



## **Net Lending Item**

# **Effect on Budget Deficit and Waste of Public Funds**

**The Coalition for Accountability and Integrity -AMAN would like to extend its thanks to both the researcher Mr. Moayad Afaneh who have prepared this report and to Dr. Azmi Shuaibi for his supervision on the report.**

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## Foreword:

Considering the financial crisis of the Palestinian National Authority (PNA), with regression of external assistance for the public budget and development, and following poor results of the governmental plan for austerity and rationalization of expenses, announced for the third year in a row, the public budget spending item "net lending" raises great challenge for the PNA. It depletes the public budget and wastes (or postpones) a significant part of the revenues. Net lending for 2017 budget was estimated at NIS 950 million, while actual results for 2016 reached NIS 1 billion. The accumulative sum of net lending from 2003 to 2016 totaled NIS 15.7 billion.

Although the government and Ministry of Finance and Planning pledged to cut down this item, net lend grew steadily that it represents a major challenge that requires treatment policies, arrangements and procedures to halt wasting of public fund and abolish this illegal item on the budget. The main hypothesis for addressing the net lending issue is to establish an effective financial policy with rigorous management and monitoring the parties responsible for such debt toward the Israeli side.

## Investigation focus and objectives:

This investigation is based on a study of the "net lending" item, its components and causes as well as updated data on the size of debt and indebted parties. It also tracks government policies and procedures to manage the 'net lending' and justification for government debt. Furthermore, it examines the procedures applicable by the Ministry of Finance and Planning to collect old debt related to net lending.

The paper seeks to investigate the status of "net lending item and to update relevant digital data; it will also review government policies and procedures aimed at reducing lending and the challenges that obstruct any solutions. It also suggests remedies to the net lending so as to fill in the deficit gap and halt waste of public fund without jeopardizing the services provided to citizens.

## Methodology:

An investigative approach was applied to cover the following axes:

1. Description and diagnosis of the net lending item via:
  - review of the theoretical framework of net lending (concept, origin, causes)
  - update data on net lending and volume of debt and indebted entities (time series).

- Description of governmental policies and procedures in net lending management, in addition to debt accumulation on government.
- 2. Learn the procedures applied by the Ministry of Finance and Planning to collect old debts related to the net lending.
- 3. Analyze government procedures and identify challenges to the reduction of net lending prior to total abolition: review government policies and procedures to collect debt from municipalities for electricity and water and other bills. Split the joint (clearance and debt) item and analyze government's remedies of past mistakes.
- 4. Analyze and diagnose the reasons behind failure to implement the net-lending recommendations enshrined in the report on "Areas of rationalization of government spending and austerity", issued in December 2015 and other reports.
- 5. Analyze and examine the agreements and understandings signed by the PNA with Israel relating to net-lending relevant electricity and water.
- 6. Formulate recommendations and an action plan with remedies to the "net lending" item to bridge the gap between collection allocations and the actual collection, which is covered by the government in an attempt to reduce this item and control it prior to abolition.

## Sources of Information

Data and information used in this investigative paper were obtained through individual meetings with decision makers in the Palestinian National Authority (PNA) and line ministries (Finance and Health) and other centers of responsibility (Civil Affairs General Authority, Energy and Natural Resources Authority, Palestinian Water Authority) and other stakeholders (Palestinian Electricity Transmission Company (PETL), and the Palestinian Electricity Regulatory Council (PERC)). Sources also included a review of previous reports published by official international organizations and local think tanks concerned with the question of "net lending".

# chapter 1

**Historical and theoretical framework of net lending: concept, origin, reasons, historical time series, facts and figures**

**Net Lending:** Is the sum deducted by the Israeli side on the clearance revenues to cover bills of electricity, water and wastewater, which represent an accumulated debt of Local Government Units.<sup>1</sup>

The Ministry of Finance defines **Net Lending** as: The net direct lending paid by the Ministry of Finance and the net lending deducted on the clearance revenues.<sup>2</sup>

**Net Lending** is the term created since the establishment of the Single Treasury Account in 2002 to refer to the sums deducted by Israel on the clearance revenues to repay the debts due to Israeli companies that provide electricity and water to municipalities and Palestinian distribution companies and utilities.

The item also covers the sums transferred by the Egyptian government to the Egyptian Electricity Company to pay for the electricity supplied to the Gaza Strip. It also includes this share the European Union assistance to the PNA transferred via PEGASE mechanism to Israeli companies. The sums are deducted on the sums pledged by these parties to support the PNA budget. It further covers payments of the Palestinian treasury to repay for the fuels supplied to the Palestine Electricity Company in the Gaza Strip because of failure of the Electricity Distribution Company in Gaza to collect bills from its subscribers to pay the generation company.<sup>3</sup>

The Palestinian Monetary Authority (PMA) defined **Net Lending** as mainly the sums deducted by Israel on the clearance revenues in exchange of the services and benefits provided by some Israeli companies, Israel electricity Company, Water Company and medical services.<sup>4</sup>

The Ministry of Planning and Finance published a bulletin on *Financial Reforms and Challenges*, noting that **Net Lending** is a beautifying term proposed by the International Monetary Fund, which refers to: when the Israeli government deducts sums on funds over which the PNA has no authority and cannot verify for exchange of electricity, water and wastewater services. In the same time, the PNA cannot recover any of such sums. Many factors deepen the chronic weakness resulting from the net lending, most importantly the unequal negotiation position of Palestinian and Israeli sides.<sup>5</sup>

Based on the afore-presented definitions of the Ministry of Finance, Monetary Authority and MAS, the following holistic definition of net lending may be proposed:

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1 Citizens Budget 2016, published by Ministry of Finance and Planning, June 2016.

2 Ministry of Finance and Planning website: Terms and Definitions. <http://www.pmf.ps/86>

3 Background paper on Net Lending, MAS Institute for Economic Policy Research, March 2015

4 Financial Updates of Government and Public Debt, First Quarter 2017, Palestinian Monetary Authority, June 2017, p. 6

5 Financial Reforms and Challenges, Ministry of Finance and Planning, 2015

**Net Lending:**

**The sums deducted on the revenues of the clearance by Israel in repayment of the debts due to Israeli electricity, water and wastewater service companies provided to Palestinian municipalities and distribution companies and other items.**

**Causes behind the net lending problem:**

The "net lending" arose because of arrears on Palestinian local authorities and electricity and water undertakings in the West Bank and Gaza Strip vis-à-vis their suppliers.

Although repayment on behalf of such municipalities and distribution companies appeared with the advent of the Palestinian National Authority, arrangements for deduction on the clearance revenues started officially following a letter from the Palestinian Minister of Finance at the time, authorizing the Israeli Finance Minister to deduct the electricity bill dues in the Gaza Strip in 1997. A year later, another letter was issued by the President of the Water Authority and Minister of Finance to deduct the value of water bills. The sums deducted for water and electricity bills for the West Bank and Gaza Strip amounted to 150 million US Dollars per year.

However, the Palestinian Ministry of Finance did not publish any detailed financial statements on the sums deducted for this purpose. Furthermore, the accounting sheets reported on such deductions as expenditure of ministries and relevant agencies.<sup>6</sup>

A World Bank Report published in 2016 on a Review of PNA Public Expenditure showed that 'Net Lending has grown as one of the harshest financial problems facing the PNA. Local authorities finance their budgets mainly by selling electricity and other support services supplied by Israeli companies and shift the responsibility of payment of its bills to the central authority. Repayment also include interests of 11%. As a result, the PNA was compelled to disperse unplanned assistance that exceeded 200 million US Dollars annually (i.e. 2% of the GDP). To recover these expenses, the Ministry of Finance withholds property and transportation taxes and professional licenses, which it levies on behalf of the local authorities. Still, such withholdings do not compensate for the sums deducted on the clearance revenues, leading subsequently to budget conflict and chaos.<sup>7</sup>

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6 MAS, Background Paper on Net Lending, May 2015

7 Public Expenditure Review of the PNA - World Bank, 13 December 2016.



## Quantitative Development of Net Lending:

Table (1)

### Quantitative Time Series of Due Net Lending “Cash Basis”, 2003-2016<sup>8</sup>

Year	Net Lending/ USD Million	Public Expenditure including Net Lending/ USD Million	Share of Net Lending in Public Expenditure (%)
2003	173	1,635.0	10.58%
2004	157	1,528.0	10.27%
2005	344	2,281.0	15.08%
2006	376	1,707.0	22.03%
2007	535	2,877.0	18.60%
2008	446.9	3,487.7	12.81%
2009	374	3,375.9	11.08%
2010	243.3	3,200.1	7.60%
2011	139	3,256.9	4.27%
2012	277.2	3,258.2	8.51%
2013	211.2	3,419.1	6.18%
2014	287.4	3,606.9	7.97%
2015	300.5	3,621.4	8.30%
2016	269.8	3,878.2	6.96%

Source: PNA Revenues, Expenditure and Sources of Funding, Palestinian Monetary Authority, 2017

In 2017, Net Lending in the public budget was estimated at USD 244 million<sup>9</sup> (NIS 950 million). Nonetheless, financial indicators show that the actual sum is much higher if computed based on the public budget annual reports of 2017. The net value of net lending due in the first six months of 2017 reached NIS 544.3 million<sup>10</sup>, i.e. 114.6% of the planned for the same period.

Referring to Table (1) above, the total sums actually due under the Net Lending Item reached in the period from 2003 to 2016 a total of USD 4,134.30 million, i.e. NIS 15,710.34 million.<sup>11</sup>

<sup>8</sup> PNA Revenues, Expenditure and Sources of Funding, Palestinian Monetary Authority, 2017

<sup>9</sup> Decree Law (3) for the Year 2017, on 2017 Public Budget, 15 February 2017

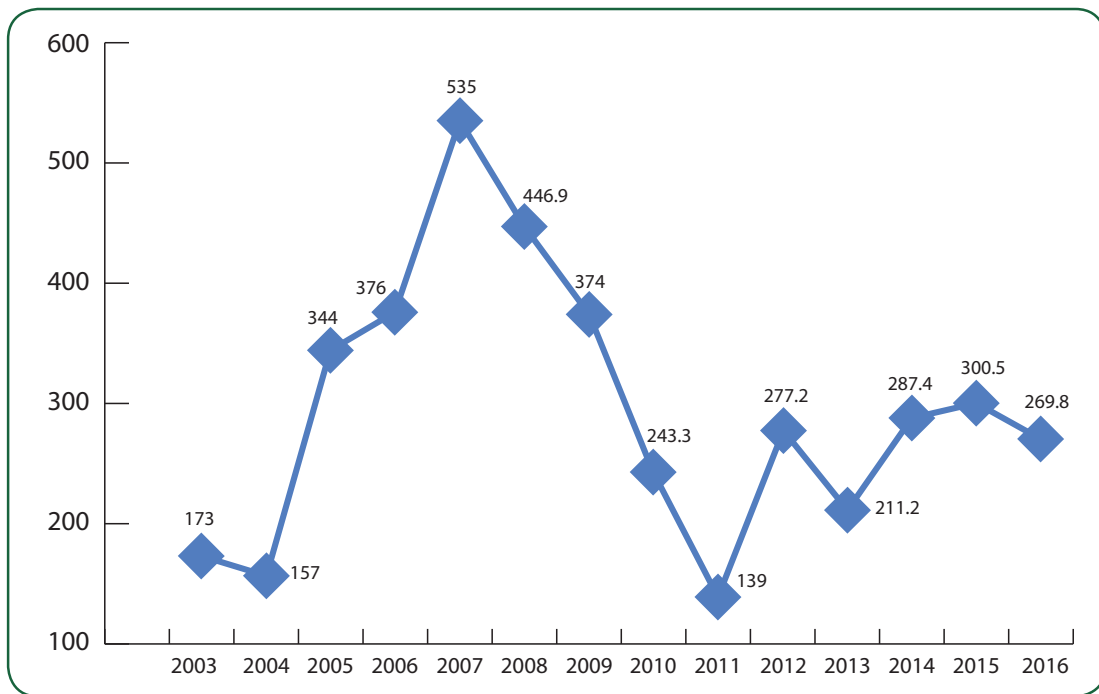
<sup>10</sup> Monthly Report, Ministry of Finance and Planning, 30 July 2017

<sup>11</sup> Considering the average exchange rate of USD as NIS 3.8

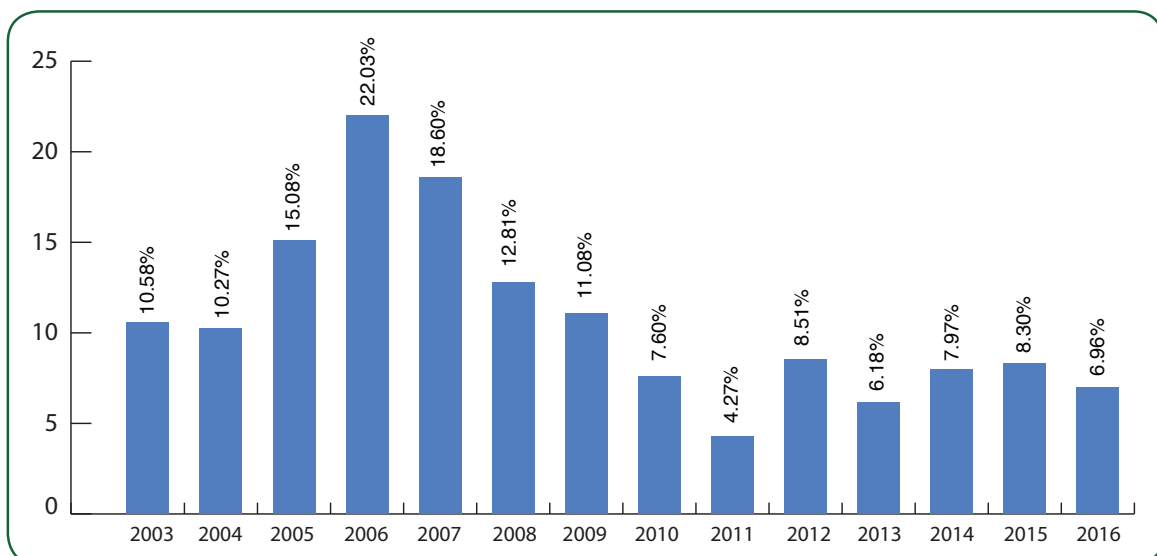
Is it possible to explain the fluctuation in net lending and that it fell in the years 2009-2011, since it dropped sharply in 2011 and fluctuated in the subsequent years till 2016?

Average net lending represented in the period from 2003 to 2016 around 10.73% of the total public expenditure 'with net lending combined'.

**Figure (1)**  
**Net Lending "in USD Million", 2003-2016**



**Figure (2)**  
**Net Lending Share of Public Expenditure "including net lending", 2003-2016**



Tracking public budgets in the past five years (2013-2017) shows that the government and Ministry of Finance project constant increase in net lending every year. In the same time, actual spending on net lending exceeds estimates, as shown in Table (2) here-below:

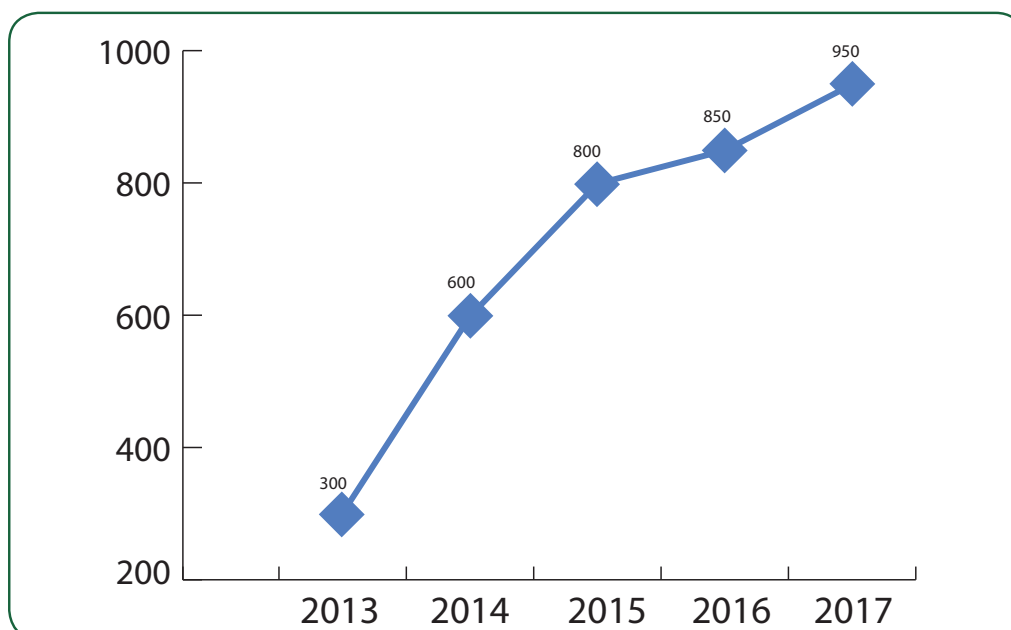
**Table (2)**

**Estimated and Actual Net Lending In Budgets of Five Past Years – NIS million**

Year	Estimated net lending/ NIS million	Actual net lending/ NIS million	Actual percentage of budget
2013	300 <sup>12</sup>	759.9 <sup>13</sup>	253%
2014	600 <sup>14</sup>	1022.3 <sup>15</sup>	170%
2015	800 <sup>16</sup>	1169.2 <sup>17</sup>	146%
2016	850 <sup>18</sup>	1,029.1 <sup>19</sup>	120%
2017	950 <sup>20</sup>	_21	-

**Figure (3)**

**Estimated Net Lending for the Years 2013-2017 – NIS million**



12 Public Budget Law 2013

13 Monthly Report on Actual Expenditure of Public Budget 2013, December 2013, Ministry of Finance, 11 February 2014

14 Public Budget Law 2014

15 Monthly Report on Actual Expenditure of Public Budget 2014, December 2014, Ministry of Finance, 20 January 2015.

16 Public Budget Law 2015

17 Monthly Report on Actual Expenditure of Public Budget 2015, December 2015, Ministry of Finance, 17 January 2016

18 Public Budget Law 2016

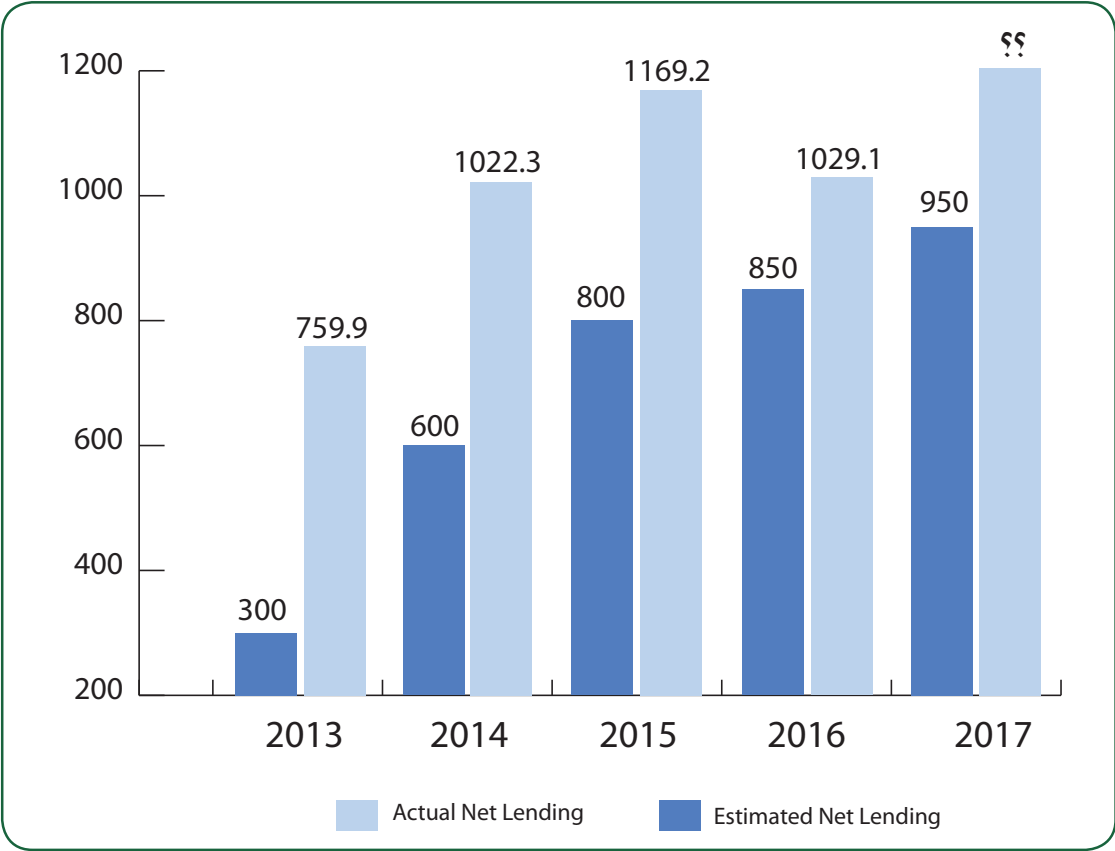
19 Monthly Report on Actual Expenditure of Public Budget 2016, December 2016, Ministry of Finance, 12 January 2017

20 Public Budget Law 2017

21 The actual sum will appear in the Monthly Report on Actual Expenditure of Public Budget 2017, December 2017 report

Figure (4)

Comparing Estimated to Actual Net Lending for the Years 2013-2017 – NIS million



In a meeting between the Civil Society Team for Public Budget Transparency and Mr. Fared Ghannam, Director General of Public Budget at the Ministry of Finance and Planning and current Deputy Minister, as part of the dialogue the Team holds with the Ministry of Finance (MoF), Mr. Ghannam mentioned that the reason behind the estimated to actual net lending gap is that the Ministry of Finance and Planning lowers its estimates in its targets in an attempt to reduce net lending. He reiterated that the Ministry exploits all efforts to reduce the net lending and avoid withholding of clearance revenues by the Israeli side. He explained that the allocations in the projected budget refers to the MoF targets as a public policy to achieve the targeted figures.

Mr. Ghannam noted that MoF allocates estimated sums to compel distribution companies and local authorities repay their debt in accordance with schedule since MoF is not capable of pursuing repayment on behalf of these agencies. The process exhausts the public budget while MoF is compelled to devising policies and measures to reduce net lending every year. He also underlined that the estimated sums represent the targets and maximum repayment ceiling.<sup>22</sup>

22 Dialogue between the Civil Society Team for Public Budget Transparency and the Ministry of Finance 2015

# chapter 2

## **Analysis of Government Measures and Challenges to Lower Net Lending: Entry Point to End Net Lending**

Net lending has grown into a constant item on PNA public budget. Through a quantitative analysis of net lending time series over past years, a quasi-fixed monthly rate is observed (mounting to NIS 90 million per month). An empirical approach is needed to dig into the causes and not the results, as described in the First Chapter.

## Past Measures to Reduce Net Lending

Since the electricity sector is the largest share of net lending, and with the financial crisis the PNA has been going through, there are no legal or moral justifications for continued commitment by the PNA to pay for the services used by municipalities and citizens. For this purpose, the PNA implemented a number of measures to reduce net lending:

1. Promulgation of Electricity Sector Regulation Law in April 2009 for the development of this sector and promotion of investment to provide energy to all subscribers at affordable prices. The law prescribed for the establishment of the "Electricity Sector Regulatory Council", which was vested with the monitoring of the sector and revisiting of tariffs to propose a fair tariff. Prepaid meters were installed widely in some areas. PNA bodies started to help commodity distributors to enable them collect debt accumulated by citizens. The procedures included compelling citizens to issue a clearance certificate proving their repayment of electricity and water bills to exert pressure upon those with accumulated debt to repay their bills to the distribution companies and undertakings.
2. In April 2011, the Energy Authority in Gaza and Ramallah signed an agreement that compelled the electricity distribution company in Gaza to repay the sums it collects on electricity bills to the PNA treasure (a total of NIS 4 million per month). But the agreements were suspended a few months later as authorities in Gaza started to rely on Egyptian fuel transported through the tunnels. Furthermore, the Gaza strip started to receive fuel from Qatar to operate the Palestinian electricity plan.
3. The Energy Authority in Ramallah signed an agreement with its Gaza Strip office for the import of fuel for the electricity plant from Israel provided that such fuel is full exempted of the "blu-Israeli fuel and combustibles tax" while paying VAT. This exemption will reduce the cost of every liter of fuel by one-third. However, following this agreement, the Palestinian government announced that the exemption will not be maintained and announced cuts of 50% only. It justified its decision by the suffocating financial crisis it was facing. The decision led to further increase in the cost of fuel for the Gaza Electricity Generation Plant, which was not acceptable to the authorities in Gaza. Consequently, the agreement was suspended.

The applicable measures helped increase collection in the West Bank to 85% and in the Gaza Strip to 30%. Consequently, net lending expenditure dropped in an accelerated way since 2007 to represent USD 264 million in 2010, reaching its lowest level of USD 139 million in 2011 (following the above-mentioned agreement between relevant bodies in the West Bank and Gaza). However, net lending rose again in subsequent years.<sup>23</sup>

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23 Report on "Austerity and rationalization of Government Expenditure", Civil Society Team for Public Budget Transparency, AMAN Coalition publications, December 2015

## Why does Net Lending Persist?

In an interview with the Public Accountant of the State of Palestine, Mr. Ahmad Al-Sabbah, he explained that net lending has become a constant item for the Israeli side to withhold PNA money. It mainly comprises water and electricity bills as well as cost of wastewater services of local authorities and Palestinian distribution companies.<sup>24</sup>

In an interview with the Public Relations Officer and Spokesman of the General Authority of Civil Affairs, Mr. Waleed Wahdan, he explained that his office is responsible for coordination of civil relations and affairs with the Israeli side. He explained that Israel “as an occupation authority” implements its own agenda on the financial relations with the PNA, including net lending even with the General Authority of Civil Affairs objects to such agenda. The Israeli side benefits from imbalanced powers and imposes facts on the ground not to mention delay of implementation of the agreements it signed with the Palestinians. He concurred with the Public Accountant on the statement that Israeli deductions on clearance money has become constant approach, reiterating that the Palestinians do not receive any detailed statements on such deductions leaving the Israelis with full manipulation power.<sup>25</sup>

### **Corrective measures of government and ministries to reduce net lending:**

- The government applied some corrective measures to reduce net lending, including efforts by the Ministry of Finance and Planning:

### **The Ministry of Finance addressed a number of issues to reduce the “net lending”, including:**

- In 2014, MoF prepared a repayment plan to reschedule the local authorities’ debts in cooperation with the Ministry of Local Government while compelling local authorities to pay their new dues instantly.
- MoF set a clearance plan with local authorities to collect their debt on the property and transportation taxes it collects on their behalf, while maintaining a reasonable margin to enable local authorities implement their development projects and provide services.
- Provide and fund technical support to local authorities to help them collect their debts and improve their collection levels, including prepaid meters and computerized systems.

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<sup>24</sup> Exclusive interview with Ahmad Al-Sabbah, Public Accountant of the State of Palestine/ Ministry of Finance, August 2017, Ramallah-Palestine

<sup>25</sup> Exclusive interview with Mr. Waleed Wahdan, Public Relations Officer/ General Authority of Civil Affairs, August 2017, Ramallah - Palestine.

- The government established the National Electricity Transmission Company, with exclusive authorities for sale of electricity. The Company is mainly vested with regulating the technical and financial relation among different suppliers of electricity and distribution companies through a single buyer model. Consequently, debt levels were reduced and payment became instant, in a manner that lowers net lending.<sup>26</sup>

- **Role of Energy and Natural Resources Authority**

In an interview with Zafer Melhem, Acting President of the Energy and Natural Resources Authority, he explained that his Authority endeavors to lower Israeli deduction of electricity prices on the clearance money [owed to the Palestinian Authority]. A number of understandings were reached to culminate in an agreement between the PNA and the Israeli side on 13th September 2016 to regulate the relation between both sides relating to electricity. The National Electricity Transmission Company was established to focus on regulating technical and finance relations among local and foreign suppliers of electricity and among distribution companies via a single buyer model. The Company started its operation with the opening of the Transmission Plant in Jalmah to the north of the West Bank provided that it proceeds its communications to operate the other plants. However, freezing of communication with the Israeli side may hinder the process.

- The Energy Authority cooperated with the Ministry of Local Government to implement numerous procedures to compel local authorities (128 local government units) to repay electricity bills. An escrow account was opened for this purpose and controllers from the Ministry of Local Government were appointed for follow-up. This step was effective and tangible success was achieved with 85% compliance of payment of electricity bills. The Energy Authority follows up with the five electricity distribution companies<sup>27</sup> to ensure they are committed to repay their dues.<sup>28</sup>

### **Ministerial Council Resolution (53) for the Year 2016 Relevant to Control, Regulation and Monitoring of Electricity Sector Revenues and Expenditure**

- In compliance with the recommendations of "Austerity and Rationalization of Government Expenditure" Report, issued by the Palestinian Ministerial Council,

<sup>26</sup> Interview with Public Accountant of the State of Palestine/ Ministry of Finance, August 2017, Ramallah- Palestine

<sup>27</sup> Namely: North Electricity Distribution Company, Toubas Electricity Company, South Electricity Company, Hebron Electricity Company and Jerusalem Electricity Company.

<sup>28</sup> Interview with Eng. Zafer Melhem, Acting President of Energy and Natural Resources Authority, August 2017, Ramallah - Palestine



a decision was made to control and regulate revenues and expenditure of the electricity sector. The resolution comprises five articles with provisions and procedures to regulate the electricity sector. Article (2) prescribes that:

1. Local Authorities shall transfer full prices of sale of electricity to the escrow account of electricity revenues, which is controlled by the MoLG as per applicable laws. The Minister of Local Government shall be vested with the control of such accounts and for the enforcement of Article (4) of this resolution. In the event of non-compliance of any of the local authorities, the following penalties shall be applied:
  - a. seizure of financial entitlements (transportation fees, professional licenses fees and property tax) due to local authorities and transfer of such sums to the electricity escrow account/ National Transmission Company.
  - b. Freezing allocations to projects of local authorities.
  - c. Appointment of financial controller of local authorities accounts.
  - d. Disconnection of electricity for subscribers who do not pay three bills in a row, as per Article (33) of the General Electricity Law.
  - e. Recommendation by Minister of Local Government to the Ministerial Council to dissolve the noncompliant local authority.<sup>29</sup>

### **Palestinian Electricity Transmission Company:**

the Palestinian Electricity Transmission Company (PETL) was established in 2013<sup>30</sup> consistent with the General Electricity Law of 2009, which was vested with the regulation of financial and technical relations among local and foreign electricity suppliers and distribution companies via the single buyer model.

This government company manages and regulates purchase and sale of electricity. It acts as middle agent connecting energy producers and distribution companies including supervising the electricity transmission network in Palestine, building and maintaining electricity transmission and distribution networks, constructing transmission plants to connect local and imported electricity sources from neighboring countries with local distribution companies to ensure electricity connectivity in all Palestinian cities, towns and villages. It also permits the Palestinian government to purchase electricity from multiple sources at competitive prices, which has a positive effect on electricity prices in Palestine.

<sup>29</sup> Ministerial Council Resolution (53) for the Year 2016 to control and regulate revenues and expenditure of the electricity sector, issued on 6 September 2016

<sup>30</sup> The Palestinian Ministerial Council ratified in its session on 1<sup>st</sup> October 2013 on the resolution to register the Palestinian National Electricity Transmission Company as a public governmental company, in application of Article (18) of the General Electricity Law of 2009.

In an exclusive interview with the Director General of PETL on the Company's role in reducing the debt of companies and local authorities to the Israeli side, which is deducted on the 'net lending', Eng. Nashaat Abu Baker stated that PTEL is currently focusing on regulating financial and technical relations between local and imported sources of electric power and among distribution companies via the single buyer model. However, the Company is still reinforcing its authorities starting with the transmission plant opened in Jalmah near Jenin in July 2017 to supply power to Jenin area. It will then open three additional transmission plants in Nablus, Ramallah and Hebron. The Company will further exercise its powers on other connection points to grow into the middle agency connecting energy producers and distribution companies for holistic financial and technical regulation.

PETL shall thus have full authority to regulate financial and technical relations and shall endeavor to halt accumulation of debt for distribution companies and local authorities currently in charge of distribution. This will have direct effect on net lending. PETL will cooperate with experts to draft an electricity procurement agreement on new bases that guarantee access to competitive prices and other benefits rather than the current sale system, which raises cost for distribution companies and local authorities. PETL adopted a technical system of purchase of high voltage electricity that is transmitted to the transmission plants, which consequently lowers the cost and prices.

**Challenges remain present, mainly the political context and PETL dependency on the Israeli side. Consequently, political events have a direct effect on the Company's plans.<sup>31</sup>**

## Electricity Regulatory Council

### What is the Electricity Regulatory Council?

The Palestinian Electricity regulatory council was created by a presidential decree on 23rd April 2009. Article 5 of the General Electricity decree (Law Decree 13 for the year 2009) provides that the Council shall enjoy independent legal personality and financial and administrative independence.

In an interview with the Executive President of the Electricity regulatory council, Eng. Hamdi Tahboub, he explained that the law prescribed for the Council's mission as protection of the rights of consumers and companies. Other tasks include monitoring generation, transmission, distribution and sale of electric power as prescribed in different laws and regulations. It is also responsible for the establishment and dissemination of a technical, financial and statistical data base,

<sup>31</sup> Interview with Eng. Nashaat Abu Bakr, Director General of PETL, August 2017, Ramallah - Palestine.

consistent with the instructions of the Energy Authority issued for this purpose. The Council also submits recommendations to the Energy Authority on electricity prices and subscription fees as well as cost of installations, insurance and other services to connect consumers to electricity, after consultation with stakeholders and taking into account application of electricity prices in different governorates. It also recommends on acceptance, rejection, renewal, withdrawal or revocation of licenses of generation and distribution companies submitting such applications. It shall also monitor compliance of licensed distribution and generation companies with the terms enshrined in their licenses and shall solve conflicts that arise between electricity companies and consumers and among different companies so as to serve the public interest.

Relevant to the debt of companies and local authorities, it is up to the government and local authorities and companies since the government repays the debt, which is deducted on the clearance money. The Council shall also publish reports on the situation of electricity distribution companies and shall formulate recommendations to the Energy Authority relevant to acceptance, rejection, renewal or withdrawal of electricity companies' licenses.<sup>32</sup>

### **Role of the Water Authority:**

The Water Authority – West Bank District Office shall implement a number of procedures to reduce debt of distribution companies and local authorities resulting from purchase of water from the Israeli side. Local authorities' debts have been rescheduled in coordination with the MoLG, which shall abstain from granting local authorities any projects without settlement of their debt vis-à-vis the Water Authority. This is consistent with Ministerial Council decisions relevant to rescheduling local authorities' debts and the understandings for instant payment of bills using several mechanisms. The Water Authority shall cooperate with the Ministry of Finance to deduct debt on the transportation fees and other taxes collected on behalf of the local authorities.<sup>33</sup>

### **Role of the Ministry of Health:**

Relating to the Palestinian Ministry of Health and the medical referral to Israeli hospitals, the Health Deputy Minister, Dr. Asaad Ramlawi explained in an exclusive interview that the Ministry applied new procedures to regulate medical referrals and ensure that any sums deducted remain within the limits of the approved budget

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<sup>32</sup> Exclusive interview with Eng. Hamdi Tahboub, CEO of Electricity Regulatory Council, August 2017, Ramallah - Palestine

<sup>33</sup> Interview with Fadi Nofal, Financial Officer, West Bank Office of Palestinian Water Authority, August 2017, Ramallah - Palestine.

and based on real needs, as per clear agreements and administrative and technical procedures, which the Ministry is currently drafting.<sup>34</sup>

### Role of Ministry of Local Government

Note: Researcher tried to organized an interview with relevant departments to discuss the net lending issue. An official letter was sent to Minister of Local Government from Aman Coalition on 26 July 2017. Researcher contacted the Minister's office several times for this purpose till 10 September 2017, but no response. For this purpose, interviews with these departments published in the press were used.

Deputy Minister Mohammad Hassan Jabaren<sup>35</sup> reported that some ministries collect fees from citizens and pays the Israeli company. The remaining debt is deducted from the Palestinian government [clearance dues]. The PNA deducts<sup>36</sup> debt from non-compliant municipalities. He added that municipalities collect bills and use them in their projects, which represents a violation of the law.

The same source explained that the government asks municipalities to repay their debt and reschedules such debt for collection purposes. He mentioned that most debts are accumulated from previous defaulted payments. However, currently a large percentage of citizens pay their bills. However, municipalities do not follow up on collection. For this purpose a financial controller was appointed to enhance collection and reach 100% compliance. Understandings were reached with municipalities for this arrangement, but not other measures were taken like dissolution or removal of non-compliant local councils.

The role of municipal financial control in noncompliant municipalities is to halt any expenditure of funds that is not consistent with municipalities' approved budget. The Ministry is also strict about repayment of previous bills and rescheduling of debts. It should be noted that some local authorities' budgets are conditioned with payment of accumulated debt. Some municipalities did not receive approval of their budgets because of noncompliance with payment of bills.<sup>37</sup>

Director General of Budgets in local authorities, Mosa Gheith, explained that the only solution to reduce net lending is to compel local authorities to pay. He mentioned that most municipalities do not collect bills and that many municipalities do not have any relation whatsoever with electricity and water project, which is probably an old legacy.

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34 Exclusive interview with Dr. Asaad Ramalawi, Palestinian Deputy Minister of Health, August 2017, Ramallah - Palestine

35 Report "Net Lending - Acquisition and Abuse of Public Fund", Al-Hayat Al-Jadeeda Newspaper, 13th March 2017

36 Clearance in the sense of settlement

37 Ibid.

Ghayth attributes municipalities default on payment to their operational cost and staff salaries, which undermines their ability to instantly pay their electricity, water and wastewater bills since their revenues are modest and they do not collect sufficient fees from their constituencies.<sup>38</sup>

### **Why is net lending still high in spite of different government and local authorities' measures?**

**According to the Ministry of Finance and Planning**, net lending is a complex issue and in spite of its efforts to control it, it still faces obstacles, including mainly: the Israeli side – being an occupation authority – does not comply with the agreements and understandings it signed with the Palestinians. Even when net lending items are paid, the Israeli side deducts cost on other items explaining its ability to impose facts on the ground. Thus, efforts to reduce net lending become ineffective. The Ministry of Finance tries to address several issues to reduce it, but the effect is still long term and results may be achieved on the long run, but not in one or two years.<sup>39</sup>

**The Acting-President of the Energy and Natural Resources Authority** believes that the main reason behind high net lending is that the Israeli side deducts 70 million NIS per month for electricity price even when the Palestinian side is committed to payment. The Palestinian Authority is currently initiating a suit against the Israeli side. It should be noted that the Israeli side deducts the sums even before due date for payment of electricity company bills.<sup>40</sup>

**For the General Authority of Civil Affairs**, it continues demanding clear net lending and clearance statements but without response from the Israeli side, which abuses of the unequal balance of power and implements its own agenda, deducting such sums under net lending. Furthermore, the Israeli side stalls and delays implementation of agreements on financial issues<sup>41</sup> including settlement on clearance fund and repayment of debts.

**The Water Authority** attributes the problem of water prices inclusion on the net lending item to the following reasons:

- The Israeli side deducts water bills on the clearance money directly without coordination with the Water Authority since the latter does not have any representative in the clearance meetings and cannot audit the water bills.

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38 Report "Net Lending - Acquisition and Abuse of Public Fund", Al-Hayat Al-Jadeeda Newspaper, 13<sup>th</sup> March 2017

39 Exclusive interview with Ahmad Al-Sabbah, Public Accountant of the State of Palestine/ Ministry of Finance, August 2017, Ramallah - Palestine.

40 Exclusive interview with Eng. Zafer Mehlhm, Acting President of the Energy and Natural Resources Authority, August 2017, Ramallah - Palestine..

41 Exclusive interview with Mr. Waleed Wahdan, Public Relations Officer/ General Authority of Civil Affairs, August 2017, Ramallah - Palestine.

Many items are reported as "arrears fines" although the bills are deducted on the clearance money bills. Additional cost is added including fees of civil administration staff among others.

- The PNA purchases water from Israeli companies at a price that is higher than the price of sale to local authorities and citizens.
- The Ramallah Water Undertaking and Bethlehem Water Authority do not repay full bills because of debts of refugee camps<sup>42</sup>.

### **Gaza Strip and Net Lending:**

The Israeli authorities deduct cost of provision of services to the Gaza Strip on the net lending item, especially prices of electricity, which amount to NIS 40 million per month. This is equivalent to 45% of the total monthly net lending value (estimated at NIS 90 million per month).

Acting President of the Energy and Natural Resources Authority reported that providing Gaza with electricity raises the net lending invoice since the Israeli side deducts prices of electricity through net lending. Such prices amount to NIS 40 million per month. The PNA had requested lowering its repayment commitment to NIS 25 million instead of NIS 40 million.

The PNA also pays the electricity bill for electricity supply from Egypt, which amounts to NIS 8 million per month. The sum is deducted from the Palestine Fund in the Arab League. Furthermore, the PNA transfers to the Electricity Generation Plant of Gaza the sum of USD 2.1 million per month (NIS 8 million) knowing that the sum deducted on employees' salaries for consumption of electricity is NIS 170, making a total of NIS (4-6) million a month<sup>43</sup>.

Public Accountant of the State of Palestine confirms that the Israeli side deducts electricity prices for the Gaza Strip through the net lending while the government does not collect bills in the Gaza Strip. The De Facto government transfers such prices to its public treasure.

He added that the Ministry of Finance deducts NIS 170 on the salaries of civil servants in the Gaza Strip to pay for electricity. The money is transferred to the Gaza Generation Plant. This deduction on government servants in the Gaza Strip dropped in the past months to represent only NIS 4 million<sup>44</sup> in July 2017.

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42 Exclusive interview with Mr. Fadi Nofal, Financial Officer of West Bank District Office/ Palestinian Water Authority, August 2017, Ramallah - Palestine

43 Exclusive interview with Eng. Zafer Melhem, Acting President of the Energy and Natural Resources Authority, August 2017, Ramallah - Palestine

44 Exclusive interview with Ahmad Al-Sabbah, Public Accountant of the State of Palestine/ Ministry of Finance, August 2017, Ramallah-Palestine

## **Palestinian Camps and Net Lending:**

- No doubt nonpayment of electricity and water bills in some refugee camps in the West Bank aggravates the net lending problem and makes it chronic. The Ramallah Water Undertaking and Bethlehem Water Authority cannot pay full bills because of camps' debt<sup>45</sup>. Consequently, water bill is not paid in full, which makes the Israeli side deduct the cost on the clearance money under the net lending item. The Energy and Natural Resources Authority also noted that some camps do not pay for electricity but efforts are employed to collect this cost, especially for commercial and industrial purposes. Domestic consumption will be handled in a later state<sup>46</sup>.
- PETL Director General considers it necessary to solve the Palestinian camps problem at high and comprehensive level. It is possible to formulate out-of-the box solutions including setting a higher ceiling of consumption and devising mechanisms to handle the debt<sup>47</sup>.

## **Compliance of Government Agencies to Payment of Electricity Bills:**

As local authorities and electricity distribution companies complained about noncompliance of different government agencies to pay their bills, the Acting President of the Energy and Natural Resources Authority reiterated that electricity bills of government agencies are paid directly to distribution companies and local authorities in the West Bank through a clearance process<sup>48</sup>.

## **Views of Ministries and Other Relevant Agencies to Reduce Net Lending:**

**The Public Accountant of the State of Palestine** believes it is necessary that local authorities repay their dues to reduce net lending and that it is necessary to raise public awareness and spread a culture of social responsibility to pay prices of water and electricity<sup>49</sup>.

**As for the Civil Affairs General Authority**, it believes it is necessary that the international community exerts pressure on the Israeli side to compel it to fulfill its obligations of accurate disclosure of financial statements, especially as regards net lending and abstaining from deducting any sums before informing the Palestinian

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45 Interview with Fadi Nofal, Financial Officer, West Bank Office of Palestinian Water Authority, August 2017, Ramallah - Palestine

46 Exclusive interview with Eng. Zafer Melhem, Acting President of the Energy and Natural Resources Authority, August 2017, Ramallah - Palestine

47 Exclusive interview with Eng. Nashaat Abu Bakr, Director General of PETL, August 2017, Ramallah - Palestine

48 Interview with Eng. Zafer Melhem, Acting President of Energy and Natural Resources Authority, August 2017, Ramallah - Palestine

49 Exclusive interview with Ahmad Al-Sabbah, Public Accountant of the State of Palestine/ Ministry of Finance, August 2017, Ramallah-Palestine

side of the relevant items with financial exhibits. It is necessary to solve the problem in the Gaza Strip and put an end to the authority of the De Facto government to enable the legitimate government control crossing points and monitor trade transactions with Israeli. It is also important to enforce pertinent laws on different defaulted agencies for the services provided by the Israeli side like electricity and water, and for services provided by local firms or authorities to avoid any accumulation of such debts, which would subsequently be deducted on clearance money.<sup>50</sup>

**The Palestinian Water Authority** believes it is paramount to implement projects to rehabilitate water networks in Palestinian cities and villages to reduce waste and enhance efficiency. Local authorities need to shift for prepaid meters for if subscribers fail to pay, local authorities cannot repay their debt and the problem will continue to grow in a snow-ball effect. It is also necessary to raise public awareness of the importance of payment of water and other bills while following up on water debts in camps and installing prepaid meters.<sup>51</sup>

### **PETL Role in Reducing Net Lending:**

In the event of complete establishment of the four transmission plants and that PETL exercises full authority, financial procedures will be implemented with distribution companies and local authorities to ensure instant payment and avoid accumulation of debt, which will consequently lower net lending.

PETL deems it is necessary to enforce relevant laws on accession of local authorities to distribution companies especially that 128 local government units continue to provide and distribute electricity to their constituency. This step is important to regulate and control this vital sector. Furthermore, distribution companies and local authorities must settle their administrative and financial issues to avoid any accumulation of new debts, deductible on net lending.<sup>52</sup>

### **Energy Authority Proposed Solution to the Problem of Electricity Supply in the Gaza Strip:**

Acting President of Energy and Natural Resources Authority noted that it is necessary to redress the situation in the Gaza Strip and end the political split to enable the national consensus government exercise its powers and implement its programs to end the electricity crisis.<sup>53</sup>

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50b Exclusive interview with Waleed Wahdan, Public Relations Officer/ General Authority of Civil Affairs, August 2017, Ramallah - Palestine

51 Interview with Fadi Nofal, Financial Officer, West Bank Office of Palestinian Water Authority, August 2017, Ramallah - Palestine.

52 Interview with Eng. Nashaat Abu Bakr, Director General of PETL, August 2017, Ramallah - Palestine.

53 Interview with Eng. Zafer Melhem, Acting President of Energy and Natural Resources Authority, August 2017, Ramallah - Palestine.



**As for the World Bank**, it mentioned in its report on “Review of Public Expenditure of the PNA” that net lending represents a burden and it must be reduced to help the PNA budget. The following steps were proposed;

- 1. Reforms to increase self-generated revenues of local government units.**
- 2. Transform water and electricity distribution services into commercial services** since management of such utilities require governance structure and skills that local authorities lack. Thus, transfer of such tasks to specialized companies will reduce the fragmentation of service provision and ensure cost-effectiveness of services. It is not possible to solve net lending with a single procedure. The problem requires several interventions and more time. Arrears in some cases are so huge compared to self-generated and actual or expected revenues. The PNA needs to consider writing off some of this debt to redress the balance of the current system, which relies on central government financing of local authorities.<sup>54</sup>

**As for MAS Institute**, it presented a number of proposed policies and procedures to solve the net lending problem in a background paper it published on this issue:

It is clear that net lending depletes the Palestinian treasure resources, which are already burdened by a chronic deficit that resulted from irresponsible behavior that cannot be tolerated. To achieve this purpose, it is necessary to strike a balance between citizens’ and institutions’ rights to access high quality and regular basic services on the one hand and sustainability of suppliers of such services. Two segments of beneficiaries must be differentiated:

**1. Households that cannot afford payment of water and electricity bills:**

There is consensus about the right of households that cannot afford payment of basic services to access water and electricity. This right is guaranteed for domestic use only and within reasonable per capita consumption rates, which include lighting and operation of necessary household devices. This can be arranged via prepaid meters with fixed monthly ceiling covered through PNA budget. Lists of recipients of cash assistance at the Ministry of Social Development may be used for this purpose after updating and annual auditing. The lists must be examined and scrutinized by specialists.

**2. Other groups who can afford payment of services:**

In such cases, law must be enforced to compel subscribers, including households and businesses and other economic and civil society organizations, to pay their water and electricity bills. Legal action must be taken to ensure such payment

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54 Public Expenditure Review of the PNA - World Bank, 13 December 2016

since it constitutes violation of public right. The money deducted on PNA funds to repay such bills – although subscribers can afford payment – comes at the expense of expenditure on education, health, infrastructure and other basic services. It is therefore necessary to employ full legal efforts to combat this behavior before it turns into a community culture. Violators must be punished. Legal reforms are necessary to grant companies the right to disconnect service for defaulted subscribers in accordance with the law.

**Necessary procedures – although insufficient – to address this problem include:**

1. Complete reform of the electricity sector by establishing electricity distribution companies with a legal personality that is fully administratively independent of any municipality. A decision must be made specifying the dates of accession of all local authorities and popular committees to such companies.
2. Complete reform of water and wastewater sectors by establishing water and sewage utilities that are fully independent legal personalities and which are not affiliated to ministries. A decision must be made to specify dates of accession of all local authorities and popular committees to such companies by implementing binding administrative procedures through distribution companies to encourage installation of photovoltaic cells, especially in camps.
3. Amend agreements with the Israeli electricity company and other producers to conclude a complete trade agreement since current agreements are unfair toward Palestinian subscribers as they treat local authorities and companies as domestic users in any place in Israel in terms of tariff and payment due dates.
4. Give top priority to expansion of production of electricity from alternative sources, especially solar and wind energy. This requires giving precedence to public interest over narrow interests of distribution and production companies, which have not been established yet. Distribution companies must be compelled to proceed effectively to connecting household units to electricity and establish a monthly clearance process for the cost of their production on monthly bills of subscribers. It is necessary to include small and medium investors who wish to establish commercial production units under the investment promotion law to motivate them to establish their investments. Furthermore, it is important to simplify licensing and connection procedures and lower their cost to all investors.<sup>55</sup>

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55 Background paper on Net Lending, MAS Institute for Economic Policy Research, March 2015

**The Civil Society Team for Public Budget Transparency in Palestine** prepared a report on areas of austerity and rationalization of public expenditure, which addressed net lending. The report addressed a number of recommendations to reduce net lending and rationalize expenses:

1. Activate and regulate the electricity sector in Palestinian areas by compliance with the regulatory legal and institutional framework.
2. Conclude central agreements between the PNA and Israeli providers on competitive trade basis to redress the unfair and imbalanced treatment of Palestinian consumers as a result of individual agreements.
3. Reach understandings with electricity stakeholders in the West Banka and Gaza Strip to ensure sustainability of service in the Gaza Strip, taking into account that poor families are not harmed. The agreements will alleviate the financial burdens of the public budget. It is possible to use the social assistance lists of the Ministry of Social Development to identify the needy families and the exemption ceiling.
4. Intensify use of prepaid meters to ensure more compliance of subscribers and local distribution companies and authorities to payment of electricity bills.
5. Allocate budgets to rehabilitate the existing networks and reduce technical waste. Such procedures must be accompanied by PNA commitment to transfer local authorities' share of taxes and tariffs to encourage such authorities transfer cost of such bills to Israeli providers.
6. Intensify use of alternative sources of energy (solar and wind) to reduce the electricity prices paid to Israeli providers.<sup>56</sup>

#### **Investment in alternative energy:**

The Ministerial Council issued a decision in its session of 18 July 2017 prescribing for an incentive package to promote investment in renewable energy technology.

The Ministerial Council ratified on a number of incentives to promote use of alternative energy technologies. It is expected that 30-40 megawatts will be generated through solar plants while 800 establishments are expected to install solar systems on their roofs. This investment will generate around 5,800 job opportunities knowing that it may exceed USD 50 million in two years of implementation of the incentives package.<sup>57</sup>

<sup>56</sup> Report on Areas of Austerity and Rationalization of Public Expenditure, the Civil Society Team for Public Budget Transparency, December 2015

<sup>57</sup> Ministerial Council session 161 on 18<sup>th</sup> July 2017

<http://www.palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=41088>

## Response to recommendations of Report on "Austerity and Rationalization of Government Expenditure"

Degree	Response Extent	Recommendation
	A ministerial council resolution was issued in this regard, and was enforced. Resolution 53 for the year 2016	Regulate the electricity sector in Palestinian areas by compliance with the regulatory and institutional framework of the sector
	PETL outsourced experts to draft an agreement for purchase of electricity according to new bases to ensure competitive prices and other benefits rather than the existing sale system.	Conclude central agreements between the PNA and the Israeli supplier on commercial competitive bases to redress the imbalance and unfairness endured by Palestinian consumers as a result of existing agreements.
	The Gaza Strip question is still complex since the situation needs to be redressed especially by putting an end to the political division to enable the national census government fully operate to implement its program to end the electricity crisis	Reach understandings with stakeholders in the West Bank and Gaza Strip to ensure continued provision of electric power in Gaza and ensure that poor families are not harmed.
	The process is handled through MoF, which provided the necessary subsidies but some obstacles remain in the camps.	Intensify use of prepaid meters to ensure more compliance of subscribers to pay the distribution companies and local authorities for electricity bills
	There are some projects, but they remain below needs, especially in marginalized areas. MoF is applying clearance on the share of local authorities of the taxes and fees due to them and this harms these local authorities' projects.	Allocate budget to rehabilitate existing networks and reduce technical waste. This must coincide with PNA commitment to transfer the share of local authorities in the taxes and fees levied on their behalf to encourage them repay prices due to the Israeli supplier
	There are some projects at the Energy Authority, but still in their beginnings. Ministerial Council resolution 6 for the year 2017 was promulgated to provide an incentives package for promotion of investment in alternative and renewable energies.	Intensify use of alternative energy (solar and wind) to reduce the electricity bill from Israeli supplier

# chapter 3

## Conclusions and Recommendations

## Conclusions:

- Net lending has grown into a constant item on the PNA public budget, which burdens the budget and deprives it of its entitlements. Net lending increases public budget deficit, which has been steadily rising to exceed a billion NIS per year since 2014.
- The net lending problem cannot be solved through a single procedure or in a short period of time. It requires treatment of several axes and a whole package of procedures.
- Israeli abuses of net lending to seize entitlements of the Palestinian people on the clearance money by unilaterally imposing facts on the ground without any consideration of the 'legitimacy' of seizure of such moneys.
- Israel exploits the bower imbalance and weak position of Palestinian negotiators to impose its agenda on clearance money and net lending. It delays and does not fulfill its obligations under the signed agreements. For instance, it seizes money for electricity bills even before issuance of official invoices by the electricity company. It further deducts additional expenses like delay fines and salaries of its civil administration staff.
- The PNA applied several procedures to control net lending and reduce its cost. However, these efforts were below the aspired level for many reasons: Israel systematically deducts money on clearance funds not only as a financial measure to pay for debts, but also to exert pressure as an occupation authority. Other factors include the fact that government policies require longer time to make effect.
- The government, through MoF and in cooperation with MoLG and Energy and Water Authorities, has been endeavoring since 2014 to settle the situation of local authorities and reschedule its previous debts. It opened in escrow account for electricity bills and appointed controllers through MoLG to follow up. Some success was achieved with 85% payment compliance of electricity bills. Approval of new projects is also conditioned with scheduling of water debts.
- The government made a resolution no 53 for the year 2016 to control and regulate revenues and expenditure of the electricity sector. It involves a number of procedures to regulate and control and oversee revenues and expenditure of the electricity sector. This had a positive effect on the sector.
- The government is currently suing the Israeli side to hold its deduction of

electricity bills on clearance money since the deduction is made before due date of payment of bills.

- Electricity is a key component of net lending since it amounts to NIS 70 million a month including NIS 40 million in the Gaza Strip. The government requested reduction of this cost to NIS 25 million because the government is not able to collect since it is not operating in the Gaza Strip.
- Citizens default on payment of their electricity and water bills and other fees payable to local authorities. This is a key reason behind the net lending emergency and continuity since local authorities and distribution companies became unable to repay their debts, which rendered the problem chronic.
- The political split and Gaza Strip problem represent a main obstacle to ending net lending. The cost of electricity provided by Israel to the Gaza Strip consumes a large share of net lending with a value of NIS 480 million a year. In the same time, the government is unable to collect such prices.
- The Palestinian camps continue to constitute a problem since they do not pay for electricity and water bills, forcing the PNA to bear such cost. Consequently, the Israeli side deducts their value on the clearance money under net lending.
- In the event of full operation of PETL in all areas, it will be possible to control the electricity problem and get better prices and devise new work mechanisms to avoid accumulation of debt by local authorities and distribution companies.
- The PNA pays water prices to Israeli providers at a cost that is higher than the price paid by local authorities and citizens, which leads to constant cost item on the government budget.
- Local authorities and distribution companies defaulted in payment of electricity and water bills because of their administrative and financial problems including overstaffing and use of collected prices to cover their operational or development expenses.
- In spite of legal provisions prescribing accession of local authorities to distribution companies, the law was not fully enforced and 128 local authorities continue to provide and distribute electricity.
- Fragmentation of distribution of electricity in the West Bank through municipalities and distribution companies, in addition to outdated networks, hindered quality and efficiency of electricity services and led to high technical waste. It also weakens collection capacities and combatting of electric current stealing – which increases non-technical waste and consequently electricity bills.

- Many citizens in the Palestinian society have a cultural problem relevant to payment of electricity and water prices.
- Subscribers who comply with payment of water and electricity bills pay the price twice: to the local authority and distribution company on the one hand and when Israel deducts unpaid bills on the clearance money on the other. This deprives citizens of the revenues for developmental projects and other public expenses, which has a direct impact on them.
- Nonpayment of water and electricity bills by many segments of the Palestinian society – while they can afford such payment – and while other segments comply even when poor does not achieve social justice and leads to negative discrimination.
- Government considers investment in alternative energy. The Ministerial Council issued a resolution prescribing incentives to promote investment in alternative and renewable exergies. This is expected to achieved results on the medium and long runs.



## Recommendations:

- The PNA should approach the international community to sue Israeli and oblige it to honor its agreements and abstain from deducting on the clearance money save within the limits of the provisions of electricity related agreements. It should also abstain from deducting bills before due payment date and adding items to the net lending.
- The government needs a more rigorous policy toward local authorities and water and electricity distribution companies to ensure non-accumulation of debt and activate instant collection through escrow accounts in order to stop deduction on clearance money. It is also necessary to schedule debt to compensate the government for previous entitlements that were deducted on clearance money.
- It is paramount to end the split and the current situation in the Gaza Strip, which represents a major challenge to ending or reducing net lending especially when the electricity bill of Gaza consumes the lion share of net lending. It is at least necessary to reach understanding to solve the electricity problem in Gaza without jeopardizing the rights of the poor.
- The problem of defaulted payment in camps must be solved in cooperation with all stakeholders to devise creative solutions starting with compelling subscribers in camps to pay for commercial and industrial use and apply gradual solutions for domestic uses. A mechanism is necessary to assess social situation of households and write-off debt of poor families while granting them a ceiling of monthly consumption of NIS 200, which will be covered by the government through its Ministry of Social development rather than burdening distribution companies and local authorities with this payment.
- It is necessary to complete reform of the electricity sector and enforce relevant laws to compel local authorities stop provision of electricity and contribute to distribution companies that are administratively independent of local authorities for better regulation of this vital sector.
- The Palestinian Electricity Transmission Company PETL must become operational in all Palestinian areas as per the agreements signed with the Israeli side on competitive trade bases and through technical arrangements that ensure competitive prices, lower cost of electricity. Administrative and financial procedures are necessary for instant payment and to avoid accumulation of debt.

- Local authorities must redress their administrative and financial situation and downsize their staffing to reduce their operational cost, which consume part of the prices of water and electricity.
- Government and other stakeholders must invest in the infrastructure of water and electricity networks especially in less fortunate communities to cut down on technical waste. Deterrent penalties need to be enforced to combat stealing of water and electricity and reduce bills.
- Prepaid water and electricity meters must be used in all areas with governmental subsidies to improve collection and ensure payment. In the same time, free consumption ceilings must be granted to poor families in cooperation with the Ministry of Social Development through Social Assistance Single Portal.
- Treat the difference of prices paid by the government, which exceed the prices paid by citizens for purchase of water without jeopardizing the rights of poor households and to halt accumulation of debt toward Israeli companies.
- It is necessary to reduce dependency on Israel for electric power, and shift toward production of alternative sources including solar, wind and biological power; it is necessary to encourage the private sector to shift toward such production.
- The Ministry of Finance must pay to the local authorities their share of taxes and fees to enable them implement their developmental projects and provide services to their constituency, rather than cutting electricity debts and jeopardizing the services provided to citizens.
- Government and local authorities need to launch awareness campaigns to encourage citizens repay their debt, mainly electricity and water bills using incentive packages.

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- Exclusive interview with Dr. Asaad Ramalawi, Palestinian Deputy Minister of Health, August 2017, Ramallah - Palestine
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