
The percentage of the actual of budget.	120%	91%	82%	103%

Table (5): Comparison of the actual total operating expenses for housing and local community sector based on the commitment to the estimated budget for the period 2020-2023 in thousands of shekels.

There is a noticeable decrease in operational expenses for the housing and infrastructure sector of 22.5% during the years 2020 to 2023. A relative commitment to the operational budget ceilings is evident in most years of the study, which can be attributed to the sector's adherence to policies aimed at curbing operational spending.

3.3 Actual operating expenses by main sectors

This part of the study presents the distribution of actual operating expenses of the Palestinian Authority according to the main sectors¹⁹ of various ministries and public administrations, shown in the table below:

Operating expenses for the period 2019-2023 by main sectors in thousands of shekels.					
Sector	2019	2020	2021	2022	2023
Governance	848,623	850,143	832,980	854,785	915,181
Economic	60,098	38,955	58,306	54,049	61,571
Housing & local community	64,993	79,509	58,306	52,565	60,267
Social	1,317,829	1,292,916	1,677,495	1,762,386	2,117,556
Total	1,442,920	2,261,524	2,606,848	2,723,786	3,154,576

Table (6): Operating expenses for the period 2019-2023 by sectors in thousands of shekels.

Source: Palestinian Ministry of Finance. Monthly financial reports. Administrative operations - revenues, expenses, and sources of funding - over multiple years.

The table above shows that the social sector accounts for 67% of total operating expenses. The operating expenses of the Ministry of Health constitute 78% of the operating expenses allocated for the social sector for the year 2023, mainly because of the particular needs of this sector, which include expenses for purchasing services (medical transfers) and expenses for purchases of medical treatments and supplies that directly benefit citizens. These are vital expenses that require a high degree of selectivity when it comes to austerity measures so as not to affect the continuity of health services.

The operating expenses of the Ministry of Education account for 15% of the operating expenses of the social sector. It was observed that operational spending on the social sector has increased during the years 2019-2023, accounting for 60% of the total allocation. The increase in operational spending for the social sector explains a significant portion of the rise in total operational expenses during the study period.

The governance sector accounts for 29% of the total operating expenses for 2023, as it includes the expenses of the Ministry of Interior and National Security, which comprises 56% of the operating expenses of the governance sector and 16% of the operating expenses of the Palestinian Authority. It was also noted here that operating expenses in the governance sector have increased by 8% during the years 2019-2023.

As for the economic and infrastructure sectors, their operating budget accounts for 1.95% and 1.91% of the total operating expenditure during the year 2023.

The above data indicate that operational expenses for most sectors have increased during the study period, which contradicts the reform agenda announced by the eighteenth government. The figure below illustrates the change in operating expenses across all sectors during the period of 2019 to 2023.

¹⁹ The division of the main sectors was approved based on Table No. (5 A), details of public expenditures by item and centers of responsibility and basis of commitment. What is included in the cumulative monthly report for December 2023. Ministry of Finance.

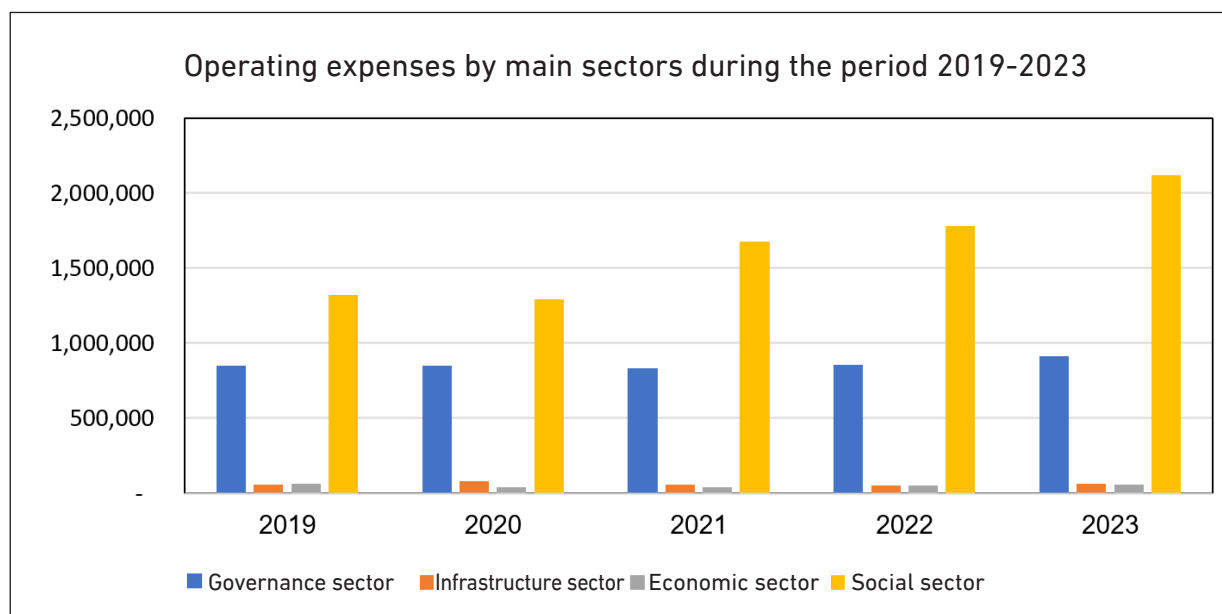


Figure (2): Illustration of the change in operating expenses during the period 2019-2023 by main sectors in thousands of shekels.

When calculating the operational expenses for each employee in the education sector²⁰, they add up to approximately 8,553 shekels annually per employee, while 154,000 shekels annually goes to the governance sector. This disparity appears greater when considering the fact that most operational expenditures in the social sector are concentrated in the ministries of health and education (approximately 1 billion and 650 million shekels and 319 million shekels, respectively.) This expenditure goes to purchases of medicines and medical and educational supplies that benefit citizens, unlike expenditures in the governance sector, where they are dispensed on job privileges that could be reduced without resulting in a decrease in public services provided to citizens or economic or social repercussions²¹.

This indicates that job privileges in the governance sector make for the larger proportion of operational expenses compared to other sectors for two reasons:

- 1) The nature of the tasks and responsibilities placed on the employees of this sector, which require reliance on public relations and travel.
- 2) The number of employees in senior categories in this sector is relatively larger than in other sectors, where considerable amounts are spent on privileges, allowances, bonuses, vehicles and fuel.

As for military employee expenses, those came to a total of 8,310 shekels for the year 2023. When comparing this to that of the civilian sector, a significant difference in favor of the civilian sector becomes evident.

The lower average in operational expenses for military employees compared to civilians can be attributed to two reasons:

- 1) The high proportion of civilian employees is primarily in the governance sector, where there is a need for significant operational expenses in public relations, external travel and in the social sector, where urgent health interventions are required.

²⁰ The researcher calculated the operating expenses for each employee based on the database of the number of public employees. The Board of Financial and Administrative Control. The number of employees in ministries and civil institutions. 2024.

²¹ The researcher calculations were based on the cumulative monthly financial reports of the Palestinian Ministry of Finance. Revenues, expenses, and sources of financing, 2023.

- 2) The majority of employees in the military sector hold low ranks, and these individuals often do not enjoy high levels of privileges or spending. Typically, benefits are limited to senior officers and those in high ranks.

These figures are an opening for the Palestinian decision-makers to intervene and explore possible areas for streamlining operational expenditures within the security sector without causing any harm to the benefiting sectors.

Given the absence of details about job privileges across different sectors available for performance analysis over the years and for identifying areas of austerity, it is difficult to separate them from the privileges specific to the nature of the work. However, it is apparent that employee benefits account for an average of 25% to 30% of total operating expenses across all sectors, but may rise to 40% in the governance sector, meaning they could range between 100 and 130 million dollars annually. Hence, it can be anticipated that any reduction in these expenses will be met with great public relief and support, especially since this type of expenditure has been and continues to be subject to harsh criticism from various communities due to its wasteful nature of public funds because it mostly benefits employees in special and high-ranking positions at the expense of allocations for public service or developmental spending, and to the detriment of public interest and taxpayers²².

²² The Coalition for Integrity and Accountability (AMAN), 2021. Rationalizing public spending and improving tax collection in the face of the financial crisis of the Palestinian Authority. Ramallah, Palestine.

4. Analysis of the change in operating expenses for key sectors during the period 2019-2023.

This part of the study reviews the distribution of operational expenses for the Palestinian Authority in various sectors of ministries and public administrations.

4.1 Operating expenses of the education sector

The total expenditure of the Palestinian education sector in 2023²³ reached 3.75 billion shekels, with operational expenses amounting to 319 million shekels, which is 8% of the sector's total expenses and 10% of the total operational expenses of the Palestinian Authority for 2023, as it includes expenses for educational supplies and printing of school books.

The actual and estimated operating expenses in the budget for the education sector during the period 2019-2023.					
	2019	2020	*2021	2022	*2023
Estimated operating expenses	198,292 ²⁴	210,567	222,470	247,474	259,564
Actual operating expenses	198,292	197,668	255,405	240,410	318,925
Percentage of actual of the budget	100%	94%	115%	97%	123%

Table (7): The ratio of actual operating expenses to estimated expenses in the budget for the education sector during the period 2019-2023 in thousands of shekels .

Source: Estimated Expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Budget Department. An interview with Mr. Tarek Mustafa, General Director of Budget, for study purposes. The Public Budget Department.

Actual expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Accounts Department. An interview with Mr. Ahmed Thumainat, Director of the Accounts Department, for study purposes. The Department of Public Accounts.

* The deviation between actual and estimated expenses may be due to the inclusion of part of the accumulated arrears that were paid during the relevant year, rather than a lack of commitment.

23 The education sector data includes: the Ministry of Education, the Ministry of Higher Education and scientific research, the National Authority for Vocational and Technical Education and Training, and the Palestinian National School of Administration.

24 The budget for the year 2019 was not published.

Summaries on the operating expenses of the education sector

1) The ceilings for the operational budget allocated to each center of authority in the educational sector are determined in total sums²⁵, which facilitates transfers between the items of operational spending. This allows for flexibility in spending to expedite operations, but, at the same time, becomes a loophole for arbitrary, scattered and wasted public funds. The operating budget is also determined based on the availability of financial resources and the amounts spent in the previous year rather than on the actual needs. This results in a feeble correlation between the budget and the strategic plans for the education sector.

2) It was observed that the education sector has adhered to the operational budget allocated to it during the period of 2019-2022, which indicates that the estimation of the operational expenses budget for the sector was assessed properly and met the needs. It also reflects the control of operational expenses in the ministries and institutions affiliated with the education sector. However, there is a noticeable rise in the education sector's operational spending during the same period, as the actual operational expenditure increased by 27%; the increase in spending was on maintenance and repairs, transportation, bonuses and travel.

3) Operating expenses for travel and official missions have increased more than six fold during the period between 2020 and 2023, while hospitality expenses have more than doubled during the same period. It was also noted that the transportation and movement wages increased by more than 23%, and spending on administrative transportation rose by over 72%, which indicates a lack of commitment by the ministry to reduce operational expenses over the stated years. This unjustified increase in operational expenses was a result of the Palestinian government's disbursement of salaries to teachers and administrative staff in the education sector at a reduced rate, and settling arrears based on available liquidity, which took place between November 2021 until the release date of the study, and despite the repeated strikes affecting the educational process. It would have been more appropriate for the government to address the payment of the acquired and legitimate rights of employees before expanding operational expenses .

4) The budget for printing school books and transportation allowances for the education sector account respectively for 37% and 45% of the operating expenses. Therefore, focusing on reducing operational expenses in these two areas is necessary in any rationalization plan targeting the sector. Reducing expenses in these two items can save more than 40 million shekels in operational costs for the education sector²⁶.

5) Operating expenses do not constitute a large percentage of the education sector's budget, as they do not exceed 7-8%. Most of the operating expenses go to printing, rents and the general secondary examination (Tawjihi,) which are disbursed by the Ministry of Finance. These operating expenses are primarily funded by donations made to the schools from the local community. Additionally, maintenance and repair costs are usually covered by donations through the school sponsorship program, which aims to maximize community contribution to support education by financing the construction of school facilities, expanding the school by adding classrooms or health and sports facilities, rehabilitating and maintaining the school (either comprehensively, partially, or through light periodic maintenance,) improving information technology capabilities at the schools and providing financial contributions for general engineering works, or any other contributions²⁷.

25 An interview with the Public Budget Department, 2024. Instructor Mohamad Hamid, Thursday, June 15, 2024, at 9:30 AM.

26 Considering 2021 a benchmark year.

27 (Points 4, 5, 6) Interview with the Undersecretary of the Ministry of Education, 2024. Dr. Nafe' Asaf, Thursday, June 15, 2024, at 9:30 AM.

6) The rate of streamlining the operational expenses cannot be determined through the school sponsorship program because there is no disclosure of the revenues from the donations of students' parents and in-kind donations from the local community²⁸. However, the sum of donations that were available at the beginning of the launch of the program amounted to near 70.5 million dollars allocated for rehabilitation and maintenance work and 34 million dollars allocated for new buildings²⁹.

7) According to the opinion of those in charge of the education sector, the only expense that can be cut back in the short term is the official administrative documents printed by the Ministry for the directorates and the schools.

8) The Financial and Administrative Control Bureau expressed its reservations regarding the delay in operations at the National Printing House and the failure to utilize it for printing school books, which cost the ministry no less than 52 million shekels³⁰, accounting for 47% of the Ministry of Education's budget for 2022³¹ - referring to the ministry, not the entire sector. The commencement of operations at the printing house could curb the operational expenses for education. However, the required measures of austerity do not focus on the education sector since the size of operational spending is relatively small, and there may not be any room for austerity unless the cutback is covered by donor funds³².

9) The internal control and oversight systems for expenditures have multiple deficiencies, mainly because the Ministry of Education does not have a procedure for studying the causes of deviations and preventing their recurrence, nor does the Ministry prepare regular financial reports such as monthly or quarterly account statements³³.

28 The Bureau of Financial and Administrative Control. 2023. The annual report for the year 2022. Al-Bireh, Palestine.

29 Al-Quds News Agency, 2021. "Women are discussing the 'Adopt a School' program". December 30, 2021.

30 Despite reservations about the expenses for printing school books, they more than doubled in 2023, which contradicts the principle of rationalization and overall spending reduction.

31 Ministry of Education, 2022, The ceilings for the operational and developmental budget for the year 2022. A copy of the book was received during the meeting with the Undersecretary of the Ministry of Education for study purposes.

32 An interview with the Financial and Administrative Control Bureau, 2024. Attendance: Maawiya As'ad, Saleh Muslih, Samer Abu Qara, Omar Yassin, Jafal Jafal, on Monday, 10/6/2024, at 9:30 AM.

33 The Financial and Administrative Control Bureau, 2023. The annual report for the year 2022. Al-Bireh, Palestine.

The actual operating expenses for the education sector during the period 2020-2023 ³⁴ in shekels.				
Item	2020	2021	2022	2023
Travel and assignments	96,247.26	227,355.39	893,222.61	580,435.60
Water and electricity	6,071,396.33	11,541,939.07	12,061,589.13	580,435.60
Mail and phone	3,364,703.07	1,855,994.79	2,260,942.14	6,572,506.92
Fuel	320,222.30	342,930.24	285,542.00	225,991.00
Stationary	708,502.17	554,473.78	520,399.64	518,266.33
In lieu of relocation transport; wages	115,630,118.62	134,452,872.18	147,326,286.21	142,974,374.49
Maintenance and repairs	1,125,529.75	1,453,857.33	1,118,007.72	1,021,375.35
Means of transport and vehicle services	3,394,301.61	1,511,638.39	1,925,121.98	5,845,639.83
Consumer goods and supplies	4,048,836.37	1,458,095.73	1,926,594.96	2,059,298.30
Exams	24,182,496.27	8,957,399.00	9,176,963.48	18,450,765.25
Book printing	31,909,740.38	84,643,379.06	53,453,856.58	117,873,115.37
Rentals	6,265,175.91	5,580,408.33	6,112,125.98	8,888,060.79
Constructing hotels and hosting guests	290,286.77	353,991.01	532,407.56	641,100.64
Eradicating illiteracy / Various activities	63,174.30	484,773.73	174,742.44	139,026.93
Audit expenses, commissions, and taxes	10,876.80	-	17,201.70	565,581.37
Rewards	153,943.81	340,607.92	547,641.71	86,971.40
In lieu of escorting	32,400.00	116,900.00	50,200.33	44,120.00
Cyberspace operation / licenses		1,528,473.69	2,026,972.91	84,248.28
Total	197,667,951.72	255,405,089.63	240,409,819.07	318,924,667.95

Table (8): Actual Operating Expenses for the Education Sector during the period 2019-2023 in shekels.
Source: Palestinian Ministry of Finance, 2024. Electronic database of the Accounts Department. Interview with Mr. Ahmad Thumainat for study purposes. Public Accounts Department.

³⁴ The detailed information for the year 2019 was not available for the ministry to know the cash basis when recording financial transactions.

4.2 Operating expenses for the health sector

In 2023, the expenditures of the Palestinian Ministry of Health reached near 2.73 billion shekels, with operational expenses totalling 1.65 billion shekels, which is 60% of the ministry's expenses. Additionally, the operational expenses of the Ministry of Health accounted for 52.3% of the total operational expenditures of the Palestinian Authority, as they included costs for purchasing services from outside the ministry and expenses for medical supplies.

The actual and estimated operating expenses in the budget for the Ministry of Health during the period 2019-2023.					
	2019	2020	2021	2022	2023
Estimated operating expenses	1,293,236.00	1,093,349.00	1,208,860.00	988,000.00	1,213,402.00
Actual operating expenses	1,829,508.00	994,217.00	1,302,723.00	1,394,797.00	1,649,689.00
Percentage of actual from the budget	141%	91%	108%	141%	136%

Table (6): The ratio of actual operating expenses to estimated expenses in the budget for the Ministry of Health during the period 2019-2023, in thousands of shekels.

Source: Estimated expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Budget Department. An interview with Mr. Tarek Mustafa, General Director of Budget, for study purposes. The General Budget Department.

Actual expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Accounting Department. An interview with Mr. Ahmad Thumainat, Director of the Accounts Department, for study purposes. The Department of Public Accounts.

Operating expenses in the health sector are spent on purchasing services from outside the Ministry of Health, which includes medical transfers, medications, consumables and laboratory materials. Medical transfers expenses total 1 billion and 38 million shekels, representing 38% of the total expenditure on the Ministry of Health and 63% of the total operating expenses of the Ministry of Health for the year 2022. As for medications, vaccines and medical supplies, they accounted for 28% of the total operational expenses of the Ministry of Health. According to data from the Palestinian Ministry of Health, operational expenses are disbursed for travel and official assignments, equipment maintenance, rentals, transportation allowances and bonuses. Below are a set of conclusions regarding the operational expenses in the health sector:

1) The budget for the health sector's operational expenses (Palestinian Ministry of Health) is issued in full sums in order to facilitate the transfer between the items of the Ministry's operational spending, which allows for flexibility in disbursement to expedite operations and which creates a loophole for haphazard spending and waste of public funds.

2) There is a gap between the expenditures dispensed on accrued basis and those made on a cash basis, which indicates an increase in arrears for the Ministry's operational spending. The arrears for health operational expenditures make for the largest portion of the private sector's debt. Additionally, the cash transfers from the Ministry of Finance to the Ministry of Health are irregular and insufficient, compounding the arrears for suppliers of medical materials and essential medications. This negatively impacts the quality and level of service, its timely execution and ultimately harms the health of the service recipients³⁵.

35 The Coalition for Integrity and Accountability (AMAN), 2019. The reality of public debt and private sector arrears in Palestine. Ramallah, Palestine.

3) Travel and official assignment expenses fluctuated during the period of 2019-2023, wherein they decreased by 85% in 2020 as compared to 2019. This decline can be attributed to precautionary measures taken on travel restrictions during the COVID-19 pandemic. However, they soon increased in 2023, and the travel and official assignment allowances for the ministry doubled during the time period of the study, reflecting the ministry's failure to adhere to the declared reform plans and spending rationalization.

4) The Ministry of Health is also in crisis because of the accumulated debts resulting from the discrepancy between the allocated budgets for operational expenses and the actual requirements, especially concerning medical transfers.

5) There are many dimensions and overlaps in the medical transfers file, along with a buildup of difficulties that contribute to the ongoing situation, and with the continued waste of the Ministry of Finance's allocations at the expense of development and the improvement of health services, not to mention the waste of public funds resulting from the absence of an efficient and comprehensive health system, in addition to the ineffectiveness of the health insurance system.

Table (7): Actual operating expenses of the Ministry of Health by item during the period 2019-2023 in shekels.

	2019	2020	2021	2022	2023
Travel and assignments		44,519.15	87,365.54	344,244.97	645,171.00
Water and electricity	7,804,493.87	17,540,221.18	18,095,123.80	15,218,626.46	21,427,358.19
Mail and phones	2,852,144.42	5,936,468.25	1,647,452.91	1,068,649.01	1,010,019.20
Fuels	2,717,747.54	5,130,021.15	3,407,561.65	4,114,603.34	4,200,300.37
Stationery	1,477,047.34	1,048,064.39	3,625,214.76	4,123,463.38	6,923,416.89
In lieu of transportation - salaries.		24,941,543.66	28,944,894.87	29,097,110.59	29,436,596.84
Maintenance and repairs	16,234,497.17	15,102,983.20	15,946,416.00	8,891,338.68	19,712,861.60
Transport means and vehicle services	4,994,828.21	6,341,545.16	18,011,654.50	8,916,249.83	11,880,380.24
Food items, clothing, and fabrics.	9,379,536.95	7,823,821.14	11,335,079.67	12,888,899.18	15,357,129.80
Medications and vaccines	502,199,147.88	218,752,121.40	512,925,607.40	382,322,946.83	469,255,450.02
Contracts and cleaning materials.	18,768,523.92	20,189,781.58	26,529,299.04	28,791,104.87	27,549,996.20
Rentals	2,826,038.47	457,989.31	3,279,377.90	2,492,554.06	1,163,233.67
Hospitality	126,494.10	481,501.21	574,132.55	511,351.83	1,828,327.32
Fees and taxes	93,767.64		36,356.98	287,097.93	171,317.49
In lieu of consultancies and studies.	2,909,324.91	85,770.21	11,429.80	76,948.54	273,353.10
Rewards		390,440.01	71,324.10	35,941.43	(2,010.03)
Ministry of Health treatment subsidies (abroad)	1,257,124,643.39	669,949,944.76	658,195,083.93	895,615,948.43	1,038,855,737.44
Totals	1,829,508,235.81	994,216,735.76	1,302,723,375.40	1,394,797,079.35	1,649,688,639.34

Source: Palestinian Ministry of Finance, 2024. The electronic database of the Accounts Department. An interview with Mr. Ahmed Thumainat, Director of the Accounts Department, for study purposes. The Department of Public Accounts.

The Palestinian Ministry of Health is subject to the oversight of the General Administration for the Supervision of Social and Cultural Services at the Bureau of Financial and Administrative Control. However, there is a delay in investigating medical needs and procedures for their approvals and the procurement of supplies. Additionally, there are no records or reports on surplus equipment in the biomedical engineering unit and the general administration of hospitals to optimize their use. This lack of data also affects the medical transfer bill because of the shortage of medical equipment, as patients are referred outside the ministry for tests, leading to an increase in the medical transfer bill³⁶.

Reports from the Financial and Administrative Control Bureau for the year 2022 expressed doubts about the accuracy of the amounts deducted by the Israelis for healthcare referrals. They also pointed out that the Ministry of Health did not follow up on the cases referred to Israeli hospitals to determine the actual needed medical treatments for the referred patients. Furthermore, the Ministry of Finance did not coordinate with the Ministry of Health to audit and review the accuracy of the amounts deducted monthly, nor did it verify the accuracy of the invoices and financial claims issued by Israeli hospitals. The reports also highlighted problems with military health service referrals, purchase of medications and their distribution³⁷.

4.3 Operating expenses for security apparatus

The budget for the Palestinian security apparatus³⁸ in 2023 reached 3.92 billion shekels, with operational expenses amounting to 511 million shekels, which represents 13% of the sector's expenditures. Additionally, the operational expenses for the security sector constituted 17.3% of the total operational expenditures of the Palestinian Authority.

The actual and estimated operating expenses in the budget for the security sector during the period 2019-2023.					
	2019	2020	2021	2022	2023
Estimated operational expenditures	345,943	265,000	400,000	400,000	450,000
Actual operational expenditures	390,765	379,444	433,781	434,217	510,956
Percentage of actual from the budget	113%	143%	108%	109%	114%

Table (8): The ratio of actual operating expenses estimated in the budget for the security sector during the period 2019-2023 in thousands of shekels.

Source: Estimated expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Budget Department. An interview with Mr. Tarek Mustafa, General Director of Budget, for study purposes. The Public Budget Department.

Actual expenditures: Palestinian Ministry of Finance, 2024. The electronic database of the Accounts Department. An interview with Mr. Ahmed Thumainat, Director of the Accounts Department, for study purposes. The Department of Public Accounts.

36 The Bureau of Financial and Administrative Control, 2020. The annual report for the year 2019. Al-Bireh, Palestine.

37 The Bureau of Financial and Administrative Control, 2023. The annual report for the year 2022. Al-Bireh, Palestine.

38 It includes the Ministry of Interior and National Security.

Summaries of the operating expenses of the security sector

1) The process of preparing the budget in various security agencies, bodies and departments is not participatory. The spending limits allocated to the security sector are determined by the Ministry of Finance based on the availability of financial resources and the actual spending of the previous year, rather than on the actual needs assessed by the agencies, departments and bodies in the security sector. This results in a faulty correlation between the set budget and the strategic plans for the security sector, along with significant deviations in actual spending and budget allocations³⁹.

2) Operational expenses account for more than half of the security apparatus's expenditures, excluding salaries and special wages (55.11%), which is relatively high. Despite the fact that the employees of the financial departments of the security sector possess satisfactory academic qualifications and are specialists with enough experience to perform their duties, the auditing conducted by the central financial administration—both documented and legal—applies to all actual cash payments after the operations have been executed. Consequently, there is no proactive oversight of these payments before they occur. These operating expenses, which are directly under the authority of security agencies, departments and bodies, are estimated to be around 5% of the total security sector's expenditures, while the remainder is managed through the central financial administration itself.

3) Cash transfers from the Ministry of Finance to the Military Financial Administration are irregular, which has led to the accumulation of arrears for suppliers of goods and services⁴⁰.

4) There is still a flaw in the central financial administration's process of monitoring, evaluating and analyzing the results of budget implementation. This may be due to the absence of an electronic information system that connects this administration with the financial departments in various security agencies and administrations. All transactions between the financial administration and security agencies are paper-based and not electronic.

5) The central accounting system is complex and inflexible in how it is operated. It does not give the central financial management a wide margin to formulate the required financial reports needed for monitoring and analyzing the financial situation and assessing the results of budget implementation.

6) The accounting system was cash-based in the years 2019 and 2020, which makes producing financial reports other than cash payments and revenues extremely difficult, if not impossible⁴¹.

7) Periodic financial reports are prepared and issued for the use of this sector's senior management in security forces, agencies and departments for the purposes of control, monitoring and systematic planning, often with focus on reporting bank balances.

8) The post-audit function, which is carried out by the Military Financial Administration, is clearly deficient in various security agencies. As for the function of pre-emptive financial oversight, it is feeble, if it exists at all.

9) It can be observed from the table below that several items have shown a steady and noticeable increase during the period between 2019 and 2023, most notably, the travel and official mission expenses, stationery, cleaning and maintenance. These are expenses that can be reduced to the bare minimum without affecting the efficiency of the operations of administrative centers within the security sector, or any contractual or acquired rights. In this case, the acceptable minimum reduction of expenses be

39 Abdul Karim Nasr, 2019. A report on the gaps and interventions in the financial management of the Palestinian security sector. Geneva Centre for the Democratic Control of Armed Forces

40 Abdul Karim Nasr, 2019. Previous reference.

41 An interview with Ahmed Thumainat. Director of the Accounts Department at the Palestinian Ministry of Finance, time: 11:00 AM, date: 11/6/2024.

back to the level they were in 2019, thus cutting more than 46 million shekels from the operational expenses of the security sector.

10) The expenses for escort and security services increased during the period between 2019 and 2023; however, reducing these expenses could affect some acquired rights. Therefore, reallocating personnel from escort duties to police and customs work is considered the optimal solution.

Communication expenses for the security sector can reach 28 million shekels in some years, which should be reduced by controlling the costs of using phones, mobile devices, and the internet in government buildings and by not paying personal communication bills.

The actual operating expenses for the security sector during the period 2019-2023.					
	2019	2020	2021	2022	2023
Travel & Assignments	511,890	16,402,231	21,626,652	27,741,763	26,277,365
Water & electricity	24,258,294	31,568,373	34,654,215	35,725,385	27,036,403
Mail, telegrams & phones	28,605,033	2,753,311	21,184,689	6,935,322	13,675,336
Fuel	609,103	1,044,911	657,477	(335,979)	354,914
Stationary	1,645,213	6,101,551	8,404,976	6,683,869	6,439,355
Equipment & tools		2,322	14,561	832,240	3,647
Medical equipment & referrals abroad	153,258,308	111,070,011	124,368,119	94,047,969	179,960,804
Cleaning	1,306,926	1,213,580	2,680,935	3,083,261	6,650,954
Maintenance & repairs	1,369,892	6,489,494	7,733,815	7,678,209	11,844,357
Transport & vehicle services	62,104,068	69,906,893	72,887,140	74,109,647	78,627,119
Consumables & hospitality supplies	99,987,775	85,012,455	81,623,282	106,370,005	91,305,219
Subscriptions Conferences Exhibitions Festivals	1,741,426	1,302,147	2,406,201	5,995,809	6,796,359
In lieu of escorting	120,900	22,602,837	28,187,100	30,560,546	27,993,880
Rentals	15,193,991	4,295,641	6,662,786	6,217,111	6,980,401
Financial management expenses - external arenas		16,605,080	1,897,503	16,153,579	17,873,646
General projects			15,488,029	7,750,506	4,543,132
Employee rewards		298,636		563,373	3,034
Projects licensing	14,204	26,237	434,831	174,880	80,746
Other – financial management	21,122	2,748,598	1,366,644	3,919,901	4,509,059
Studies, planning, and consulting (General)	17,043		1,502,475	10,030	
Total	390,765,187	379,444,309	433,781,430	434,217,426	510,955,731

Table (9): Actual operating expenses for the security sector during the period 2019-2023 in shekels.

Source: Palestinian Ministry of Finance, 2024. The electronic database of the Accounts Department. An interview with Mr. Ahmed Thumainat, Director of the Accounts Department, for study purposes. The Department of Public Accounts.

In general, the number of legislations and regulations enacted in recent years seem sufficient to regulate financial affairs in the security sector, despite some shortcomings and gaps in details for certain provisions. However, what remains important with this legislation is the commitment to applying it in practice, especially since this obligation has been marred in the past and still remains plagued by many breaches and public denunciations.

5. Analysis of one of the operating expense items

5.1 Operating expenses for vehicles and fuels

The operating expenses for government vehicles, including maintenance, insurance and fuel, are part of the total operational costs. The matter of government vehicles has been problematic since the establishment of the Palestinian Authority, despite the establishment of legislation for the management of government vehicles. In the package of reforms and financial and administrative procedures to rationalize expenditures, based on the Cabinet decision issued in its weekly session of 04/19, issued on April 23, 2024, there are measures that would prevent employees in different departments from using government vehicles, with the exception of ministers, heads of government departments, governors and those in similar positions.

The issue of government vehicles has been marred by many financial problems due to violations or non-compliance to allocations and standards of dispensation, as well as the measurement and consumption rates of the vehicles. Consequently, the process of auditing and examining the operational expenses of the vehicles remains incomplete, as there are no specific restrictions or records for the use and operation of these vehicles, nor are there records and meters for ending the use of vehicles after official working hours in some cases, according to reports from the Financial and Administrative Control Bureau. Additionally, there are no standards that define the actual needs for vehicles, along with the absence of an effective control system or punitive measures against violators.

It has been revealed that there are still many different problems in the use or purchase of new vehicles defined in the financial report of the Financial and Administrative Control Bureau for the year 2022⁴².

It was also revealed in the annual report of the Bureau of Financial and Administrative Control that Istiqlal University has allocated vehicles for use in its the Ramallah office when that office is not included in the university's organizational structure. Furthermore, these vehicles are not monitored by the university's transportation department, and there are no systematized personal accounts signed by the individuals in that department who are using the vehicles, as required by regulations. Also, electronic tracking devices have not been installed in all government vehicles allocated to Al-Istiqlal University, and some electronic fuel coupons used at gas stations do not have vehicle numbers and names of the beneficiaries. The report also shows that some government vehicles being used by Al-Istiqlal University do not have a financial ceiling on their electronic cards; noting that these vehicles are the responsibility of the university president, including the five vehicles in the Ramallah office. Additionally, fuel cards have been issued for some employees to use for their private vehicles⁴³.

42 The Bureau of Financial and Administrative Control, 2020. The annual report for the year 2019. Al-Bireh, Palestine.

43 The Bureau of Financial and Administrative Control, 2023. The annual report for the year 2022. Al-Bireh, Palestine.

6. Possibilities for downsizing operational expenses

All the above indicates that the Palestinian National Authority is actually increasing operational spending despite successive austerity decisions and government reform plans, in view of declining revenues and the Israeli occupation's piracy of clearance funds. Therefore, it is essential for the government to adopt a comprehensive plan to rationalize operational expenses, based on a scientific analytical approach to the circumstances of each center of responsibility, taking into account the uniqueness of each and adhering to the principle of transparency by clarifying areas of expenditure in all centers of responsibility, in order to identify the exact facets of rationalization. It was also revealed in the annual audits that there are problems in operational expenses with deviations in the estimated and the actual expenditures, where the actual spending exceeded some of the ceilings allocated for the budget.

The financial crisis of the Palestinian Authority is not caused by the scarcity of financial resources alone, but also by how those meager resources are managed. Even if a dramatic development occurs in terms of revenues and funding, the government will still face the dilemma of how to manage these resources, prioritize spending and the foundations and criteria upon which it dispenses the funds.

It is important for the decision-makers to consider the foundations and principles of austerity, which primarily ensure economic and social justice in the dispersal of austerity measures, preserving acquired rights without compromising the quality of public services. It is worth noting that the possibility of reducing, eliminating, freezing, or postponing operational expenses varies from one responsibility center to another, due to the differences and variations in the nature of the work performed by these centers. Some centers find it difficult to reduce transportation expenses while others have operational expenses linked to essential health emergency services, which are fundamentally tied to the humanitarian rights of individual life, and the necessity to meet these needs with minimal pre-emptive auditing procedures.

In this context, the researchers offer the suggestions below, hoping they will serve as a reference and assistance to the Palestinian government in formulating a comprehensive plan and taking measures that contribute to rationalizing expenses and reducing the waste of public funds.

6.1 The possibilities for rationalizing the operational expenses of the education sector

The operating expenses of the education sector are an essential requirement for the continuation of the educational process, which raises questions and reservations about the nature of the required austerity measures. Below are some suggestions regarding potential rationalization options:

1. There is room to reconsider the transportation, travel, internal mobility and hospitality provisions for the education sector. The travel and official missions budget increased more than six fold during the study period of 2020 to 2023, while the hospitality budget more than doubled during the same period. Meanwhile, the internal transportation wages increased by more than 23% and spending on administrative transportation rose by more than 72%. The travel and internal movement budget can be reduced by arranging transfers to the nearest area where the employee resides, especially in the Ministry of Education, and by not providing internal travel allowances for those who use government vehicles.

2. It is also possibility to reduce the expenses of book printing, which amounted to 117 million shekels in 2023, by accelerating the start of operations at the national printing house and utilizing it for printing school books and other material. This would help in downsizing the operational expenses in education.

3. The implementation of the recommendations from the Audit Bureau regarding the regulation of systems and internal control over expenditures will establish a comprehensive methodology for studying the causes of deviations and preventing their recurrence. Additionally, it is essential to ensure the preparation of periodic financial reports, such as monthly or quarterly account statements.

4. It is possible to halt the hiring of employees or consultants and experts on temporary contracts through exceptions by limiting the recruitments to the available allocated funds or budgetary allotment set aside for this purpose.

5. It is possible to reduce communication expenses in the education sector, which amounted to more than 6 million shekels, by controlling the cost of using phones, mobile phones and the internet in government buildings, and by not paying bills for use of governmental communications for personal purposes.

6. According to statistics from the Ministry of Education, 2,156 schools benefited from the school sponsorship program in building and expanding classrooms as well as constructing essential facilities, which are mostly considered capital expenditures, with the current estimated need being 181 million dollars. The contribution of the sponsorship program for supporting the educational sector can be enhanced by eliminating the most draining operational expenses of the sector's budget, such as the costs of printing books, examination expenses and by expanding the program's resource base, including local community support and external assistance.

7. The benefits of the school sponsorship project could be maximized by reducing the annual maintenance costs, which exceed one million shekels, including the high cost of comprehensive or partial rehabilitation expenses and regular maintenance for schools as well as funding technological conversions in schools.

6.2 Possibilities for downsizing operating expenses in the Health Sector

The Ministry of Health takes the lion's share of total operational expenses, with its spending amounting to 52.3% of the total operational expenses of the Palestinian Authority's budget. There is also a noticeable funding breach in the amounts spent by the ministry on purchasing services, which far exceed the allocated budget. This is because the health services are costly but essential to the public's wellbeing.

To overcome waste in operational expenses, attention should be focused on the following rationalization possibilities:

1. Developing a work plan for the Ministry of Health within a specific timeframe to develop some essential health services that are not adequately available in the Ministry's hospitals, which could help in localizing health services. There must be a genuine will to rationalize the medical referral costs, which could be achieved by forming a civil society committee to oversee the mechanisms for localizing services and to prevent conflicts of interest between the public and private sectors.

2. There is a possibility to reduce the medical transfers bill by putting an immediate end to incidences of exceptional medical transfers and preventing the interference of certain influential individuals and institutions in this matter. All medical cases should be subject to the conditions and procedures adopted by the external service procurement department, including transfers for military medical services. In addition, the tools and procedures for internal and external control over the performance of the relevant departments in the medical transfer file should be applied since it is essential for those departments to adhere to the mechanisms and accounting systems approved by the Ministry of Finance.

3. It is also possible to reduce the expenses for purchasing medicines and medical supplies by about 10-15% because the prices set by suppliers usually include costs of financing from banks. This reduction would bridge the gap between the time of delivery to the ministry's warehouses and the time of payment collection, which can take up to two years. It is preferable to seek direct financing for companies that supply medicines and medical materials from donor entities as a practical solution, similar to grants for hospitals in East Jerusalem, or through letters of guarantee to the companies from these entities to pay the invoice for medicines and medical supplies three months after delivery and within a specified ceiling⁴⁴.

4. Reducing medical transfer bills is possible by employing qualified cadres and establishing efficient and necessary accounting systems to audit and monitor the bills for treatment in Israeli hospitals, which would help prevent manipulation of treatment costs and will downsize spending. A report from the Financial and Administrative Control Bureau stated that the Ministry of Health has not been monitoring cases transferred to Israeli hospitals to determine the medical needs of referred patients, which causes depletion in financial resources. The Ministry of Finance has not coordinated with the Ministry of Health to audit and review the accuracy of the amounts being deducted monthly, nor to verify the validity of the invoices and financial claims issued by Israeli hospitals⁴⁵.

5. The costs of transfers and medications could be reduced by updating, digitizing and archiving the numbers of medical equipment to see whether they are in use or stored in surplus, and to address any deficiencies in order to optimize their utilization. Additionally, there should be administrative organization in the mechanisms for dispensing medication, ensuring that they are appropriately dispensed, and that the prescribed medicines and medical reports are approved by specific accredited doctors.

6. It is also possible to reduce rental expenses by establishing a fund for the acquisition of all hospitals under the Ministry of Health instead of leasing them, especially since the ministry has so far spent approximately 2,034,884 shekels annually for leasing hospitals in the West Bank and Gaza, which amounts to 2.5% of the total rental expenses covered by the public budget.

7. Downsizing communication expenses could be achieved with strict control over the use of phones, mobile services and internet in government buildings and by not paying any employee's personal bills.

6.3 Possibilities for optimizing operational expenses in the security sector

1. In view of the current high number of security agencies and the size of each, it is necessary to reduce and streamline them all, with the exception of the police and customs authority.

2. It is possible to downsize the number of workers in each agency individually based on the tasks assigned to it. It would be appropriate, for instance, to transfer a substantial number of employees to the police or customs authority after being trained for that duty.

3. Canceling the exceptional financial regulation of 2010 for security agencies, and expediting the development of a financial system specific to security spending that takes into account the principles of integrity, transparency and accountability would lead to greater control over operational expenditures, particularly official assignments and travel expenses.

4. Activating internal and external oversight and preparing detailed budgets for each security agency separately, considering each an independent center of responsibility, then incorporating them into a unified budget based on their administrative affiliation.

⁴⁴ An interview with the General Director of Financial Affairs at the Ministry of Health, Mr. Hakem Salahat, on 11/6/2024, at 9:00 AM.

⁴⁵ The Bureau of Financial and Administrative Control, 2023. The annual report for the year 2022. Al-Bireh, Palestine.

5. It is essential for officials in security agencies in charge of expenditure to adhere to the provisions of the Public Procurement and Tenders Law regarding the supply of food items, which requires a periodic inventory of assets and a review of the proper use of forms and records approved by the Ministry of Finance for monitoring and control purposes.

6. Setting clear regulations in the service law for security agencies, particularly those concerning appointments, promotions and penalties, as well as re-evaluating the military service law and the exceptional financial regulations that grant significant privileges and benefits to military personnel, especially officers and those of high rank.

7. Downsizing the expenses for supplies such as food, clothing and other necessities. The cost of these supplies makes for nearly 100 million shekels annually of the operational expenses of the security sector, which should be reduced. One way, for instance, would be developing a unified control mechanism that would minimize waste and prevent personal use.

8. Granting the Military Financial Administration broader powers in managing the central accounting system is also possible. It would enable that section to access comprehensive financial data of the security sector, which would allow it to produce the needed financial reports to carry out its oversight, monitoring and performance analysis and evaluation functions.

9. Designing and implementing a comprehensive practical and technical training program for staff in military financial management and the financial departments of various security entities, focusing on areas such as participatory budgeting based on programs and performance, applicable financial systems, financial analysis and internal auditing and financial control.

10. It is essential to separate the functions and authority related to spending and signing for financial transactions, the authority to receive purchases and supplies, preserving invoices and controlling their usage, the accounting of financial operations and oversight and auditing responsibilities.

11. The adoption of an effective mechanism for monitoring fuel expenses for vehicles designated for the security sector would allow for greater control over fuel and transportation costs.

12. It is also possible to reconsider the transportation and travel allowance, i.e., special wages, by downsizing travel and internal transportation expenses by transferring some employees to the area closest to where they reside, and to stop providing internal transportation allowances for those who use government security vehicles.

13. Downsizing government vehicle expenses is another area where cut-backs can be made. Old government cars should be sold to save on maintenance costs and their use for personal purposes should be prohibited, which should prevent waste in random maintenance expenses and improper use of the vehicles.

14. Several items in the security sector have steadily and noticeably increased between 2019 and 2023, most notably travel and official mission expenses, stationery, cleaning and maintenance. These are expenses that can be reduced to the bare minimum without affecting the efficiency of the operations of the security sectors, or any of their contractual or acquired rights. Here, the acceptable minimum for reducing expenses would be down to the level they were in 2019, thus cutting more than 46 million shekels from the operational expenses of the security sector.

7. Outcomes and Recommendations

7.1 Outcomes

1. There is a problem in applying the principle of accountability in public spending because the incapacitated Palestinian Legislative Council, which is the legally authorized body to evaluate and monitor public expenditure and regulate operational spending, has not been able to do its job in years.
2. Operating expenses account for 17% of total public expenditures, including net lending for the year 2023, exceeding the estimated budget for the same year by more than 16%. Operational expenses account for 20% of the total current expenditures of the Palestinian Authority's budget for 2023.
3. Actual operating expenses increased in the period of 2019 and 2023, with an annual growth rate of 8.8%. The rise in operating expenses was consistent throughout this period, leading to a 32% increase in actual operating expenses, even though the estimated operating expenses fixed the rise at only 13%. This shows the government's feeble commitment to austerity measures aimed at curbing operating expenditures throughout the duration of the study.
4. The social sector accounted for 67% of total operating expenses, with the operating expenses of the Ministry of Health making for 78% of the social sector's operating expenses for 2023. This is due to the unique nature of this sector, which includes expenses for service purchases (medical transfers,) procurement of treatments and medical supplies. The increase in operating expenses in the social sector explains a significant portion of the overall increase in operating expenses during the study period.
5. The governance sector accounts for 29% of the total operating expenses for the year 2023, which includes the expenses of the Ministry of Interior and National Security, constituting 56% of the operating expenses of the governance sector and 16% of the operating expenses of the Palestinian Authority. It was also noted that operational spending on the social sector increased by 8% during the years 2019-2023, while the economic sector and infrastructure account for 1.95% and 1.91% of the total operational expenditure during the year 2023.
6. The operating expenses for the education sector in 2023 amounted to 319 million shekels, which is 8% of the total expenses for the sector and 10% of the total operating expenses of the Palestinian Authority for 2023. This includes expenses for educational supplies, book printing and the government's high school achievement exam (Tawjihi.)
7. The operating expenses for the health sector in 2023 totaled 1.65 billion shekels, which is 60% of the ministry's expenses. Additionally, the operating expenses of the Ministry of Health made for 52.3% of the total operating expenses of the Palestinian Authority's budget for operational expenses because they included expenses for purchasing medical services outside the ministry's facilities and expenses for medical supplies.
8. The operating expenses for the security sector in 2023 totaled 511 million shekels, which is 13% of the sector's and 17.3% of the total operating expenses of the Palestinian Authority.
9. The Financial and Administrative Control Bureau lacks the legal tools that enable it to compel the entities subject to auditing, including the Ministry of Finance, to adhere to the recommendations and observations issued in its reports. This is particularly evident with the disruption and mostly

absence of the Legislative Council, which is primarily responsible for monitoring accountability according to the provisions of the law, thus undermining the appropriate application of the principle of accountability.

10.The national authority has been steadily increasing operational spending, like those for rents, travel expenses and job benefits, in a manner that does not align with the available funds and resources. This has caused a serious annual rise in the budget deficit, all because, over several years, the government's tendencies for spending rose to the point of extravagance and waste of public funds.

11.There is no government plan or scientific study available for reducing fuel consumption for government vehicles by replacing them with hybrid or electric energy-efficient vehicles, nor is there a plan for considering leasing options as an alternative to purchasing the vehicles, as was done by some international organizations.

12.The procedures for disbursing and managing funds allocated for operational expenses are fraught with numerous deficiencies and breaches. The foundations and tools for internal and external control over spending priorities and procedures, especially those related to food and fuel supplies, remain frail and contentious, leaving room for waste and mismanagement.

13.The possibility of reducing, eliminating, freezing or postponing operating expenses varies from one responsibility center to another; that is because of the differences and variations in the nature of the work performed by these centers. There are some centers where it is difficult to cut movement expenses, expenses for vehicles and fuel, like in the security sector, while some other centers' operating expenses are related to basic health emergency services primarily associated with the high valuation of human life, as is the case in the Ministry of Health.

7.2 Recommendations

The successive Palestinian governments have announced more than once their intention to adopt austerity policies and measures to confront the financial crisis. However, the government's intentions and actions have not yielded real results in sustainably reducing the budget deficit for various reasons. The most prominent of these is the failure to significantly decrease spending for lack of a clear vision and a well-thought-out plan and due to ineffective measures aiming to reduce the current expenditures.

Here are the main areas where operational spending can be controlled and reduced:

In the short term

1. For centers of authority to estimate their operational expense budget requires creating an overall general process to control expense estimation to include only the essential and necessary expenditures. This process would also eliminate, or at least reduce, operating expenses that do not affect individual rights or impact basic social services.
2. Taking measures to ensure that authority centers adhere to government decisions that mandate the reduction of job privileges, including allowances, bonuses and allocations, which makes it necessary to terminate some of the exemptions granted to ministers and others in high-ranking positions.
3. It is essential to separate the functions and authorities related to spending and endorsing financial transactions, the authority to receive purchases and supplies, the function of preserving assets and controlling their usage, the function of accounting for financial operations and the function of oversight and auditing.
4. The preparation and approval of a unified system or guide for financial policies and procedures that comply with the law governing the disbursement processes, their oversight and auditing by the relevant departments in the central financial administration, as well as in the financial departments of various security agencies and administrations. This facilitates the supervisory and regulatory relationships of the central financial administration over the monetary operations carried out by security agencies, supported by the design and operation of a computerized financial system that connects the central financial administration with the financial departments of the various security agencies and administrations. These measures would eliminate paper transactions and inter-office communications, which will ensure the accuracy and speed of oversight and approval and facilitates the archiving of documents and records that support disbursement operations.
5. Providing qualified cadres and the necessary accounting systems to audit and monitor medical treatment invoices in Israeli hospitals, which will prevent them from manipulating or falsifying cost of treatment, and will downsize expenditures for the relevant Palestinian center of responsibility.
6. Immediate initiation of tools and procedures for internal and external oversight on the performance of the relevant departments in the medical transfer file.
7. Reducing the telecommunications bill by canceling the "Zero Number⁴⁶" service on the landlines in the offices of employees whose tasks do not require that service in whichever center they are working.

⁴⁶ A "Zero Number" is for fixed phones (landlines), which, if dialed, allows users to call overseas and make cell phone calls, which are very expensive.

8. Establishing a special system for monitoring fuel expenses for vehicles designated for the civil and security sectors.

Austerity in operational expenses, especially those related to job benefits, is considered the most realistic and suitable option, also the least costly in political, social and economic terms. All centers of governance should be targeted for this type of cuts, but not responsibility centers in social sectors, such as health and education. This is because cut-backs in the other areas does not bring about negative repercussions on public services provided to citizens.

In the medium term

1. Applying the principle of accountability in public spending by hastening the holding of elections for the Palestinian Legislative Council, as it is the legally authorized body to evaluate and monitor public expenditure, or expanding the powers of the Financial and Administrative Control Bureau to enable it to regulate and rationalize operational expenses for all centers of responsibility in a manner that does not infringe upon legally acquired rights.

2. It is essential to hold discussion and listening sessions to present the budgets of the various centers, especially those with relatively significant bulk, particularly with the ongoing suspension of the Legislative Council. A systematic approach for holding academic and educational conferences would broaden the public's participation and help in reaching socially acceptable recommendations.

3. Implementing all necessary reductions within feasible limits for all items in operational expenditures, which requires the execution of a comprehensive rationalization plan, in addition to canceling or freezing any items of expenditure that clearly do not yield returns for the community; as possible for communications, travel, operational expenses for external missions and operational expenses for embassies.

4. Requesting of the President to form a committee from the Prime Minister's office, the Ministry of Finance, the Civil Service Bureau and the National Fund to review the structures of the embassies, the number of employees, their operational expenses as well as the benefits granted to the employees.

5. Requesting of the President to form a professional committee to review the structure of the President's Office in order to determine the actual staffing needs and to apply upon them the Civil Service Law or the Law on Security Personnel.

6. Evaluating governmental or semi-governmental institutions funded by the Palestinian Authority that have not achieve the intended goals of their establishment, after which each relevant ministry assesses them and makes decisions for either terminating them or merging them with other organizations, which would save the public budget large sums spent on rents and operational expenses.

7. A comprehensive review of the procedures for assessing the need for the maintenance and construction of schools by securing accurate and updated information, maximizing the financial benefits of the school sponsorship project so it would subsidize the annual maintenance costs exceeding one million shekels, i.e., alleviating the comprehensive or partial school restoration expenses and regular maintenance, and even for funding technological conversions in schools.

8. Reducing the expenses of medical transfers, medications and medical supplies by updating, digitizing, and archiving data on medical devices to determine whether they are being used or stored away as surplus, and optimizing the efficiency of the ones in use. Additionally, implementing the

administrative mechanisms for dispensing medication, ensuring that medicines are prescribed and renewed legitimately and medical reports approved by specific accredited doctors.

9. Preparing a budget for each security agency separately as an independent financial unit, with the Military Financial Administration overseeing, monitoring and controlling compliance with the approved budget items. It is also necessary to work towards finding a balance between the demands of transparency and the need for confidentiality in the expenditures of the security institution, wherein the allocations are clearly divided into confidential and public.

10. It is essential for expenditure officers in security agencies to abide by the provisions of the Public Procurement and Tenders Law for the supply of food and general goods. This could be done with a periodic inventory of assets and compliance with the regulations for the use of records and forms approved by the Ministry of Finance for monitoring and control purposes.

11. Establishing active internal oversight and auditing units within each security apparatus that reports either to the Minister of Interior or directly to the head of the unit, as is the case of the Intelligence Agency, and making sure these units submit copies of their reports to the Central Military Financial Oversight in the Ministry of Finance.

12. Taking measures to ensure that centers of responsibility adhere to government decisions that mandate the reduction of job privileges, such as allowances, bonuses and uniform allocations, which necessitates the elimination of costly exceptions granted to ministers and other high-ranking officers.

13. Review of the annual cost of rent for buildings for the Ministry of Foreign Affairs. Rentals abroad, particularly embassy rentals, are suitable items for downsizing rental expenses, as they accounted for 44% of the total public rental costs covered by the general budget for the year 2022.

14. Freezing the implementation of the reward system approved by the Cabinet, which does not specify performance criteria and lacks objective operational controls to determine the amounts to be granted, and whether the employees are even entitled to receiving the reward. Also, considering which benefits associated with a position could be frozen and which others could be sustained by weighing the nature and burden of the workload.

15. Establishing a fund for obtaining ownership of all hospitals under the Ministry of Health, which has covered rent for hospitals in the West Bank and Gaza at a cost of 2,034,884 shekels annually, which constitutes 2.5% of the total rent covered by the public budget.

16. Tracking the implementation of the set plans for streamlining operational expenses in order to ensure a quick and effective response by all those responsible, and that the consequences of non-compliance are not met with the simple conveyance of misgivings by the Financial and Administrative Control Bureau.

For the long term

It is essential to reform public finances in all its aspects so that the budget becomes a real tool for shaping Palestinian fiscal policy. This involves developing solid and strategic operational plans for the budget, clearly stating the objectives of austerity measures in the budget declarations, enhancing practices of transparency and accountability in public management, and imposing strict controls and limitations on budgetary limits under any and all circumstances—i.e., Hard Budget Constraint.

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Interviews

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2. An interview with the Director General of Financial Affairs at the Ministry of Health, Mr. Hakim Salahat, on 11/6/2024, at 9:00 AM.
3. An interview with the Undersecretary of the Ministry of Education, Dr. Nafeh Asaf, 2024, Thursday, June 15, 2024, at 9:30 AM.
4. An interview with the Director General of the Public Budget, Mr. Tarek Mustafa, Palestinian Ministry of Finance, 2024.
5. An interview with the Director of the Public Accounts Department, Mr. Ahmed Thumainat. Department of Public Accounts. Palestinian Ministry of Finance, 2024.

Appendices

Appendix (1): The Legal and Regulatory Framework for Financial Management in the Security Sector

1. The amended basic law of 2003.
2. Law No. (7) of 1998 on the Regulation of the General Budget and Financial Affairs.
3. Decision by Law No. (3) of 2008 for the amendment of the law for the organization of the General Budget and Financial Affairs No. (7) of 1998.
4. The internal regulations of the Palestinian Legislative Council for the year 2003.
5. Amended system for the provisions of the internal regulations of the Legislative
6. Council for the year 2006.
7. Council of Ministers Resolution No. (43) of 2005 regarding the financial system for ministries and public institutions.
8. Council of Ministers Decision No. (26) of 2006 for the amendment of Council of Ministers Decision No. (43) of 2005 concerning the financial system for ministries and public institutions.
9. Law No. (9) of 1998 concerning public supplies.
10. Law No. (6) of 2004 amending some provisions of Public Supplies Law No. (9) of 1998.
11. Law on Insurance and Pensions for Security Forces No. (16) of 2004.
12. Law No. (16) of 2005 amending certain provisions of the Palestinian Security Forces Insurance and Pensions Law No. (16) of 2004.
13. The Law of Service in the Palestinian Security Forces No. (8) of the Year 2005.
14. The General Intelligence Law No. (17) of the year 2005.
15. Decision No. (4) of 2007 regarding the acquisition of supplies and the procurement system for the Palestinian General Intelligence.
16. Decision No. (5) of 2007 for issuing a financial system for the Palestinian General Intelligence.
17. Civil Defense Law No. (3) of 1998.
18. Public Retirement Law No. (7) of 2005.
19. Law No. (4) of 1998 Issuing the Civil Service Law.
20. Law No. (4) of 2005 amending the Civil Service Law No. (4) of 1998.
21. Public Debt Law No. (24) of 2005.
22. Decision No. (7) of 1998 for the establishment of the Consumer Economic Institution for the Public Security Forces and Police.
23. Decision No. (76) of the year 2006 regarding the General Retirement Authority for Military Personnel.
24. Council of Ministers Resolution No. (8) of 2007 for the members of the security forces whose records have been suspended.
25. Cabinet Resolution No. (11) of 2007 regarding the separation of the public financial administration of the Ministry of Interior from the central financial administration of the National Security Forces.



Civil Society Team for Enhancing Public Budget Transparency

AMAN has worked to establish a civil team to support the transparency of the public budget, representing a number of Palestinian sectoral civil organizations, namely: Aman Foundation, Miftah Foundation, Center for Democracy and Workers 'Rights, Hydrology Society, Creator's Teacher Center Development work - together, the Union of Agricultural Work Committees, the Federation of Food Industries, the Federation of Pharmaceutical Industries, the Federation of Chambers of Commerce, Agriculture and Industry, the Palestinian Federation of Local Authorities, the Network of NGOs, the Economic Policy Research Institute (MAS), the Law Center Ah Civil Society Development, a forum of intellectuals Charity Association, Conscience Foundation, Al-Haq, the Institute of Development Studies) Birzeit (University, Jerusalem Center for Legal Aid and the Jerusalem Center for Social Rights and the Economic Commission national civil organizations Palestinian, as well as some economic experts.

AMAN performs secretarial work for CSTPBT, through providing logistical and technical support to it in light of insufficient and unstable financial capabilities. AMAN invites for CSTPBT meetings and prepares the agenda of meetings and minutes, in addition to any papers and documents related to the public budget, working as a bridge between the team and the official authorities, presided by the Ministry of Finance. With the vital support of AMAN, CSTPBT team participated in a number of training workshops to build their capacity in the public budget field.

The CSTPBT team believes in the urgent need of informing the citizens about the public budget to participate in its preparation, in order to be able to hold it accountable and follow up the management of government spending and public money. To achieve this goal and before approving the budget of 2011 specifically, the CSTPBC team submitted a proposal to the Ministry of Finance & Planning, requesting the adoption of the citizen's budget, which is one of the basic elements that guarantee the transparency of the public budget. Indeed, the Ministry adopted the proposal and instructed to manage the public budget in cooperation with the CSTPBT team in this field. The citizen's budget was issued for the first time in Palestine during the year 2011, and it was developed to become the citizen's guide during the year 2013 where the national team will work to raise the awareness on it. Moreover, Aman succeeded recently in convincing the Council of Ministers of the need to involve civil society organizations to cooperate with the ministries in discussing annual budgets before submitting them to the Cabinet for approval.

Specialized sub-committees were formulated from the members of the CSTPBT, focusing on three-main essential sectors (Health, Education, Social development). Each sub-committee has a leading organization that is in charge of it.

Aman will work in the future to establish the monitor unit, which will be specialized in following up on all issues related to the public budget, thus creating a reference for all interested citizens, researchers and various institutions.