

Public Budget Mid-Year Report 2020

Report No. 165



2020



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Introduction:

The public budget is considered a key tool for financial management and planning as it reflects the government's programs and directions in managing and guiding policies applied in the various areas of finance, economic and social aspects of life epitomized in sectors' allocations. The Public Budget Law is the legal framework governing all expenditures for all centers of responsibility, unless there are exceptional circumstances such as that of the corona-virus pandemic which hit the world including Palestine. Under such circumstances, the government directions are adapted in response to the requirements of the existing conditions. In this case, the government officially declared a state of emergency and passed a law by decision concerning the emergency public budget for 2020 to suit the current situation. For example, article 6 of the 2020 Emergency Budget Law indicated that all figures and data for 2020 were considered indicative and subject to change in light of future developments during the fiscal year. Moreover, monthly cash plans must be based on the principle of monetary regulation that are prepared in accordance with priorities approved by the Council of Ministers. In other words, the plans must be in line with the current situation and at the same time provide more realistic estimates.

At the beginning of the pandemic, the Palestinian Prime Minister (PM) Dr. Mohammad Shtayyeh defined four priorities, mainly to: support and assist poor families; support the health sector; provide salaries for public employees; cover the needs of the security sector.

On March 5, 2020, a state of emergency was declared. And on March 22, the call for home quarantine was issued where the majority of economic activities were brought to a halt, which lasted nearly two months. The government was able to keep its promise of paying public employees' salaries in full for the first four months of the year.

However, at the beginning of May, the government faced revenue related problems that are directly linked to the Israeli occupation. As the latter declared its intentions to annex large areas of the West Bank (WB), the Palestinian Authority (PA) refused to coordinate with the Israeli side as a response. And since Israel collects what is called Maqassa, or clearing taxes on behalf of Palestinians on all products coming in through the borders, it decided to withhold this money as punishment. This compounded the budget deficit due to the lack of cash available, and since the clearing tax accounts for about 70% of revenues (without the grants and assistance), it directly impacted salaries paid to employees, in addition to affecting other due payments. This led to discrepancies in expenditures, during the first half of the year, between actual expenditures (cash base) and that on commitment basis.



Ever since its establishment, the Civil Society Team for Enhancing the Public Budget Transparency has regularly reviewed and analyzed implementation of the budget during the first half of each year. Review and analysis are always based on relevant financial reports, and in particular, the June financial report issued by the Ministry of Finance (MoF). This year however, the report was issued on August 11, 2020.

General Observations on the 2020 Emergency Budget

Based on the 2020 Emergency Public Budget Law issued on March 31, 2020 in response to the declared state of emergency, the Civil Society Team would like to present the following observations:

- The Emergency Budget Law 2020 granted broader powers to the Finance Minister. For example, the law granted the Minister of Finance power to deduct amounts due for water, electricity and fuel bills owed by public institutions.
- Delay in the preparation and issuance of the public budget, as required by provisions of the Public Budget Regulations and Finance Law for 1998. The law specifies that the preparation and approval of the budget must take place before the beginning of each year. Failure to meet this date requires that monthly appropriations of 1 / 12 will be spent for a maximum of 3 months². Note: the issuance of this Emergency Budget Law was late.
- The state of emergency was declared on March 5th. This meant that the budget was supposed to be approved before the start of this year.
- The emergency budget was issued without being discussed with representatives of civil society organizations (CSO), neither were citizens (the main contributors to the public budget revenues) informed of it before its approval. This shows that the government did not adhere to the participatory approach it repeatedly pledged to be committed to, not to mention the absence of the Palestinian Legislative Council (PLC), the legitimate body entrusted with the task of approving the budget.
- The emergency budget was very brief with no acceptable justification, as required by the Public Budget and Financial Regulations Law of 1998. According to the Regulations law, the budget is considered the PA's main financial tool and the detailed expenditure and revenue program for the various estimated activities that aims to achieve the financial, economic and social goals and policies for a certain fiscal year. However, the emergency budget did not contain any detailed provisions relating to those aspects, which hampered and weakened the capacity of the Civil Society Team's ability in analyzing data, auditing and accountability.

¹ June 2020 Financial Report, issued by the Ministry of Finance on 11/ 8 / 2019

² Law No.7 of 1998 on the regulation of the public budget and financial affairs.

Transparency in the Implementation of the Emergency Budget is a Must:

- The (MoF) failed to issue the required reports within the legal time stated in provisions of the Palestinian law and the principles of transparency for budgets. Moreover, the state of emergency does not justify delays in publishing monthly reports, as the June report was released on August 11, 2020 and was published on the MoF Website during the third week of the same month. Ideally, the original data must be provided accurately, clearly and in due time in order for citizen's and specialists to analyze, audit and hold officials accountable concerning performance.
- The MoF displayed commitment by issuing the citizen's budget. In this regard, the Civil Society Team considers the MoF's publication of the citizen's budget, in the form of a simplified video, to be a qualitative development in the dissemination of information. The MoF's publishing of the citizen's budget in Arabic and in a clear and easy manner has been a basic demand of the Civil Society Team. However, the MoF can widen its dissemination among the public to better ensure their understanding the state of the budget for the current year.

Implementation of the 2020 Mid-Year Emergency Budget; Presentation and Analysis

In this report, the financial statements for the 2020 budget will be illustrated and analyzed in comparative tables and graphs that include:

- Results of the transparency tracking survey on public budget management
- Review and analysis of the actual revenues during the first half of 2020 in comparison with the estimated amount
- Review and analysis of the actual public expenditures data and related issues, in comparison with the estimated amount
- Transparency and Integrity in Public procurement
- Review and analysis of net lending
- Review and analysis of development expenditures during the first half of 2020
- Review and analysis of the deficit, grants and assistance data during the first half of 2020
- Review and analysis of public debt during the first half of 2020
- Review and analysis of some major centers of responsibility (The Ministries of: Health, Social Development, Interior, agriculture) during the first half of 2020

Results of the Transparency Tracking Survey on Public Budget Management

The following table reveals publication of the eight budget documents defined by the International Budget Partnership Initiative that are needed to achieve budget transparency. Results were achieved after review of the MoF website and by tracking the extent of compliance of the MoF with international standards:

Document	Published	Unpublished
Pre-Budget Statement-Budget Circular	Published	
Budget Proposal Summary		Unpublished
Enacted Budget	Published	
Citizens Budget	Published	
In-Year Periodic Reports Monthly and Quarterly	Published	
Mid-Year Report		Unpublished
Year-end report «Final Account» for 2019	Published	
Audited Report for 2018		Unpublished

As illustrated above, the Ministry of Finance published 5 out of 8 documents, where the enacted budget was published without the budget proposal summary and without discussing it with CSO representatives. In actuality, only a brief version of the enacted budget law was published and with no clear details of the centers of responsibilities' budgets.

The citizens budget was published in the form of a video, in addition to publishing the in-year monthly and quarterly reports, although not in due time. The mid-year report for the current year was not published, since the MoF only publishes a cumulative half-year report. This of course does not meet the terms and standards of the semi-annual reports, which should include performance analysis of the first half of the year, as well as policies and other requirements for the second half, and not only expenditures' figures.

The year-end report was published although it was brief and contains deaf figures. This type of report gives no indication of the year's performance including progress on implemented programs, nor does it show goals achieved. Moreover, the audited report for 2018 was not published; noting that the last published audited report was for 2015 (i.e., five years ago). Therefore, it is required that audited reports for the years 2016, 2017, and 2018 be published.

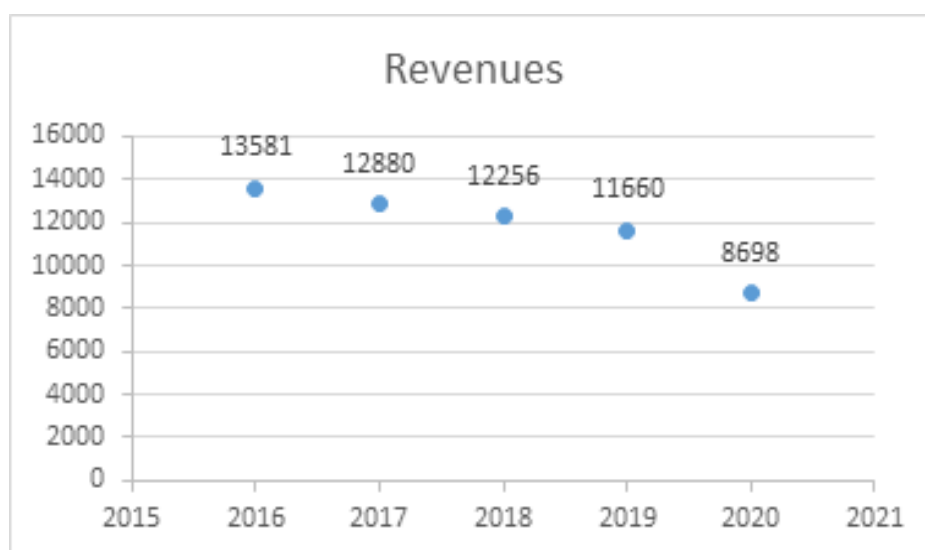
The weakness in transparency is clearly obvious. And since it is a key requirement especially during emergency situations, failure to commit to the dissemination of accurate and timely comprehensive information and data will negatively affect the concept of community accountability.

Revenue Analysis

The Emergency Budget Law of 2020 included an estimate of revenues and expenditures, grants and assistance, as well as expected deficit taking into account the current situation of closures and halting of the majority of economic and tourism activities.

Total revenue were estimated at (8,698) million shekels (NIS), which is about 70% of the annual rate of the income generated. The estimated amount was based on expectations that closures and suspension of most business activities will result in lower tax revenues.

Figure No. (1): Revenues achieved in 2016 - 2019, and those expected for 2020; million NIS



The total net of the achieved revenues for the first half of the year amounted to (5,246) million NIS, on the basis of commitment, which is higher than the estimated amount for this period. Moreover, the total local revenues achieved, for the first half of the year on a cash and commitment basis, amounted to (1,974) million NIS (i.e., higher than the estimated for the period). In this regard, it should be noted that the revenues achievement during the first half of this year is lower than that in previous years due to the pandemic and the accompanying closures.

Revenues generated through clearing tax during the first half of 2020 on the basis of commitment reached (3,472) million NIS, noting that the amount on commitment basis reflects the amount expected to be collected; revenues generated for the month June were not included. Revenues generated through the clearing tax on cash-bases amounted to (3,307) million NIS, which is less than the amount achieved on the basis of commitment. This is due to the withholding of the clearing tax transfers for May and June by the occupation authorities in response to the cessation of the PA's coordination with the Israeli side.

Table No. (1): Comparison between the achieved and estimated revenues (commitment and cash-based) for the first half of 2020; million NIS

	Achieved on commitment basis-1st half of the yr.	Achieved on cash basis-1st half of the yr.	Estimated amount for 2020	Estimated amount -1st half 2020
Total net revenues	5246.6	5108	8358	4179
Total local revenues	1974.9	1974.9	1863	931.5
Total clearing tax revenues	3472.5	3307.1	6835	3417.5
Tax returns	200.7	174	340	170

Local Revenues (directly collected by the Palestinian National Authority)

The local tax revenue total on a commitment and cash basis amounted to (1,335) million NIS, marking a slight decrease from the first half of 2019. In this regard, it is worth noting that the government during the past year also suffered a financial crisis as a result of the piracy of the clearing tax funds, which affected tax collection. For that reason, the comparison was made with the amount achieved for the same period in 2018, where the decrease in revenues achieved is clearly shown by a value of (234), (i.e., a 14% drop). It can therefore be inferred that the decrease is relatively small, compared to the budget projections and the predicted sharp drop in revenues for the current year. This is attributed to the assumption that tax collection and revenues are generally higher in the first quarter of the year. It is also linked to the date of the comprehensive closure on March 22, which did not have a severe impact on revenues for the first half of the year.

Table No. (2): achieved tax revenues on commitment-basis during the 1st half of 2020, compared with yrs. 2018 & 2019. Million NIS

	Achieved during the 1st half of 2020	Achieved during the 1st half of 2019	Achieved during the 1st half of 2018
Local tax	1335.1	1393.3	1569.2
Income tax	395.8	447.3	499.5
Value added tax	525.4	564.6	637.1
Customs	278.5	284.9	315.4
Alcoholic drinks tax	2.7	1.4	2.1
Cigarettes tax	121.1	83.3	104.6
Property tax	11.6	11.9	10.5

As illustrated in the table above, income tax, value-added tax (VAT) and customs tax have relatively declined in comparison with amounts collected in 2018 and 2019. This was largely attributed to closures where the majority of the economic activities, particularly in the tourism sector, were suspended. This led to the decline in sales in general and hence to the decline in income tax revenues. In this regard, the Palestinian Central Bureau of Statistics (PCBS) estimates that the GDP decreased by 3.4% in the first quarter of 2020 compared to the corresponding quarter in 2019.³ The table above also indicates a relative rise in taxes of both alcoholic drinks and cigarettes.

The table shows that the largest source revenue comes from local taxes and that of the VAT, followed by income tax and customs tax; noting that customs tax constitutes the largest source of revenue tax via the clearing tax funds. Moreover, Israel's control over all crossings (ports and airports) led and continues to lead to financial leakages, one of which is money lost through indirect imports via Israel. Also deception of Israeli merchants contributes money loss since it's difficult to trace. Also failure of some Palestinian merchants to present vat and customs receipts and official documents compounds the problem.

In the midst of the current crisis and the cessation of coordination with the Israeli side, there is a pressing need to encourage direct imports and to take a number serious actions beginning with an urgent meeting for the National Economic Development Task Force that was formed by the President through the presidential decree No. 167 for 2016. Members of the Task Force consist of the Finance and Planning Minister, Minister of Economy, Minister of Agriculture, Minister of Local Government, Chairman of the Board of Directors of the Palestinian Investment Fund, the Palestinian Economic Council for Development and Reconstruction PECDAR, Governor of the Monetary Authority, President of the Business Men's Association, Head of the Federation of the Chamber of Commerce, President of the General Federation of Palestinian Industries, Chairman of the Board of Directors of Pal Trade The committee was tasked with studying the various possible scenarios of disengagement from Israeli companies in addition to defining related political gaps and their impact on revenues and expenditures. The committee was also required to re-examine Palestinian-Israeli banking relations.

Expenditures Analysis

The total actual expenditures achieved during the first half of the year amounted to (6,840) million NIS on commitment basis, which is less than the estimated amount. It is worth noting in this regard that the expenditures estimate for the current year was close to that for previous years (without a state of emergency) hence estimates were not made on the basis of projections of lower operating expenses.

Table No. (3): Actual total expenditures achieved during the 1st half of 2020, on commitment and cash-basis; million NIS

	Achieved in the 1st half of 2020; commitment basis	Achieved in the 1st half of 2020; cash basis	Estimated amount for 2020	Estimated amount for the 1st half 2020
Total Expenditures	6840.9	4376.9	16387	8193.5
Salaries & Wages	3316.8	2075.9	6881	3440.5
Social Contributions	330.6	70		0
Goods and Services	639.9	287	2257	1128.5
Transferrable Expenditures	1758.9	1401.2	5771	2885.5
Capital Expenditures	23.4	8.4	80	40
Interest	79.8	55.3	372	186
Net Lending	501.8	394.2	900	450
Earmarked Payments	189.7	84.4	126	63

The total expenditures realized during the first half of the year on a cash basis was lower than that on commitment basis. This was due to the clearing tax crisis that started at the beginning of May, where the Israeli side refused to transfer the clearing tax funds. Consequently, employees' salaries for the months May and June were not paid, which caused a discrepancy of more than 1 billion NIS between salaries and wages on, both, commitment and cash basis.

In consistency with the current situation, closures and travel ban, operational expenditures on commitment basis decreased by about 45% from the estimated for the 1st half of the year. Moreover, operational expenditures on cash basis amounted to 287 million NIS showing a decrease, specifically during the months of May and June, as a result of the clearing tax crisis mentioned.

Commitment-based transferrable expenditures during the first half of the year were also 40% lower than the estimated for the same period, noting that the estimated expenditures sought under the Emergency Budget Law was made without regard to the state of emergency.

Table No. (4): Commitment-based actual total expenses for all responsibility centers during the 1st half of 2020, compared with the same period of 2019; thousand NIS. (Note: these figures include development expenditures, but not net lending)

	Total Expend.	Salaries & Wages	Social Contributions	Goods & Services	Transferrable Expend.	Capital Expend.	Devlop. Expend.	Interest Payments
1st half of 2020	6,440,401	3,316,837	330,593	639,899	1,730,548	23,401	324,759	74,366
Half yr. 2019	7,068,322	3,239,215	328,791	869,262	1,937,821	25,637	574,017	93,578
Difference	-627,921	77,622	1,802	-229,363	-207,273	-2,236	-249,258	-19,212

The table above shows a decrease in the total actual expenditures during the first half of 2020 in comparison with the same period for 2019 by 626 million NIS. This is due to the decrease in the operational expenses item, the transferrable expenses item, and capital and development expenses items in addition to the interest payments. The decrease in the operational item is mainly attributed to closures, ban on travel and movement and conferences. The transferrable expenses decrease indicated is due to the reduced transfer expenditures of the Ministry of Development, since the second instalment for the poor was not transferred during the first half of the year. And to a larger degree, it is due to the reduction in allowances for the retirees. As illustrated in the table below, transferrable expenses declined during the first half of this year comparing to the same period of 2019 by 185 million NIS, which will exacerbate the debt owed to the pension fund and related future risks that will follow.

Table No. (5): Total actual expenses for retirement allowances of retirees (commitment basis) during the 1st half of 2020, compared with the same period of 2019; thousand NIS

	Total Expend.	Salaries & Wages	Social Contributions	Goods & Services	Transferrable Expend.	Capital Expend.	Devlop. Expend.	Interest Payments
1st half of 2020	907,799	222			907,577			
Half yr. 2019	1,094,464	1,757	-56		1,092,763			
Difference	-186,665	-1535	56		-185,186			

Integrity and Transparency in Public Procurement

According to experts worldwide, opportunities for corruption increase under unusual conditions such as emergencies, disasters and exceptional situations. These times are exploited under the pretext of saving time it takes to conduct the required procedures, hence business is conducted by bypassing the bureaucratic procedures all together or by shortcuts taken to complete the process, which can disrupt decision-making and or provide favorable opportunities for corruption acts. This calls for strengthening and activating the accountability systems at hand and for enhancing transparency, especially in areas of government spending, public procurement and in management of financial contributions. With this in mind, Transparency International, Human Rights Watch and Global Witness identified key criteria for achieving transparency and accountability in public procurement, as follows:

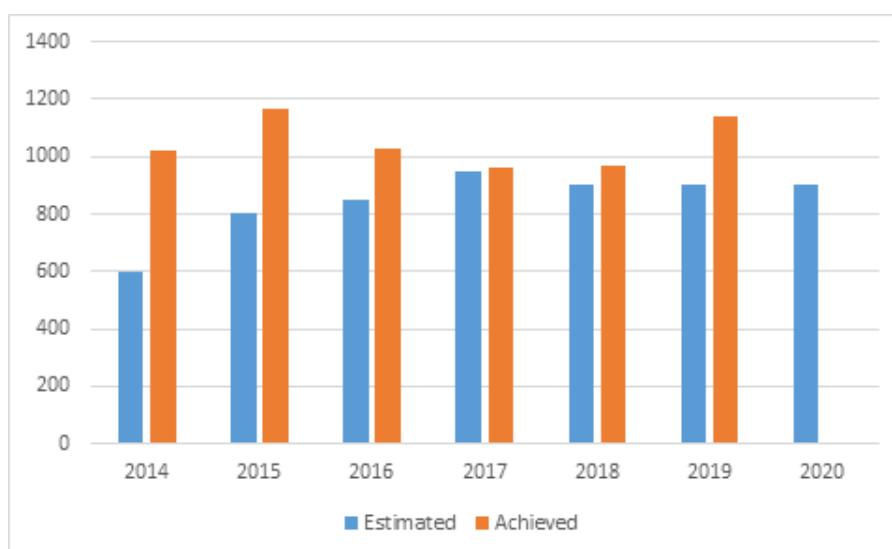
1. Publication of all public contracts
2. Conducting open and competitive bids; reducing the practice of non-competitive emergency operations to a minimum
3. Publishing names and utilitarian ownership information of companies that are awarded contracts
4. Enabling antitrust agencies to monitor market conditions in key sectors to ensure avoiding collusion or inflating prices
5. Provide hotlines for complaints concerning reporting corruption and violations; implement laws and procedures against corrupt perpetrators while protecting whistleblowers and witnesses

These standards provide the minimum requirements for an anti-corruption umbrella and for enhancing the principles of transparency and systems of accountability. Based on the above and through monitoring of government procedures in this area, an electronic site was established (Government Procurement Portal) that provides information and details about all purchase operations, where open and competitive bidding is used. However, names and utilitarian ownership information are not published about companies that are granted contracts. Moreover, in cases of direct purchases, control mechanisms that ensure fair prices and quality assurance must be clear and must be applied whether the direct purchase is carried out to save time, or as a result of a monopoly of the service or the required commodity. Presently, control mechanisms that ensure efficiency and effectiveness of decisions have been ambiguous, especially during the Corona virus pandemic since the state of emergency was declared. Examples of decisions that legitimized direct purchases include: the decision taken by the Council of Ministers in session 63, which was issued on June 29, 2020, approving the direct purchase of preventive health tools and supplies for fighting the coronavirus from small and medium businesses working in this field. Also the decision that approved the purchase of medicines for the Ministry of Health issued in the Council's session number 49, in addition to similar decisions taken on procurement and tender referrals.

Net Lending

In the Emergency Budget Law 2020, net lending was estimated at 900 million NIS, which is exactly the same amount quoted in the 2018 budget. In addition, Article 16 of the 2020 Emergency Budget Law allows the Minister of Finance to deduct any amounts owed by public institutions to pay for their water, electricity and fuel bills in hopes to reduce the net lending item. Even though, the total net lending for the first half of the year on a commitment basis reached 501 million NIS, which is a higher than the estimated amount for the period. Thus, by the end of the year, this item is expected to exceed 1 billion NIS. It is worth noting that the Civil Society Team has repeatedly pointed out that this item is depleting the budget and steps must be taken to reduce it. The Team also presented a set of long and short term applicable measures to reduce the item and to eventually end it.

Figure No. (2): Comparison of the estimated and achieved net lending item for 2014 - 2020



Development Expenditures

Development expenditures were estimated at 1,400 million NIS in the 2020 Emergency Budget Law. Of this amount, 720 million NIS are funded by donors, and 680 are to be financed from the treasury. While the total development expenditures, on the basis of commitment, reached 324 million NIS during the first half of the year, accounting for 23% of the estimated amount for the current year. While development expenditures on cash basis amounted to 190.5 million NIS, 166 million of that is funded by donors and 25 million NIS from the public treasury.

Decline in the development expenditures will inevitably damage development of the health infrastructure, which has been exposed by the Corona pandemic. It will also impact meeting the needs to empower farmers in the Jordan Valley and areas threatened with annexation, as well as needs of the Ministry of Education (MoE) caused by the adoption of distance learning.

Budget Deficit and Funding

The Emergency Budget Law estimated the total pre-financing deficit at (9,429) million NIS, which is more than the expected revenues. It also estimated that the total funding would amount to (4,389) million NIS. (2,229) NIS of that would come from external funding and 2,160 NIS from banks. This leaves a funding gap of (5,040) million NIS.

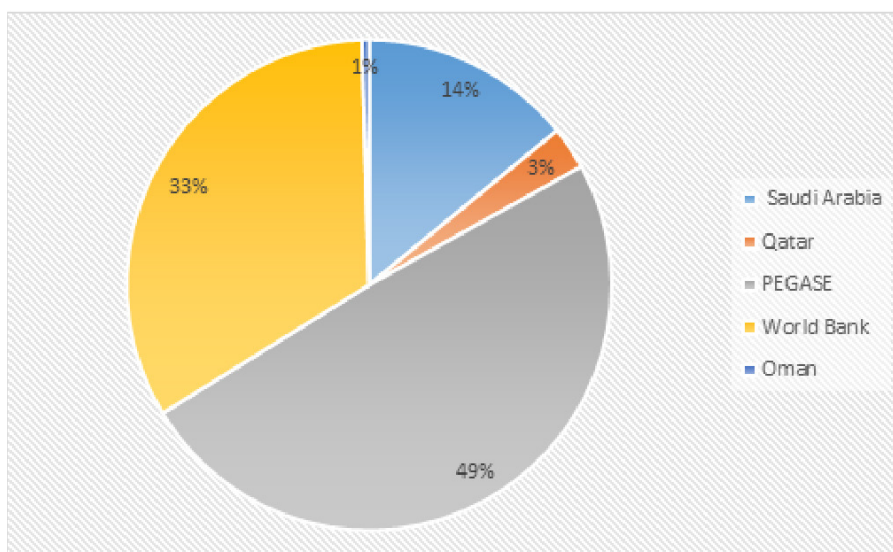
For the first half of the year, the total pre-financing deficit reached (1,919) million NIS, while external funding amounted to (968.4) million NIS, which is 42% of the expected total external funding. Part of the arrears was paid in the amount of (486.4) million NIS. Moreover, 1,022 million NIS were borrowed from banks to cover part of the gap, noting that the fiscal ceiling for borrowing during the year, according to the Finance Minister, is 1.5 billion NIS.

And since borrowing from banks has become a fixed item in public budgets, it is therefore important to publish the full details concerning bank loans, interests paid by the borrower, and the government's vision/plan for repayment.

Table No. (6): Total external funding for the first half of 2020; million NIS

	Estimated for 2020	Achieved for the 1st half of the Yr.	Rate of achieved amount from the estimated
Total External Funding	2229	968.4	43%
Total Budget Support	1509	790.8	52%
Development Funding	720	177.6	25%

Figure No. (3): Sources of external budget support during the first half of 2020



The figure above reveals that most of the external funding to support the budget was through the Palestinian-European Mechanism for Support and Management of Social and Economic Assistance reaching 374 million NIS; followed by the World Bank, and Saudi Arabia who is considered the biggest supported for years.

Public Debt

At the beginning of 2020, Public debt amounted to 9,662 million NIS. However, by the end of June 2020 it increased by to 10,629 million NIS, according to data from the Palestinian MoF, which is an increase of nearly a billion NIS. Moreover, it is worthy to note that the public debt increased during 2019 by 745 million NIS and is also expected to continue rising due to the current clearing tax crisis. It is also worth noting that the public debt figures do not include arrears either for the private sector or for the pension authority.

Furthermore, actual cash contributions amounted to only 70 million NIS. While on a commitment basis it amounted to 330 million NIS, which means that 260 million NIS remain as liabilities to the government that only cover the benefits of the first half of the year. Moreover, if the situation remains the same concerning the clearing tax crisis with the Israeli side, the balance of the employees' arrears is expected to exceed a half a billion NIS by the end of the year.

Table No. (7): Comparison of public debt between December 2019 and June 2020; million NIS

	Dec.2019	June 2020	Difference
Public Debt	9662	10629.5	967.5
Local Debt	5451.8	6164.3	712.5
External Debt	4210.2	4465.2	255

The Monetary Authority's 2019 annual report indicated to a rise in the government's public debt, which reached 9.7 billion NIS at the end of 2019, i.e., equivalent to \$2.8 billion dollars. The report also showed a rise in government arrears in 2019, which reached 1.7 billion NIS. This brought the total amount of accumulated arrears to about 14.5 billion NIS by the end of that year, which is the equivalent of \$3.9 billion dollars.

And since arrears are considered part of the public debt, it brings the total amount of debt owed by the government to about 24.2 billion NIS, an equivalent of \$6.7 billion dollars. This accounted for 39.2% of the GDP at the end of 2019.

The above mentioned data indicate the government's weak financial status, especially given the limited financial resources available and the lack of control over the clearing tax revenues, grants and foreign aid, which constitute the largest share of revenues. This poses an obstacle to the Government's ability to repay debt, and in particular the private sector's arrears.

Allocations for the Ministries of Health, Social Development, Agriculture, Interior & Public Security

In light of the Corona virus pandemic and its multiple repercussions, this part of the report will focus on centers of responsibility expenditures for the first half of the year. At the same time implications of closures, pandemic costs, the clearing tax crisis and the declining revenues will be taken into account, noting that spending on these centers is considered a priority.

- **The Ministry of Health**

By tracking spending on the Ministry of Health (MoH) during the first half of 2020 compared to the same period in 2019 and 2018, it was revealed that the total expenditure achieved during the first half of the year on the basis of commitment amounted to (659) million NIS; which is lower than the amount spent during the same period for 2019 and 2018. This was due to the decline in goods and services, cessation of medical referrals to Israeli hospitals, general closures, and closures of primary clinics, and decline in the purchase and provision of medicines. It was also due to the donors and local contributors focus on providing needs to deal with the epidemic, decline in the number of patients visitations to clinics, hospitals and specialized health centers of the Ministry caused by to the difficulties to reach these service centers, and finally the decreased demand for services due to fear of contracting the virus.⁵

It is worth noting that the Palestinian government has invested financially on preventive measures, which fall under duties and tasks of responsibility centers other than the Ministry of Health such as: preventive measures in schools and public service centers, in addition to other issues that fall within the costs of preventing the Corona virus pandemic.

Furthermore, data reveals a rise in capital expenditures resulting from expenses of purchasing needed supplies and medicines to cope with the Corona virus. And despite the increase in capital expenses, the total expenditures of the MoH declined in comparison with the same period of past years. This informs us that the Corona pandemic burdens did not directly increase spending of the MoH budget.

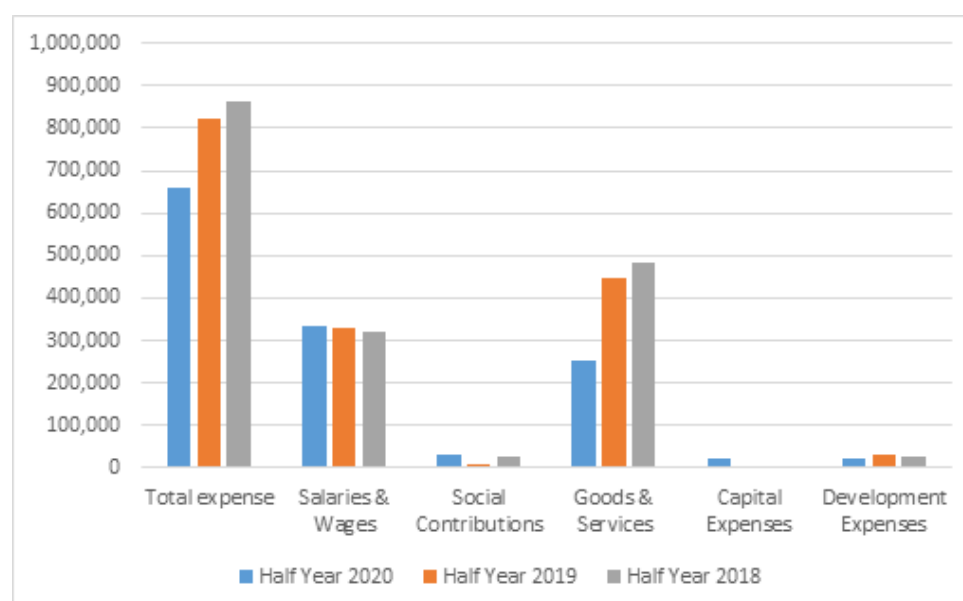
The data also reveals that the development expenditures of the MoH on commitment basis, amounted to 20 million NIS out of a total of 325 million NIS of development expenditures for all centers of responsibility, which is about 6% only. This is less than the development expenditures realized during the same period of last year. While the actual development expenditures on a cash basis are about 10 million NIS, out of 191 million NIS of the total cash-based development expenditures achieved for the first half of the year, amounting to 5% only.

A report by the Office for the Coordination of Humanitarian Affairs in the Palestinian Territories (OCHA) and other local studies revealed that the Corona pandemic exposed the poor infrastructure of the health system in Palestine in terms of the limited medical capabilities and limited resources available, epitomized by the shortages of health facilities and specialized personnel. In this regard, the MoH closed the majority of the primary health service clinics during the first period of the state of emergency, and staff was transferred to hospitals and quarantine centers. Thus, measures to address the pandemic came at the expense of the primary health services that are not associated to the corona virus. For example, all scheduled surgeries were postponed, medical lab tests were also postponed in addition to the severe shortages in medicine. And although the pandemic exposed the weakness of the health system and the urgent need to develop health services, whether they are related to epidemics or diseases that are usually referred abroad, no proactive or emergency budgets were allocated to meet the need. As the majority of the development expenditures achieved by the MoH were through external funding, and not treasury funded.

Table No. (8): Actual expenses during the 1st half of 2020 compared with the same period of 2018 & 2019; thousand NIS

MoH	Total expense	Salaries & Wages	Social Contributions	Goods & Services	Capital Expenses	Development Expenses
Half Year 2020	659,375	332,845	30,553	254,726	20,857	20,393
Half Year 2019	821,749	331,266	10,417	445,755	4,696	29,615
Half Year 2018	862,210	319,682	28,173	484,063	1,811	28,481

Figure No. (4): Actual expenses achieved during the 1st half of 2020 compared with the same period of 2018 & 2019; thousand NIS



From the onset of the pandemic, the MoH expressed its need for an allocated budget specifically for pandemic needs that includes medical equipment and tools, medicines and medical supplies, laboratory substances, as well as properly equipped quarantine quarters. In light of this, the MoH received in kind donations from many local institutions and Arab and foreign countries⁶; the ministry also received donations from Wakfet Izz Fund. However, these amounts were not allocated as part of the ministry's official spending⁷, nor were these amounts reported in the monthly reports. This further confirms the weakness of transparency of the 2020 budget mentioned at the beginning of this report concerning the ambiguity of revenues and expenditures details.

• **Ministry of Social Development**

The total expenditures of the Ministry of Social Development (MoSD) and Foundation for the Care of Families of Martyrs for the first half of 2020, amounted to 498 million NIS on commitment basis. An amount close to that spent during the first half of last year (no clearance tax funds were transferred that year either). However, this amount is less than the amount spent in 2018 during the same period. This decrease was the result of the decline in the transferrable expenditures, which was down by 160 million NIS from the amount realized in 2018. These expenditures are mostly granted as cash assistance to poor families. However, the decrease was noticeable due to transferring only one payment out of 4 to poor families, during the first half of the year, noting that the increase of needy families has risen to 10,000, totaling 115 thousand families that receive cash assistance through the MoSD.

During 2019, only three out of four payments were transferred to needy families, which is expected to happen this year as well due to the clearing tax crisis, and noting that the second transfer payment was made on July 27. (Distribution of 126 million NIS in aid to 115,000 needy families has been approved with: 80 thousand families in Gaza, and 35 thousand families in the WB).

Available data provided by the MoF do not reflect distributions of money received from the Al-Izz Fund, only funds from the public treasury are shown. However, cash assistance was distributed to an additional 30,000 families through the Fund.

On another note, measures to reduce the spread of the epidemic were accompanied by many challenges that greatly affected workers of the informal sector, Palestinians working within the 1948 borders and in Israeli colonies, and small establishments due to closures. In addition, increase in poverty in terms of the emergence of additional poor people. In the light of this, the Government adopted the principle of monthly spending on a priority basis and therefore budgets were allocated to address these issue. For example, priority within the MoSD was given to the cash assistance program, and since money was scarce, other programs within the Ministry did not receive their share of allocated budgets from the government hence were limited to the allocations from international grants and assistance only⁸.

⁶ Example: Major General Jibril Rajoub donated money to cover 50,000 smears and 10,000 corona tests to the MoH. Source: the official face book page of the ministry on August 23, 2020.

⁷ Dr. Fathi Abu-Mughli, Impact of the Corona Pandemic on the Services of the Palestinian Ministry of Health, 2020, MIFTAH

⁸ Telephone interview with the MoSD on August 20,2020

Also due to the pandemic situation and emergency committees that were formed to deal with it, assistance providers and sources of aid increased. Examples: the Ministry of labor distributed assistance to those affected and food packages were distributed by the emergency committees in addition to the assistance provided by NGOs and other parties etc.

Moreover, donors and international assistance varied, some of which were formed specifically to deal with the pandemic. Under these circumstances, the Civil Society Team was not able to know details concerning all aspects of the sources, beneficiaries, and mechanisms of distribution due to the absence of a formal and comprehensive database. Therefore, the Team believes that in order to achieve full transparency and clarity of support sources and mechanisms of distribution, it is of the utmost importance that such a database be developed in partnership with the Ministry of Labor and all related parties to include workers specifically in the informal labour sector. It is especially necessary since it's been proven that the absence of such a database weakened and complicated the process of accounting for those affected and the mechanism by which the Ministry of Labour and others provide assistance to them. It also allowed for applicants to spread incorrect information and increased opportunities for waste and favoritism.

The presence of a database at the MoSD for poor families has helped to quickly identify targeted parties. The unified portal also plays an important role in coordination of assistance, prevents duplication of assistance and contributes to the achievement of equality in distribution. This is why it is vital to utilize the unified portal and to encourage all related parties to use it.

Table No. (9): Expenses achieved on a commitment basis for half of 2020 compared to the same period for 2019 and 2018; thousand NIS

MoSD	Total expense	Salaries & Wages	Social Contributions	Goods & Services	Transferrable Expenses	Capital Expenses	Development Expenses
Half Year 2020	498,911	24,583	2,695	2,898	466,738	22	1,975
Half Year 2019	510,496	24,196	2,240	2,723	478,180	520	2,637
Half Year 2018	664,927	23,965	2,494	3,052	627,103	121	8,191

- **Interior Ministry and National Security**

During the first half of the year, the Ministry of Interior and National Security accounted for 23% of the total spending. This is the highest proportion among all responsibility centers in terms of expenditures, which reached (1,509) million NIS. It is also higher than the expenses achieved for the same period last year, where the salary bill for the security workers increased for the same period last year by 117 million NIS. This may be due to an increase in the number of staff. It is striking that the rise in the value of salaries and wages, under the Ministry of Interior and National Security item, is higher than the total value of salaries and wages for the same period of last year. In other words, the total salary bill increased by 117 million NIS compared to the same period of last year.

While the total salary bill increased by only 77 million NIS compared to the same of period last year. This was attributed to the decline in salary bill of other responsibility centers such as the Ministry of Education whose salary bille was reduced by 18 million NIS compared to the same period of last year.

Development expenditures of the Ministry of Interior and National Security fall under the item named rehabilitation of the security services. They amounted to approximately 36.5 million NIS on cash basis for the first half of the year, which is about 19% of the total development expenditures all together. Of the total 36.5 million, 30 million NIS came from external funding, while 6.5 million came from the Treasury. This raises many questions concerning development spending priorities of the Palestinian government given the current crisis of the pandemic, and specifically, questions are raised concerning its independent priority decisions taken without outside interference.

Table No. (10): Expenses achieved on a commitment basis for the first half of 2020 compared to the same period for 2019 and 2018; thousand NIS

MoH	Total expense	Salaries & Wages	Social Contributions	Goods & Services	Capital Expenses	Development Expenses
Half Year 2020	1,509,023	1,226,154	132,455	103,050	656	46,707
Half Year 2019	1,325,875	1,108,857	44,684	95,281	1,993	75,060
Half Year 2018	1,503,141	1,198,140	101,428	130,986	4,082	68,505

The table above indicates a rise in social contributions. These are amounts transferred from the public treasury to the pension fund by the government on behalf of employees. The total amount reached 132 million NIS for the first half of 2020, noting that the increase in salaries and wages is concurrent with the rise in the number of employees and hence an increase in social contributions.

- **Ministry of Agriculture**

During the first half of the year, total expenditures for the Ministry of Agriculture (MoA) amounted to 55.7 million NIS, which is less than 1% of the total expenditures achieved for that period. Salaries alone consumed 64% of the total. Development spending on the MoA amounted to 12.3 million NIS on the basis of commitment, accounting for only 35% of the achieved for the same period during the past year.

Table No. (11): Expenses achieved on commitment basis for the first half of 2020 compared to the same period for 2019 and 2018; thousand NIS

MoH	Total expense	Salaries & Wages	Social Contributions	Goods & Services	Capital Expenses	Development Expenses
Half Year 2020	55,729	35,579	3,143	4,681		12,327
Half Year 2019	82,529	35,074	5,690	5,563	903	35,298
Half Year 2018	61,133	35,607	3,165	6,377	107	15,876

It is worth noting that one of the priorities of the Palestinian government is to invest in the agricultural sector. In this regard, the government launched its clusters development plan that includes the agricultural cluster plan. This was carried out during the last quarter of last year. \$23 million dollars (equivalent to 80 million INS) were allocated for investment in the Qalqilya governorate; while the development spending of the MoA during the past year reached 50 million NIS. The government's interest in this sector is epitomized by the allocation of 80 million NIS for agricultural development, as stated by the Deputy Minister of the MoA during a recent interview. While the amount spent on commitment basis during the first half of the year was 12 million NIS, which accounts for only 15% of the budget. However, it is worth noting that the actual amount spent on the agricultural sector during the first half of the year was approximately 6 million NIS; about 3% of the total development expenditure, all of which is from external funding.

In conclusion, the Civil Society Team believes that the present situation requires a reordering of priorities concurrent with the changing conditions of this period. This means that steps must be taken to reinforce the steadfastness of farmers and to work on development of the agricultural sector, especially in the Jordan Valley area where it is in great need for an appropriate infrastructure including housing, health and education for farmers and their families. This is of the utmost importance if the cluster plan is to succeed, and for agriculture there to flourish. Moreover, it would be beneficial to seize the opportunity of the state of emergency period for restructuring of the whole sector, reordering priorities, and changing the old methodology of work in order to achieve sovereignty over food and natural resources.

Conclusions

Based on the above analysis, the following conclusions were noted:

In general, the data available points to a financial crisis afflicting the Palestinian Authority that seemed to be attributed to many factors, two main reasons being: the decline in local revenues due to the pandemic and its aftermath, and the occupation's piracy and non-transference of the clearing tax funds. Both factors exacerbated an already depleted budget where the deficit has been a fixed guest for years. In addition to the above, it is clear that the PA's modest capabilities and the decline in external support present challenges for the PA who must look for options to reduce, if not bring this deficit to an end. One way is to develop plans and procedures that can address this issue.

- In principle the approval of the budget must be executed before the beginning of the year, i.e. before 1 / 01 / 2020. And if that is not feasible, spending is carried out through monthly appropriations of 1 / 12 for a maximum of 3 months⁹. In addition, the use of exceptions and the delayed approval of the budget law on 313/ are unjustified actions, since the state of emergency was declared on March 5th. Moreover, the Emergency Budget Law of 2020 did not include an estimate of detailed expenditures or estimates of budgets for the responsibility centers. All of the above hinders data processing and auditing, and hence affects accountability.
- Commitment to the budget transparency remains weak, exemplified by the lack of transparency in expenditures. In addition, the highest degree of transparency was not applied during the public procurement processes although it does not conflict with the speed of purchase and bidding.
- The corona pandemic exposed the need to improve the Palestinian health system. Data covering the first half of the year revealed the low amount of money spent on the MOH, depending on closures and cessation of medical referrals to Israeli hospitals. At the same time, no increase was noticed on development expenditures that would indicate intensions towards service development and service localization.
- Due to closures and their financial and economic damaging consequences, multiple sources of cash and in-kind assistance sprung up, which reflects social solidarity. However, to achieve greater equity in the distribution of aid, there is a need to allocate additional budgets to the MoD that will contribute to the development of the database within the unified portal. Equally important is to ensure use of the unified portal for social assistance to disseminate all that is related to assistance.
- Only one out of four payments was transferred to poor families, during the first half of the year, due to the financial crisis caused by the withholding of the clearing tax funds. In this regard, it is expected that only three payments will be made this year and especially since the second payment was transferred after July 27, which is precisely the date when the 2019 second payment was transferred. This means depriving the needy families of 25% of their allocations.

- During the first half of the year, 36.5 million NIS was spent on the security sector (30 million from external funders, 6.6 million from the PA). All was executed under the heading of rehabilitation of the security services, while development expenses for the MoH did not exceed 10 million NIS (all amounts mentioned are on commitment basis). This raises questions concerning development spending priorities of the Palestinian government given the current crisis of the pandemic, and specifically concerning its independent priority decisions without outside interference.
- With the information available to us, the increase in the salaries bill of security services is unjustified; and decline in salaries of other sectors is also unjustified.
- Revenues declined during the first half of the year in comparison with the same period in previous years. However, the decline was relatively small compared to the budget estimate. This is because revenues are usually higher in the first quarter of the year, and closures started on March 22, hence they did not have a severe impact on revenues that period.
- There was a decline in the actual expenditures achieved compared with the estimated amount and with previous years expenditures, whether on commitment or cash basis. This was attributed to the decrease in operational expenditures due to closures and to the decline in salaries and wages resulting from the Israeli withholding of the clearing tax funds, which began at the beginning of May.
- Public debt increased at the end of June 2020 to reach 10.6 billion NIS. Worse yet, it is expected to continue rising in light of the withholding of the clearing tax, noting that the amount mentioned does not include arrears owed to the private sector or that owed to the Pension Fund.

Recommendations

- The need for the government and specifically the Ministry of Finance, in its preparation and approval of public budgets, to abide by the time limits stipulated in the public Budget Regulation law for 1998.
- The Palestinian government should abide by and promote the principles of transparency as a basic requirement at work, and specifically in emergency situations. This is of great importance since lack of commitment to disseminate comprehensive, accurate and timely information has a negative impact on the concept of community accountability.
- The Palestinian Government and the Public Procurement Council must adhere to the highest degree of transparency during implementation of procurement processes, which does not conflict with the speed of bidding or purchasing processes.
- The need for the Palestinian government, and specifically the MOH to work on the development of the Palestinian health system and to improve and localize all health services. We also recommend that the PA and MoH revise the health insurance system with the aim of providing a comprehensive and compulsory health system that achieves social equality.
- The Ministry of Labor in partnership with the MoSD should develop a database for workers in the informal sector in order to easily identify and reach those in need and especially in emergencies situations.
- The Palestinian government must adopt the unified portal for social assistance at the MoSD for registration and distribution of all government assistance and to also use it for publication of all that relates to this issue.
- The Civil Society Team calls on the government to commit to pay all allowances of the poor and to give them priority. To also adopt a policy of providing assistance to the needy and not a compensation policy for those affected under the pretext of shortage of adequate resources.
- The Council of Ministers and MoF must prioritize development spending, especially under the current circumstances. They must also allocate budgets for development without relying on foreign grants and assistance, and without outside interference in determining their priorities.
- We call on the MoF to publish full details of loan agreements from banks including the amount of interest paid in return. In addition, we also demand to be informed of the government's vision for repayment of the loans.
- Reliance on the local community for the distribution of in-kind, emergency and relief assistance.
- The Civil Society Team recommends that the Palestinian government and the MoA reconsider mechanisms used to support the Palestinian agricultural sector, especially in areas of the Jordan Valley, as well as to seriously find a way to provide all that is necessary to ensure an infrastructure that supports the steadfastness of citizens living there.

AMAN
Transparency Palestine



The Coalition for Integrity and Accountability (AMAN), the Palestinian institution accredited by Transparency International since 2006,
It was founded in the year 2000 from a group of civil institutions active in the field of democracy, good governance and human rights,

In pursuit of his vision of a «Palestinian society free of corruption.»

The coalition is currently seeking to create and lead a community movement across sectors fighting corruption, and to contribute to the production, transfer and localization of knowledge of corruption and its struggle at the national, regional and international levels. AMAN Coalition is keen to perform its watchdog oversight role on the National System of Integrity by focusing on community participation and activating the role of civil society organizations and the media in monitoring and accountability, creating a fortified environment and contributing to uncovering corruption crimes and limiting its spread.

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