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Review of Government Policy in Enhancing Revenues and Control Expenditures



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Introduction:

The General Budget Law for any given fiscal year includes a categorized disclosure of the estimated revenues and suggested expenditures for each ministry or public institution. It also determines actual revenues and expenditures for the previous fiscal year as well as the revised estimates for the current fiscal year. The Law also includes suggestions related to collecting additional revenues through new tax and non-tax procedures, as well as new loans, in order to meet any budget deficit, while taking into consideration the maximum expected deficit. Furthermore, suggestions stated in the general budget law, which are related to capital projects under implementation, should include an assessment of the actual progress in light of the planned objectives; as well as give an account of the financial needs for the following few fiscal years. In cases of new capital projects, the budget law should include justifications and implementation details that will enable the Palestinian Legislative Council (PLC) to take appropriate decisions in that regard.¹

The general budget is defined as the basic financial tool and the detailed government program for revenues and expenditures for all activities, estimated for a given fiscal year, which seek to achieve financial, economic, and social, goals and policies. And if there is no exception stipulated by law, an international convention, or a legal contract, the general budget has to include the public treasury's unified account as well as all special funds.²

This analytical paper aims to examine how to address problems that undermine achievement of obtaining the necessary revenues to cover expenditures specified in the approved general budget. Within this context it will be possible to:

1. Identify the size and sources of the government's revenues.
2. Identify the size of expenditures and center of spending.
3. Identify the gap between revenues and expenditures.
4. specify alternatives used by the government in managing available funds in terms of prioritizing spending, if revenues decline, as well as who from the government decides that, and according to which prepared and approved scenario, criteria, or trend, if any. This is in addition to review of plans and behaviors of the government for the years 2010-2014 in order to address this funding.
5. Specify sectors that were most effected and are more vulnerable as a result of declining revenues (liquidity shortage) in providing government services.

In order to achieve the objectives of this paper we will first provide an analysis of the formal financial data as presented in the government's general budgets for the years 2011-2015, as well as data contained in the financial reports issued by the Ministry of Finance (MoF) for the same period. Moreover, the paper will also rely on a financial data analysis conducted and issued by the MoF and a review of the impact of the gap between revenues and expenditures on some important sectors. In this regard, we will be conducting interviews with representatives from the Ministry of Higher Education (MoHE), Ministry of Health (MoH), and the Ministry of Social Affairs (MoSA) in order to know the impact of government policies on the programs run by these ministries, and also to understand plans and mechanisms used in providing services.

1 the 2003 Amended Palestinian Basic Law for the management of the public budget and financial affairs.

2 article no. (19) of Law No. (7) of 1998 on the management of the public budget and financial affairs.

This paper consists of five sections: the first section contains the introduction, the objectives of this paper, and methodology used. The second section consists of an analysis of the Palestinian government revenues and expenditures during the years 2011-2015. The third section examines the impact of the declining revenues on sectors of education, health, and social affairs. The fourth section summarizes the government's plans during the years 2010-2014 in regard to addressing the problem, and the last section consists of the conclusions and recommendations

General revenues and expenditures:

The Palestinian General Budget is comprised of two parts:

1. General revenues.
2. general expenditures and net lending.

The general revenues or total net revenues consists of three main items:

1. Net tax revenues.
2. Non-tax revenues.
3. Provisions received

The net tax revenues consist of:

1. Revenues from local taxes: these are directly collected by the government and include income tax, value-added tax, customs, taxes on beverages, taxes on tobacco, and property tax.
2. Clearance tax revenues (Maqassa): they are taxes, collected by the Israeli authorities on behalf of the Palestinian government, on goods and merchandise imported by Palestinians through Israel; this includes: customs, value-added tax, purchase tax, fuel tax, income tax, and other taxes.
3. Tax returns: amounts of money returned by the government from fuel and other taxes such as the value-added tax and customs.

As for Non-tax revenues, they come from two components: the first comes from local fees imposed by the government on transactions...such as stamps, national insurance fees, land registrations fees, and other. The second component of these revenues comes from government investment earnings.

Provisions receivables are taxes and revenues owed to local government units (subsidies) which consists of 90% of property taxes and 50% of transportation taxes.

Data in the 2015 general budget law indicates that the total net revenue is estimated at 10,658 million Israeli Shekels (NIS). The budget also indicates that revenues from the clearance tax (Maqassa) is estimated at 72.9% from the total net revenues; while local revenues account for approximately 30.9%.³

General expenditures and net lending are divided as follows:

First: Current/ongoing expenditures:

- a. salaries and wages.
- b. other current expenditures, which include:
 1. Operational expenses.
 2. Transferable expenses.
 3. Capital expenses.

Second: Net lending.

Third: Development expenditures.

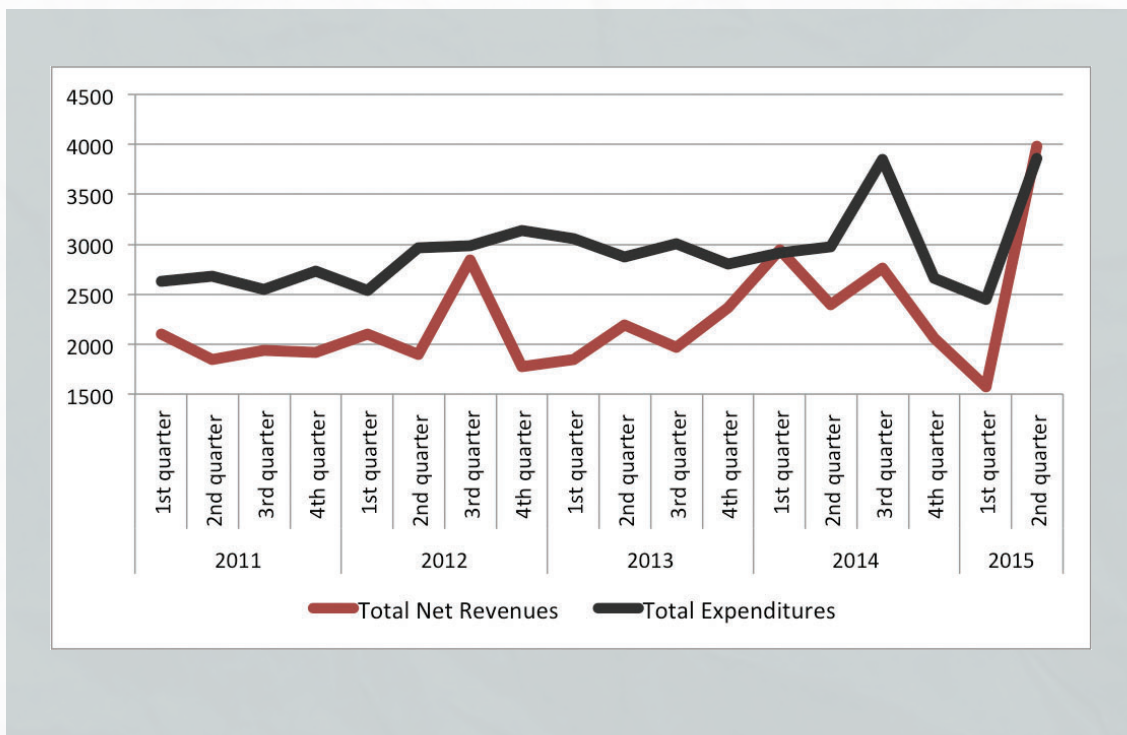
³ General Budget Law -2015. www.pmf.ps/52

The 2015 budget indicates that the total expenditures will amount to 15,085 million (NIS). Expenditures for salaries and wages⁴ is estimated at approximately 50.5% from the total expenditures with 3.8% increase from 2014. On the other hand, expenditures other than wages (other current expenditures) account for 44.2% from the total expenditures. Net lending is estimated at about 5.3% from the total estimated expenditures for 2015.⁵

Furthermore, data presented in the financial reports for the first six months of 2015 indicate that the total net revenue on a cash basis amounted to 5,554.5 million NIS, accounting for 52.1% of the planned budget for 2015. On the other hand, expenditures amounted to about 6,308.0 Million NIS, which amounted only to 41.8% of the approved 2015 budget.⁶

Figure 1 illustrates the total net revenue as well as expenditures on cash basis for the period of 2011-2015, second quarter. The fluctuation in both revenues and expenditures is clearly noticeable even though it is higher in the revenues than expenditures. The impact on expenditures, caused by the changes in revenues, is also noticeable.

Figure 1: Total net revenues and total expenditures on a cash basis (million NIS)



Source: Financial reports, MoF; www.pmof.ps

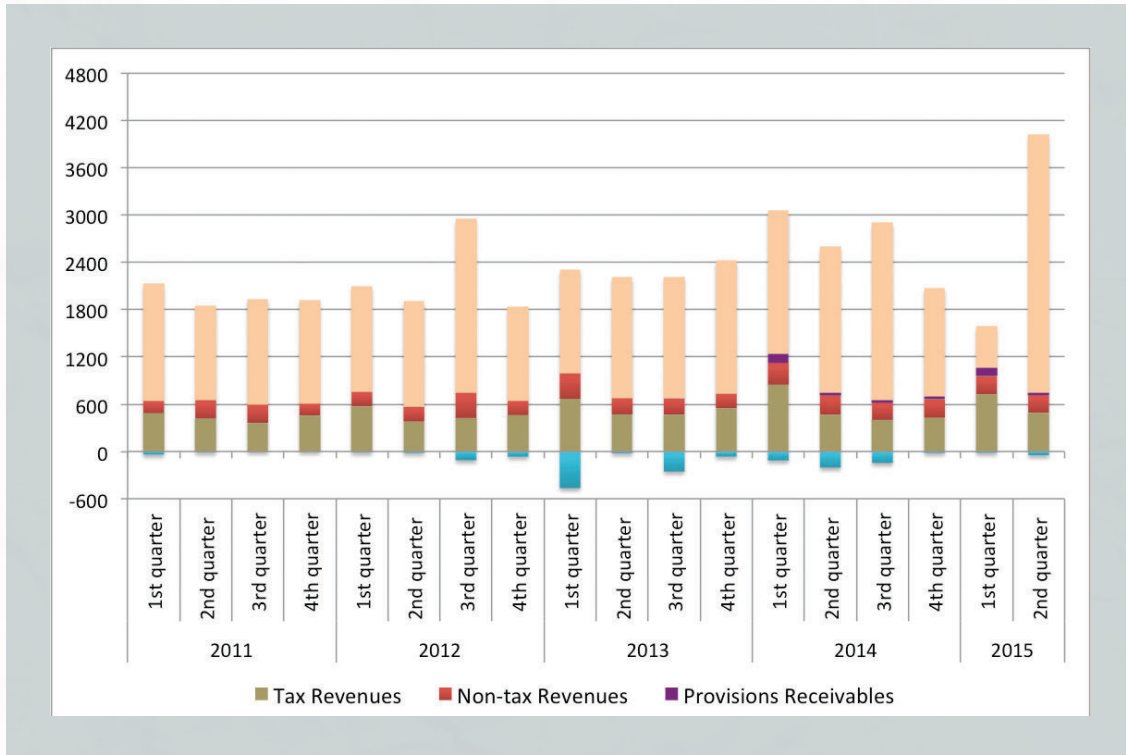
As we examine the breakdown of the revenues we find that the basic component is the clearance tax (Maqassa) amounting to 69.4%, on average, during the years of 2011-2015. Local tax revenues constitute approximately 23.6%, while non-tax revenues constitute about 10.2% on average during the same period mentioned. Figure 2 shows distribution of revenues according to source.

4 it is worth noting that reports issued by the MoF do not detail the item on salaries and wages.

5 2015 Budget Law; www.pmof.ps

6 Monthly reports, MoF. www.pmof.ps

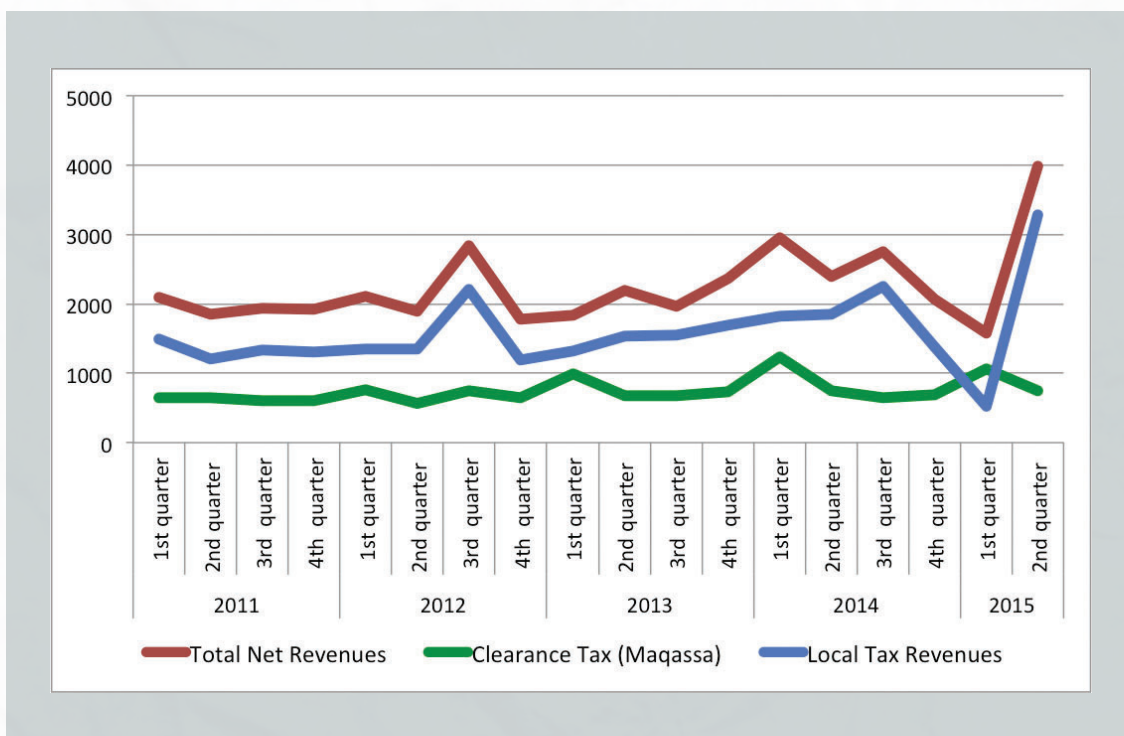
Figure 2: Total net revenues according to source on a cash basis (million NIS)



Source: Financial reports, MoF; www.pmof.ps

Figure 3 illustrates the extent of correlation between the total net revenue and clearance revenues (Maqassa). Based on that, any change (decline or rise) in the value of the clearance revenues is reflected immediately on the total net revenue. It is also noticeable that change in the value of local revenues is not reflected significantly on the total net revenue. Moreover, it is clear that local revenues are characterized as seasonal, since it is obvious that its value rises during the first quarter of each year effected by the rise in income tax revenue. This is in addition to the rise in revenues coming from investments and licensing, where license are renewed at the beginning of each year, where it is the time when companies are required to provide disclosure of their financial revenues hence is reflected on the local tax revenues. The figure also shows that there is no relationship between clearance revenues (Maqassa) and local tax revenues. As revealed, the local tax revenues do not compensate for any decline in the clearance tax.

Figure 3: Relationship between total net revenue and its sources according to cash basis (million NIS)

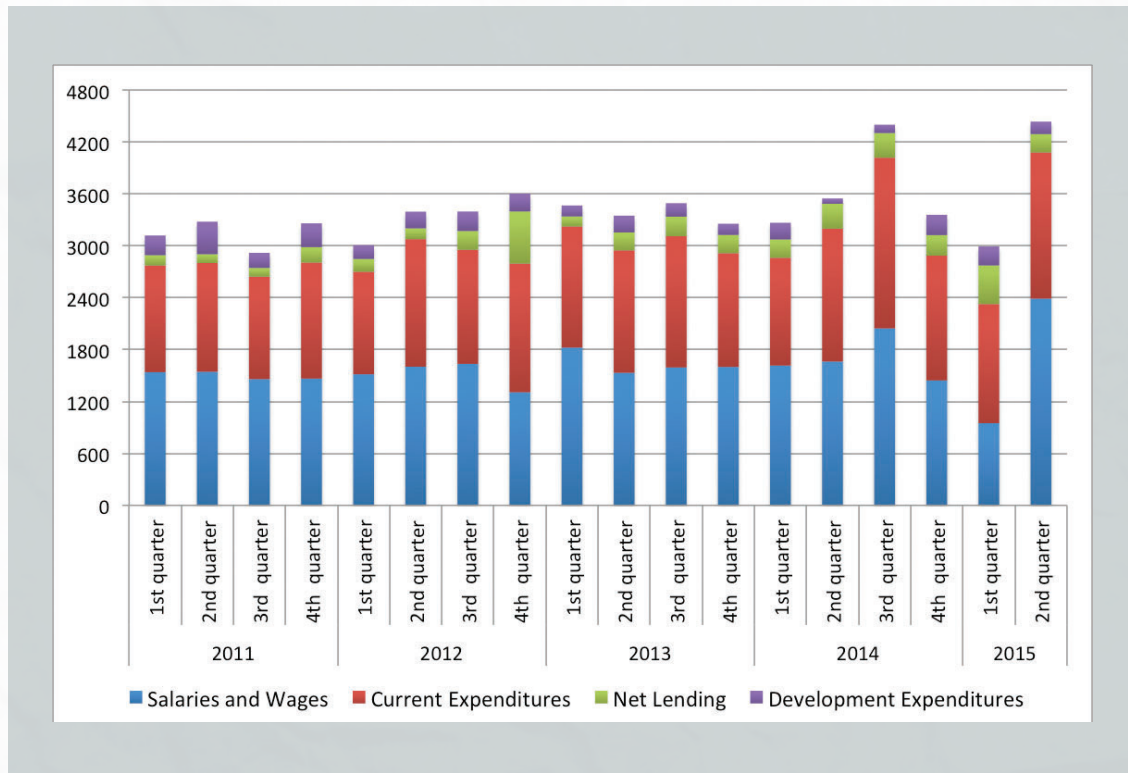


Source: Financial reports, MoF; www.pmof.ps

As for expenditures⁷, figure 4 illustrates expenditure items for the period of 2011-2015, where data indicates that during that period, on average, salaries and wages accounted for 49.3% of the total public expenditures and net lending. While the share of other current expenditures amounted to 43.7% on average, and net lending, on average, amounted to 7.0% during the same period. On the other hand, percentage for development expenditures in relation to the total general expenditures and net lending amounted, on average, to approximately 6.8% during the period of 2011-2015.

⁷ Does not include development expenditures.

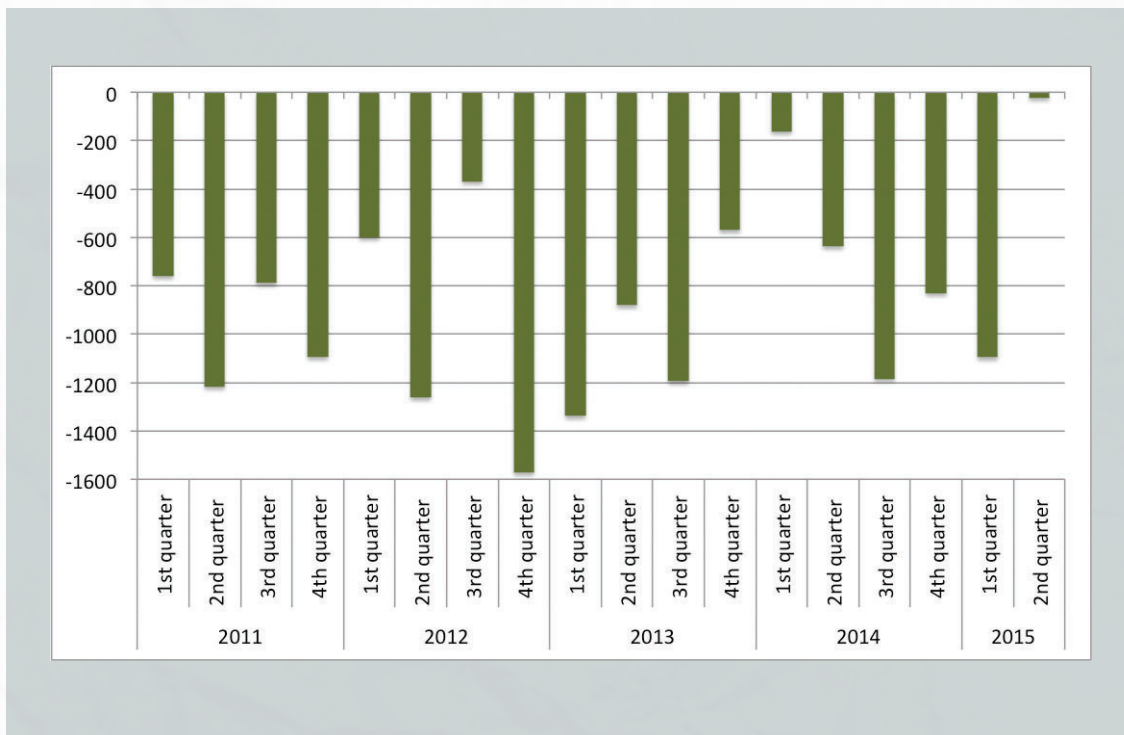
Figure 4: General expenditures, net lending, & development expenditures according to cash basis (million NIS)



Source: Financial reports, MoF; www.pmf.ps

Figure 5 reveals the chronic deficit in the government budget balance, which includes development expenses before aid and grants. This deficit is due to the fact that expenditures are and have been constantly higher than the revenues, as illustrated in figure 1 above. The figure shows a clear fluctuation in the deficit as it is effected by the flow of revenues, hence periods of revenue decline a tangible rise in the deficit is noticed, and opposite is true.

Figure 5: The Government budget balance prior to financial aid and grants according to cash basis (million NIS)



Source: Financial reports, MoF; www.pmf.ps

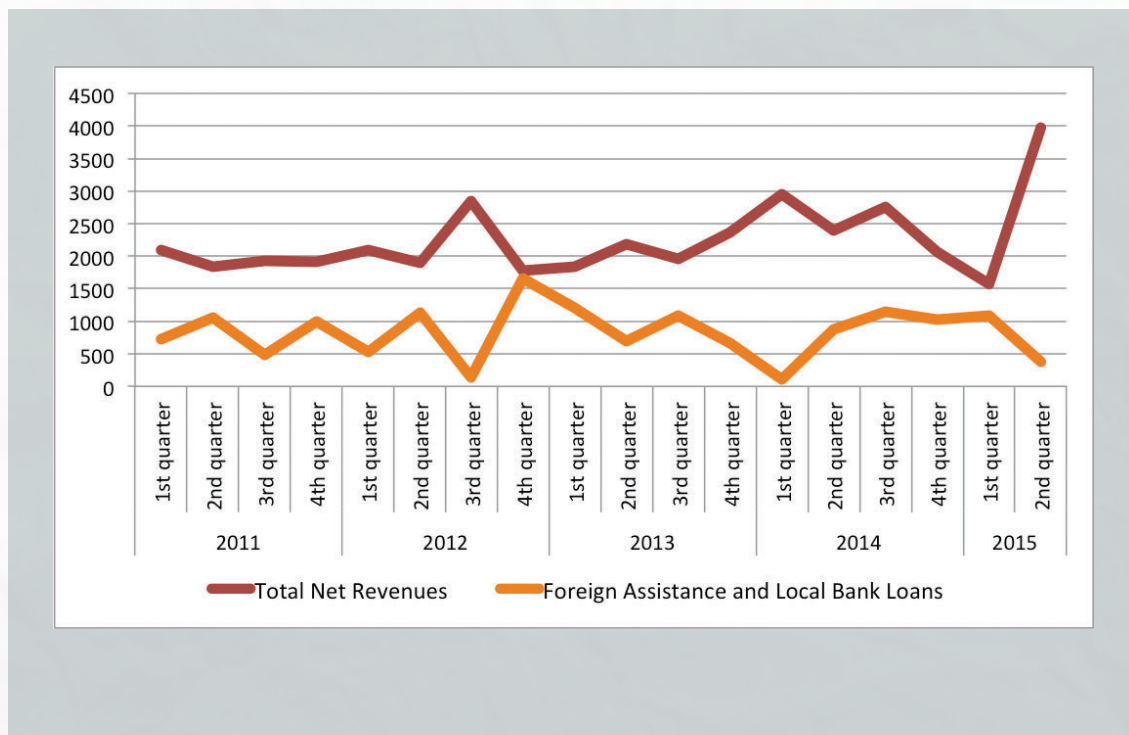
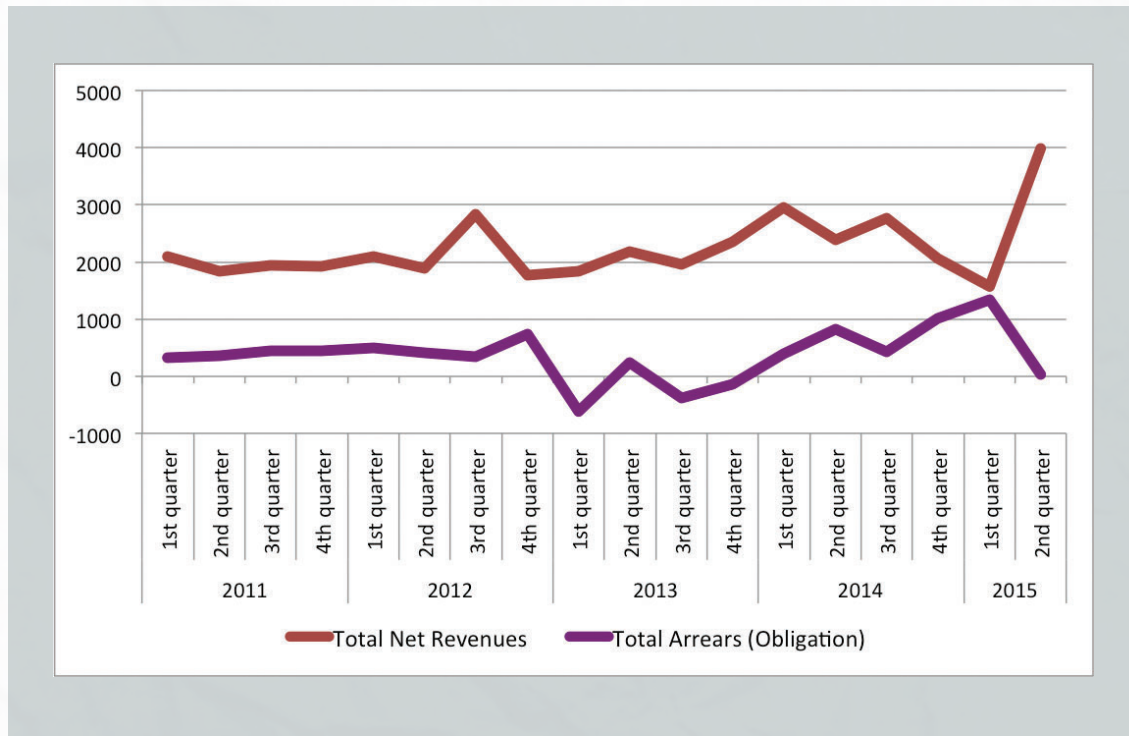
The government relies on several resources to cover its financial deficit:

1. Outside/foreign support for the budget.
2. Development funding.
3. Net financing from local banks

Foreign funding and net borrowing from local banks constitute more than 90% of the funding resources of the budget. Added to these two sources is the development funding, which is used to cover development expenditures as well as payments for past years or past periods' arrears for merchandise or services received, in addition to past development expenses.

Figure 6 illustrates that the government has relied, for most of the past years, on foreign funding for budget support and on local banks for covering decline in the clearance tax revenues hence in the total net revenues. Moreover, it seems that the government resorts to taking loans from local banks when foreign funding does not meet the amount needed to cover the gap resulting from clearance revenue's (Maqassa) decline. Furthermore, the government relies on not paying suppliers for services rendered in order to compensate for the decline in revenues. This is clearly displayed in items such as the total expenditures, net lending, and development expenses.

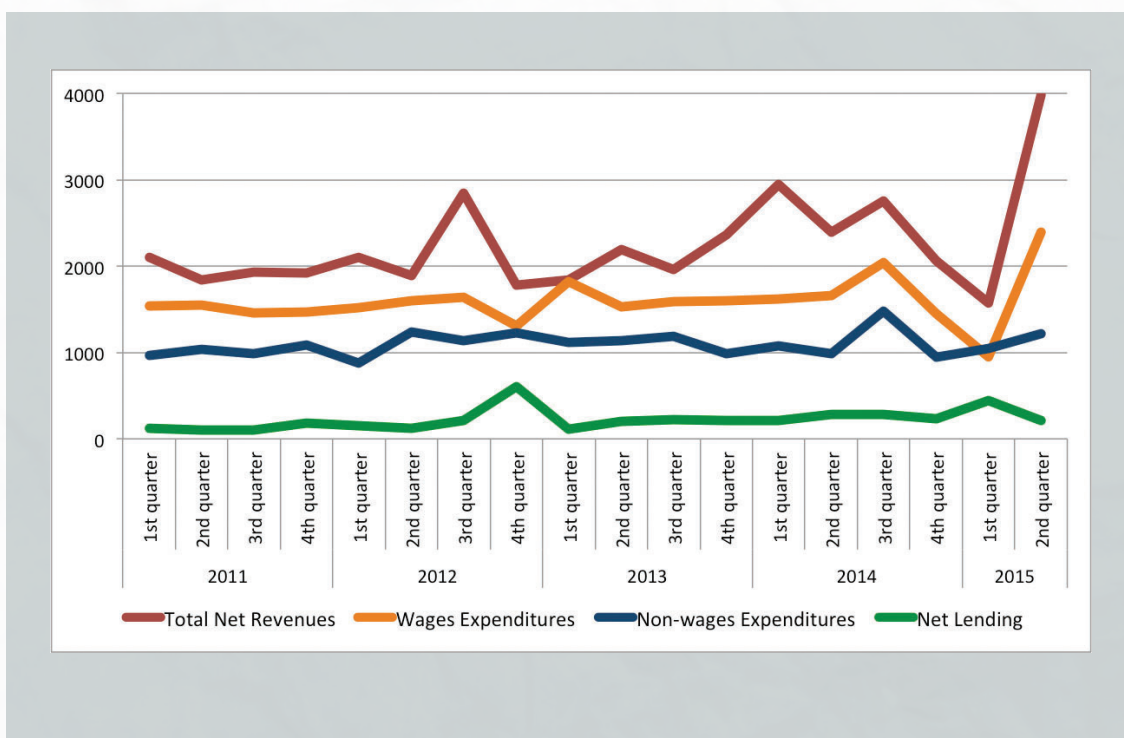
Figure 6: mechanisms for compensating decline in the total net revenues (million NIS)



Source: Financial reports, MoF; www.pmf.gov.ps

As for expenditures, the decline in the total net revenues is reflected mainly in the salaries and wages item, and at a lesser degree in the item “expenditures other than wages”⁸. Figure 7 shows the extent by which salaries and wages are affected by the changes occurring on the total net revenues.

Figure 7: Changes on expenditure items as a result of change on the total net revenues according cash basis (million NIS)



Source: Financial reports, MoF; www.pmf.ps

For example, it is noticeable that in the third quarter of 2014⁹ expenditures for salaries and wages were up by 23% when compared with the second quarter of the same year. Similarly non-wage expenditures especially transferable expenses also rose by 34.8%. These expenses were covered by foreign aid, which rose by 95%. Also there was an increase in the clearance revenues which reached 21.4% during the same period. In addition, there was a noticeable decline in the salaries and wages item during the first quarter of 2015¹⁰ amounting to 34.2% in comparison with the fourth quarter of 2014. This was due to the decline in clearance revenues which declined by approximately 62%. In the meantime non-wage costs rose about 10.4% during the same comparison period.

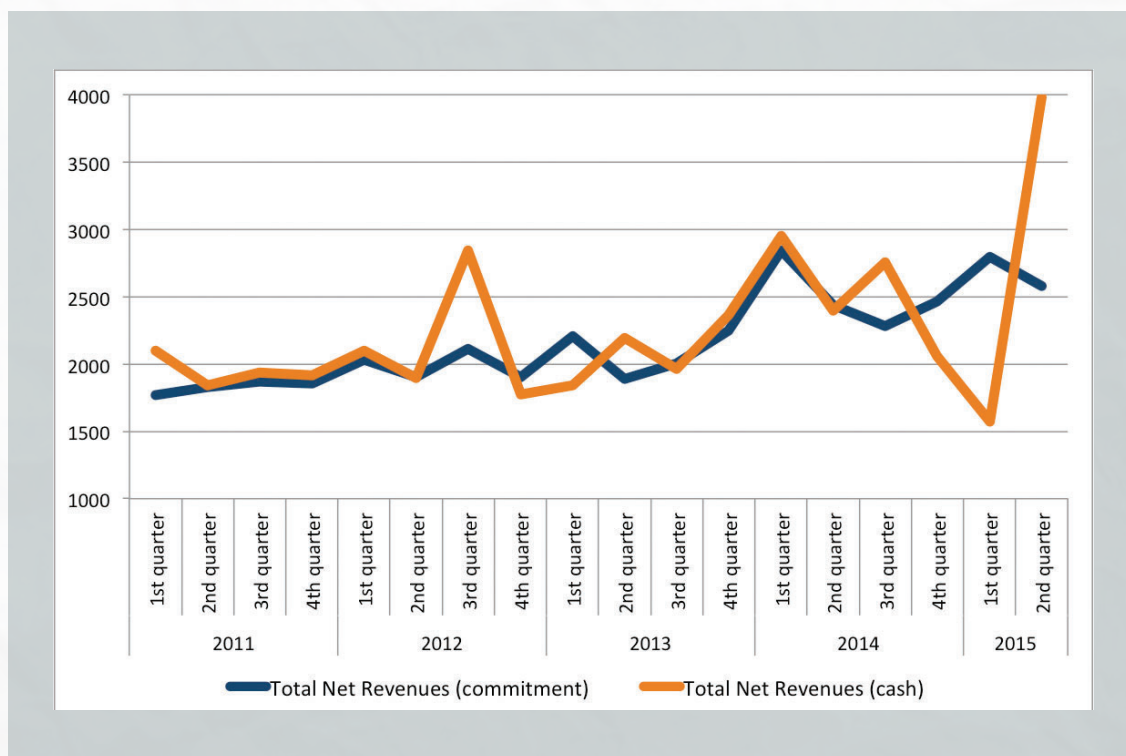
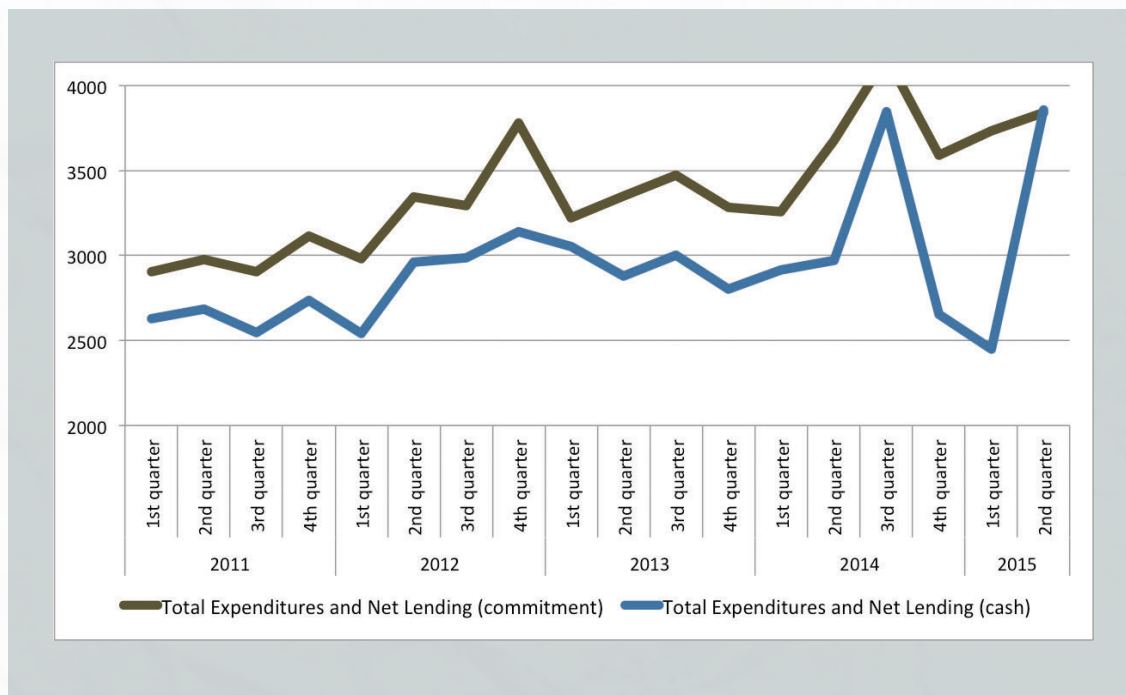
On the other hand, it is noticeable on the right side of figure 8 that the actual revenues are equal, to a large extent, to the revenues as per commitment. This shows that the government is able to collect due revenues with the exception of those periods where Israel withholds transfer of clearance tax revenues to the Palestinian government, and the periods where it returns it.

⁸ this includes social contributions, use of goods and services, transferring expenses, small capital expenditures, interest payments, locally and abroad.

⁹ this quarter witnessed the war on Gaza which lasted for more than 50 days.

¹⁰ Israel withheld clearance tax money in retaliation to the Palestinian government decision to join the International Court of Justice. It is worth noting that Israel resumed the transfer of the clearance tax funds and did return the seized money at the end of March 2015.

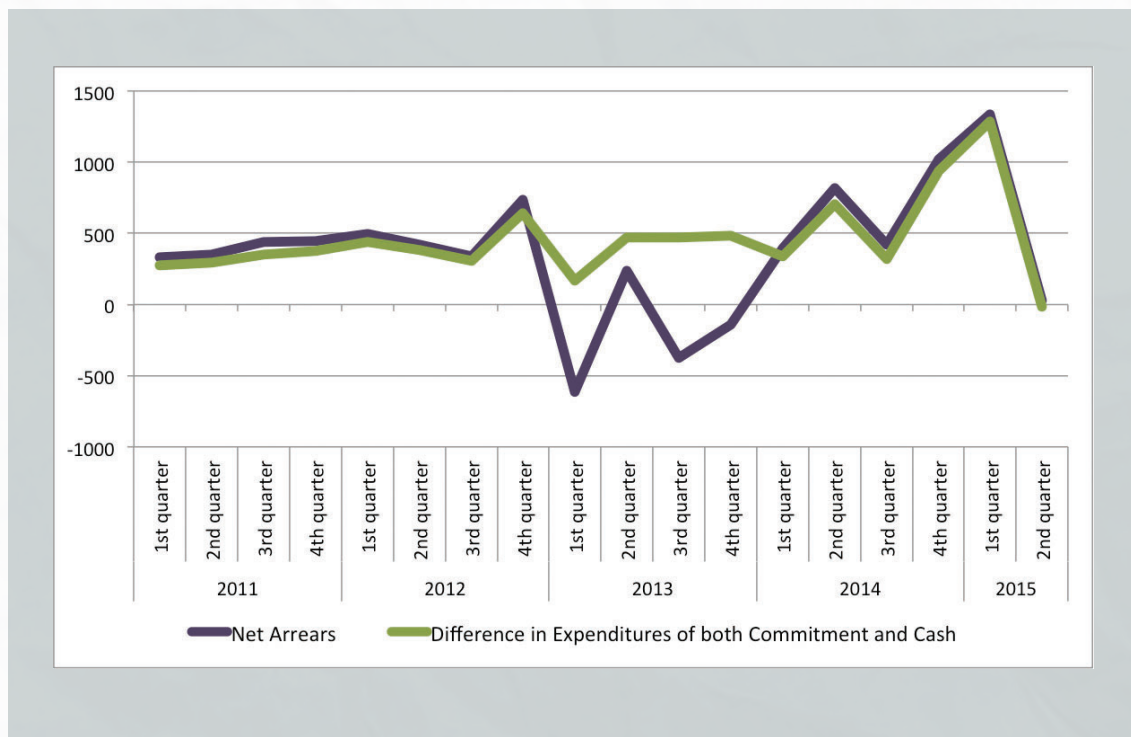
Figure 8: Revenues and expenditures as per commitment and cash (million NIS)



Source: Financial reports, MoF; www.pmf.ps

In relation to expenditures, the left side of figure 6 illustrates that the actual expenditures (expenditures as per cash) is consistently less than those that are considered obligatory for the government to pay (expenditures as per commitment). The difference resulting from expenditures on both sides, commitment and cash, is counted as arrears that have to be paid; whether to its employees as in the cases when salaries were not paid, or to suppliers who provide goods and services to the government, or to parties who benefit from the government such as the Pension Authority. Figure 9 shows the extent of compliance between the value of total arrears as well as the difference between expenditures as per, both, the commitment and cash, with the exception of 2013 where the government did pay part of the arrears to related parties.

Figure 9: Net arrears and difference in expenditures according to commitment and cash (million NIS)



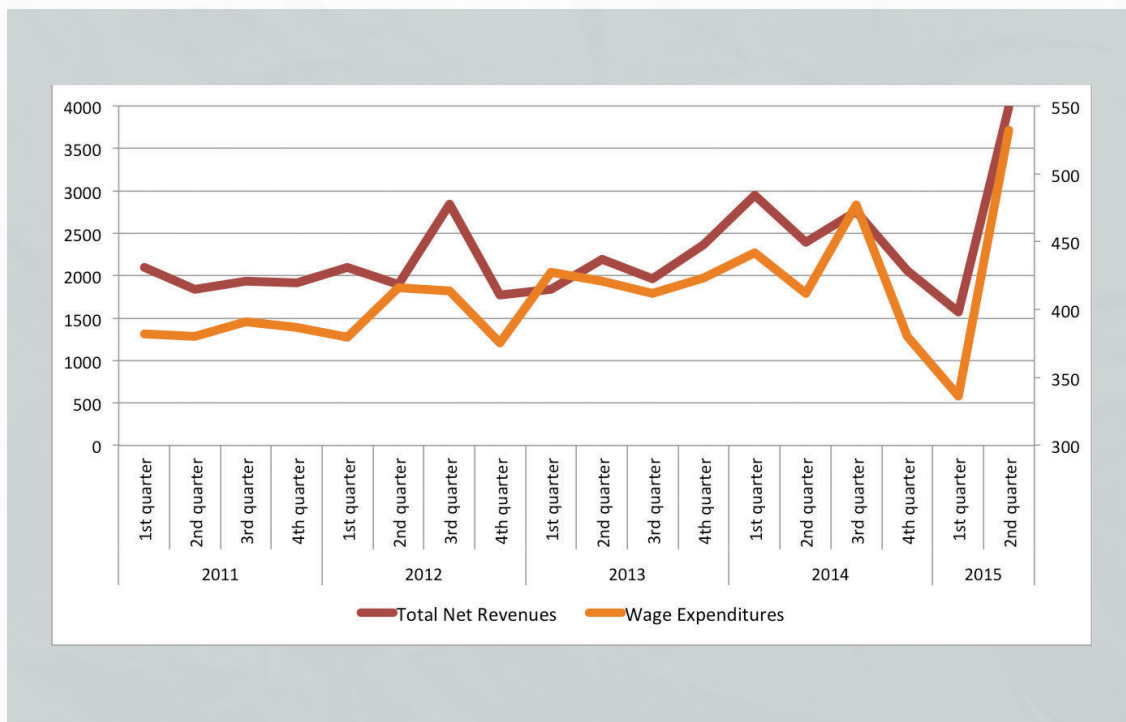
Source: Financial reports, MoF; www.pmf.gov.ps

Effects of the gap on sectors of education, health and social affairs

First: Education

Salaries and wages of employees in the education sector account for, on average, more than 80% of the total expenditures of the Ministry of Education and Higher Education, as indicated in the financial reports of the MoF. Therefore, the impact of the decline in revenues is reflected significantly on wage expenditures in the education sector. Figure 10 illustrates how teachers' salaries are affected by the decline in government revenues.

Figure 10: Effects of the decline of revenues on wage expenditures in the education sector (million NIS)



Source: Financial reports, MoF; www.pmf.ps and estimation of the researcher of wages in the education sector as per cash basis.

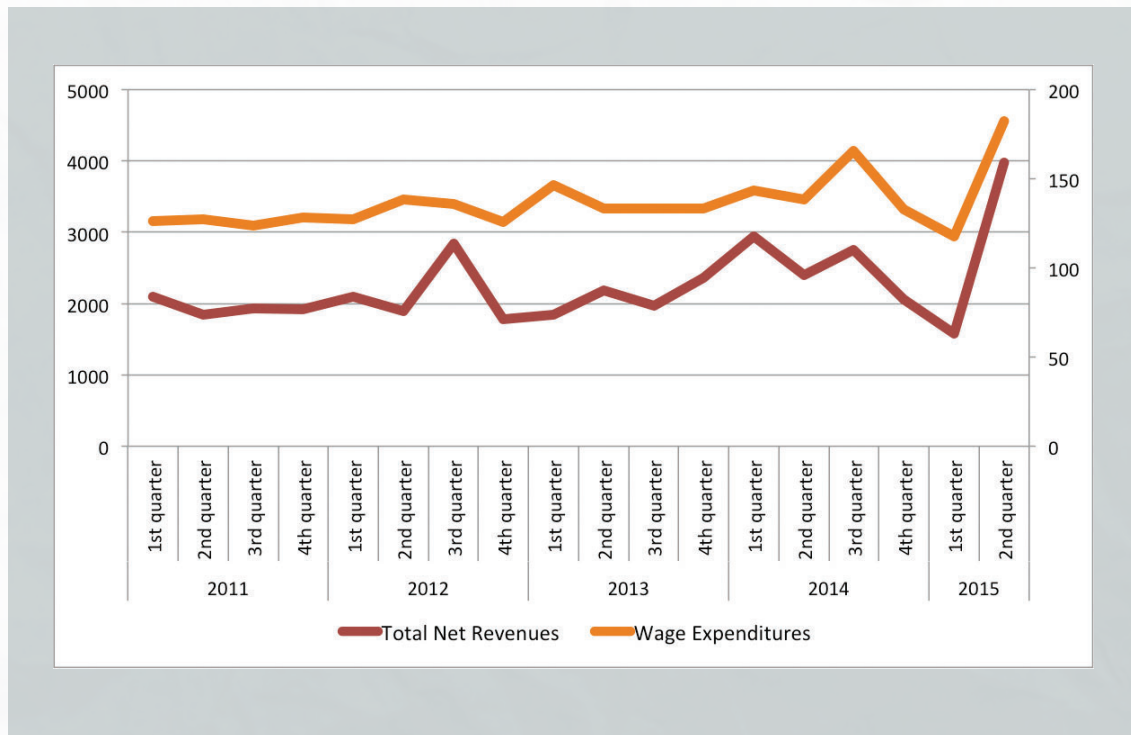
There are seven programs under the management of the Ministry of Education and Higher Education: a preschool program; basic education phase program; secondary phase program; literacy program, vocational and technical education, higher education, and an administrative program. It is worth noting that development expenditures for these programs are fully covered by foreign funders and is not affected by the Palestinian National Authority' (PNA) flow of revenues; while operational and capital expenditures are. On another note, decline in the government's revenues leads to the increase of debt and arrears of the Ministry of Education

and Higher Education to suppliers. As a result, the Ministry is forced to pay much higher prices for purchased goods and services. As for emergency expenditures for schools, it is covered by donations paid by the students at the beginning of each year, which is deposited in a private account for each directorate in the governorates of the nation¹¹.

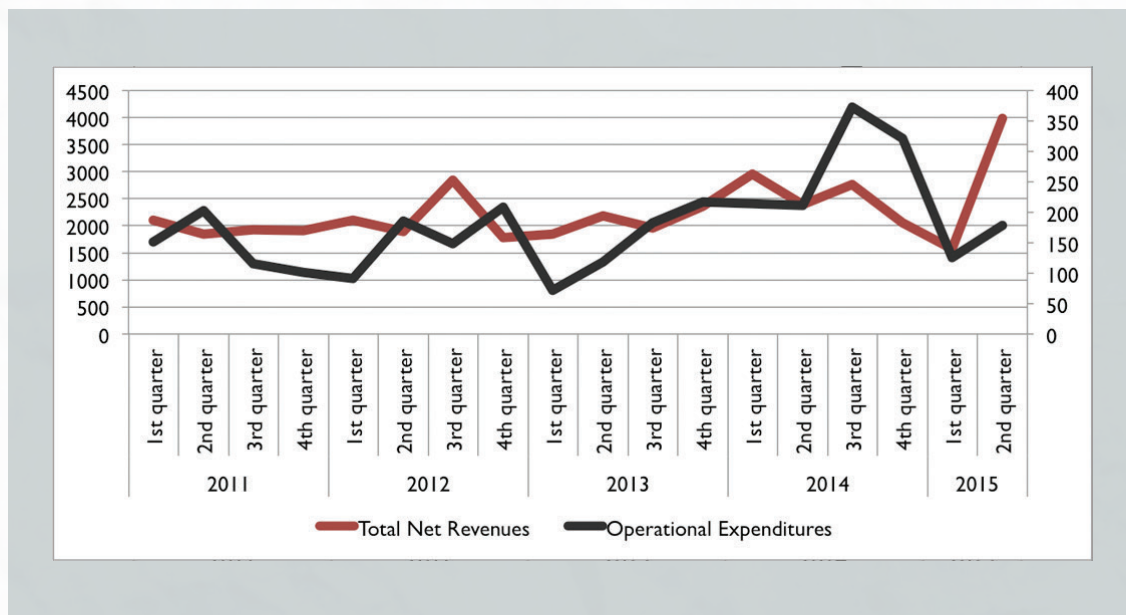
Second: Health

In general, operational expenditures along with purchases of goods and services expenses (medicine and medical equipment) constitute more than 50% of the Ministry of Health's (MoH) expenditures, according to the MoH's Data. Moreover, salaries and wages form approximately 45%, on average, as revealed for the period of 2011-2015. Figure 11 illustrates the impact of the decline in revenues on operational and wage expenditures.

Figure 11: The impact of decline in revenues on the operational and wage expenditures in the health sector (million NIS)



¹¹ Special interview with Mr. Musheer Sharif, acting director for the general manager of financial affairs at the ministry of education and higher education.



Source: Financial reports, MoF; www.pmf.ps, and researcher’s estimate of wages in the health sector on a cash basis.

The decline in revenues has a direct impact on the performance and programs of the MoH especially since the Ministry provides services through two programs related to citizens. The first is a primary health program, which provides health services through several clinics and mother and child centers located in the West Bank and Gaza (WBG). The second program is related to a health care program, which is provided through hospitals.

The expenditure ceiling for the MoH is determined by the MoF, which does not meet the needs of the Ministry. Results show that the ceiling set by the MoF accounted for approximately 92% of the MoH’s needs in regard to its operational expenses, and 14% in regard to its capital expenses. This has its negative effects on the performance of the MoH as well as on its ability to provide health care services such as medical treatment and medicines¹².

On the other hand, the decline in government revenues leads to the inability of the Ministry’s to carry out its functions and thus achieve its goals. Estimated at 92 million INS for 2015, medicines and medical fortifications are considered the largest items of expenses for the MoH. Therefore, decline in the revenues will lead to reduce the amount of medicines bought to the minimum acceptable level, in addition to accumulating the Ministry’s debts and arrears in favor of suppliers who provide the Ministry with goods and services at outrageous prices. Similarly, it will also affect other services such as an increase in medical referrals, since the Ministry will not be able to provide care at its medical centers and hospitals. In the end, and regardless of the level of revenue, the MoH cannot stop providing health services, but the decline in revenues will raise the amount of Ministry’s arrears whether to the suppliers, hospitals, or to the private sector.¹³

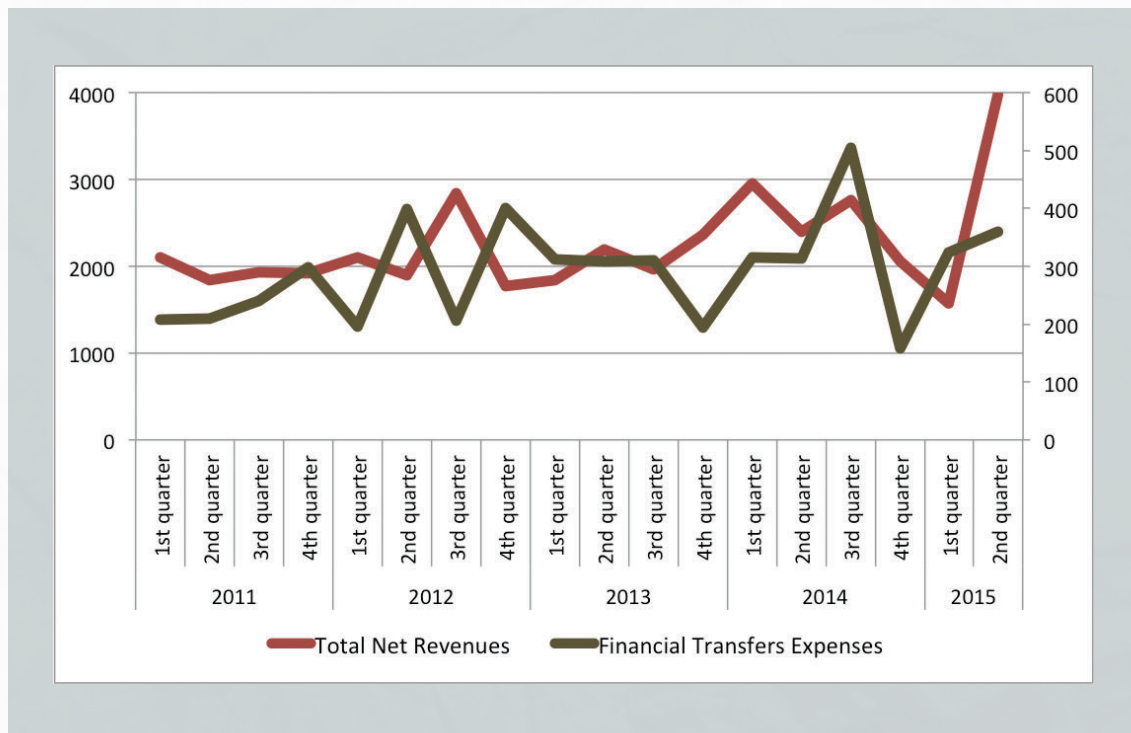
12 In person interview with Mr. Nayef ‘Okal, head of the budget department at the MoH.

13 In person interview with Mr. Nayef ‘Okal, head of the budget department at the MoH.

Third: Social affairs

Financial transfers at the Ministry of Social Affairs (MoSA) constitute approximately 92% of the total amount allocated for the Ministry by the MoF. Hence any decline in revenues will directly affect the Ministry's expenditures for those transfers that are basically a social subsidy allocations (see figure 12).

Figure 12: Impact of revenue decline on financial transfers in the social affairs sector (million NIS)



Source: Financial reports, MoF; www.pmf.ps

The MoSA provides two programs in assistance and social welfare for those in-need. The first program is a cash assistance program for the needy people in society, where the Ministry provides a sum of money for each case once every three months. The yearly total amount of these assistance in this program amount to approximately 328 million NIS; paid in four installments (one every three months amounting to 82 million NIS). The government covers 56% of this sum while the European Union (EU) and the World Bank cover the remaining percentage.

The second program is an emergency relief program, which provides financial aid for emergency cases where the sum of 1000 – 4000 NIS is given depending on the severity of the case. The program's budget is 6 million NIS each year amounting to 0.5 million NIS monthly. This amount is fully covered by the government.¹⁴

It is important to note that any decline or fluctuation in the revenues has a direct impact on both of these programs. And in case of withholding clearance revenues (maqassa) by Israel, as happened in the first quarter of 2015, the cash assistance program comes to complete stop where no payments are made until the flow of revenues resume normally. As for the emergency

¹⁴ In person interview with Mr. Ashraf Barghouthi, director of the financial affairs department, and Mr. Mu'ayad Dweikat, head of the banking settlements at the MoSA.

relief program, some money is provided for extreme hardship cases only. Our references (see footnote 14) also pointed out that decline in revenues also effect the Ministry's program indirectly as in raising the amount of arrears, hence delivery of goods and services are delayed by the suppliers. This is in addition to the accumulation of transportation and electricity bills. As a matter of fact, the electricity company, a while back, did cut off the Ministry's electricity for one day due to accumulated debts and the non-transferring of money required by the MoF to the MoSA to pay those bills.¹⁵

On the other hand, programs run by the MoSA are also effected by the fluctuations of the MoF's disbursement of the MoFA's allocated money included in the budget. Additionally, the MoF does not cover the ministry's expenditures according to the plan defined in the budget, hence effecting the work of the MoSA in terms of its ability to cover program expenditures as well as in term of accumulating arrears.¹⁶

15 In person interview with Mr. Ashraf Barghouthi, director of the financial affairs department, and Mr. Mu'ayad Dweikat, head of the banking settlements at the MoSA.

16 It is worthy to note that in this regard that all revenues are central (i.e., all ministries revenues go directly to the MoF), while expenditures are non-central (i.e., the MoF transfers sums to ministries to cover their expenditures).

Government's plans and decisions regarding revenues and expenditures

During the past five years (2010-2015) the government's plans revolved around the following objectives, which are: to become self-reliant, achieve financial stability, and reduce dependence on foreign aid for the budget. This is apparent through the government's plans in its pursuit to reduce the financial deficit by enhancing revenue and improving their performance on the one hand, and reducing costs, on the other hand.¹⁷

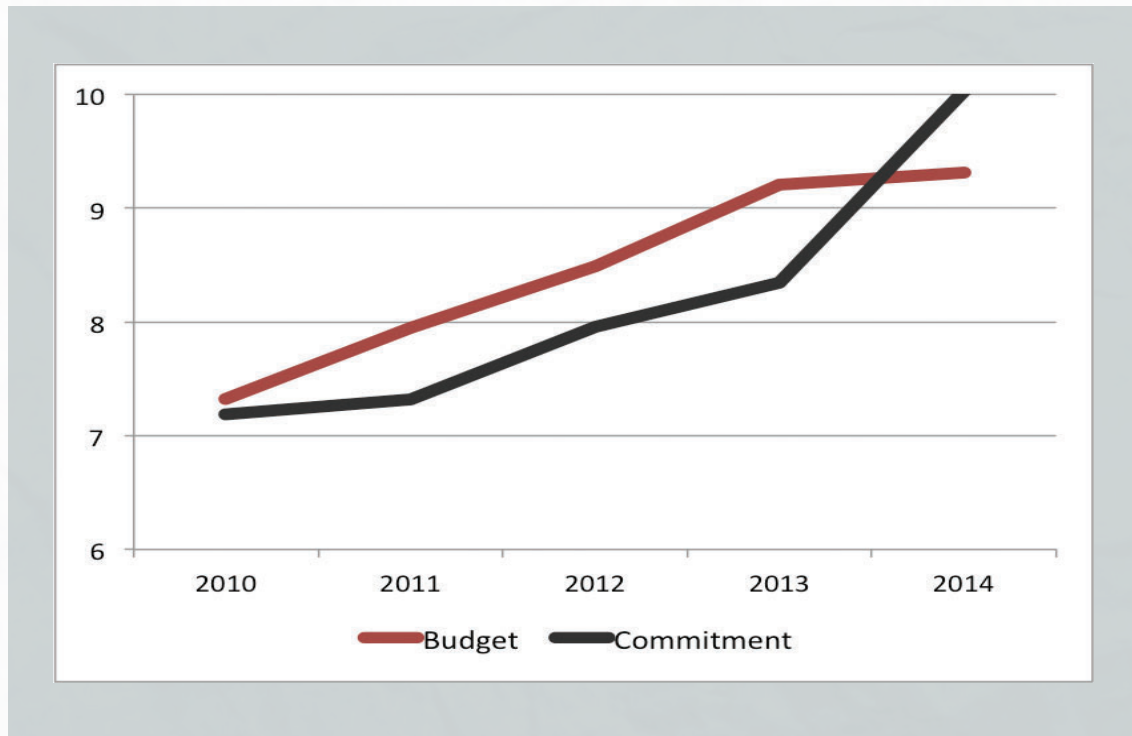
In regard to the government's plans to enhance revenues and improve performance, in theory, it is possible to summarize it as follows:

1. Promote economic growth in order to improve tax collection, especially income and value-added taxes (see budget's statement for the years 2010-2014).
2. Improve business and financial relationships with the Israeli side in order to reduce tax evasion and thereby increase the clearance revenues (see budget's statement for the years 2012-2014).
3. Broaden the tax base and increase tax compliance (see budget's statement for the years 2011-2014).
4. Conduct administrative and financial reforms through:
 - a. Tax reforms such as amending the Income Tax Law by including the 20% group of taxpayers whose income is above 120 thousand NIS, which began to be implemented at the beginning of 2012 (see 2012 budget's statement).
 - b. Review tax exemptions including what is provided by the "Investment Promotion Law", where the government has asked some private sector companies to voluntarily waive all benefits from tax exemptions and concessions granted to them by the abovementioned law (see budget's statement for the years 2012-2014).
 - c. Reduce fuel subsidies gradually to reach the level which leads to increased net revenues
(see 2014 budget's statement).
 - d. Review fees collected on government services to ensure a balance between the cost of the services provided and fees imposed. For example, fees for land registration were raised (see 2012 budget's statement).
 - e. Conduct administrative reform such as giving consideration to a computerized system for tax collection; strengthening cooperation between the tax collection departments; promote a culture of paying taxes; enhance tax compliance; activate field work at the level of control and collection of information on tax and custom evasion, and follow-up on counterfeit clearance tax (maqassa) and other bills (see budget's statement for the years 2012-2014).

¹⁷ Source: the budget statement for the years 2010-2014.

On the practical side, data presented in the MoF's financial reports for the years 2010-2014 indicate that tax revenues (local and clearance) have achieved remarkable growth rates during the period mentioned although it was less than was predicted in the budget and what was actually collected during the period 2010-2014. Accordingly, the Total net revenue for the period 2010-2014 amounted to approximately 40.8 billion NIS. This amount is less than that which was planned by the budget by about 1.4 billion NIS for the same period.

Figure 13: Total net revenue (billion NIS)



Source: Financial reports, Mof; www.pmf.ps

The data shows that the total net revenue achieved a growth rate that exceeded 11% on annual basis during the period 2010-2014. With the exception of non-tax revenues, which dropped by more than 2% on annual basis, tax revenues achieved a growth of 16%. Also clearance tax achieved an annual growth of 11.5% during the same period. It is worth noting that the financial crisis that the Palestinian government went through in 2011 led to a noticeable decline in the local tax revenues that amounted to 9.6%.

It is worth noting that within this context the nominal GDP in Palestine achieved an annual growth that exceeded 12% during the period 2010-2014, which is a higher percentage than the growth achieved in the total net revenues. Also percentage of the total net revenue to the nominal GDP exceeded 20%, although it had suffered several fluctuations during that period where the figure reached 21.3% in 2010 only to decline to about 18.6% in 2013, and back again to 22.3% in 2014. This was largely due to the increase in the clearance revenues as a percentage from the nominal GDP from 13.5% to 16.1% during 2013 and 2014.

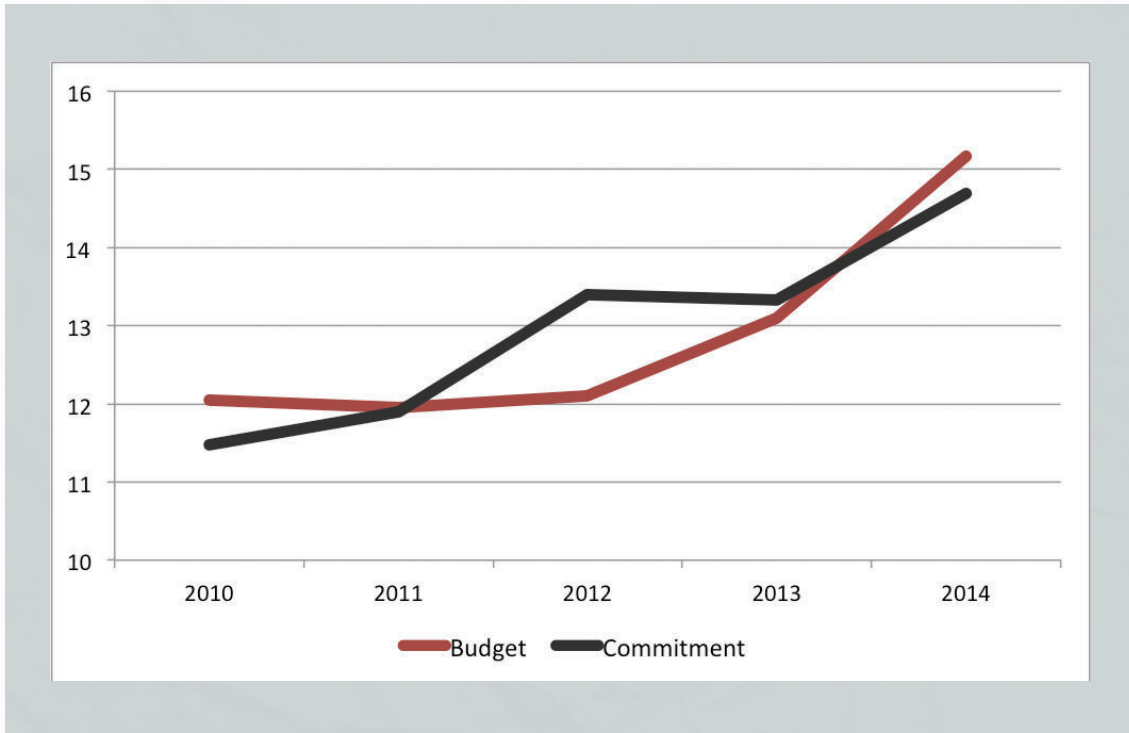
In regard to foreign aid and the goal to reduce dependence on foreign funding, the government did succeed to a degree until 2012, where amount of aid dropped from 5 billion NIS in 2009 to less than 3 billion NIS in 2012. However, after that it rose to 4.5 billion NIS in 2013 and to 3.7 billion NIS in 2014.

On the expenditures side, government plans, in theory, focused on reducing expenditures and financial austerity. It is also possible to summarize government's policies in theory and practice, in this regard, during the period of 2010-2014, as follows:

1. Control salaries and wages and limit its growth to the natural growth that is linked to inflation rates and bonuses owed.
2. Control the number of public employees where new employment is limited to only what is absolutely necessary and to keep net employment equal to zero. Rationalization of employment on contract item to a minimum; determine a ceiling for their financial compensation.
3. Limit supervisory bonuses to what is stated by law. Stop all supervisory bonuses and transportation concessions given to employees who are not working (don't come to work).
4. Rationalize staff's travel costs and, some years, limit it to those that are paid by sponsors.
5. Control other current expenditures (operational, capital, transfers etc.) so that it is limited to the natural growth rate or maintain it at the same previous level without an increase in some years.
6. Rationalize development expenditures by leaving this item (development projects) to rely on foreign funding.
7. Reduce and downsize net lending by reducing financial support for electricity; gradually ending the role of local governmental units in the process of distribution of electricity; and work on transferring this power to the electric companies. Also limit discounts for clearing tax sessions related to electricity, water, and swage.
8. Reform the civil service system, retirement system, reform local governance, improve the quality of education, and update the social security network.
9. Define and simplify procurement law; establish a higher council for procurement policies in order to establish rules and regulations that ensure precise implementation of the law.
10. In return, the government approved a policy in support of the social sectors (education, health, and social affairs) by raising expenditure shares for the sectors mentioned.

In practical terms, data presented in the financial reports for the period of 2010-2014 indicate that the average annual growth of public expenditure and net lending amounted to approximately 3.5%. However, it is apparent, as illustrated in figure 14, that there is a noticeable rise in public expenditures and net lending amounting to about 13% during 2012 compared to 2011. This was due to the rise of transferrable expenditures. Figure 12 shows that public expenditures and net lending was higher than planned for in the 2012 and 2013 budgets, while it was less for the years 2010, 2011, and 2014. Data also shows that the total expenditures as per commitment was higher than was planned in budgets for the years 2010-2015 by about 4.0% billion NIS.

Figure 14: Public expenditures and net lending (billion NIS)

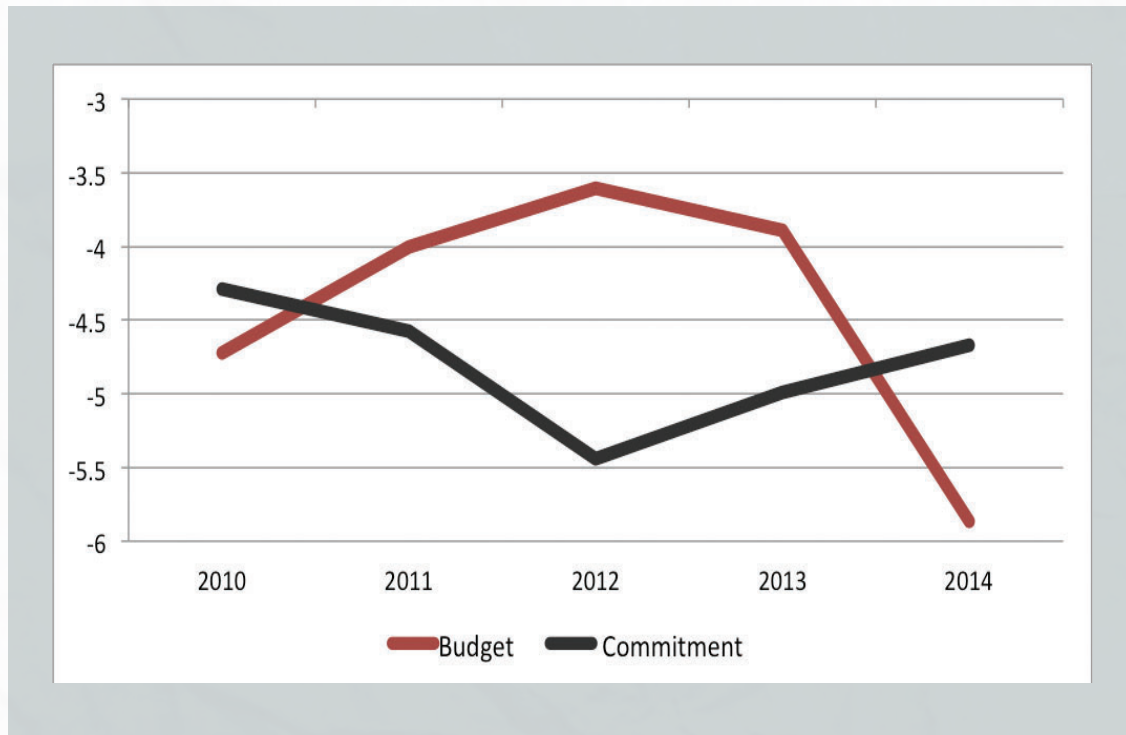


Source: Financial reports, Mof; www.pmf.ps

The government, in its intent and actions embodied in its policies of increasing revenues and rationalizing expenditures aimed at reducing the current fiscal deficit by including the targeted level of the current deficit and funding sources within the projects of the budget. The government also limited borrowing from banks and took loans only to cover financial gaps ensuring that debts to local banks are not accumulated (i.e., net borrowing is equal to zero).

Figure 15 shows the difference between the current financial deficits in the actual data as per commitment, and the current financial deficit as planned in the budget. It is noticeable that in the actual deficit was larger for the years Of 2011-2013; while less than was planned for the period of 2010-2014. The total current deficit for the period of 2010-2015 reached approximately 24 billion NIS, which is was higher than planned by about 1.9 billion NIS. This discrepancy is due to the fact that the total revenue received was less than planned while the total expenditures was more than was planned during the same period.

Figure 15: The current fiscal balance before grants (billion NIS)



Source: Financial reports, Mof; www.pmf.ps

Based on the above, it is noticeable that the government's plan to promote and increase local revenues and rationalize expenditures was faced with some difficulties that affected the degree of success and made it hard to judge the effectiveness of the plans. Some of these difficulties are:

1. The limitations and constraints imposed by the Israeli occupation on the Palestinian economy and impact of these obstacles on the economic performance, in general, and on revenues and expenditures in particular.
2. Israeli policy of withholding clearance tax money as a form of political punishment against the PA greatly affected performance of the Palestinian government as well as the success of its plans and policies.
3. Many factors led to the decline of revenues, namely: the Israeli siege of the Gaza Strip, tax exemptions granted by the Palestinian government to institutions and companies operating in the Strip, decline of imports to the Gaza Strip, and the inability of the Palestinian government to get the clearance tax (Maqassa) bills/receipts for money received by Israel on imports to the Gaza Strip. It is worth noting that nearly 90% of the government revenues comes from the West Bank.
4. On the other hand, the successive wars on the Gaza Strip led to a rise in the government's emergency expenditures, which had an impact on the deficit in the current balance.
5. The phenomenal size of the Gaza Strip is unorganized¹⁸, and the difficulty of collecting tax revenues from this sector.

¹⁸ This is in regard to the economic sector, which includes production units that are characterized by weakness in management, means of production, and lack of clarity between labor and capital. Moreover, it is usually based on seasonal employment or family ties; characterized by carrying out its work without an official permit from the competent authorities, and does not declare its income to the tax institution.

6. Decline in foreign aid which stimulates the commercial market and thus increases tax collection. Decline in foreign aid also affects expenditures since the government is forced to compensate for that decline by borrowing from local banks, which increases its debts (interests on loans) and thus increase expenditures.
7. Strikes carried out by some ministries' employees, such as the MoE and the MoH, increased the financial burden on the government resulting in higher expenses than expected.
8. Inaccuracy in estimating economic forecasts, which affects the accuracy of revenue estimates. During previous years, GDP data was less than expected in the MoF's estimates of economic growth when preparing the budget.

Conclusions and Recommendations

Conclusions:

1. The government suffers from fluctuations in public revenues due to the fact that the clearance tax revenues (maqassa) constitute more than 70% of the total net revenues. The clearance tax revenues are subject to extortion by the Israeli authorities and its determinants are more political than economic.
2. Increase in the financial gap prior to grants and aid (current financial deficit) resulting from revenue fluctuations and government's inability to control expenditures.
3. The analysis shows that the government's commitments are high in comparison with its ability to fund these commitments, hence making it more difficult to control expenditures and reduce the financial gap.
4. It is apparent that government policies in terms of enhancing tax revenues, control, and rationalizing of expenditures did not come to fruition nor did it realize potential. This is mainly due to the fact that most of the actual expenditures end up higher than planned in the budget. And the reason for this is that government spending is basically consumer spending (i.e., salaries, wages, and other current expenditures) which amounted to 90% of the total expenditures; an area where the government was not been able to control or reduce. Furthermore, local revenues and public expenditures are linked to the security and economic circumstances in Palestine, in general. So when there is an economic slowdown or downfall, or during periods of Israeli aggressions, revenues decline and expenditures rise, especially transferable expenditures.
5. The consumer nature of government spending reflects negatively on its performance and ability to improve tax collection, where the small share reserved for major capital expenditures such as infrastructure projects, institution development, and improving government services undermine the national economy and thus reduce tax collection thus increasing and expanding the financial gap.
6. The heavy reliance on foreign aid is very noticeable whether in supporting the budget where, on average, it covers about 30% of total expenditures, or in funding development projects where, on average, it covers 87% of those expenditures. Moreover, it suffers from fluctuations and lack of stability as well as being subject to political changes at times. In addition, the analysis shows that the government is unable to relinquish or even lessen its dependence on foreign aid despite its pursuit to achieve that through its plans to do so.
7. Decline in foreign aid led to a rise in government's debts to local banks thus increasing interest on money borrowed. This in turn clearly impacted government's spending and thus resulting in an increase in the current deficit.
8. The Ministry of Finance suffers from weakness in estimating revenues and economic growth, as well as in accurately determining expenditures for the purpose of preparing the general budget.
9. The analysis showed that the government resorts to requesting foreign aid and or borrowing from local banks, in addition to cumulating arrears in order to compensate for decline in revenues.

10. In events of a sharp decline in revenues, the government either withholds whole or part of staff's salaries.
11. The government does not possess an approved contingency plan or an alternative mechanism to overcome the decline in revenues.
12. Factors on the ground such as the political and security situations, siege and aggressions on the Gaza Strip, in addition to other factors makes it difficult to pass judgment, success or failure, on government's policies regarding financial and administrative reform.
13. Ministries suffer from the decline in their share of expenditures and the inadequate amount of money allocated in the budget for their operational programs and development projects.
14. In general, fluctuations and decline in the Palestinian government's revenues, as well as restricting spending to a minimum, leads to a decline in the size and quality of services provided by ministries and especially ministries of social services.
15. Suppliers of goods and services deliberately raise the prices, at times, to more than three time their worth on the market as a precautionary measure against the possibility of non-payment or late payment by the government for these goods and services.

Recommendations:

1. Administrative reform for tax collection departments by raising employees' proficiencies and enhancing their capabilities in combating tax evasion.
2. Carry out public awareness raising campaigns on tax compliance and avoiding evaion, especially in regard to delivery of clearing tax (maqassa) bills to the MoF.
3. The need for the government to pay arrears and debts to the private sector as well as to regularly transfer money to suppliers, which will lead to lowering prices of goods and services, operational and capital.
4. The need to review the "Paris Economic Agreement" so that the Palestinian government's revenues are not held hostage to political pressure by Israel.
5. Limiting internal and external borrowing to cover development and capital expenditures and not to cover ongoing and operational expenses.
6. Putting a bold plan to rationalize spending in many sectors, especially expenses related to salaries and wages due to the privileges and concessions granted to some employees such as vehicles, fuel, telecommunications etc. Also to limit the number of public employees by covering the need for employment through internal transfers at the ministry level or between ministries.
7. Continue efforts to reduce other current expenditures through control and rationalization of expenditures on fuel, energy, travel missions and incidentals.
8. Support and increase spending on development and capital projects given the positive impact they have on revenues.
9. Work on paying all of the government's arrears.
10. Address the problem of net borrowing by urging municipalities to transfer the task of distributing electricity and water to companies that specialize in the field.
11. Given the decline in foreign aid, the government should develop alternative sources of financing development expenditures, which currently rely on foreign aid only.

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