



# 2019 Public Budget Performance Report



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**February 2020**

## Introduction

This analytical paper seeks to review and analyze implementation of the 2019 public budget based on the financial reports issued by the Palestinian Ministry of Finance (MoF) and in particular the December 2019 financial report.<sup>1</sup> The analysis will also taking into consideration the financial emergency conditions that arose during this fiscal year and hence affected the direction of the fiscal plan to regulate management of the budget for the whole year.

This report is based on review of data on commitment basis as well as on expenditure basis in order to provide a comparison with the 2018 public budget; noting that the Budget Law 2018 was used as a regulatory reference for spending during 2019, due to the absence of a 2019 Budget Law.

### **This paper consists of three sections, as follows:**

**First:** The legal reference framework for the 2019 special budget.

**Second:** Presentation and analysis of the implementation of the budget items.

**Third:** Conclusions.

### **First: The legal reference framework for the 2019 special budget (emergency)**

The finance minister announced the adoption of an emergency budget that is based on monitory regulations where it will be valid until the crises with Israel ends concerning al-Maqasa (clearance tax collected by the Israelis on behalf of the Palestinians). The announcement was made on March 10, 2019, which was before the expiration date of the legal period that allows the Palestinian government to spend according to the principle of 1/12 (i.e., one- twelfth) of the previous year's budget, 2018.

The Israeli government took a decision at the beginning of 2019 to withhold and freeze 502 million New Israeli Shekles (NIS) from the clearance tax revenues under the pretext that this is the amount allocated by the Palestinian Authority (PA) to the Palestinian political prisoners in Israeli jails. The PA refused to accept this decision and decided not to accept an incomplete amount of the clearance tax money. The PA insisted that it is the party in charge of dispensing Palestinian funds as it sees fit and the prisoners' funds will not be compromised.

On March 25, 2019, the Palestinian President issued the decision No. 26 of 2019, stating the following: **First:** provisions and items of the 2018 Budget Law shall be adopted in terms of revenues and expenditures to be as reference for the 2019 Budget law<sup>2</sup>. **Second:** spending was based on 1/12 appropriation per month from the 2018 fiscal year budget. **Third:** *“Until there is an adoption of a regular 2019 public budget law, all appointments, promotions, purchase of cars, purchase and rental of buildings, as well as any decisions that result in financial obligations which conflict with the state of austerity shall be discontinued, **except when necessary and a decision by the president of the state.**”*

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1 The December 2019 financial report, issued by the MoF on Jan.28, 2020 and updated on Feb. 6, 2020.

2 Note: In practice, the proposed 2019 budget was based on the 2018 figures although it was not legally issued, hence unbinding.

## General notes by the Civil Society Team:

1. From a legal point of view and in accordance with the provisions of the Basic Law and the General Budget Regulation Law of 1998, there is no basis for adopting the so-called emergency budget. This is based on the fact that a state of emergency was not declared in accordance with the provisions of the state of emergency, Article (110) Of Title VII of the Basic Law. In reality, the president adopted the same 2018 budget for 2019, to be spent monthly and in accordance with the aforementioned administrative instructions. Therefore, it was required that it be published in the formal newspaper as a binding law for all financial responsibility centers.
2. In accordance with the Budget Regulation Law of 1998, the government was obliged to complete consultations and prepare the 2019 budget by the end of October 2018, and to also adopt it until the end of 2018, as required; that is before the resignation of the government and before the decision of the occupation to seize part of the clearing tax funds. This violation continued in recent years without any justifications.
3. The government published its first report on the Ministry of Finance (MoF) website in May. However, due to the Emergency Law and legal ramifications with the Israelis, financial reports were temporarily suspended. The Civil Society Team does not believe that this circumstance prevents the (MoF) from issuing financial reports showing revenues, grants and actual spending.

## Second: Presentation and analysis of the implementation of the budget items

### 1) Revenue analysis

Due to the adoption of the principle of spending with monthly appropriations at 1/12 per month of the fiscal year budget, and revenue collection in accordance with the mechanisms, conditions and rates stipulated in the applicable legislation, a comparison will be made with what was expected for the same year.

Total revenues on commitment basis amounted to (11,660) million shekels, while the total cash-based income (i.e. actually collected) reached (11,713) million NIS. The local revenue on a commitment and cash basis amounted to (4,336 million shekels), which was less than estimated at 200 million shekels; approximately 200 million NIS less than the estimated.

Revenues from clearing tax, commitment-based, amounted to (7,949) million NIS, while on cash-bases it was (7,868) million NIS, which is less than the estimated by 1.2 billion NIS.

The MoF data indicates that after the start of the clearing tax crisis in February, clearing tax funds were not received until August, where 2 billion NIS were received, in addition to 1.5 billion during the month of October, after which the transfer of the clearing tax was consistent. Although the MoF report indicates that the amount of (624) million NIS was detained by the Israeli side under the pretext that these funds are prisoners' allowances.

**Table No. (1): total net revenues on commitment and cash basis for 2019 compared with the estimate amount for the same year (million NIS)**

	Commitment basis	Cash-basis	Estimated- 2019
<b>Total net revenues</b>	11,660.60	11,713.30	13,691
<b>Total local revenues</b>	4,336.40	4,336.40	4,533
<b>Total clearing tax revenues</b>	7,949.10	7,868.80	9,158
<b>Tax returns</b>	624.9	491.9	

## Local revenues (Directly collected by the PA):

The total local revenues generated for 2019 amounted to (4,336) billion NIS; a difference of 200 million NIS from the estimated amount for the same year. This is noted by comparing the 2019 tax revenues of (2,733) million NIS with the estimated tax revenues for the same year.

**Table NO. ( 2): local net revenues on commitment basis for 2019 compared with the estimate amount for the same year (Million NIS)**

	Actual- 2019	Estimated for the same year
<b>Total local revenues</b>	4336.4	4533
<b>Tax revenues</b>	2733.6	2954
<b>Non-tax revenues</b>	1275.6	1579
<b>Earmarked Collections</b>	327.2	

**Table No.(3): actual local tax revenues in 2019 compared with the estimated amount for the same year (million NIS)**

	Achieved/Actual 2019	Estimated 2019	Estimated check rate
<b>Local tax revenues</b>	2733.6	2954	93%
<b>Income tax</b>	747.1	848	88%
<b>Added value tax ((VAT</b>	1082.3	1086	100%
<b>Customs</b>	664.1	792	84%
<b>Excises on Beverag-es</b>	4.3	6	72%
<b>Cigarette tax</b>	221.6	208	107%
<b>Excises on Tobacco</b>	14.2	14	101%

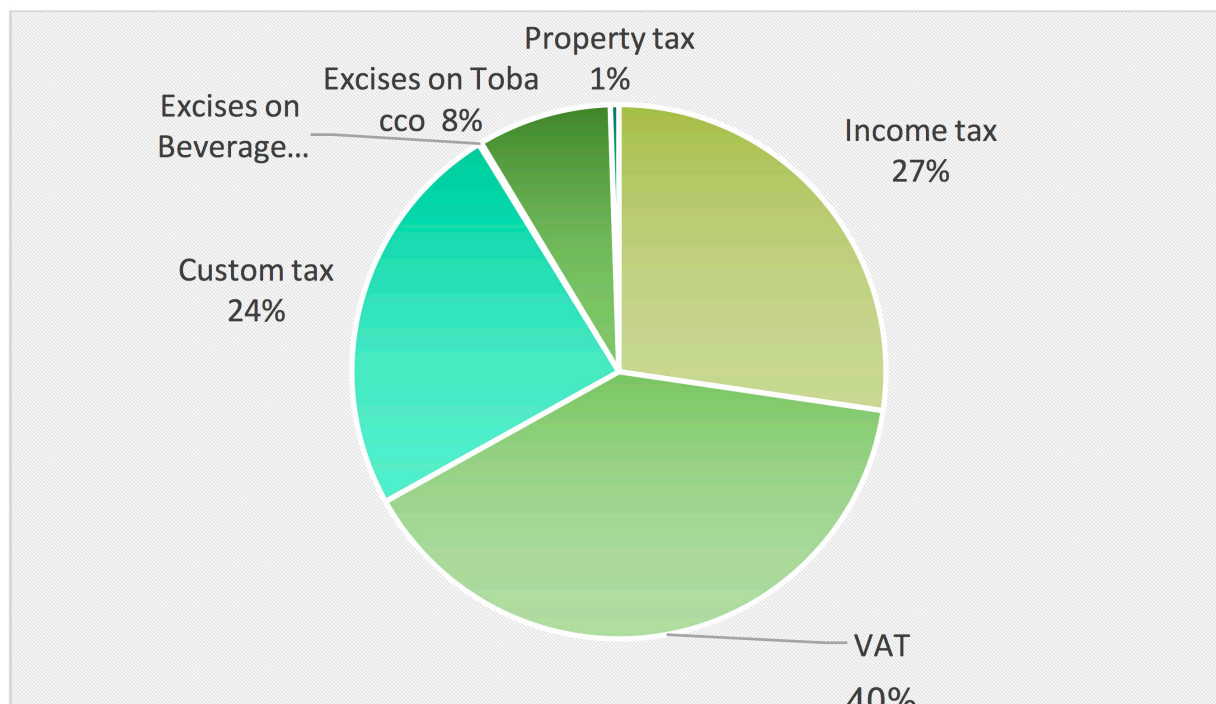
The table above indicates that the actual tax revenues for 2019 accounted for 93% of the total estimated tax revenue. This was due to the lower income tax revenues than the estimated, which was 100 million NIS. In addition, customs revenues decreased from the estimated amount by 127 million NIS.

Moreover, by checking and tracking income tax for at least the past four years, a rise was apparent with the exception of 2019. This might be due to the decrease in the income tax revenues following the MoF minister decision to reduce income tax by 15%-20% for large companies and businessmen. In addition, it may also be due to the decline in income in general, as a result of the financial crisis in the country caused by the freezing of the clearing tax funds by the Israelis.

**Table No. (4): Comparison chart illustrating income tax revenues. (million NIS)**

Income Tax	Achieved/Actual	Difference
<b>2019</b>	747	-101.7
<b>2018</b>	848.7	58.8
<b>2017</b>	789.9	143.2
<b>2016</b>	646.7	

The Available data indicate that the largest source of tax revenues for the public treasury is the added value tax (VAT), which accounts for 39% of the local tax revenues, amounting to (1082.3) million NIS, which is equivalent to the estimated amount. However, the improvement in VAT collection, and when it is compared to the decline in income and customs tax revenues, indicate poor implementation of policies to combat tax evasion and avoidance.



**Figure No. (1): Distribution of local tax revenues in 2019**

The cigarette tax revenues amounted for 221.6 million NIS, which is close to the estimated amount, indicating a slight improvement in this department.

#### **Clearing tax revenues:**

Clearing tax revenues on commitment basis reached the amount of (7,949) million NIS, which is less than the estimated amount by 1.2 billion NIS.

**Table No. (5): comparison chart of clearance tax revenues-actual and estimated. (million NIS)**

	Actual/ achieved-2019	Estimated	Estimated check rate
<b>Clearance tax revenues</b>	7949.1	9158	87%
<b>Customs</b>	3379.2	3521	96%
<b>VAT</b>	1968.3	2402	82%
<b>Purchase tax</b>	-14.4	-5	288%
<b>Fuel tax</b>	2409.3	3049	79%
<b>Income tax</b>	206.7	189	109%

The table above illustrates a decline in the clearance tax revenues in comparison with the estimated amount for last year. This is largely contributed to the decline in fuel taxes in comparison with the estimated amount by a difference of (630) million NIS, in addition to the decline in the VAT with a difference of 433 million NIS from the estimated. Moreover, the value of customs achieved also declined from the estimated amount of 131 million shekels.

These data reveal that the issue of financial leakage still exists. In other words, there are some funds collected as clearing tax by the Israelis that do not get transferred through the channels of the clearing tax to the PA. This may be due to lack of proof (i.e., invoices), or improper checking of invoices. In either case, this results in losses for the PA treasury. Moreover, the data indicate a decline in fuel taxes, which could mean that the phenomenon of diesel smuggling is on-going, and that methods of combating it are weak.

## 2) Expenditures analysis

**Table No. (6): Total current expenditure and net lending. (million NIS)**

	<b>Commitment basis</b>	<b>Cash-basis</b>	<b>Estimated</b>
<b>Total expenditures</b>	16674	14092.1	16179
<b>Salaries and wages</b>	7235	6648.9	7,878
<b>Social contributions</b>	712.6	247	764
<b>Use of goods and services</b>	2291.4	1274.4	2086
<b>Transferrable expenditures</b>	4723.5	4325.7	4,167
<b>Capital expenditures</b>	58.1	29.9	78
<b>Interest</b>	187.9	167.7	305
<b>Net lending</b>	1138.3	1138.3	900
<b>Allocated pay-ments**</b>	327.2	260.3	

\*\* Allocated payments are taxes and revenues belonging to the local government units (LGU), 90% comes from property taxes, and 50% from transport and transportation.

The above table illustrates that total expenditure realized on the basis of commitment amounting to (16,674) million NIS, which is higher than the estimated by (495) million NIS; while the total expenditure realized on cash-basis amounted to (14,092) million NIS. This indicates an increase in the government commitments by (2,581) million NIS.

Moreover, illustrated in the table above are the total amounts for salaries and wages as follows: commitment basis (7,235) million NIS, and cash basis (6,648.9) million NIS, a difference of 586 million NIS (government commitments), noting that the total amount realized for salaries and wages in 2019 was less than the estimated. This is attributed to referring 24,000 employees to retirement hence reducing the number of staff. And although the referral of employees was in 2017, the salary and wage bill estimate for 2018 and for 2019 was higher than the actual bill. In that regard, it is important to note that one of the ministry's top priorities is to provide salaries, and hence it became accustomed to putting higher estimates in order to ensure payment.

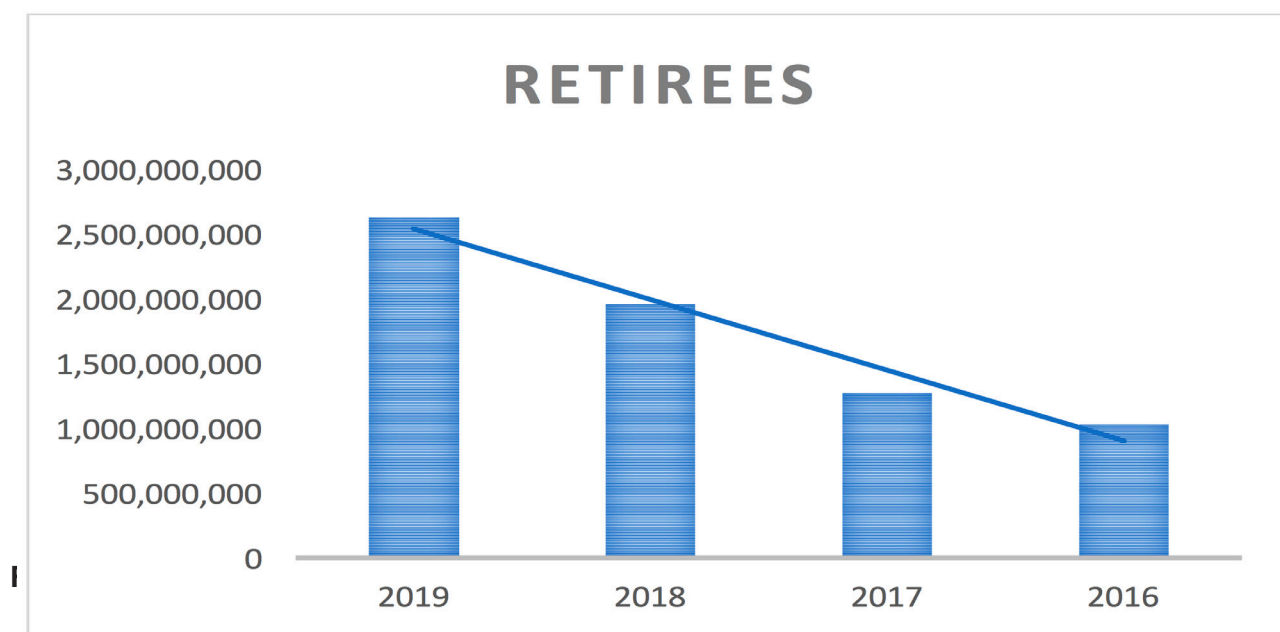
The actual operational expenditures on commitment basis reached (2,291.4) million NIS in 2019; an amount that is (205) million NIS higher than the estimated in 2018. This shows a lack of commitment on behalf of some financial centers to control expenditures in accordance with the Government's stated policy and the President's decision on rationalization. In addition, in tracking the 2019 transferable expenditures on the basis of commitment, which amounted to (4723.5) million NIS, it was discovered to be higher than the estimated; an after effect following the implementation of the government's early retirement policies in 2017 and 2018. This required the government to allocate more funds for retirement due to the increase in the number of retirees where the pensions are transferred from the general Treasury of the Pension Authority due to the government's lack of commitment to pay and transfer provisions in the past. This creates confusion and tension between the Pension Authority and the MoF concerning the debt. By studying the MoF's financial report and expenditures concerning retirees, it was clear that it reached (2,628) million NIS, where (2625) million NIS of this amount goes to transferable expenses. This means that 55% of the transferrable expenditures goes to this item.



Table No. (7): retirees' allocations item for 2016-2019

	Retirees	Increase rate
2019	2,625,994,000	34%
2018	1,956,799,000	54%
2017	1,273,444,000	24%
2016	1,029,564,000	

The table above clearly illustrates the steady rise of the retirees' item where the transferrable expenditures in 2019 reached 35% higher than in 2018.



### 3) Net Lending

Net lending is a net loan item that reflects the amounts deducted from the clearing tax revenues by "Israel" to settle debts owed to Israeli companies supplying electricity, water and sanitation services to Palestinian municipalities, companies and distribution bodies, hospital bills and other items. This year, this item showed an increase of 238 NIS more than was estimated. This increase is caused by the Israeli decision to freeze approximately 500 million NIS under the pretext that it was the equivalent to the amount the PA allocates for Palestinian prisoners.

Table No. (7): Net lending from 2014-2019 between the estimated and achieved (million NIS)

year	estimated	Actual/achieved
2014	600	1022.3
2015	800	1169.2
2016	850	1029.1
2017	950	960
2018	900	967.4
2019	900	1138.3

#### 4) Development expenditures

The development expenditures amounted to (1,215) million NIS (commitment basis), which is a number close to last year's total.

On another note, the MoF data shows that in 2019 the total external support for the public budget reached (1722.5) million NIS.

**Table No. (8): development expenditures for 2019 on commitment basis, compared to 2018**

	2019	Rate of development expenditure per responsibility center from the total development expenditures	2018
<b>Total development expenditures</b>	<b>1,214,844,000</b>		<b>1,297,857,000</b>
<b>Interior Ministry &amp; Public Security</b>	<b>136,903,000</b>	<b>11%</b>	<b>187,369,000</b>
<b>Ministry of Local Government</b>	<b>198,131,000</b>	<b>16%</b>	<b>112,807,000</b>
<b>The Water Authority</b>	<b>152,745,000</b>	<b>13%</b>	<b>173,013,000</b>
<b>Ministry of Agriculture</b>	<b>50,727,000</b>	<b>4%</b>	<b>67,331,000</b>
<b>Ministry of Education</b>	<b>300,206,000</b>	<b>25%</b>	<b>304,386,000</b>
<b>Ministry of Health</b>	<b>68,067,000</b>	<b>6%</b>	<b>33,420,000</b>
<b>The remaining ministries and government institutions</b>	<b>308,065,000</b>	<b>25%</b>	<b>419,531,000</b>

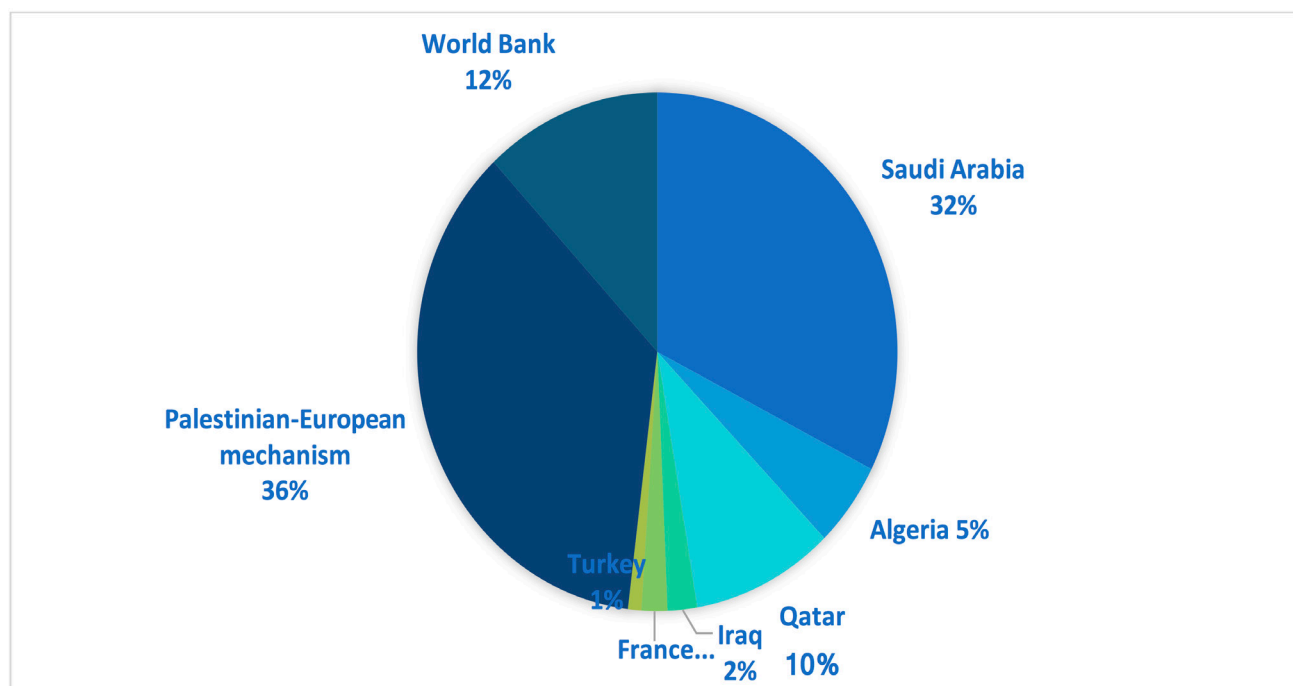
The table above shows that the highest development spending was for the Ministry of Education (MoE), which exceeded 300 million NIS. This is mainly due to the co-financing basket, whose expenses are considered to be development expenditures, although the 2019 financial reports continue to adopt unified expenditures for the (MoE), the Ministry of Higher Education (MoHE) and Scientific Research.

The Ministry of Local Government (MoLG) received the second largest share, followed by the Ministry of Interior and Public Security. While the development expenditures for the Ministry of Health (MoH) amounted to (68) million NIS, which is double the amount allocated for the previous year. This means that there is an improvement in development expenditures and an intent to develop government health services.

#### 5) Deficit and Arrears

The total deficit in 2019 prior to funding amounted to (6,228) million NIS, which is more than the estimated by 2 billion NIS, noting that the amounts mentioned are on commitment basis. This means that it was not affected by the current crisis, with the exception of the 500 million NIS deducted by the Israelis under the pretext that it is for Palestinian prisoners. Regardless, there is a decline in revenues generated through the clearing tax/Maqassa, as well as a rise in total expenditure.

External funding amounted to (1,745.5) million NIS, and funding from local banks reached (2,851.5) million NIS, which bring the deficit to a total of (1,631.1) million NIS. An additional (1,511) million NIS were added to pay for arrears (payments for arrears of previous years). It can therefore be concluded that the deficit exceeded the 3 billion NIS, as well as the amount recorded as arrears (phase debt) amounting to (3,084.9) million NIS.



**Figure No. (3): Sources of external support for the public budget in 2019**

As illustrated in the figure above, no financial aid or grants were received from the United States of America (USA) due to political reasons and the Palestinian stand concerning the “Deal of the Century”. The figure also shows that the larger part of the funds were from the Palestinian-European Mechanism for social assistance support and management; followed by Saudi Arabia, then Qatar, Algeria, Iraq, France and last is Turkey.

**Table No. (9): support sources (million NIS)**

Source	Amount
Saudi Arabia	576.7
Algeria	94
Qatar	170.2
Iraq	35.4
France	30.7
Turkey	16
the Palestinian-European Mechanism	641.3
World Bank	212.1

**Table No. (10): Total external support (budget and development support)**

(Total external support (budget and development support)			
Year	Amount – million NIS	Decrease value	Change rate
2013	4,915		
2014	4,402	-513	-10%
2015	3,104	-1298	-29%
2016	2,905	-199	%-6
2017	2,597	-308	-11%
2018	2,411	-186	%-7
2019	1,745	-666	-28%

As illustrated above, the decrease in external support throughout the past several years is quite clear. As shown, it declined from 4 billion NIS in 2013 to 1.7 Billion NIS in 2019. Also clear is the decline of this support in 2019 where it dropped significantly as a result of the suspension of U.S. support.

## 6) Public Debt

According to data from the MoF, the public debt increased to (8,916.1) million NIS in early 2019 and rose to (9,662) at the end of December 2019; an increase of 745 million NIS.

**Table No. (12): Comparison of public debt between December 2018 and December 2019 (million NIS)**

	<b>Dec.2018</b>	<b>Dec. 2019</b>	<b>Difference</b>
<b>Public debt</b>	<b>8,916</b>	<b>9662</b>	<b>745.9</b>
<b>Local debt</b>	<b>5,034</b>	<b>5451</b>	<b>417.8</b>
<b>External debt</b>	<b>3,882</b>	<b>4210</b>	<b>328.1</b>

The MoF report's data on public debt refer to the total number of local and foreign loans, which amounted to (9,662) million NIS at the end of 2019, an equivalent of (2,795) million U.S. dollars. However, there are other government debt commitments including private sector arrears, public employees arrears including (salary, arrears and bonuses) in addition to debt owed to the Pension Fund. Thus, the total financial commitments of the Palestinian government for 2019 amounted to approximately 17 billion NIS, including public debt of 9.6 billion NIS, and the debt owed to the Pension Authority, which is estimated at 8.2 billion NIS.

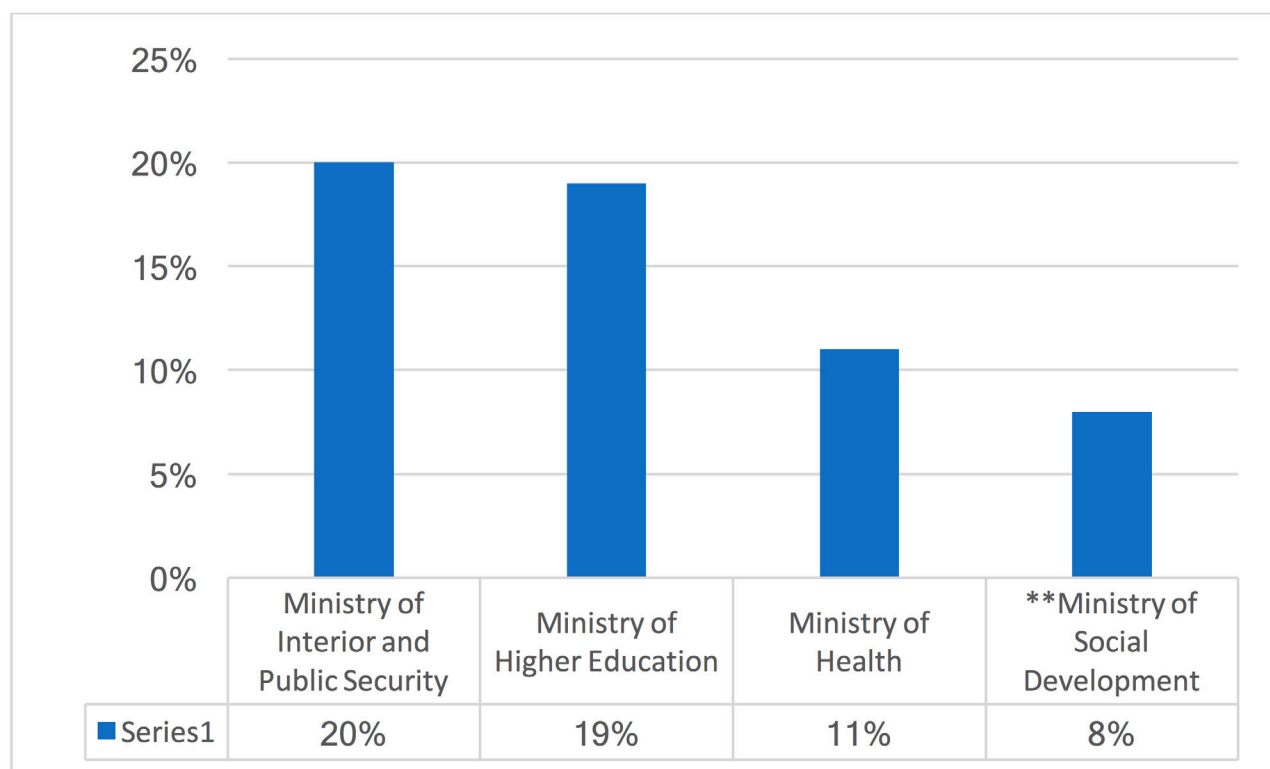
## 7) Allocations to ministries related to social issues

The 2019 public expenditures of ministries and social services responsibility centers (Ministry of Education, Ministry of Health, and Ministry of Social Development) will be compared, in addition to the Ministry of Interior and Public Security.

**Table No. (13): Comparison of expenditures as per responsibility center (commitment basis) during 2019**

	<b>2019</b>	<b>2018</b>	<b>Rate of the total actual expenditure for 2019</b>
<b>Ministry of Interior and Public Security</b>	3,342,765,000	2,843,450,000	20%
<b>Ministry of Higher Education</b>	3,161,397,000	2,689,358,000	19%
<b>Ministry of Health</b>	1,784,499,000	1,710,029,000	11%
<b>Ministry of Social** Development</b>	1,243,499,000	1,318,032,000	8%

\*\* Note: Expenditures listed under the Ministry of Social Development include the ministry itself and the Foundation for the Welfare of The Families of Martyrs.



**Figure No. (4): 2019- ratio of actual expenditures from the total expenditure per responsibility center (commitment basis)**

The table and figure above illustrate the following:

- The Ministry of Interior and Public Security has acquired 20% of total public expenditures. Moreover, the total expenditures for the Ministry of Interior are higher than last year and have increased by 499 million NIS as a result of an increase in the salary & wages and social contributions items.
- The Ministry of MoHE received 19% of the total public expenditures. Also, the total expenditures increased by 472 million NIS last year as a result of an increase in the salary and wage item as well as the social contributions item.
- The MoH received 11% of the total public expenditures. While the total spending in 2019 increased by 74 million NIS compared to 2018. This was due to the increase in the salary and wage and development expenditures items. Operational expenditures, however, were reduced although the MoH is suffering from a debt crisis of about 1 billion NIS. This is mainly attributed to the ceilings allocated to operational budgets that are not in line with the actual requirements. For example, at the beginning of 2019, a budget for medical referrals of 650 million NIS was allocated, noting that the cost of referrals for the year are approximately **one billion NIS**.
- The Ministry of Social Development along with the Foundation for the Welfare of Martyrs' Families, receives 8% of the total public expenditures, which is less than the realized amount in 2018. When examining the items within, it was noticed that the decline is due to the decrease in the transferrable expenditures item of the Ministry of Social Development, noting that these transfers constitute the amount given to needy and poor families, and to families of martyrs and the wounded.

## Conclusions

1. From a legal point of view and in accordance with the provisions of the Basic Law and the General Budget Regulation Law of 1998, there is no basis for adopting an emergency budget. In reality, the president adopted the 2018 budget for 2019, to be applied monthly according to specific administrative instructions to regulate spending.
2. There is a problem in applying the principles of transparency related to the disclosure of the general budget and its details, as well as in the publishing of the detailed budget book, which is part of the law. Furthermore, access to obtaining full data directly and in a short period of time remains to be an issue. In addition, publication of periodic reports was also suspended until mid-year, not to mention that the citizen's budget, the semi-annual report, and the final report have also not been published.
3. **Revenues:** There is a decline in the total revenue achieved compared to the estimated, and in particular revenues generated through the clearing tax/Maqassa. There is also a decline in revenues generated from income and customs tax compared to the estimated. This indicates that all policies to combat tax evasion and avoidance have not been implemented.
4. **Expenditures:** There is a rise in the total expenditures compared to the estimated budget. And although the salary and wage item has been reduced, due to the early retirement decision, there has been a rise in the transferrable expenditure item as a result of higher spending on retirees.
5. **Net lending:** the net lending item showed an increase from the estimated amount. This increase may be the result of the Israeli side's decision to freeze 500 million NIS from the collected taxes under the pretext that it is the PA's allocation for prisoners.
6. **Deficit and arrears:** the current situation, reduction of foreign aid and the suspension of U.S financial support all have contributed to increase the budget deficit, as well as local debt and arrears.

