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**Palestine Economic Policy Research Institute**

## **Preparing a Citizens' Budget in Palestine**

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## Foreword

Among its numerous objectives, the Palestine Economic Policy Research Institute (MAS) is much concerned with promoting societal awareness of economic and social development issues that affect people's lives and their well-being. MAS also stresses the need to strengthen the values of dialogue, governance, oversight and transparency in order to guarantee the rights of citizens to know the sources of funding and spending vis-à-vis public financing, as well as their rights to participate in formulating future spending trends and priorities, in association with central and local authorities. This study aims to illustrate approved global practices in terms of preparing citizens' budgets on what is publically disseminated to citizens of Palestine. This paves the way for presenting a set of recommendations and policies that enhance the process of preparing citizens' budgets, their dissemination and their sustainability. As such, the citizens' budget becomes a participatory tool between the citizen, the central government and local governance units in terms of preparing public policies and spending priorities, while formulating these in proportion to developmental needs. The significance of this paper is that it sheds light on citizens' budget as a tool for raising awareness and educating citizens on issues of revenues, expenditures and sources of funding.

The study demonstrates that the citizens' budgets of the Palestinian central government have achieved most of the requirements of best practices listed in performance indicators (introductory criteria), except for financial risks that the state may be exposed to.

All citizens' budgets at responsible authorities and local governance units were limited to achieving the purpose of publication. However, they did not include an explanation of participatory goals in preparing and publishing such budgets. Moreover, all versions of citizens' budgets issued by the ministries of Social Development and Education and Higher Education covered all criteria listed in performance indicators (social protection and gender responsiveness criteria). However, not all citizens' budgets fulfilled the criteria of timing, continuity and commitment in performance indicators, nor the criteria of involving NGOs, federations, unions, associations or citizens as listed in performance indicators (participation criteria). Furthermore, not all citizens' budgets were committed to achieving performance indicators (outreach criteria).

The study stresses the necessity of providing a legal framework for issuing a citizens' budget (within the parameters of the law on financial affairs and budget preparation, and/or within the Palestinian financial system). It also highlights the need to detail administrative accountability in terms of naming employees charged with preparing citizens' budgets at ministries and local authorities at the finance unit within responsible authorities. It also recommends strengthening cooperation and coordination between responsible authorities and relevant donors, in order to develop programs and websites specialized in publishing, analyzing and studying citizens' budgets, while preparing guidelines for preparing, publishing and publicizing such budgets. Additional recommendations include providing a permanent observatory to follow-up, study and analyze budgets, as well as raising special recommendations for developing budget management policies and mechanisms.

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Raja Khalidi  
Director General

## **Executive Summary**

The Palestinian economy suffers from deep structural distortions across all its productive sectors, including the labor market, capital (monetary) flows and the financial sector. The manifestations of financial distortion are evident in the fluctuation, irregularity and instability of the financial resources of the Palestinian Authority (PA). These resources are in the form of direct, financial revenues (local collection), indirect revenues (from customs' clearance) or external support and funding. This has negatively affected the ability of successive Palestinian governments to formulate comprehensive, medium- and long-term development plans.

There is a state of legislative vacuum in the Palestinian territories, given that the Legislative Council ceased work in 2007 as a result of political divisions. This reality has resulted in the weakness - and almost complete absence - of participatory and societal oversight of the PA's financial performance. There is a need to find a participatory formula in which both government and citizens meet through civil-society institutions focused on promoting the values of dialogue, good governance and transparency, in order to guarantee citizens' right to know the sources of funding and items of expenditure for public money. This reaffirms his/her right to participate in formulating future spending directions and priorities, hand in hand with relevant governmental bodies and local authorities.

The importance of the "citizens' budget" lies in the fact that it is one of the documents that must be published in conjunction with the announcement of the general budget law (or the general budget law decision). It is a simplified tool for educating citizens and raising their awareness on issues concerning public revenues, expenditures and sources of funding. It is also an important means for involving citizens in formulating spending priorities for the coming years. This applies to each of the various centers of responsibility at central government and local bodies.

Although global experiences vary - or are inconsistent - in the field of preparing the citizens' budget, whether in terms of its mandatory issuance or in terms of its size or scope, all international literature has agreed on the importance of this document, its target groups and the general objective of its issuance.

From here emerges the objective of this study, which is to identify best practices adopted globally in the preparation of citizens' budgets and contrasting these with current practices in Palestine. This is in order to present a set of recommendations and policies that promote the development and sustainability of the citizens' budget, making it a participatory tool between the citizen, the government and local government units, in terms of preparing and formulating public policies and spending priorities, in line with developmental needs.

### **Assessment of the Citizens' Budget in Palestine and its Conformity with Best Practices**

Prior to the approval of the general budget for 2011, civilian staff tasked with supporting the government in the development of a transparent, general budget submitted a proposal to the Minister of Finance to adopt and issue the citizens' budget, with their cooperation. The citizens' budget was first issued in Palestine in 2011 (AMAN Coalition, 2016). This was followed by the intermittent issuance of citizens' budgets by the Ministry of Finance, in addition to some versions at the level of ministries (Ministry of Social Development, Ministry of Education and Higher Education, Ministry of Local Government, Ministry of Health, Ministry of Labor) and

some local authorities (including Hawara, Bani Na'im, Qabatiya, Tarqumiya, Halhoul, Silat Al Dhaher), in partnership with the AMAN Coalition, the Miftah Foundation and the Applied Research Institute - Jerusalem (ARIJ).

In order to evaluate and further develop these budgetary publications, the research team reviewed the most prominent, global, best practices agreed upon by numerous studies and international organizations, the most prominent of which was a study by the Organization for Economic Cooperation and Development (OECD) in 2010 (Petrie, M, and Shields, J). Other studies included the bulletin issued by the International Budget Partnership (2012) and another study conducted by Bilge (2015) that deals with the methodology for preparing citizens' budgets based on the experiences of some countries. This study relied on a review of numerous, international experiences in the issuance of citizens' budgets.

Although there is no globally unified formula, form or structure for the issuance of a citizens' budget, agreed-upon best practices can pave the way for a general framework that can be built upon, in terms of evaluating and developing citizens' budgets in Palestine. Based on the above, Table 1 summarizes performance indicators according to best practices. These need to be taken into consideration when preparing a citizens' budget in Palestine:

**Table 1: Performance Indicators according to Best Practices for Citizens' Budgets**

Performance Indicator	Best Practices
<b>(1) Introduction</b>	<p>To include:</p> <ul style="list-style-type: none"> <li>• Stages in the preparation of a citizens' budget.</li> <li>• The purpose of the publication.</li> <li>• Outline of economic goals, trends and expectations. Comparison of expected budget results for the current year with the previous year's budget.</li> <li>• Discussion of the main financial risks that the country (or the responsibility center) may be exposed to, as a result of economic fluctuations and changes.</li> </ul>
<b>(2) Inclusiveness and transparency</b>	<p>To include:</p> <ul style="list-style-type: none"> <li>• Macroeconomic indicators and forecasts (economic growth, inflation, unemployment).</li> <li>• Items and sources of non-tax revenues, direct and indirect taxes.</li> <li>• Segmental (functional) or administrative division of expenditures (by center of responsibility).</li> <li>• Budget surplus or deficit, and sources of funding.</li> <li>• Public debt.</li> </ul>
<b>(3) Social protection and gender responsiveness</b>	<ul style="list-style-type: none"> <li>• Summary of direct support programs for individuals and social sector allocations.</li> <li>• Summary of direct commodity support programs.</li> <li>• Summary of employment support and economic empowerment programs.</li> <li>• The gender responsiveness of the budget.</li> </ul>
<b>(4) Dissemination and access</b>	<p>The extent of the success of advertising tools in reaching citizens at the right time, through:</p> <ul style="list-style-type: none"> <li>• Press conferences and the Ministry's official web pages.</li> <li>• Social media.</li> <li>• Schools and universities.</li> <li>• TV coverage.</li> </ul>
<b>(5) Participation, priorities and feedback</b>	<ul style="list-style-type: none"> <li>• The extent to which citizens are involved in setting public spending priorities through: <ul style="list-style-type: none"> <li>• Non-governmental organizations</li> <li>• Representative bodies of federations, unions and associations.</li> </ul> </li> <li>• Determine the mechanisms of communication and feedback by citizens.</li> </ul>

Performance Indicator	Best Practices
	<ul style="list-style-type: none"> <li>Respond to suggestions and observations received from citizens.</li> </ul>
(6) Continuity and regularity	Across time series that can be monitored and compared.
(7) Timing	In conjunction with the presentation of the draft general budget law to the Legislative Council (and in conjunction with the approval of the budget of the local authority by its members, and before it is submitted for approval by the Minister of Local Government).
(8) Clarity	Citizens' ability to read and understand numbers and various financial terms.
(9) Commitment	A summary of deviations in actual revenues and expenditures from approved budgets in previous years.
(10) Issuing Authority	Ministry of Finance. Governmental institutions. Legislative Council. Civil-society institutions. Local authorities.

## Conclusions and Recommendations

This study concludes with numerous findings and recommendations that enhance budget transparency, as well as citizens' rights to access information, and his/her right to participate in defining and prioritizing public spending priorities. This covers the development of citizens' budget at the levels of central government, responsibility centers and local bodies. Results and recommendations are as follows:

### Results

Citizens' budgets issued by central government fulfilled most of the best-practice requirements contained in performance indicator (see *Introduction*), except for financial risks that the government may be exposed to in terms of preparing and publishing a citizens' budget.

- All citizens' budgets at local authorities fulfilled all best practices listed under the 'inclusiveness and transparency' performance indicator. Citizens' budgets for central government fulfilled most of the best practices for the same performance indicator.
- All versions of citizens' budgets issued by the Ministry of Social Development and the Ministry of Education and Higher Education fulfill all the best practices listed under the 'social protection and gender responsiveness' indicator. Conversely, citizens' budgets at local authorities did not fulfill the 'summary of employment support and economic empowerment programs' best-practice within this indicator, given the lack of approval of this type of program within the general budgets of local authorities.
- Not all citizens' budgets fulfilled best practices associated with the 'timing, continuity and commitment' performance indicators. This is because not all citizens' budgets were published in conjunction with the presentation of the draft general budget law to the Legislative Council or to representative bodies, or in conjunction with the approval of the budgets of local authorities, prior to submitting these for the approval of the Minister of Local Government. Moreover, citizens' budgets were not published within comparable time series. Citizens' budgets do not include a summary of the deviations of actual revenues and expenditures from budgets approved in previous years, except for those issued by the central government, albeit limited to net lending only. As for the 'clarity' indicator, all citizens' budgets clarified terms and concepts that help citizens understand budget contents.
- Not all citizens' budgets fulfilled the best practices of involving NGOs, federations, unions, associations or citizens in the 'participation' performance indicator. The process of preparing all citizens' budgets was limited to the participation of some civil-society institutions. It did not include other institutions such as unions, federations and associations. However, all citizens' budgets were committed to achieving the second best-practice listed

in the same performance indicator, by identifying mechanisms for communication and feedback with citizens, with the exception of the 2016 and 2017 budgets of the Ministry of Finance and the 2016 budget of the Ministry of Social Development.

- Not all citizens' budgets fulfilled best practices listed under the 'dissemination and access' performance indicator, as the process of publishing most versions of citizens' budgets was limited to some official web pages for central government, responsibility centers and local authorities, as well as some Facebook pages and electronic newspapers.

## **Recommendations**

### **General Recommendations**

- Provide legal cover for the issuance of citizens' budget (within the Financial Affairs and Budget Preparation Law, and/or within the Palestinian financial system).
- Provide administrative cover in terms of naming employees charged with preparing citizens' budget at ministries and local bodies, utilizing staff at financial units at responsibility centers.
- Strengthen cooperation and coordination between responsibility centers and relevant donors in order to:
  - Build websites and develop software specializing in the publication and analysis of citizens' budgets.
  - Draft guidelines for preparing, publishing and outlining citizens' budgets.
  - Operate a dedicated workspace to monitor, study and analyze budgets, while formulating special recommendations for the development of policies and mechanisms for managing citizens' budgets.
- Publish citizens' budget in conjunction with the presentation of the draft general budget law to the Legislative Council (and in conjunction with the approval of the budget of the local authority by its members, and before it is submitted for approval by the Minister of Local Government). This allows citizens and representative bodies to view the details and priorities of the government's financial policies, as well as municipalities participating in the formulation of proposals.
- Adopt a representative, advisory council covering all segments of society (in the absence of a Legislative Council) made up of relevant, non-governmental organizations, unions, associations, parties and specialized academics, to whom the citizens' budget is presented before publishing the general budget.
- Undertake systematic and studied awareness-raising on definitions, and the dissemination of citizens' budgets by:
  - Publishing budgets for review by targeted community groups. Focus should be placed on publishing this at Palestinian universities and schools, as they are part of these groups.
  - Covering the issuance of all citizens' budgets with an official press conference, as well as publishing them on various official pages at responsibility centers, local bodies and central government.
  - Increasing levels of media coverage on citizens' budgets through various media and social networking sites.
  - Focus on the importance of completing the process of issuing citizens' budgets at all local authorities, as it is the first step and nucleus towards increasing societal awareness about citizens' financial rights, while enhancing their ability to participate in formulating public spending priorities.
- Pay additional emphasis to the following issues:

- Women: Clarify programs concerned with employing and empowering women economically, while achieving equality between men and women across various life issues: empowering women in the labor market, improving their access to decision-making positions and improving health and education services provided to them.
- Persons with special needs: Reference should be made to financial allocations and programs for people with special needs, while contributing to the improvement of opportunities for their social integration by creating and adapting infrastructure, raising the rate of their enrollment in education, providing job opportunities for them, and providing rehabilitation and social services opportunities.
- Area C and seam-zone: Enhance access to information and various other services, clarify programs that enhance their resilience in light of repeated violations and attacks by improving relief and development assistance provided to them, which helps keep them on their land.

### Proposed General Structure and Visual Identity of the Citizens' Budget

Based on the analysis of the degree of completeness of citizens' budgets based on global, best practices, and through the survey and meetings conducted by the research team with competent authorities, the study recommends developing the content of citizens' budgets and arranging it according to the following vision:

Section	Elements	Suggestions
Introduction (preamble)	The purpose of publishing	A simplified outline of the general budget, summarizing the government's policies and directions for the coming year, enabling citizens to read revenue and expenditure figures, estimate the deficit and public debt, and other topics that concern them and affect their lives. It also aims to achieve more transparency and trust between the citizen and the government, through open channels of communication with citizens, in order to involve them in determining public spending priorities, while realizing community participation in decision-making on sources of financing, deficits and public debt.
	Stages in preparing the general budget	Stages of preparation are clarified, addressing the vacuum created by the absence of the Legislative Council, as well as constitutional matters that require the existence of a Legislative Council (preparation, approval, implementation, follow-up and oversight). Clarify the parties and mechanisms with which the government conducts consultations (if any), in order to fill part of the void caused by the absence of the Legislative Council.
	The government's financial and economic objectives and directions	Examples include: <ul style="list-style-type: none"> <li>• Starting the implementation of the tourism cluster plan: it aims to achieve the greatest benefits and returns at the economic level, in terms of conveying the true image of Palestine to tourists coming to visit from overseas.</li> <li>• Orientation towards a fairer tax system: by redistributing the tax burden.</li> <li>• Expenditure control: by rationalizing current and operating expenses.</li> </ul>
	Challenges and risks	Examples include: <ul style="list-style-type: none"> <li>• Withholding clearance funds by the Israeli side.</li> <li>• Israeli deductions from clearance funds.</li> <li>• The Corona crisis and associated financial risks.</li> <li>• The war on the Gaza Strip.</li> </ul>
Important Terms	Simplification of the most prominent	Define: <ul style="list-style-type: none"> <li>• Tax revenue (value added tax, customs, excise duties and income taxes) and non-tax revenues.</li> </ul>

Section	Elements	Suggestions
	economic terms received	<ul style="list-style-type: none"> <li>• Clearance mechanism with the Israeli side.</li> <li>• Current expenditures (salaries and wages + operational + transformational + capital).</li> <li>• Development expenditure.</li> <li>• Net lending.</li> <li>• Deficit before financing.</li> <li>• Financing gap.</li> <li>• Funding sources of aid, loans and grants.</li> <li>• Public debt.</li> </ul>
Macroeconomic indicators	Economic growth	Attach a graph of the (real) GDP growth rate for the last five years (West Bank, Gaza Strip, Palestinian Territories).
	Inflation rate	Attach a graph showing the annual inflation rate for the last five years.
	Unemployment rate	Attach a graph showing the unemployment rate for the last five years (West Bank, Gaza Strip, Palestinian territories), classified by gender.
Planned expenditures	Functional division of expenditures	<ul style="list-style-type: none"> <li>• Governance sector (with illustrations detailing the expenditures of the Ministry of Interior and security apparatus, and the Office of the President).</li> <li>• Economic sector (with illustrations detailing the expenditures of the Ministry of Agriculture and the Ministry of National Economy).</li> <li>• Social sector (with illustrations detailing the expenditures of the Ministry of Education and Higher Education, the Ministry of Health and the Ministry of Social Development).</li> <li>• Infrastructure sector.</li> </ul>
	Economic division of expenditures	<ul style="list-style-type: none"> <li>• Current expenditures (with illustrations detailing salaries and wages for the civil and military sectors, operating expenses, transfer and capital expenditures).</li> <li>• Development expenditures (with a summary of the most prominent sectors and projects that will benefit from these expenditures).</li> <li>• Net lending (with figures showing the net lending line item for the last five years).</li> </ul>
	Geographical breakdown of expenditures	<ul style="list-style-type: none"> <li>• Between the West Bank and the Gaza Strip, that is, the details of the financial obligations in the budget for the Gaza Strip.</li> <li>• An estimate of some development expenditures at the level of governorates.</li> </ul>
Revenues	Direct domestic revenue	<ul style="list-style-type: none"> <li>• A detailed explanation of:</li> <li>• Non-tax revenues.</li> <li>• Value-added tax (with a simple and brief explanation of the nature of this type of tax and the prevailing rate).</li> <li>• Customs and excise duties.</li> <li>• Income tax (with a simple and brief explanation of tax brackets).</li> </ul>
	Indirect domestic revenue (clearance)	<ul style="list-style-type: none"> <li>• Illustrations for the details of:</li> <li>• Value-added tax (with an explanation of the nature of the relationship with the Israeli side).</li> <li>• Customs and excise duties, and a brief paragraph on the idea of a unified customs' union with the Israeli side (with brief details of the top five or ten commodities).</li> <li>• Income taxes.</li> <li>• Fuel tax.</li> </ul>
	Geographical division of revenue	<ul style="list-style-type: none"> <li>• Details of revenues generated (if any) for the Palestinian government from the Gaza Strip.</li> </ul>
Surplus/deficit	Deficit before financing (in case of budget deficit)	<ul style="list-style-type: none"> <li>• With a simple explanation of:</li> <li>• Deficit amount in the general budget.</li> <li>• Anticipated amounts and sources of funding (details of aid, loans and grants).</li> <li>• Financing gap.</li> </ul>

Section	Elements	Suggestions
	Deviations	A summary of deviations of actual revenues and expenditures from budgets approved in previous years.
	Public debt	<ul style="list-style-type: none"> <li>• An illustration of trends in public debt during the last five years.</li> <li>• An illustration of trends in private sector arrears during the last five years.</li> <li>• An illustration of trends in servicing public debts during the last five years.</li> </ul>
Gender responsiveness	Verify the extent to which the general budget responds to gender requirements	<ol style="list-style-type: none"> <li>1. Clarify the extent to which the general budget takes into account gender, by providing the following details: <ul style="list-style-type: none"> <li>• Estimating the amounts allocated to the implementation of programs, projects and activities for women.</li> <li>• The extent to which the amounts allocated to implement programs, projects and activities for women are able to achieve the outputs, results and objectives related to various policies.</li> </ul> </li> <li>2. Use the method of presenting financial statements related to women's budget allocations in a way that facilitates the process of monitoring the extent to which these allowances contribute to the empowerment of women socially, politically and economically. The details required in this field include: <ul style="list-style-type: none"> <li>• Track the development of numbers and percentages for female workers in the public sector during the last five years.</li> <li>• Track the evolution of women's job performance in the public sector, in terms of senior management positions during the last five years.</li> <li>• Track gender wage differentials in the civil service during the last five years.</li> <li>• Track indicators related to education, health and social services from a gender perspective.</li> </ul> </li> </ol>