



The 2015 Public Budget: The Estimated vs. Actual

An Analytical Review

By

The Civil Team for the Public Budget Transparency

February, 2016

Introduction

Organization of the Review

This analytical review is divided into four chapters:

- Chapter I discusses the transparency of the 2015 public budget in the light of the International Budget Partnership Open Budget Survey Results (IBN OBS).
- Chapter II addresses and discusses the compliance of the Ministry of Finance (MoF) with the Public Budget Planning and Financial Affairs Law No. 7 of 1998, the Palestinian Amended Basic Law, other relevant regulations besides the budget transparency standards.
- Chapter III presents and analyses the 2015 public budget estimate versus the actual.
- Chapter IV presents the conclusions and puts forward the recommendations.

This analytical working paper is designed to review the 2015 estimated public budget, which was approved by His Excellency President Mahmoud Abbas on July 30th 2015, versus the actual (i.e. January – December 2015). Furthermore, the paper compares the 2015 estimated and actual public budget with that of 2014 as well as with the 2016 public budget estimate.

The significance of this review lies in the earnest endeavor to review the pragmatic implementation of the public budget. This inevitably provides paramount indicators for the financial sustainability in the State of Palestine. This review has been developed under a hotchpotch of chronic, novel and recurring circumstances. Palestine has been agonizing through a chronic financial crisis for years, yet still no lucid solutions in the offing. Moreover, the financial indicators herald the exacerbation of the financial status quo.

The paper analyses the revenue and expenditure estimates versus the actual in the light of the commitment met. The analysis perceives the public budget as the key financial tool and the baseline schedule for detailed budgeted expenditure and revenue of the various activities included in a given fiscal year to accomplish the financial, economic, social and developmental objectives and policies. The public budget unveils the future government trends and programs and policies regarding the various economic, financial, social and development spheres.

Finally, the analysis is strewn with the MoF data lastly updated on February 25th 2016. The data was gleaned from the official website² of the MoF, besides other pertinent documents, including, the Decree-by-Law No. 9 of 2015 on the 2015 Public Budget issued on July 30th 2015,³the Monthly Report for December 2014, and the 2016 public budget estimate.⁴

¹The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th 2016.
<http://www.pmof.ps/documents/10180/586396/Dec.+2015+v.pdf>

²Decree by Law No. 9 of 2015 on the 2015 Public Budget, issued on July 30th, 2015.

³The Annual Financial Report, 2014, The Monthly Report, July 2014 issued by the MoF on Feb 25th 2015.
<http://www.pmof.ps/documents/10180/332541/Dec.2014.Arb.pdf>

⁴Decree by Law of 2015 on the 2016 Public Budget, issued on Feb 8th, 2016.

Chapter I

The Open Budget Survey Tracker Results

The Coalition for Accountability and Integrity (AMAN) has conducted the Open Budget Survey in cooperation with the International Budget Partnership (IBP) since the first of October 2013. The survey is designed to track the transparency of 30 public budgets worldwide, including Palestine, through monitoring the publication of the requisite eight key budget documents.

The IBP an international leading initiative has taken on the challenge of monitoring 30 countries worldwide through a documented reliable evidence-based method. The IBP along with its partners stated through the Open Budget Initiative that the minimum level of budget transparency necessitates the publication of the following eight key budget documents:

1. The Pre-Budget Statement;
2. The Executive Budget Proposal;
3. The Citizen Budget;
4. The Enacted Budget;
5. The In-Year Reports;
6. The Mid-Year Review;
7. The Year-End Report;
8. The Audit Report;

The Methodology Devised for Tracking the Public Budget in Palestine:

The methodology of tracking the Public budget in Palestine consists of the following steps:

- Determine the budget documents which need to be tracked, and set out an agenda includes the deadlines for the publication and release of each document according to the international standards that comply with the relevant Palestinian laws (i.e. the Public Budget Planning and Financial Affairs Law No. 7 of 1998, the Palestinian Amended Basic Law);

- Follow up the official website of the MoF (i.e. www.pmof.ps) to keep updated with the process of the timely publication of the eight budget documents according to the deadlines stipulated in the agenda.

The status of the monthly should be, but one of the following:

1. The status of the document should be "*publically available*", if it was timely published;
2. The status of the document should be for the "*internal use only*", if it was developed, but has not published yet;
3. The status of the document should be "*not produced*", if it was not timely published.

The Results of the OBS of the 2015 Public Budget

The results of the OBS carried out by AMAN in cooperation with the IBP revealed that the MoF had published only two budget documents out of the requisite eight documents, namely:

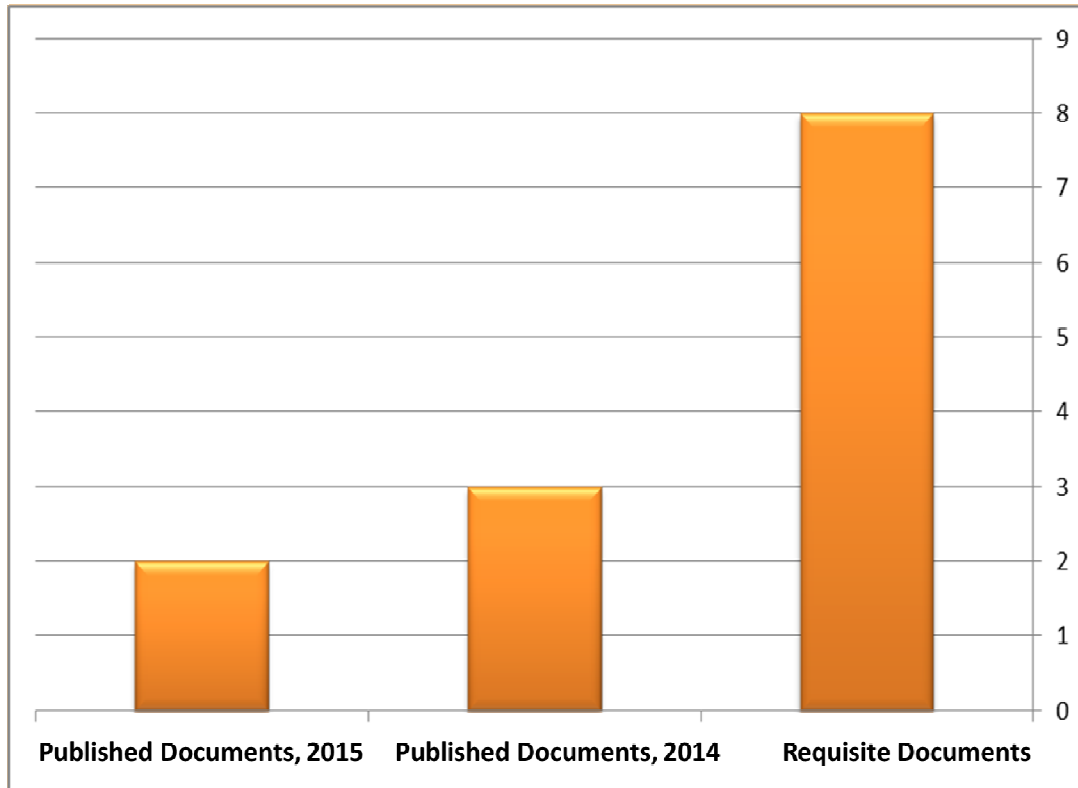
1. The In-Year Reports of the fiscal year 2015;
2. The Mid-Year Report of the fiscal year 2015; on the assumption that July report included the first half of the annum (a reservation).⁵

These eminently unsatisfactory results have shown up despite the ceaseless communication AMAN had been maintaining with the MoF to ensure the publication and the availability of the key budget documents; not to mention the campaigns led by AMAN and the Civil Team to bring pressure to bear on the authorities to fulfill their roles and responsibilities.

⁵The reservation rises due to the lack of a macroeconomic analysis and descriptive explanations in the mid-year report, besides the lack of the biannual estimates for the forthcoming fiscal year, including the economic growth (deflation), and so on and so forth.

Figure 1

The Results of the OBS of the 2015 Public Budget



Conclusion I

The governmental failure to publish the eight key budget documents jeopardizes the public budget transparency, besides the annual decline of the transparency. This will automatically and drastically impact the social accountability, as neither the civil society organizations nor the Civil Team has the requisite data to perform their roles. Furthermore, this will seriously damage Palestine's image abroad and will affect its ranking according to the Open Budget Index.

Chapter II

The Legal Dimensions of the 2015 Public Budget Bill

This chapter sheds the light on the compliance of the MoF to the Public Budget Planning and Financial Affairs Law No. 7 of 1998 due to its paramount impact on the various items of the public budget.

Upon due consideration of the financial data and documents issued by the MoF on the 2015 Public budget in accordance with the Public Budget Planning and Financial Affairs Law No. 7 of 1998⁶; the following comments have been made:

1. The 2015 Public budget Bill had not included a budget statement which ideally should elucidate the financial and economic policies of the PA. The Bill had neither indicated nor mentioned the economic and social objectives the PNA aims to accomplish partially or entirely and the rationale behind the volume and priorities of spending.
2. The legal deadlines for reporting and bill enactment were missed; consequently, the bill was not furnished to the Legislative Council in November 2014. The Public Budget Planning and Financial Affairs Law No. 7 of 1998 Article *a(3)* stipulates that "the Cabinet shall furnish the public budget bill to the Legislative Council two months before the beginning of the fiscal year"⁷

The dysfunction of the Legislative Council does not exempt the government from its responsibility to submit the public budget in the beginning of November 2014.

3. The public budget was not timely enacted on the end of the year proceeds the fiscal of the budget,⁸ i.e. on December 31st, 2014 or in exceptional situations it might be adjourned until the end of March.⁹The both deadlines have elapsed without enacting the public budget. Nonetheless, an emergency budget had been enacted on March 3rd

⁶ The Public Budget Planning and Financial Affairs Law No. 7 of 1998

⁷ The Public Budget Planning and Financial Affairs Law No. 7 of 1998, Article 3(a).

⁸ The Public Budget Planning and Financial Affairs Law No. 7 of 1998, Article 3(e).

⁹ The Public Budget Planning and Financial Affairs Law No. 7 of 1998, Article 4.

2015 and received many reservations on it.¹⁰ After all, the 2015 Public budget was enacted on July 30th 2015.¹¹

4. The 2015 Public budget Bill did not any of the schedules defined in Article 21 of the Public Budget Planning and Financial Affairs Law No. 7 of 1998¹², namely:
 - i. An illustrative chart for the financial and cash status of the Single Treasury Account;
 - ii. An illustrative chart for the PNA short and long term debts and loans along with the payment or collection plans;
 - iii. An illustrative chart for the shares and investments of the PNA in the national and international.
5. The available data of 2014 Public budget Bill did neither referred to the public debt, nor provide any feasible loan settlement mechanisms. This represents a flagrant breach of Article 55 of the Budget Planning and Financial Affairs Law No.7 of 1998 which specifies that “the public budget shall define the ceilings of the loans that may be taken out by the National Palestinian Authority, besides the overdraft from the local banks. Furthermore, the public budget shall include clear-cut provisions on the interest payment and debt principal settlement which shall be paid against gross debt during the year.¹³”

Conclusion II

Upon a proper consideration of the Budget Planning and Financial Affairs No. 7 of 1998, serious problems in the implementation of the transparency principles related to the public budget disclosure and budget submission to the Cabinet two months before the end of the year as stipulated in Article 61 of the Palestinian Amended Basic Law of 2003¹⁴ and other relevant provisions of the Budget Planning and Financial Affairs Law, besides the noncompliance to the established deadlines for budget enactment (i.e. end of the fiscal year or at the end of March in exceptional circumstances).

¹⁰ Decree by Law No. 3 of 2015 on the Emergency Budget for Fiscal Year 2015, issued on March 25th 2015.

¹¹ Decree by Law No. 9 of 2016 on the 2015 Public Budget, issued on December 30th 2015.

¹³ The Public Budget Planning and Financial Affairs Law No. 7 of 1998, Article 21.

¹² The Public Budget Planning and Financial Affairs Law No. 7 of 1998, Article 55

¹⁴ Palestinian Basic Law of 2003, Article 61

Chapter III

2015 Public Budget: The Estimated Vs. Actual

This chapter thoroughly analyses the items of 2015 public budget, comparing the = 2015 public budget estimate versus the actual. The analysis is based on the data published by the MoF in December Report, which was posted on the official website of the Ministry of Finance.¹⁵

A reliable evidence-based methodology was devised for gleaning the financial information. The periodic monthly reports on the fiscal year 2015 have been, bar none, collected. The analyst also communicated with the Ministry of Finance (i.e. Directorate General of the Public Budget) electronically and personally to obtain the updated data and reports.

In a nutshell, this chapter embodies the marrow of this paper, as it provides:

- A presentation and analysis of the 2015 estimated revenues versus the actual;
- A Presentation and analysis of the 2015 grant and aid estimate versus the actual;
- A Presentation and analysis of the 2015 expenditure estimate versus the actual;
- A Presentation and analysis of the 2015 net lending estimate versus the actual;
- A Presentation and analysis of the 2015 deficit and arrears estimate versus the actual;
- A Presentation and analysis of the public debt;
- A Presentation and analysis of the social responsibility centers within the PNA public budget;
- A Presentation and analysis of some special topics pertinent to the 2015 Public budget

¹⁵The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th, 2016.
<http://www.pmof.ps/documents/10180/586396/Dec.+2015+v.pdf>

I. Revenue Analysis

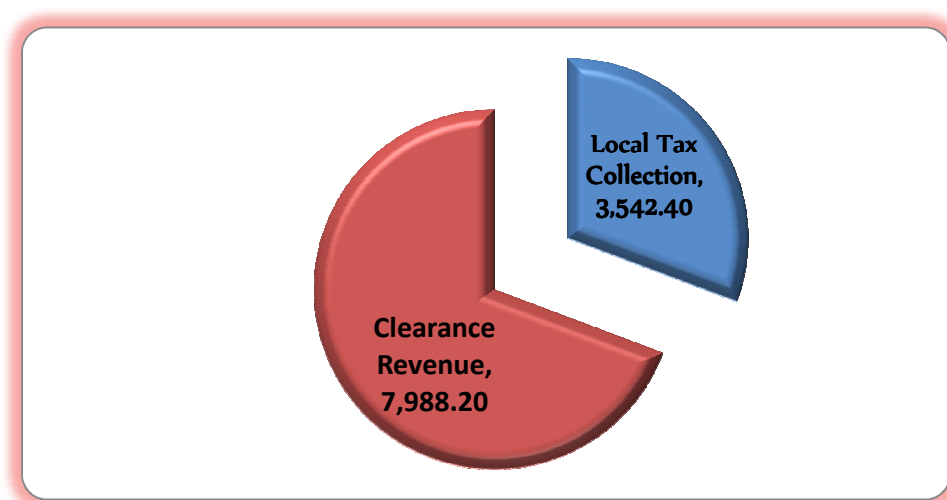
10,658 million NIS were estimated for 2015 public revenues, whereas 2015 actual revenues amounted to 10,931.3 million NIS¹⁶, i.e. the actual revenues recorded an increase by 2.56 percent than estimated. The 2015 local revenues fall within two key items:

- Local tax collection which added up to 3,542.4 million NIS in lieu of the estimated 3,290 million NIS;
- Clearance revenues which amounted to 7,988.2 in lieu of the estimated 7,768 million NIS;

Furthermore, the tax refunds amounted to 599.3 million NIS instead of the estimated 400 million NIS.

Figure No. 2

The Percentage of the Revenue Items



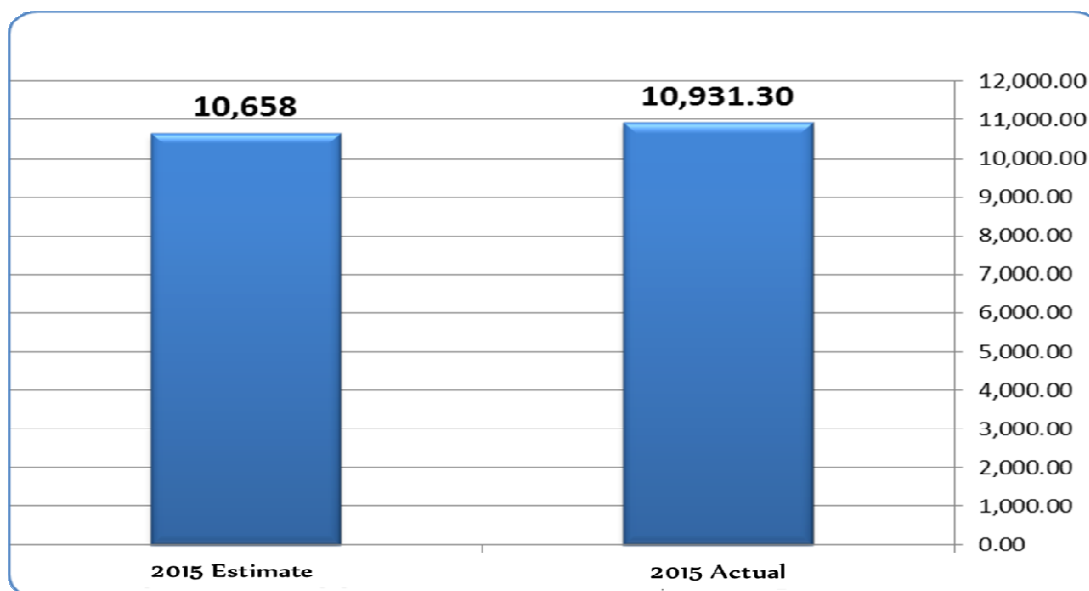
❖ Local Revenue Analysis

Local revenue consists of two sub-items. First, the revenues procured by the PNA (i.e. tax revenues, nontax revenues, and investment revenues). Second, the clearance revenues collected indirectly and transferred by Israel to the PNA. The clearance revenues consist of six items, including: customs, VAT, purchase tax, fuel tax, income tax, etc.

¹⁶ The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th 2016. <http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

Figure 3¹⁷

2015 Net Revenues: The Estimated Vs. Actual



The figure above shows that the actual net public revenue 10,931.30 million NIS was higher than estimated (i.e. 10,658 million NIS) by 2.56 percent.

¹⁷ | The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th, 2016.
<http://www.pmof.ps/documents/10180/586396/Dec.+2015+v.pdf>
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Figure 4

Local Tax Collection in 2015: The Estimated Vs. Actual (in million NIS)

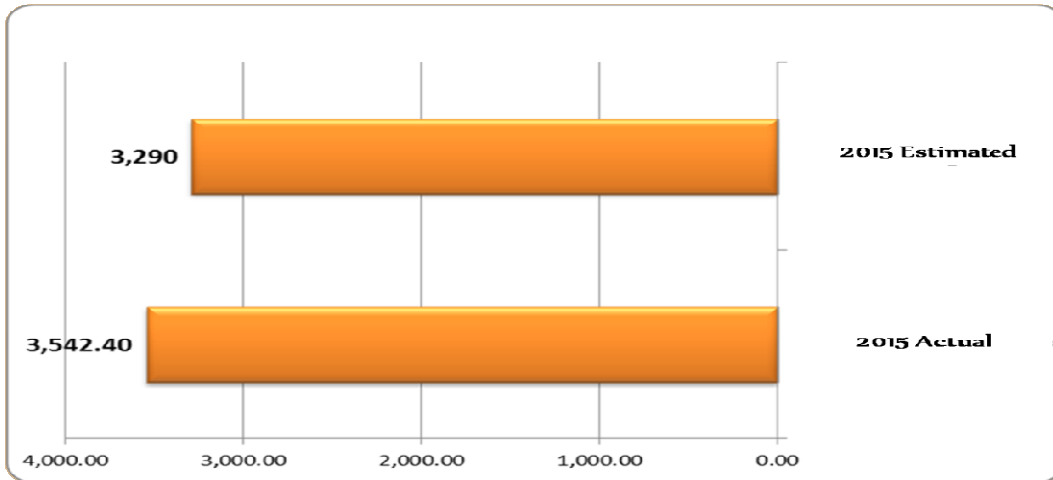


Figure 5

Clearance Revenues in 2015: The Estimated Vs. Actual (in million NIS)

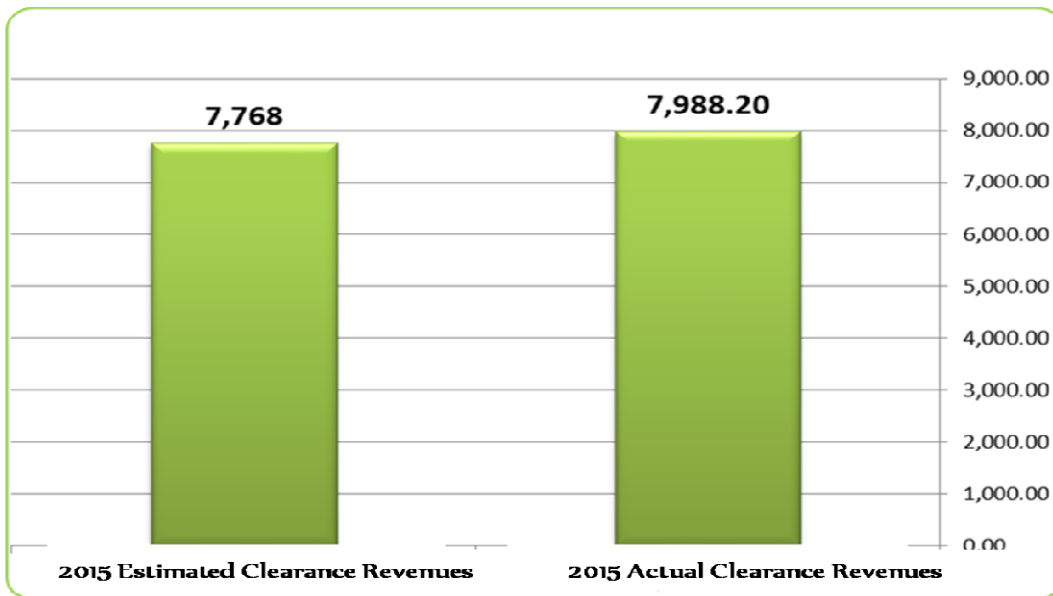
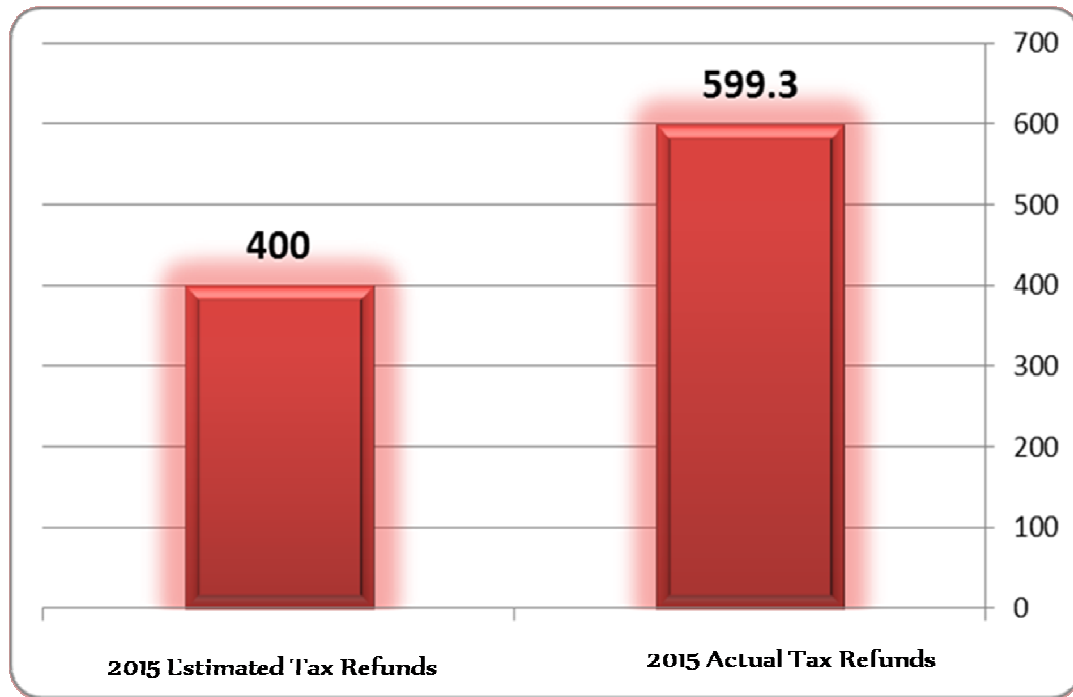


Figure 6

Tax refunds in 2015: The Estimated Vs. Actual (in million NIS)



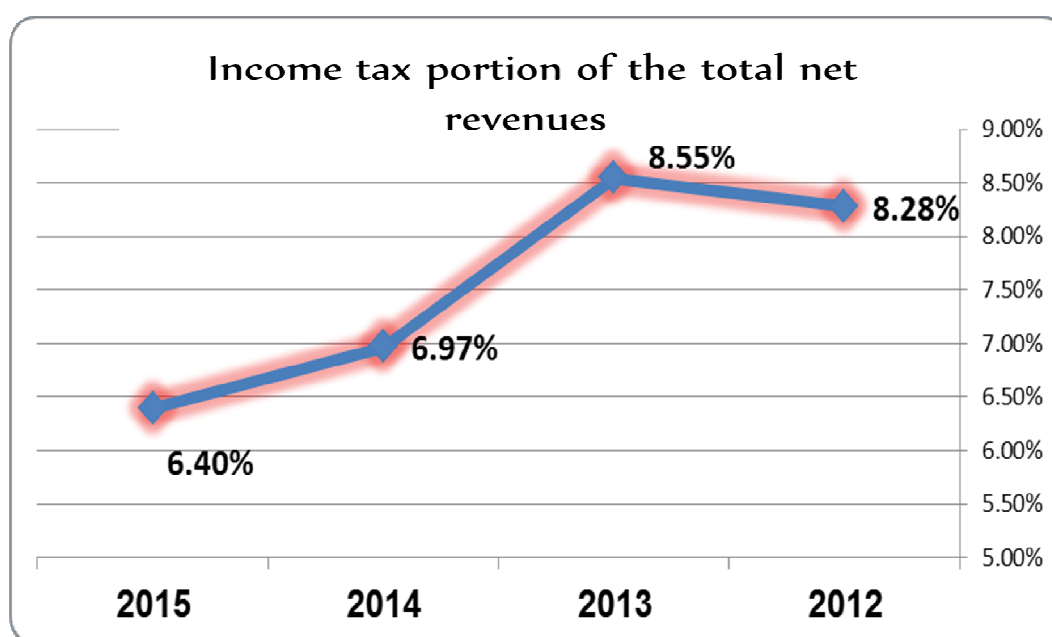
The figures above establish the following constellation of facts:

- The 2015 actual collection increased by 7.67 percent than estimated, as the actual collection amounted to 3542.40 million NIS, whereas the estimated had been 3,290 million NIS.
- The 2015 actual clearance revenue increased by 2.83 percent, as the actual clearance revenue amounted to 7,988.20 million NIS, whereas the estimated had been 7,768 million NIS.
- The 2015 actual tax refunds increased by **49.83** percent, as the actual tax refunds amounted to **599.3** million NIS, whereas the estimated had been **400** million NIS.
- Upon an in-depth analysis of the local tax revenue structure, the VAT revenue accounted for the largest share of collection revenues at 42.6 percent of the total revenues (i.e. = 1,002.9 million NIS out of 2,354.1 million NIS).

A brief review of the 2015 actual revenue structure reveals that the income tax revenue amounted to 700.7 million NIS out of the actual net revenues 10,931.1 million NIS, i.e. 6.40 percent¹⁸. This percentage marks a decrease in the income tax revenue in comparison with the 2014¹⁹, 2013²⁰ and 2012²¹ actual income tax revenues, which stood for 6.97%, 8.55% and 8.28%, respectively.

Figure 7

2012-2015 Income Tax Revenues: The Estimated Vs. Actual



The figure 7 reflects the impact of the Income Tax Law No. 8 of 2011 and its amendments of 2012, 2014 and 2015 on the actual income tax revenue and on the concept of social justice as well. Ideally, the philosophy of income tax assumes the imposition of income tax on the higher-income groups. The income tax revenue should be utilized for

¹⁸The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th, 2016.

<http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

¹⁹ The Annual Financial Report, 2014. December Report, 2015 issued by the MoF on January 20th, 2015.

<http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

²⁰ The Annual Financial Report, 2013. December Report, 2015 issued by the MoF on February 11th, 2014.

<http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

²¹The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 16th, 2013.

<http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

providing free public services for the citizens, especially, the poor and low-income groups. The attainment of this social goal maintains the social and economic stability, as an indirect outcome of the distribution and circulation of income revenues amongst members of the public.

Conclusion III

Upon an analysis of the local revenue status (i.e. local collection + clearance); an increase in the revenues can be detected. Moreover, the actual tax refunds were statistically significantly higher than estimated by 150 percent, despite the lack of any details on the underlying reasons for such a disparity.

As for the clearance, there are several issues need to be solved due to their significance and impact on the public budget transparency in lieu of being left as an entrenched status-quo.

The VAT represents the largest source for tax revenues. Nonetheless, it is an unjust tax from the social justice perspective, as it determinately equals the poor to the rich and always transferred to be deducted from the final beneficiary.

The income tax which should be a catalyst for social justice actualization was decreased due to the drastic impact of the Income Tax Law of 2011 and its amendments on its revenue. Such effects threaten the social justice concept which embodies one of the grass-root bases of the tax imposition philosophy.

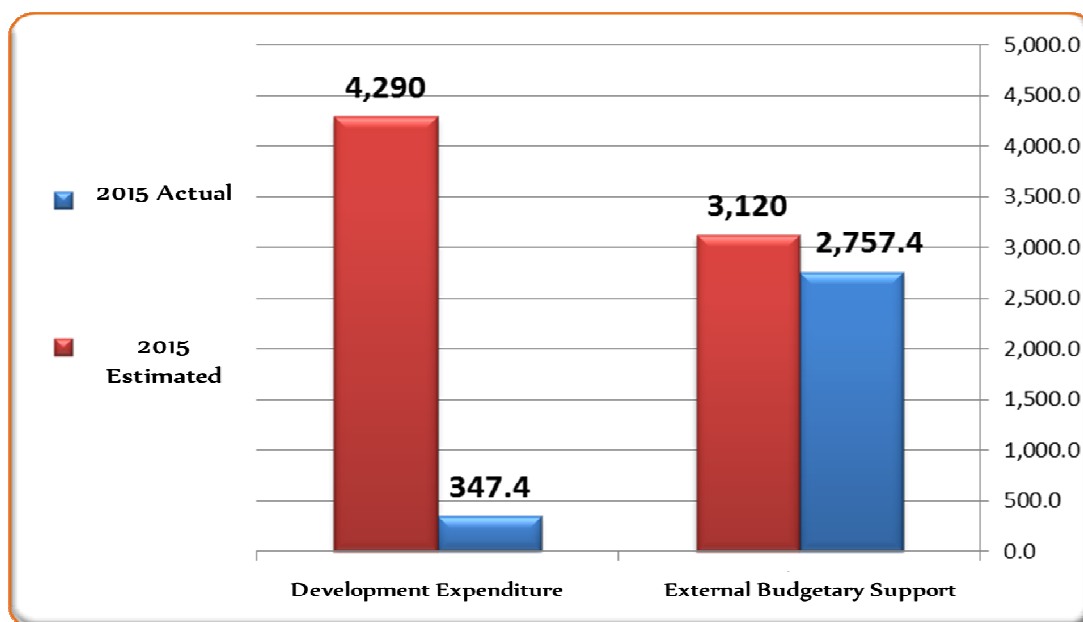
II. Foreign Grants and Aids

Table 1²² compares the 2015 estimated external budgetary support for either budget or development expenditure with the actual funding (in million NIS):

Item	2015 Actual	2015 Estimated	Budget Variance
External Budgetary Support	2,757.4	3,120	%88.37
Foreign Financing for the Developmental Expenditure	347.4	4,290	%8.09

Figure 7

External Budgetary Support and Development Expenditure in 2015: The Estimated Vs. Actual (in million NIS)



²²The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th 2016. <http://www.pmof.ps/documents/10180/586396/Dec.+2015+v.pdf>

The external support replenishes two sub-items, namely, the budgetary support or the current expenditure or the development expenditure funding. Table 1 shows the following facts:

- 3,120 million NIS were estimated for the 2015 budgetary support and current expenditure; however, 2,757.4 million NIS were received (i.e. 88.38 percent as of estimated).
- 4,290 million NIS were estimated for 2015 the development expenditure; yet only 347.4 million NIS were received (i.e. 8.10 percent of the estimate).

Has the dilemma arisen from the donors, budget planners or procedures? Or has it lain in the integration of Gaza reconstruction allocation to the development expenditure?

The Civil Team has already voiced several reservations on the integration of Gaza reconstruction allocations to the development expenditure. It has also addressed the MoF to create a separate item and account for the Gaza reconstruction allocations and to be under a specific supervision.

Conclusion IV

It is plainly evident that grants and budgetary support have been decreased annually. In 2015, they amounted to 2,757.4 million NIS (i.e. 707 million USD). Similarly, the chronological analyses of grants and external support do not herald any increase in the offing. Therefore, an austerity and rationalization plan should be devised to bridge the financial gap, which widens due to the lack of sufficient grants and support. As for the support for the development expenditure, the result was already been expected by the Civil Team. Consequently, several reservations were voiced on the integration of Gaza reconstruction allocations to the development expenditure which were actualized by no more than 8.1 percent as of estimated.

III. Expenditure Analysis

The actual total current expenditure and net lending accounted for 15,672 million NIS in 2015 instead of 15,085, i.e. 3.89 percent higher than estimated.

Table 2²³

Total Current Expenditure and Net Lending: The Estimated Vs. Actual (in million NIS)

Item	2015 Actual	2015 Estimated	Budget Variance
	Million NIS	Million NIS	%
Total Expenditure	15,672.6	15,085	103.90%
- Wages and Salaries	7,439.5	7617	97.67%
- Social Contributions	701.2	683.3	102.62%
- Goods and Services	2,530.4	2225.1	113.72%
- Transfers	3,393.8	3446.2	98.48%
- Capital Expenditure	40.7	79.5	51.19%
- Interests	178.3	233	76.52%
- Net Lending	1,169.20	800	146.15%
- Earmarked Payments	219.7		

❖ Earmarked are collections from taxes and revenues due to LGU, i.e., 90% of property tax & 50% of transportation fees.

Table 2 shows that the statistically significant increase in the current expenditure was limited in two items, namely:

²³The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th, 2016. <http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

- The goods and services and operational expenditure increased by 113.72 percent as of estimated. It's noteworthy that the Government had launched an austerity plan, though they amounted to 2530.4 million NIS.
- Similarly, the net lending amounted to 1,169.20 Million NIS, thus it increased by 113.72 percent as of estimated.

Table 3

Goods and Services Item: The 2015 & 2014 Estimated vs. Actual (in million NIS)

Item	2015 Actual	2015 Estimated	2014 Actual	2014 Estimated
Goods and Services	2,530.40	2,225.10	2,333.00	1,937.00

Table 8

Goods and Services Item: The 2015 & 2014 Estimated vs. Actual (in million NIS)

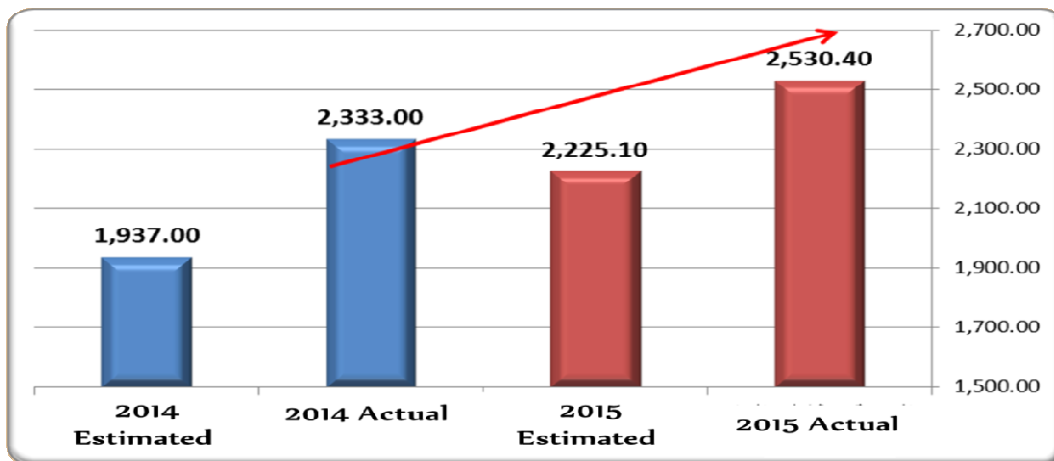


Table 3 and figure 8 reflect a gradual statistically significant increase in the operational expenditure throughout the last biennium (i.e. 2014 & 2015). The expenditure soared above two billion, five hundred NIS undeterred by the austerity plan which had been being

trumpeted on every occasion to indicate the operational expenditure would be decreased. On the contrary, the actual increase was solely in the operational expenditure.

Conclusion V

Despite the rationalization measures for reducing the operational expenditure; the latter exceeded the estimated allocation for 2015 in a statistical significant manner, as well as the previous years. Under the current deficit of the public budget, the operational expenditure surpassed 2.5 billion NIS. Nonetheless, the Civil Team has recommended that the operational expenditure should be controlled.

Therefore, the Civil Team recommended the adoption of the austerity plan developed by the Team.

IV. Net Lending Analysis

Straightforwardly, 800 million NIS was estimated for 2015 net lending, which marks an increase by 33 percent than that of 2014. However, the 2015 actual net lending surged up to 1,169.20 million NIS to emulate the scenarios of 2014 and other previous years. Such a rise occurs in defiance of the plethora of requests to rein the net lending and the affirmative vows made by the MoF.

Table 9

The Net Lending Item: The 2015 & 2014 Estimated vs. Actual (in million NIS)

Items	2015 Actual	2015 Estimated	2014 Actual	2014 Estimated
Net Lending	1,169.20	800.00	1,022.30	600.00

Figure 9: The Net Lending Item: The 2015 Estimated vs. Actual (in million NIS)

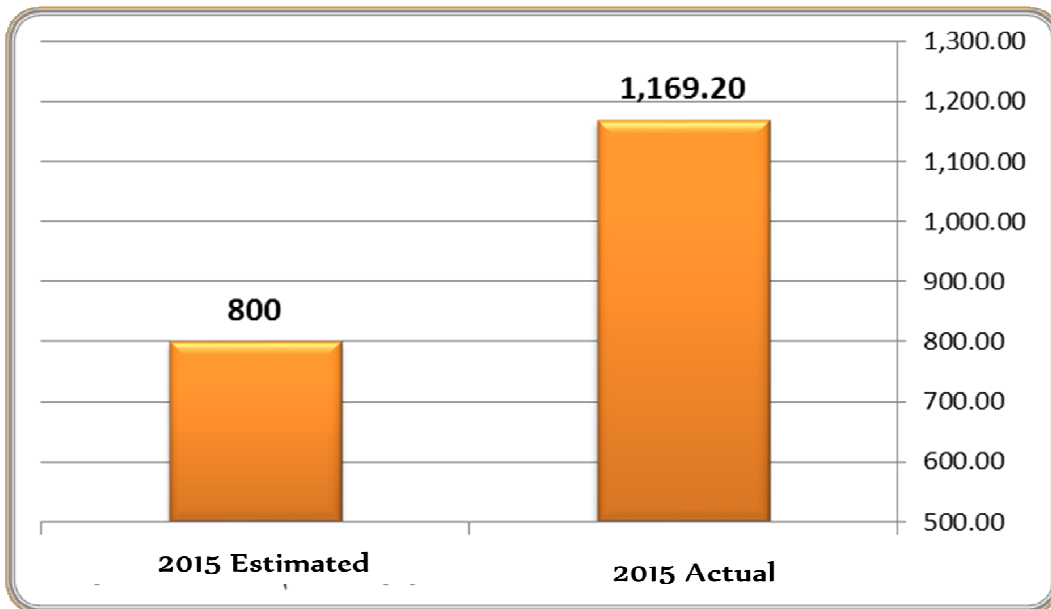


Table 9

The Net Lending Item: The 2016, 2015 & 2014 Estimated vs. 2015 & 2014 Actual (in million NIS)

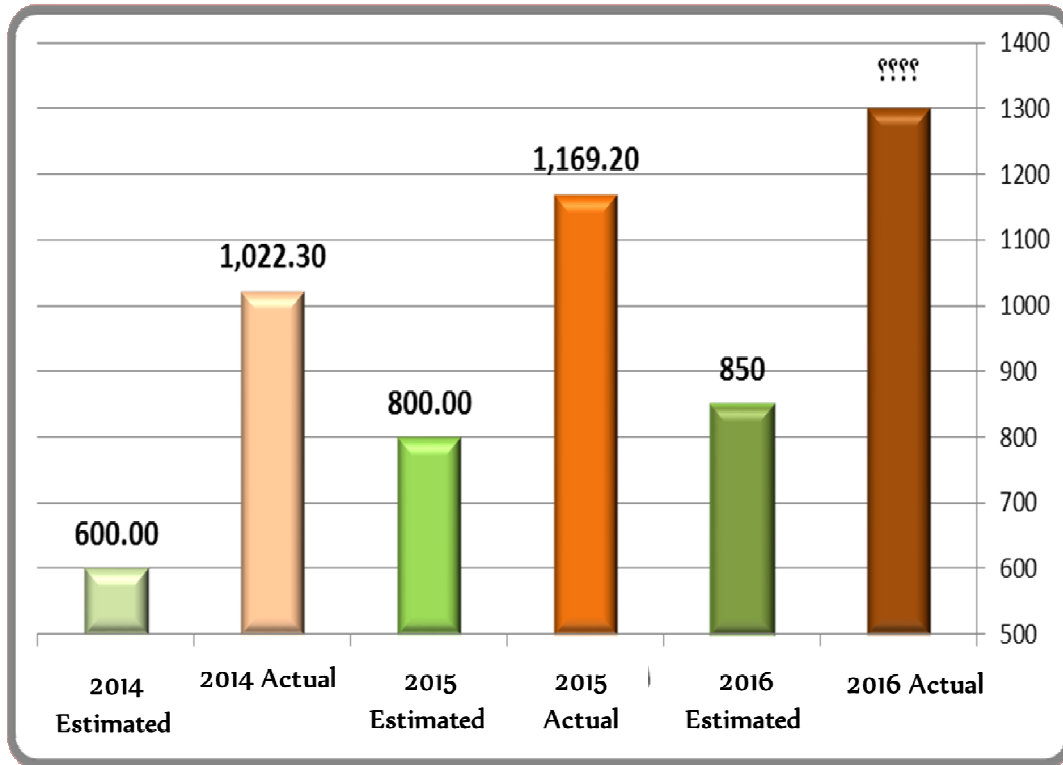


Table 4 and figure 9 and 10 established the following facts:

- The problem of net lending still lingers and heralds negative consequences to come.
- An enigmatic cloudiness engulfs the spending of the actual net lending; for example, the items on which loans were spent should be known to ensure the transparency of the public budget. Furthermore, the members of the public must be apprised of the nature of accuittances between the Government and municipality.
- The net lending has been exhausting the public budget undeterred by the requests filed by the Civil Team to grasp its reins by the Government who vows so, yet facts on ground prove the opposite.
- Unlike the estimated net lending for the last triennium, the net lending estimate should be decreased gradually.

Conclusion VI

The items on which the net lending was spent should be declared along with the criteria upon which the spending was based. This very item has a considerable impact on the public budget. Recently, it has been cryptically increasing and exhausting the public budget. Every year the actual net lending significantly exceeds the estimated. In 2015, the estimated had been 800 million NIS; nevertheless, the actual surged up to 1,169.20 million NIS. Therefore, the rationalization of this item is substantial for wiping out the budget deficit.

V. Deficit and Arrears Analysis Deficit

The total estimated deficit of 2015 public budget was 8,912 million NIS distributed as follows; i) the current deficit accounted for 4,427 million NIS; ii) development expenditure amounted to 4,290 million NIS; and iii) public budget development expenditure comprised 195 million NIS.

The data of 2015 public budget estimated that the aids and support would account for 7,410 million NIS, whereas, 1,502 million NIS were allocated for other funding resources, thus an additional deficit of 125 million NIS per month (i.e. 32 million USD per month).²⁴ The Government vowed to bridge the financing gap through the implantation of an austerity plan in 2015.

On the ground, the PNA received, but 2,757.4 million NIS out of 3,120 million NIS, i.e. 88.38 percent as of estimated. Similarly, only 347.4 million NIS were received out of an estimate of 4,290 million NIS for the development expenditure, i.e. 8.10 percent of as estimated.

Furthermore, the financial gap of 2015 public budget amounted to 1,502 million NIS. Unfortunately, no signs of abridgement through the dummy austerity plan are discerned in the offing, and no details about how the Government will surmount such a challenge, since neither the external support was received, nor the rationalization measures worked out.

- Arrears

The 2015 arrears estimate was 1,170 million NIS, for the Government relied on the bank funding to settle the arrears.²⁵ However, the basis upon which the calculations were made persists to be an enigma; especially, once we invoke the fact that the 2015 actual arrears amounted to 2,493 million NIS.²⁶

- Bank Financing

The 2015 public budget included an estimate of 1,170 million NIS to be borrowed from the banking system. However, neither safeguards, mechanisms, nor interest rates were illustrated.

²⁴Decree-by-Law No. 9 of 2015 on the 2015 Public Budget issued on July 30th 2015

²⁵Ibid

²⁶Ibid

On the ground, only 634.1 million NIS were received out of an estimate of 1,179 million NIS. Still no illustrations on these amounts, the banks from they were borrowed, or the interest rates imposed.

Conclusion VII

The 2015 public budget entailed a complex deficit. This deficit was exacerbated due to several reasons. First, the grants and aid were not actualized as estimated. Second, the Government failed to abridge the financing gap through expenditure rationalization. Third, the bank financing was not realized as estimated. Lastly, the arrears surge up to 2.5 billion NIS.

VI. Public Debt Analysis

The public debt saw an increase by the end of December 2015 according to the data provided by the MoF. The public debt had 8,646.1 million NIS in December 2014; however, it inflated to amount to 9,908.1 million NIS by the end of 2015; in plain English, 14.60 percent higher than that of 2014. Comparatively, Table 5 shows the public debt status during 2015:

Table 5

The Actual Public Debt Status, December 2014 - December 2015 (in million NIS)²⁷

Item	December 2014	March 2015	July 2015	September 2015	December 2015
	Million NIS	Million NIS	Million NIS	Million NIS	Million NIS
Public Debt	8,646.1	9,443.9	8,858.7	8,782.2	9,908.1

²⁷ The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th 2016.
<http://www.pmof.ps/documents/10180/586396/Dec.+2015+v.pdf>

Figure 11: The Actual Public Debt Status, December 2014 - December 2015 (in million NIS)

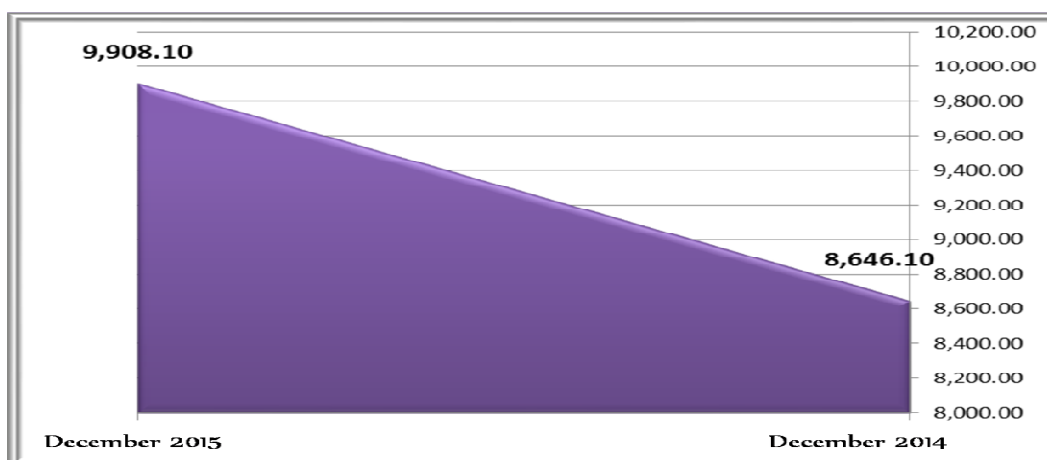


Table 6: The Actual Public Debt Sub-Items: December 2014 vs. December 2015 (in million NIS)²⁸

Item	December 2014	December 2015
	Million NIS	Million NIS
Total Public Debt	8,646.1	9,908.1
A. Total Domestic Debt	4,399.4	5,726.8
- Bank Loans	2,460.9	3,119.8
- Overdraft	1,180.5	1,692.7
- Petroleum Authority Loans	705.7	862.0
- Other Public Institution Loans	52.3	52.3
B. Total Foreign Debt	4,246.7	4,181.3
- Arab Financial Institutions	2,421.7	2,414.8
- International and Regional Institutions	1,356.4	1,317.6
- Bilateral Loans	468.6	448.9

²⁸ Ibid

Conclusion IX

Although the public debt reduction was one of the Government's objective, it does persist to impose a considerable challenge. By the end of December 2015, the public debt leaped from 8,646.1 to 9,908 million NIS (i.e. 1,263 million NIS). In other words, it increased by 14.60.

Furthermore, the public debt associations with the pension and salary fund and the borrowing operations from this very fund should be revealed; especially, after echoes of a problem or a shortage in it has been vaguely expressed by the MoF.

VII. Ministerial Social Allocation Analysis

A comparison of the public ministerial expenditure for the social responsibility centers (i.e. the Ministries of Education and Higher Education (MoEHE), Health (MoH) and Social Affairs (MoSA)) versus the expenditure of the Ministry of Interior (MoINS) during the first half of 2015 is made hereunder.

Table 6: The Ministerial Expenditure as per Responsibility Centers during 2015 (in thousand NIS)²⁹

Item	Gross Expenditure Allocations	Wage and Salary Allocations	Expenditure Total % of Public Expenditure
	Thousand NIS	Thousand NIS	%
Ministry of Interior and National Security	3,847,418	3,129,027	%27.98
Ministry of Education and Higher Education	2,547,530	2,034,697	%18.53
Ministry of Health	1,352,943	722,114	%9.84
Ministry of Social Affairs	1,482,055	74,610	%10.78

²⁹ Ibid

Figure 12

The Actual Ministerial Expenditure as per Responsibility Centers during 2015 (in thousand NIS)³⁰

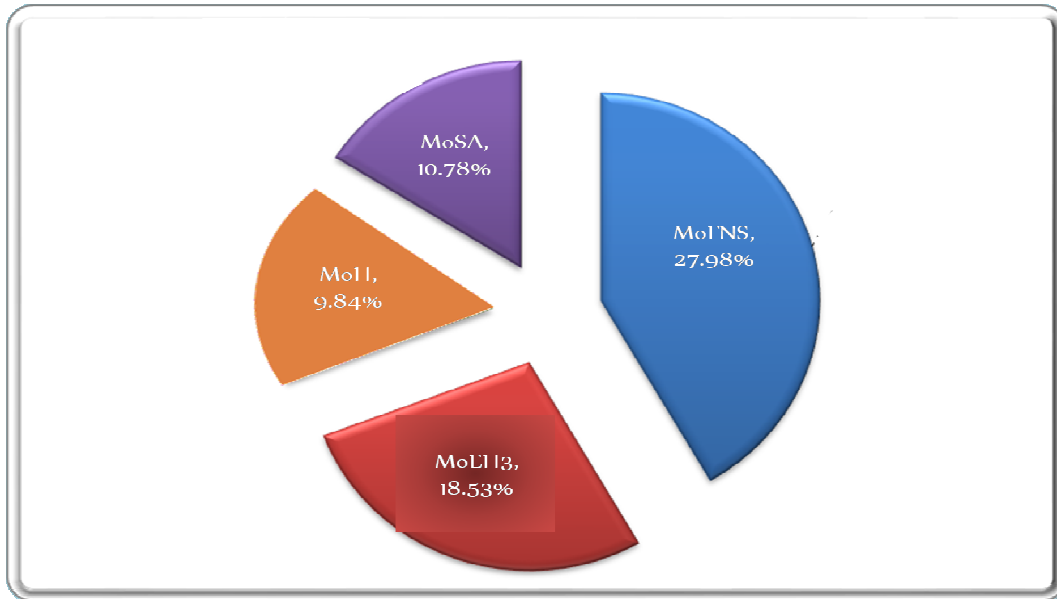


Table 7 and figure 12 put forward the following facts:

- The MoINS expenditure accounted for 28 percent of the public expenditure; out of which 81.33 percent were allocated for the MoINS payroll.
- The MoEHE received 18.53 percent of the total public expenditure.
- The MoH received 9.84 percent of the total public expenditure.
- The MoSA received 10.78 percent of the total public expenditure.
- The MoINS allocations exceeded those of MoEHE and MoH combined, and emulated those of MoEHE and MoSA combined.

Tables 8 and 9 below analyse the actual expenditure structure of the socially active ministries during 2015 (in thousand NIS):

³⁰ Ibid

Table 8

Comparison amongst the Actual Expenditure of Socially Active Ministries (in thousand NIS)³¹

Item	Wages and Salaries	Social Contributions	Goods and Services	Transfers	Capital	Development Expenditure	Gross Expenditure
	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS
MoEHE	2,076,490	203,059	150,928	24,944	82	92,027	2,547,530
MoH	722,114	63,358	527,127	0	175	40,170	1,352,944
MoSA	74,610	5,951	6,968	1,364,655	140	29,731	1,482,055

Table 9

Comparison amongst the Actual Expenditure of Socially Active Ministries (in thousand NIS)³²

Item	Wages and Salaries	Social Contributions	Goods and Services	Transfers	Capital	Development Expenditure	Gross Expenditure
	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS	Thousand NIS
MoEHE	%81.51	%7.97	%5.92	%0.98	%0.003	%3.61	%100
MoH	%53.37	%4.68	%38.96	%0.00	%0.01	%2.97	%100
MoSA	%5.03	%0.40	%0.47	%92.08	%0.01	%2.01	%100

³¹ The Annual Financial Report, 2015. December Report, 2015 issued by the MoF on January 25th 2016.

<http://www.pmf.ps/documents/10180/586396/Dec.+2015+v.pdf>

³² Ibid

The two tables above show that the MoEHE budget was mostly allocated for the payroll. The operational expenditure item (i.e. goods and services) received the lion's share of the MoH budget. As for the MoSA budget, the transfers consumed the largest slice of the expenditure cake. On the contrary, the development expenditure received the smallest share in comparison with other sub-items.

Conclusion:

The security allocations persist to receive the lion's share of public budget. In 2015, the security was given an allocation approached those of MoEHE and MoH combined. Similarly, the wage and salary item still consumes the chief part of the security budget. This item surpasses the budgets of MoH and MoSA combined.

Furthermore, the development expenditure item in the budgets of socially active ministries received the slightest share, as the payroll and operational expenditure took the largest. Such a distribution trumpet a bitter fact that the expenditure is neither destined for development nor investment.

VIII. 2015 Public Budget: Special Issues

- **Financial Reserves:**

The 2015 financial reserve estimate amounted to 55 million NIS.³³ 26.655 million NIS were actually spent during 2015 through the item of transfers. No details on such expenditure and its priority were revealed; inevitably, this violates transparency principles, and hinders accountability.

- **Wages and Salaries:**

A chart issued by the MoF by the end of 2015 and updated as of November 2015 indicated that total number of public staff reached 155,473 out of whom 65,558 were military servants.³⁴

Upon a due consideration of the chart issued by the Ministries of Planning and Finance, which included an exact number of the public employee numbers as of November 2015, and the Financial Monthly Report issued and updated by the MoF as of December 29th 2015;³⁵ thereof, the salary and wage average should be:

- The payroll as of November 2015 ÷ the total number of the public staff as of November 2015 = the salary and wage average for both civil and military sector
- 614.9 million NIS ÷ 155,473 employees = 3,955 NIS

Similar calculations were made for other months, yet the results were similar. So the question beckons an answer from the MoF:

‘Is the average of the public servants around 4 thousand NIS?’

³³ Decree by Law No. 9 of 2015 on the 2015 Public Budget, issued on July 30th, 2015.

³⁴ An Overview of the Financial Performance for Fiscal Year 2015, December 2015.

³⁵ Monthly Report, issued by the MoF on December 29, 2015.

Chapter IV

Conclusions and Recommendations

The analysis of the 2015 led to the following constellation of conclusions:

- The 2015 public budget Bill was generated with the very structural imbalance, and the total concentration was devoted on the figures and items in lieu of schedules and implementation mechanisms.
- The participatory approach, which had been supposedly adopted by the MoF to involve experts and academicians, crumbled because the MoF declined to hold consultations with the relevant ministries and civil-society organizations.
- The application of transparency principles of public budget disclosure faced a serious problem according to the relevant provisions of Law, as the budget was neither timely submitted to the Legislative Council, nor was timely enacted.
- Pursuant to the IBP standards key budget documents should be published, namely, i) the budget statement, ii) the executive public budget proposal, iii) the enacted public budget, iv) the end-year report, and v) the audit report. However, these document were not published; consequently, the transparency of the Palestine public budget was negatively impacted to lump together with the least transparent budgets worldwide.
- Upon an analysis of the local revenue status (i.e. local collection + clearance); an increase in the revenues can be detected. Moreover, the actual tax refunds were statistically significantly higher than estimated by 150 percent, despite the lack of any details on the underlying reasons for such a disparity. As for the clearance, there are several issues need to be solved due to their significance and impact on the public budget transparency in lieu of being left as an entrenched status-quo.
- The VAT represents the largest source for tax revenues. Nonetheless, it is an unjust tax from the social justice perspective, as it determinately equalizes between the poor and rich and always transferred to be deducted from the final beneficiary. The income tax which should be a catalyst for social justice actualization was decreased due to the drastic impact of the Income Tax Law of 2011 and its amendments on its revenue. Such effects threaten the social justice concept which embodies one of the grass-root bases of the tax imposition philosophy.

- It is plainly evident that grants and budgetary support have been decreased annually. In 2015, they amounted to 2,757.4 million NIS (i.e. 707 million USD). Similarly, the chronological analyses of grants and external support do not herald any increase in the offing. Therefore, an austerity and rationalization plan should be devised to bridge the financial gap, which widens due to the lack of sufficient grants and support. As for the support for the development expenditure, the result was already been expected by the Civil Team. Consequently, several reservations were voiced on the integration of Gaza reconstruction allocations to the development expenditure which were actualized by no more than 8.1 percent as of estimated.
- Despite the rationalization measures for reducing the operational expenditure; the latter exceeded the estimated allocation for 2015 in a statistical significant manner, as well as the previous years. Under the current deficit of the public budget , the operational expenditure surpassed 2.5 billion NIS. Nonetheless, the Civil Team has recommended that the operational expenditure should be controlled.
- The items on which the net lending was spent should be declared along with the criteria upon which the spending was based. This very item has a considerable impact on the public budget. Recently, it has been cryptically increasing and exhausting the public budget. Every year the actual net lending significantly exceeds the estimated. In 2015, the estimated had been 800 million NIS; nevertheless, the actual surged up to 1,169.20 million NIS. Therefore, the rationalization of this item is substantial for wiping out the budget deficit.
- The 2015 public budget entailed a complex deficit. This deficit was exacerbated due to several reasons. First, the grants and aid were not actualized as estimated. Second, the Government failed to abridge the financing gap through expenditure rationalization. Third, the bank financing was realized as estimated. And Lastly, the arrears inflated to surge up to 2.5 billion NIS in the 2015 public budget . What are the steps that will be taken by the Government to solve this complex problem? Will the Government transfer the current deficit to the forthcoming fiscal year? What are the components and the impact of the austerity plan, which was previously launched by the Government? Those questions requires reasonable and satisfactory answers by the Ministries of Planning and Finance.
- Although the public debt reduction was one of the Government's objective, it does persist to impose a considerable challenge. By the end of December 2015, the public debt leaped from 8,646.1 to 9,908 million NIS (i.e. 1,263 million NIS). In other

words, it increased by 14.60. Furthermore, the public debt associations with the pension and salary fund and the borrowing operations from this very fund should be revealed; especially, after echoes of a problem or a shortage in it has been vaguely expressed by the MoF.

- The security allocations persist to receive the lion's share of public budget. In 2015, the security was given an allocation approached those of MoEHE and MoH combined.
- The 2015 financial reserve estimate amounted to 55 million NIS.³⁶ 26.655 million NIS were actually spent during 2015 through the item of transfers. No details on such expenditure and its priority were revealed; inevitably, this violates transparency principles, and hinders accountability.
- Upon a due consideration of the payroll, the average of public wages and salaries approached 4 thousand NIS. Is this value real? or are other underlying reasons behind it?

³⁶ Decree by Law No. 9 of 2015 on the 2015 Public Budget, issued on July 30th, 2015.

Recommendations

In the of the previous analysis, the Civil Team for the Public Budget Transparency puts forward the following recommendations:

1. Firm commitment and adherence to the Palestinian Basic Law should be ensured by the relevant authorities, including the MoF, throughout the public budget preparation. The budget bill should be furnished to the Legislative Council two months before the forthcoming fiscal year. It should also be based upon the declared and adopted policy of the PA.
2. Detailed financial data of the public budget should be disclosed, as the lack of these details represents a blatant violation against the Law and leaves a negative impact on the budget transparency.
3. Clearance-related gaps and lacunas should be addressed and not left as an unrectifiable status quo, otherwise hundreds of millions will be left annually to no avail.
4. Under the unfeasible implementation of the austerity and rationalization plan exacerbated by the increase of the government spending in 2015, the Government should define measurable steps to implement the austerity plan and rationalize the public expenditure.
5. Under the current unfeasible rationalization and austerity measures, the Government should adopt the austerity and rationalization plan developed by the Civil Team, as it had been based on evidence and an in-depth study.
6. A strict policy should be devised to reduce the net lending, minimize the exhaustion of public budgets, and reveal the underlying reasons for the increasing inflation of this item; for example, the 2015 net lending estimate was 33.3 higher than that of 2014. Moreover, 146.15 percent was actualized as of 2015 estimate.
7. The Government should seriously reconsider the item of wages and salaries. Moreover, the State Audit and Administrative Control Bureau reclaim its role in the reinforcement of this item and reexamine the employee compliance to the administrative divisions.
8. Under the increase in public debt and arrears in the 2014 public budget and the government borrowing from the salary and pension fund, details on three intertwined issues, namely, the public debt, arrears, and salary and pension fund transfers should be disclosed.

9. Development expenditure allocations for social responsibility centers should be increased in order to promote the social development.
10. The disclosure of financial reserve spending details and budget transparency should be enhanced under the obscure spending of the financial reserves through the transfer item.

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