



Semiannual Report on the 2017 Budget

September 2017

INTRODUCTION

This analytical paper aims at reviewing and analyzing the implementation of the 2017 General Budget¹ for the first half of the current fiscal year. This report is rock-bedded on the 2017 June Financial Report.² The paper also compares some items with the same period of the last year (i.e. 2016) based on the Budget Law of 2016³ and the Financial Report for June 2016. It also sheds the highlight on some expenditure items that need to be cut according to the key recommendations set forth in the "Rationalization and Austerity Report", which was put forward by Coalition for Accountability and Integrity (AMAN) in 2015.

The paper consists of three chapters:

- **Chapter One** reviews and discusses the extent to which the Ministry of Finance (MoF) complies with the relevant legal frames of reference. To that end, we resort to the provisions of the Basic Amended Law regarding the General Budget Organization and Financial Affairs Law No. 7 of 1998 and other relevant legislation, and the extent to which they adhere to the established General Budget transparency standards.
- **Chapter Two** moves on to a presentation and analysis of the 2017 General Budget items through a comparative analysis with actual achievements in the first half of the 2017 budget.
- **Chapter three** is given over to present the conclusions.

This paper is based on the analysis of data on commitment basis. It also takes due account of the fact that the General Budget is a reflection of the financial policies approved by the Cabinet on 31/1/2017 to intensify its efforts to simultaneously improve its financial performance at the following four fronts:

First: Revenue Policies. Actions are afoot to expand the tax base, standardize tax collection procedures, regulate the tobacco sector, establish tax and customs audit centers, develop and update programs applied across the revenue departments, and cement partnership and confidence bridges with relevant institutions. Fees and charges, do not affect the citizens directly, will also soon be modified.

Second: Expenditure Policies, through continuing to maintain the same employment level in the public sector, focusing on treasury-funded developmental projects, continuing to issue government payment vouchers to settle private sector dues, working on reforming the health sector and rectifying the medical referral system, creating new employment opportunities by supporting small enterprises in partnership with the Ministry of Labor and financial institutions, and supporting the steadfastness of citizens in Jerusalem.

Third: Reinforcing Partnership with Donor Parties, through standardizing communication channels and information and financing through official government

¹ General Budget for the Fiscal Year 2017.

² Financial Report for June 2017. Sources are from the Ministry of Finance.

³ General Budget Law, Fiscal Year 2016.

channels, directing international support in line with the national policies agenda, and urging donors to strengthen coordination among them to ensure that there is no overlapping or conflict in their different programs.

Fourth: Accelerating reform process of programs and performance budget by focusing on a specific selective number of ministries.

Chapter One

Legal Aspects of the General Budget Law of Fiscal Year 2017

This chapter reviews and discusses the extent to which the MoF complies with the legal regulatory frames of reference, starting with the provisions stated in the original law regarding the General Budget Organization and Financial Affairs Act Number (7) of the Year 1998 and other relevant legislation, and the extent to which they honor the generally accepted General Budget transparency criteria.

Examining the data related to the 2017 budget issued by the MoF, and comparing it with the General Budget and Financial Affairs Organization Act Number (7) of the year 1998,⁴ as well as relevant Palestinian legislation, the following notes can be stated:

1. Legal deadlines for preparing and ratifying the Draft General Budget Act for 2017 were not observed. The draft budget was not submitted to the Legislative Council at the beginning of November 2017 in accordance with the provisions of Article 3/A of the Budget Regulation Act. (The fact that the Palestine Legislative Council was inactive does not relieve the government from submitting the General Budget on time, namely the beginning of November 2016). The draft budget was submitted during January 2017, and was presented during a meeting that included representatives from the private and public sectors. This meeting did not fulfill the participatory method in preparing the General Budget.
2. The estimates and comparisons of the 2017 General Budget items relied on the figures of the 2016 General Budget (actually achieved and not planned), in which the team's reports indicated the presence of major deviations. These figures became the references for the 2017 budget item estimates, although some of the budget items realized in 2016 resulted from certain agreements reached for one time only.
3. The Citizen Budget has not been issued to date!
4. The General Budget Act of 2017 did not include a table clarifying accumulated debts and loans (short-term or long-term) for the Palestinian Authority, and the proposed plans for collecting or settling them. Furthermore, the contributions and investments of the Palestinian Authority in local and non-local authorities and corporations were not clarified, noting that this information must be submitted based on Article (21) of the General Budget and Financial Affairs Regulation Act.
5. The Closing Account (Closing Account Report) was absent for the 2012, 2013, 2014, and 2015 budgets. Obviously, the Closing Account for the 2016 budget will not be issued until the previous years' closing accounts are issued, which renders the actual accountability process over what was expended completely paralyzed. The extent of compliance with the approved budgets cannot be verified unless the closing accounts audited by the State Audit and Administrative Control Bureau are issued.

⁴ Act number (7) for the year 1998 on Organizing the General Budget and Financial Affairs.

Chapter Two

Presentation and Analysis of the 2017 General Budget Items Implementation, Half a Year Later

This chapter presents the reality of the 2017 General Budget implementation after half the year has passed. It provides an analysis of the actual data achieved after half the year has passed, in comparison with the draft General Budget and the actual data during the past half year (2016).

The analysis in this chapter is based on the financial policies announced in the General Budget Act of 2017, and the decisions taken during the first half of this year. It clarifies the extent of agreement or deviation between what was planned and what was achieved.

This chapter will also present the 2017 General Budget's financial data, together with its analysis, in comparative tables and charts that will include:

- Presentation and analysis of the revenue statements during half of 2017 and comparing them with estimated figures.
- Presentation and analysis of the public expenditure statements and relevant issues during half of 2017 and comparing them with estimated figures.
- Presentation and analysis of net lending statements during half of 2017 and comparing them with estimated figures.
- Presentation and analysis of financial deficit, assistance, arrears, and bank financing statements during half of 2017 and comparing them with estimated figures.
- Presentation and analysis of public debt statements and relevant issues in the 2017 General Budget.
- Presentation and analysis of allocations for responsibility centers related to the social sector.
- Presentation and analysis of special issues related to the 2017 General Budget, including:
 1. Financial reserves.
 2. Legislative Council budget.
 3. Transfer Expenditure.

First: Revenue Analysis

Total general revenues are composed of the following items: Local revenues, estimated at (5,041) million Shekels, and Clearance House Revenues (8,870) Shekels. Based on the 2017 Draft General Budget, total general revenues are expected to be (13,821) million Shekels, representing an increase of 18% over what was planned for 2016, estimated at (11,630) million Shekels.

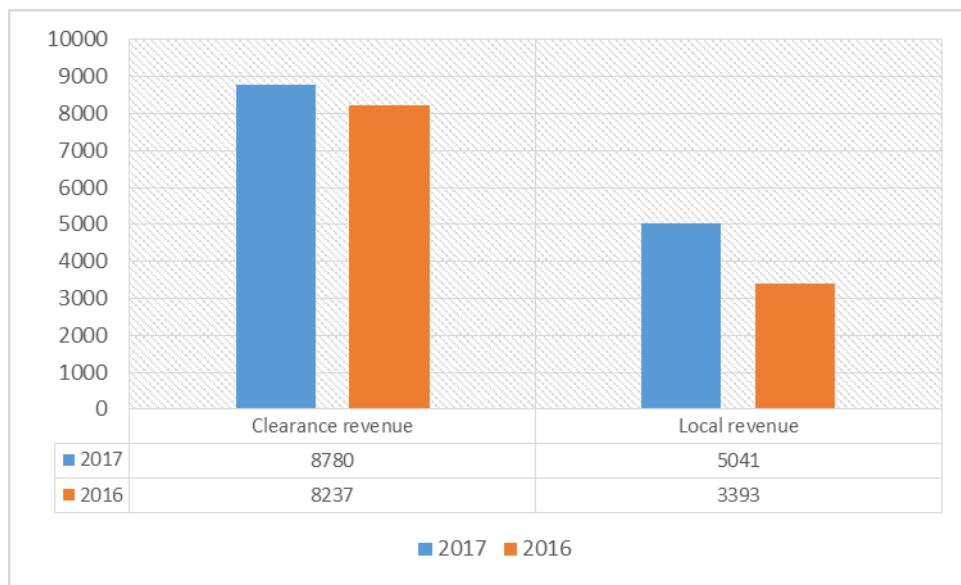
The General Budget Act also estimated net revenues⁵ to be (13,451) million Shekels, or a 20% increase over what was planned for 2016, and close to what was actually achieved in 2016, amounting to (13,598) million Shekels, noting that 'Aman' pointed out in its previous report in 2016 that the specificity of the increase in revenues achieved in 2016 was the result of Israel transferring the amount of (600) million Shekels to the Palestinian Authority as amounts previously due, according to financial clearance operations, as "in lieu of health insurance for Palestinian workers inside the 1948 territories," and supporting the public treasury with (558.1) million Shekels as a first payment towards the fees for renewing the licensing for the Palestine Telecommunications Company and Jawwal, in addition to improved collection methods whether at the levels of local taxes or clearance procedures with the Israeli side, as well as the Gaza Strip's increased dependence on Israeli goods and commodities, subject to different taxes which are part of the clearance revenues.

Figure No. (1)
Revenues Ratio in the 2017 Estimated Budget



⁵ Net Revenues = Total Revenues minus Tax Rebates.

Figure No. (2)
Comparison of the Revenues Sources in the 2017 Estimated Budget and the 2016 Estimated Budget (Million Shekels)



From Figure (2), one can infer that the expected increase in revenues comes from the increase in local revenues, whereby local revenues are expected to reach (5,041) million Shekels, or an increase of 48% over the planned amount for 2016.

Local Revenues

Local revenues are formed from tax and non-tax returns, as well as the Palestinian Authority's profits from its investments.

According to the 2017 General Budget's expectations, as stated in the General Budget Act, "local tax returns are expected to increase by 31% during 2017, compared to 2016, as a result of reforming the tobacco sector, which will start being applied by the beginning of April.⁶

Clearance House Revenues

These are the taxes collected by Israel and transferred to the Palestinian Authority. They are composed of six items: Customs, Value Added Tax, Sales Tax, Fuel Tax, Income Tax, and other taxes.

According to the budget expectations for 2017, as stated in the General Budget Act, "the clearance revenues are expected to increase by 4% in 2017 compared with 2016 as a result

⁶ General Budget Act for the Fiscal Year 2017, General Budget Expectations.

of the government's continued efforts in exchanging information. In addition, the reactivation of the Joint Economic Committee will have positive results in 2017.

Table No. (1): Comparison of Net Revenues Earned with Estimated Revenues for the First Half of 2017, and Comparison of Local Revenues, Clearance House, and Tax Rebates Earned with those Estimated for Half Year 2017

	Earned in Half Year 2017	Planned for Half Year 2017
Total Net Revenues	6656.2	6725.5
Local Revenues	2409.1	2520.5
Clearance House Revenues	4429.1	4390
Tax Rebates (-)	182	185

It is noted from the attached table that the total net revenues figure is close to the planned revenues figure, with the total net revenues earned in the half year of 2017 forming 49% of the total net revenues for 2017. Local revenues formed 48% of the planned figure, while the clearing house revenues represented 50% of the planned figure for the whole year. One of the reasons behind the increase in tax revenues is attributed to citizens and traders paying different taxes at the beginning of the year to benefit from discounts and offers. Revenues from taxes will therefore be higher during the first three months of the year.

Analyzing the structure of the local tax revenues, it is clear that the planned figure for 2017, amounting to (3,141) million Shekels, is higher than that planned for 2016, at (2,193) million Shekels. It is also clear that there is a decision to improve local collection. As an example, revenues expected from taxes on tobacco in 2017 are (830) million Shekels, while they were estimated for 2016 at (204) million Shekels, an increase of 300%. What was actually earned for half of 2017 reached 10% of what was planned, as a result of a decision to reform the tobacco sector by the beginning of April. According to the World Bank report,⁷ the increase in tax revenues expected from the tobacco sector will be the result of granting a license to establish a local company in the West Bank to produce tobacco for export to Gaza Strip.

⁷ Economic Monitoring Report to the Ad Hoc Liaison Committee, May 2017

Second: Expenditure Analysis

Total public expenditure and net lending in the 2017 budget were estimated at (16,147) million Shekels, with an increase of about 6% over the 2016 budget, estimated at (15,212) million Shekels.

Table No. (2): Comparison of Total Current Expenditure and Net Lending Estimated for 2017 with Total Expenditure and Net Lending Estimated for 2016

	Estimated for 2017	Estimated for 2016	% Increase
Total Current Expenses and Net Lending	16147	15212	6%
Salaries and Wages	8093	7,662.00	6%
Social Contributions	768	723	6%
Use of Goods and Services	2035	2,056.00	-1%
Transfer Expenditure	3781	3,599.00	5%
Capital Expenditure	65	54	20%
Interest	455	269	69%
Net Lending	950	850	12%

It is clear from the table that there is an increase in expenses allocated for salaries and wages estimated for 2017, amounting to 6% over the amount estimated for 2016, although the announced expenditure policies in the General Budget Act for 2017 require that "*it is expected that the salaries and wages bill will increase by 3.2% as a result of the legal annual increase and the high cost of living allowance. The government, however, will continue its zero-hiring policy unless there is a change in policies.*"

Table No. (3): Total Current Expenditure and Net Lending in the 2017 Budget Compared with Actual Achievement in Half of 2017 Based on Commitment (Million Shekels)

	Achieved for Half of 2017	Estimated for Half Year 2017	Estimated for 2017	Ratio of Achieved to Estimated Amounts for the Full Year
Total Current Expenditure and Net Lending	7981.2	8073.5	16147	49%
Salaries and Wages	3953.4	4046.5	8093	49%
Social Contributions	386.3	384	768	50%
Use of Goods and Services	929.2	1017.5	2035	46%
Transfer Expenditure	1827.4	1890.5	3781	48%
Capital Expenditure	25.5	32.5	65	39%
Interest	141.2	227.5	455	31%
Net Lending	544.3	475	950	57%
Allocated Payments *	174	0		

* Allocated Payments are taxes and revenues related to local government authorities, 90% of Property Tax, and 50% of transport and communications taxes.

In general, it is clear from the table that total expenditure after half the year amounts to 49% of that planned, meaning that actual expenditure did not exceed planned expenditure, noting that total expenses are high to begin with, and are 6% higher than in 2016.

Examining some of the items, it is clear that salaries and wages did not decrease as was expected based on analyzing some information and decisions taken during the first half of the year.

Furthermore, capital expenses did not exceed 40% after six months since the start of the year, and planned capital expenses for 2017 increased over planned figures for 2016 by 20%. This comes in view of talk about an austerity and rationalization plan, and an expectation of the financial gap estimated at 3 billion Shekels.

It is also noted that the net lending item exceeded what was expected for half the year, with this item amounting to 57% of what was expected for the whole of 2017.

Third: Net Lending

Net lending in the 2017 budget was estimated at (950) million Shekels, compared with the 2016 budget where it was estimated at (800) million Shekels. In other words, it is continuously increasing. The following figure shows that actual expenditure increased in this item compared to the estimated amount over the past three years.

Figure No. (3)

Comparison of Estimated and Actual Net Lending for the Years 2016 - 2017

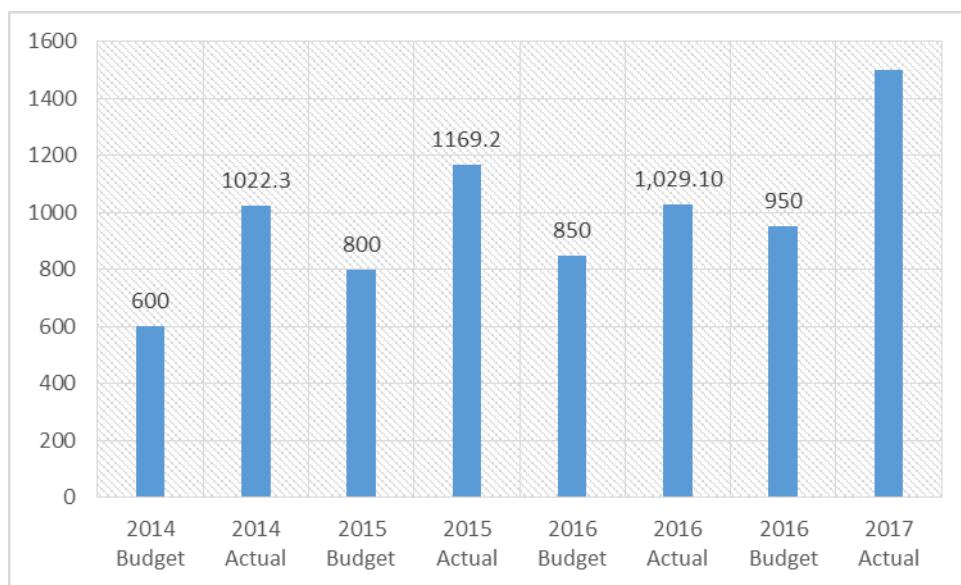
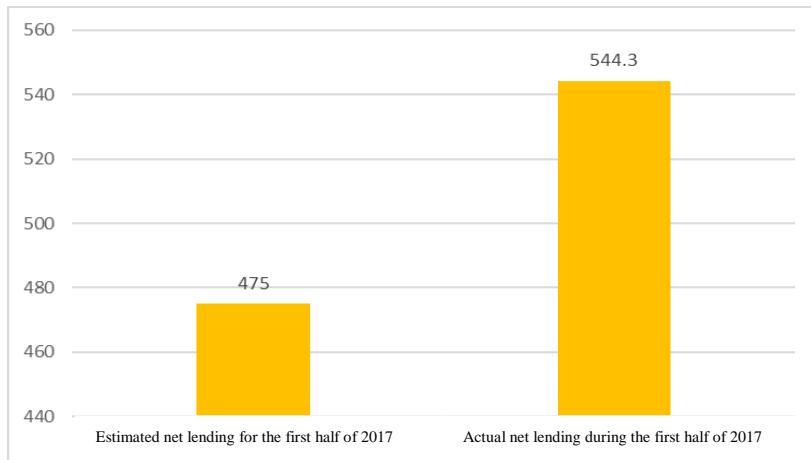


Table No. (4): "Net Lending" Item in the 2017 Estimated Half Year Budget Compared with Actual Figures in Half of 2017 Based on Commitment (Million Shekels)

Net Lending	Allocated for 2017	Allocated for Half of 2017	Actual for Half of 2017	Deviation from Planned	Deviation Rate
	950	475	544.3	69.3	14%

Figure No. (4)

"Net Lending" Item During Half of 2017 Estimated Budget Compared to Actual Figures in Half of 2017 (Million Shekels)



From the above table and figure, it is noted that there is a gradual increase in the net lending value, and what was spent during the first half of the year, representing 57% of the total allocation for net lending throughout the 2017 budget, with an increase of (69.3) million Shekels, or a deviation of 14% over the planned amount for the half year period.

There is not sufficient information or details related to the net lending item in the 2017 General Budget, and there are no details during half the year period in the monthly report, the amount of which was (544.3) Shekels, or on what items this was spent, in order to maintain the budget's transparency, particularly that actual spending exceeds the allocation as is clear in the above analysis. There is a need to inform the public of the nature of reconciliation between the government and the municipalities in this respect.

Fourth: Deficit and Arrears

The 2017 General Budget expected a financial deficit (before financing) of (4,335) million Shekels. This is less than the deficit expected for 2016, amounting to (5,338) million Shekels, as a result of the government expecting higher revenues by 20% of expected revenues for 2016.

Furthermore, the budget expected that part of this deficit would be offset by financial assistance and grants, estimated in the 2017 budget at (2,496) million Shekels, with a decrease of (1,385) million Shekels from the (3,881) million Shekels estimated for 2016, noting that the amount of actual assistance was (2,905) million Shekels, or 75% of the expected amount.

The 2017 budget maintained the amount of (1,838) million Shekels as a financing gap, to which the amount of (1,170) million Shekels, allocated for paying net arrears is added, bringing the financing gap to (3,008) million Shekels, at the rate of (250) million Shekels a month.

Table No. (5): Actual and Estimated Grants and Assistance 2017

	Actual for Half of 2017	Estimated for Half of 2017	Estimated for 2017	Ratio of Actual to estimated
Grants and Assistance	1175.1	1248	2496	47%
Foreign Budgetary Support	923.3	975	1950	47%
Developmental Financing	251.8	273	546	46%

The above table shows that actual grants and assistance for half the year are close to the estimated figures for that period. This is a good indicator showing the potential for achieving the full estimated amount by year end.

Actual General Budget data for half of 2017 shows that expenditure arrears amounted to (872.6) million Shekels.

Fifth: Public Debt

The public debt at the beginning of 2017 registered (9,559.2) million Shekels. The Palestinian MoF's data indicates that the public debt decreased at the end of June 2017, reaching (8,733.5) million Shekels. This decrease, amounting to (825.7) million Shekels is a good indicator, but cannot be separated from the expenditure arrears of (872.6) million Shekels, and from the accumulated Retirement Fund debts, noting that the value of the announced arrears does not necessarily reflect the actual amount, expected to be higher as a result of a disagreement over defining the calculation of the arrears amount and the numerous auditing and internal accounting procedures for the arrears bills.

Table No. (6): Public Debt Comparison December 2016 - June 2017 (Million Shekels)

Item	December 2016	June 2017	Decrease Rate
Public Debt	9559.2	8733.5	-8.63

Retirement Fund and the Public Debt

Actual social contributions after half a year of the 2017 budget on the basis of commitment amounted to (386.3) million Shekels, which is within the planned figure. Reviewing the monetary base, however, we find that the value of social contributions amounted to (120) million Shekels only, at a rate of (31%) of commitment. This presents a new question on transparency in the dialectic of (retirement fund - public debt - arrears).

In view of the announced policies regarding the transfer of (20) million Shekels every month to the Retirement Fund, which actually took place over the past months, it can be expected that the value of social contributions actually transferred by the end of 2017 will amount to (240) million Shekels, or 31% of the planned amount for 2017, estimated at (768) million Shekels. Hence, (528) million Shekels will be added to the Retirement Fund debts, amounting, according to estimates, to (5.6) billion Shekels⁸ at the end of 2016.

⁸ Report on the Government's Policy in Settling the Retirement Fund's Debts and facing the Challenges of the Authority's Sustainability, Aman Coalition, 2017.

Sixth: Allocations for Ministries Related to Social Issues

In this case study, the public expenditure of ministries and the special responsibility centers for social services (Ministry of Education and Higher Education (MoEHE), Ministry of Health (MoH), Ministry of Social Development (MoSD)), together with the Ministry of Interior and Public Security (MoI) expenditure during the first half of 2017 will be compared.

Table No. (7): Comparison of Expenditure by Responsibility Centers* (Commitment Base) during First Half of 2017

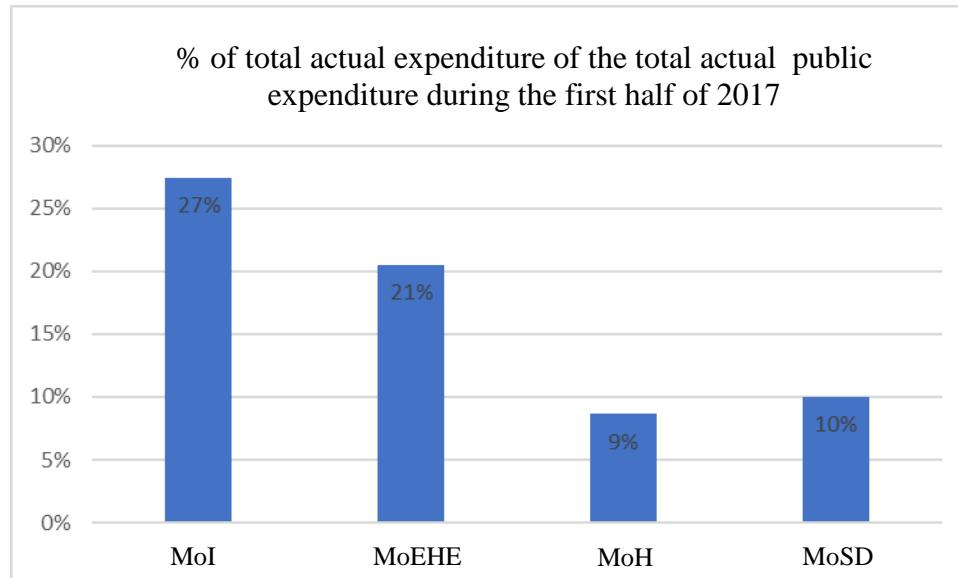
	Total Planned Expenditure 2017	Total Actual Expenditure for Half of 2017	Ratio of Actual to Planned	Salaries and Wages Allocated for 2017	Actual Salaries and Wages for Half of 2017	Ratio of Total Actual Expenditure to Total Public Expenditure for Half of 2017
Ministry of Interior and Public Security	4,075,500,000	1,956,661,000	48%	3,439,000,000	1,651,694,000	27%
Ministry of Education	3,490,170,567	1,461,638,000	42%	2,300,000,000	1,170,722,000	21%
Ministry of Health	1,720,773,000	615,673,000	36%	777,346,000	381,664,000	9%
Ministry of Social Development *	1,521,430,000			60,455,000		
Ministry of Development	826,381,000		47%	54,362,000		
Palestinian Authority Martyrs' Fund	695,049,000			6,093,000		10%

* Note: Budgets for responsibility centers do not include developmental services, and they were not stated quantitatively in the budget.

* Note: The Ministry of Social Development includes the Ministry of Social Development and the Palestinian Authority Martyrs' Fund.

Figure No. (5)

Comparing Actual Expenditure by Responsibility Centers (Commitment Base) during First Half of 2017 (Thousand Shekels)



The following can be inferred from the table and figure above:

- The Ministry of Interior and Public Security acquires 27% of the total public expenditure. The salaries and wages bill of the Ministry of Interior and Public Security represents 84% of the total expenditure allocated for it, in spite of continued recommendations by the National Team to reduce expenditure on this item. Hence, security allocations continue to acquire the largest share of the budget, and the salaries item within the security allocations continues to acquire the largest share. There are still no details on the security establishment.
- The Ministry of Education and Higher Education acquires 21% of the total public expenditure. Despite statements by the Minister of Education that the budget this year reached 25% of the Palestinian Authority's Budget, and that this increase came in favor of projects related to Jerusalem, kindergartens, and active learning programs, expenditure until the middle of this year did not exceed the 21% benchmark of total expenditure. This indicates that it is not possible for disbursement by the end of the year to reach 25%.

Through the National Team's paper on expenditure priorities in the education sector and auditing the budget of the Ministry of Education, it became clear that the education budget as a ratio of the total Budget and according to international standards is a good one. The problem, however, remains in the budget's structure,

whereby salaries and wages continue to acquire the largest share, and are inadequate for the education sector's strategic plans.

- The Palestinian Ministry of Health received 9% of the total public expenditure. According to the National Team's paper on the expenditure priorities in the field of health, this budget is not sufficient for the necessary requirements, and there is still need for adopting the comprehensive health insurance, which will contribute to providing more financial resources for the Ministry of Health and for developing health services. There is also need for establishing a developmental plan to develop specialized services within the ministry institutions for the purpose of reducing dependence on medical transfers or the purchase of services from outside the Ministry of Health institutions, by developing the abilities of the human resources in the Ministry of Health and providing medical supplies related to more costly cases, or referring them for treatment outside the Ministry of Health institutions. Such cases include tumors, hematological disorders, neurosurgery, and heart surgery, by setting clear indicators for the levels of advancement over the next five years, for the purpose of reducing costs related to this item.
- The Ministry of Social Development, together with the Development Care Foundation For The Families Of Martyrs and Wounded Martyrs' Families Care Foundation, acquires 10% of the total public expenditure. Monitoring the General Budget and the Ministry of Social Development's share for 2017, the Ministry's budget was (826) million Shekels, or 5.45% of the General Budget. Analyzing the structure of the Ministry of Social Development, it was noticed that there are costs and compensations allocated to the transfer expenses of the Ministry of Social Development, which does not have any information about them and they are not subject to its programs. According to the MoF data, compensations are disbursed for the 2005 appointments amounting to (1,500) Shekels for (11,850) people, at an annual cost of (213,300,000) Shekels. These were posted to the Social Transfers item at the Ministry of Social Development by the MoF, without referring to the Ministry of Social Development. The Ministry of Social Development has reservations about including these expenses in its responsibility center. Based on this, the actual social development budget is only 4% of the total public expenditure. Transfer expenses represent about 92% of it, while 8% remain for salaries and wages, as well as operational projects aimed at achieving development.

Seventh: Presentation and Analysis of Special Issues Related to the General Budget

– Financial Reserves

The General Budget includes a financial reserves item. The 2017 General Budget estimated this item at (55) million Shekels, which is identical to the amount allocated in 2016. During the first half of 2017, only (3) million Shekels were disbursed under this item. In spite of actual expenditure from this item, 2016 had about (10) million Shekels, or 18% of the planned amount. There is a need to reinforce transparency and disclosure of data related to disbursing financial reserves, especially that they are expended under a "loose" item, namely, Transfer Expenditure.

– Palestine Legislative Council

The Legislative Council's budget for 2017 was estimated at (56) million Shekels, or less than the estimated 2016 budget, which was (59) million Shekels, and less than the actual amount expended, which was (41) million Shekels. Operational expenses for 2017 of the inactive Legislative Council, which has not met for 11 years, were estimated at (15) million Shekels, or 26% of the estimated budget. Although actual expenditure on operating expenses for 2016 did not exceed (6) million Shekels, the estimate is still considered high.

During the first half of 2017, the amount of (19) million Shekels was spent on this item, including (7.5) million Shekels on transfer expenses and less than (1) million Shekels on operating expenses.

– Transfer Expenditure

The Palestinian MoF defined transfer expenditure as "expenses allocated in the public institution's budget from which a third party benefits, such as assistance extended through the Ministry of Social Development to poor families, martyrs' families' allocations, and prisoners of war allocations."⁹ By analyzing public expenditure accumulated in half of 2017, it is clear that transfer expenditure amounted to (1,827) million Shekels, or (24%) of the total current expenditure.

⁹ Citizen's Budget, 2013.

Chapter Three

Conclusions

- **General Budget Transparency:** There is a problem in implementing transparency principles related to the disclosure of the General Budget and its details, according to Act number (7) of the year 1998, regarding the Regulation of the General Budget and Financial Affairs, as well as implementing the law in presenting the draft budget to the Legislative Council two months before the end of the year, as was stipulated by article (61) of the amended basic law of the year 2003, and relevant legal provisions in the General Budget and Financial Affairs Regulation Act number (7) of the year 1998, and in the published detailed General Budget booklet, considered to be part of the Act, or in the preparation and publishing of the Citizen's Budget. The problem of accessing full details in a short time and directly still persists.
- **The Participatory Approach:** Although the proposed budget was presented to the private sector and national institutions, including the National Team, participation in its comprehensive concept is still lacking. There is a need for the government to involve civil society organizations at all stages of preparing the General Budget and the provision of data related to the budget and its documents.
- **Revenues:** Revenues accrued during the first part of the year were less than those estimated for the same period. It is unlikely that these revenues will increase materially, especially that part of the taxes and revenues are collected at the beginning of the year.
- **External Financing:** In spite of the low estimates for external financing, what was actually achieved is still less than what was estimated, though at a close ratio this year. This creates two problems. The first is manifest in the increased deficit in the Budget, and the second is in the fate of plans and programs, particularly developmental ones whose development financing has not arrived yet.
- **Expenditure:** It is noted that total expenditure accrued is close to that estimated, in spite of the government's continued talk about rationalizing expenditure, and its launching of a plan in this respect in 2017, as well as a financing gap the closing of which the government said would do through rationalizing expenditure. It is noteworthy that the National Team for the Transparency of the Budget recommended numerous times that expenditure should be controlled, and issued a plan for rationalization and austerity.
- **Net Lending:** There has been over the past few years a regular increase in net lending. Although its estimates in 2017 were higher than all previous years, reaching (950) million Shekels, the actual accrued during half the year reached more than estimated and at a noticeable ratio.
- **General Budget Deficit:** The Palestinian National Authority's Budget continues to suffer from a chronic structural dysfunction, represented in the presence of a large deficit resulting from a huge gap between the General Budget's two sides;

expenditure and revenues, as a result of an increasing accumulation of the value of expenditure year after year, a decrease in budgetary financial support from foreign grants and assistance, and the ineffectiveness of the government's austerity and rationalization plan.

-Public Debt: There is an improvement in the public debt, which the government was able to reduce during the first half of the year. This is a positive approach, but it cannot be evaluated away from studying the government's debt in favor of the Retirement Fund and the arrears.

-Retirement Fund: There is a real problem concerning the Retirement Fund's transparency, the level of debts due to it, and the government's mechanisms to pay these debts. It is noticeable that there is a large difference between the government's contributions to the Retirement Fund on the basis of commitment and the monetary basis.

-Security Allocations: These allocations continue to acquire the lion's share of the General Budget. Furthermore, the salaries and wages item in the security allocations drains the largest share of security expenditure, exceeding to a large extent the "total budgets" of health, social development, and the Martyrs' Fund collectively. There are no details of the Ministry of Interior and security expenditure except for general main items of the expenditure structure.

-Distribution of the General Budget Allocations: There is a clear deformation in the distribution of the Budget allocations, with inflated expenditure in certain sectors at the expense of others. Furthermore, the salaries and wages item continues to hold the lion's share of the General Budget. In addition, the development expenditure is suffering from severe scarcity, particularly those related to social development.

-The Ministry of Social Development Budget: There has been an accumulated dysfunction over several years in the Ministry of Social Development's budget, represented in merging the ministry's responsibility center with that of the Martyrs' Fund's responsibility center, classifying both under the "Ministry of Social Development" name, and therefore amplifying the budget allocated for the "social development" responsibility center in a misleading and unreal way. In addition, the Ministry of Social Development allocation does not fulfil the needs and is not compatible with its strategic plan.

-General Budget Structure: Although the Palestinian National Authority approved the programs budget, the General Budget's structure is still within the framework of an itemized budget, particularly in the case of financial reports issued by the MoF. There are aggregate items divided into salaries and wages, social contributions, use of goods and services, transfer expenditure, capital expenditure, and development expenditure. These are items that carry dumb figures without any details, and without connection to the programs or the extent to which objectives were achieved. This issue leads to an absence of the principle of accountability and the transparency of the Budget.

In all cases, the issue of long delays in submitting the closing accounts by the MoF to the Financial and Administrative Auditing Bureau and the Legislative Council, the

inability of the Bureau to audit the accounts on time, and its reservation on what was audited, in addition to the Legislative Council's paralysis in accountability over any deviation in the budget, are all considered problem and challenge sources guaranteeing good management of public funds.