



Rationalization and Austerity in Government Spending Report

**Civil Society Team for Enhancing Public Budget Transparency
Team Secretariat: Coalition for Integrity and Transparency-AMAN**

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1. Introduction

Austerity in government expenditures; a decision adopted by the Council of Ministers on August 11, 2015, which was prompted by the critical financial situation the Palestinian National Authority (PNA) is going through. However, the government did not put forth **a detailed plan** that is founded on principles and considerations with a reasonable timeframe, and follows a professional methodology, where sectors and priorities are defined, as to **where austerity and or rationalization can be applied**¹. Furthermore, no mechanism was specified that would put this decision into practice. In addition, there were no suggestions on how to address economic and or social problems or challenges that might arise as a result of that decision. What the government did, however, was to adopt resolutions in subsequent meetings of its desire for austerity in: the use of government vehicles, concessions granted for mobile phones, fuel, appointments, or new issues that might arise. in addition to revisiting salaries, and benefits of heads of non-ministerial public institutions that are outside the scope of the Civil Service Law. Certainly, the implementation of these recommendations may lead to some reduction in the current public spending, but it will not be sufficient enough to achieve the main goal epitomized in achieving relative balance in the current budget of the PNA, that is sufficient enough to reach an acceptable level of financial sustainability. This objective will only be achieved in the framework of a comprehensive and well thought out plan that includes methods for tracking implementation results and measuring its repercussions from one year to the next.

This plan gains additional importance in light of the outbreak of the latest popular uprising, and the possibility of the situation becoming tenser if escalated to an open confrontations with the Israeli occupation. If the prediction is correct, the consequences can cause severe damage to the Palestinian economy, hence placing additional pressure on the PNA budget.

It is worthy to note that this isn't the first time the government declared its intentions to apply austerity to face financial crisis. Each time the government sensed that the financial crisis is about to happen due to Israel's withholding of its clearing tax money or a decline in foreign funding, it quickly announced its intention to austerity in spending or to improve tax collection. In 2012, for example, the Ministry of Finance (MoF) in its budget statement issued on January 1, 2012, summarizes its policies by saying that it intends to reduce the gap between revenues and expenditures, and reliance on foreign funding by revising its tax policy and a set of suggestions to reduce expenditures.

1. Although these two terms will be used interchangeably in this report, they may differ in their technical content. Austerity could mean to reduce the overall spending with a change in its structure or to leave as is; while rationalization could mean a change in the structure of spending without changing its size or ceiling. The first one is concerned with reducing spending regardless on which spending item the reduction is applied. The second term, is concerned with the size and quality of reduction so as to achieve efficiency in spending.

Justifications for issuing law number 8 for 2011 on income tax:

- 1.** To reduce dependence on foreign aid in financing current expenditures. According to the statement, **“It has become impossible to meet all financial obligations regularly and without delay, which led to accumulation of arrears payable to the PNA’s suppliers and service providers.”** This means that it is time for self-reliance to begin and to gradually end dependence on foreign aid, especially since the Authority is concerned with the completion of its legislative, institutional, and technical readiness for the establishment of an economically viable independent state.
- 2.** Amendments stipulated in the new law will contribute to addressing current flaws in tax management.

At the same time, the government approved a series of procedures that aim at reducing public expenditures in the 2012 budget, most important of which are:

- Referring nearly 25 thousand employees, those who have been in service for more than 15 years, to early retirement.
- Develop new boundaries for special contracts keeping it within reason where the monthly salary does not exceed \$4000 dollars, and to ensure that no contract is final before referring to the MoF.
- Reduce travel tasks and expenditures as well as training programs for employees and especially those who hold high positions.
- Stop all supervisory and administrative salary raises and reshuffle employees after taking care of all aspects of the actions, legally, socially and institutionally.
- Stop all purchases and rentals of property for government institutions in 2012 by not allocating any money for the purpose in the budget.

In the 2015 financial strategy austerity in public spending was re-emphasized, as one of the solutions for tackling the current financial crisis. However, these attempts or efforts have not yielded actual effective results towards reducing the budget deficit in a sustainable manner for many reasons, one of which is lack of will on behalf of senior officials to commit. Another reason could be attributed to the weak effect of these expenditures on the structure of current expenses.

Experiences of other countries in this regard, as well as related literature, clearly indicate that any successful and efficient plan for austerity in spending must answer a number of important questions, some of which:

1. What are the principles and considerations that form the guidelines of austerity?
2. Which areas and or sectors should austerity be applied; based on adopted criteria?
3. What are the detailed spending items in each of these areas or sectors that should be subject to austerity on the priorities?
4. Economic, social, and political?
5. Finally, who will bear the burden or cost of austerity; individuals and groups?

AMAN sees that there are many sectors such as the civil service sector that is enriched with financial privileges enjoyed by those in senior positions in public office. Also in the civil sector, there certain contracts, private funds, employees who are contracted outside the formal frameworks in organizations and unions, offices of influential personalities, as well as calculations of the years of service. Similarly, there are manifestations of misuse of financial resources in the sectors of: security, energy, foreign affairs, health, and social affairs, all of which can be included in the desired austerity process. However, this requires an in-depth study to define gaps where waste of public funds is taking place, after which specific reform interventions can be taken to remove these gaps thus lowering public spending to a minimum, hence raising the efficiency of employment as well as utilizing available resources, little as they may be.

1.1 Preliminary remarks

- As of October 31, 2015, public debt amounted to 9.731 billion Shekels (NIS); arrears reached a 2.255 million NIS as of the same date.
- Without ending the Israeli occupation and enforcing Palestinian national sovereignty on all Palestinian land, resources, borders, and human-beings, the financial and economic situation of the Authority will remain critical.
- The existence of the internal division further complicates the Authority's financial crisis hence making it more difficult to solve.
- The Palestinian citizen contributes significantly to cover public spending where tax and custom revenues, that are relatively high, constitute approximately 25% of the GDP, hence he/she will not bear additional tax burdens to solve the financial crisis.
- Partnership is the basis for a successful austerity and rationalization plan.

1.2 The principle and perspective of AMAN in preparing this report, which provides starting points for the preparation of an austerity and rationalization plan:

This initiative seeks to:

- 1. Provide support to the Palestinian government by providing specific recommendations to decision makers on reform interventions in order to reduce spending in some areas, as a contribution to the preparation of a national plan for austerity and rationalization.**

1.3 Methodology

Methodology and report of this initiative are based on a number of procedures and steps that can be summarized as follows:

- Review of previous studies and literature related to the PNA's financial management of public funds, whether in terms of the legal and organizational, or in monitoring and control over spending. This was followed in order to determine the foundations and consideration that any austerity and rationalization plan in public spending must be based on
- Collection of information especially that which relates to financial and administrative reform plans previously approved or proposed by the government or by institutions con-

cerned with Palestinian financial affairs, like AMAN.

- Conducting a number of personal interviews with officials from targeted ministries and institutions to understand their views regarding possible areas of austerity.
- Diagnosing and analyzing public expenditure trends and size in targeted areas using actual financial statements; these areas include:
 - » **Ministry of Health (MoH):** review of the Health Insurance Law in order to pass a comprehensive health insurance system as well as a review of the medical referral system.
 - » **Ministry of Interior (MoI):** review of the security services' structure, salaries, raises, concessions and privileges, and areas of public spending and in particular, incidentals, use of government vehicles, fuel, communications, etc.
 - » **Energy Authority:** rationalization of the electricity bill (net lending) and evasion of electricity bills' payments, as well as the government's bearing of the local government units' debts in that regard.
 - » **Ministry of Foreign Affairs (MoFA):** review of salaries, raises, concessions & privileges, non-administrative expenditures for Palestinian missions and embassies, and operational expenses of the ministry.
 - » Administrative expenses for Palestinian missions and embassies, as well as travel expenses of ministry officials.
 - » **Ministry of Social Affairs (MoSA):** review of social assistance programs in order to develop a comprehensive social security system that would organize assistance provided to needy people and especially the poor.
 - » **Council of Ministers:** review of salaries, raises, concessions and privileges of officials in formal non-ministerial public institutions, as well as financial rights and privileges granted to senior officials. The review also includes operational expenses related to purchase of office buildings, vehicles, fuel, communication expenses, and travel expenses of officials.
 - » **Ministry of Finance (MoF), and the General Personnel Council (GPC):** this includes a comprehensive review of salaries, raises, concessions, privileges, financial rewards, special contracts etc., in addition to the operational expenses related to the purchase of office buildings, vehicles, fuel, communication expenses.
 - » **President's Office:** review of the organizational structure, bonuses, concessions, incidentals, vehicles, and fuel.
- Agreement on areas of expenditure
- Analysis and identification of the most prominent conclusions that refer to areas where reducing expenses is possible.
- Propose recommendations and mechanisms of implementations on the rationalization and austerity in public spending.
- An Open discussion on the recommendations with the participation of civil society and official parties prior to submitting it to the government.

Emphasis of analysis will be on the following major expenditures in areas of:

1. Salaries and wages which amount to 50% of current expenditures. Distinction between civil servants' salaries and salaries of employees working in the security sector due to the different legal and organizational reference for both, as well as the different executive financial system, which governs both of them. This item constitutes a common denominator between all the responsibility centers of the Authority.
2. Privileges and financial allocations for senior positions, as well as special contracts which govern appointments of regular employees and or experts on temporary basis. These privileges and contract are mostly centered in the following institutions: presidential institution, council of ministers, security apparatuses, judiciary council, the ministry of justices, and the ministry of finance.
3. Cash assistance for needy families, which is executed by the MoSA, and listed under the transferrable expenses.
4. Net lending resulting from obtaining water and electricity via suppliers and distributors from the Palestinian territories, which Israel deduces from the PA's financial entitlements in the framework of the agreed upon clearance process between the two parties (i.e., Israel and the PA).
5. Medical referrals to hospitals, local and abroad. Part of these allocations is listed under net lending.

1.4 Focal points of this report

1. Introduction: objectives and methodology of the report.
2. General framework: context of the financial crisis and foundations of austerity.
3. Diagnosis of public spending and areas in sectors of the government.
4. Conclusions: problems and gaps which provide opportunities for waste of the government's financial resources.
5. Recommendation: proposals for addressing current gaps and challenges and general outlines for plan to rationalize government spending.

2. General framework

1.2 Austerity in spending, activation of revenue collection, and the financial crisis!!

It is agreed that the financial crisis, and specifically in reference to the chronic deficit in the PNA budget, is a structural problem which originated upon the inception of the Authority. Therefore, addressing causes and finding solutions to it **cannot be possible through technical or administrative tools only**. It is important to note that the main cause is the Israeli occupation due to its full control: over entrance points, borders, and natural resources including land in area (c), water, the various types of energy sources, in addition to its semi-control over more than two thirds of the Authority's financial resources epitomized by the value-added taxes and customs. The abovementioned reason need be thought out carefully, **because all of the solutions and proposals that might be implemented, including rationalization or austerity in public spending, will, without a doubt, contribute to reducing the financial crisis, but it certainly will not be able to address all issues or fully solve them.**

To begin with, austerity in spending needs to be accompanied with other short-term and long-term procedures. In this regard, the restructuring of tax revenues, including improving tax collection through horizontal expansion and reducing tax evasion, as well as bringing about fairness of carrying the burden of taxes among taxpayers, are factors that are equally important as austerity in reducing the budget deficit. As for long-term solutions, it is of vital importance to develop and implement a national strategy for the reconstruction of the Palestinian economy by re-taking into consideration the industrial and agricultural sectors at the expense of trade and services. Since that action will create jobs, reduce poverty levels, and expand the local tax power of the national economy, hence reducing the budget deficit. It also will reduce the contribution of clearance revenues made to the total revenues, which currently accounts for 70%, thereby reducing dependence on Israeli actions of withholding clearance revenues.

The indiscriminate spending policy that is not based on a transparent and controlled policy, which has been followed since the inception of the PNA, is responsible for the severity and exasperation of the financial crisis from time to time. The most prominent results of the spending policy mentioned are summarized as follows:

- The current spending continued to rise during most of the past few years at a faster rate than revenues until it reached nearly 4 billion dollars in 2015. Rationalization and restructuring of the current expenditures did not succeed despite attempts of austerity adopted by the government from time to time. For example, current expenditures rose from 2923 million dollars in 2010 to approximately 4000 million dollars in 2014. The majority of this increase was in the salaries and wages item, and other operational items, namely in transferable expenses. At the same tie the net lending item continued to fluctuate within a narrow margin from 2010 after it had declined from its highest level in 2007 (550 million dollars) to about 250 million dollars. As for actual development expenditures, it has been

declining year after year, contrary to economic logic.

- No significant change has occurred to the structure of public expenditures as the majority of these expenses remained categorized as current expenditures, ranging between (88-92% of total expenditures) and rigid in distribution (inflexible). Moreover, it appears to be item based despite the government's decision to adopt a "program and performance" based budget.
- The sectoral distribution of these expenses did not change significantly throughout the years. For example, the share for the economic sector remained mostly within current expenditures and not under development, ranging from 3-5%. Moreover, the agricultural sector received less than 1%, compared with the governance sector and especially the security sector with 45% for example, and the social sector with 46%.
- Expenditures of salaries continued to rise from one year to the next. And in the last seven years, and despite following a zero-net based policy in appointments, these expenditures rose from approximately 1.4 billion dollars in 2005 to nearly 2 billion in 2014, where the total of that bill ranged from 50%- 60% of the total current expenditures.
- The PNA, by following an expansion policy in operational expenditures, such as rent, travel expenses, and job concessions, in a manner that does not comply with the capabilities and resources available, led to exacerbation of the deficit year after year. Hence, during the past period, the government's trend was dominated by excessive spending to the point that it can be described as "**squandering and or wasting of public funds**". The size of this spending reached approximately 1.5 billion dollars in the 2015 budget or 48% of current expenditures.
- **The development budget** shrunk dramatically during the last period (6-8% of the general budget). It also seems that it is separate from the main current budget and is fully financed by international assistance, which may not be consistent with priorities and vision of our national interest. It is worthy to note that the actual ratio of spending for this budget continued to range between 60-70% due to the full reliance of these expenditures on international aid.

Our perspective is that the reduction of current expenditures should have been done years ago and especially right after the internal division and deprivation of the treasury from the Gaza revenues. It was clear to all that the Authority was on the verge of a severe crisis that called for a series of strict austerity measures. However, not only did the government not do that, but rather it carried out an expansionary spending policy without taking into account the developments that have taken place since the internal division, nor the lack of flow of assistance and grants. This forced it to resort to internal and external borrowing, which in turn increased the severity of the problem.

This behavior was accompanied by an increase in public revenues although not sufficient enough to tangibly reduce the deficit of the current budget. In this regard, the net tax revenues were increased from 1.8 billion dollars in 2008 to 2.8 billion in 2014. These revenues cover only about 70% of the total current expenditures. The increase in tax revenues reflects either an improvement in tax collection or expansion of the Palestinian economy's tax capacity due to the growth, which prevailed in recent years.

Tax and custom revenues, which constitute approximately 25% of GDP, indicate that the Palestinian society is increasingly contributing to cover public spending. The Palestinian economy relies on efforts of individuals and institutions in the production of goods and services under difficult political and security circumstances and very limited natural resources. Moreover, Palestinian society bears a relatively high tax burden that is associated to income and consumption. And since the Palestinian citizen constitutes an important, if not the most important source of income for government expenditures, he/she have earned the right to hold the government accountable regarding its policies as well as the right to participate in the drafting of these policies. The government, on the other hand, must also be more transparent in the formulation and implementation of these policies.

Good governance, especially in management of public funds, is based, in principle, on the right of taxpayers to monitor/control public spending and to ensure its integrity in accordance with the law. Moreover, taxpayers have the right to hold their government accountable regarding any manifestations of wasting of public funds including if that money is not spent on priorities of the society.

And although there was improvement regarding tax collection as a result of implementing some procedures and measures indicated in the strategic revenue system for 2014-2016, tax policy still suffers from shortcomings, some of which:

- **Failure to expand the tax base to a satisfactory level**, since until the writing of this report, there are still sectors and segments of society without tax files.
- **Failure to reduce the phenomena of tax dodging and tax evasion**, which, according to the MoF is still ranges between 500-600 million dollars yearly.

These facts kept the budget deficit at a high level with a range of 1.3 and 1.6 billion dollars yearly. The Authority relied on international aid in covering this deficit which financed, on average, 83% of it during the past years. The remaining amount was financed either through borrowing from banks, arrears to the private sector, or through non-implementation of a number of activities in operational or development areas, which led to a decline in the level of basic public services provided.

Conclusion:

Austerity in public spending is one of the options that must be tested and applied in facing the Authority's financial crisis, which is likely to get worse in the near future due to several political, security, and economic considerations. Austerity should not be the only option as it would not be sufficient. Austerity is not only a financial necessity, but also an ethical, as well as political necessity for an Authority that is not fully sovereign and a people who are fighting for liberation from a military occupation. Therefore, austerity or rationalization in public spending, in the Palestinian case, gains a high political importance due to its contribution to reduce financial fragility and grants the Authority immunity in the face of political pressures exerted by Israel using the economy as a tool. This is not to say that austerity may not have negative economic and social effects that may outweigh the financial savings achieved through it. However, the size and nature of these effects depend on the aspects of austerity. Therefore, any austerity plan must be built on foundations and considerations that take into account the economic and social conditions prevailing in the country. Poverty levels, unemployment, buying power of incomes, economic growth, and inequality in society all form guiding indicators to priorities and trends of austerity in government spending. Based on the abovementioned, it is necessary to develop foundations that enjoy national consensus for any austerity plan, and therefore, AMAN proposes the following suggestions to the government:

2.2 Sound austerity foundations

Austerity plan in public spending should be fair and balanced, which requires a technical and detailed analysis of all spending items in order to determine where and how austerity should be carried out. Therefore, what is required is an austerity plan that can achieve financial savings bigger than the expected economic and social burdens. In our view, any austerity plan must be based on the following criteria and foundations in order to be successful and achieve the desired objectives, hence it should:

1. Take into account **economic and social fairness** when distributing the burden of austerity.
2. Maintain legitimate, and **acquired rights** of employees.
3. Maintain opportunities for **economic growth** as well as competitiveness of the private sector.
4. Never harm the **quality of basic services** provided to the public such as education, health and social care services.
5. Take into account the economic and social conditions of citizens and especially the poor and unemployed.
6. It is important that the private sector shoulder some of the burden (social responsibility fund).

Steps to take when developing an austerity plan:

1. Obtain approval of the Council of Ministers for the general directions/outlines while seeking ideas from civil society. Form a ministerial committee headed by the prime minister for the approval of the foundations and determinants of the austerity and rationalization desired.
2. Based on approved outline by the Council of ministers, the MoF should draft a proposal of the plan desired.
3. Allow broad participation from all responsibility centers to discuss the differences in the approved budget and suggested proposals for austerity, to help in developing priorities of austerity and rationalization in allocations made for these centers.
4. Based on feedback by participating responsibility centers mentioned in point 3, the ministerial committee can prepare a draft austerity and rationalization plan.
5. Provide an opportunity for political and civil society organizations (NGOs) to express their opinions of the draft plan.
6. The final copy of the plan has to be approved by the government along with its timeline, implementation activities and follow-up mechanisms; after which the plan is to be presented to the Palestinian Legislative Council (PLC) for verification. Once verified, implementation should begin within the framework of the public budget and according to the approved timeline.

3. Diagnosis and analysis of aspects of public spending

This section of the report covers the five main aspects of spending defined earlier: salaries, concessions accompanying public positions and special contracts, social assistance, net lending, and medical referrals. Covering these aspects includes description and analysis of the size, direction, and nature of spending in each of them. The purpose of this description and analysis is an attempt to define major gaps and flaws in the abovementioned areas of spending in order to assist in drafting recommendations and proposals that will form the outline of the austerity or rationalization plan.

3.1 salaries and wages

This item still accounts for the largest share of the Palestinian public budget amounting to 50% of the total current expenditures and net lending for 2015. It also accounts for 54% of the total current expenditures. Moreover, this item of the budget has exceeded more than half of the current expenditures for the majority of the Palestinian public budget's years (i.e., life of the budget). The magnitude of the cost of salaries and wages becomes clearer when compared with some of the neighboring countries. Table 1 below illustrates the development that has taken place on the salaries bill and the number of employees for the past 10 years.

Table 1: number of employees and salary expenditures 2005-2014

year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
no. employees	178546	163573	144380	142937	147726	150400	153053	154218	154356	155682
% Change	37%	8%	12%	1%	3%	2%	2%	1%	%0	1%
Salary Bill (Million(NIS)	4494	5303	5264	5145	5361	6017	6381	6812	6928	7336
% Change	15%	18%	1%	2%	4%	12%	6%	7%	2%	6%

Source: AMAN, civil Society Team for Transparency of the Public Budget, analysis of the 2015 budget; working paper.

Table 1 above shows that the number of public sector employees increased in most years. The years where this number decreased is unfortunately due to the internal division which occurred in 2007, and the subsequent termination of services of a number of employees based on legal and security consideration. This conclusion applies to the sizes of the salaries' bill. It is also noticeable from the data above that annual increases during this period remained within a limited scope and are attributed to the high cost of living and family allowances. It is also possible that the limited increase in the number of employees and salaries' bill, during the five years, is due to applying the "zero net base" in appointments (i.e., the number of new employees must equal the retired and resigned number) in the civil sector, with the exception of the MoE and MoH, due to pressure from donor countries. It is possible that most of the increase maybe in the number of employees in the security sector. The number of workers in the public sector amounts to, on average, 23% of the total workers in Palestine. When compared with other Arab countries with similar conditions, we find that it is less than Jordan (25%), for example, and also less than Egypt which is close to the Jordanian percentage.

On the other hand, it is possible to attribute the large increase in salaries for 2005-2006 to the application of the financial section of the amended Civil Service Law. The unusual increase in salaries for 2014 is credited to the cost of agreements signed by the government at the end of 2013 with the employees' union, engineers and teachers federation, as well as to promotions of employees of the security apparatuses, which amounted to 250 million NIS yearly.

It was also clear from the data that the average monthly wage per employee in the public sector increased from 3,100 NIS in 2008 to 3,680 NIS and then to 3,925 NIS in 2014. This increase can be attributed to two reasons: 1) cost of living and family allowances; 2) change in the staffing structure resulting from promotions granted to the higher level of management. What is important here is that the average wage in the public sector cannot be considered high compared with the cost of living. However, it is higher than the average wage in the private sector (1,650 NIS per month), which is not fair by any standards and is also under the national poverty line.

The question that comes to mind when talking about salaries and wages is: Is it possible to lower the overall bill for salaries and wages? The answer to this question depends on answering the following questions:

1. Is it possible to lower the number of employees by referring some of them to early retirement or to lay-off some of them? If the answer is yes, which centers of responsibility can this measure be useful? Does the phenomenon of ghost employees really exist, i.e., those who receive salaries for meaningless jobs. Or Joker employees, i.e., those who hold government jobs and also work other jobs. **When answering this question one must take into consideration: the living conditions and especially the high unemployment and poverty levels, fairness in distributing the burdens of austerity, and the circumstances of building the Authority's institutions.**
2. Is it possible to revisit the salary scale with the intention of lowering salaries or lowering salaries for senior positions only by amending the Civil Service Law? When answering this question one must consider the principle of employees' acquired rights and the buying power of public employees' income to enable employees to stay within the same level.
3. Is it feasible to redeploy employees on the current PA institutional structure, or to a rebuilt one, through a well-studied integration process for responsibility centers with similar or complementary positions, so as to raise productivity and enhance job satisfaction? Also is it possible to redistribute sector allocations in-line with the new job scale without leaving an impact on spending? in this case, wouldn't that be closer to the concept of rationalization than austerity? **When answering these questions one must take into consideration the scope and quality of services provided to the public, and on the basis of concurring experiences and qualifications of employees with the new positions or jobs.**

The number of public employees illustrated in the table above includes employees of the civil and security sectors. However, due to the different institutional and legal frameworks that govern the two sectors, as well as the procedures and measures for appointment, promotions, salary scale, and job specifications for each of them, it is necessary to conduct a separate salary analysis for each one.

3.1.1. Salaries of the civil service employees

Table 2: number of the civil service employees and their total salaries (2011-2014)

year	2011	2012	2013	2014
No. of permanent employees	88,500	88,000	87,300	91,000
Ratio of the total staff	0.57	0.57	0.57	0.58
(Salaries' bill (billion NIS	3.5	3.4	3.2	3.8
Percentage of the PA total salaries' bill	0.5	0.5	0.5	0.505
(Average monthly wage of a civil employee (NIS	3,300	3,200	3,000	3,480¹

Source: calculated by the researcher using the MoF and the General Personnel Council's data bases.

Explanatory notes on illustrated data related to civil service employees and their salaries:

1. The number of permanent employees does not include those working on special contracts amounting to 1,610 contract. Appointment procedures, measures, and allocated money for these appointments as well as day laborers in the various responsibility centers will be discussed later on.
2. The number of employees and the salaries' bill do not include retired employees registered on the cadre of MoF with numbers amounting to: 12,525, 12,923, 13,854, and 14,100 for the years 2011-2014 consecutively. The bill for these pension salaries amounts yearly to 400 million NIS.
3. Percentage for the increase in the number of the civil service employees and the size of their salary bill is within normal limits and close, to a large extent, to the rate of total increase of the Authority's employees and their salaries. This indicates that there was no significant change on the salary item for civil employees that calls for attention.
4. The average monthly salary for civil employees remained low and close to the, to a large extent, to the general average. This means that the available margin is too narrow to reduce salaries of these employees, if it existed at all.
5. The government did succeed in controlling the process of appointment and was committed to the number indicated in the General Budget Law for last recent years. Moreover, the majority of appointments were in vital sectors such as education and health; two sectors that were not subject to the appointment rule of "appointing based on job vacancies", but according to need. For example, the government, in its session held on September 15, 2015 approved a 15% reduction of job contracts assigned for government departments for the year, which have not been taken and allocating them to the Ministry of Education and Higher Education(MoE), excluding the MoH from this decision.
6. Appointment and promotion procedures in the various centers of responsibility improved greatly in recent years. They became more in-line with the Civil Service Law, and especially articles 14-29, which in general, stresses the importance of announcing job vacancies in local papers, and conducting interviews and competitions through specialized selection committees, in the presence of a representative from the General Personnel Council. Employees are selected based on qualification and merit. Also promotions within the same category of positions or from one group to another has become more under control and in compliance with the law.²
7. The largest share of employees and salaries is for the social services sector and in particular for the Ministry of Education, Ministry of Health, and the Ministry of Social Affairs, which accounted for 73% of the number of employees and 78% of the salaries. This reflects the relative importance of these sectors in public spending, hence making the possibility of financial reduction to salaries of employees in these sectors difficult and unrealistic.
8. The share of employees for the northern districts accounted for 67%, while for the southern districts, it was 33%. This distribution coincides with the appointment developments and changes post internal division.
9. Percentage of male employees from the total number of employees accounted for 57% versus 43% females. This discrepancy could be explained in the framework of the disparity in the rate of participation in the work market on basis of gender.

2. Interview with Mr. Mousa Abu-Zaid, head of the Council and Mr. Fathi Khader, director of general administration for foreign administration control.

It is necessary to analyze the number of employees and salaries' bill in order to answer the following question: Are there employees outside the centers of responsibility's formal structure who are paid from the Authority's treasury? For example, the number of employees registered on the organizational structure of the General Personnel Council, from the WB&G is 339 individuals, while the salary and wage bill for the month of August, 2011, amounted to 7.654 million NIS instead of 1.5 million NIS (based on the average monthly salary for a civil employee of 3500 NIS). Moreover, in the 2014 budget, total salaries amounted to 93 million NIS, which means that the number of employees on the Council's payroll is approximately 2,200 individuals. Therefore, the number of employees that are not subject to the administrative control of the Council is about 1,700 people. The important question is: at which public institution do these people work and to whose benefit? According to the Council's records, the number of employees on the council's payroll, and are outside its formal administrative structure is 219 from the WB, but in Gaza the number is several times that figure³, and according to the Council, the majority of them are registered under popular unions, political parties, NGOs, and security services. Some of the employees' who receive salaries from the Council, but are outside its formal structure do no work at all, but their files were transferred to the GPC by their institutions for various reasons, and their cases have not been settled yet.

This phenomenon is not new but has been accumulating within the administration of the Authority ever since the nineties and during the second Intifada 200-2002. Eventually, this chaotic situation was exploited by transferring salaries of a number of NGOs to the public salary bill through decisions mainly issued by the president, at the time. This situation remained unresolved despite the number of years past. According to the GPC, the responsibility of addressing this administrative flaw is not its sole responsibility, but calls for a political intervention from the top of the pyramid of the PA. At the same time, the Council succeeded in ending the service of 263 employees where it was proven that they were not actually employed (i.e., Ghost employees). Moreover, there remains 91 male and female employees where the Council is following up on their cases with their institutions in accordance with the law. If they are not guilty, they will stay, otherwise, their service will be ended as well.⁴

Using the same analytical logic, we see that a number of employees who are officially registered on the cadre of the centers of responsibility in the civil sector governance, such as the (president office, Council of Ministers, executive committee of the PLO, political parties, Palestinian National Fund, Ministry of Foreign Affairs, Media, popular federations and commissions, others) is less than the number of employees paid from the public treasury. This is in addition to day laborers who are difficult to trace and are also paid from the treasury, but have no files at the Council, since their appointment does not follow formal procedures. They are appointed through direct coordination between centers of responsibility and the MoF. These employees are scattered within the various centers of responsibility even if the majority of them work with centers that provide services.

3 Interviews with Council officials, as mentioned in 2 above

4 Interviews with Council officials, as mentioned in 2 above.

As for **the phenomenon of holding double jobs**, the Council had exerted great efforts, through the general administration for external control, in following up and addressing this problem. It is worth noting that the Civil Service Law allows employees to work outside office hours subject to approval by the relevant minister, and the endorsement of the Council upon completion of a number of conditions as stipulated by the law. However, it was discovered by the Council that there is a number of employees who hold other jobs either full or part time without the obtaining the required approvals above. Most of them are employees of the MoH (about 117 male and female employees). In addition, there is also an undefined number of employees who work at non-governmental universities and hold jobs other than their official one. However, it is difficult to give the precise number of these employees. We also believe that the number is far larger than the one provided by the Council, and that the difficulty in confirming this phenomenon maybe the reason underlying the belief that the number registered is modest compared to the actual. We also realize that these employees, who work second jobs and are not registered formally with the Council, may seek second employment for economic or professional reasons or related to keeping busy. It is certain however that application to join the diplomatic mission in the foreign ministry, without an actual need, reflects the financial privileges they receive.

Conclusion 1: **There is a good number of employees, although that number is controversial, who receive salaries while they are outside the formal or adopted administrative structures, or based on an actual need. As it stands, there is incongruity between the number of approved staff and the amount of the salaries bill in many of the Authority's institutions, and especially in the governance sector. However, the social and economic sectors seem to be free, to a large extent, from this phenomenon. The former might be attributed to the overlapping at the political and administrative levels in the governance sector, while this overlapping is absent in service institutions. Accordingly, items of salaries and wages of some governance institutions maybe one area where austerity in spending can be applied. This can be implemented by finding solutions to some employees' statuses either by referring them to early retirement or by terminating their services. This can only be carried out after conducting further scrutiny and file examination of these employees to determine the conditions and obligations of their appointment as well as the tasks they are currently entrusted with.**

Conclusion 2: **It is more than likely that there is a relatively significant number of staff in the civil service who practice duplication of work in violation of the law. This number may cross-cut with the number of employees who work outside the formal structure. Hence, it may be useful for the Council and relevant centers of responsibility to pursue these cases in a comprehensive and detailed manner in order to monitor and control this phenomenon more precisely and then settle employees' situations in accordance with the law. If not possible, other options such as termination of services or referrals to early retirement should remain open, though on agreed terms.**

Conclusion 3: the option of reducing a number of the Authority's permanent employees in the civil service by terminating their services without granting them their retirement rights, including those who work outside the formal administrative structure, does not seem realistic due to the following reasons: the high rate of unemployment; deterioration of living conditions and the limited capacity of the Palestinian economy at the present time, and absence of a convincing legal justification for such action, and especially since they have been at their jobs for many years and thus have earned rights. For these reasons, if applied, it is more than likely that this solution will face popular and political resistance. Moreover, the financial savings resulting from this action may not be worth the political, social, and economic price. Therefore, the realistic option to reduce the number of employees and salaries bill is to refer some of them to early retirement with agreed upon terms, especially since most of them might be from the political sphere and not the professional sphere and are most likely approaching retirement age. In addition, most of this group of employees have other work options and can adapt their economic situation easier than other employees.

Conclusion 4: The option of reducing civil servants' salaries is unrealistic and is difficult to defend in light of being low to begin with, compared to the cost of living.

Conclusion 5: redistribution of civil servants' employees among the various centers of responsibility ensuring that transfer of staff from one center to the other is based on need, experience and educational qualifications. This procedure would raise employees' productivity, level of job satisfaction, and improve the quality of services provided to the public. Perhaps it would also be useful for this action to be part of a wider administrative reconstruction of the Authority's institutions at the individual and overall levels. This requires integration or joining centers together, or perhaps closing some centers and or departments.

Recommendation:

the option of reducing a number of the Authority's permanent employees in the civil service by terminating their services without granting them their retirement rights, including those who work outside the formal administrative structure, does not seem realistic due to the high rate of unemployment; deterioration of living conditions and the limited capacity of the Palestinian economy at the present time. Thus the recommended solution lies in forming a technical committee with participation of the Council, the MoF, and other impartial professionals to be selected by the prime minister. The committee's tasks would include scrutinizing and examining files of surplus employees and provide suggestions in regard to settlements of those in question in accordance with the law and guiding principles, as follows:

1. Referral to retirement based on fair and satisfactory terms, since most of them might be from the political sphere and not the professional sphere and have been at their jobs for many years; not to mention that most of them are likely to be approaching the legal retirement age.
2. Redistribution of employees: carrying out this recommendation requires that the transfer of staff from one center to the other be based on need, experience and educational qualifications. This procedure would raise employees' productivity, level of job satisfaction, and improve the quality of services provided to the public.
3. Administrative restructuring for the Authority's institutions at the individual and overall levels. This requires integration and joining centers together, or perhaps closing of some centers and or departments.
4. In relation to civil service's employees who practice duplication of work (i.e., hold second jobs) in violation of the law, the suggestion is for the Council and centers of responsibility to address the files of these employees and to settle their cases in accordance with the law. If not possible, other options such as termination of services or referrals to early retirement should remain open, though on agreed terms.
5. Review of employees' salaries: The option of reducing civil servants' salaries is unrealistic and is difficult to defend in light of being low to begin with, compared to the cost of living. That is why it is important to review salaries of top officials of non-ministerial public institutions in order to define a ceiling that concurs with the financial situation of the Authority. Moreover, to conduct a serious and detailed review of privileges granted to some officials, as well as replacing the new appointment policy with a policy of retraining and relocating surplus employees. Finally, it is important that no vehicles or buildings be bought or rented for a period of three years.

3.1.2 Salaries and wages in the security sector

There was a noticeable development of the number of the security service's staff, reaching 57 thousand by 2004 and increasing in later years to 82 thousand in 2006. It finally settled at 65 thousand remaining the same until this date. This number is distributed on the various security apparatuses. Their number accounts for 43% of the total number of public employees in the PA. Please note that it is not the task of this report to review of the extent and causes of these increases, which do not reflect a security need.

Security expenditures, until October 31, 2015, accounted for 28.5% of public expenditures

Table 3: No. of permanent military staff & salaries for the security sector (2011-2014)

year	2011	2012	2013	2014
Number of military	65,750	66,220	65,860	64,680
Percentage to total employees	0.43	0.43	0.43	0.42
(Salaries bill (billion NIS	3.2	3.4	3.5	3.7
Percentage to total salaries	0.5	0.5	0.5	0.495
Average monthly salary of a military (employee (NIS	4,032	4,294	4,338	4,767²

Table 3 illustrates that the number of military employees account for 43% of total employees. However, their salary bill accounts for 50% of the total salary bill. It is easy to conclude therefore that the average monthly wage of a military employee must exceed his/her civil servant counterpart, as shown in the above data, even though their number is less. In 2014, monthly salaries were approximately 4,556 NIS for military and 3,480 for civil servant.

If we know that the majority of military personnel in the security sector hold low-ranking positions, which means that the average monthly wage is much less than the overall average wage in that sector, it would be easy to conclude that salaries of top military officials, and they account for a small percentage of the total military staff, are very high.

Conclusion 6: The security sector's share remains high accounting for more than 28% of the current budget. Moreover, the larger share of the security budget is allocated to salaries and wages amounting to 80%. However, what calls for attention here is that the average monthly wage of those who work in the security sector exceeds its counterpart in the civil sector. This indicator requires examination and consideration by officials when preparing the budget and distributing allocations. Perhaps it might also require a review of the Military Service Law which grants privileges and benefits to military personnel, and especially to high ranking officers.

The operational budget allocated for the security sector is considered relatively high. In addition, expenditure procedures and handling of allocated funds is marred with numerous shortcomings and gaps. Furthermore, the foundations and tools for internal and external controls remain weak, controversial, and providing opportunities for waste and misuse in spending, especially those related to the purchases of food and fuel, as well as to capital expenditures.

Recommendation:

A technical committee to be formed by the Council of Ministers to study the budget for: the security apparatuses, service law in the security forces, number of the security service and military employees, and concessions and benefits granted especially to officers and high-ranking positions. The committee should also be tasked with providing suggestions to the government, within a defined timeframe, in regard to relocating the surplus number of employees or referring them to retirement.

3.2 Operational expenditures:

Sometime, and despite the stated policy of the Authority towards rationalization of expenditures and reduction of expenses, the government's handling of budgets when allocating money for the various sectors, especially the security sector and the multiple items of expenditures, does not correspond with the Authority's general direction aimed at rationalizing spending. The government's austerity trends still present the operational budget as a lump sum figure without itemization of spending in a particular area.

Employment privileges fall under operational expenses, which is one of three groups that form the non-salary current expenditures. Operational expenses are necessary for the running of the responsibility centers and are not directly related to the services provided by the centers to citizens. Moreover, **these expenses represent the total amount spent, by the centers, that is included in the budget for the use of goods and services during a given fiscal year.** Examples: transport and housing allowances for employees; transportation expenses; travel expenses for official purposes; expenses for medical treatments abroad; rents; hospitality; administrative and technical development of staff's capacities; institutional building for the responsibility centers themselves. Also, utility bills such as water, energy, communications and information; public debt service and others. In short, it is "**the employee and not the public service that is the primary engine**" for most of these expenses.

Therefore, increase in the number of employees in the public service leads to increase in these expenses, but not in a linear relationship. Also change in the employees' structure due to promotions and upgrading leads to a direct and linear increase of these expenses, which is similar to the salaries bill. Table 4 below illustrates operational expenses and distribution, for a number of years.

Table 4: current non-salary expenses and distribution for selected years (million NIS)

Item	2011	2013	2014	2015
current non-salary expenses	1,400	1,577	1,673	1,800
Operational expenses	530	560	602	650
Civil sector's share from expenditures:	397	415	452	481
Governance share	103	108	120	125
Social sector's share	258	270	290	312
Economic sector & infrastructure' share	36	37	42	43
	800	950	1050	1070
	70	67	71	80

Source: Researcher's calculations based on data from the MoF.

Table 4 above shows the continuous increase of operational expenses in general and the share of the civil sector's in particular, from one year to the next, but at a normal rate of 7%, on the average. **It is worth noting, however, that this increase, small as it might be, occurs despite the government's repeated declaration, for years, of taking austerity measures concerning these expenses.** In that regard, the Council of Ministers issued several decisions and executive regulations since 2011, the last of which was nearly two months ago; all aimed at austerity in operational expenditures, and especially allowances and work assignments (travel, transport, housing, communication, fuel) as well as supervisory allowances and others. **As it seems, these decisions did not succeed in reducing these expenditures. This could be attributed, in principle, to the weakness of commitment to these decisions, or to excessive exceptions granted to ministers or to those with similar status, after approval from the finance minister in order to go around these limitations on spending; intended to be applied according to need and necessity.**⁵

It is also apparent that the governance sector accounts for 26% of operational expenditures versus 65% for the social sector, and 9% for the economic sector and infrastructure. In addition, upon calculating the operational expenses for each employee, male or female, we find that it is about 5,600 dollars per year in the governance sector versus 4,600 dollars in both, the social and economic sectors. This disparity seems even greater if we take into account that most of the operational expenditures in the social sector are concentrated in the MoH and the MoE with approximately (180 million dollars and 55 million dollars respectively). These expenditures covered purchasing medicine and medical supplies, as well as educational materials, which benefit citizens; unlike expenditures in the governance sector. It is safe to say that job privileges in the governance sector represent the largest proportion of the operational expenses compared to other sectors for two reasons: 1) nature of tasks and responsibilities of employees of this sector requiring reliance on public relations and travel. 2) The number of staff at senior level in this sector is relatively larger than other sectors. Also there are privileges, incidentals, bonuses, vehicles, fuel, and expenses paid to employees outside budget items.

And in view of the absence of details on items of these expenditures, it is difficult to determine the size and growth of privileges/concessions granted, in order to conduct a deeper analysis of the trends in question, over the years, hence identify areas where austerity can be applied. It is possible, however, to say that job concessions account for an average of 25%-30% of the total operational expenditures in all sectors, but can reach as high as 40% in the governance sector. This means that it can range between 100-130 million dollars a year. It is also possible to say that any reduction in these expenditures would be greatly welcomed at the popular level, especially since these kind of expenditures have been and remain a subject of intense criticism at many levels because they involve aspects of waste of public funds. In addition, these expenditures have mainly benefited a select group of employees at the higher level at the expense of allocations for development and services as well as the expense of the public and taxpayers' interests. Direct benefit which goes to the administrative and political power at the expense of others is called **"Agency Costs" in the literature of management and governance.**

5. Interview with Mr. Issmat Abu-Rabi', director of the audit department on economy; SAACB.

Conclusion 7: Perhaps austerity in operation expenditures, particularly in those related to position concessions is the best realistic option, and at the same time the least costly, politically, socially, and economically. Centers of responsibility in the governance sector should be the areas targeted for this type of austerity compared with other centers in the social sectors. This is because austerity in this sector does not involve negative repercussions on services provided to citizens. These concessions amount to approximately 100-1300 million dollars each year.

In regard to special and temporary contracts with ordinary employees or consultants: apparently appointment procedures for regular contracts are carried out according to the Council of Ministers' decision number (3/5/15/2013). The decision states that the General Personnel Council must correspond with the MoF to ensure that there are sufficient funds allocated in the budget for the contract requested by the relevant center of responsibility. If funds are available, recruitment procedures are conducted according to the adopted process at the General Personnel Council. If funds are not available, **the concerned minister must obtain a waiver from the minister of finance for this recruitment, which usually gets approved.** In cases when contracting consultants or experts, an additional constraint is applied, which is approval of the prime minister based on recommendations by the relevant minister for contracts exceeding 1,500 dollars and up to 4,000 dollars. In addition, the Council of Ministers must approve contracts that exceed 4,000 dollars as stipulated in decision No. 3/10/14/2012, and its amendments. These procedures seem satisfactory and seem show control on contracts for appointing consultants and experts. However, these contracts that are intended to be for a specific and limited time period seem to extend to long periods, and many of them become as if permanent. This explains the consecutive government's decisions in granting those employees priority in appointments upon availability of job vacancies in the centers of responsibilities where they work.

According to data provided by the GPC the number of new and renewed contracts today is 1,610 contract. Nearly half of them are concentrated in service providing ministries such as the MoH with (316), religious endowment (Awqaf) (121), the judiciary authority (155), and borders and entries with (136) contract. Distribution of these contracts among ordinary contracts and those for experts and consultants is not available. However, it is possible to say that the majority of these contracts are regular contracts; with a cost that amounts to approximately 65 million NIS yearly, where salaries for those contracted is included in the salary and wage bill. **The question which arises here is: is it possible to reduce this cost? The answer is yes, but within narrow limits since it is difficult to end the service of some of them due to the rise in the cost of living and rate of unemployment in the Palestinian society. Also due to the need of their services in many cases, especially since some of them were appointed in a roundabout way to avoid restrictions imposed on new appointments in the budget (i.e., compliance with the "zero base appointment" policy, which was applied by the majority of the centers of responsibilities.**

Conclusion 8: there is a possibility for austerity on expenditures related to contracts by limiting exceptions/waivers in appointments and committing to the principle of appointment based on need and fair competition, exactly as applied in permanent appointments. Another possible option is to apply the relocation principle on these contracts hence making them temporary, as intended. This allows for work opportunities for the largest number of unemployed young men and women who are college graduates where they account for 55% of total graduates.

«The security sector's share of operational expenditures

Nations progress is defined by the level of sustainable development and prosperity it provides to society. And money spent on the security sector is usually at the expense of other service and development sectors such as education, health and social services. Therefore, the bigger the share of the security sector's the bigger the negative impact on the level of development and prosperity in society. This is especially true in countries suffering from significant gaps in their financial and economic resources, such the case of the PNA. Therefore, rationalization in expenditures in both the civil and security sectors is a must.

Table (5) below summarizes share of the Palestinian security sector in the public budget for select years.

Table 5: share of the Palestinian security sector in the current budget of select years⁶

year	Percentage: current budget	year	Percentage: current budget
1997	27%	2009	27%
2000	35.1%	2010	30%
2003	27.2%	2012	28.8%
2005	24.2%	2013	28.1%
2007	39.4%	2014	28.5%
2008	35.2%		

Table 5 illustrates the noticeable rise expenditures of the security sector in Palestine witnessed in many years, especially in 2007. This was due to the increase in the number of individuals paid by the security institution, taking into account that the number of those registered under the security forces was 77,000 individuals. The number declined in the following years to settle at 65,000 military personnel without taking into account the number of military employed by the Hamas government, after the political division, amounting to more than 15,000 military personnel until now.

In the period of 2012- 2014, the share of the security sector settled at an approximate level of 28%. In 2014, there was a noticeable decline in the salaries' share in the total security budget where it went down from 85% to 80%. The amount of 3,057.4 thousand NIS was allocated for salaries from the original amount of 3,850.5 thousand NIS of the total budget allocation for the

6 PNA's budget for different years

sector for 2014. In addition, the data indicated that this decline in salaries and wages was for the benefit of increase in **the operational and other current expenditures**. The remaining part of the budget is allocated for operational and transferable expenditures (approximately 738 million NIS) with 570 million NIS from that amount goes to operational expenditures (see table 6).

Table 6: Operational expenditures in the security sector (2011-2015) (million Dollars)

Item	2011	2013	2014	2015
Operational expenditures in the security sector	133	145	150	169

Source: researcher's calculations from the MoF database.

Legal and institutional procedures in operational expenditures of the security sector: the Palestinian Basic Law defined security forces and police as a "Regular Force". It also considered it the armed forces in Palestine and left the issue of governing of the security forces and police to other competent laws.⁷ Prior to 2005, with the exception of the civil defense directorate, there were no legislations regulating powers of the security forces. Powers were defined in accordance with instructions issued by commanders on the ground. The absence of regulating legislations led to overlapping of responsibilities and tasks, in addition to ambiguity in regard to the completion of the administrative and financial procedures. However, after 2005, a tangible development took place where several laws were issued such as the Service Law for Security Forces, General Intelligence Law, and Decree Law on Preventive Security.⁸

In regard to financial Affairs, at the beginning of its establishment, the Palestinian security relied on a scattered daily claim mechanism for securing its operational needs and requirements. This was done through providing funds by direct order from the president of the PNA. **The security services were not operating according to an adopted and approved financial system** in accordance with the General Budget Law No. 7 of 1998. Accompanying this mechanism were a number of problems which harmed the reputation of the security services and provided conditions for anomalous financial practices. Moreover, the security sectors' budget was not prepared duly and in accordance with the law, nor was there an approval of it by the PLC. Also, there was no commitment to submit reports on the implementation of this budget; all was done under the justification of confidentiality.

In general, one can safely say that the legislations and systems approved during recent years seem to be sufficient to control the financial affairs of the security sector, despite shortcomings and gaps found in some of its detailed provisions. More importantly, it is the commitment on the ground that takes priority to having legislations; an issue which marred it in the past and until today. Many observers and financial experts classify the Palestinian security budget as confidential.⁹ This action permits heads of the

7. Article 84 of the Palestinian Basic Law

8. Al-Barghathi, Moeen, Law Institute, 2009, series law and security, legal framework governing the security sector in Palestine, analytical study on issued legislations after 1994, P. 11.

9. Abd-Alkari, Nasr, a working paper presented at a conference organized by the Law Institute in Amman, entitled "Strengthening Good Governance in the security Sector in the Arab World. A role played by civil society". June 2009.

security services to spend through periodic payments, which makes it very difficult to track these items, hence to analyze and make recommendations thereafter.

In 2014, the average monthly salary of a military employee amounted to 2,320 dollars. Upon comparing this average with its counterpart in the civil sector, a dramatic difference becomes clear between the two averages in favor of the civil sector. The decline in the average of the military employee, in comparison with the civil employee, might be attributed to two reasons: 1) the high share of the civil employee is concentrate mainly in the governance sector, where the need for operational expenses are many in areas of public relations and external travel. 2) The majority of staff in the military sector hold lower-rank positions, and they often do not enjoy privileges or high salaries. Moreover, often privileges are limited to senior officers and high-ranking employees, who constitute a small proportion of the staff in the security sector. Nevertheless, this data constitutes an important input to the Palestinian decision-maker for intervention and research for possible areas of rationalization in the area of operational expenses in the security sector without causing any harm to beneficiary sectors and without compromising basic principles of rationalization mentioned in the introduction.

Conclusion 9: The operational budget allocated for the security sector is considered relatively high. In addition, expenditure procedures and handling of allocated funds is marred with numerous shortcomings and gaps. Furthermore, the foundations and tools for internal and external controls over priorities and expenditure procedures remain weak, controversial, and leave opportunities for waste and misuse in spending, especially those related to the purchases of food and fuel, as well as to capital expenditures. despite the stated policy of the Authority towards rationalization of expenditures and reduction of expenses, the government's handling of budgets when allocating money for the various sectors, and especially the security sector, does not correspond with the Authority's general direction aimed at rationalizing spending. The government's austerity trends still present the operational budget as a lump sum figure without itemization.

- Circumvention of adopted procedures for new appointments continued. In this regard, many were employed or guaranteed inflated salaries through special contracts 1,610 to be precise.
- Austerity on spending is possible if there is limiting to exceptions in appointment and commitment to hiring based on need and fair competition, and ensuring that these contracts are temporary.
- to put a stop to buying vehicles, buying or renting new buildings for a period of three years.

3.3 Social assistance

Expenditures for the Ministry of Social Affairs, until October 31, 2015, amounted to 10.9% of the total general expenditures.

In light of the difficult economic and social conditions Palestinians live under and the consequent decline of the majority of economic and social indicators and the spread of social phenomenon such as poverty and unemployment, it became necessary for the Palestinian Authority to intensify its social role in order to maintain social balance and provide basic requirements to the Palestinian families who live under the poverty line. Traditionally, there has always been a large sum of money allocated in the public budget under what is called social assistance for needy families, managed by the MoSA. Added to that are funds allocated to families of martyrs, those injured as a result of Israeli aggression, and families of political prisoners.

This section of the report will focus on the cash item for social assistance, which falls under the supervision and management of the MoSA given its importance and social role. Moreover, this section will also examine mechanisms used in providing the abovementioned assistance with the aim of defining possibilities for rationalization of expenditures in this regard, without harming the quantity and quality of services rendered to needy families. This is in harmony with the Palestinian government's direction that no spending cuts or austerity measures will include poor and marginalized families' allocations despite the financial crises the government is undergoing. The results of this approach is clearly illustrated through the steady increase in the number of needy families benefiting from the mentioned assistance program, where it increased from 106 thousand families in 2009 to 110 thousand families in 2013, and to 119 thousand families by the end of 2014.

As stated above, beneficiaries of the assistance program are those that are marginalized, poor, or are families of martyrs, injured or political prisoners. Hence it would be unfortunate, unfair and unacceptable to reduce support in this area. However, it is important to ask if this is an ideal situation? Or is it possible to apply reform interventions without harming recipients of the assistance, hence rationalizing expenses in these areas? This is what we will try to answer for the remainder of this section.

The MoFA offers many of the social assistance programs where most fall under the overall management of combating poverty; most important of which are: 1) **The Cash Assistance Program** (cash transfers), where the ministry provides a certain sum of money for each family every three months. The total amount spent on this type of assistance amounts to 328 million NIS yearly, divided over four payments (one payment every three months amounting to 83 million NIS). The government covers 56% of this amount while the EU and the World Bank cover the rest. 2) **The Emergency Assistance Program:** this program offers financial assistance to emergency cases, where an amount ranging between 1000 to 4000 NIS is provided, depending on the severity of the case. Budget for this program amounts to 6 million NIS each year coming to 0.5 million NIS monthly. This amount is fully covered by the gov-

ernment. 3) **The Economic Empowerment Program:** this program provides financial loans ranging from 5-10 thousand dollars to families for the implementation of small projects.

Taking a quick look at the emergency and economic empowerment programs, it is clear that the main problem encountered by the emergency assistance program is lack of sustainable funding sources, as it relies solely on government financing as well as depreciation of allocations which do not exceed half a million NIS a month. As for the economic empowerment program, the main problem is in the increase of the number of families who do not pay back loans, which, according to reports, exceeded 50% of the total beneficiaries of the program in 2010.¹⁰ This impedes expanding of the number of beneficiaries of the program and the possibility of reutilizing funds for other needy families.

The cash transfer program, which is the larger program managed by the MoSA. This program reflects the ministry's vision and approach to join all cash assistance under one program and with an unlimited number of donors, with the aim of benefiting the largest number possible of families that fall below the extreme poverty line. Also to ensure that there is no duplication in spending. Based on that, cash assistance was integrated under the framework of the cash transfers program, which is within the (National Program for Social Protection). Thus, all PEGASE cases were entered in the social security network's database, where correcting repeated names was addressed. In addition, an equation for poverty and targeting criteria were developed as well. Moreover, the Cash Transfer Program was approved by the Council of Ministers in 2009. The number of families presently benefiting from this program is 119 thousand families divided as follows: 75 thousand from Gaza, and 44 thousand in the WB. The total budget for the program is approximately 540 million NIS, amounting to 135 million NIS every three months. This program is financed as follows: 53% from the Authority's treasury or what accounts to 286 million NIS; 44% from the EU, and 3% from the World Bank.

In analyzing the social assistance program and mechanism of implementation, as well as the institutional and legal frameworks governing it, it is possible to summarize the most important points as follows:

- » **The absence of a clear and comprehensive legislation to govern the social assistance program.** Presently, the legal framework is limited to scattered provisions derived from relevant Palestinian laws, such as: the Labor Law, the Social Security Law, and Child Law, and first and foremost, the Palestinian Basic Law, which clearly pointed out the basic rights a Palestinian citizen must enjoy. This includes his/her right to basic requirements in life such as food, shelter, clothing as well as his/her right to education and medical treatment. The ministry relies in its management of the process of providing assistance on a collection of instructions and internal by-laws of the ministry. This is reflected in the government's handling of social assistance, where it considers it more of an emergency grant and not as a social security system program, which needs to be sustained and documented (i.e., run within a legal and institutional framework).

- » **Weakness in the capacity and efficiency of institutions providing services resulting from the absence of clear and transparent institutional procedures and references.** The multiplicity of providers of social assistance as well as the poor coordination between them are clearly apparent, hence leading to duplication of assistance to some families and the deprivation of other needy ones due to the lack of financial resources available.
- » The 2014-2016 Social Protection Sector strategy indicated a **weakness in community participation**, as the assistance management system lacks mechanisms that allow citizens and beneficiaries to intervene in social protection and to contribute to the drafting, implementing and evaluating these interventions. This also applies to related civil society organizations and other official and non-official monitoring and control institutions. The participation denial mentioned is reflected in the decline of trust among citizens and civil society institutions' in the social assistance programs.
- » **Database at the ministry, especially the one related to families benefiting from the social protection program have technical problems** resulting from entering incorrect data by researchers or persons in charge of that task. These errors led to the continuation of disbursements to families that have undergone changes which require either to reduce their share of aid or to stop it altogether. Moreover, this database flaw is linked to the continuation of relying on field researchers in defining targeted groups as well as the amount of assistance to be received. This means that whether a family is eligible to receive assistance or not depends on a field researcher's discretion or decision. On another note, the assistance program is subject to donors' auditing mechanisms (the World Bank and the EU) by selecting a sample from the families benefiting from the program. One of the World Bank reports indicated that there are gaps in the implementation of the program.¹¹ This calls for a greater focus on methods and tools used in identifying and updating data in the system.

Through field work and follow-up cases on beneficiary households, lack of transparency in the selection of some poor families was revealed. Based on that, the idea of assistance was developed to become part of a computerized calculated equation on poverty, with criteria that has been developed by local statisticians and international experts through the Social Safety Network Reform Program (SSNRP) funded by the World Bank.

- » Assistance payments, in the WB, are deposited directly into bank accounts of beneficiaries. However, **in Gaza, the situation is different. The payments process is carried out at the MoSA**, where it is distributed to the various directorates who hand over the checks to beneficiaries, after which the beneficiaries go to the bank to cash their checks. This mechanism of work leaves room for administrative and financial corruption as well exploitation of position and influence within the directorates. Therefore, it is vital that bank accounts are opened in the Gaza Strip as in the West Bank.

11. AMAN's annual report- 2013.

- » According to the Social Protection Sector strategy, **control, follow-up and evaluation systems suffer from weakness of the overall social protection interventions**, whether presented by the government or any other party. This leads to weaken accountability and transparency of the work in general as well as on the efficiency and performance of the program in particular.

Conclusion 10: social assistance programs, managed by the MoSA, enjoy substantial funding from the PA budget. These programs benefit many segments of society. Therefore, it would be socially unacceptable to target these programs in austerity and rationalization policies due to the negative impact, and harm it would cause to one of the most important sources of funding that provides basic requirements of needy families. Add to this, that the government orientation and efforts to maintain its social role and bearing of its moral responsibility towards targeted groups and beneficiaries, reduces chances and possibilities of decreasing spending for these programs.

However, it is possible to find compromises that are practical and satisfactory that would contribute to preserving the balance between those who aim to rationalize expenditures on the one hand, and those who adhere to the social responsibility principles and the human dimension of social assistance, on the other hand. The main entry for success is to address gaps and shortcomings plaguing the social benefit system. In addition, serious and deep thoughts should be given to several focal points that would increase the efficiency of social assistance programs; most important of which are

- » **Develop a legal framework to govern social assistance programs.**
- » **Develop internal regulations and instructions to govern tasks of employees working in the various departments and directorates of the ministry as well as ensure their commitment to these rules and regulations.**
- » **Raise the level of coordination between government, local, and international institutions funding these programs.**
- » **Develop skills of staff entrusted with the management and implementation of these programs in order to ensure that errors and shortcomings resulting from poor practices and human mistakes are reduced, and also enhance the automation of procedures and transactions in this area,**
- » **Promote and expand the application of systems of accountability, principles of transparency and values of integrity through activation of internal and external control mechanisms. Also encourage community participation in the development and implementation of community protection programs and policies.**

If the adoption and implementation of the abovementioned suggestions does not contribute to the reduction of expenditures in the area of social assistance, it would certainly help to expand the circle of beneficiaries of the social support and protection programs, the same as from the financial and in-kind resources financed by the public treasury and external sources. Hence fulfilling the principle of economic efficiency.

In a nutshell:

- » It would be socially unacceptable to target these programs in austerity and rationalization policies due to the negative impact, and harm that would have on one of the most important sources of funding for the basic requirements of needy families.
- » It is possible to preserve balance between those who aim to rationalize expenditures on the one hand, and those who are adherents to the social responsibility principles and the human dimension of social assistance, on the other hand. This can be achieved by addressing gaps and shortcomings plaguing the social benefit system. In addition, serious and deeper thinking should be given to addressing the issue through a comprehensive social security system for the social assistance programs.
- » However, until this system is approved, it is important to work on the following:
 - Develop internal regulations and instructions to govern tasks of employees working in the various departments and directorates of the ministry as well as ensure their commitment to these rules and regulations.
 - Raise the level of coordination between government, local, and international institutions that fund these programs.
 - Develop skills of staff entrusted with the management and implementation of these programs in order to ensure that errors and shortcomings resulting from poor practices and human mistakes are reduced, and to also enhance the automation of procedures and transactions in this area,
 - Promote and expand the application of systems of accountability, principles of transparency and values of integrity through activation of internal and external control mechanisms, as well as encourage community participation in developing and implementing community protection programs and policies.

3.4 The Energy Authority and (Net Lending)

Local and International reports define net lending as the total sum of money deducted by Israel from the clearance revenues (Maqassa revenues) as settlement of outstanding debts to Israeli institutions providing health, electricity, and water services to municipalities, companies, and other Palestinian distribution parties in the WB&G.

Net lending in the 2015 budget was estimated at 800 million NIS. This was an increase of 200 million NIS from the estimated amount for the previous year, although less than the actual during 2014, where it exceeded the estimated amount and was 1,022 million NIS. While examining the actual during the first half of the current year, which

was 670 million NIS, or a percentage of 84% from the estimated, we can forecast the size of the deviation and increase expected in the item of net lending. The amount of the actual net lending, as reported in the accumulative monthly report until the end of October 2015, 1,002.4 million NIS.¹² Indicators point to the possibility of surpassing this number to a 1,200 million NIS by the end of 2015.

50 million NIS are deducted from the Authority's revenues each month by Israel as payment for the Gaza electric bill. And although the collection rate by the distribution company amounts to 83%, the Authority only recovers 7 million NIS each month, which is the total amount deducted by the MoF from salaries of the PA employees in Gaza in return for electricity consumption.

In addition, the Authority pays 3.5 million dollars monthly from the Authority's treasury to the electric company in Gaza to ensure delivery of fuel to the station, as part of compliance to the concession agreement between the two parties.

Fuad Alshobeki, round table discussion, MAS.

Included under this item: money transferred by the Egyptian government to the Egyptian Electric Company; price of electricity supplied to the Gaza Strip. Also, subsidies transferred by the EU to the PNA through PEGASE to Israeli companies, where the mentioned amounts are deducted from grants promised by these parties to support the Palestinian public budget. Also included under the same item amounts paid by the Palestinian treasury for fuel supplied to the Palestinian electric company in the Gaza Strip as part of the obligation on the part of the Authority in the establishment of the Gaza Power Company, in addition to the commitment by the Authority to pay to the electricity generating company the full monthly payments for the agreed amount of electricity whether or not it was produced.

3.4.1 Electricity cost

The phenomenon of the Palestinian Authority to pay municipalities and citizens' electricity and water bills began with **the inception** of the PNA. This was due to the refusal of the local government units (i.e., municipalities), electricity distribution companies, and water companies in the WB&G, to pay for water and electricity to suppliers. However, **formal arrangements** to deduct these amounts from the clearance tax money started in 1997, where the Palestinian minister of finance, at the time, authorized the Israeli government to deduct the amounts from the clearance tax money. These deductions were addressed in an accounting/ calculation manner that is in violation of the law, where they would be presented as expenses of ministries and relevant areas of spending.¹³ However, **net lending, for the first time, was given a separate item in the 2003 budget, amounting to 173 million dollars at the time.**

12. Cumulative monthly report issued by the MoF on 25/11/2015.

13. Round table discussion on the dilemma of net lending...to where?? MAS 2015

Since 2003 and until the present time, net lending became a major item in the Authority's budget. This item witnessed consecutive increases in the ensuing years reaching its maximum limit in 2007 when it amounted to 535 million dollars, accounting for 18.6% of the total expenditures.

In light of the financial crises the Authority is undergoing, as well as the lack of legal and moral justifications for the Authority to continue paying for services the municipalities and citizens are receiving, several procedures and arrangements were adopted by the PA to **reduce net lending**. In that regard, in April 2009, a law to regulate the electricity sector was issued in order to develop this sector and encourage investment in it, and to provide power to all consumers at reasonable prices. In addition, the "Electricity Regulatory Council" was established, in accordance with the law, where it was entrusted with tasks of control of all matters relating to the sector including to review and suggest a fair tariff for electricity. Furthermore, installation of prepaid meters was intensified in some areas, where the PNA apparatuses began providing support to the distributors of these meters as well as assisting them in collecting accumulated debts on the clients. Included in these measures is the condition that requires citizens to obtain a "clearance certificate" from electricity and water distributors. The aim of this measure is put pressure on non-payers of such bills to go and pay their debts to distributing companies.

Also in April 2011, the Energy Authority, in Ramallah and Gaza, signed an agreement committing Gaza's electricity distribution company to transfer all money from electricity fees to the PA's treasury (4 million dollars each month). However, these agreements were halted after few months of signing the agreement due to the Gazan government reliance on Egyptian fuel which it received via tunnels, in addition to the flow of Qatar's fuel to the Gaza Strip to run the Palestinian power plant.

Moreover, the Energy Authority in Ramallah recently entered into an agreement with its counterpart in the Gaza Strip to import fuel needed for the power plant from Israel; conditional that this fuel is fully exempt from "Bluegrass" taxes of 3.00 NIS per liter, while maintaining the value-added tax. This means that the cost of a liter of fuel will be costing the plant approximately one third less. However, the Palestinian government in Ramallah, on a later date, announced that the exemption on the bluegrass tax will be reduced by 50% instead of 100%. It attributed the decision to the financial crisis it is experiencing. As a result of that decision, the cost, for the electricity generating plant of a liter of fuel, rose close to 5.7 NIS. This was unacceptable to the authorities in Gaza, which led to the freezing of the agreement. At the end, these actions contributed to increase the rate of collection in the West Bank to 85%, and to approximately 30% in the Gaza Strip. This was reflected in the rapid reduction of expenses of net lending since 2007 only to reach 264 million dollars in 2010. **The lowest level was reached in 2011 reaching 139 million dollars (following the two agreements referred to above between the relevant authorities in both the WB and Gaza).** A limited increase in collection was noticed during the following years, and settled in 2014 to reach 287 million dollars, or what accounts to 8% of public expenditure (see table 7).

However, **in the 2015 budget**, net lending was estimated at 800 million NIS, an increase of 200 million NIS more than estimated for the previous year, but less than the actual for 2014, which exceeded the estimated reaching 1,022 million NIS. And by reviewing the actual for the first half of this year, which reached 670 million NIS, or what accounts to 84% of the estimated amount, it is possible for us to forecast the size of deviation and expected increase in the item of net lending; as indicators point to the possibility of exceeding it to the level of 1,200 NIS up until the end of the year.

Table 7: development of net lending and its rate of public expenditures for the period (2003-2014)

year	Net lending	Public expenditures	% from public expenditures
2003	173	1,635	10.6%
2004	157	1,528	10.3%
2005	344	2,281	15.1%
2006	376	1,707	22.0%
2007	535	2,877	18.6%
2008	447	3,488	12.8%
2009	374	3,376	11.1%
2010	264	3,200	8.2%
2011	139	3,255	4.3%
2012	277	3,255	8.5%
2013	211	3,419	6.2%
2014	287	3,606	8.0%

Source: working paper for a round-table discussion, MAS institute, 2015.

Despite previous data and references to the components and development of net lending and its value, important questions arise regarding the detailed items of net lending, methods of reducing it, preventing waste of public funds, and rationalizing expenditures.

In this regard, a detailed report prepared by the Civil Society Team for Transparency of the Public Budget¹⁴ indicated "that there is ambiguity surrounding the item of net lending, which makes it vital to know the items and details of the estimated amount for this item. This is necessary in order to ensure transparency of the public budget, especially since the actual spending exceeds the allocated amount by far, as illustrated in the analysis of the budget, which would drain the PA's budget due to the deduction of the clearing tax money by the Israelis". The report also points out that "there is a twofold problem in the item of net lending in the public budget. The first is related to transparency as no details are included other than vague numbers despite the importance and sensitivity of this item. The second part is related to the huge deviation in it from the planned and from last year's, as expenses were higher than was planned for 2014 by 70%".

14. Vision of the Civil Society Team for enhancing transparency in the PNA financial policies for the coming phase, AMAN, 2012.

However, there were some local and international reports that provided some details on net lending. One of the mentioned reports indicated¹⁵ that net lending consists of the following items: 76% for paying the electricity bill on behalf of the Palestinian municipalities in the West Bank and Gaza; 11% cost for water consumed in the Palestinian territories; 11% are payments for medical bills for Palestinian patients referred to Israeli hospitals by the MoH, and 2% are payments for the Israeli side in return for sanitation services and expenses for the Palestinian Ministry of Agriculture.

In order to figure out ways to address net lending, it is important to look into the causes underlying its establishment and growth. In this regard, it appears that the electricity bill, paid by the PA on behalf of the municipalities, in the West Bank and Gaza, is the main reason for the existence of this item, which constitutes 76% of the total net lending. This calls for a good look at the state of electricity sector in the Palestinian territories in terms of why are there such expenses, and why don't the municipalities pay their own bills, especially since they collect electricity dues from consumers??

It is worth noting that 86% of the total supply of electricity for the Palestinian territories is provided by Israel through 230 anchor points/connecting stations¹⁶. Until today, the supply of electricity from Israel is not governed by a purchase contract between the PNA and Israel, but through bilateral contracts between local government units and individual electricity distribution companies and the Israel Electric Corporation.

In addition to that, there are limited amounts imported from Egypt and Jordan (4.5%), and some amounts generated by the Gaza plant, derived from imported petroleum products from Israel, about (10%). The bill for imported electricity from Israel and neighboring countries ranges between 400 and 500 million dollars yearly¹⁷. And as a result of the multiplicity of connecting stations in the West Bank (230 station) and wearing out of the related infrastructure, technical losses accounted for 24% of the total electricity purchased for the Palestinian areas. This percentage is large. It is paid by Palestinians although they did not consume it, and the PA ends up paying for this loss, since the municipalities and distribution companies refuse to bear this responsibility. This loss is significantly less in the neighboring countries than in Palestine; in Jordan it amounts to 14% and 6.5% in Israel.

It is also important to point out that the majority of residents living in refugee camps in Palestine do not pay for electricity they consume. Moreover, the Authority pledged to pay this amount, hence contributing to the increase in the net lending item¹⁸. In addition, although the municipalities collect the larger part of payments for electricity from customers in the

15. "Evaluation of the Palestinian-European Socio-Economic Management Assistance Mechanism (PEGASE) Programmes of Support to the Recurrent Costs of the Palestinian Authority (2011-2013)" 2nd Draft Final Report, March 2015

16. The 1st. quarter of 2014 witnessed the launching of the Palestinian Electricity Transportation Ltd. Stipulated in the Palestinian Electricity Law. This transportation company specializes in the transfer of electricity from the generating companies to the distributing companies and consumers in accordance with the law. Presently, it is replaced by the connecting stations/points located in the various areas of the West Bank and amounting to 230.

17. Sector strategy 2011-2013, the Palestinian Energy Authority, 2011.

18. Mr. Omar Kitaneh indicated that the total cumulative debts on the refugee camps, as a result of not paying for electricity consumed, reached approximately 160 million NIS.

West Bank, it often uses that money or part of it for operational expenses and other projects, but does not pay for electricity supplied by Israel. They attribute their actions to the PA's delay, or failure to pay the municipalities' share of monthly property taxes and transportation fees.

Conclusion 11:

the electricity bill paid by the Authority on behalf of the municipalities remains the largest component of the net lending item. In addition, many factors contribute to the continuation of this phenomenon, most important of which are:

- The prevalence of a non-paying culture for electricity among a large segment of clients in, both, the West Bank and Gaza, hence leading to a low proportion of dues collected by the distribution companies.
- Lack of commitment by a number of local government units and the electricity distribution company in Gaza to transfer amounts collected to the PA, in cases where the money was cut from the clearing taxes (Maqassa)
- Refusal of a large number of the local government units in the West Bank to join distributing companies in the Palestinian territories, which negatively affects regulating the electricity sector and to control affairs related to it.
- Dispersion of the distribution system in the West Bank between municipalities and distribution companies, and wearing out of the related infrastructure led to lower the efficiency and quality of the service, as well as increase technical losses. In addition, weakness of the system in terms of efficiency, and non-implementation of the law for combating electricity theft leads to the increase of the non-technical losses.
- Continuation of consequences and burdens, resulting from the internal division between the West Bank and Gaza, affect all aspects of Palestinian life including the electricity sector.

It is apparent that the way to reduce the item of net lending and the rationalization of its expenditures is to:

- Regulate the electricity sector in the Palestinian territories, which requires compliance with the legal and institutional framework governing this sector.
- To reach a new and lasting understanding between related parties in regard to the issue of electricity, both, in the West Bank and Gaza, that ensures regular flow of electricity to Gaza.
- And to take into consideration not to negatively affect poor families in the process; alleviate financial burdens the public budget is laden with in this area.
- The data shows that commitment by clients, distribution companies, and local government units, to pay electricity bills through a pre-paid meter system, is the factor most prominent and most influential in this context (i.e., most effective way to get people to pay).
- To allocate the necessary budget for restoration of existing infrastructure to reduce technical losses. These procedures must be accompanied by the Authority's commitment to transfer the local government units' share of taxes and fees owed to them. This in turn will encourage these units to transfer money collected for the Israeli supplier, which will reduce the accumulation of debt in regard to electricity.

3.4.2. The Ministry of Health (health insurance and medical referrals)

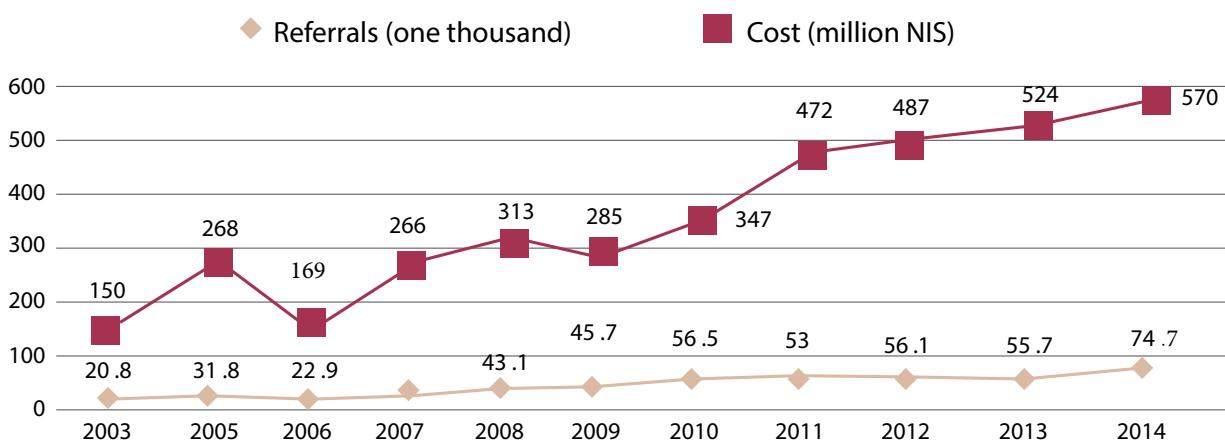
Expenditures for the MoH as of October 31, 2015 accounted for 10.25% of the total public expenditures.

Stemming from its institutional and political role in providing public services, the Palestinian Authority seeks to provide medical services to the Palestinian citizen on grounds that the right to health care is one of the inherent rights of individuals guaranteed by international conventions and domestic legislations. In the context of this endeavor, the Authority provides health services in its facilities and medical institutions. However, due to its inability to provide all services, as well as shortage of staff, medical equipment, and low capacity of government institutions, the Authority resorts to referring Palestinian patients for treatment to medical centers other than its institutions whether in-country or abroad.

Private medical institutions receive medical cases through internal referrals, which includes hospitals in East Jerusalem. As for external referrals, Israeli hospitals are the primary receivers of medical referrals constituting 10.4% of all medical referrals, and 75% of external referrals; added to that are medical institutions in Egypt and Jordan.

Medical referrals drew lots of attention in recent years due to the large financial burdens borne by the PA budget in this regard, and the financial crisis the Authority is undergoing. For those reasons it would be worthwhile to study this file and note developments that have occurred in it, in addition to examining the integrity and transparency of procedures governing medical referrals. In the meantime, these focal points present important starting points to look for ways to rationalize spending in medical referrals, as well as ensure a high level of integrity, transparency and accountability by competent institutions and civil society in general.

Figure 1: number and cost of medical referrals for the period (2003-2014)



The figure above illustrates developments and cost of medical referrals on the Authority's treasury. The figure also illustrates the continues increase during the years shown reaching to more than 74 thousand referral in 2014, costing the treasury more than a half billion NIS. The following table shows the number and cost of medical referrals in and out of the Palestinian territories for the last three years. It is noticeable that hospitals in East Jerusalem received the "lion's share" of internal referrals due to the possibilities and special medical fixtures available in them whether in terms of disciplines, equipment, or human resources in comparison with government or private hospitals in the West Bank and Gaza.

As for referrals to hospitals outside the Palestinian territories, as mentioned earlier, hospitals in Israel receive 75% of external referrals. However, upon scrutinizing the cost of these referrals, we discover that it accounts for 93% of the total cost for treatment abroad, which comes to 138.6 million NIS for 2014 alone. This amount, according to procedures followed, is deducted from the clearance tax (Maqassa) and is listed under net lending in the public budget. It is also noticeable that the cost of treatment at Israeli hospitals is higher when compared with the average cost at local hospitals or hospitals in other countries. In that regard, during the years 2012 and 2013, the average cost of one referral to Israel was approximately 21 thousand NIS; where it decreased in 2014 to become 18 thousand NIS. In contrast, the cost of an average referral to hospitals in Egypt amounts to 3 to 4 thousand NIS, and locally, it is ranges between 5 to 7 thousand NIS. (see table No. 8).

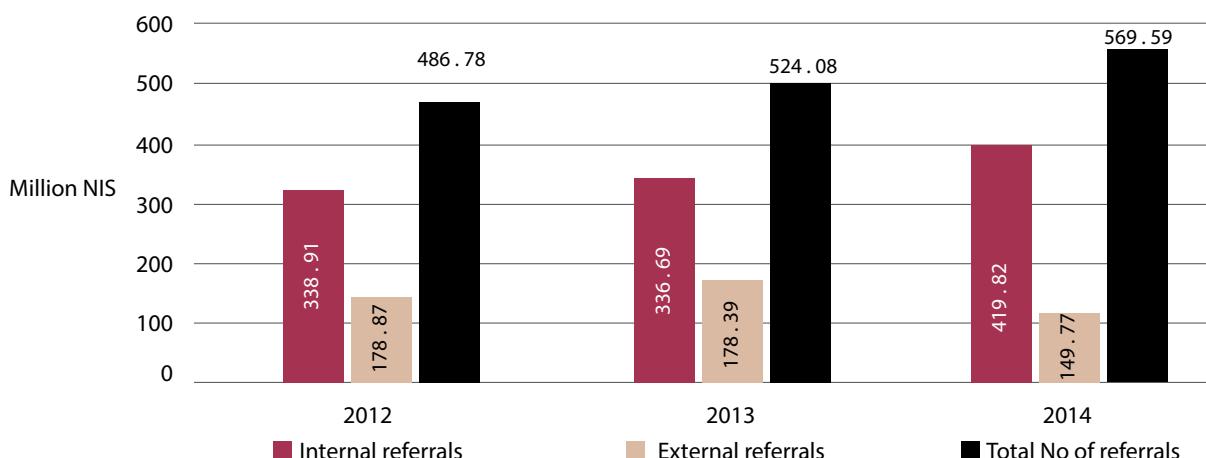
Table 8: Number and cost of internal and external medical referrals categorized according to destination for the years 2012-2014.

Year		West Bank	Gaza	East Jérusalem	Internal referrals	Israël	Jordan	Egypt.	External referrals	Total referrals
2012	No. Of Referrals	18,694	2,141	25,371	46,206	5,113	1,459	3,298	9,870	56,076
	Cost (million NIS)	126.25	9.95	192.72	328.91	104.24	32.14	21.49	157.87	486.78
2013	No of Referrals	21,071	2,481	26,850	50,402	8,118	256	2,859	11,233	61,635
	Cost (million NIS)	147.89	12.63	176.17	336.69	171.66	3.88	11.84	187.39	524.08
2014	No of Referrals	27,184	3,288	33,873	64,345	7,760	103	2,475	10,338	74,683
	Cost (million NIS)	169.64	8.40	241.78	419.82	138.64	3.48	7.65	149.77	569.59

Source: Annual reports, MoH, various years.

The following figure summarizes developments in treatment expenses listed under the item “medical referrals outside the Palestinian Ministry of Health medical institutions.”

Figure 2: medical referrals bill at home and abroad for 2012, 2013, 2014



Source: Annual reports, MoH, various years.

It is possible for a citizen and an observer to live with these statistics, since, in the first place, it is a public service provided by the PA for its citizens under the justifications that patients need this service and due to lack of medical facilities in local government hospitals, as well as other justifications mentioned at the beginning of this section. However, if the data and other indications or suspicions point to failure, tamper, or negligence in the medical referral file, then this would call for a careful study of this file in order to locate shortcomings and weaknesses that lead to poor performance and lower the level of efficiency and professionalism in the management of this vital file. In addition, the need becomes more compelling for a comprehensive review, as well as quick and effective interventions due to the financial crisis the Authority is going through and limited resources available..

The Health Insurance System No. 11 for the year 2006, issued by the Council of Ministers, defines mechanisms and requirements of benefitting from the basket of health services provided by MoH, whether through its own medical institutions or others institutions outside (i.e., referrals within the Palestinian territories or abroad). One main condition to receive medical assistance covered by the health insurance is for one to be registered in the system and paying the required monthly dues. In this regard, it is worth noting that all Gaza residents enjoy the benefits of this insurance for free, since they are exempt from paying insurance premiums under the presidential decree issued in 2007. This leads to a deficit in financing of government health expenditures and decline in the level of service in the public health sector, in addition to driving the MoH to increase its use of medical referrals to institutions outside its own.

There are two departments at the MoH who are responsible for the medical referrals' file: the first is **The Medical Referrals Committees** (one branch in the West Bank and one in Gaza). These referral committees are tasked with reviewing and deciding on all medical cases nominated for referral outside the MoH medical institutions. In addition, the committees are to study medical files and treatment bills brought before them. The second department is the treatment department which goes by "**Department of Procurement Services**". This department is responsible for referring patients to medical centers outside the MoH institutions, regardless whether in or out of Palestine. Therefore, the "Service Procurement Department" is the most important and most influential department within the institutional framework of the MoH in regard to the referral file.

On the other hand, the Service "Department of Procurement Services" does not have the power to review candidate medical files in favor of the **military medical services**, or take a decision on the eligibility of cases for medical treatment outside institutions of the MoH whether in or out of Palestine. Its role is limited to being a mediator with Israeli hospitals. The cost of medical referrals to Israeli hospitals is deducted from the MoH's budget although the budget of the military medical services is within the security establishment's budget. It also receives the compulsory health insurance premiums of the security establishment's employees¹⁹

In regard to financial control, the financial department at the ministry is entrusted with follow up, audit, and payments of all bills to service providers from the local private sector and external hospitals and clinics in accordance with specific accounting rules and principles. Once more, the financial department is responsible for procedures and accounting related tasks and does not interfere in technical affairs or follow-up on patients' files. **Thus, the department cannot follow-up, audit, or evaluate the extent of compliance of medical service providers with the financial agreements.**

Israel is systematically stealing money from the Palestinian Ministry of Health, in addition to the possibility of the existence of individuals who are "complicit" due to the previous weak administrative state in past years. However, it is worthy to note that in the event an audit is conducted on the referral's financial accounts for the past ten years, the MoH will be able to get back to its treasury a sum of money amounting between 800 million- 1000 million Dollars. To give an example, the bill for October of this year was 30 million although the actual and required sum for Israeli hospitals is 11 million 400 thousand.

Osama El-Najjar, general Director for Medical Referrals at the MoH. "Sa't Raml" aired on Wattan Television network.

19. Harb, Jehad, "Integrity, Transparency, and Accountability in Medical Referrals outside of the MoH's Institutions". Report No. 83, series reports, AMAN, March 2015.

There are many suspicions of corruption hovering over the medical referral file. Some of these suspicions are related to coordination and cooperation with local officials; while others are the result of manipulations of Israeli hospitals with costs and bills of Palestinian patients who are treated there.

On 20.02. 2014, The Coalition for Integrity and Accountability- AMAN accused influential officials in the PA of intervening in medical referrals' by taking decisions that are not in-line with the system of the Medical Referrals Department, which was a cause to inflate the referral bill and a breach of standards.

Moreover, the ACC has recently forwarded the medical referral file in the MoH in Ramallah for investigations on corruption cases, manipulations, and bribes. This was in response to a long series of protests by citizens and institutions regarding the management of this file.

<https://www.palinfo.com/site/pic/newsdetails.aspx?itemid=149616>

Conclusion 12:

The medical referrals' file is one of the thorny and complicated files that require urgent and comprehensive solutions due to the various dimensions and overlapping ramifications that characterize this file (financial, social, administrative and medical). It is possible to predict the affect and difference that will result in addressing deficiencies in the medical referrals' file, and the impact that will have on the decline in the net lending bill for external referrals and especially those from Israeli hospitals.

It is clear from the above presentation that there are major difficulties that contribute to the continuation of negative phenomena and weak foundations of integrity, transparency and accountability in the management of medical referrals; most prominent of which:

- The absence of a comprehensive health system had negatively impacted the quality and provision of health services provided by the ministry's medical institutions, as well as the continuation of the imbalance in funding of the health insurance system through the exemptions and exceptions granted to many in regard to payment of health insurance premiums.
- The continuation of intervention by non-ministerial parties/institutions in the medical referrals by making exceptions for cases referred by the Authority's president's office, prime minister's office, and the military medical services backed by influential persons in the PA.
- Weakness of internal and external audit and control procedures of medical referrals, which feeds into the continuation of manipulations of referral bills issued by Israeli hospitals.

The urgent comprehensive reforms in the medical referrals' file intend to contribute to the rationalization of expenditures, halting waste of public funds, and to support local medical institutions. This requires the cooperation of all related parties, as well as, sound management and will.

3.4.3 Financial reserves

One of the conspicuous items in the public budget is an item called “**Financial Reserves**”, which is listed under transferable expenditures, amounting to 100 million NIS in 2014. It might be possible to understand and justify this item in the context of recognizing the existence that there is unexpected expenses resulting from emergency needs during the year. However, what is not comprehensible is that it is not known who the party is that has the authority and power to determine which cases fall under “emergency”, and what are the conditions required to be classified as such.

Conclusion 13: The expenditure item allocated for financial reserves maybe one of the areas where austerity or at least rationalization can be applied.

4. Basic remarks

First: the financial crisis that the PA is facing is mostly a structural crisis, which goes back to the circumstances and conditions upon the establishment of the Authority. Also, there are other subjective reasons that led to deepening the crises, but were not the causes for it. Therefore, it should not be expected to fundamentally solve this crisis as long as the political and security situations remain the same as they currently are. However, it is possible to reduce the worsening of this crisis and mitigate its consequences through a number of financial reforms, first and foremost, austerity and rationalization of expenditures. It is also important to remember that austerity on its own, important as it is, is insufficient to solve the problem or even part of it. Therefore, it is vital that any austerity measures be accompanied by other reform steps to balance the equation, which is the tax policy.

Second: For austerity to achieve the desired objectives with the least possible cost, it must be implemented in the framework of a well-studied plan that is agreed on nationally.

Third: Salaries expenditures:- the item on salaries and wages for the civil sector is considered one of the most important and largest among current expenditures. It is also a candidate for reduction in the framework of the government’s austerity and rationalization plan. However, this item is complex with many details that requires detailed analysis in order to examine whether or not it can be reduced. It also requires a close look at which of its sub-items can this reduction be executed on while being realistic, beneficial, and without any economic, social, or political costs that might override the savings achieved in the process. In this regard, analysis in this report indicate that it is not possible to reduce the level of salaries, or to reduce a large number of the employees by ending their services. However, it is possible to refer part of the employees to retirement, but that would have to be according to fair and just conditions and in agreement with targeted employees. Moreover, it might be possible to end the services of some employees, such as those who are considered ghost employees, or

those who have jobs other than the one with the government. It is also possible to rationalize spending without necessarily reducing it through adopting a policy to re-post employees, where they can be assigned jobs that are more compatible with their qualifications and would raise their productivity. This measure can be taken in the framework of restructuring of the Authority's responsibility centers, either by closing or joining center that have similar functions.

Four: in regard to special contracts whether for regular employees or consultants, it is possible, as one of the austerity options, to set a **binding policy for appointments** through these contracts without allowing exceptions upon implementation of this policy, as is happening at the present time.

Five: It is possible that Job related concessions, which more likely to be tied to senior positions, one of the most important and easiest areas to rationalize. It is also the most accepted and supported option among the Palestinian public.

Six: Expenditures of the security sector:- spending on the security sector still takes the largest share of the PA's budget, with salaries and wages taking the biggest part of it, noting the high rate of the average military wage in comparison with its counterpart in the civil sector. Moreover, the operational budget allocated for the security sector remains high as well, accompanied by and ambiguity and poor management in spending procedures regarding operational expenditures. Furthermore, the apparent weakness in the foundations and tools of internal and external audit and control mechanisms, in terms of spending priorities and measures, provides opportunities for corrupt practices and waste of public funds. It seems that austerity measures and reduction of expenditures in the security sector are difficult options to take due to its large salary and wage bill which accounts for 80% of the current security budget. However, it is worth noting that the majority of the security sector's employees are those that hold lower ranks and hence lower salaries, which makes it difficult to suggest a reduction in their salaries; this is not to mention the legal constraints linked to the acquired rights of employees.

On another note, we find that the operational expenses for the security sector, contrary to perceptions prevalent among large sectors in the Palestinian society, was less than its counterpart in the civil sector. It seems that opportunities for austerity and reducing operational expenses are limited. However, it is possible to focus more on imposing stricter control, rationalizing and stopping waste of public funds, as well as imposing firm rules on spending procedures, especially in the area of operational expenditures.

Seven: Net lending expenditures; the main component of the **net lending item** is:

- a.** Electricity cost borne by the Authority. The data indicates that there are significant deviations between what is allocated for that item and the actual. The continuous increase in net lending can be attributed to the weak level of collecting electricity fees from municipalities and distribution companies, as well as the refusal of

these parties to transfer collected money to service providers or to the Authority (as a funder). In addition, there are technical reasons such as fragmentation of the distribution system, and the worn out networks/infrastructure, etc. which leads to deterioration in the efficiency and quality of service and in increasing the level of technical losses.

b. There are many dimensions and interferences related to the **medical referral file** (financial, social, administrative, and medical...). The analysis revealed that there are difficulties which contribute to the continuation of wasting public funds, and weakness in the foundations for integrity, transparency and accountability in the management of the file, mainly: the absence of an efficient and comprehensive health system, the inefficiency of the health insurance system and continuation of the fiscal deficit, the continuation of the phenomenon of exceptions and interventions in medical referrals by influential persons and institutions, and weakness in tools and procedures followed for internal and external oversight. However, there seems to be a great opportunity to reform the medical referral system, thus contributing to the reduction of external medical treatment's bill, which will be reflected in the reduction of net lending.

Eight: The President's Office and Foreign Ministry; expenditures for the foreign ministry, including its three sections, until October of this year amounted to 217,681 million NIS divided as follows:; the foreign ministry, 40,496 million NIS; embassies, 175,764 million NIS; the negotiations affairs, 1,124 million NIS.

Expenditures for the President's office until October 31, 2015, amounted to 153,233 million NIS, where salaries for employees reached 94 million NIS; current expenditures 30,761 million, and development, 18 million NIS. The number of staff is not available, but by dividing the wage bill on the average salary, the number could very well be around 2000 employees. This seems unrealistic, hence in need of a more detailed scrutiny in order to find out the exact expenditures, which are not available in the MoF public data.

Nine: Emergency expenditures; put forth a defined and detailed policy on mechanisms and destinations of emergency expenditures that are taken from the financial reserve item allocated in the budget.

5. Recommendations

It is important to recognize that reasons for the financial crisis the PA is going through are not confined to the limited financial resources, but rather to the management of these resources. For even if there were a dramatic development in revenues and financing of expenditures, there remain a dilemma of how to manage these resources, especially in prioritizing spending and in the principles and criteria underpinning that. Stemming from the understanding of the reasons underlying the financial crises, efforts need to be focused on finding viable and practical solutions in order to move forward to a better state of managing available resources and rationalizing expenditures. It is equally important that these efforts protect and preserve the foundations and principles of austerity related to social and economic justice when distributing austerity burdens, in addition to protecting employees' achieved rights, and not to compromise the quality of public services. In this context, the following suggestions are put forth in the hope that they will serve as reference and be of help to the Palestinian government in drafting a comprehensive plan, and in developing procedures that contribute to rationalization of expenditures and limiting waste of public funds.

The civil sector

- 1.** End the service of employees who earn salaries from the Authority's treasury but are not on the official administrative formations of institutions, regardless of the number. Some of these employees are truly ghost employees as they do not provide actual services and especially in centers of responsibility and the governance sector. In this context, it is vital that they are referred to early retirement and or terminating the services of some after studying their files carefully.
- 2.** Adopting a systematic policy for deploying staff. This means to transfer some of them to other centers of responsibility based on need, compatibility of qualifications, and experience. It may be necessary to reconstruct the institutional structure of the PA by integration or termination of some institutions. This action may not lead to the reduction of the salary and wage bill, but will most certainly lead either to the improvement in employees productivity and /or reduction in the operational expenses associated with space such as rents and utilities (electricity, water, communication and other similar expenses).
- 3.** Reaching settlements with members of the staff who hold jobs other than the one they have with the government. This action may require to end their services if their situation cannot be corrected in accordance with the law.
- 4.** Putting an end to the policy of hiring employees, consultants, and experts on temporary contracts through exceptions, or based on whether or not there are funds allocated in the budget for that purpose. It also might be fruitful if there is an adoption of an employee deployment policy of hiring through temporary contracts, hence giving a chance to new people who will benefit from these contracts.
- 5.** Adopting measures that ensure commitment of the responsibility centers to implement government decisions which require reducing job concessions such as travel allowances, bonuses, and other work allowances. This requires the termination of the exception granted to the minister or who represents him/her in this regard.

The security sector

First: the main recommendation is related to the rationalization of the number of employees of each apparatus individually in accordance with tasks entrusted to it. It is also advisable to redeploy a large number of them to the police apparatus after training them for the job.

Second: activating the internal and external control through:

1. Issuance of regulations relating to the service law in the security apparatuses, especially those on appointments, promotions, and penalties. Also to re-examine the Military Service Law, which grants many concessions and benefits to military personnel, especially officers and high ranked officials.
2. Prepare individual budgets for each branch of the security services, after which to include it under the Ministry of Interior's budget or the President's office according to its administrative subordination.
3. It is vital that officials responsible for overseeing expenses confine to the provisions of the Procurements, Bidding, and General Supplies Law in regard to supplies, namely food and capital goods. This should be accompanied with periodic inventory for capital goods. Moreover, officials should also ensure the use of forms and lists adopted by the MoF are strictly used for audit and follow-up purposes.
4. Establish and activate control and internal audit unit in all security apparatuses to be directly under the jurisdiction of either the interior minister, or the PA President (in the case of the intelligence service). In addition, a copy of the reports should be sent to the central financial control of the military at the MoF.
5. The need to separate between tasks and powers specifying who is responsible for signing on financial transactions of spending; powers to receive procurements and supplies; the task of retaining assets and control over its use; task for the financial operations; and control and audit.
6. Adopt a specific system to record expenses of fuel for vehicles allocated for the security sector.

Net lending (electricity cost)

1. Activate the regulating electricity system in the Palestinian territories by complying with the legal and institutional framework for this sector.
2. The Authority should sign central agreements with the Israeli company supplying electricity based on competitive commercial foundations. This will serve to address problems and injustice suffered by the Palestinian consumer as a result of individual agreements.
3. To reach an understanding, between related parties in the West Bank and Gaza in regard to the electricity issue, that ensures: the continuous flow of electricity to Gaza; takes into account poor families; limit the burdens borne by the public budget, and define a maximum ceiling for exemptions.
4. Intensify the use of the pre-paid meter system in order to ensure greater commitment by clients, distribution companies and local government units in paying for electricity consumed by them.

5. Allocate the necessary funds for repairing current networks/infrastructure in order to reduce technical losses. These procedures require the commitment of the PA to transfer to the local government units their share of taxes and dues owed to them. This in return will encourage these units to transfer collected electricity costs to Israeli suppliers.
6. Intensify the use of alternative energy sources (solar and wind) to reduce electricity bill from the Israeli supplier.

The Health System and medical referrals

1. The need to pass a law that is based on a comprehensive, effective and efficient health insurance system in terms of resources and coverages, in addition to annulling all previous decisions related to exemptions of health insurance fees.
2. Adopting an action plan for the MoH in the framework of a timeframe to develop some basic health services that are not sufficiently available in hospitals of the MoH.
3. The Council of Ministers needs to issue regulations on medical referrals to be implemented in the West Bank and Gaza. The regulations should include standards and criteria as a reference for related departments to rely on in selecting candidate cases to be referred for treatment abroad, and the destination for each case.
4. To put an immediate end to the phenomenon of exceptional medical referrals. And only those in-line with the regulations issued by the Council of Ministers will be considered. Also to put an end to all interventions carried out by some influential individuals and institutions in this regard. Therefore, all cases nominated for referrals are subject to conditions and procedures adopted by the department for purchasing external services including those referred by the military medical services.
5. Provision of qualified human resources, and accounting systems required for auditing and follow-up on treatment in Israeli hospitals, which will contribute to prevent manipulations in treatment cost as well as in rationalizing expenses.
6. Activating internal audit and control tools and procedures to monitor the performance of departments in charge of medical referrals, ensuring that these departments are confined to using mechanisms, accounting systems, and forms adopted by the MoF.

The President's office and foreign ministry

1. Request from the President to form a committee from the prime minister, MoF, the GPC, and the National Fund to review the structure of embassies including the number of employees, operational expenditures, and concessions granted to employees.
2. Review the structure of the foreign ministry including concessions granted and salaries of all employees. Also review operational expenses in order to examine areas where rationalization can be applied. In addition, settle cases of all those registered on the embassies' employees lists who are not actually working with embassies, keeping in mind embassies' needs.
3. Request from the President to form a professional committee to review the re-structuring of the president's office to determine the actual need in terms of employees in line with the Service Law or the Labor Law for Security Forces.

Social Assistance

Data reveals that the **Social Assistance Program** receives a large share of funds from the Authority's treasury. It also reveals that the circle of beneficiary families expands with the passing of time. Therefore, it is important that these needy families are not negatively affected by any proposals that call for austerity and or rationalization in this regard. And since we are dealing with a file that is humane in the first place, many difficulties will obstruct suggestions and procedures for rationalization and reduction of expenditures in this area. Therefore, it seems that the appropriate and suitable way to deal with this file is to address gaps within the management process for distributing social assistance and in defining beneficiary families. The focus for addressing these problems is concentrated on the legal and institutional frameworks, methods for collecting and addressing beneficiary families' data, as well as improving control tools and enhancing community participation.

1. Defining the legal framework for governing the social assistance programs and ensuring that it takes the Palestinian specificity into account, as well as address shortcomings, deficiencies, and weakness in covering all of the community's groups and segments.
2. Drafting regulations, internal instructions, and a comprehensive law for social security that ensures the principle of justice as well as the work of staff, departments, and directorates of the ministry; ensuring commitment of implementation.
3. Improve the level of coordination between all government parties, private, local, and international institutions, that fund and support social, humane, and charitable programs. This will prevent duplicity of supporting the same family by more than one source.
4. Building the capacity of staff entrusted with management, implementation, and automation of procedures and other related issues of the assistance programs. This will help in reducing errors and gaps resulting from bad practices as well as human mistakes. Consequently, this will contribute to minimize administrative and research expenses required for implementing the programs and activities.
5. Updating the central database at the MoSA to minimize errors and reduce chances for duplicating provisions of assistance, and ensuring that assistance is given to eligible families according to status and in-line with the terms of entitlement.
6. Strengthen, expand, and promote social accountability, and codes of conduct in the distribution of social assistance, in addition to respecting the principle of transparency and activating internal and external control mechanisms.

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