

A Study on

The Reality of Foreign Grants and Aid to the Public Budget

Report No. 164



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AMAN
Transparency Palestine



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The Reality of Foreign Grants and Aid to the Public Budget
2010-2019

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Summary

Since the Palestinian Authority (PA) was established, foreign grants and aid have flowed in with the aim of promoting and institutionalising state agencies. Given their importance and impact on government spending, foreign grants and aid are inextricably linked to the political context and reflect on the socioeconomic situation of Palestinian society. Against this backdrop, this study examines the expenditure of foreign aid, grants, and support to the Public Treasury. The study analyses the impact and donors of this assistance by tracking expenditures over the past ten years (2010 - 2019). It also explores the impact of declining assistance on social services.

The study analyses of the reality, and investigates the impact, of foreign grants and aid to the Public Treasury during the period 2010 - 2019. Informed by a survey research methodology, the paper provides a review of various literature and references on foreign grants and aid since the PA was founded. An overview of financial reports on the public budget between 2010 and 2019 provides an overview of the context of foreign grants and aid to the public budget. A quantitative time series is developed for public budget grants and aid during the reporting period. Depending on their nature and sources, foreign grants and aid are divided into support to the Public Treasury and financing for development. In addition to identifying gaps in estimated and actual foreign support, this analysis covers the objects of expenditure and impact of grants and aid on the improvement of social services.

The survey research arrives a set of findings, mainly, foreign grants and aid to the public budget, including both Public Treasury support and financing for development, are clearly on a downward trajectory. There is also a gap between the estimated and actual budget of foreign grants and aid. Actual achievements are less than budget estimates. Also, external financing is conditional on donors' political agendas. Arab financing continues to be limited and volatile, precluding the existence of an Arab safety net for public budget support. All this casts a dark shadow over the future of foreign support and urges decision makers to provide alternatives. Estimated and actual gaps also need to be addressed by the Ministry of Finance (MoF) to ensure proper and realistic public budget planning.

The study demonstrates that the decline in foreign support has directly reflected on social services as well as on various government programmes directed towards the social sector. Of particular note, development programmes mainly rely on external financing for development.

The study comes up with a set of recommendations, most notably:

The Palestinian government should provide alternatives for the downturn in external financing in its current form. Using new instruments, the government needs to break new ground for financing with other countries or urge states and blocs to meet their obligations to support Palestine. In light of declining foreign financial support and PA successive financial crises, the government should comply with good governance in public financial management with a view to rationalising expenditures.

Whenever possible, the PA should keep social service provision away from any financing risks. In view of their paramount importance, social services have a major impact on the poor and marginalised groups, play a role in strengthening social cohesion, and contribute to maintaining social justice. The MoF will approve a resilient approach to public budget planning, taking account of systematic and unsystematic risks surrounding the Palestinian context. The gap between estimated budgets and actual expenditure will be bridged, particularly externally financed development expenditure. This has a significant impact on the implementation of social service projects and programmes.

The study further recommends that social sector development projects be ‘localised’. To do so, domestic sources of financing need to be made available through the Public Treasury and private sector corporate social responsibility programmes, while at the same time avoiding dependence on external financing. The Palestinian government should work towards optimising domestic revenues, without prejudice to poor, marginalised, and low-income groups. Alternatives will be provided for decreasing foreign support through tax policies, which expand tax brackets, introduce other brackets for high incomes, expand the circle of taxpayers, and contribute to promoting tax equity.

The government should put in place a “revolutionary” process tailored to invest the corporate social responsibility of the private sector with a view to consolidating and investing these resources in the strengthening of social services and provision of alternatives to declining foreign support. Critically, public expenditure should be channelled to the social sector and services by prioritising expenditure and drawing on various reports and studies released by the Civil Society Team for Enhancing Public Budget Transparency. If estimated external financing to social programmes and projects is lacking, the MoF should compensate the social sector and services for the through domestic revenues. Beneficiaries of these exercises involve poor, marginalised, and vulnerable groups in society. These cannot afford the consequences of a suspension of social programmes and projects. The government will also develop flexible and applicable scenarios for the decline or halt of foreign support, ensuring a continued flow of social services to strengthen Palestinian citizens’ perseverance and safeguard community safety.

Introduction

Since the PA was established, foreign grants and aid have flowed in with the aim of promoting and institutionalising state agencies. Compared to US\$ 530 million or around 40 percent of the total budget in 1998, foreign grants and aid comprised US\$ 1,953 million, or as much as 56 percent of the budget in 2008. This was followed by a relative decline in the amount of aid, dropping to US\$ 650 million (13.5 percent of the total budget) in 2018.

Given their importance and impact on government spending, foreign grants and aid are inextricably linked to the political context and reflect on the socioeconomic situation of Palestinian society. Against this background, the Coalition for Accountability and Integrity (AMAN) presents this study to examine the expenditure of foreign aid, grants, and support to the Public Treasury. The study analyses the impact and donors of this assistance by tracking expenditures over the past ten years (2010 - 2020). It also explores impact of declining assistance on the public budget and social services.

Research methodology

The study is informed by a survey research methodology, based on the following components:

1. Providing a review of various literature and references on foreign grants and aid since the PA was established.
2. Providing a review of financial reports on the public budget between 2010 and 2019 to view the context of foreign grants and aid to the public budget.
3. Developing a quantitative time series for public budget grants and aid during the period 2010-2019.
4. Providing a comparison of foreign grants and aid depending on their nature (support to the Public Treasury or financing for development).
5. Providing a comparison of foreign grants and aid depending on the sources of support.
6. Identifying gaps in estimated and actual foreign support.
7. Analysis of the expenditure and impact of grants and aid on the improvement of social services in 2010-2019.
8. Designing a support tool (interview) based on literature and analysis, with a view to serving the objectives of, and enriching, the study. These objectives can be implemented jointly with relevant bodies.
9. Coming up with practical and applicable findings and recommendations.
10. Preparing a draft of the study.
11. Organising a workshop with relevant bodies to discuss the research methodology, findings and recommendations, and build on the feedback received to further enhance the study.
12. Producing the final draft of the study.

Contents

- A theoretical framework of the concept of foreign grants and aid.
- An overview of the context of grants and aid since the PA was established.
- A track record of grants and aid during the period 2010 - 2019, in terms of the donor community and Palestinian government institutions or sectors in receipt of these grants and aid.
- Donor policies and amounts earmarked to grants and aid to the Public Treasury or financing for development.
- Expenditure and impact of grants and aid on social service development during 2010 - 2019.
- The impact of aid reduction on the public sector and identification of the most affected sectors, particularly social services.
- Recommendations to align government policies on grant and aid management with the priorities and requirements of the Palestinian context.

1. Foreign aid

Concept of foreign aid

Currently known as foreign aid, external assistance was first initiated on 20 January 1949. Earlier, in 1945, the international community, particularly the USA, established international financing institutions, including the World Bank and International Monetary Fund (IMF), in response to requests for assistance. The initiative also sought to bridge the financial gap in countries, which were affected by fiscal deficits and torn apart by wars, in Europe and Asia.

Having provided assistance to war-affected European countries, international financing institutions focused on extending their activities to poor and developing countries around the world. Following reconstruction, in the early 1950s, many Western countries started to inaugurate development programmes both bilaterally and directly to assist poor nations. The majority of these nations had already been colonised by European countries. Eventually, as many as 30 states engaged in bilateral programmes and benefited from substantial foreign aid.

For the purposes of this study, foreign aid is defined as “all financial and capital flows or capitals and real services provided by donors in rich countries to grantees or recipients in less developed countries across the third world.”

Financial flows and foreign services are diversified and divided into bilateral and multilateral official capital flows. Bilateral official flows are provided by government agencies in donor countries to recipients in the governments of targeted countries. By contrast, multilateral capital flows are given by multilateral organisations, such as the World Bank, United Nations, and IMF, to recipients in the targeted countries. Both types of official capital flows can take a variety of forms, including grants, loans, and grant-like tenders.

Foreign aid is also defined by different forms. These include economic assistance, trade finance, charitable assistance, military, security and political assistance. Charitable assistance is defined as donor efforts to act against hunger, misery, and despair across impoverished countries. Economic assistance is known as donor efforts to support the population of economically underdeveloped countries to develop their resources and create the conditions conducive to sustainable economic growth and self-sufficiency. Political, security and military assistance is viewed as aid programmes provided by donors, as well as efforts made to achieve political stability in the recipient country, with the aim of reducing chances of conflicts and wars, supporting peace, and promoting democracy. This assistance is also designed to maintain economic independence of donors' former colonies and create a new sphere of influence for Western donor countries.

After September 11, the “war on terror” has been incorporated into aid programmes in some poor countries. Advanced industrial (donor) countries have realised the need for close collaboration with the governments of these countries to ensure global security. In particular, donors have been aware of the link between pervasive poverty and spreading phenomenon of terrorism. The persistence of poverty makes vulnerable countries a growing threat to global security. Therefore, the majority of aid programmes have been increasingly directed towards tackling development challenges, combating poverty, and confronting direct and indirect security threats posed by the influx of irregular immigrants to donor countries. Needed human development can be accomplished by capacity building programmes, targeting government institutions and civil society organisations in relevant states.¹

Foreign grants and aid to Palestine

Signed in September 1993, the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (Oslo II) provided for establishing the PA in the West Bank and Gaza Strip. Accordingly, in October 1993, donors held a conference, which brought together 42 countries and institutions, to mobilise assistance to the PA and set up a unified management to coordinate financial and technical aid provided to the PA. The purported objective of this aid was to empower the nascent PA to administer the Palestinian territory, implement infrastructure rehabilitation projects, and rehabilitate human resources, including Palestinian fugitives, political prisoners, and returnees. It was also presumed that the PA would build public institutions and facilities, ultimately arriving at a situation of comprehensive and sustainable development. This swift international action was launched to give economic credibility to the Oslo Agreement in the eyes of Palestinian citizens, who were cautious and reluctant to support subsequent political and security arrangements. This approach was premised on the underlying assumption that: “If this agreement was to be effective on the ground and stand up to challenges, the Palestinian layman must see a positive change in the quality of their daily life.”

Later, this proposal developed into what has become known as “delivery of peace dividends” in the literature of proponents of a peaceful settlement of the Arab-Israeli conflict and of regional coexistence. Indeed, international action managed to receive pledges of US\$ 2.4 billion in just three months from the date of the conference. This amount was set to finance the plan for Palestinian economy reconstruction and infrastructure development over a span of three years. Ever since, international aid has flowed to the Palestinian people from multiple sources, by different channels, for a variety of objects of expenditure, under many conditions, and at an irregular pace. As at the end of 2004, the cumulative total of international assistance was over US\$ 7 billion, with an annual per capita average of some US\$ 300. This was among the highest levels of aid all over the world.² In this context, the Palestine Liberation Organisation took the initiative to establish the Palestinian Economic Council for Development and Reconstruction (PECDAR) to manage this file.

According to PECNDAR, between 1994 and the end of 2017, a total of US\$ 36.5 billion was provided in foreign aid to Palestine. Of this, US\$ 1.06 billion was delivered as loans and US\$ 35.4 billion as grants. Based on PECNDAR data, the period covered by total foreign grants, aid, and loans is 1994 - 2017, including all assistance to the budget and indirect assistance.

The European Union (EU) spearheaded the countries, blocs, and institutions which supported Palestine during the reporting period, providing a total of US\$ 6.7 billion, or 18.4 percent of total grants. The USA came in second, giving a total of US\$ 5.74 billion, or 15.7 percent of all grants. Saudi Arabia ranked third, with US\$ 3.83 billion (10.5 percent).

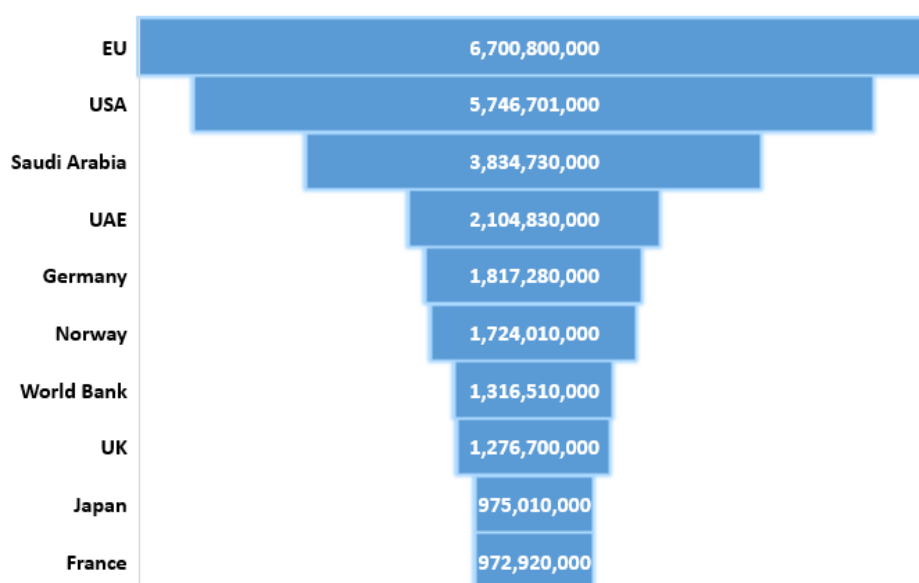
In Q3 2017, the USA began to cut off the financial aid it used to provide to Palestinians through three channels, namely, the public budget, United Nations Works and Relief Agency (UNRWA), and United States Agency for International Development (USAID). The US aid came to a complete halt in 2019.

Financial aid delivered by the 10 top donors (both states and institutions) comprised US\$ 26.46 billion. These included the EU, USA, Saudi Arabia, United Arab Emirates (UAE), Germany, Norway, the World Bank, United Kingdom, Japan, and France.³

Table 1: Top donors to Palestine, 1994 - 2007⁴

#	Country	Amount (US\$) ⁵
1	EU	6,700,800,000
2	USA	5,746,701,000
3	Saudi Arabia	3,834,730,000
4	UAE	2,104,830,000
5	Germany	1,817,280,000
6	Norway	1,724,010,000
7	World Bank	1,316,510,000
8	UK	1,276,700,000
9	Japan	975,010,000
10	France	972,920,000

Chart 1: Top donors to Palestine, 1994 - 2007 (US\$)



³ PECNDAR, Palestine Economy Portal, Foreign Aid Management in Palestine, <https://www.palestineconomy.ps/donors/en>

⁴ PECNDAR, Palestine Economy Portal, Foreign Aid Management in Palestine, <https://www.palestineconomy.ps/donors/en>

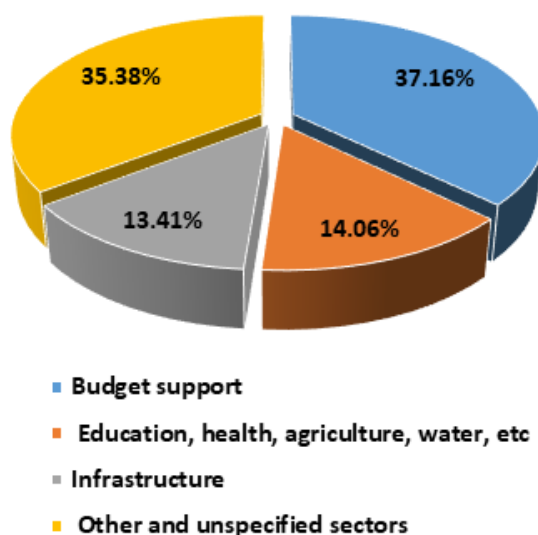
⁵ The amounts stated above do not include donors' contributions to the UNRWA budget.

Between 1994 and the end of 2007, international financial grants to the budget were close to US\$ 13.56 billion, representing 37.2 percent and taking the lion's share of all foreign aid. Following budget support, the infrastructure sector received the highest funding, accounting for some US\$ 5 billion, or 13.4 percent of all foreign aid in 1994 - 2007. As shown in the table above, the rest of aid was distributed to different sectors, including health, education, water supply and sanitation, and unspecified sectors.

Table 2: Distribution of grants and aid to different sectors⁶

Sector	Amount (US\$)	%
Budget support	13,562,765,000	37.16%
Education	1,324,809,000	3.63%
Health	799,850,000	2.19%
Agriculture	299,672,000	0.82%
Transport and communications	369,661,000	1.01%
Trade and tourism	133,590,000	0.37%
Business and other services	298,753,000	0.82%
Industry, mining and construction	323,954,000	0.89%
Water supply and sanitation	1,578,735,000	4.33%
Other social infrastructure and services	4,895,600,000	13.41%
Other sectors	6,075,120,000	16.64%
Unspecified	6,838,849,000	18.74%
Total	36,501,358,000	100.00%

Chart 2: Distribution of grants and aid to different sectors



2. Analysis of the time series of estimated foreign grants and aid to the public budget: 2010 - 2019

Foreign grants and aid to the public budget are broken down into two types: (1) Public Treasury support; and (2) financing for development expenditure. A review of estimated budgets over a span of ten years (2010-2019), estimated grants and aid to the public budget were as follows:

Table 3: Comparative data of estimated external financing (Public Treasury support and financing for development), total public budget, and percentage of external financing out of the total budget, 2010 - 2019 (NIS million)

Year ⁷	Estimated budget support	Estimated financing for development	Estimated external financing	Total public budget	% of external financing out of the total budget
2010 ⁸	4,723	2,546	7,269	14,592	49.81%
2011 ⁹	3,580	1,850	5,430	13,810	39.32%
2012 ¹⁰	3,811	1,140	4,951	13,444	36.83%
2013 ¹¹	4,070	1,110	5,180	14,387	36.00%
2014 ¹²	4,785	1,080	5,865	15,176	38.65%
2015 ¹³	3,120	4,290	7,410	19,570	37.86%
2016 ¹⁴	2,925	956	3,881	16,577	23.41%
2017 ¹⁵	1,950	546	2,496	17,786	14.03%
2018 ¹⁶	2,160	630	2,790	18,089	15.42%
2019	Public budget was not enacted.				

In 2010 - 2018, estimated external financing totalled NIS 45.3 billion.

The table above shows that, while the public budget was on an upward trajectory, estimated external financing (Public Treasury support + financing for development) was generally on a downward trend. In other words, the public budget was overall on the rise, but that made sense in view of the natural population growth as well as increasing revenues and expenditures. In this context, the public budget jumpstarted from NIS 14.6 billion in 2010 to around NIS 18 billion in 2018 – a rise of approximately 23 percent than in 2010. On the other hand, of the total budget, external financing dropped from almost half of the budget in 2010 (49.8 percent) to as low as 14 percent in the 2017 estimated budget – down to some 28.7 percent from the 2010 public budget. This means that, in spite of the growing public budget, estimated foreign grants and aid to the public budget have been in constant decline over the past ten years, further compounding the current gap. After 2015, the relation has been inverse: despite an overall increase in the estimated budget, external financing continued to sink. Of note, estimated external financing rose sharply in the 2015 budget. Then, the government projected that, in the aftermath of 2014 Israel's offensive on the Gaza Strip, Gaza reconstruction funds would be part of external financing for development. This was not the case, however. The comparison between estimated and actual external financing provides a detailed account of this anomaly.

⁷ Law by Decree No. 3 of 2010 on the Public Budget of 2010, dated 31 March 2010.

⁸ Law by Decree No. 5 of 2011 on the Public Budget of 2011, dated 31 March 2011.

⁹ Law by Decree No. 6 of 2012 on the Public Budget of 2012, dated 7 April 2012.

¹⁰ Law by Decree No. 2 of 2013 on the Public Budget of 2013, dated 30 March 2013.

¹¹ Law by Decree No. 2 of 2014 on the Public Budget of 2014, dated 10 February 2014.

¹² Law by Decree No. 9 of 2015 on the Public Budget of 2015, dated 30 June 2015.

¹³ Law by Decree No. 1 of 2016 on the Public Budget of 2016, dated 8 January 2016.

¹⁴ Law by Decree No. 3 of 2017 on the Public Budget of 2017, dated 15 February 2017.

¹⁵ Law by Decree No. 4 of 2018 on the Public Budget of 2018, dated 4 March 2018.

¹⁶ The public budget was not enacted due to the clearance revenue crisis. According to the Presidential Decision No. 26 of 2019, dated 25 March 2019, expenditures would continue by monthly appropriations at the rate of 112/100th of each month of the previous year's budget.

chart 3: Comparative data of estimated external financing (Public Treasury support and financing for development)

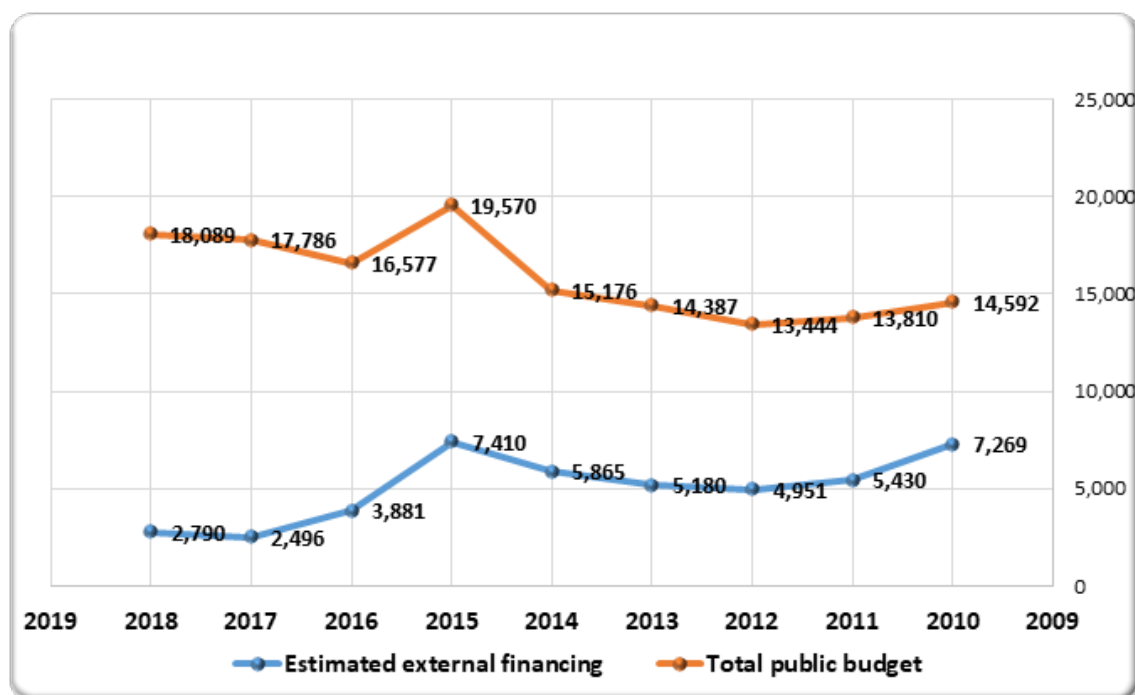
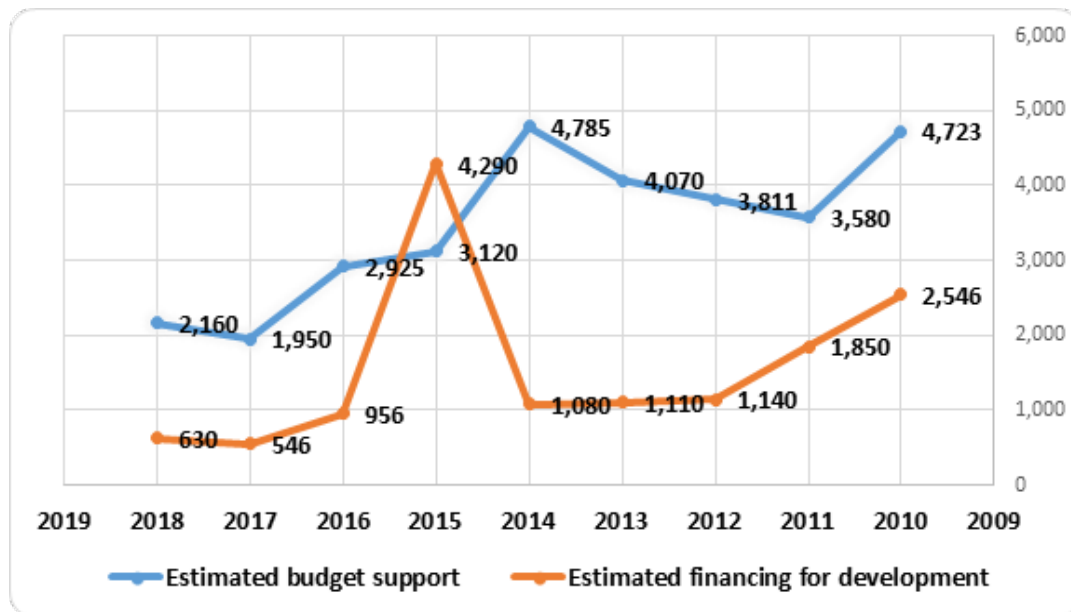


Table 3 above shows that estimated external financing to the Public Treasury was generally higher than that of development expenditures (financing for development). Only in the 2015 budget was financing for development estimated at NIS 4,290 million, while estimated budget support was NIS 3,120 million. This was based on government projections of keeping Gaza reconstruction funds within external financing for development.

It is also noted that estimated external financing to the Public Treasury would amount to NIS 31,124 million in 2010 - 2018. In spite of a gross increase in the total estimated budget, however, this financing has dropped over the past ten years from NIS 4,723 million in the 2010 budget to NIS 2,160 million in the 2018 budget. This was a decrease of NIS 2,563 million, or 45.7 percent, down from estimates of the 2010 estimated budget. It is further noted that, between 2010 and 2018 and in spite of the rise in the total estimated budget, estimated external financing to the Public Treasury registered NIS 31,124 million, reflecting an overall decrease over the ten-year period. Estimated external financing to the Public Treasury was down from NIS 4,723 million in the 2010 budget to NIS 2,160 million in the 2018 public budget. Compared to the 2010 estimated budget, this is a reduction of NIS 2,563 million, or 45.7 percent, in the 2018 estimated budget.

Also of note, in the 2010 - 2018 period, estimated external financing to development expenditures (financing for development) amounted to NIS 14,148 million, also reflecting a drop over the past ten years in spite of the increase in the total estimated budget. Estimated external financing to development expenditures dropped from NIS 2,546 million in the 2010 budget to NIS 630 million in the 2018 budget, representing a decrease of NIS 1,916 million, or 24.7 percent, in comparison to estimates of the 2010 budget (see Chart 4 below).

Chart 4: Comparative data of estimated external financing (Public Treasury support + financing for development), 2010-2019 (NIS million)

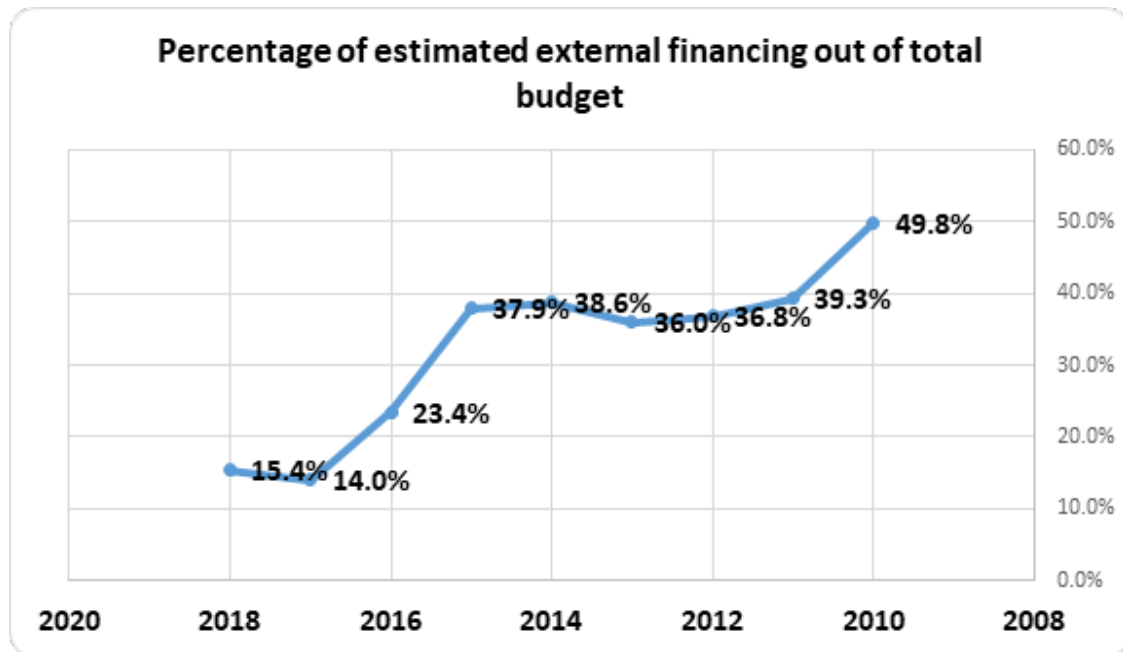


This means that foreign support to the Public Treasury or development expenditures has been constantly declining at statistically significant rates over the past ten years. This indicates that the drop in foreign grants and aid was not only limited to support to the Public Treasury or development expenditures, but affected both. Forewarning of the future and continuity of foreign support, this decline requires that decision makers develop alternative plans to tackle the steady fall or cut off of foreign grants and aid. Signs of this disruption were felt in 2020.

Table 3 above and Chart 5 below demonstrate that, out of the total public budget, the percentage of estimated external financing to both the Public Treasury and development expenditures (financing for development) have slumped over the past ten years, from 49.8 percent in the 2010 budget down to 15.4 percent in the 2018 budget.

Put differently, out of the total public budget, the percentage of estimated foreign grants and aid is in constant decline. This stresses the need to provide alternatives for these grants and aid in their current form. New substitutes for external financing should be attempted. In this particular context, national plans and sector strategies are developed along the lines of estimated budgets, rather than actual expenditure. A substantial portion of these plans and programmes depend on external financing, posing a threat to relevant implementation.

Chart 5: Comparative data of estimated external financing (Public Treasury support + financing for development) out of the total public budget, 2010 - 2018



In 2019, estimated external financing was not allocated because the public budget had not been enacted. The percentages in Chart 5 above outline estimated external financing out of the estimated total public budget. For example, while external financing was estimated at NIS 7,269 million in the 2010 budget, the public budget totalled NIS 14,592 million. In other words, external financing accounted for almost half of the public budget. By contrast, in the 2018 budget, estimated external financing was NIS 2,790 million, but the total public budget was NIS 18,089 million. That is, external financing made up just 15.4 percent of the public budget.

2.1 Actual expenditure from external financing (foreign grants and aid to the public budget): Analysis of the time series 2010 - 2019

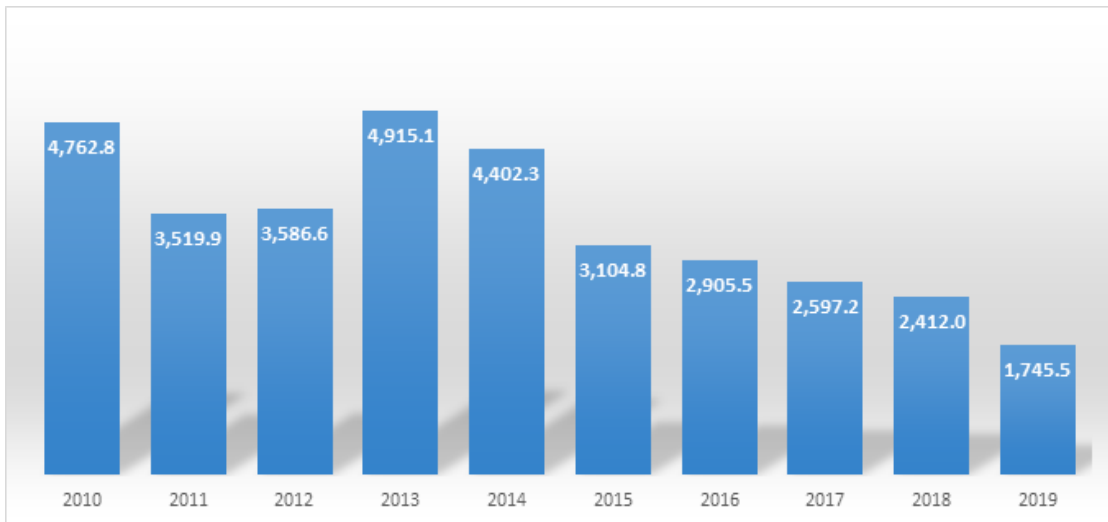
A review of actual expenditure reports, released by the MoF over ten years (2010 - 2019), shows that actual grants and aid to public budgets were as follows:

Year	Foreign support (NIS million)		Total actual foreign support
	Actual budget support	Actual financing for development	
2010 ¹⁷	4,276.1	486.8	4,762.8
2011 ¹⁸	2,915.2	604.7	3,519.9
2012 ¹⁹	2,985.5	601.1	3,586.6
2013 ²⁰	4,531.6	383.5	4,915.1
2014 ²¹	3,676.1	726.2	4,402.3
2015 ²²	2,757.4	347.4	3,104.8
2016 ²³	2,317.5	588.0	2,905.5
2017 ²⁴	1,965.5	631.7	2,597.2
2018 ²⁵	1,841.0	571.0	2,412.0
2019 ²⁶	1,776.4	-30.9	1,745.5
Total	29,042.3	4,909.5	33,951.7

- In 2019, as US aid was cut off, NIS 448 million was returned to the US Consulate General to close the grant account. Hence, the algebraic sum of financing for development was negative.
- Table 4 shows that, between 2010 and 2019, external financing to the public budget totalled NIS 34 billion, including NIS 29 billion (85.3 percent) in support of the public budget and NIS 5 billion (14.7 percent) channelled to financing for development.
- Also of note, actual external financing to the public budget was steadily decreasing: from NIS 4,762.8 million in 2010 down to NIS 1,745.5 million in 2019, registering a drop of 36.6 percent in comparison to 2010.
- This means that actual external financing is on the decrease, ending up in just one third lower than it was ten years ago. Foreign grants and aid to the Public Treasury are the largest component of actual external financing. In other words, external financing for development is not only limited, but also in constant decline.

17MoF, Cumulative Actual Expenditure for January 2010, 24 November 2011.
18MoF, Cumulative Actual Expenditure for January 2011, 15 January 2012.
19MoF, Cumulative Actual Expenditure for January 2012, 16 January 2013.
20MoF, Cumulative Actual Expenditure for January 2013, 11 February 2014.
21MoF, Cumulative Actual Expenditure for January 2014, 20 January 2015.
22MoF, Cumulative Actual Expenditure for January 2015, 17 January 2016.
23MoF, Cumulative Actual Expenditure for January 2016, 23 March 2017.
24MoF, Cumulative Actual Expenditure for January 2017, 24 January 2018.
25MoF, Cumulative Actual Expenditure for January 2018, 27 January 2019.
26MoF, Cumulative Actual Expenditure for January 2019, 28 January 2020.

Chart 6: Comparative data of actual external financing, 2010 - 2019 (NIS million)



- The chart above outlines the trajectory of actual external financing over the ten-year span. Having been continuously decreasing after 2013, actual external financing hit a record low in 2019, registering NIS 1.75 billion, well below some NIS 5 billion in 2013.

Chart 7: Comparative data of actual external financing (Public Treasury support + financing for development), 2010 - 2019 (NIS million)

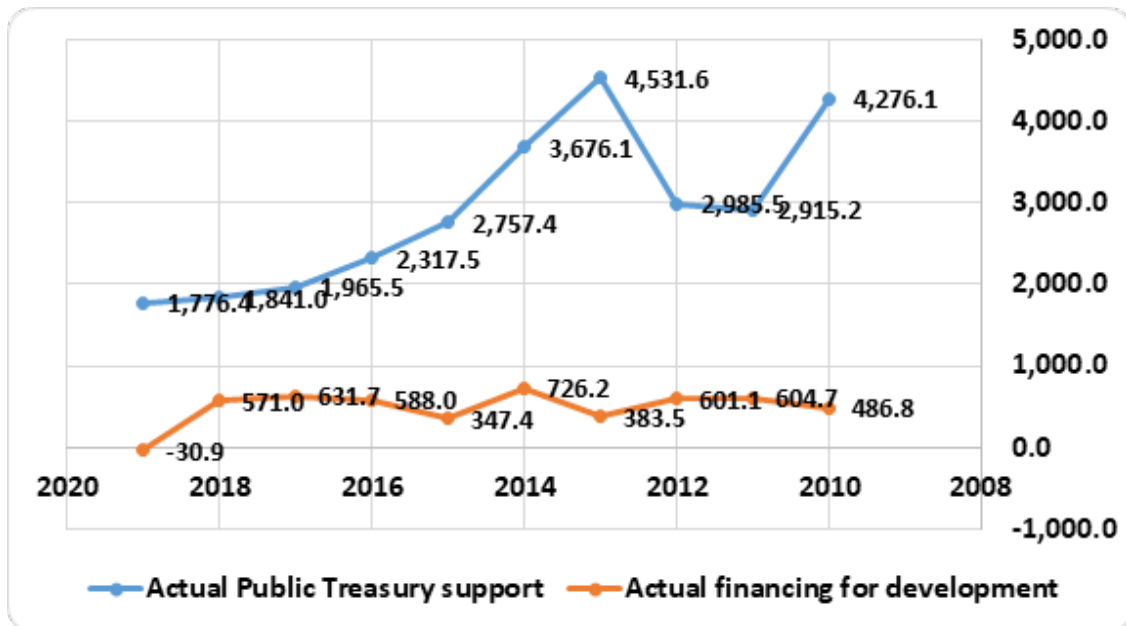


Table 4 and Chart 7 show that, while it dropped in both areas (Public Treasury support + financing for development), actual external financing to the Public Treasury was higher than that given to development expenditures over the ten-year period. External financing to the Public Treasury was in perceptible decrease, but further worsened over the past seven years. In other words, decline in actual external support in on the rise, casting a pall over the future of this financing and the public budget.

Chart 8: Comparative data of actual external financing (financing for development), 2010 - 2019 (NIS million)

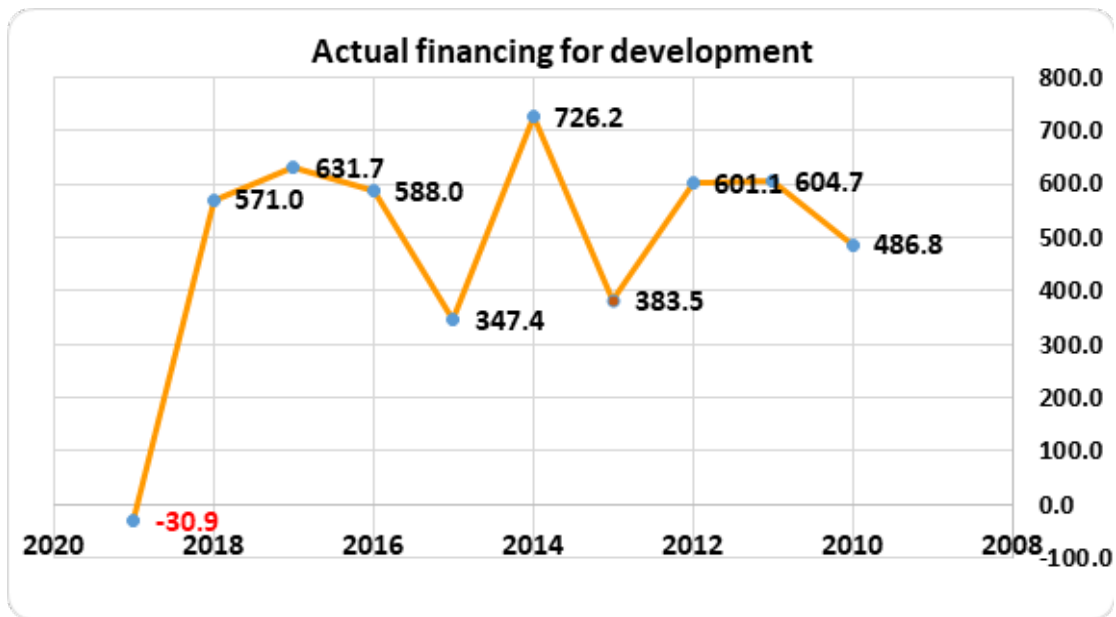


Table 4 and Chart 8 indicate that, albeit important, actual financing for development shows evident signs of perturbation and instability. Actual financing for development was not relatively high, scoring the highest amount of NIS 726.2 million in 2014, but immediately dropped by almost a half to NIS 347.7 million in 2015. It was negative in 2019 because the USA restored a development grant in the amount of NIS 448 million. Given that development expenditures largely rely on external financing, the reduction poses a threat to the sustainability and implementation of development projects.

This pinpoints the fact that dependence on foreign support to development expenditures is inappropriate. Over the past ten years, actual external financing for development has been volatile, continued to decline, and was even negative in 2019. This is an indication of the risk posed to social sector development projects and social services, which depend on external financing for development.

2.2 Comparison of estimated budgets of external financing (foreign grants and aid to the public budget) to actual expenditure: Analysis of the time series 2010 - 2019

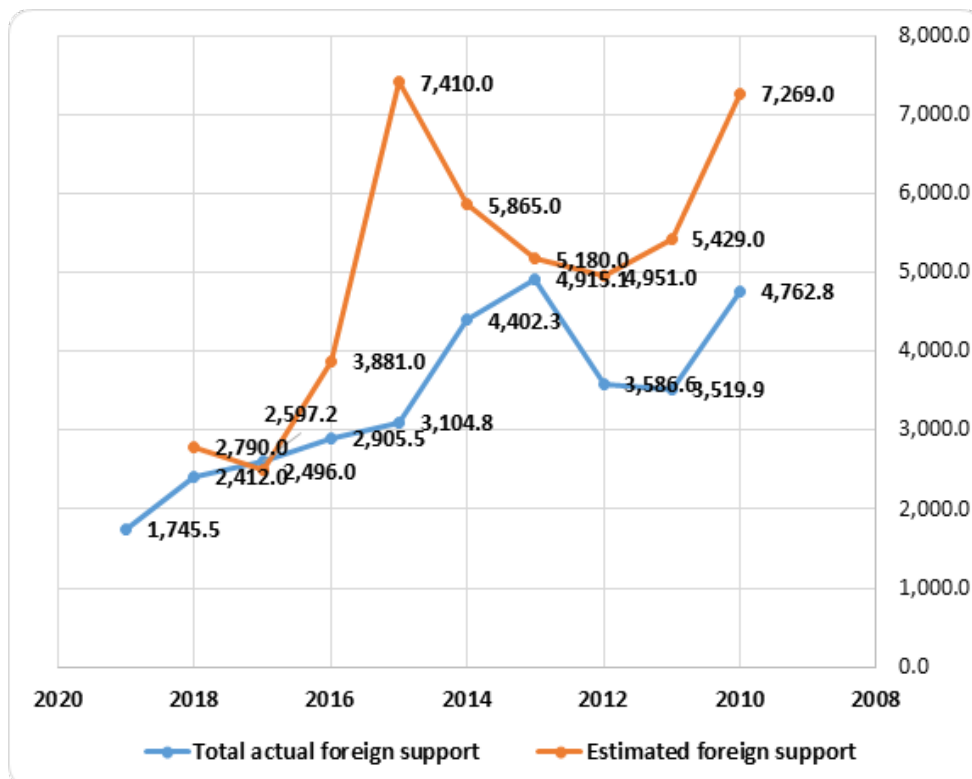
A review of enacted budgets and reports on actual expenditure, published by the MoF over the period of ten years (2010 - 2019), shows that estimated and actual grants and aid to public budgets were as follows:

Table 5: Comparative data of estimated and actual external financing (budget support + financing for development) in 2010-2019 (NIS million)

Year	Foreign support (NIS million)				Total actual foreign support	Estimated foreign support	Execution (%)
	Actual Public Treasury support	Estimated Public Treasury support	Actual financing for development	Estimated financing for development			
2010	4,276.1	4,723.0	486.8	2,546	4,762.8	7,269.0	65.5%
2011	2,915.2	3,579.0	604.7	1,850.0	3,519.9	5,429.0	64.8%
2012	2,985.5	3,811.0	601.1	1,140.0	3,586.6	4,951.0	72.4%
2013	4,531.6	4,070.0	383.5	1,110.0	4,915.1	5,180.0	94.9%
2014	3,676.1	4,785.0	726.2	1,080.0	4,402.3	5,865.0	75.1%
2015	2,757.4	3,120.0	347.4	4,290.0	3,104.8	7,410.0	41.9%
2016	2,317.5	2,925.0	588.0	956.0	2,905.5	3,881.0	74.9%
2017	1,965.5	1,950.0	631.7	546.0	2,597.2	2,496.0	104.1%
2018	1,841.0	2,160.0	571.0	630.0	2,412.0	2,790.0	86.5%
2019	1,776.4	N/A ²⁷	-30.9	N/A	1,745.5	N/A	N/A

- In 2010 - 2018, total estimated external financing was NIS 45.3 billion.
- In 2010 - 2018, total actual external financing totalled NIS 32.2 billion.
- In 2010 - 2019, total actual external financing was in the amount of NIS 34 billion. It should be noted that the public budget was not enacted in 2019.

Chart 9: Comparative data of total estimated and actual external financing (Public Treasury support + financing for development), 2010 - 2019 (NIS million)



²⁷The public budget was enacted due to the clearance revenue crisis. According to the Presidential Decision No. 26 of 2019, dated 25 March 2019, expenditures shall continue by monthly appropriations at the rate of 112/100 of each month of the previous year's budget

Table 5 and Chart 9 show that estimates were generally higher than actual external financing. Compared to actual and estimated external financing, the actual execution average was 71 percent. As was the case in the 2015 budget, significant gaps also appeared between estimated and actual external financing. While external financing was estimated at NIS 7,410 million, the actual amount was NIS 3,104.8 million, or just 42 percent. It was also noted that estimated external financing in support of the Public Treasury was overall higher than actual amounts. However, the context was somewhat consistent, featuring limited gaps. By contrast, estimated external financing to development expenditures was generally higher than actual support. There were large and statistically significant gaps. For example, while financing for development was estimated at NIS 4,290.0 million in the 2015 budget, actual financing for development stood at NIS 347.4 million, or 8 percent only.

This indicates that estimates were higher than actual foreign grants and aid, raising an important question: What is the future of externally financed plans, programmes, and projects, with no actual expenditure? How will social service plans and programmes be implemented while financing is lacking?

Chart 10: Comparative percentage of actual expenditure execution and total estimated external financing (Public Treasury support + financing for development), 2010 - 2019

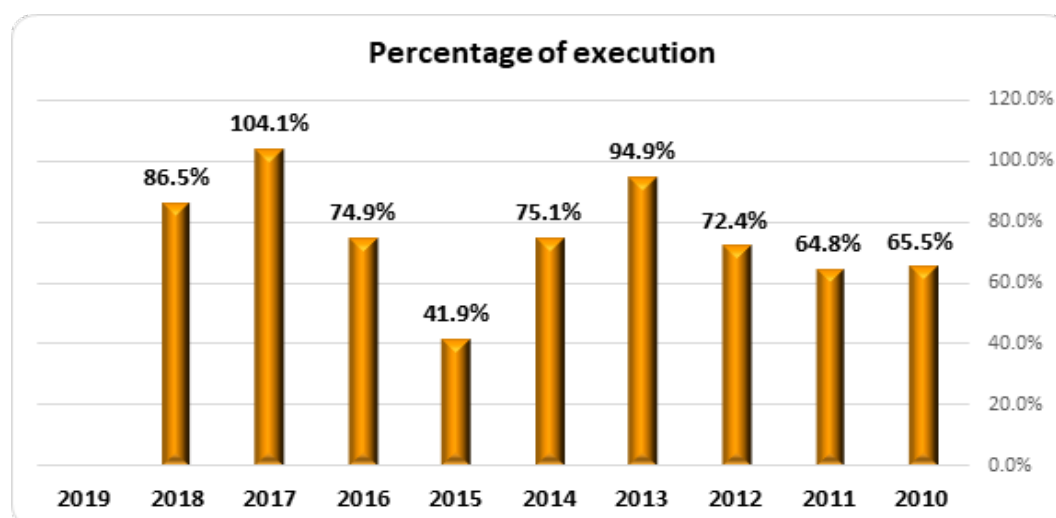


Table 5 and Chart 10 show that actual execution of external financing (foreign grants and aid) to the Public Treasury and development expenditures was generally lower than estimates, volatile, and heterogeneous. This is indicative of a real challenge to implementing different government plans. Implementation of these plans is linked to estimated budgets. Since actual grants and aid are statistically lower than corresponding estimates, the implementation of government plans is turbulent. As a result, development plans or projects might be left unimplemented due to the lack of allocations. The problem is more serious when it comes to social service programmes and projects, which affect the rights of poor and marginalised groups. Notably, development expenditures largely rely on foreign grants and aid to the public budget.

2.3 External financing sources: Analysis of the time series 2010 - 2019

According to the MoF 2010 - 2019 actual expenditure reports, external financing is twofold:

1. Direct financing to the Public Treasury, including Arab and donor support, PEGASE, and World Bank grants.
2. Financing for development, including Joint Financing Arrangement (JFA) in support of the education sector, among other development grants.

Table 6: Foreign support to the Public Treasury (Arab + donor support) (NIS million)

Year	Arab support (NIS million)	Donor support (NIS million)	Total foreign support to the Public Treasury (NIS million)	Arab support (%)	Donor support (%)
2010 ²⁸	860.9	3,419.3	4,280.2	20.1%	79.9%
2011 ²⁹	1,031.8	1,883.4	2,915.2	35.4%	64.6%
2012 ³⁰	1,050.0	1,935.4	2,985.4	35.2%	64.8%
2013 ³¹	1,388.4	3,143.3	4,531.7	30.6%	69.4%
2014 ³²	1,463.8	2,212.3	3,676.1	39.8%	60.2%
2015 ³³	1,288.0	1,469.4	2,757.4	46.7%	53.3%
2016 ³⁴	813.3	1,503.8	2,317.1	35.1%	64.9%
2017 ³⁵	524.2	1,441.3	1,965.5	26.7%	73.3%
2018 ³⁶	1,090.1	750.1	1,840.2	59.2%	40.8%
2019 ³⁷	876.3	900.1	1,776.4	49.3%	50.7%
Total	10,386.8	18,658.4	29,045.2	35.8%	64.2%

²⁸ MoF, Cumulative Actual Expenditure for January 2010, 24 November 2011.

²⁹ MoF, Cumulative Actual Expenditure for January 2011, 15 January 2012.

³⁰ MoF, Cumulative Actual Expenditure for January 2012, 16 January 2013.

³¹ MoF, Cumulative Actual Expenditure for January 2013, 11 February 2014.

³² MoF, Cumulative Actual Expenditure for January 2014, 20 January 2015.

³³ MoF, Cumulative Actual Expenditure for January 2015, 17 January 2016.

³⁴ MoF, Cumulative Actual Expenditure for January 2016, 23 March 2017.

³⁵ MoF, Cumulative Actual Expenditure for January 2017, 24 January 2018.

³⁶ MoF, Cumulative Actual Expenditure for January 2018, 27 January 2019.

³⁷ MoF, Cumulative Actual Expenditure for January 2019, 28 January 2020.

Chart 11: Foreign support to the Public Treasury (Arab + donor support) (NIS million)

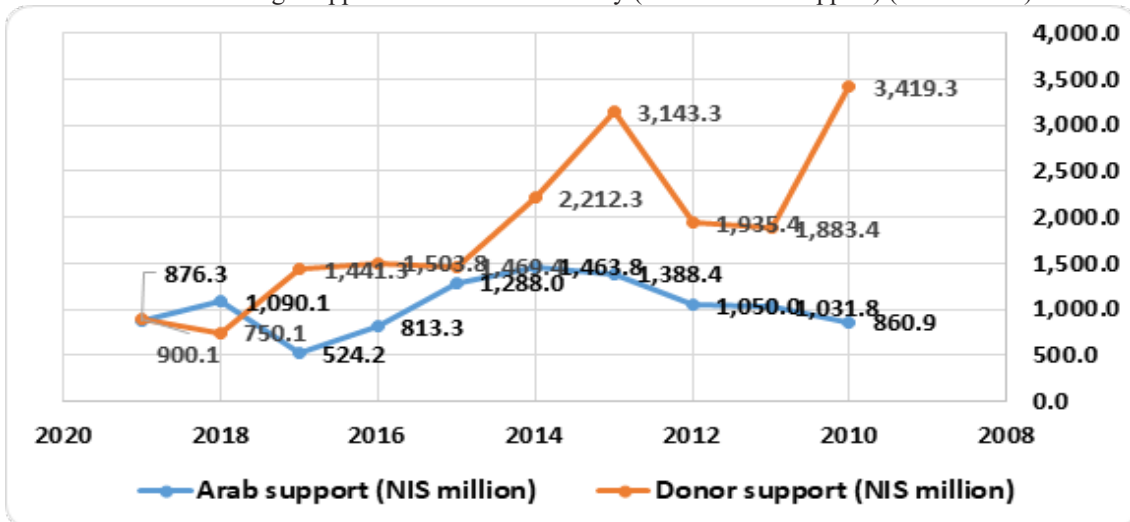
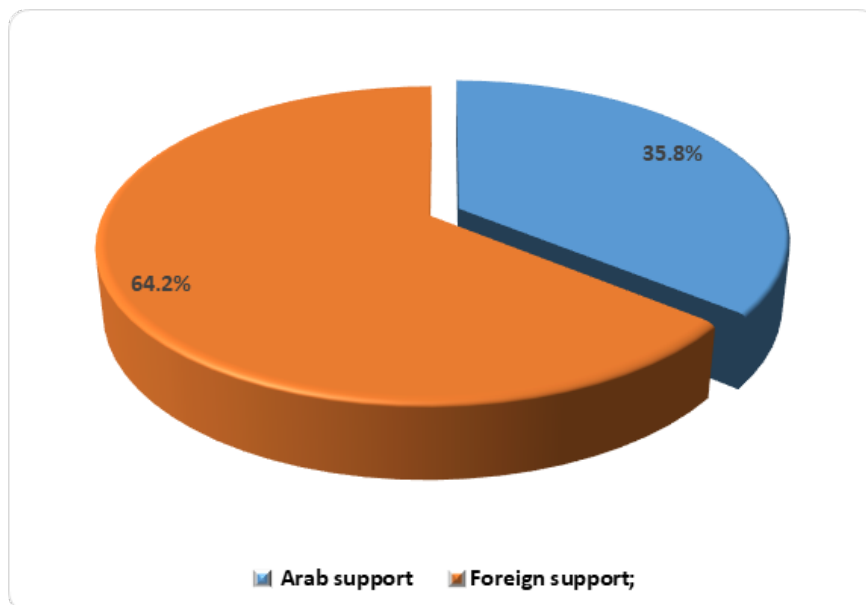


Table 6 and Chart 11 above show that foreign support to the Public Treasury was in decline. Although decrease is less than that of donors', Arab support does not provide a safety net and contributes very little to the Public Treasury, at best reaching NIS 1.46 billion in 2014. In 2019, public budget support from all Arab donor countries dropped to NIS 0.88 billion, indicating that volatile and mediocre Arab support to the Public Treasury can in no way provide a financial safety net to the PA.

Data also point to a significant decline in foreign support (international financing) to the Public Treasury, dropping from NIS 3.4 billion in 2010 to just NIS 0.9 billion in 2019. The significant and sharp decline in foreign (international) support to the public budget requires that PA decision makers find alternatives. The PA should not be held hostage to international support that never comes, adversely impacting the implementation of various government plans.

Chart 12: Percentage of Arab and donor support out of total foreign support to the Public Treasury



The chart above shows that, in comparison to 64.2 percent of foreign (donor) support, Arab financing and support accounted for a third (35.8 percent) of total foreign support to the Public Treasury. This speaks to the fact that Arab support to the Public Treasury is still limited. At any rate, it neither serves as a safety net for the public budget, nor can it be relied on to cover the financing gap which affects the budget on an annual basis. Table 7 below shows that, over the past ten years (2010 - 2019), Arab support fluctuated. It was unsteady and affected by the course of political events. This was evident in the irregular flow of Arab aid. Based on their own political agendas, several Arab states were either on or off the community of donors. For example, since 2014, the UAE has suspended support due to the PA dispute with, and UAE support to, Mohammed Dahlan. This was also the case with Qatar, which has been transferring support directly to Gaza. Other states, such as Kuwait, provided one-off support. This suggests that dependence on Arab support is precarious. Planning cannot be grounded in Arab support, which is affected by the course of political events agendas.

Table 7: Arab support to the Public Treasury, 2010 - 2019 (NIS million)

Year	Saudi Arabia	Algeria	UAE	Egypt	Qatar	Oman	Kuwait	Iraq	Total
2010	536.0	98.1	160.0	30.2	36.6	0.0	0.0	0.0	860.9
2011	650.4	187.1	152.3	5.8	0.0	36.2	0.0	0.0	1,031.8
2012	399.8	99.5	175.2	12.5	113.7	0.0	0.0	99.9	1,050.0
2013	940.7	98.4	0.0	23.0	522.2	18.5	0.0	100.7	1,388.4
2014	704.4	184.4	0.0	26.8	0.0	26.0	0.0	0.0	1,463.8
2015	942.5	204.8	0.0	28.3	0.0	112.4	0.0	0.0	1,288.0
2016	699.1	102.0	0.0	12.2	0.0	0.0	0.0	0.0	813.3
2017	332.4	187.7	0.0	4.1	0.0	0.0	0.0	0.0	524.2
2018	794.0	95.3	0.0	13.0	0.0	0.0	187.8	0.0	1,090.1
2019	576.7	94.0	0.0	0.0	170.2	0.0	0.0	35.4	876.3
Total	6,576.0	1,351.3	812.1	155.9	874.6	193.1	187.8	236.0	10,386.8

Over the ten-year period (2010-2019), eight Arab states, first and foremost Saudi Arabia, contributed a sum of NIS 6,576 million, or 63.3 percent of all Arab support. Saudi Arabia was followed by Algeria, which accounted for 13 percent of total Arab support. Of note, only Saudi and Algerian support was regular, while that all other states' was not. For instance, the UAE has suspended support to the Public Treasury since 2013. Support by other states, such as Oman, has been as minimal as NIS 193.1 million during the ten-year period.

Chart 13: Arab support to the Public Treasury in 2010 - 2019 by donor (NIS million)

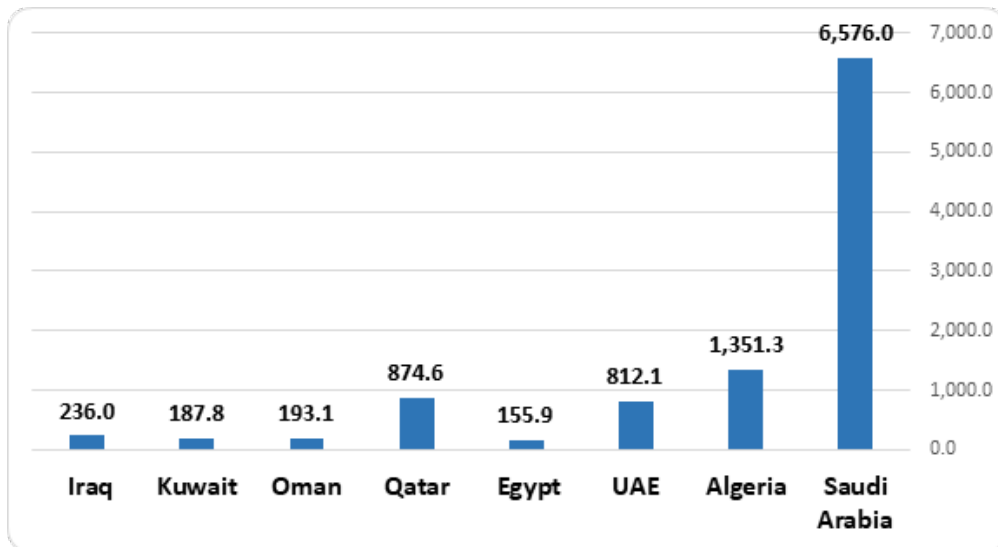


Chart 14 below shows that, by a wide margin, Saudi Arabia is at the forefront of Arab donors to the Public Treasury. Over ten years, Saudi Arabia accounted for two thirds of Arab support to the Public Treasury, marking NIS 6.6 billion, or 63.3 percent of total Arab support. Saudi support was quantitative, continuous, and regular. Algeria came in second, contributing NIS 1.6 billion, or 13 percent of overall Arab support to the Public Treasury. Algerian support was also continuous and regular over the past 10 years. Support provided by the rest of Arab states was “seasonal”.

Chart 14: Percentage of Arab states' contribution to Public Treasury financing, 2010 - 2019

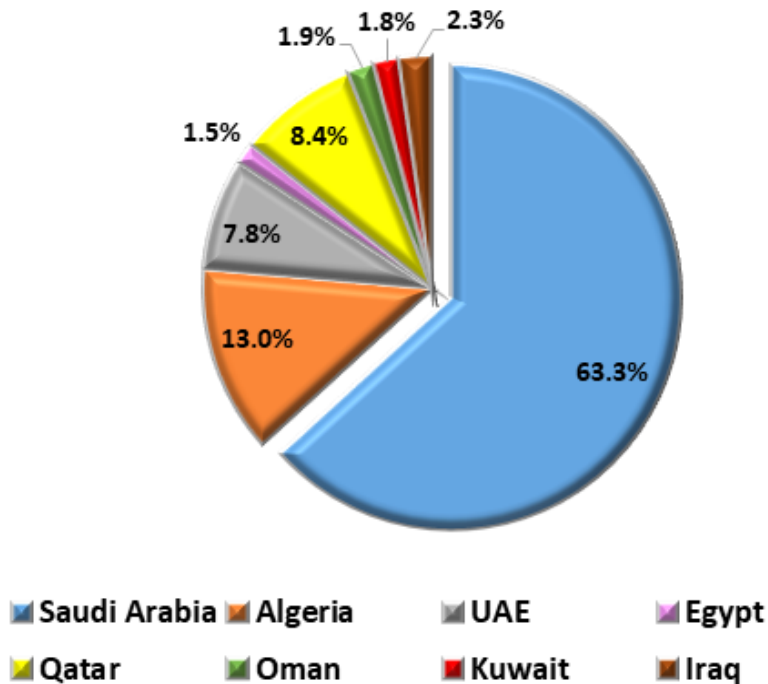
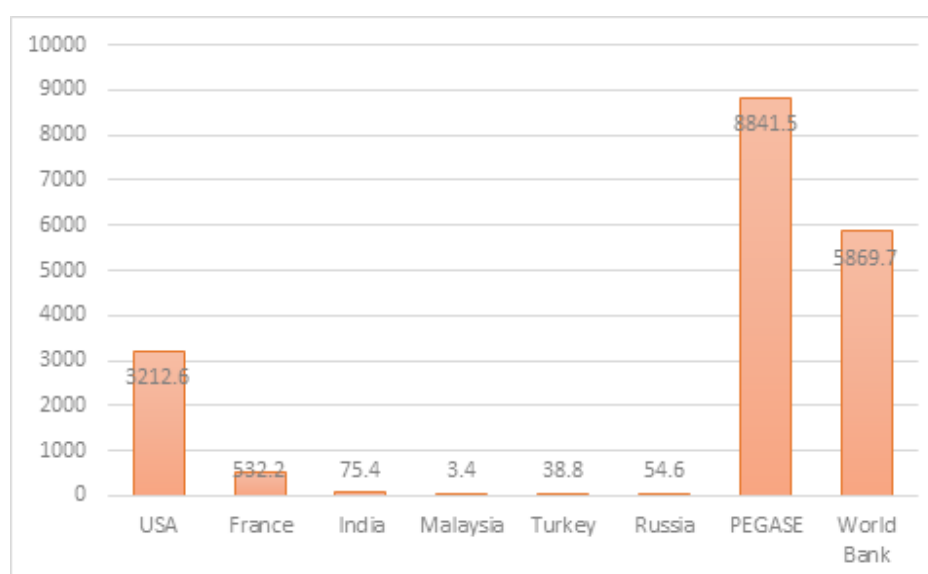


Table 8: Foreign (donor) support to the Public Treasury, 2010- 2019 (NIS million)

Year	USA	France	India	Malaysia	Turkey	Russia	PEGASE	World Bank	Total
2010	831.4	59.3	36.9	0.0	0.0	0.0	1,397.3	1,064.2	3,419.3
2011	185.0	52.4	0.0	0.0	0.0	0.0	1,029.9	616.1	1,883.4
2012	0.0	93.7	0.0	0.0	0.0	0.0	817.5	1,024.2	1,935.4
2013	1,258.0	90.6	3.7	0.0	0.0	35.3	899.0	100.7	3,143.3
2014	380.3	37.2	0.0	3.4	0.0	0.0	880.6	856.7	2,212.3
2015	0.0	33.7	34.8	0.0	0.0	19.3	869.2	910.8	1,469.4
2016	292.3	67.6	0.0	0.0	0.0	0.0	783.2	512.4	1,503.8
2017	265.6	33.1	0.0	0.0	0.0	0.0	867.5	360.7	1,441.3
2018	0.0	33.9	0.0	0.0	22.8	0.0	656.0	275.1	750.1
2019	0.0	30.7	0.0	0.0	16.0	0.0	641.3	35.4	900.1
Total	3,212.6	532.2	75.4	3.4	38.8	54.6	8,841.5	236.0	18,658.4

The table above shows that foreign support (international financing) to the Public Treasury was on the decrease too. This is attributed to the political situation and use of external financing for political agendas by donors. For example, the USA has completely cut off financing since 2017. US support had already been zero sum in both 2012 and 2015.

Chart 15: International financing to the Public Treasury in 2010 - 2019 by donor (NIS million)



Charts 15 and 16 outline trends of international support to the Public Treasury. Through the PEGASE, the EU contributed as much as NIS 8,841.5 million, or 47.4 percent of total international support between 2010 and 2019. Ranking second, the World Bank accounted for 31.5 percent of international support. In spite of its relatively significant contribution (NIS 3.2 billion), US support was irregular and underpinned by political agendas.

Chart 16: Percentage of contributions by various states and blocs to international financing of the Public Treasury, 2010-2019

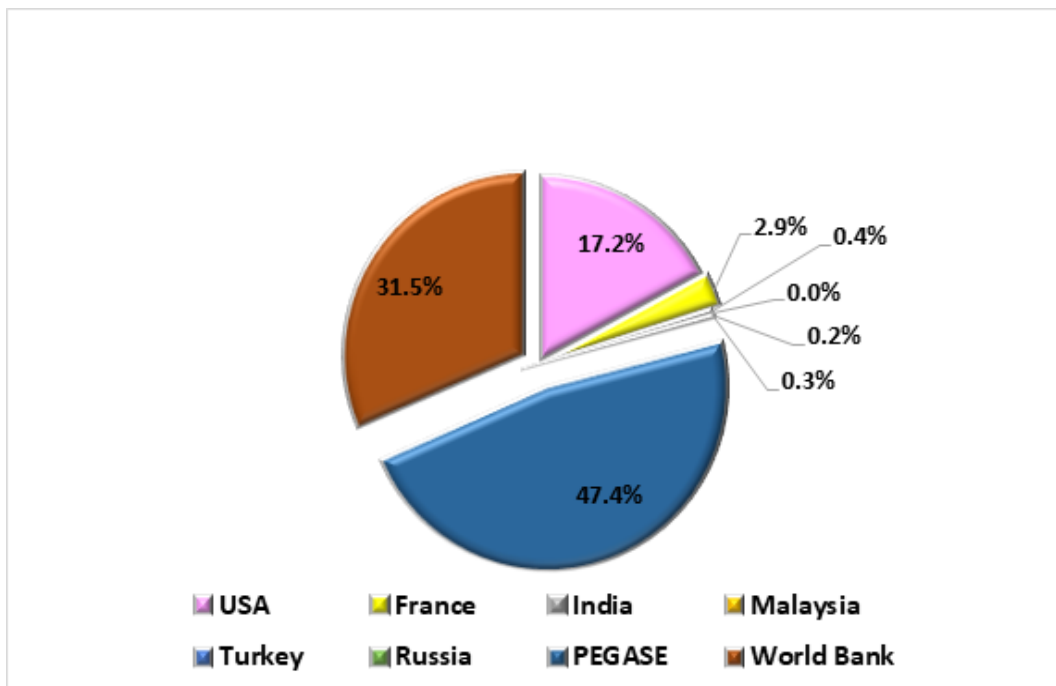


Chart 17 below shows that US financing was irregular and volatile between 2010 and 2019. It was mainly channelled to infrastructure, rehabilitation of security agencies, and construction of security headquarters. Since 2017, US support has come to a standstill. Again, this proves that reliance on foreign support is precarious as it is affected by the court of political events and agendas. It further puts at risk the planning process in Palestine.

Chart 17: US financing to the Public Treasury, 2010 - 2019 (NIS million)

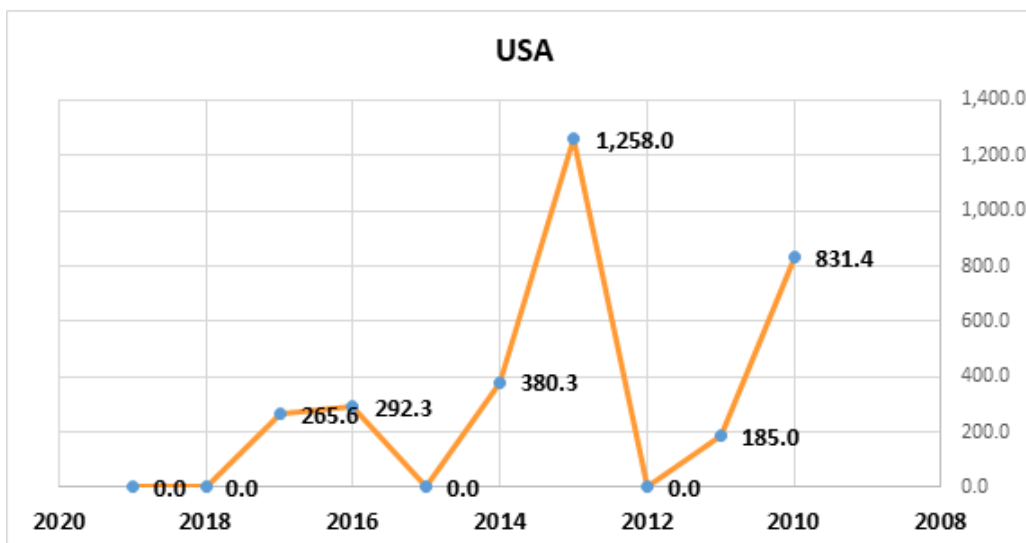


Chart 18 shows that PEGASE and the World Bank were the largest supporters of the Public Treasury on an annual basis. However, this support was in decline as well, and more acutely felt in the World Bank financing, causing a problem to externally financed social services. PEGASE is dedicated to supporting:

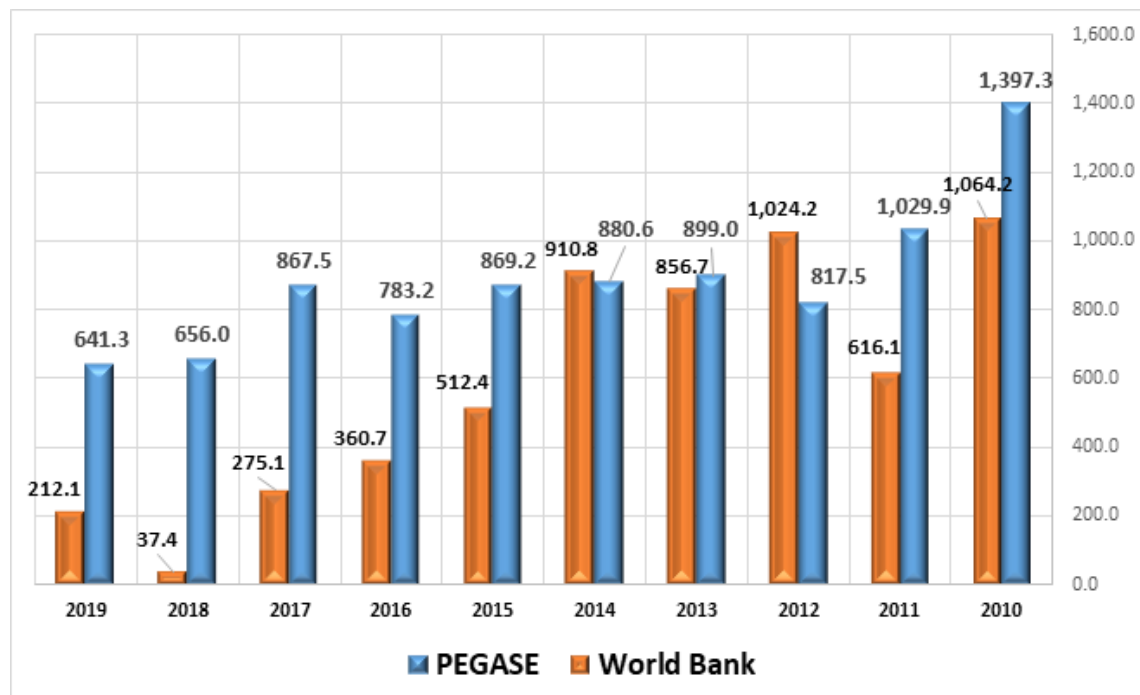
- Civil servant salaries;
- Social cases (Ministry of Social Development (MoSD) Cash Assistance Programme); and
- Jerusalem hospitals.

The World Bank covers the following expenditure items either directly or through:

- Grants through multiple countries;
- Social Safety Net;
- Emergency services; and
- Loan grants.

This situation threatens the continued flow of, and obscures, the future of services, ending up in a turbulent context of these services.

Chart 18: Comparative financing of PEGASE and World Bank to the Public Treasury, 2010 - 2019 (NIS million)



2.4 Financing for development

According to the MoF 2010 - 2019 actual expenditure reports, financing for development, including the JFA in support of the education sector and other development grants, was as follows:

Table 9: External financing for development, 2010 - 2019 (NIS million)

Year	Institutional capacity building	JFA – Education sector	Old grants	Other	Restored grant	Total financing for development (NIS million)
2010	0.0	0.0	0.0	486.8	0.0	486.8
2011	0.5	63.1	34.0	507.2	0.0	604.8
2012	0.7	40.9	63.3	494.3	0.0	599.2
2013	1.9	27.7	65.2	288.7	0.0	383.5
2014	1.4	15.7	148.1	561.0	0.0	726.2
2015	1.4	53.6	58.8	233.6	0.0	347.4
2016	1.5	104.0	108.3	374.6	0.0	588.4
2017	90.6	189.1	0.0	351.9	0.0	631.6
2018	0.0	103.0	110.0	357.3	0.0	570.3
2019	0.0	76.9	0.0	340.2	-448.1	-31.0
Total	98.0	674.0	587.7	3,995.6	-448.1	4,907.2

Table 9 demonstrates that actual external financing for development was limited, averaging only NIS 500 million on an annual basis. In recent years, financing has been reserved for particular sectors, namely, institutional capacity building, development grants to line ministries, and JFA support to the education sector. External support to development expenditures was fragile and unsteady. For instance, in 2019, the US government restored a development grant in the amount of NIS 448 million, exceeding all actual development support in that year. This points to the fact that external financing for development is so limited, volatile, and fragile. It cannot be relied on to finance development expenditures, particularly those in relation to the social sector.

Chart 19: External financing for development, 2010 - 2019 (NIS million)

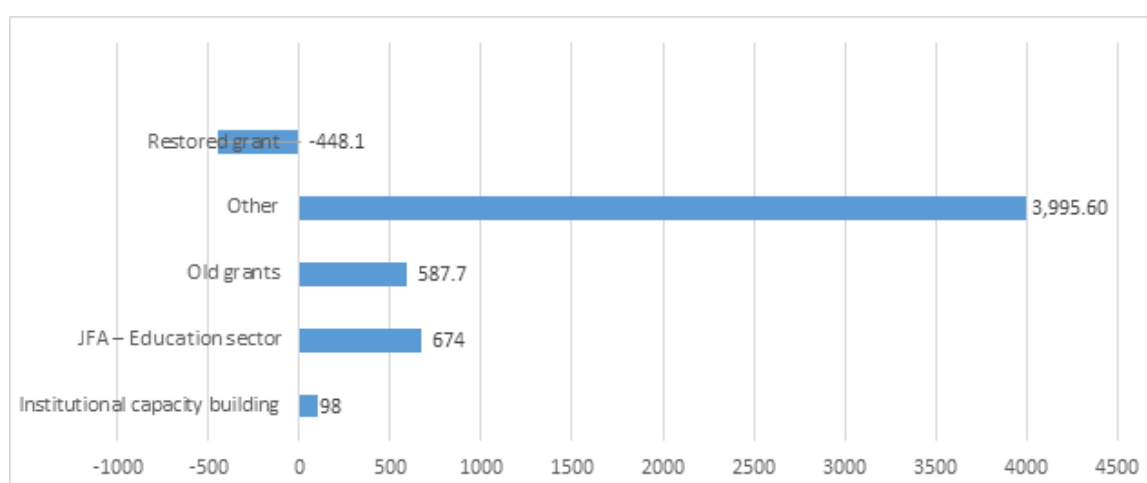


Chart 19 above shows the distribution of external financing for development. MoF data do not provide full details of these expenditures. The most obvious development expenditures are those allocated to the education sector through the JFA.

Representing over 85 percent of total actual grants and aid to the public budget, external financing in direct support to the Public Treasury is earmarked to public expenditures in line with the MoF plans and priorities, including spending on the security sector.

The security sector has a significant share of external financing for development, particularly provisions from the USA over the past years. For example, between 2016 and 2017, the USA offered development grants for construction of training encampments for security agencies. The actual amount of these grants totalled NIS 48.7 million in 2016³⁸ and NIS 33.7 million in 2017.³⁹ In addition, external off-budget support was delivered to the security sector through local and regional training programmes as well as in-kind and logistical assistance. Rehabilitation of security agencies has a fixed share of external development expenditures through direct financing to the Public Treasury. In 2011 - 2018, actual spending on rehabilitation totalled NIS 508.8 million.⁴⁰ Against this backdrop, a significant portion of development expenditures is spent on the security sector. This particularly included financing delivered by the USA and several other states as part of grants set to develop PA institutions and in the context of the peace process between the PA and Israel.

³⁸MoF, Cumulative Actual Expenditure for January 2016, 23 March 2017.

³⁹MoF, Cumulative Actual Expenditure for January 2017, 24 January 2018.

⁴⁰MoF, Cumulative Monthly Reports, 2011-2018-. Of note, 2010 and 2019 reports do not include any details on this expenditure.

3. Findings

Based on the foregoing presentation and analysis of figures and data on foreign grants and aid to the public budget over a period of ten years (2010 - 2019), the study concludes with the following findings:

3.1 Assessment of the volume and percentage of grants and aid to the public budget between 2010 and 2019

- Between 2010 and 2019, external financing to the PA public budget totalled NIS 34 billion, including NIS 29 billion (85.5 percent) in support of the Public Treasury and NIS 5 billion (14.5 percent) channelled to financing for development. However, grants and aid to the public budget clearly declined, including foreign support to the Public Treasury and support to development expenditures (financing for development). In terms of both volume and percentage, while the public budget was on an upward trajectory, estimated external financing (Public Treasury support + financing for development) was generally on a downward trend. Out of the total budget, external financing dropped from almost half of the budget in 2010 (49.8 percent) to as low as 14 percent in the 2017 estimated budget – down to some 28.7 percent from the 2010 public budget.
- Actual external financing to the public budget was steadily decreasing: from NIS 4,762.8 million in 2010 down to NIS 1,745.5 million in 2019, registering a drop of 36.6 percent in comparison to 2010.
- The gap between total estimated public budget and estimated external financing widened between 2010 and 2018. After 2015, the relation has been inverse: despite an overall increase in the estimated budget, external financing continued to sink.
- Estimated external financing to the Public Treasury amounted to NIS 31,124 million in 2010 - 2018. However, financing has generally dropped over the past ten years, from NIS 4,723 million in the 2010 budget to NIS 2,160 million in the 2018 budget. This represented a decrease of NIS 2,563 million, or 45.7 percent, down from estimates of the 2010 budget.
- Between 2010 and 2018, estimated external financing to development expenditures (financing for development) registered NIS 14,148 million. Still, financing dropped over the ten-year period in spite of the rise in the total estimated budget. Estimated external financing to development expenditures decreased from NIS 2,546 million in the 2010 budget to NIS 630 million in the 2018 budget, reflecting a decrease of NIS 1,916 million, or 24.7 percent, in comparison to estimates of the 2010 budget.
- The percentage of estimated external financing to both the Public Treasury and development expenditures (financing for development) slumped over the ten-year period of 2010-2018, sliding down from 49.8 percent in the 2010 budget to 15.4 percent in the 2018 budget.
- According to MoF reports, external financing to the Public Treasury was in perceptible decrease, but further worsened over the past seven years, casting a pall over the future of financing and public budget.

- Albeit important, actual financing for development show evident signs of perturbation and instability. Financing for development was not relatively high. Although it scored the highest amount of NIS 726.2 million in 2014, financing for development immediately dropped by almost a half to NIS 347.7 million in 2015. It was negative in 2019 because the USA restored a development grant in the amount of NIS 448 million. Given that development expenditures largely rely on external financing, the reduction poses a threat to the sustainability and implementation of development projects.
- Estimated was generally higher than actual external financing. Actual execution averaged 71 percent of estimated external financing. As was the case in the 2015 budget, data showed significant gaps between estimated and actual external financing. While external financing was estimated at NIS 7,410 million, the actual amount was NIS 3,104.8 million, or just 42 percent.
- Estimated external financing to the Public Treasury was overall higher than actual support. However, the context was somewhat consistent, featuring limited gaps. By contrast, estimated external financing to development expenditures was generally higher than actual amounts. There were large and statistically significant gaps. For example, while financing for development was estimated at NIS 4,290.0 million in the 2015 budget, actual financing for development stood at NIS 347.4 million, or 8 percent only, raising a question about the planning approach and public budget projections.

Finding:

Foreign grants and aid to the public budget (Public Treasury support and financing for development) are clearly on downward trajectory. There is also a gap between the estimated and actual budgets of foreign grants and aid. Actual achievements are less than budget estimates. All this casts a dark shadow over the future of foreign support and urges decision makers to provide alternatives. Estimated and actual gaps need to be addressed by the MoF to ensure proper and realistic public budget planning.

3.2 Donors supporting the public budget in 2010 - 2019

- External financing to the public budget is twofold: (1) direct financing to the Public Treasury, including Arab and donor support, PEGASE, and World Bank grants; and (2) financing for development, including JFA in support of the education sector, among other development grants.
- Foreign, including Arab, support to the Public Treasury, is on the decrease. Failing to provide a safety net, Arab support accounted for just a third of total foreign support to the Public Treasury.
- Between 2010 and 2019, Arab support to the Public Treasury was volatile and unsteady. Arab aid dropped from NIS 1,463.8 million in 2014 to almost one third (NIS 524.2 million) in 2017.
- Eight Arab states, first and foremost Saudi Arabia, contributed a sum of NIS 6,576 million, or 63.3 percent of all Arab support. Saudi Arabia was followed by Algeria, which accounted for 13 percent of total Arab support. Of note, only Saudi and Algerian support was regular, while that all other states' was not. For instance, the UAE has suspended support to the Public Budget since 2013. Support by other states, such as Omar, has been as minimal as NIS 193.1 million during the ten-year period.

- International (foreign) support to the Public Treasury is in constant decline and irregular. It decreased from NIS 3,419.3 million in the 2010 budget to NIS 900.1 million in 2019. In other words, the actual amount represented 26 percent only of the 2010 level.
- PEGASE spearheaded international donors, providing NIS 8,841.5 million, or 47.4 percent, of total international support in 2010-2019-. This was followed by the World Bank, which made up 31.5 percent of total international support. Albeit regular, this support was in decline as well, and more acutely felt in the World Bank financing.
- In spite of its limited contribution, France was the only foreign country that provided regular support to the Public Treasury. By contrast, the USA has completely cut off financing since 2017. US support had already been zero sum in both 2012 and 2015.
- Actual external financing for development was limited, averaging NIS 500 million only on an annual basis. In recent years, financing has been reserved for particular sectors, namely, institutional capacity building, development grants to line ministries, and JFA support to the education sector. External support to development expenditures was fragile and unsteady. For instance, in 2019, the US government restored a development grant in the amount of NIS 448 million, exceeding all actual development support in that year. Additionally, the USA cut off direct aid to the Public Treasury.
- Beyond doubt, external financing is affected by the course of political events and directly impacted by international, regional, and local political agendas. It serves as a tool for pressure on the PA. Otherwise, support to the security establishment is tailored to encourage the PA to proceed with the peace process and fight “terrorism”. This is abundantly clear in the analysis of external financing of the public budget over a span of 10 years, posing a threat to the sustainability of financing as well as relevant projects and expenditures.

Finding:

Foreign grants and aid to the public budget (Public Treasury support and financing for development) are clearly on a downward trajectory. There is also a gap between the estimated and actual budgets of foreign grants and aid. Actual achievements are less than budget estimates. Also, , external financing is conditional on donors’ political agendas. Arab financing continues to be limited and volatile, precluding the existence of an Arab safety net for public budget support. All this casts a dark shadow over the future of foreign support and urges decision makers to provide alternatives. Estimated and actual gaps also need to be addressed by the Ministry of Finance (MoF) to ensure proper and realistic public budget planning.

3.3 Impact of declining foreign grants and aid on social services in Palestine

- Needless to say, implementation of government plans, including social sector plans of health, education, social development, etc., is linked to budget allocations and actual expenditure. In the first place, depleting foreign support to the public budget reflects on the financial ceilings of social sector ministries. Evidently, financial envelopes set in relevant sector strategies 2017 - 2022 were higher than the financial ceilings approved and allocated by the MoF for these ministries. For example, there was a gap between the Ministry of Health (MoH) budget allocation and the financial envelopes stated in the National Health Strategy 2017-2022. A review of the Health Strategy shows a financing gap between the MoF financial ceilings earmarked to the MoH and the actual needs outlined in the Strategy. This gap will rise from NIS 388 million (2018) to NIS 492 million (2022) in current and development expenditures.⁴¹ Similarly, the MoSD is affected by a financing gap between financial envelopes allocated in the MoSD plan to implement relevant programmes and granted financial ceilings. That gap was as much as NIS 80 million during the period 2017 - 2019.⁴²
- Although actual foreign grants and aid were less than estimated amount, financial ceilings of the social sector and services were not spent, impeding the implementation of social plans and programmes. For example, targeting poor households in Palestine, Cash Transfer Programme (CTP) payments were not made in a regular fashion. Over two years (2018 and 2019), only three out of four payments were disbursed. In 2020, in spite of the COVID-19 pandemic, only two out of four payments were made towards the end of August. It is not expected that more than a third payment be made.
- Through PEGASE, the EU is among the largest supporters of the Public Treasury. Mainly, PEGASE supports social sector and services, including civil servant salaries, social cases, and Jerusalem hospitals. However, this support declined significantly by more than a half, from NIS 1,397.3 million in 2010 to NIS 641.3 million in 2019. Therefore, social services covered by this support have been substantially and adversely affected.
- The World Bank is the second largest donor of the Public Treasury, providing assistance packages to the social sector and Social Safety Net. The World Bank support also declined dramatically, from NIS 1,064.2 million in 2010 down to NIS 212.1 million in 2010. That is just one fifth (20 percent) of the 2010 level, leading to a reduction of the social services that used to be covered by the World Bank financing.
- The PA relies on the donor community to finance its development expenditures, including development spending on the social sector. In view of the volatility and association of financing for development with donor agendas, the fate of social development projects and services is in awe and alarm. An example is the substantial gap in estimated and actual financing for development in 2015. Only 8 percent of estimated development expenditures, mainly allocated for Gaza reconstruction, was spent. This raises a question about the future of development expenditures earmarked to unfinanced projects, which then constituted 92 percent of budget allocations from external financing for development.
- In 2019, development expenditures reached a low of negative US\$ 31 million because the USA restored approved development grants in the amount of NIS 448 million. Put differently, total financing for development in all of 2019 was less than the restored US grant. This is an example of volatile and fragile financing for development, putting at risk development projects and implementation. Of particular note, development expenditures rely heavily on external financing.

- A further indicator of volatile financing for development is the position of some states. These have reviewed or frozen JFA support to the education sector for political reasons, including the naming of schools after martyrs of the Palestinian revolution.
- Declining foreign support directly impacts the implementation of government plans and programmes of the social sector, as well as government obligations towards social sector. Compounded by the Palestinian government financial crisis, the decrease in foreign support undermines the government and MoSD efforts to transition from reliance on relief programmes to development interventions. A relief-oriented approach is, therefore, consolidated because it is necessary at times of financial crises and rising poverty rates. As many development projects rely extensively on the donor community, declining external financing also negatively affects many social service projects and programmes. These include, inter alia, the Centre for Women Victims of Violence in Jenin, Social Service Compound in Qalqiliya, and Social Development Directorate in Hebron. As a result, flexible social sector planning is needed to cope with the public budget fluctuations in line with the turbulent political and economic situation. Planning and budgeting processes will take into account both pessimistic and optimistic scenarios in light of the unstable political context. The government should provide alternatives, look for other financing sources, and initiate dramatic processes. Of these, the government needs to revise tax policies, expand tax brackets, and revisit and direct expenditure policies towards citizens and social services with a view to consolidating social cohesion. The private sector corporate social responsibility will be promoted along the lines of a new vision, which concert efforts and channels for the investment of finances.

Finding:

The decline in external support has directly reflected on social services and various government programmes directed towards the social sector. Development programmes mainly rely on external financing for development. The government will have to work towards providing financing alternatives to ensure the flow and continuity of social services.

4. Recommendations

- The Palestinian government should provide alternatives for the downturn in external financing in its current form. Using new instruments, the government needs to break new ground for financing with other countries or urge states and blocs to meet their obligations to support Palestine.
- In light of declining foreign financial support and PA successive financial crises, the government should comply with good governance in public financial management with a view to rationalising expenditures.
- Whenever possible, the PA should keep social service provision away from any financing risks. In view of their paramount importance, social services have a major impact on the poor and marginalised groups, play a role in strengthening social cohesion, and contribute to maintaining social justice.
- The MoF will approve a resilient approach to public budget planning, taking account of systematic and unsystematic risks surrounding the Palestinian context. The gap between estimated budgets and actual expenditure will be bridged, particularly externally financed development expenditure. This has a significant impact on the implementation of social service projects and programmes.
- Social sector development projects be ‘localised’. To do so, domestic sources of financing need to be made available through the Public Treasury and private sector corporate social responsibility programmes, while at the same time avoiding dependence on external financing.
- The Palestinian government should work towards optimising domestic revenues, without prejudice to poor, marginalised, and low-income groups. Alternatives will be provided for decreasing foreign support through tax policies, which expand tax brackets, introduce other brackets for high incomes, expand the circle of taxpayers, and contribute to promoting tax equity.
- The government should put in place a “revolutionary” process tailored to invest the corporate social responsibility of the private sector with a view to consolidating and investing these resources in the strengthening of social services and provision of alternatives to declining foreign support.
- Public expenditure should be channelled to the social sector, social services, and citizens by prioritising expenditure and drawing on various reports and studies released by the Civil Society Team for Enhancing Public Budget Transparency.
- If estimated external financing to social programmes and projects is lacking, the MoF should compensate the social sector and services for the through domestic revenues. Beneficiaries of these exercises involve poor, marginalised, and vulnerable groups in society. These cannot afford the consequences of a suspension of social programmes and projects.
- The government will have to develop flexible and applicable scenarios for the decline or halt of foreign support, ensuring a continued flow of social services to strengthen Palestinian citizens’ perseverance and safeguard community safety.

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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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