



## **Annual Report of 2017 Budget**

**February 2018**

## Introduction

This analytical paper seeks to review and analyze the reality of enforcing the 2017<sup>1</sup> public budget, based on the financial report of December 2017 issued on 24/1/2018<sup>2</sup>, and to highlight some expenditures needed to be reduced based on the most important recommendations stated in the Austerity and Rationalization Report\_ AMAN Coalition of 2015.

### The paper is composed of three chapters:

- **First Chapter:** it addresses and discusses the extent to which the Ministry of Finance is abiding by the regulatory legal references, starting with the provisions stipulated in the Basic Law on Public Budget and Financial Affairs Regulation Law No. (7) of 1998, Public Budget Law of 2017 and other relevant legislations and their respect to the common public budget transparency criteria.
- **Second Chapter:** comparative presentation and analysis between what was actually realized during 2017 and what was stipulated in the Public Budget Law of 2017.
- **Third Chapter:** review of conclusions.

In its analysis, this paper is depends on data review based on compliance and financial policies approved by the Council of Ministers on 31/1/2017, which aims at improving the financial performance through four simultaneous axes related to:

**First: Revenue Policies**, through expanding tax base, unifying tax collection procedures, organizing the tobacco sector, establishing tax and customs auditing centers, developing and modernizing the applied software at revenue departments, promoting partnership and building bridges of confidence with relevant institutions and amending the fees that do not directly affect the citizen.

**Second: disbursement policies**, adopting a policy of rationalizing the disbursement areas while continue maintaining the same level of employment in the public sector, focusing on treasury-funded development projects, continue issuing government payment permits to pay the private sector dues, reforming the health sector and correcting the medical referrals system, creating new job opportunities by supporting micro projects in partnership with the Ministry of Labor and banking institutions, and supporting the resilience of Jerusalemites.

**Third: enhancing partnerships with donors**, by unifying communication channels, unifying the information and funding through official government channels, directing international support to be in line with the national policy agenda and urging the donors to

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<sup>1</sup> Public Budget Law of 2017 Fiscal Year

<sup>2</sup> Financial Report of December 2017, issued by the Ministry of Finance on 24/1/2018

strengthen their intra-coordination to ensure no overlapping and conflict in their various programs.

**Fourth: accelerating the process of program and performance budget reform by focusing on a specific selected number of ministries.**

## Chapter One

### Legal Aspects of the Draft Budget Law of 2017 Fiscal Year

This chapter examines and discusses the extent to which the Ministry of Finance is abiding by the regulatory legal references, starting with the provisions stipulated in the Basic Law, Public Budget and Financial Affairs Regulation Law No. 7 of 1998 and other relevant legislations and their respect to the common public budget transparency criteria.

By reviewing the data issued by the Ministry of Finance on the 2017 budget and comparing it to the Public Budget and Financial Affairs Regulation Law No. (7) of 1998<sup>3</sup> and the relevant Palestinian legislations, the following observations can be listed:

1. There was no compliance with the legal deadlines for developing and ratifying the Draft Budget Law of 2017, since the Draft Budget Law was not submitted to the Legislative Council at the beginning of November 2017 in accordance with the provisions of Article (3/a) of the Budget Regulation Law. (The paralysis of the Palestinian Legislative Council does not exempt the government from abiding by the submission of the public budget on time, i.e. at the beginning of November 2016). The draft law was submitted in January 2017 and it was presented in a meeting attended by representatives of private sector and non-governmental organizations (this meeting did not achieve the participatory approach in developing the public budget).
2. Neither the semi-annual report, nor the end-of-year report have been issued.
3. The Citizen's Budget has not been issued, which constitutes a violation of the international transparency standards adopted by the government.
4. The estimates and comparisons of the 2017 public budget items were based on the 2016 public budget items (the actually realized but not the planned), in which the Civil Society Team (CSTEPBT) reports indicated significant deviations. These figures became the reference to the estimates of the 2017 budget items, although some of the 2016 realized budget items have resulted from some agreements that have been valid for one time only.
5. The Public Budget Law of 2017 did not include a table showing the debts and loans (short-term or long-term) of the Palestinian Authority and the proposed plans for collection or payment, in addition to the Pension Authority debts. The contributions of the Palestinian Authority and its investments in local and non-local bodies were also not explained, although these information should be provided in accordance with Article (21) of Public Budget and Financial Affairs Organization Law. The Law did not also include the Investment Fund and Monetary Authority accounts.
6. The absence of final balance sheet (the final balance sheet report) for 2013, 2014, 2015 budgets, and of course the final balance sheet of the 2016 budget will not be issued before issuing the ones of previous years, makes the actual accountability process for

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<sup>3</sup> Law No. (7) of 1998 on Public Budget and Financial Affairs Organization.

the spent sums completely paralyzed, and abiding by the ratified budget laws without issuing the final audited balance sheet by the Financial and Administrative Audit Bureau will not be verified.

## Chapter Two

### Presenting and Analyzing the 2017 Public Budget Items Enforcement between Reality and Planned

This chapter presents the reality of public budget enforcement in 2017, and provides an analysis of the actual realized data compared to the public budget plan. The analysis in this chapter is also based on the content of public funds management axe included in the public funds management strategy, national policy agenda and the declared financial policies in the 2017 Decree Law on Public budget. The Chapter also clarifies the extent of compatibility or deviation between the planned and the realized.

In this chapter, the financial data of the 2017 public budget will be presented and analyzed in comparative tables and charts that would include:

- Presenting and analyzing the **revenue** data in 2017 and comparing them to the estimated data.
- Presenting and analyzing **public expenditure** data and the relevant issues in 2017 and comparing them to the estimated data.
- Presenting and analyzing the data of **fiscal deficit, grants, aids, arrears and bank funding** in 2017 and comparing them to the estimated data.
- Presenting and analyzing the **public debt** data and the relevant issues in the 2017 budget.
- Presenting and analyzing the allocations of **responsibility centers that are related to the social sector**.
- Presenting and analyzing **special issues related to the 2017 public budget**:
  1. Financial reserves.
  2. Legislative Council Budget.
  3. Transformational Costs.

## First: Revenues Analysis

The 2017 Public budget has projected that the total public revenues would amount to (NIS 13,821) million Shekels, with an increase by 18% more than the planned for 2016, which was estimated at (NIS 11,630) million Shekels. The total realized net revenue for 2017 has amounted to (12,880.2) million Shekels representing 95% of the planned (Planned total net revenue (NIS 13,451)), which was earned from local revenues amounting to (NIS 4,419.4) million Shekels and the clearance revenues amounting to (NIS 8,722.2) million shekels, from which the tax refunds amounted to (NIS 261.3) million will be deducted.

This is clarified in Figure (1), which shows the convergence between the planned and the actual, which is a good indicator of the government performance. Although the realized local revenues have amounted to 88% of the planned, which was estimated at (NIS 5,041) million Shekels, there is a marked improvement in tax revenues increase. It should also be said that the realized revenues are lower than the 2016 realized ones that amounted to (NIS 5,023.2) million Shekels, about 600 million Shekels less. This confirms that the increase in revenues for that year was a result of the agreements concluded in 2016 mentioned in previous reports.

Figure (2)

### Planned and Realized Local Revenues of 2017

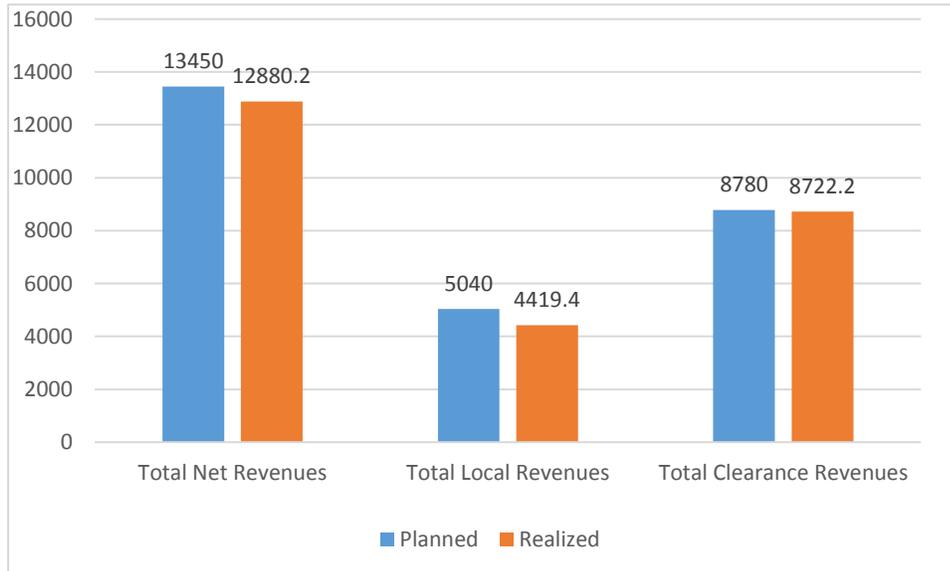
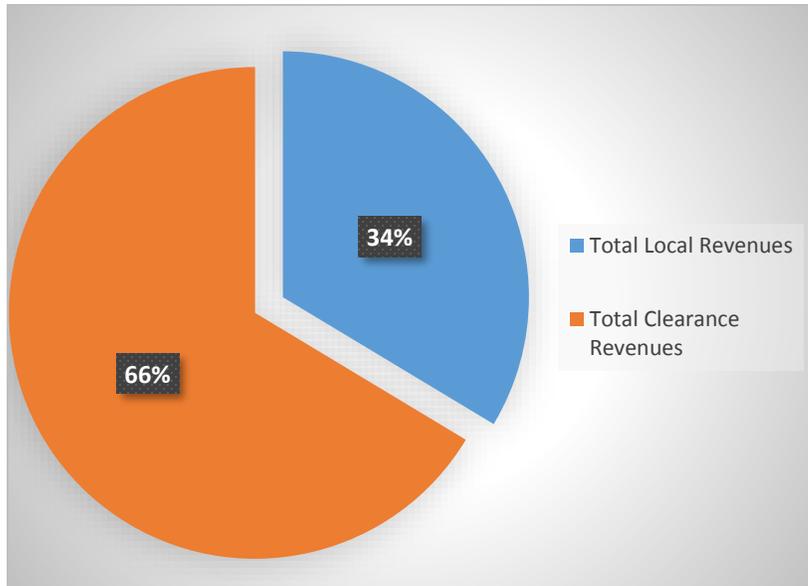


Figure (2) also shows that 66% of the realized revenues were through clearance, raising the question on the possibility of economic disengagement and the plans and scenarios proposed to achieve this objective.

Figure (2)  
Percentage of Realized Revenues of 2017



### Local Revenues:

Local revenues are composed of tax and non-tax revenues. Table (2) shows that 88% of the projected local revenues were realized, with 62% of the realized revenue were collected from taxes, while 31% were collected from non-tax revenues and 7% from allocated payments<sup>4</sup>. With regard to the non-tax revenue generated from fees and licenses, only 74% of the planned was realized. By examining the financial report of December 2017, it was found that the projected revenues generated from profession practice licenses was (NIS 463) million Shekels, while (NIS 326.5) million was realized. In addition, there was an item of (other) within the non-tax revenues, which was according to planned (NIS938) million Shekels, but only (NIS 298.8) million Shekels were realized. This explains that the projection was not accurate as the agreements concluded in 2016 (license renewal of the Telecommunications Company and the amounts collected for health insurance for Palestinians working inside the 1948 areas as a result of the electricity agreement) were for one time only.

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<sup>4</sup> Those are taxes and revenues due to the local government bodies, 90% of property tax and 50% of transportation tax.

Table (1) Planned and Realized Local Revenues Structure per Million Shekels for 2017

	<b>Planned</b>	<b>Realized</b>	<b>Percentage of the Realized from the Budget</b>
Local Revenues	5041	4419.4	88%
Local Tax Revenues	3141	2750.6	88%
Non-tax Revenues	1900	1404.1	74%
Allocated Payments		264.7	

Table (2) shows that there is an improvement in tax collection as 88% of the planned has been realized. This is clear in the taxes realized from Value Added Tax (VAT), income and customs as the realized was higher than the planned. These are good indicators except for the cigarette excise which has realized only 23% of the planned although there was a decision stated in the 2017 Budget Law that the tobacco sector shall be reformed. According to the World Bank Report<sup>5</sup>, the expected increase in tax revenues from the tobacco sector will result from licensing a new local company in the West Bank to produce tobacco for export to the Gaza Strip. However, as indicated by the figures, there is a slight improvement in the revenues generated from this sector.

Table (2)  
Planned and Realized Local Tax Revenues Structure per Million Shekels for 2017

	<b>Planned</b>	<b>Realized</b>	<b>Percentage of the Realized from the Budget</b>
Local Tax Revenues	3141	2750.6	88%
Income Tax	673	789.9	117%
Value Added Tax	963	1011.3	105%
Customs	648	737.2	114%
Beverages Excise	4	5.1	128%
Cigarettes Excise	830	193.7	23%
Property Tax	22	13.3	60%

<sup>5</sup> Economic Monitoring Report to the Ad Hoc Liaison Committee, May 2017

### Clearance revenues:

These are the taxes Israel collects and transfers to the Palestinian Authority. The clearance revenues consist of six items, namely: Customs, VAT, purchase tax, fuel tax, income tax and other taxes.

Table (3) shows that the clearance revenues were realized as projected, and the planned and realized in 2017 is higher by 6% than the projected for 2016, but less than the realized in 2016 by (NIS 208 ) million Shekels.

The fact that clearance revenues constitute the largest source of government revenues (66% of total revenues), raises the question of possible economic disengagement, which was discussed during the Council of Ministers meeting<sup>6</sup> to develop the plans and programs for disengagement from the Israeli occupation authorities at political, administrative, economic, and security levels, including disengagement from the Paris Economic Agreement, in order to meet the requirements national economy improvement and disengagement from the consequences of forced engagement with the Israeli economy; in addition to developing studies and proposals to dispense with the Shekel currency and to replace it by any other currency as well as examining the possibility of producing a national currency

Table (3)  
Planned and Realized Clearance Revenues Structure per Million Shekels for 2017

	Planned	Realized	Percentage of the Realized from the Budget
Clearance Revenues	8780	8722.2	99%
Customs	3299	3353.7	102%
Value Added Tax	2277	2288	100%
Purchase Tax	-10	-4.7	47%
Fuel Tax	3094	2903.5	94%
Income Tax	37	180.2	487%
Other	83	1.5	2%

<sup>6</sup> Council of Ministers Meeting No. (190) on 6/2/2018

## Second: Expenditure Analysis

The total realized public expenditure and net lending for 2017 have amounted to (NIS 15,994) million Shekels, exactly as planned (NIS 16,147). Table 4 shows the expenditure structure and distribution. It is generally clear that the expenditure was as stated in the draft budget, excluding goods and services (operating costs), which exceeded the estimated cost by (NIS 467) million Shekels.

The table generally shows good performance and commitment to budget of the government, but as stated in the 2017 semi-annual budget report, the estimated expenditure was 6% higher than the estimated budget of 2016. Therefore, the planned expenditures are high and not in line with the declared austerity and rationalization policies.

The table also shows that realized net lending has reached (NIS 959) million Shekels, which is a good indicator of government's performance. The realized net lending did not exceed the planned, although the planned net lending is higher than the previous years, but abiding by the planned seems to be a good indicator towards reducing the net lending item.

Table (4)  
Total Planned and Realized Public Expenditure and Net Lending for 2017

	<b>Planned for 2017</b>	<b>Realized for 2017</b>	<b>Percentage of the Realized from the Planned</b>
Total Expenditure	16147	15994.5	99%
Salaries and wages	8093	7631.5	94%
Social Contributions	768	735	96%
Transformational Costs	2035	2502.2	123%
Fuel Tax	3781	3559.4	94%
Capital Costs	65	68.3	105%
Interest	455	273.8	60%
Net Lending	950	959.6	101%
Allocated Payments		264.7	

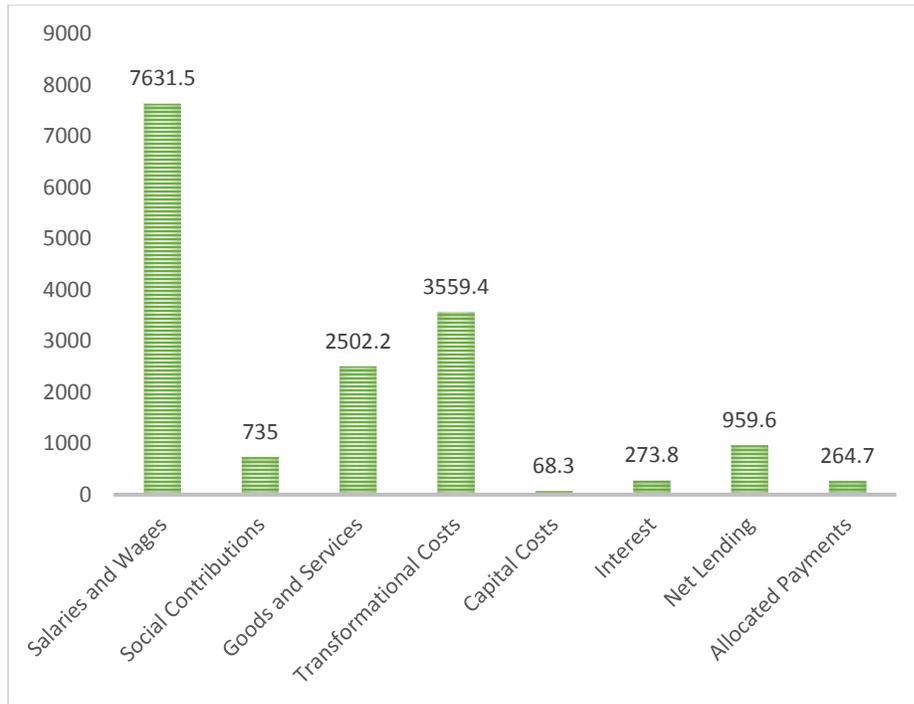
Figure 3 shows that salaries and wages account for the largest share of expenditure as they constitute 48% of total running costs, while transformational costs were the second highest expenditure constituting 22% and goods and services constitute 16% of the total expenditure.

The realized salaries and wages have amounted to (NIS 7,631) million Shekels, which is 400 million less than planned. This is a good indicator of the government's commitment to zero employment policies as stated in the Budget Law of 2017. On the other hand, the continued superannuate to early retirement of employees has also led to a reduction in the salary bill, which affects the acquired rights of employees as well as pension legislations that regulate and identify the procedures and mechanisms of public employee retirement eligibility that guarantees a decent standard of living for the employee and his/her family.

Table (4) indicates an increase in the goods and services item to exceed the planned, which contradicts the austerity and rationalization policy. Figure (3) shows that transformational costs constitute the second largest total expenditure. In a report developed by AMAN on the reality of transformational costs in the public budget, it was found that 18 responsibility centers included approved transformational costs and that the largest actual expenditure in transformational costs was for the “retirees” which amounted to (NIS 1,273,444,000) shekels and it also exceeded the estimated as the realized expenditure compared to the estimated has amounted to 123.6%. There are also paralyzed and non-functional responsibility centers since many years, such as the Palestinian Legislative Council, but its realized transformational costs have amounted to (NIS 12,382,000) Shekels representing the salaries of Legislative Council Members (MPs).

In addition, there are (14) major and minor responsibility centers to which transformational costs have been allocated. These centers’ scope of work is outside the definition of transformational costs stated by the Ministry of Finance and Planning.

Figure (3): Distribution of Realized Expenditures for 2017



### **Third: Deficit and Arrears**

Fiscal deficit of 2017 has reached (NIS 4,435.7) million Shekels before financing, or NIS (NIS 100) million Shekels more than the projected (NIS 4,335) million Shekels due to the fact that total realized revenues were less than the planned by the same value amounting to (NIS 100) million Shekels.

Part of this deficit was covered by grants and financial aids, which amounted to (NIS 2,597.2) million Shekels, which was (NIS 101) million Shekels higher than the projected (NIS 3,496) million Shekels although the projected was less than the estimated of 2016 which amounted to (NIS 3,881) million Shekels.

Data shows that the deficit of 2017 was (NIS 1,838.5) million Shekels, plus the allocated amount to pay net arrears (NIS 1,495.4) million Shekels, so that the deficit would become (NIS 3,333.9) million Shekels, which is close to the amount projected in the 2017 Budget Law.

**Table (5): Grants and Assistance between the Realized and the Estimated for 2017**

	<b>Planned</b>	<b>Realized</b>
Total External Funding	2496	2597.2
External Budget Support	1950	1965.5
Developmental Funding	546	631.7

Figure (4) Sources of External Support to the 2017 Budget

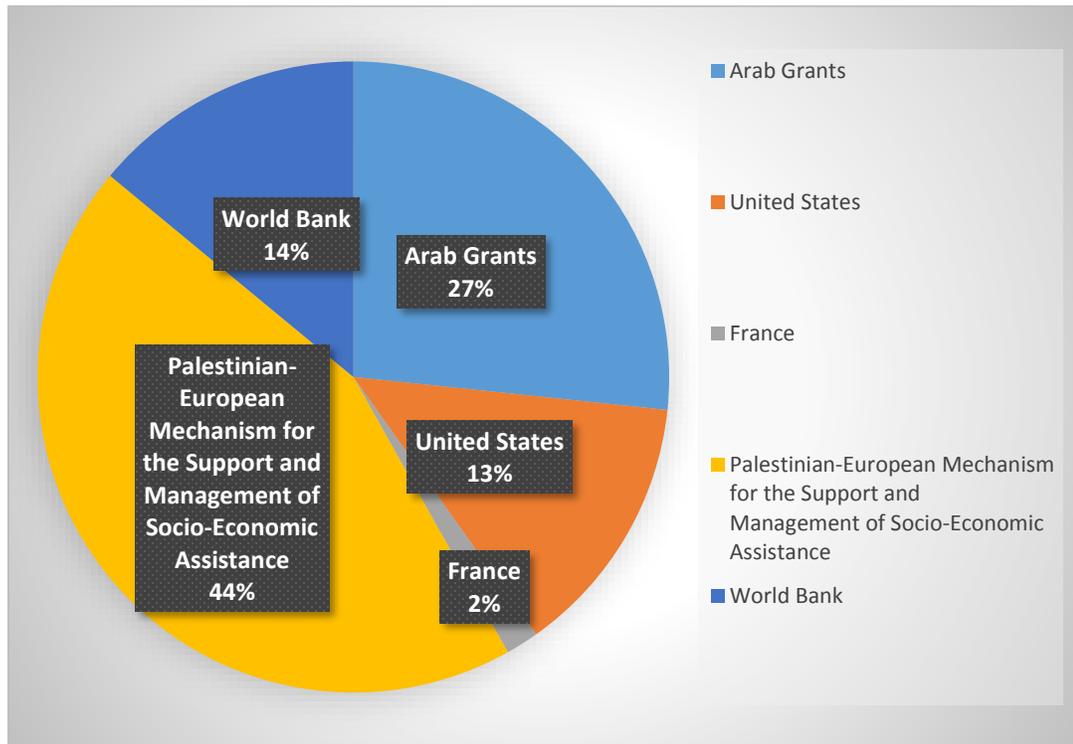


Figure (4) shows that most of the external support comes from the Palestinian-European Mechanism for the Support and Management of Socio-economic Assistance, which constitutes 44% of the total external support and it is distributed to salary support (support the salaries of civil servants and retirees, civil police and civil defense), supporting social cases and Jerusalem hospitals, paying some government debts to hospitals while Arab countries (Saudi Arabia and Algeria) account for 27% of the total external support, while the United States accounts for 13%.

#### **Fourth: Public Debt**

At the beginning of 2017, the public debt has reached (NIS 9,559.2) million Shekels. The Palestinian Ministry of Finance data indicates that the public debt was decreased by the end of 2017 to reach (NIS 8,849.7), which was decreased by (NIS 709) million Shekels. In the middle of the year, the deviation was higher as the decrease at the end of June has reached (NIS 825) million Shekels. This means that the debt was increased by (NIS100) million Shekels in the second half of the year, although the policies announced at the beginning of the year require not to borrow for this year. However, the reduction of debt by 7% is a good

indicator, but cannot be isolated from arrears costs that are ultimately debts of the public treasury amounted to (NIS 2,714.6) by the end of 2017, approximate to the fiscal deficit of 2017. Note that the value of the declared arrears does not necessarily reflect the actual figure, which is expected to be higher, as a result of lack of agreement on the definition of arrears calculation as well as the multiple procedures of internal auditing and accounting of arrears invoices.

**Table 6: Comparison of public Debt between December 2016 and December 2017 per Million Shekels**

	<b>December 2016</b>	<b>December 2017</b>	<b>Reduction Percentage</b>
<b>Total Public Debt</b>	<b>9559.2</b>	<b>8849.7</b>	<b>-7%</b>

### **Pension Fund**

The value of social contributions achieved by the end of 2017, commitment-based, has amounted to (NIS 735) million Shekels, which is close to the planned (NIS 768) million Shekels. However, the cash basis reflects that the value of actual social contributions has amounted to only (NIS 260) million representing 35% of the commitment, thus (NIS 475) million will be added to the Pension Fund debts, which will become about (6)<sup>7</sup> billion Shekels before starting to register the 2018 debts. In a report prepared by the Civil Society Team for Enhancing Public Budget Transparency on the government's policy in paying the debts of Pension Authority Fund indicated that the Palestinian governments were not committed to transferring their contributions and employees' contributions (government share and employee share) entirely to the Pension Fund. The value of the public treasury debt in favor of the Pension Fund is about (NIS 7) billion Shekels or the equivalent (US \$ 1.829 billion). The due arrears in favor of Pension Authority have actually started since 1999 (about 18 years ago), with debts on the public treasury rising from (NIS 14) million Shekels in 1999 to (NIS 5.6) billion Shekels at the end of 2016. The "arrears", outstanding public treasury debts, include most of Pension Fund assets and funds (about 88%), which prevents their investment in favor of the Pension Authority and constitutes a threat to the ability of pension funds to continue paying future pensions to subscribers upon reaching retirement age, especially that their numbers are expected to increase in the upcoming years. Therefore, the Palestinian government must develop a government plan through policy intervention to address the issue of accumulated debts

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<sup>7</sup> Report on government policy in paying the debts of Pension Fund and facing the challenges of Pension Authority sustainability, AMAN Coalition, 2017

of public treasury in favor of Pension Authority in order to ensure the sustainability of the work of the Pension Authority and pension funds and their ability to pay future pensions to subscribers upon reaching retirement age.

### Fifth: Allocations of Social Affairs- Relevant Ministries

Ministry of Finance data shows that the share of development sector-relevant ministries (Health, Education and Social Development) together constitutes 39% of the budget, while the Ministry of Interior and Security constitutes 26%. Although most of the budgets are expended on salaries, specifically for the said ministries except the Ministry of Development, the high security budget at the expense of development sectors remains a question, especially in the absence of information and data on spending within the security sector.

Table (7) shows that the total realized expenditure for the foresaid ministries is close to the planned with the exception of the Ministry of Development. It is noted that the actual expenditure of the Ministry of Development (on the basis of commitment) constitute only 82% of the planned, although these expenditures include the Ministry of Development and the Foundation for the Care of Martyrs' Families. With regard to the budget of the Ministry of Development (without the Foundation for the Care of Martyrs' Families) that has amounted to (NIS826) million Shekels constituting (5.45% ) of the public budget, transformational costs constitute about (92%) while 8% remains for salaries, wages and running costs that aim to achieve development.

**Table (7): Comparison of Expenditures based on Responsibility centers\* (Commitment based) in 2017**

	Total Planned Expenditure for 2017	Total Realized Expenditure for 2017	Percentage of the Realized out of the Planned	Allocated Salaries and Wages for 2017	Realized Salaries and Wages for 2017	Percentage of Total Realized Expenditure out of the Realized Public Expenditure for 2017
Ministry of Interior and Public Security	4,075,500,000	3,939,657,000	97%	3,439,000,000	3,153,685,000	26%
Ministry of Education	3,490,170,567	3,039,907,000	87%	2,300,000,000	2,258,998,000	20%
Ministry of Health	1,720,773,000	1,643,127,000	95%	777,346,000	728,162,000	11%
<b>Ministry of Social Development*</b>	<b>1,521,430,000</b>	<b>1,251,647,000</b>	82%	<b>60,455,000</b>	<b>56,632,000</b>	8%
Ministry of Development	826,381,000			54,362,000		
Foundation for Care of Martyrs' Families	695,049,000			6,093,000		

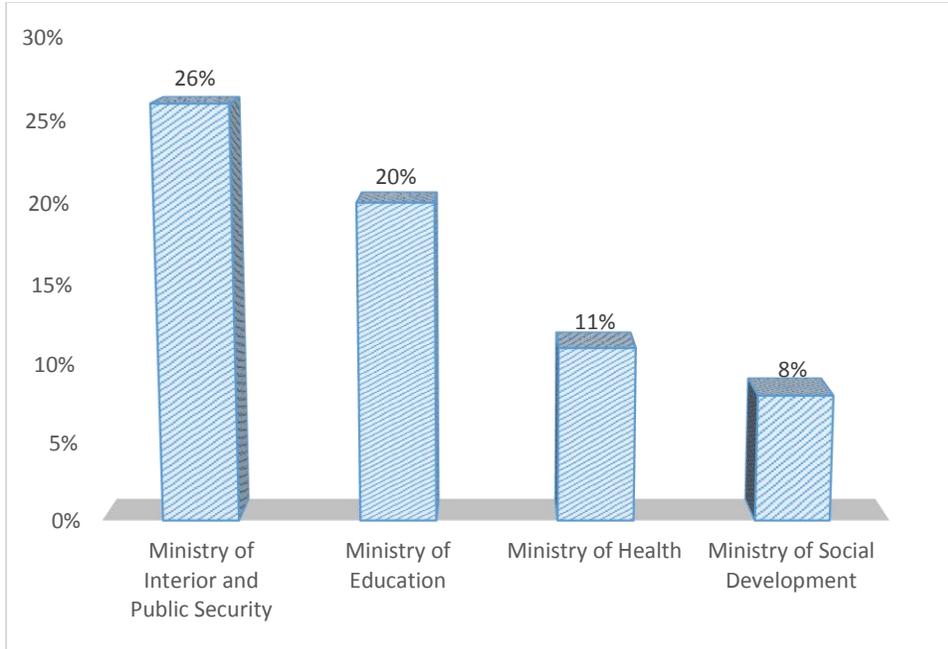
\* Note: Budgets of responsibility centers do not include developmental costs as they were not stated quantitatively in the budget book>

\* Note: The Ministry of Social Development including both the Ministry of Social Development and the Foundation for Care of the Martyrs' Families.



**Figure (5)**

**Comparison of Actual Expenditures out of Total Expenditure based on Responsibility Centers (commitment-based) in 2017**



The above table and figure show that the share of the Ministry of Education of the total expenditure has reached 20%. Through the Civil Society Team Paper on expenditure priorities in the education sector and auditing the budget of the Ministry of Education, it was found out that the budget of the Ministry of the total budget based on international standards of good budgets, if the percentage is dealt with simply, the expenditure on salaries and wages constitutes 74%, which is higher than the estimated percentage (66% of the budget) because the planned budget was not fully realized. Actual expenditure has constituted 87% of the planned. The developmental cost of the budget of Ministry of Education has constituted only 7%. Thus, the problem remains in the building and structure of the Ministry of Education's budget from which wages and salaries constitute the bulk share and it is not in line with the strategic plans for education sector.

Through examining the budget of the Ministry of Health, it constituted 11% of the total expenditure and 95% of the planned budget for the Ministry of Health (commitment-based) has been realized, only 2% of which was for developmental costs. According to the Expenditure Priorities Paper in the Health Sector, there is still a need to adopt a comprehensive health insurance system that will provide the Ministry of Health with further financial resources and develop health services. There is also an urgent need to develop a developmental plan to develop specialized services in the Ministry's institutions in order to reduce reliance on medical referrals or service-purchase from outside the Ministry of Health institutions. This can be done through developing

the capacity of the human resources at the Ministry of Health and providing medical supplies related to the most costly diseases or those need to be referred to outside the Ministry's institutions.

## **Sixth: Presentation and Analysis of Special Issues Related to Public Budget**

### **Financial Reserves:**

The public budget includes a financial reserves item, which the public budget of 2017 estimated at (NIS 55) million Shekels, exactly the same as it was allocated for 2016, which is expended as transformational costs. In 2017, only (NIS 11 million) were expended under this item representing 20% of the planned, but there is a need to enhance the transparency and disclose data related to the spending of financial reserves, especially that they are spent under a (loose) item called transformational costs, which the government approve as an emergency fund from which expenditures not stated in the budget are spent.

### **The Palestinian Legislative Council:**

The Legislative Council budget of 2017 has amounted to (NIS 39) million Shekels, which is less than the estimated (NIS 56) million Shekels, of which (NIS 6) million are running costs although the estimated was (NIS 15) million, (NIS 12) million as transformational costs constituting 30% of the realized expenditures. These expenditures are spent although the Legislative Council is not functioning since 11 years.

In a report prepared by the Civil Society Team on the reality of running costs, it was found that a high running cost budget is allocated to the PLC despite non-functioning and the actual expenditure is lower than the estimated. This situation could be to satisfy the PLC members in the consultations during the public budget approval phase by the Ministry of Finance, or to allow the Ministry of Finance to be flexible to spend based on the higher limit if the PLC is reconvening and re-functioning in its full capacity.

### **Transformational Costs:**

The Palestinian Ministry of Finance has defined the transformational costs as the costs deposited in the public budget from which a third party is benefited, such as assistance provided through the Ministry of Social Development to poor families, allocations of families of martyrs and wounded and allocations for prisoners<sup>8</sup>. By analyzing the public expenditure realized in 2017, the realized transformational costs have amounted to (NIS 3,481) million Shekels, representing 22% of the total running costs. Therefore, transformational costs constitute the second largest item of expenditure after salaries and wages and these costs are practically allocated to 18 responsibility centers out of 54. For example, the budget spent in the form of transformational costs for Energy and Natural Resources Authority have amounted to (NIS 35) million Shekels, while the transformational costs of the Ministry of Finance and Planning have amounted to (NIS 43) million Shekels.

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<sup>8</sup> Citizen's Budget, 2013

Therefore, there is a need for greater transparency in this item, clarification of its components, how to spend based on it and to be allocated a relevant responsibility centers in this regard in order to examine the rationalization of this item.

## Chapter Three

### Conclusions

- **Public Budget Transparency:** there is a problem in enforcing the transparency principles related to the disclosure of public budget and its details in accordance with Law No. (7) of 1998 on the Public Budget and Financial Affairs Organization. These principles shall also be enforced by referring the draft budget to the Legislative Council two months before the end of the year, as stipulated in Article (61) of the amended Basic Law of 2003 and the relevant provisions of Public Budget and Financial Affairs Organization Law No. (7) of 1998 as well as through the publication of the detailed public budget book, which is part of the law or through the development and publication of citizen's budget. The problem of full access to full data directly and in a short time is still existing.
- **Participatory Approach:** Although the draft budget was presented to the private sector and civil society organizations, including the Civil Society Team, holistic participatory concept is still incomplete as it is necessary for the government to engage civil society organizations in all stages of budget development and provide them with data and documents related to the public budget.
- **Revenues:** it was clear that tax collection, horizontal expansion and effective collection of fees have improved, although there has been no improvement in cigarette concise, which, according to policies announced at the beginning of 2017, will improve the tobacco sector. In addition, the clearance revenues constituted 66% of public revenues, and therefore in light of the disengagement from the economic dependence relationship, what are the proposed plans to achieve economic disengagement?
- **Expenditure:** It is noted that the total expenditure achieved is close to the estimated despite the repeated government's talk on expenditure rationalization and launching a plan for this purpose in 2017 and the existing funding gap that the government talked about filling by rationalization of expenditures. Note that the Civil Society Team for Enhancing Public Budget Transparency has recommended several times to control these expenditures and to issue a plan for rationalization and austerity.

- **Net lending:** In recent years there is a steady increase in net lending. Although the estimated in 2017 is higher than all previous years as amounted to (NIS 950) million Shekels, the realized by the end of the year was equal to the estimated.
  
- **Public Budget Deficit:** The public budget of the Palestinian National Authority (PNA) continues to suffer from a chronic structural imbalance represented by a high deficit resulting from a large gap between the two components of the public budget, expenditures and revenues, due to the increasing accumulation of expenditure value one year after the other, decline in financial support for the public budget from grants and foreign aid and the ineffectiveness of the government austerity and rationalization plan.
  
- **Public debt:** There is an improvement in public debt, and the government was able to reduce it in a half year, which is a positive approach, but this cannot be evaluated in isolation from studying the government debt to the Pension Fund and the arrears.
  
- **Pension Fund:** There is a real problem in the transparency of the pension fund, the level of due debts in favor of the fund and the government's mechanisms to pay those debts. It is noted that there is a big difference between the government's contributions to the pension fund commitment-based and cash-based.
  
- **Security Allocations:** They continue to occupy the lion's share of the public budget and the salaries and wages item still consumes and the largest share of security expenditures, which much exceeds the “total budgets” of Health, Social Development and Foundation for Care of Martyrs’ Families together. There are no details about the expenditures of the Ministry of Interior and Security, except for main general items on expenditure building.
  
- **Distribution of Public Budget Allocations:** There is a clear distortion in the distribution of public budget allocations. There is inflation of expenditures in some sectors at the expense of other sectors and the salaries and wages Item is still consuming the lion’s share of the public budget. In addition, developmental costs are facing a huge shoratge, especially those related to Social Development.
  
- **Public Budget Structure:** Despite the adoption of program-budget by the Palestinian National Authority, the public budget structure is still within item budget, especially the financial reports issued by the Ministry of “Finance and Planning”, which are general items divided into (wages and salaries, social contributions, use of goods and services,

transformational costs, capital costs and developmental costs). These are items that include pure figures without details or relevance to programs or extent of objective-achievement, which leads to the absence of accountability principle as well as the public budget transparency principle.

Anyhow, the long delay in submitting the final balance sheets by the Ministry of Finance to the Financial and Administrative Audit Bureau and the Legislative Council, the inability of the Audit Bureau to audit the accounts timely and its reservations on the audited parts, in addition to the paralysis of the Legislative Council in accountability and questioning for any deviation in the budget are problems and challenges to ensure good governance of public funds.