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THE GENERAL PERSONNEL COUNCIL OF PALESTINE*

**Under the auspices of H.E. the Prime Minister
Dr Mohammad SHTAYEH**

Regional seminar for high level civil servants

15th UniDem Med

"PUBLIC SERVICE POLICIES: PARADIGMS FOR CHANGE"

Hybrid format: online and in Palestine*

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NEW CHALLENGES FOR PUBLIC SERVICE POLICIES

by

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Ministry of Finance

Public Finance Strategy
current situation
Challenges and future vision
2013– 2021

Public finance management strategy 2021-2023

Vision:

- **Managing public finance within a stable macro-financial framework capable of advancing national economy growth towards comprehensive and equitable sustainability, and capable of strategic public resources allocation in order to achieve national policies and priorities related to the aspirations of the Palestinian people.**

mission:

- **Managing public finance within a specialized and integrated legal and regulatory system, based on the development, collection, reallocation and spending of public resources through a public budget based on financing midterm programs linked to the national priorities achievement and public and specialized sectoral policies, so that all these systems operate efficiently, effectively and transparently, allowing the possibility of accountability and oversight. the public.**

Cross-Sectoral Strategic Objective One:
Commitment to public money spend based on what is defined by sectoral strategies related to balancing programs based on a med term spending plan.

- **Desired outcomes of this objective:**
 1. Developing a med term macro financial framework that is compatible with the changes surrounding the Palestinian reality.
 2. The strategic planning process is linked to budget programs, so that it is based on med term spend planning, responsive to gender, measurable, and tracking performance and results.
 3. Public money expenditures are controlled according to budget allocations and financial orders based on credible cash forecasts.
 4. Managing debt and public liabilities in a way that achieves stability and financial sustainability of the Palestinian state

The second cross-sectoral strategic objective:

Public finance management based on a transparent, comprehensive accounting system that adheres to international standards and is linked to an effective internal and external audit and control system.

Desired outcomes of this object:

1. Increasing transparency and credibility related to the process of preparing and documenting the general budget
2. Improving the quality and timeliness of accounting systems and reports according to IPSAS standards and GFSM 2014 classifications
3. An honest and strong procurement system based on a comprehensive and coherent legislative foundation, and an institutional structure capable of formulating, following up and evaluating procurement policies, enabling this system to achieve the best value for public spend and promoting the principles of fair competition, transparency, integrity and equal imposition, in a way that contributes to achieving economic and social development.
4. Improving the financial control environment by focusing on the prevention of financial risks.
5. Improving the legal environment regulating Office of Financial and Administrative Oversight, work of including SAI PMF principles application

The third cross-sectoral strategic objective

Public revenues are collected efficiently, effectively and fairly

Desired outcomes of this object

1. Reducing the phenomenon of tax evasion and avoidance, studying the effects and role of gender in tax evasion, and increasing reliance on local revenues in the total income for the state treasury.
2. Creating a balance between importing from abroad and reducing purchases from the Israeli side by contributing to creating an attractive investment environment in Palestine and raising trade facilitation. The level
3. Sectoral transformation by working to update and develop laws and legislations to work on amending tax rates and brackets on all economic sectors (real estate developers sector, services, liberal professions, land sector, energy, information systems, financial institutions, medical professions, the agricultural sector and the tourism sector. This is accompanied by progress In tax compliance and examine social justice issues in the tax system.
4. Protecting society from smuggling operations that threaten its security and safety.
5. Developing the institutional environment, creating integration and linking work between all revenue departments, public and private sector institutions, and the banking sector, and automating work procedures.

**The financial status is as in
December/ 2021**

Explanations: Financial Performance (1)

Revenues:

- **A strong performance on the revenue side is the result of improved tax collection processes, increased compliance and extensive follow-up:**
- **The increase in total revenues from the protected in the 2021 budget by 11%.**
- **Recording a growth in total revenues in 2021 by 24% compared to 2020.**
- **It also reflects the relative recovery in the economy and the return to normal working life style from the low level of 2020, which recorded a decrease in GDP by (11% -) compared to the 7% growth expected at the end of 2021.**

Explanations: Financial Performance (2)

current expenses:

- The bulk of the increase in current expenditures was concentrated in the wages bill item, which recorded an 8% growth over 2020 as a result of:
 - Annual statutory increases in the payroll bill.
 - Full return of bonuses to Gaza employees and reintegration of 6000 employees.
 - The financial impact of the implementation of the suspended promotions occurred retroactively in several sectors, for example (education, health, ..)
- the expenditures of the health sector increased Significantly to deal with the Covid-19 pandemic over the two years 2020/2021, about 96 million dollars.

Explanations: Financial Performance (3)

- **Illegal deductions from the Israeli side:**
- **The total of illegal Israeli deductions for this year amounted to 282 million, dollars and cumulatively since January 2019 amounted to 442 million dollars by the end of the year.**
- **Israeli discounts make up 40% of the 2021 deficit and 15% of the 2020 deficit.**

Developmental expenditures:

- **Development expenditures (due to the declaration of an emergency related to COVID-19) were 65% below the budget target.**
- **These measures were inevitable and necessary to avoid deepening the deficit in the absence of alternative funding sources.**

* The cumulative Israeli illegal deductions until 03/2022 amounted to 488 million US dollars.

Total Deductions of the Israeli Side

Amount in NIS		water+ electricity + health+ environment	3% discount (collection fee)			
Years		المبالغ		TOTAL		
	2013	1,201,953,670	187,435,685		1,389,389,355	
	2014	1,521,653,935	224,944,905		1,746,598,840	
	2015	1,577,564,755	246,574,476		1,824,139,231	
	2016	1,476,521,534	257,448,045		1,733,969,579	
	2017	1,445,336,997	264,286,205		1,709,623,202	
	2018	1,494,966,125	225,596,842		1,720,562,967	
	2019	1,608,610,254	265,057,565		1,873,667,819	
	2020	1,397,030,642	251,085,999		1,648,116,641	
	2021	1,419,162,121	265,811,290		1,684,973,411	
2002-2021	Total	22,636,528,837	2,921,812,467		25,558,341,304	

Explanations: Financial Performance (4)

Aids / Funds:

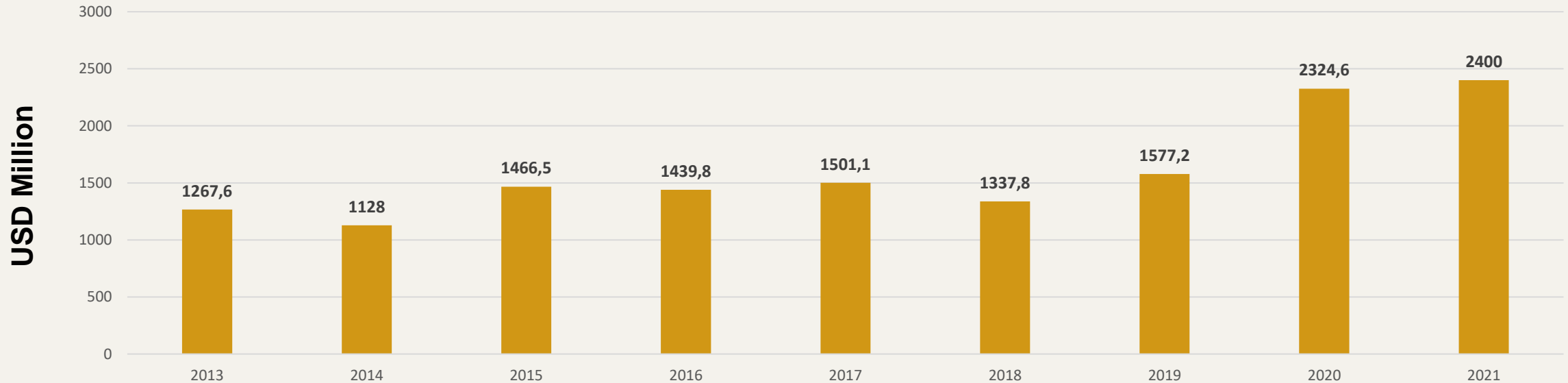
- International aid continued its steep decline from its level of \$1.3 billion in 2013 to \$288 million in 2021.
- Including the development of \$103 million and budget support of \$186 million in 2021 (includes Algeria's recent \$100 million support).
- The value of development support amounted to 57 million dollars, at 55% for the northern governorates, and 46 million dollars, at 45% for the southern governorates (these amounts are officially arrived to the accounts of the Ministry of Finance).
- Deficit: The budget deficit item will witness a decrease from the year 2020, which was 1.035 billion US dollars to 752 million US dollars for 2021, a decrease of 27%. This result reflects a significant increase in revenues on one hand and expenditure control on the other hand, despite the sharp decline in international aids.

- The axis of the fiscal deficit inherent over the years in the national economy (STRUCTURAL DEFICITS) constitutes the biggest challenge that exposes the financial situation to instability and also limits the government's ability to implement its development and investment policies.
- It is known that since the establishment of the National Authority, there has been a heavy reliance on the external support system, which historically covered a large proportion of operating expenses at 32.3% and development expenses by 2.7% in 2013.
- It has been clear since 2014 that the level and pace of external support will not be sustainable in connection with regional and global political changes.

**Public debt (domestic and external)
deficit financing**

Public Debt – Domestic

Domestic Debt



local debt:

- The Palestinian government was forced to bank borrowing in order to fund the gap created by clearance suspension of revenues (constituting 65% of Palestinian revenues) and the increase in extraordinary deductions by the Israeli government.
- Despite the high level of debt; In absolute terms, debt makes up only 15% of GDP - much better than the globally optimal levels of 60%.

Public Debt - External

- There are long-term governmental external loans from international multilateral institutions, most of which were contracted in the mid-1990s, amounting to 950 million US dollars (excluding the loan of the State of Qatar in 2019).
- External lenders:

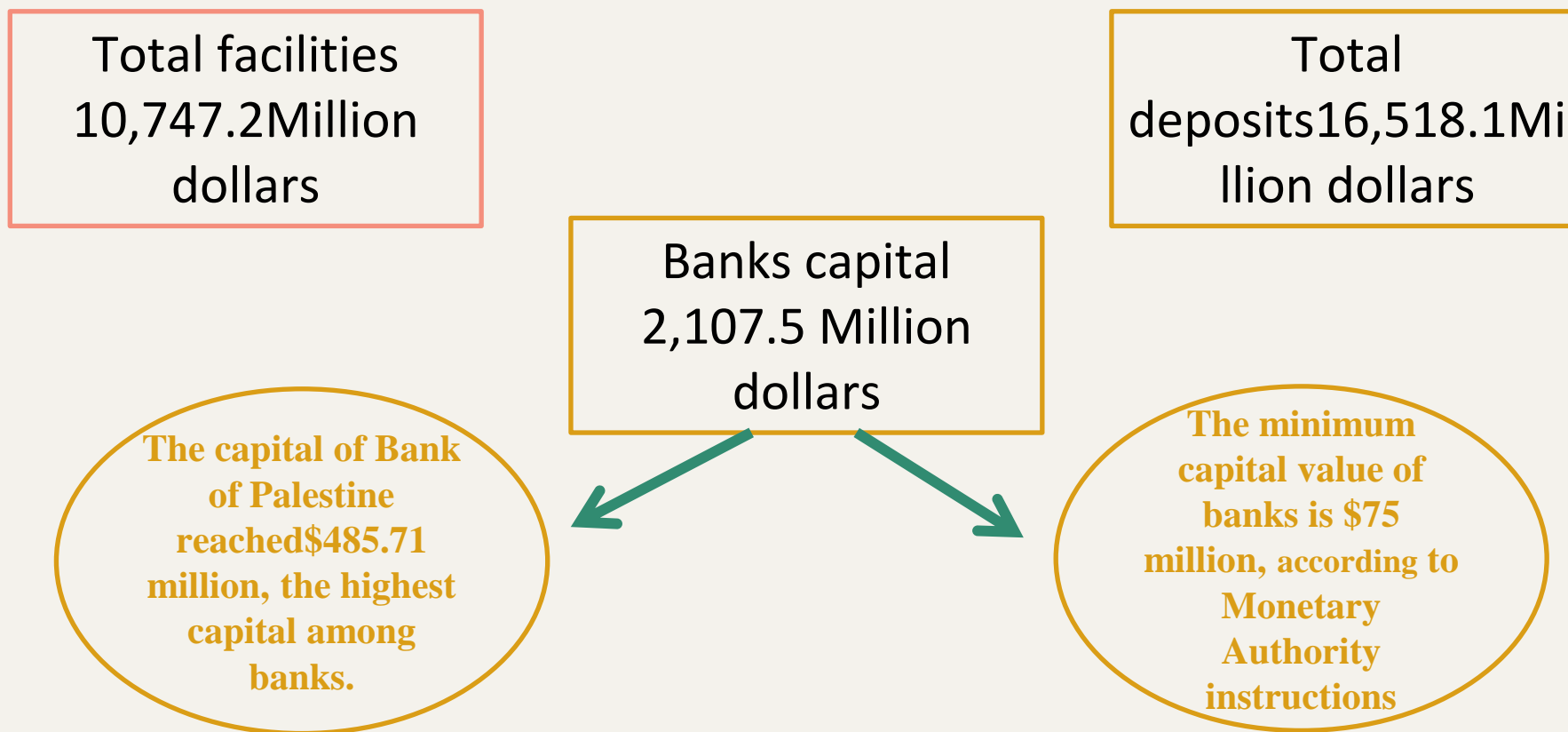
Lenders	Loan Amount	ملاحظات
Islamic Development Bank through Jerusalem & Aqsa Fund	470 Million US\$	A loan exempt from payment (transfer of instalments through the implementation of development projects worth \$20 million annually).
Qatar Gov. Loan	250 Million US\$	Exempt from repayment and converted to an interest-only loan
Spanish, Italian Gov. AIDA/WBG, EIB	230 US\$	Obligations of institutions, most of which are re-lending to the private sector or government guarantee.

Deficit/debt financing

The difficulty of financing the deficit lies in the limited options for the following reasons:

- There is no central bank.
- lack of a national currency; BOND ISSUANCE, OPEN MARKET OPERATING.
- Vulnerability of the financial sector to liquidity risks; Heterogeneous liabilities and assets.
- Absence of regulatory frameworks and mechanisms for financial markets INTER-BANK MARKET, SECONDARY MARKET.

monetary indicators



monetary indicators

private sector facilities
8,254.5 Million dollars



77% Of the
total facilities

public sector facilities
2,466.9 Million dollars



23% Of the
total facilities



Reform Frameworks

First: The domestic revenue development framework

Adopting and implementing reform strategies:

- Revenue Strategy (2014-2016).
- Revenue Strategy (2017-2019).
- We are now finalizing the third revenue strategy (2022-2025) and the related laws, after an intense effort in consultation with partners and economic sectors, and it was discussed at the beginning of April 2021.

An overview of the results of the adopted revenue strategies since 2014:

Revenue development strategies from 2014 achieved tangible positive results, the most important of which are:

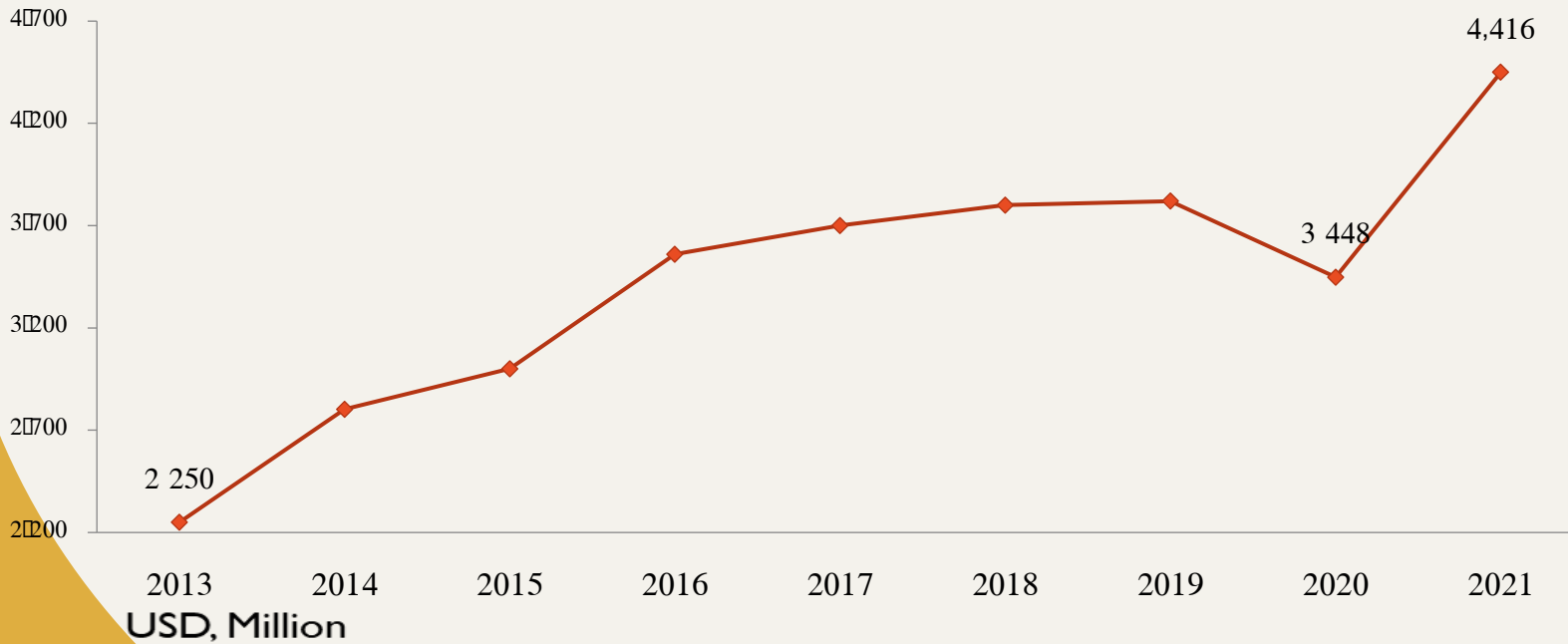
- 1. Expanding the tax base horizontally, 152 thousand taxpayers increased from 2013 to reach 260 thousand so far, i.e. an increase of 140%**
- 2. The development of collection procedures, whereby the compliance management, the elimination of duplication and the application of electronic computing (Revenue Management System (RMS) were approved.**
- 3. adjusting tax aspects To achieve justice and reduce the tax burden on taxpayers with limited incomes in particular.**
- 4. combating tax evasion and following up on customs compliance; So that an inspection unit of 50 employees was established to follow up the compliance in the institutions, and 35 employees are currently being rehabilitated and trained, in addition to field campaigns to raise tax awareness to raise voluntary compliance.**
- 5. Forming a joint risk management committee for revenues (customs, value added and income), in order to integrate between customs and tax administrations (with technical support with experts from the British Agency for International Development).**
- 6. Expansion of tax and customs inspection and audit centers for revenues (customs, added value and income); The file is subjected to a simultaneous audit of all revenues, aiming to facilitate audit and follow-up procedures for the taxpayer and ensuring the fight against tax evasion.**

Revenue Development

Actual										
Million NIS	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change
General Revenue	8,347	9,951	11,231	13,523	13,194	12,407	11,713	11,887	13,658	64%
Total Domestic Revenue	3,079	3,114	3,542	5,023	4,419	4,817	4,336	4,133	4,980	62%
clearing revenue	6,103	7,318	7,953	8,873	8,966	8,092	7,868	8,041	8,991	47%

Monthly average										
Million NIS	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change
General Revenue	696	829	936	1,127	1,100	1,034	976	991	1,138	64%
Total Domestic Revenue	257	260	295	419	368	401	361	344	415	62%
clearing revenue	509	610	663	739	747	674	656	670	749	47%

Total net revenue



*base line is:2013

- As a result of the reform policies in the revenue system, the general income in 2021 amounted to 4.4 billion dollars, compared to its level of 2.3 billion dollars in 2013, an increase of 92%.
- While the rate of growth of the gross national product during the mentioned period was 2.5%.

Objectives of the Public Revenue Development Strategy (Version 2022-2025):

STAKEHOLDERS:

- Providing advanced tax services and enhancing public satisfaction.
- Combating the smuggling of goods that threaten the security, health and safety of society.
- Raising the level of dealing with the private sector.

Legally

- Palestinian Value Added Tax Draft Law
- The Palestinian Customs and Excise Bill.
- Draft amendments to Law No. 8 of 2011 regarding income tax.

financially:

- Development of customs and tax revenues.
- Amending the tax accounting mechanism with Israel.

Operationally:

- Raising economic competitiveness level of the state.
- Developing the tax system (sectoral transformation).
- Building institutional capacities and developing integration between customs and tax administrations.

Human Resources:

- Developing internal work procedures and motivating human resources.

Continue/ Financial Impact of Revenue Strategy (version 2022-2025):

- Achieving a growth in clearing revenues in the first year from \$2,906 million in 2021 to \$3,200 million in 2022, i.e. a growth rate of 10%.
- Achieving a growth in local revenues in the first year from 1544 million dollars in 2021 to 1729 million dollars in 2022, a growth rate of 12%.

Second: Correcting the financial relationship emanating from the Paris Protocol and recovering the withheld funds from the other party (financial loss).

- In parallel, vigorous efforts are being made to address the outstanding issues with the Israeli side and to correct the financial relationship emanating from the Paris Protocol.
- In terms of financial claims, relative successes have been achieved in this field, as we have received approximately 3.4 billion shekels.

Fiscal leakages

Financial Issues	Deducted Money
<ul style="list-style-type: none">• Unilateral deductions and punitive deductions from clearing funds	180 million US\$ annually
<ul style="list-style-type: none">• Withholding our proportionate share of transit fees and taxes paid by Palestinian travellers at the Karama crossing	\$200 million/cumulatively since 2008
<ul style="list-style-type: none">• Updating the VAT accounting system from a paper system to an electronic system and an electronic exchange of relevant information directly	\$120 million annually
<ul style="list-style-type: none">• We are obligated to pay the fuel tax (blue) when purchasing fuel from Israel and then return it to us after 45 days and after deducting a commission of 3%	\$82 million of negative cash flow per month
<ul style="list-style-type: none">• A management fee of 3%, which Israel deducts from Palestinian clearance revenues	50 million US\$
TOTAL	642 million US\$

The main outstanding issues that are closely followed up with the Israeli side :

1. Check clearing invoices
2. Accounting mechanism for clearing bills
3. Fee for collection services allowance
4. Post checking
5. Bonded Warehouses
6. Departure tax fee for passengers

Third: Public spending reform axes

Previously, we dealt with the axis of public revenues through revenue strategies and the relationship with the Israeli side, but now we will address the axis of reform, the most important expenditure

a) Net lending

- The phenomenon of net lending is a historical and inherent challenge.
- The net lending items include water, electricity and sewage deductions.
- The net lending expenditures for the last three years were as follows:

	2019	2020	2021
Water	335,562,021	311,230,530	354,601,008
Electricity	906,510,427	882,283,512	826,989,496
Sewage	111,054,507	91,798,908	93,211,756
TOTAL	1,353,126,955	1,285,312,950	1,274,802,260

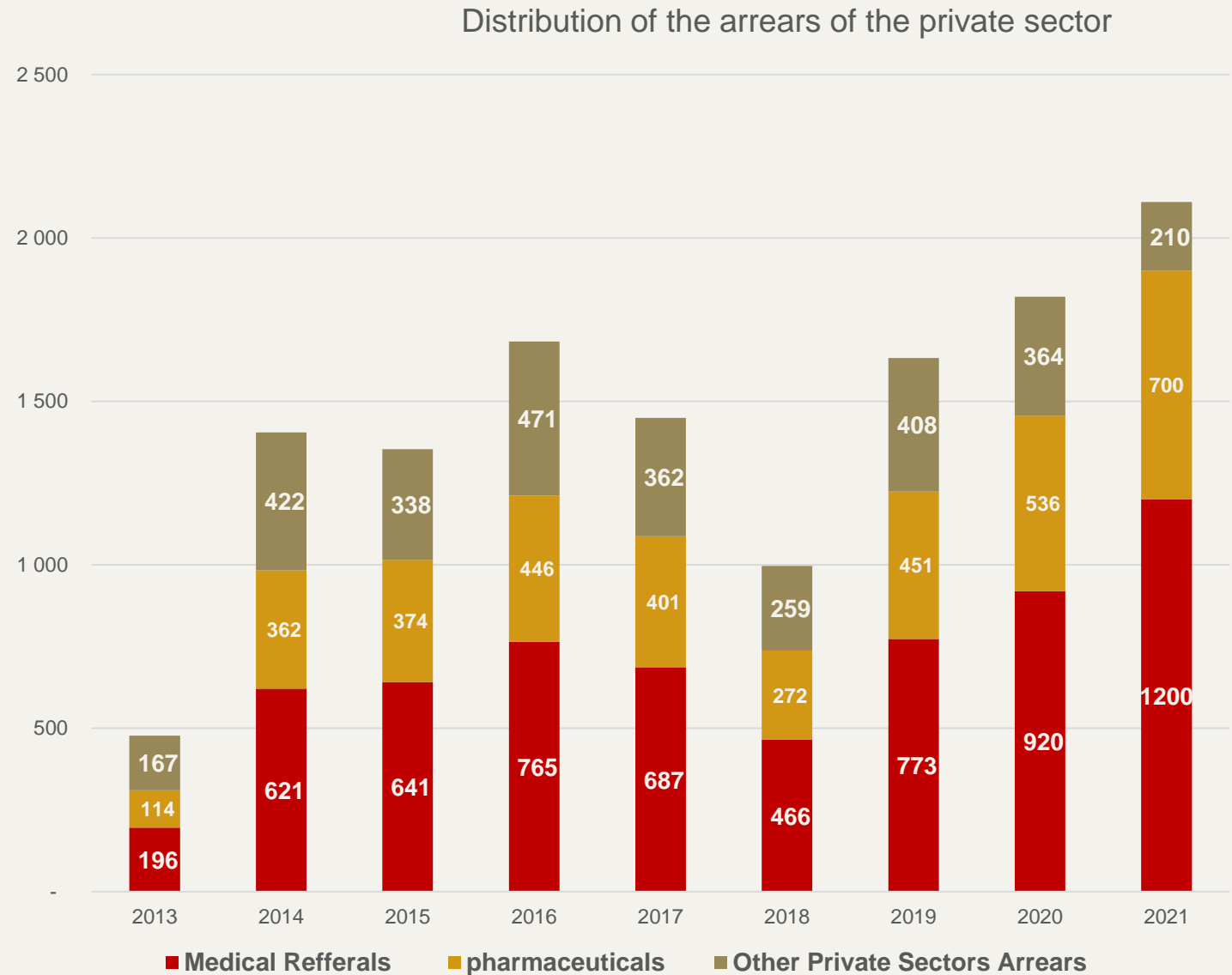
- The value of the Israeli discounts, which we cannot recover from the monthly clearing transfer as a result of net lending, ranges from 20%.
- Net lending in 2021 constituted 8.6% of the income and 51% of the deficit.
- To overcome this phenomenon, an internal department for net lending has been established in the General Department of Payments, and debt clearing procedures are being developed with local authorities (with funding from the World Bank).
- A decision of the Council of Ministers was issued on March 21, 2022 to form a steering committee for the administrative unit for net lending and collection.

b) Medical referrals

- The two items of medical referrals and general diagnosis for the health sector is carried out in detail by the Ministry of Health.
- But medical referrals cost constitutes 30% of the operating expenses, and repairing them is one of the critical strategic objectives of the Ministry of Finance partnering with the Ministry of Health.
- The percentage of referrals for the northern governorates is 77%, and the percentage of the southern governorates is 23%.
- Total medical referrals: 560 million NIS in 2015 and 924 million NIS in 2019.
- While the average cost of one medical transfer was: 6,395 NIS in 2015, followed by an increase in the cost to 8,810 NIS in 2019.
- Medical fees and health insurances cover 16% of the total expenditures of the Ministry of Health.
- It is worth noting that the 19% growth in the number of cases was offset by a 37% increase in costs, covering the period from 2015-2019 (Ministry of Health data).

The share of the health sector in the arrears of the private sector

- Medical referrals to hospitals inside and outside the country, in addition to medical supplies and drug bids, constituted the largest part of the government's obligations towards the private sector as follows:
- The proportion of health sector arrears from the total private sector arrears ranged between 65%-90% during the period 2013-2021, and currently 90%.



C) Payroll Bell

- The Ministry of Finance pays the salaries monthly as follows:

	West Bank			Gaza Strip			External	TOTAL
	Civil	Security	Total	Civil	Security	Total		
Number	71,265	34,024	105,289	19,254	18,583	37,837	1,546	144,672
Cost	330,515,029	137,205,710	467,720,739	93,036,325	74,137,017	167,173,342	15,822,349	650,716,430

The cost of the salary bill is one of the most critical problems facing the treasury. Where the salary bill represents approximately 73% of the net cash revenues, i.e. the value of 650 million shekels per month, but in fact, we cannot disburse the monthly salaries except with semi-salaries, as they have the nature of salaries in terms of commitment and time, and therefore the monthly wage bill and semi-salaries reach up to Approximately 950 million shekels, and the quasi-salaries are as follows:

	Statement	Total (NIS)
1	Civil Retirement	67,995,400
2	Civilians - substitutes, day laborers and unemployment	19,721,579
3	Retired, Legislative Council Members & Ministers	2,073,829
4	Bonuses for non-employees - GPC contracts	10,583,167
5	Ministers contracts - operational	8,197,396
6	1500 NIS grant	17,139,743
7	Martyrs & Injured Families	28,265,547
8	Prisoners & Ex-detainees	20,148,211
9	Retired prisoners	17,651,659
10	The rest of the national fund bill	57,929,348
11	Basic Retirement	832,467
12	retired military	89,640,794
	TOTALS	340,179,140

Fourth: Developing the investment environment and supporting the growth of the private sector

The development of the investment environment and the growth of the business of the private sector will contribute fundamentally to the shift towards the private business community instead of relying on public jobs.

Where all trends indicate that financing the sustainable development goals cannot be done with the efforts of donors and treasury funds alone, if the bulk of the sustainable development goals depends fundamentally on the investments, initiatives and solutions of the private sector, and for this the Palestinian government is active in achieving the following:

- Supporting and incubating start-ups and focusing on small and medium enterprises. Examples of efforts focused on this goal are:

- (Infinite Loans - Ministry of Labour)
- Work for money Cash for work
- Sustainability project (the Monetary Authority and the Ministry of Finance), where a contribution was made by the Ministry of Finance, amounting to 8 million dollars, in addition to 20 million dollars from the Monetary Authority).
- The F4J project (Finance for Employment) is funded by the World Bank and a group of donors and investors

- Orientation towards building free industrial zones (in order to encourage investors)

- Orientation towards vocational education (as there is an acute shortage of vocational education)

Public Administration Reforms

- Integration of institutions and non-intersection of efforts

- Value for work principle

- Relying on the digitalization revolution and artificial intelligence to reduce the required human effort.

During this reform process, it is necessary to control and reduce unemployment rates by increasing the society's absorption of new graduates and the unemployed, according to the following proposals:

1. Enhancing and increasing job opportunities in the private sector.
2. Encouraging and supporting small and micro enterprises because of their great role in creating job opportunities and motivating the economic wheel. This is done by providing long-term loans and tax facilities to the beneficiaries.
3. Replacing the recruitment process in the military sector **with a new mechanism represented in contracting with young people for a certain period of time and then ending the contract and giving them a financial reward that allows them to start their own project to complete their lives.** This mechanism has many benefits, including:
 - Take advantage of young capabilities.
 - Reducing the financial consequences of retirement on the state treasury.
 - Slimming the military apparatus.

Regarding justice

We always strive to reduce the gap between employees' salaries, in order to maintain justice among all segments of society.

Regarding good governance and responsibility

The government's decisions regarding merging some institutions with a similar work objectives aim to increase efficiency by concentrating effort and reducing work on some issues

In addition to the government's attempt to reduce wages expenditures, net lending and medical referrals from the budget, and increase the shares of development, operational and development expenditures in order to achieve the state's goals and strategies.

The following is a summary of the Cabinet's decision regarding the merger, annexation and transfer of bodies, institutions and authorities

Institution	Draft decision	Decision
Palestine Medical Complex	Attached to the Ministry of Health	Attached to the Ministry of Health
Forensic Medicine Center	Attached to the Ministry of Justice	Attached to the Ministry of Justice
Civil Aviation Authority	Attached to the Ministry of Transport	Attached to the Ministry of Transport
Maritime Ports Authority	Attached to the Ministry of Transport	Attached to the Ministry of Transport
Financial Auditing Profession Council	Attached to the Ministry of Finance	Attached to the Ministry of Finance
Cultural Capitals Committees	Attached to the Ministry of Culture	Attached to the Ministry of Culture
Achievement and Excellence Fund for Education Support	Attached to the Ministry of Education	Attached to the Ministry of Education
Child's National Council	Attached to the Ministry of Social Development	Attached to the Ministry of Social Development
Palestinian National Committee for International Humanitarian Law	Attached to the Ministry of Justice	Attached to the Ministry of Justice
Radiation and Nuclear Regulatory Authority	Attached to the Ministry of Health	Cancelled and Mandate attached to the Environment Authority
Supreme Traffic Council	Attached to the Ministry of Transport	Cancelled and Mandate attached to the Ministry of Transport
National Anti-Poverty Commission	Attached to the Ministry of Social Development	Cancelled and Mandate attached to the Ministry of Social Development
Industrial Cities and Free Zones Authority	Attached to the Investment Promotion Authority	Merge with Investment Commission as one Institution
Palestinian Charitable Organization for Family Solidarity	Cancelled or dissolved property and assets to the state treasury	Cancelled or dissolved property and assets to the state treasury
Bethlehem Project Authority (2000)		
Consumer Economic Corporation for the Security Forces and Police		
Gaza Archaeology Museum	Attached to the Ministry of Tourism	
Palestinian Foundation for Economic Empowerment	It is attached to the Independence Bank for Development and Investment	The Independence Bank for Development and Investment handles all financial transactions for each of them
Employment and Social Protection Fund		
Agricultural Credit Corporation		
Agricultural Risk and Insurance Fund	Attached to the Ministry of Agriculture	
Loan Fund for Students of Higher Education Institutions	It is attached to the Ministry of Higher Education and Scientific Research	

Thank you...