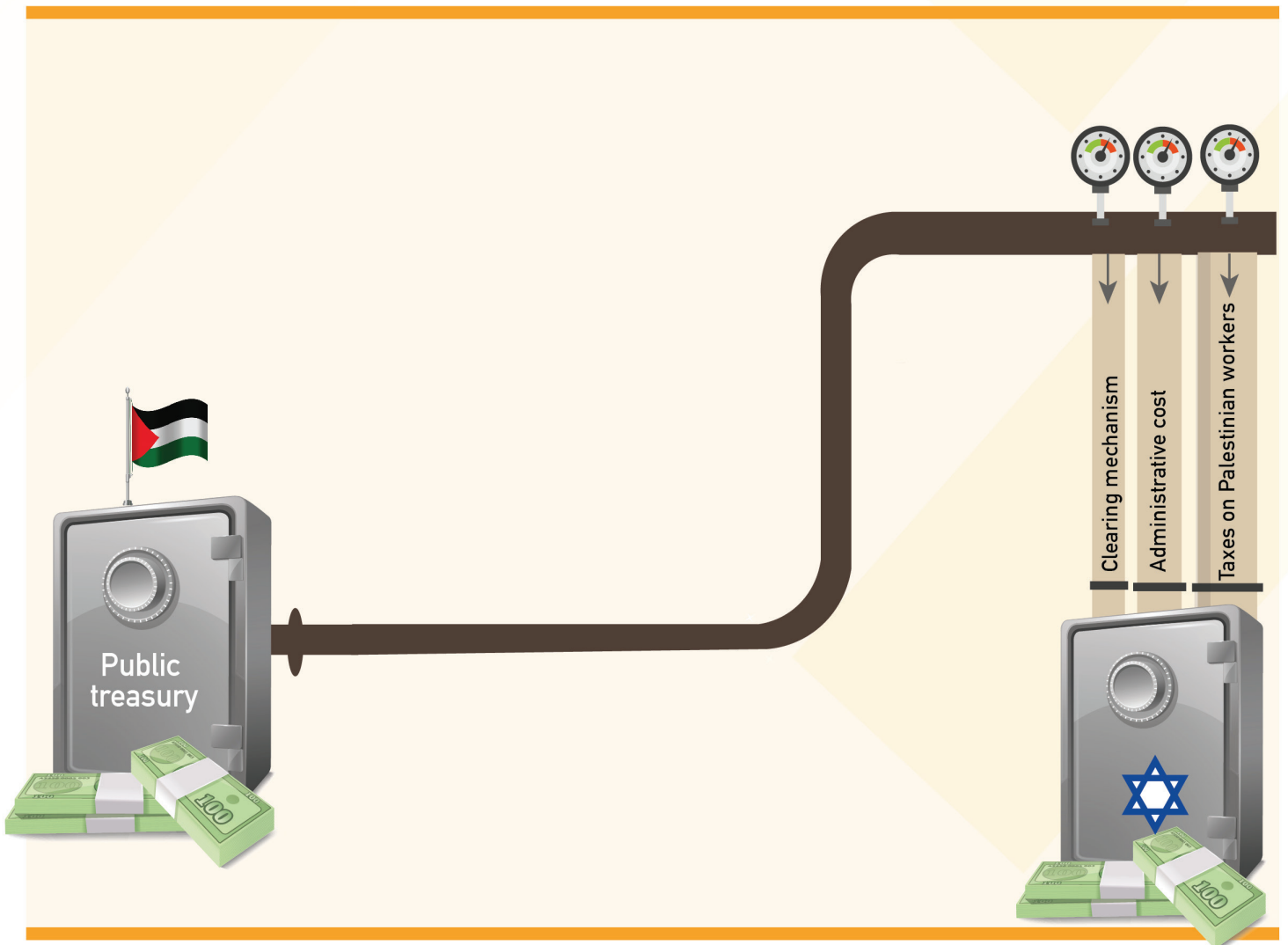


Fiscal Leakages and Losses Incurred by the Palestinian Authority in the Context of Relations with Israel

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Fiscal Leakages and Losses Incurred by the Palestinian Authority in the Context of Relations with Israel

AMAN
Transparency Palestine



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Introduction

As established by business administration and economics, fiscal leakage refers to the underutilised portion financial resources and economic capacities in local economy. It originates in natural, technical causes (e.g. imports, savings, and taxes) or nontechnical ones (e.g. tax evasion and corruption).¹ In both cases, fiscal leakage results in the loss of financial resource to citizens of the state. Lost amounts could have been utilised to support the public treasury with additional financial resources and achieve better economic and social wellbeing to these citizens.

Since the 1967 occupation, the Israeli authorities have implemented many policies and processes aimed at thwarting development efforts or initiatives across the Palestinian territory. Of relevance to the subject of this report, a key measure has been restricting Palestinian access to tax and financial revenues, which the Israeli authorities collect from Palestinians. Originally, taxes and levies collected from Palestinians should have been channelled to development projects and goals throughout the Palestinian territory. These were supposed to contribute to improving the quality of life index of the Palestinian population. However, estimates show that, during the occupation period, half² of the taxes paid by Palestinians to the Israeli authorities were delivered to the Israeli treasury. Palestinian funds were leaked to Israel's treasury through three channels: customs duties on Palestinian imports, deductions on the wages of Palestinian workers in Israel, and proceeds of the Israeli shekel (NIS) in circulation in the Palestinian territory. The latter comprises 15 - 20 percent of the gross national product (GNP).³

In their negotiation positions, the Palestinian negotiators should have relied on this background of the Israeli exploitative mindset and Israeli leaders' attitude towards the occupied Palestinian territory. The Palestinian negotiating team should have claimed compensations for the period of Israel's occupation of the Palestinian territory and misuse and mismanagement of Palestinian economic resources since 1967. At any rate, an economic agreement, namely, the Protocol on Economic Relations (Paris Protocol), was concluded without any clearly defined timeframe or terms, stating that it should be exclusively applicable to the interim period. The Paris Protocol should have ceased on the next day the interim period came to an end irrespective of the outcomes of the political agreement, specific factors and parties, level of achievement, and desired results.

¹ <https://financial-dictionary.thefreedictionary.com/Leakage>

² Fischer (1994): "Economic Transition in the Occupied Territories". An Interview with Stanly Fischer.

³ El-Jafari, Mahmoud, and Naser Al-Ardah. (2002). The Impact of Palestinian Trade and Fiscal Policies on Trade and Budget Deficits. Ramallah: The Palestine Economic Policy Research Institute (MAS) [in Arabic].

After it was established, the Palestinian Authority (PA) has exercised its powers in line with bilateral agreements. However, the PA has encountered a set of challenges in many areas, including financial aspects. This is evident in the PA responsibility for financing the considerable expansion of expenditure. As prescribed by the Paris Protocol, expenditure is funded through limited domestic financial resources, namely, domestic tax collection and clearance revenues, as well as through financial and in-kind assistance from other states and international organisations. In this context, the PA has adopted a set of conventional policies and approaches, which have essentially supported linkage with the Israeli economy. These emerged with the creation of the PA, which was then in need of a guaranteed and rapid deployment of financial resources. Consequently, the PA has put in place concession policies, including in the telecommunications sector and electricity supply in the Gaza Strip. The PA also concluded agreements with Israeli suppliers to provide petroleum products and cement. These policies have come at the expense of approaches to bolster the capacity of the Palestinian economy, invest in strategic projects, and achieve stability and sustainable development.

These challenges have prompted local and international research centres and experts to examine and assess the current PA financial position and tax system. Along this vein, the term fiscal leakage appeared for the first time as preliminary signs and outcomes of the Paris Protocol implementation surfaced in the second half of the 1990s.⁴ At the time, fiscal leakage was estimated at some US\$ 123 million a year. Ever since, fiscal leakage has been examined and discussed at length by experts and specialists, who have reached varied conclusions and assessments depending on different research methodologies and objectives. The real, or a proximate, amount of fiscal leakage was not the subject of an overall agreement, however. Also, no consensus has ever been reached on the desired and potential mechanisms and interventions needed to put an end to, or at least reduce, fiscal leakage.

⁴ Al-Nakib, Fadl M. (1997). A Preliminary Evaluation of the Tax system in the West Bank and Gaza Strip. Ramallah: MAS [in Arabic].

Against this backdrop, the present report highlights various dimensions of fiscal leakage, placing a particular emphasis on the sources of leakage, extent of the financial losses, and opportunities that Palestinians miss due to the persistence of this phenomenon. The report investigates the legal dimensions of fiscal leakage, focusing on the Paris Protocol, which serves as the legal umbrella for the emergence and perpetuation of fiscal leakage and relevant violations.

This report is all the more important in view of the chronic, but this time deeper, financial crisis of the PA. Virtually all financing sources of the PA public budget have been affected. Domestic tax collection has decreased as a consequence of the decline in economic performance. As all forms of coordination between both sides have been halted, Israel has withheld Palestinian clearance revenues. External financial support to the public budget has further plummeted. There is, therefore, an urgent need to think outside the box and look for ways to improve domestic tax collection, find solutions for clearance revenues, and come up with unconventional sources to cover the chronic deficit in the PA budget. These issues are more urgent than ever before. In this context, as an alternative financing source, fiscal leakage needs to be investigated and accounted for in various aspects and dimensions. Accordingly, whether possible or impossible, needed interventions are proposed to provide an informed diagnosis, explore relevant persistence factors, and uncover ways to eliminate, or at least reduce, fiscal leakage.

Research methodology is informed by, and builds on, a review of relevant reports and research papers. Using a descriptive research method, analysis includes data drawn from main sources, including the Palestinian Central Bureau of Statistics (PCBS), Palestine Monetary Authority (PMA), Ministry of Finance (MoF), Ministry of Labour (MoL), Ministry of National Economy (MoNE), and specialised centres of research. To obtain views and suggestions on fiscal leakage, interviews were also conducted with officials and specialists in the PA fiscal and trade policies. Bringing together representatives of relevant authorities and experts, a workshop was held to discuss findings of the first draft of the report. The outcomes of the workshop were used to further develop and produce the final version of the report.

1. Overview of channels of fiscal leakage

Losses arising from fiscal leakage are examined at two levels: (1) losses caused by the unfavourable terms of the Paris Protocol from a purely technical economic point of view; and (2) Israeli breaches of bilateral agreements, resulting in the loss of potential revenues. Put more accurately, Palestinian entitlement to these revenues is foregone due to de facto policies. In general, channels of fiscal leakage can be summed up as follows:

- **Palestinian imports**

The Paris Protocol establishes a single customs envelope for both the Palestinian and Israeli sides. Still, Palestinians have the right to import goods in line with the mechanisms and quotas provided by the Protocol. Based on this economic agreement, Israel is in charge of collecting and transferring taxes on Palestinian imports to the PA. In terms of origin, Palestinian imports are of three types:

- Imports from Israel: With Israel as the country of manufacture and origin, these imports are exported directly to the Palestinian territory.
- Imports via Israel: As they do not originate in Israel, goods and commodities are imported to Israel as a final destination, but are later re-exported to Palestinians as they are. Leaving their added value intact, slight modifications are otherwise made to these imports.
- Imports from a third party (direct imports): These include supplies that are imported directly by Palestinian importers through the crossing points controlled by the Israeli authorities.

Taxes which Palestinians are entitled to levy on imports vary depending on the country of origin. By virtue of the customs envelope, imports from Israel are exclusively subject to the value added tax (VAT). Purchase tax is imposed on some commodities, such as fuel. As shown in Chart 1 below, direct imports are subject to more taxes, including VAT, purchase taxes, customs duties, levies, and excises.

Chart 1: Types of taxes on commodities

VAT

Indirect tax are imposed on all local and imported commodities and services and paid by the end consumer; currently 16 percent in Palestine

Purchase tax

Imposed on some commodities, such as cigarettes and alcoholic beverages, to achieve social, financial, or even environmental objectives. If levied on imported goods, purchase tax is also applied to similar local commodities.

Customs duties

Exclusively applied to imported commodities to encourage local products, reduce imports or control the importation of certian commodities. Customs duties are a key financing source of the state treasury in developing countries.

Levies

Imposed for particular purposes, including anti-dumping policies.

Excises

Imposed on locally produced or imported commodities.

The first problem stemmed from commodities imported from Israel. In pursuance of the country of origin principle, commodities re-exported from Israel were supposed to be dealt with as imports from a third party.⁵ Therefore, these are subject to all types of taxes levied on direct imports. In reality, however, Israel impinges on the so-called “final destination” or “final destination of consumption” principle. The Israeli authorities deal with these imports as if the final destination were Israel, collecting and diverting all due taxes to its own treasury. When they are later re-exported to the Palestinian territory, Israel deals with these commodities as if they were of Israeli manufacture. Revenues are transferred to the Palestinian treasury only against VAT receipts produced by the PA. Hence, the Palestinian treasury is deprived of collecting the other types of taxes.⁶

This shortfall is principally a result of registering the final destination based on the sole disclosure of Israeli importers. Potential re-exportation to the Palestinian territory is left unchecked. Also, the process does not verify if imports are originally directed to Palestinians.

Deliberate complicity between the Israeli government and Israeli importers deprives the Palestinian treasury of one of its revenue source, incurring significant losses on Palestinians every year. The extent of current losses can be envisaged as Palestinian registered imports have doubled over the past years, nearing US\$ 6 billion by the end of 2019. (Direct and indirect) imports from Israel make up the larger proportion of Palestinian imports (some US\$ 3.2 billion). An accurate estimate of the commodities re-exported from Israel is not available. However, on several occasions, the Central Bank of Israel published estimates of the percentage of Palestinian imports out of total Israeli imports. A review of these figures demonstrates that Palestinian imports are generally on a downward trend. According to the most recent estimates, with the exception of fuel, these imports were close to 27 percent, or US\$ 700 million, on average over the past few years.⁷ Against this amount, the PA treasury loses some US\$ 30 million in purchase tax, customs duties, levies, and excises on an annual basis.⁸

5 Products are considered to be of non-Israeli origin if Israeli production costs added to the original product are less than 40 percent of the total cost.

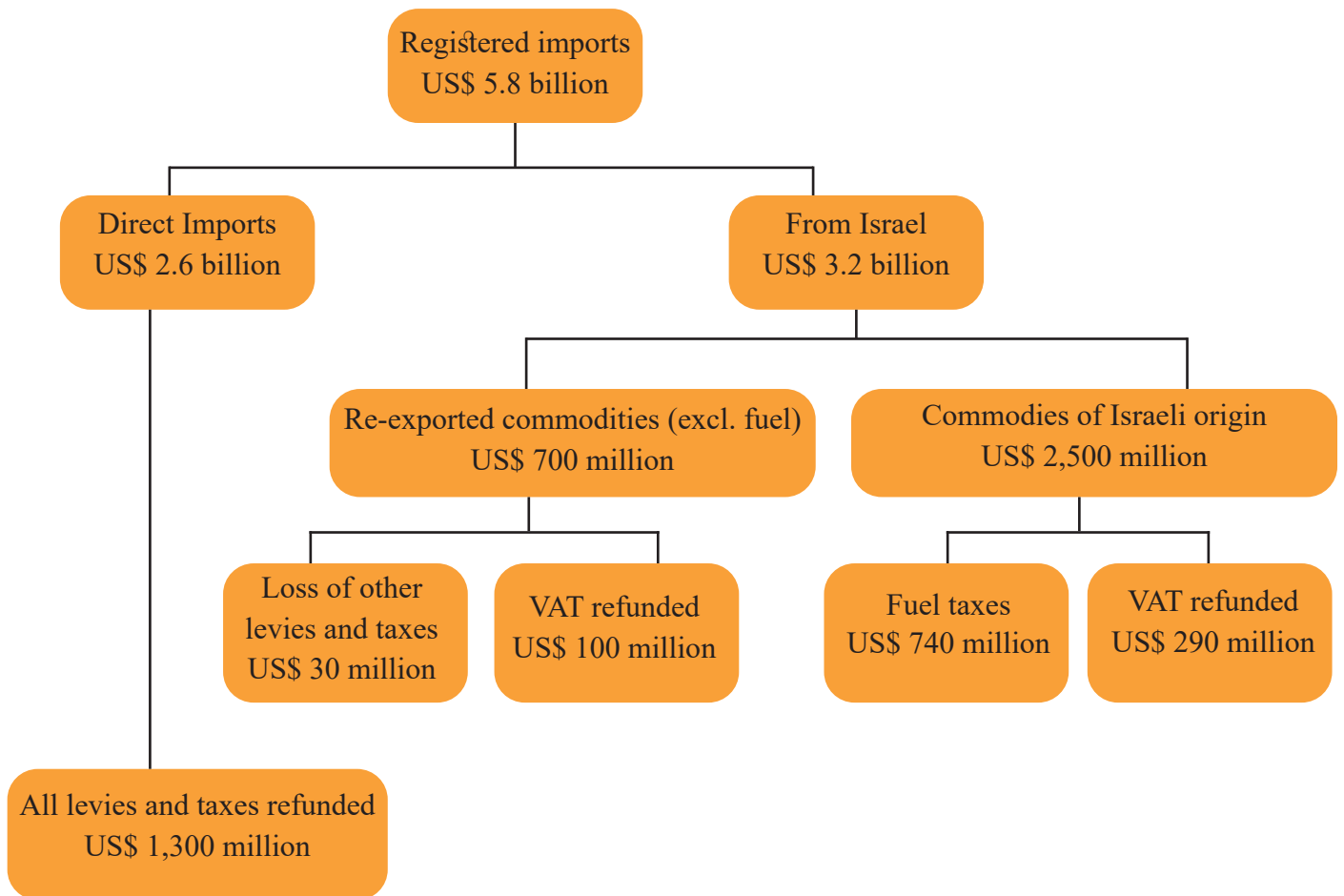
6 MAS. (2015). Background Paper of Roundtable 5: Policies to Increase Palestinian Direct Imports and the Impact on Customs and Tax Revenues and Reduction of Financial Leakage and Tax Evasion. Ramallah: MAS [in Arabic].

7 Bank of Israel: <https://www.boi.org.il/he/NewsAndPublications/PressReleases/Documents/Israel-Palestinian%20trade.pdf>.

8 State of Palestine. (2018). Stopping fiscal leakages: the Government of Palestine's report to the Ad Hoc Liaison Committee Meeting. Ramallah. Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702.

Of note, Israel contributes to entrenching fiscal leakage. Not only does Israel fail to state direct imports, but it also places obstacles to, and imposes exorbitant financial costs on, direct Palestinian imports. Consequently, Palestinian importers abandon direct importation, which preserves public financial entitlements. To avoid losses and impediments, Palestinians resort to imports through Israeli suppliers. These Israeli measures constitute a clear breach of the Paris Protocol, which explicitly ensures equal treatment of importers from both sides.

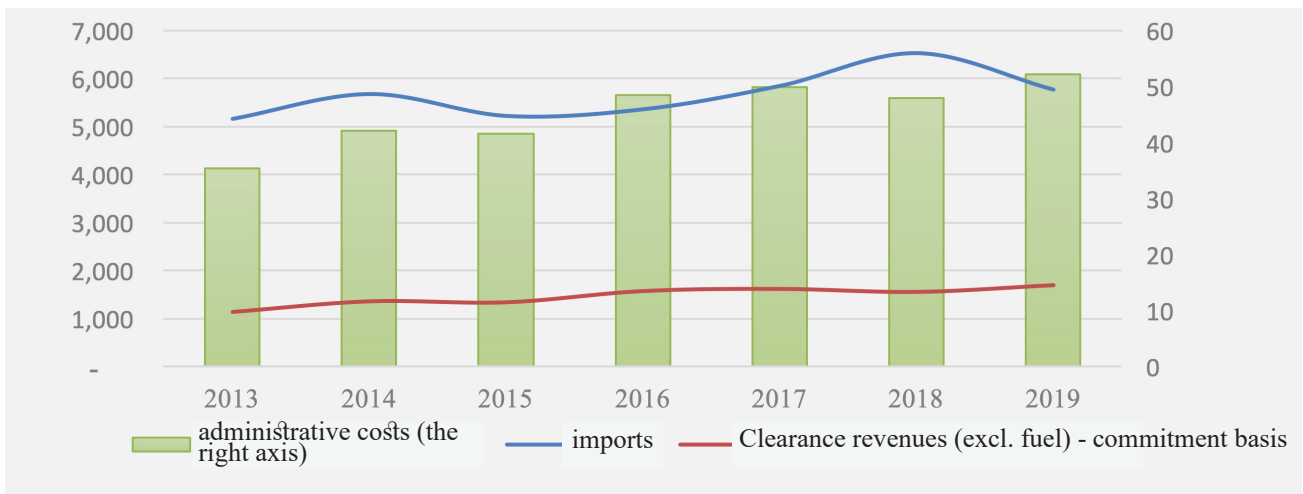
Chart 2: Palestinian imports, 2019



Administrative costs on clearance revenues

According to the Paris Protocol, Israel is in charge of collecting and transferring taxes on Palestinian imports (also known as “clearance revenues”) to the PA. Israel will deduct 3 percent from each transfer to the Palestinian side of import taxes and other indirect taxes, in order to cover Israel’s administrative costs in collecting these taxes and in handling matters related to them. In the early years of the PA, Palestinian imports averaged US\$ 2 billion a year, generating some US\$ 624 million in clearance revenues on an annual basis. In return for collection and transference, Israel deducted US\$ 20 million (approximately 3 percent) every year. Although the interim period came to an end, the Paris Protocol continued to be applicable. At the same time, Palestinian import needs have increased as a result of natural population growth, pressure exerted by Israeli obstacles on the Palestinian industry sector, and unavailable domestic alternatives. In sum, by the end of 2019, Israel deducted as much as US\$ 52 million to cover both presumed and imposed administrative costs from more than US\$ 1.7 billion of clearance revenues (excluding fuel).

Chart 2: Evolution of administrative costs



Source: PCBS and MoF

According to the MoF, the 3% deduction for coverage of presumed costs is excessively overestimated, taking into account that the amount deducted on an annual basis has been almost four times as much since 1994. Based on a World Bank study, the MoF indicates that a fair percentage which would offset the collection and transference of clearance revenues to the PA treasury is just 0.6 percent of the total amount. If applied, the proposed percentage would save over US\$ 40 million to the Palestinian treasury. By way of example, according to the MoF monthly reports, this is equal to the amount paid by the PA in 2019 for external debts.

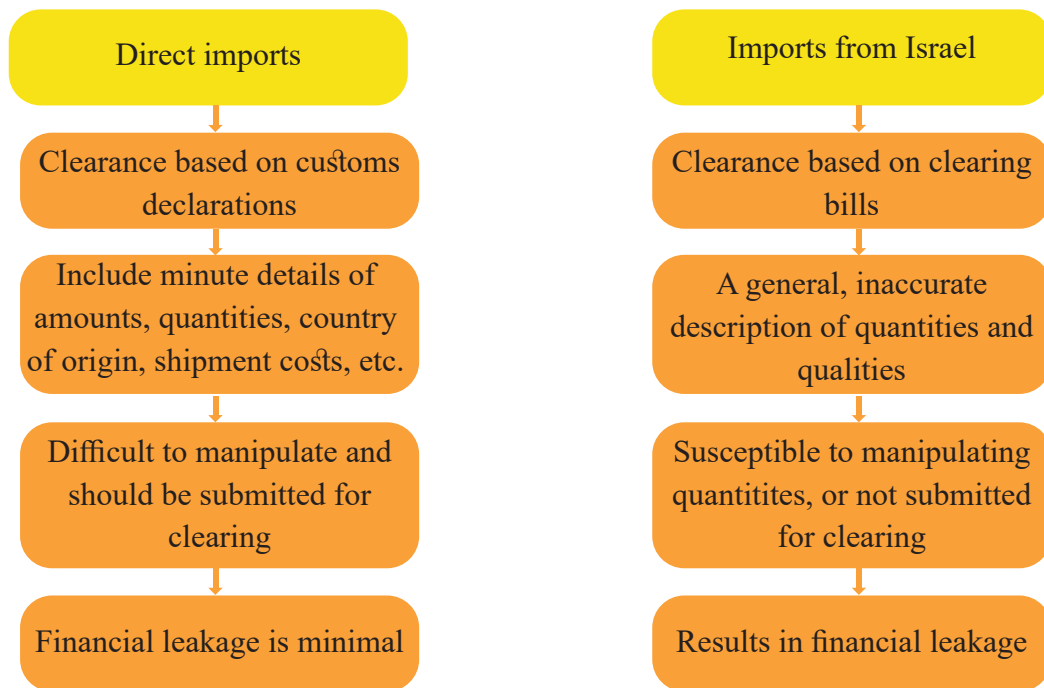
Clearing mechanism

Administrative arrangements of clearing accounts make a distinction between imports from Israel and direct imports. Indirect taxes are reconciled between both sides on the basis of a “clearing bill” in the former case and a “customs declaration” in the latter.

The clearing bill is a document of domestic trade between two sides within a single customs envelope. It does not provide minute details of quality and quantity. Clearing bills are of two types. Referring to Palestine, those with a “P” symbol include information on the size of Palestinian imports to Israel. Israeli bills with the “I” symbol show the size of imports from Israel to Palestine. Clearance is exclusively based on the bills submitted by each side.

By contrast, a customs declaration features accurate and detailed information. Drawing on international standards, it serves as an international trade document. Accordingly, items and quantities on a customs declaration are difficult to be manipulated or reduced in order to evade taxes. Potential fiscal leakage from customs declarations qualifies as minimal. When a customs declaration is presented for clearing, the PA recovers VAT, customs duties, purchase tax, and excises.

Chart 3: Direct imports and resulting taxes



VAT revenue transference to the PA is conditional on producing a clearing bill as evidence of a transaction. However, this mechanism has many shortcomings, giving rise to several forms of fiscal leakage as a consequence of customs and tax evasion.

- Falsifying and manipulating clearing bills: This includes the printing of false bills, which are exchanged between traders, but cannot be presented in clearing sessions. In addition, the amount of commodities is manipulated to reduce tax receivables. In a 2016 report, the World Bank estimated that false disclosure and manipulation of quantities on clearing bills affected almost a quarter of the commodities and goods imported from Israel. More importantly, some Palestinian traders sell clearing bills to Israeli counterparts in consideration of a particular percentage, whereby the former receive an amount while the latter benefit from VAT deductions on goods listed in forged bills. Meantime, the PA loses the VAT amount⁹ against these bills. In this context, a study estimated this amount at NIS 18 million in 1996.

⁹ Al-Hudhud, Sawsan. (2010). Fiscal Leakage in the Palestinian Authority's Treasury and its Relation to Indirect Imports. MA Thesis. Nablus: An-Najah National University [in Arabic].

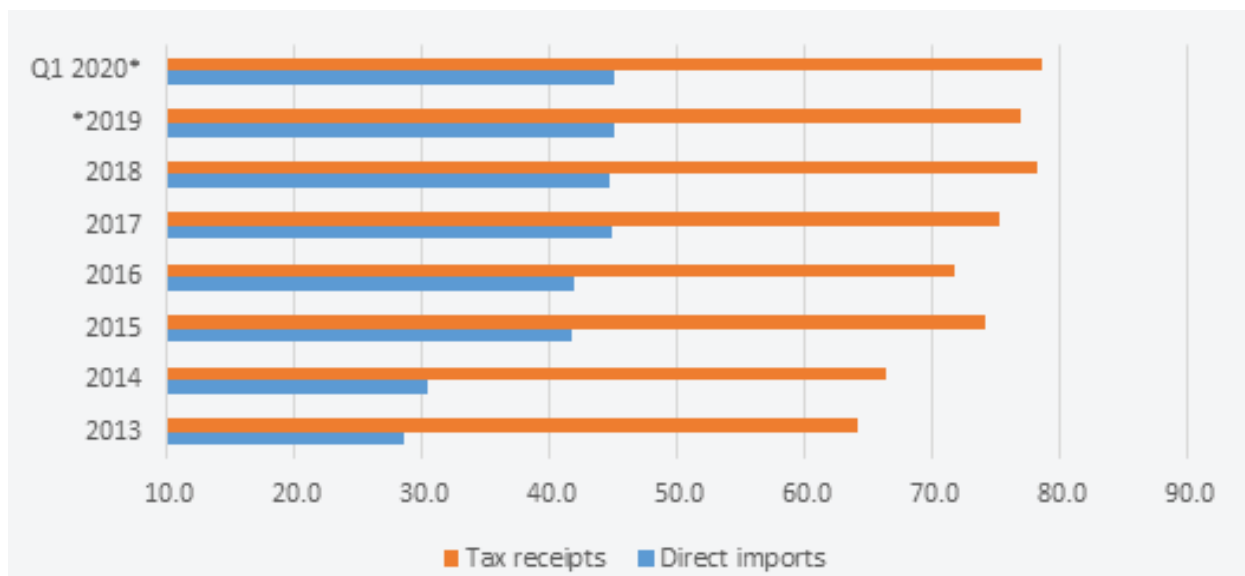
- Palestinian importers do not submit clearing bills to Palestinian tax offices. VAT on purchase invoices is transferred by Israel to Israeli traders, who pay it to the Israeli treasury. On the other hand, clearance revenues are not transferred to the Palestinian treasury because invoices (which Palestinian traders conceal) are lacking. The MoF 2013 reports indicated that hidden purchase invoices cost the PA NIS 240 million (US\$ 65 million) in revenues.
- Taxes of all types, including VAT and sometimes customs duties, are evaded. Due to porous borders between the West Bank and Israel, tax evasion generates from the movement of goods from Israel or Israeli settlements into the Palestinian market without invoices or documents. This results in the loss of VAT on Israeli products as well as customs duties and purchase tax on products of non-Israeli origin. Customs Police data demonstrate that seized goods smuggled from Israeli settlements alone amounted to some US\$ 240 million in 2010 and 2011 (50 percent of smuggled goods are usually seized).¹⁰

It is worth noting that foreign trade data inadequately account for the smuggling trade, estimated by some 30 percent of total imports from Israel.¹¹ This was equivalent to about US\$ 1 billion in 2019. Q1 2020 foreign trade data showed that imports from Israel totalled US\$ 712 million. Should it continue at this pace, imports from Israel are projected to reach US\$ 2.9 billion towards the end of 2020. Accordingly, smuggled imports from Israel can be estimated at US\$ 950 million. Based on the current VAT rate, a simple calculation shows that estimated losses arising from tax evasion were close to US\$ 160 million in 2019 and would amount to US\$ 152 million towards the end of 2020 (16 percent of the amount of smuggled products).

¹⁰ Coalition for Accountability and Integrity (AMAN). (April 2017). A Summary of Working Papers on Tax Evasion. Ramallah: AMAN [in Arabic].

¹¹ UNCTAD. (2014). Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations.

Chart 4: Direct imports and resulting taxes



Source: PCBS and MoF

* Estimates

Many studies¹² have compared the (limited) fiscal leakage from direct imports to the (high) fiscal leakage from imports from and via Israel. These are tailored to urge Palestinian decision-makers to adopt policies, which promote the first option [i.e. direct imports]. In view of historical data, over the past few years, imports from Israel have been on a downward trajectory, giving way to more direct imports.

Although the trend towards direct imports diminishes fiscal leakage, it does not rule out the fact that the currently applicable paper-based clearing mechanism is inadequate to account for all import transactions. Furthermore, it is incapable of detecting cases of manipulation and fraud. According to the Paris Protocol, once an inter-connected computer system is operational, clearance procedures will be more conducive, reducing leakages, losses, and errors. Because implementation is not time-bound, however, Israel has continued to refuse to shift to a computer system. In light of high imports from Israel, clearance between both sides is usually in favour of fund transfers to the Palestinian treasury.

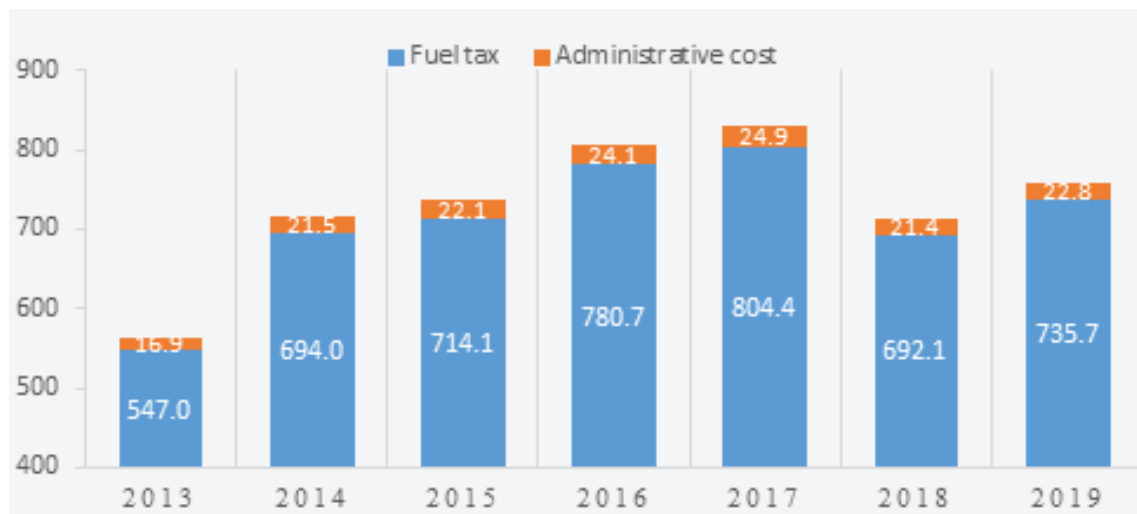
¹² MAS. (2015). Background Paper of Roundtable 5: Policies to Increase Palestinian Direct Imports and the Impact on Customs and Tax Revenues and Reduction of Financial Leakage and Tax Evasion. Ramallah: MAS [in Arabic].

Taxes and levies on fuel

Energy products are among the most important commodities imported to households and business sector. These are imported to Palestine through Israeli companies. On a monthly basis, Israel transfers fuel tax returns to the PA treasury, separately from other tax revenues. However, in 1996, Israel unilaterally transferred fuel tax together with other clearance revenues. Even though tax collection and transference does not entail any administrative effort, fuel tax was subject to the 3 percent administrative cost.¹³

Annual Palestinian imports of petroleum and its products amount to US\$ 1.2 billion. Fuel tax returns are close to US\$ 700 per annum, including 25 percent in VAT and 75 percent in excises. On an annual basis, Israel deducts over US\$ 22 million from these revenues (3 percent administrative cost). This is based on current fuel consumption, which is poised to increase consistently.

Chart 4: Fuel tax and its administrative cost



Source: MoF

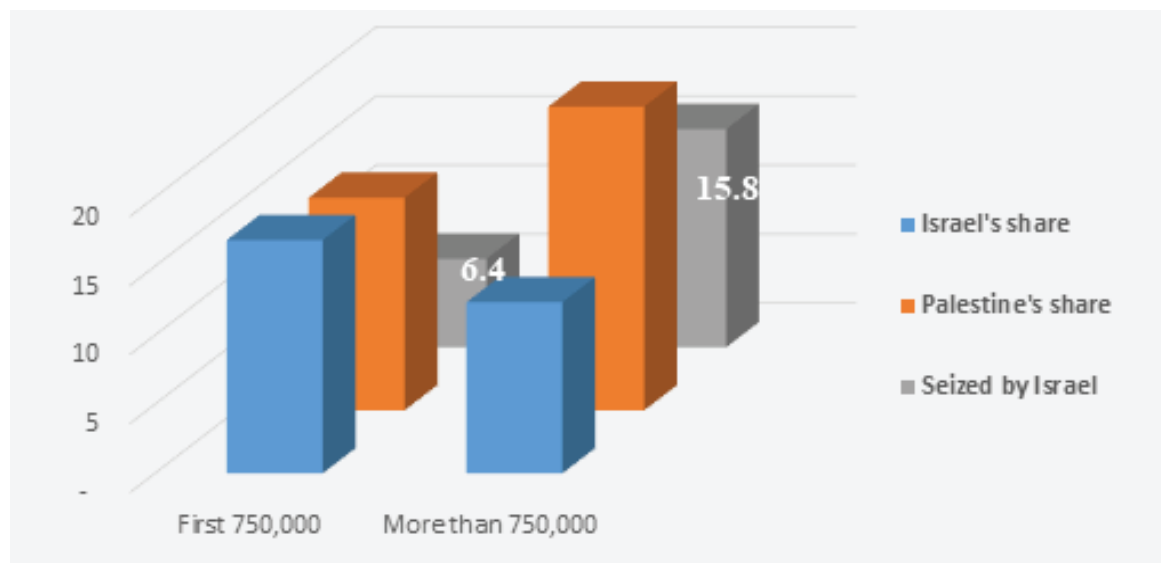
It is worth noting that, since 2019, the PA has engaged in talks with Israel to import fuel from neighbouring countries through the Al-Karamah (Allenby) Bridge in an attempt to diversify fuel suppliers. Moving forward with this pursuit will reduce fiscal leakage. Still, Israel has not so far replied to this Palestinian request.

¹³ State of Palestine. (2018). Stopping fiscal leakages: the Government of Palestine's report to the Ad Hoc Liaison Committee Meeting. Ramallah. Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702.

Departure tax

According to the agreements signed with the Israeli side, Palestinian citizens pay a departure tax when they leave Palestine through the Al-Karamah (Allenby) Bridge. Departure tax was estimated at US\$ 26 per Palestinian passenger. Shared by both sides, Israel receives US\$ 14 (half + US\$ 1 in lieu of services) and Palestine earns the remaining amount (US\$ 12). This applies to the first 750,000 passengers per annum. When this number is exceeded, departure tax sharing changes into US\$ 10 for Israel and US\$ 16 for Palestine. In spite of unclear tax sharing, the Israeli side has not fully abided by the shares stated above. On one hand, transference of departure tax revenues was mostly sporadic and irregular. On the other, more than once, Israel has unilaterally raised the departure tax over the past period, currently standing at US\$ 43. However, the variance in the increase has not been shared with Palestinians.¹⁴

Chart 4: Assumed departure tax revenue estimates, 2019



Due to this measure, annual losses are on the rise in view of the consistent and rapid annual increase in the number of passengers through the Al-Karamah Bridge. The number of passengers grew from some 2.6 million in 2017 to more than 3 million in 2019. Estimates¹⁵ indicate that the Bridge crossing will be required to accommodate over 4 million passengers by 2022. Almost half of these are departures. The annual loss generating from Palestine's inability to receive its share of the departure tax raise was up to US\$ 22 million in 2019 alone. The loss might be much less in 2020 because the Al-Karamah (Allenby) Bridge was inoperative over several months and due to the limited number of departures.

¹⁴ State of Palestine. (2018). Stopping fiscal leakages: the Government of Palestine's report to the Ad Hoc Liaison Committee Meeting. Ramallah. Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702.

¹⁵ Quartet Office. (2018). Report on the Activities of the Office: July 2017 - December 2018

Taxes on workers in Israel

The Paris Protocol provides that pension insurance deductions will be transferred by Israel to a relevant pension insurance institution to be established and managed by the PA. These deductions will be collected from wages of Palestinians employed in Israel. Other deductions from worker wages are not transferred. Of relevance to fiscal leakage, two types of taxes are levied on these worker wages.

1. Income tax

The Paris Protocol provides that, in accordance with the Israeli Income Tax Law, Israel will transfer to the PA a sum equal to 75 percent of the income taxes collected from Palestinians employed in Israel, and the full amount (100 percent) of income taxes collected from Palestinians employed in the settlements. Although the total amounts transferred by Israel as income tax are highly volatile over the years, emphasis is placed on leaked income tax, which the PA does not recover from informal workers or those who enter the Israeli labour market without permits, including approximately 23,000 workers in the first three months of 2020. Resulting leakage is estimated at some US\$ 23 million, assuming that all workers are employed in Israel, not in Israeli settlements (due to difficult access to settlements without permits). This estimate is based on the current average daily wage per worker, approximately NIS 265. According to a paper published by the Bank of Israel, informal workers work shorter working hours than those holding permits (17.1 vs. 19 working days per month). In line with the first bracket under the Israeli Income Tax Law,¹⁶ a 10 percent tax is deducted from informal workers.¹⁷

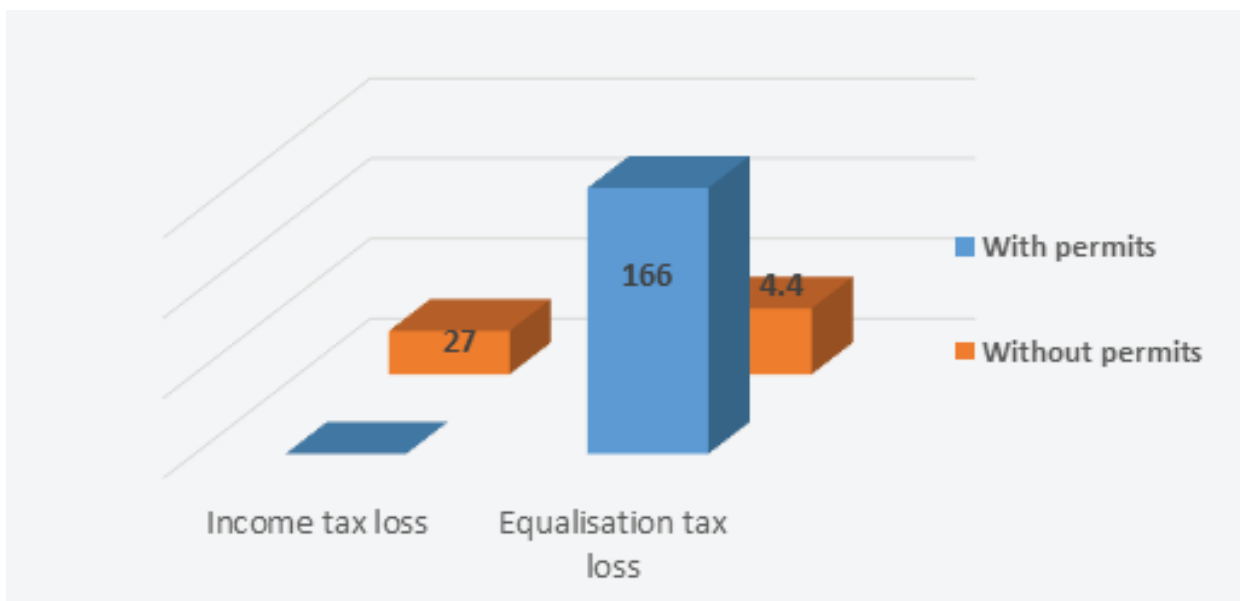
¹⁶ Central Bank of Israel. (2015). Annual Report 2014 [in Arabic].

¹⁷ Total tax amount (NIS 165 x 17.1 days x 12 months x 10 percent) = NIS 3,385.8 per worker x 23,000 workers = NIS 77.87 million (US\$ 22.8 million).

2. Equalisation tax

Since the early 1970s, Israel has imposed the so-called equalisation tax on Palestinian workers with the aim of equalising deductions from the wages of both Palestinian and Israeli workers. Without this tax, deductions from Jewish worker wages is higher, considering some social security services. As “non-resident workers”, Palestinians employed in Israel do not receive these services, including unemployment compensation, additional pension payments, etc. Hence, the equalisation tax is designed to approximate deductions on the wages of both sides. Of particular note, information on the decades-long equalisation tax is scarce. In spite of relevant explicit terms under the Paris Protocol, Israel has never transferred this tax to the PA treasury. Equalisation tax accounts for some 11 percent of total worker wages. Resulting annual loss is estimated at more than US\$ 166 million for workers with permits and some US\$ 34 for those without permits.

Chart 5: Estimated annual fiscal leakage from taxes on Palestinians employed in Israel



Israeli businesses in the Palestinian territory

A number of Israeli identity card holders do business activities in the Palestinian territory. These businesses are particularly focused in Area C, a Palestinian territory under temporary Israeli security and administrative control. According to agreements between both sides, the Israeli authorities are bound to collect income tax, VAT, property tax, etc. from Israeli citizens in this area. In line with the Palestinian law, the full amount of these collections will be transferred, without deduction, to the Palestinian MoF.¹⁸

Israel used to regularly transfer these taxes to the PA, but completely halted transfers after the Al-Aqsa Intifada broke out in 2000. Israel has also stopped reporting to the Palestinian side of any business activities in Area C. Over the past 19 years, the Palestinian treasury has suffered an estimated annual loss of US\$ 20 on average due to this Israeli measure. In total, the PA has lost more than US\$ 400 million.

As an example of economic activities carried out by Israelis, Israeli telecom companies unlawfully operate in the Palestinian territory. These install transmission and relay towers across Area C without paying any levies or taxes for using Palestinian national resources. The Oslo Agreements entitle Palestinians to construct and operate a Palestinian national telecom network. However, Israeli obstacles are countless, hindering the development of the Palestinian telecom sector in the context of the overall development of the Palestinian economy. It also deprives the PA budget of potential revenue generation. For instance, in terms of the number of subscribers, Israeli telecom operators account for some 30 percent of the Palestinian market,¹⁹ minimising Palestinian company profits that support the public treasury. Resulting from Israel's procrastination of licensing the operation of 3G networks, VAT revenue losses were estimated at more than US\$ 70 million.²⁰

18 Article 8, Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, Protocol Concerning Civil Affairs.

19 World Bank Group. (2016). Telecommunication Sector Note in the Palestinian Territories: Missed Opportunity for Economic Development.

20 State of Palestine. (2018). Stopping fiscal leakages: the Government of Palestine's report to the Ad Hoc Liaison Committee Meeting. Ramallah. Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702.

Other fiscal leakages

The present report is particularly concerned with the fiscal leakage arising from trade relations with the Israeli side. However, in addition to an exacerbating financial crisis, the PA has limited options and margin to increase its revenues and cover the chronic and deteriorating budget deficit. This warrants further consideration of areas affected by fiscal leakage and loss of financial resources by the PA treasury. These include domestic tax evasion (within the economy) and tax avoidance. The latter differs from domestic tax or customs evasion in that it does not involve an explicit violation of the law. By tax avoidance, the law is circumvented by exploiting legal loopholes in different ways. For example, loopholes in the Investment Promotion Law are used to extend exemptions and concessions granted to beneficiary businesses by transferring business ownership to the proprietor's relatives. Also, due income tax payments on investment businesses are put off and stalled as much as possible. Time limits are not in place to utilise (exploit) liquidity to generate extra incomes and profits.

Palestinian laws do not provide a clear and specific definition of domestic tax evasion. Nevertheless, the 2011 Law by Decree on the Income Tax delineates actions designated as evasion, including submission of false tax declarations, concealment of records, manipulation of tax figures, profits and invoices, or failure to deduct or provide taxes. Estimates of domestic tax evasion vary significantly from 30 to 40 percent of tax revenues.²¹

There are multiple reasons why taxpayers evade tax. Perhaps most important is inadequate control due to mediocre financial, logistical, and human resources as well as limited incentives and/or training of tax staff. In addition, some cite high domestic tax rates, especially VAT, relative to the national economic situation. In a published report,²² the Coalition for Accountability and Integrity (AMAN) refers to poor transparency and trust in the relationship between taxpayers and tax departments as a cause of this phenomenon. The latter view the former as tax evaders. On the other hand, taxpayers feel that tax officers' estimations are arbitrary, given that estimations are primarily based on officers' experience and know how.

²¹ Palestinian Economic Council for Development and Reconstruction (PECDAR). (2015). Potential Measures to Reduce Tax Evasion: Annual Economic Report 2015 [in Arabic].

²² Coalition for Accountability and Integrity (AMAN). (April 2017). A Summary of Working Papers on Tax Evasion. Ramallah: AMAN [in Arabic].

As mentioned above, tax avoiders rely on legal gaps within the legislative system. A glaring example of tax avoidance is investors, who circumvent the Palestinian Investment Promotion Law. These transfer the ownership of a business benefiting from legally prescribed tax and customs exemptions to other persons, mostly first degree relatives, in order to renew the period of tax exemption and reduction. Most often, tax departments do not follow up on changes to business ownerships in order to make sure that the period of exemption has not been extended, causing a loss of financial resources to the PA treasury.

Another form of fiscal leakage affects the mechanism of accounting taxable income in a number of professions, such as law firms, engineering offices, doctor clinics, and consultation bureaus. Income tax valuation is based on primitive and illogical estimation methods. A lump-sum amount is levied on the total taxable income. The currently applicable mechanism does not show the actual income generated by these professions. Also, it does not link the incomes of relevant professionals to a computerised invoicing system connected with income tax departments with a view to identifying the actual amount of generated incomes.

On the other hand, many trade transactions and businesses are not subject to the Palestinian Income Tax Law, particularly in individual real estate transactions and related profits. Additionally, property tax can provide a channel of fiscal leakage for technical and legal causes. In practice, taxable properties are unfairly valued. Valuation is less than the real value of properties, resulting in the loss of significant financial resources to the PA treasury and local government units (LGUs) (Property tax revenues are distributed on the basis of a share ratio of 90 percent to LGUs and 10 percent to the PA treasury). For illustration, property tax only contributes 1 percent of total domestic revenues – an insignificant sum in view of the PA's dire need for additional financial resources.

In a nutshell, all types of taxes levied in the Palestinian territory are susceptible to leakage: VAT, customs duties, purchase tax, income tax, excises, property tax, etc. Fiscal leakage provides a fertile ground for multiple forms of corruption among valuation officers. Still, the most significant fiscal leakage is that resulting from linkages with Israel, including trade relations and Palestinians employed in the Israeli labour market. This continues to be beyond the PA control and can only be curbed by pressure through international organisations. Based on 2019 and 2020 data, an overall review of fiscal leakage generating from relations with Israel and of consequent annual losses shows that leaked amounts were close to US\$ 509 million per year on average (see the table below).

Table 1: Summary of fiscal leakage from various channels

Leakage channel	Mechanism	Leaked amounts on an annual basis
Indirect imports	Leaked customs duties, purchase tax, excises, and levies	US\$ 30 million
Administrative cost	Leakage from the variance between exaggerated (3 percent) and fair (0.6 percent) administrative cost	40 million
Clearing mechanism	Leakage from customs evasion and smuggling	US\$ 152 million
Taxes and levies on fuel	Due to Israeli administrative cost on fuel purchases	US\$ 22 million
Departure tax	Israel does not share raised departure tax revenues with Palestinians	US\$ 22 million
Taxes on Palestinian workers in Israel	Income tax generating from Palestinian workers in Israel without permits is not transferred	US\$ 23 million
	Equalisation tax on all workers in Israel and Israeli settlements (with or without permits)	US\$ 166 million US\$ 34 million
Israeli businesses operating in the Palestinian territory	Income tax, VAT, property tax, etc. are not transferred from Israelis in Area C	US\$ 20 million
Total		US\$ 509 million

2. Analysis and assessment of various fiscal leakages

The foregoing section has reviewed forms of fiscal leakage and identified the losses incurred by the Palestinian public treasury due to the persistence of this phenomenon. This section analyses and assesses additional dimensions and aspects of fiscal leakage, including the roles and responsibilities of relevant Palestinian authorities. It also investigates major challenges faced by Palestinian decision-makers in dealing with this problem. The review further provides an assessment of the environment of integrity, transparency and accountability, effectiveness of key actors, and mechanisms of addressing fiscal leakage.

Reference legal framework

Annexed to the 1995 Interim Agreement, the Paris Protocol governs economic relations between the Palestinian and Israeli sides. While it sets the political margin available to the PA, the Paris Protocol does not include any explicit terms on the resolution of disputes arising from implementation. The only exception is the Palestinian-Israeli Joint Economic Committee (JEC) which, according to the Protocol, will meet every six months to settle disputes and claims.²³ Article XXI(2) of the Interim Agreement provides that “disputes which cannot be settled by negotiations may be settled by a mechanism of conciliation to be agreed between the Parties”. In other words, an arbitration commission can be established by agreement of both parties.²⁴ In this context, a question is raised about the possibility of dispute settlement under the mechanisms set by the Paris Protocol through the JEC or by establishing the bilateral dispute settlement mechanism as provided for by the Wye River Memorandum.²⁵

23 As it was annexed to the 1995 Interim Agreement, it seems that an amendment was made to the Paris Protocol, particularly Articles V and VII on direct taxes. Some details relating to the clearance revenue transference mechanism were also added, including the 3 percent deduction in lieu of administrative and regulatory costs. In addition to articles on the purchase tax, Lists A1 and A2 were expanded. Under the 1998 Wye River Memorandum, Palestinians were given storage depositories at Israeli ports or bonded areas within Palestine.

24 Al-Husseini, Hiba. (December 2019). Background Paper of Roundtable: How can the 1994 Economic Agreement be Amended to Promote Gradual Disengagement from Economic Dependence on Israel. Ramallah: MAS [in Arabic].

25 Wye River Memorandum, available at: https://peacemaker.un.org/sites/peacemaker.un.org/files/IL%20PS_981023_The%20Wye%20River%20Memorandum.pdf

The answer to this question is subject to a set of considerations. Most importantly, in dealing with the Paris Protocol, Israel has opted for recalcitrant refusal of recurrent Palestinian calls for putting an end to Israeli violations of terms of the Protocol. The only mechanism provided by the Paris Protocol, namely the JEC and its technical committees, has been dysfunctional since 2000, however. Worthy of note is that the JEC works on the basis of cooperation and common consensus to settle disputes. It does not provide a binding, impartial, or objective mechanism to resolve disputes that arise from time to time. Furthermore, the mechanism prescribed by the Interim Agreement is based on the requirement of consensus of two parties. Israel is also in opposition to Palestinian initiatives to achieve economic independence and promote autonomous capabilities of the Palestinian economy. Israel challenges and impedes Palestinian attempts to amend the Paris Protocol or, at the very least, improve implementation of the terms of the Protocol. A breakthrough in this file can contribute to addressing the imbalance resulting from inadequate terms or procedures for implementation of the Protocol, reflecting on the processing of fiscal leakage.

In the Palestinian context, it seems that the continued enforcement of local laws associated with the terms of the Paris Protocol are one of the challenges to addressing fiscal leakage. Also, some Palestinian laws are ambiguous and complicated. Others show limitations to address all issues and aspects of fiscal leakage. To this avail, reference can be made to a number of effective local laws that are a contributing factor to the persistence of fiscal leakage in the Palestinian territory.

VAT regulations are among the body of legislation with relevance to fiscal leakage. The Israeli Military Order 658 Concerning the Law on Levies on Local Products and Jordanian Law No. 16 of 1963 on Levies on Local Products are in force in the Palestinian territory. The Jordanian Customs Law No. 1 of 1962 is applicable to customs duties. Legislation on VAT and customs are subject to the terms of the Paris Protocol. In addition, the Jordanian Property Law of 1955 regulates property taxes across the Palestinian territory. Clearly, these regulations are outdated and unresponsive to development requirements and challenges in Palestine.

After the PA was established in 1994, Palestinian laws have also been enacted. Most relevant to fiscal leakage is the Income Tax Law No. 8 of 2011, as amended, which defines tax evasion and prescribes specific penalties against perpetrators. A review shows that these penalties are insufficiently dissuasive, nor do they preclude offenders from repeat offences. A flaw of this law is that it does not include in the tax base income- or profit-generating trade activities, such as real estate transactions mentioned above.

In its current form, the Investment Promotion Law encourages continued practice, which leads to fiscal leakage and loss of multiple financial resources by the PA treasury. Evidently, the law overlooks mechanisms to trace the impact of changes made to exemptions, opening out enormous potential for circumvention, extension of exemption periods, and indefinite tax reduction.

The legal dimension is also visible in an important aspect of fiscal leakage, namely, the successive agreements signed by the PA with Israeli petroleum product suppliers to the Palestinian territory. Many reports²⁶ highlight inadequate principles of transparency and accountability, particularly in relation to the provisions of the Law on Public Supplies No. 9 of 1998 and Law on Tenders for Government Works No. 6 of 1999. Deficiencies involve mechanisms for selecting Israeli suppliers, submission of tenders by competitive companies in bidding processes, awarding of tenders to current suppliers, and many details relating to the content and extensive terms of the agreement. Moreover, the said agreements were not presented to the (then operative) Palestinian Legislative Council, nor were they made publicly available.

Against this backdrop, these observations provide an entry-point to revisit the petroleum products supply agreement, taking into consideration the possibility of amending the agreement, replace the supplier or the Israeli source as a whole, and benefit from the margin available to the PA to import petroleum products from non-Israeli sources.²⁷ Regulation of the local fuel sector can play a critical role in addressing fiscal leakage from petroleum product imports from the Israeli side.

²⁶ Hantash, Ibrahim. (April 2009). The General Petroleum Corporation between Assessment and Evaluation. Report Series 23. Ramallah: AMAN [in Arabic].

²⁷ Article III(12)(c) of the Paris Protocol allows the PA to import gasoline from Egypt and Jordan under certain conditions.

Roles and responsibilities of relevant authorities

The performance of agencies in charge of law enforcement is of equal importance to legal aspects in dealing with fiscal leakage. In the remainder of this section, a review covers the roles and performance of several institutions with impact on fiscal leakage. The presentation also explores how capable these bodies are to deal with this phenomenon.

- **MoF**

Within the MoF, multiple directorates general have functions and powers that are closely related to fiscal leakage. Most notable are the Directorate General of Customs, Excise and VAT, Directorate General of Income Tax, and General Petroleum Corporation. The latter was brought under the authority of the MoF. These departments face significant challenges, constraining their ability to deal with different aspects of fiscal leakage. In the first place, staff members charged with follow up on taxpayer files are in short supply. These staff should investigate taxpayers' trade and financial activities, particularly circumvention of the Investment promotion Law and techniques used to avoid payment of large sums of income tax and VAT. In addition, the Directorate General of Customs, Excise and VAT continues to use the Israeli tariff system in Hebrew,²⁸ disrupting the directorate general's operations and reducing its capacity for following up on importer files. Financial, logistical and human resources are short. A comprehensive database of taxpayers is neither in place nor is it connected with relevant line ministries and government bodies. All these factors contribute to increasing tax evasion and fiscal leakage.

²⁸ Although the Palestinian Automated System for Customs Data (ASYCUDA) was developed and operated in 2011, it continues to draw data from the Israeli Malam customs system as Palestinian sovereignty over border crossings is lacking.

- **Customs Police**

Customs Police is the most important control agency in the fight against fiscal leakage. In particular, it tackles customs evasion, which constitutes a fundamental source of the ongoing fiscal leakage. Both administratively and organisationally, Customs Police reports to the Ministry of Interior in as much as it is a security agency. Technically, the service reports to MoF (Directorate General of Customs, Excise and VAT).²⁹ Extensive reports have explored the important role played by Customs Police and the major challenges it encounters in the performance of assigned tasks and responsibilities. Key challenges involve inadequate staffing. According to a report,³⁰ there were just 590 Customs Police officers by the end of 2017. In reality, Custom Police management states that at least 3,500 personnel are actually needed. Staff turnover and transference from other security agencies to Customs Police are crippled by significant difficulties.

The legal framework for Customs Police operations also seems unclear. It is marred by an inadequate handling of seized smuggled items, including through damage or sale in auction. Key limitations on Customs Police functions include insufficient financial allocations and logistical resources needed to carry out relevant tasks. This is in spite of the crucial role and responsibility of the agency, which maintains resources of the public treasury and reduces fiscal leakage by controlling trade with the Israeli side. Financial appropriations earmarked to Customs Police is only 1 percent of total allocations to all security agencies.³¹ Added to this, the PA lacks sovereignty over Area C (almost 62 percent of the West Bank), where security agencies and control bodies find it difficult to operate. To access Area B, which makes up 22 percent to the West Bank, security agencies need to coordinate with the Israeli side (Coordination is on hold for the time being). Combined, these impediments place constraints on the ability of the Customs Police and other security agencies to carry out respective roles and responsibilities.

²⁹ AMAN. (2018). Report on the Effectiveness and Immunity of the Integrity System in Customs Police Operations. Ramallah: AMAN [in Arabic].

³⁰ Ibid

³¹ Ishtayyeh, Bakr. (2016). Palestinian Customs Police and Keys to Economic Security, available at: <https://www.aljazeera.net/ebusiness> [in Arabic].

- **MoNE**

The MoNE bears a heavy responsibility because it is the line ministry in charge of domestic and foreign trade. Through its departments, the MoNE has significant powers to tackle fiscal leakage. It grants import authorisations to traders. The MoNE Consumer Protection Department controls local markets. Through the Palestine Standards Institute (PSI), the Ministry plays a critical role in setting technical instructions and specifications of domestic and imported goods. In the context of the pursuit for disengagement from the Israeli economy, the MoNE is qualified to play a greater role in reducing imports from Israel, shifting to imports from other countries, and minimising fiscal leakage from trade relations with Israel. However, the MoNE, including various departments, faces a real problem in cooperation and coordination with other line ministries, control bodies, and security agencies in relation to controlling sources of foreign trade and serious practices that waste financial resources and generate fiscal leakage.

- **Negotiations Affairs Department**

The Negotiations Affairs Department (NAD) of the Palestine Liberation Organisation plays a primary role in the negotiation process and places pressure on the Israeli side to achieve the just demands of Palestinians. Apparently, halted coordination and negotiations with the Israelis have limited the ability of the NAD to carry out relevant tasks in different areas of the relations with Israel. Still, the NAD continues to implement interventions and bear influence at the international level. Along this vein, the NAD can open the debate on, seek to amend, or work towards replacing the Paris Protocol with a more appropriate contractual formula that is conducive to Palestinian development needs. Areas of intervention, namely fiscal leakage, probably require broader consideration with a view to mobilising public opinion and international institutions as well as promoting demands based on impartial academic studies.

In conclusion, it can be argued that the legal framework which governs current domestic and foreign trade activities does not support the efforts made to curb fiscal leakage. Laws in force in the Palestinian territory are outmoded and unresponsive to contemporary challenges and circumstances. In addition, modern Palestinian laws seem to be lenient on illegal trade activities, namely, tax evasion and smuggling. These regulations are affected by numerous gaps, which can potentially be exploited by offenders. In a similar vein, law enforcement agencies and control bodies are undermined by many weaknesses and shortfalls in the fight against unlawful trade activities with, and fiscal leakage resulting from, the economic relations with the Israeli side. The next section provides an overview of urgent interventions needed in this vein.

3. Main findings and proposed recommendations

- The report concludes that many channels and factors have given rise to, and maintained, fiscal leakage. Measures and procedures need to be taken to put an end to, or at least reduce, this phenomenon. In its current form, the Palestinian tax system and its different components, including VAT, customs duties, purchase tax, income tax, excises, property tax etc., provide a fertile ground for the persistence of fiscal leakage. Of particular note, the most significant fiscal leakage is that resulting from linkage with Israel, including trade relations and Palestinians employed in the Israeli labour market. This leakage continues to be beyond control of, and cannot be curbed, the PA. Israeli imports represent some 55 percent of total imports into Palestine. Of these, 50 percent comprise strategic goods, namely, fuel, electricity, water, cement, and fodder.
- Israel's intransigence and refusal of recurrent Palestinian demands to find fundamental solutions to, and stop, fiscal leakage raises numerous questions about the extent to which Israel benefits from this drain. Evidence shows that the Israeli side takes advantage of fiscal leakages, particularly from patient transfers that involve exaggerated and manipulated medical treatment bills for Israeli hospitals. Israel also uses for its own ends the continued fiscal leakage in petroleum products, deducting an undue administrative cost on these supplies. In that connection, the Israeli authorities place restrictions on, and impede, Palestinian attempts to directly import strategic goods, including cement and fodder, so that Israeli producers and importers continue to make profits in these areas. In the electricity sector, Israel remains the greatest beneficiary of its ongoing status as the main supplier of power to the Palestinian territory.

To this avail, Israel places legal and technical obstacles to connection projects with Jordan and Egypt and/or local electricity generation. As for water supply, evidence demonstrates that Israel continues to take advantage from the current state of affairs by controlling Palestinian water sources and reselling water to Palestinians at profitable commercial prices.

- To resolve economic and trade disputes arising from implementation, the only mechanism provided by the Paris Protocol is the JEC and its technical committees. Nevertheless, the JEC has been dysfunctional since 2000. The Interim Agreement, to which the Paris Protocol is annexed, allows to establish an arbitration commission by agreement of both parties. Accordingly, bilateral negotiations and dispute settlement mechanisms are unbinding and lack representation of a third party. Time-consuming and cumbersome as it is, this option is subject to Israel's mood, good intentions, consensus on dispute settlement, and amendment of the Paris Protocol. This situation requires examination and thinking outside the box with a view to coming up with more effective means and mechanisms.
- A review of the domestic legal framework in effect in the Palestinian territory shows that relevant regulations appear to be inadequate to address the causes of fiscal leakage. These are significantly constrained as to tackle the consequences of this phenomenon. Many regulations are somewhat ambiguous, complicated, and incapable of responding to recent changes and developments in the techniques of tax evasion and smuggling. Penalties prescribed by relevant laws against offenders are neither deterrent nor suitable to modern development needs and requirements. On the other hand, the working environment at control bodies and law enforcement agencies seems to be inappropriate and inadequately effective to combat fiscal leakage. These institutions are challenged by weak financial, human and logistical resources, which should serve as important and essential prerequisites to address fiscal leakage as well as the channels and activities that maintain and exacerbate this phenomenon.

Recommendations

Based on the findings above, the report comes up with a set of specific recommendations, disaggregated by subject.

On the relations with the Israeli side and the promotion of autonomous capabilities of the Palestinian economy

The report recommends that a gradual process be initiated to disengage from linkages with the Israeli side. This necessarily requires a review of conventional policies and approaches, which have essentially supported association with the Israeli economy. These emerged with the creation of the PA, which was then in need of a guaranteed and rapid deployment of financial resources. Consequently, the PA has put in place concession policies, including in the telecommunications sector and electricity supply in the Gaza Strip. The PA also concluded agreements with Israeli suppliers to provide petroleum products and cement. In this context, a set of practical proposals can be introduced to strengthen approaches to disengaging from the Israeli economy, shift to direct importation, and promote the autonomous capabilities of the Palestinian economy with a view to creating local alternatives to imports from Israel. Below are the most noted proposals:

- Approve a package of domestic laws, which incentivise direct importation, local production, and exportation. Smart technical constraints will be placed on imports from Israel, together with legal and technical restrictions on imports through Israeli traders.
- Ensure optimum utilisation of Lists A1, A2, and B under the Paris Protocol. A comprehensive review will be undertaken to modify the quota of some goods, which has been imposed since the Protocol was signed, in line with increasing Palestinian needs.
- Importantly, prerequisites and conditions will be provided to establish a social security fund to start transferring the wages of Palestinians employed in Israel and reduce leakage from labour relations with the Israeli side. The wages of workers (with or without wages) will be incorporated within the equalisation or income tax in any claim or complaint to international organisations, particularly the International Labour Organisation as a competent point of reference.

- Having reached an advanced stage in 2012, understandings between the Palestinian and Israeli sides should be operationalised. Firstly, in relation to the clearing mechanism, the size of actual trade, rather than the clearing bills possessed by each side, should be adopted to determine the amount of clearance revenues generating from trade between both parties. Secondly, bonded storage areas should be designated for Palestinian imports into the Palestinian territory under joint supervision in border areas. These and other significant aspects bear influence on fiscal leakage.³²
- An organised campaign will be launched at international forums, drawing on relevant information and evidence, with a view to placing political and diplomatic pressure on Israel, expose frequent breaches of Palestinian-Israeli political and economic agreements, and lay out the extent of economic and social losses the Palestinians incur as a result of ongoing Israeli violations and consequent fiscal leakages. This effort will be duly supported by local and international reports, including by the World Bank and United Nations Conference on Trade and Development (UNCTAD). It will be ensued by other legal options, including litigation and compensation claims to be filed against Israel at economic forums and organisations, such as the World Trade Organisation, World Customs Organisation, Organisation for Economic Co-operation and Development (OECD), etc. Legal proceedings will be underpinned by the fact that Israel has impinged on many principles of these organisations, particularly fair trade, reciprocal treatment, and abstention from causing harm to trade partners. Israel's legal obligations and commitments towards these organisations can also provide a supporting entry point to Palestinian claims. As it is not a member of some of these institutions, if such proceedings are impossible to institute, the PA can utilise relevant Arab and Islamic blocs to back the Palestinian effort.
- Critically, the PA needs to take advantage of the current situation and highlight clearance revenues, which receive the focus of international community with interest in the question of Palestine. If a positive breakthrough is untenable, clearance revenues will have serious implications on the Palestinian context and future of the political process. Along this vein, Palestinian decision-makers should invest the current state of affairs and attention to address fiscal leakage, adjust the clearing mechanism with a view to putting an end to leakages, and formulate a contractual relation built on the Palestinian interest.

³² Abdul Razzaq, Omar. (2016). Assessment of the Fiscal Policy of the Palestinian Authority. Ramallah: MAS [in Arabic].

- To strengthen the autonomous capabilities of the Palestinian economy, in the short term, the powers availed by the Paris Protocol should be utilised to import petroleum products from neighbouring countries other than Israel, and increase electricity connection projects with Jordan and Egypt. These steps should minimise the bill of imports from Israel and, therefore, reduce fiscal leakage.
- In the medium term, financial resources, including local and foreign resources, public and private investment, and external grants, need to be mobilised to invest in development projects. These should contribute to disengaging from the Israeli economy and increasing the share of national products. Proposed projects include a cement factory, iron and steel mill, oil refinery, renewable energy and electricity generation projects, fodder plant, water supply and water well digging projects, and state-of-the-art health facilities. The latter will bring together all specialisations and human resources need to reduce medical treatment and patient transfer bills.

On the legal aspect

Expedited action should be taken to enact modern Palestinian laws that respond to challenges and changes. These include the VAT Law, Customs and Excise Law, Property Tax Law, and Penal Law. Other laws need to be amended, such as the Income Tax Law and Investment Promotion Law. A Law on the General Petroleum Incorporation will be enacted to regulate the fuel sector. Within the legal and institutional framework, the new set of regulations will contribute to addressing fiscal leakages, with a particular focus on leakage from tax evasion and smuggling in the local economy.

On the regulatory aspect

Institutions and agencies in charge of law enforcement and reduction of fiscal leakage should be restructured. Most notable of these are the MoF tax departments, Customs Police, and PSI. The restructuring process will provide clearly defined regulations and bylaws in support of functions delivered by these institutions. These will also be supported by personnel, financial resources, and logistical capacities needed to carry out their tasks and roles.

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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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