الاتحاد الفلسطيني للهيئات المحلية
Association of Palestinian Local Authorities

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

The Financial Revenues and Expenditures of Palestinian Local Governance Units (LGUs)

2024

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Jerusalem and Ramallah

2024

Contents

Acronyms

AFD	Agence Française de Développement (French Development Agency)
APLA	Association of Palestinian Local Authorities
ARIJ	Applied Research Institute of Jerusalem
CSO	Civil-society organization
EGP	Egyptian Pound
FMIS	Financial Management Information System
HR	Human resources
JOD	Jordanian Dinar
JSC	Joined service council
LGU	Local governance unit
MDLF	Municipal Development and Lending Fund
MoLG	Ministry of Local Government
MoU	Memorandum of Understanding
NGO	Non-governmental organization
NIS	New Israeli Shekel
PCBS	Palestinian Central Bureau of Statistics
PNSA	Palestinian National School of Administration
PPP	Public-Private Partnership
U.S.	United States of America
USD	United States Dollar
USG	United States Government

Executive Summary

A study on the revenues and expenditures of Palestinian local governance units (LGUs)

The ability of local governance units (LGUs, including municipalities) to manage their revenues and expenditures, and the relationship between them and central government, are considered two of the most important issues that are constantly addressed globally in studies on the local governance sector. Although the composition of municipal revenues varies according to each country and the laws regulating them, in general, they are usually limited to the following: fees collected by LGUs in exchange for providing certain services, taxes, penalties for violations, and investments of all kind.

Municipalities in Palestine face numerous challenges resulting from the prevailing economic and political conditions in Palestine, in addition to internal challenges related to the structure of municipalities, their financial and administrative systems and their governance system, as well that of the local governance sector at the macro level. Note that these challenges are similar to those prevailing in many developing countries. Municipalities also face a constant dilemma: the need to balance their revenues with their expenditures. This requires successful and effective management to avoid a deficit in the municipal budget, a possibility resulting from the growing value of municipal expenditures. These directly link to population growth, and the decline in revenues, given the challenges outlined above.

Within this context, this study aims to evaluate the financial situation of LGUs in the West Bank, by conducting detailed and comprehensive financial analysis of the components of LGUs' revenues and expenditures. This study assesses the current situation with regard to LGUs' needs, their capabilities in the field of financial management, and the extent to which they practice transparency, integrity and community accountability. The study works to identify the most prominent gaps in financial and administrative performance, reaching results that help to enrich the effectiveness of administrative procedures for managing revenues and expenditures at Palestinian LGUs. The study also includes a review of the legal and legislative framework regulating the Palestinian local governance sector, especially laws affecting LGUs' revenues and expenditures. This study includes the analysis of the financial statements of a sample of 29 municipalities (Class A, B and C). In-depth interviews were held with a number of key stakeholders in the local governance sector.

The study shows that there are clear gaps in the legal framework regulating the local governance sector, especially as this relates to organizing and determining the revenues of LGUs and the distribution of their expenses. The most prominent deficiency is the weak independence of LGUs in managing their financial resources, combined with a lack of clarity on the distribution of powers and responsibilities between LGUs and central government. Additionally, the existing framework does not adequately address the regulation of partnerships between the private and public sectors (LGUs in this context), neither does it address the regulation of partnerships outside the scope of tasks assigned to LGUs.

Moreover, the current legal framework does not distinguish in responsibilities and tasks required of LGUs according to their legal classification (Class A, Class B or Class C). This has resulted in the inability of smaller LGUs (Class C and village councils) to carry out the tasks mandated of them in the Local Authorities Law No.1 (1997), negatively affecting the quality of services provided to citizens.

The study examines - in detail - the governance of LGUs in Palestine, and the reality of how they manage their financial and human resources. It shows the existence of a number of challenges related to collecting revenues and managing expenses at LGUs, leading to large fluctuations in revenue sources and their inadequacy most of the time, all coinciding with an increase in expenses. The sustainability of self-collection revenues is greatly affected by the ability and willingness of citizens to pay their due fees for services, as well as the volume of economic activity within the authority's borders, and the incorrect pricing of many LGU services, resulting in a mismatch between the cost of services and the value of fees imposed on citizens. Moreover, LGUs lack sufficient independence to allow them to introduce new fees and taxes to meet their financial needs.

The fluctuation of financial transfers (property taxes, road and transport tolls, professional licenses, etc.) from central government to LGUs - combined with the non-comprehensiveness of property valuations for the purpose of collecting taxes - contribute negatively to the provision of services and proper planning at LGUs. This coincides with a failure to allocate sums deducted from the government's general budget, for periodic transfer to local authorities. In the same context, there are large fluctuations in grants and external support on which local authorities rely (heavily) to finance developmental, investment and infrastructure projects, especially as most international funding is conditioned politically.

The study also shows that there are problems related to local authorities' management of their expenses, especially in light of the increasing costs of providing services. This is further compounded by the weak efficiency of human resources at LGUs, where administrative and executive staff lack the skills necessary to monitor projects. Many LGUs suffer from the absence of good governance and the predominance of tribal, family factors and partisan, political factors in the process of selecting council members. This leads to the disqualification of candidates with required academic and professional competencies, if they do not conform to tribal or political standards. Finally, it must be noted that the community accountability process is weak across the majority of local authorities, especially given the absence of a legal framework to codify it.

The results of the financial analysis of municipalities included in the study sample show that average expenses at LGUs amounted to (about) 99% of their revenues. Salaries accounted for, on average, 32% of total revenues, while 'commercial' expenses constituted about 39% of total expenses. Data analysis also shows a significant decline in cash liquidity ratios – these did not average more than 3.4% of total municipal assets. Moreover, the high percentage of fixed assets limits the ability of municipalities to pay their debts and cover their expenses. At most municipalities, the total ratio of debts to total assets is close to 41%, which is a high percentage that indicates a significant level of risk. This poses a major challenge for local authorities in managing their operational expenses and covering their cash needs, without resorting to borrowing.

The study demonstrates that there is no unified methodology across municipalities for presenting and preparing financial statements, combined with the absence of a specialized guide to explain mechanisms for preparing financial statements and their components. Numerous municipalities still rely on the cash basis - and not the accrual or modified accrual basis – to prepare their financial statements. Moreover, several municipalities do not include the value of fixed assets in their accounts, limiting their reliability in terms of budget and accounts' analysis.

In conclusion, the study proposes a roadmap for municipalities, central government and other stakeholders, to overcome various challenges facing local authorities, while enhancing their financial sustainability. These are outlined below.

- Strengthen the legal framework regulating the local governance sector, to address (direct and indirect) legislative challenges associated with this sector that negatively affect LGUs' ability to collect their revenues and manage their expenses. This requires a review of Local Authorities Law No. 1 (1997), as well as Cabinet Resolution No.11 (2019) regarding the financial system for local bodies; Regulation No.27 (2022) on the partnership system between LGUs and the private sector; and Decree-Law No.21 (2017) that is in itself an amendment of the Temporary Cities, Villages and Buildings' Planning Law No.79 (1966).
- Promote sustainable financial management at LGUs, by establishing a specialized and unified financial management system for municipalities with similar legal classifications (A, B, C or village councils). This must take into account the financial, material and human capabilities of LGUs according to their legal classification. Develop detailed foundations and standards for financial management at LGUs in a participatory manner. Ensure accuracy by LGUs when preparing, approving and implementing annual budgets, and when specifying the foundations for building these budgets. Develop effective tools and solutions in the field of financial management to ensure the payment of local authorities' debts. Adopt clear and sound principles for measuring the cost of services provided by LGUs to citizens. Enhance the revenue generation capabilities of LGUs from diverse sources, while exploiting revenue sources permitted to them by Law. Expand partnerships with the private sector, including productive investment projects, aiming to create more diverse and sustainable revenue opportunities for LGUs. Adopt incentives for collection employees to boost collection rates. Develop effective systems for collecting dues and fees from citizens, and rescheduling late payment of fees. Compare service fees and costs across municipalities, such that they are proportional to per capita income and the number of residents within municipal jurisdiction.
- Strengthen LGUs' administrative and governance systems, by developing a specialized and unified administrative system for municipalities with similar legal classifications and circulating these to employees. Direct all local authorities to commit to preparing realistic medium-term strategic plans that take into account the LGU's financial and administrative situation. Adopt a participatory budgeting approach similar to many countries, by encouraging civil-society organizations and citizens to participate in preparing the annual budget. Involve representatives of the local community, non-governmental organizations and the private sector in the planning of projects. Enhance the dissemination of information, making it clearly available to the public. Municipalities must also provide a citizens' guide to inquire about fees for each type of service, including the mechanisms for calculating these fees and their compatibility with the costs borne by the LGU. Establish and adopt formal systems of control and accounting, whether internal control systems (implemented by assigning a specialized employee from within the local authority to monitor their application), or efficient external control systems.

- Develop and build LGUs' capabilities in adopting effective financial and administrative policies, by building the capabilities of employees in finance and administration. Build LGUs' capacities in implementing projects through continuous training and education. Clarify the differences between the trial balance, allocated budgets and expended budgets for those working in finance at municipalities. Provide LGUs (especially Classes B and C) with the necessary educational qualifications and practical experience to overcome challenges associated with limited HR competency. Qualify accountants working at municipalities and LGUs on methods for the preparation of accounting/financial statements according to the accrual basis, further developing their accounting capabilities.

Chapter One

1.1 Introduction

According to the Ministry of Local Government (MoLG), the local governance sector in the West Bank comprised 418 local authorities in 2022, distributed according to a specific classification: Class A, Class B, Class C, or Village Council. Twelve local authorities are classified as A, 29 as B, 91 as C, in addition to 286 village councils. Over the past three decades, and since the establishment of the MoLG, the number of local governance units (LGUs) has increased or decreased depending on the needs of residential communities.

LGUs are subject to a set of laws and legislation that govern the conduct of their work directly or indirectly, most notably Law No.1 (1997) regarding Palestinian LGUs, the Local Councils Election Law No.10 (2005), and their amendments. Additionally, there are a wide range of laws that affect the work and revenues of LGUs, especially laws regulating crafts and industries; licensing professions; collecting all kinds of taxes and fees, planning urbanization and facilitating local courts (as well as others).

The Local Councils Law (1997) stipulates 27 types of activities and services that LGUs are obligated to provide to citizens located within their borders. The most prominent of these services are urban planning, licensing and monitoring of buildings, providing water and electricity, managing sanitation services, managing public markets, licensing professions and crafts, collecting and disposing of solid waste, organizing parks and public spaces, and others. For the purpose of providing these services, Article 22 of this Law specifies several sources of revenue for LGUs, most notably taxes and fees that LGUs collect from citizens in exchange for service delivery, as well as grants and aid from various sources, and funding from central (executive) government.

In 2020, the total revenues of LGUs reached approximately USD 406.3 million compared to USD 390.6 million in expenses. Tax revenues constituted 19% of total revenues. Other sources of revenue (such as fees collected from the resale of electricity to residents, administrative fees, fines and transfers) constituted about 76.3% of total revenues, in contrast to grants and aid, which amounted to about 3.6% of total revenues. Regarding the distribution of spending, the largest share is concentrated on the procurement and provision of goods and services to citizens (about 50% of total spending), followed by staff wages and compensation (25.7%). Remaining expenses are distributed across fixed capital accumulation, grants and benefits, social services, maintenance, project-based expenses, emergency expenses and others (PCBS, 2020).

1.2 Goal and objectives

Goal:

- The study aims to enhance the effectiveness of procedures related to managing the revenues and expenditures of Palestinian LGUs, by conducting a comprehensive assessment of the financial position of LGUs in the West Bank in order to identify the most prominent gaps in their performance. The study generates recommendations to help LGUs better manage their revenues and expenses, enabling them to achieve improved financial stability.

Objectives:

To achieve the main goal of the study, a set of functional objectives need to be fulfilled:

1. Review the legal and legislative framework regulating the Palestinian local governance sector, especially laws on the revenues and expenditures of LGUs. Identify gaps in the legal framework that need addressing by enacting new policies and interventions, as well as determining whether current procedures for collecting revenues and allocating expenses comply with legal requirements.
2. Conduct a detailed and comprehensive financial analysis of the components of local governance revenues and expenditures, to identify gaps (between LGUs and between planned and actual revenues and expenditures), limitations and failures. The study's methodology covers an analysis of revenue and expenditure items for a sample of LGUs (classifications A, B and C), built according to time-series data for 2018-٢٢, in addition to a cross-sectional analysis of a sample of municipalities during 2021 or 2022.
3. Evaluate the current situation regarding the needs and capabilities of local bodies in the fields of financial management, transparency, integrity and communal accountability.
4. Initiate a dialogue among relevant stakeholders on these issues, in order to solve priority issues and actions that enhance the effectiveness of relevant policies and strategies.
5. Propose new sources of revenue for LGUs, and the means to boost existing sources, based on a review of the experiences of different countries, especially those that have a local governance structure with similar characteristics to the Palestinian structure.
6. Conduct a financial ratio analysis to measure LGUs' efficiency in distributing revenue sources across required expenditures.
7. Study and compare the level of services and their cost to the citizen.

1.3 Study sample and in-depth interviews

- A non-random sample of 29 municipalities classified as A, B or C.
- In-depth interviews with a number of key stakeholders in the local governance sector, in order to obtain qualitative data to support quantitative financial analysis. The following organizations were interviewed:
    - Association of Palestinian Local Authorities (APLA)
    - Municipal Development and Lending Fund (MDLF)
    - Sample of joined service councils for solid waste management (JSCs)
    - The Applied Research Institute of Jerusalem (ARIJ)
    - Non-random sample of LGUs (municipalities).

1.4 Study methodology

The study utilized the following methodology to achieve its objectives:

- Review of literature on the experiences of LGUs in different countries, especially data related to diversifying revenue sources and managing expenses. This aimed to identify key lessons learned and to determine their implications for the Palestinian context.
- Review of the current legal and legislative framework regulating the local governance sector in Palestine.
- Build the study's financial model according to the following steps:
  - Determine the financial indicators to be included in the financial model.
  - Determine global financial standards to measure municipalities' performance and financial condition.
  - Collect statistical and demographic data on each division, classification, municipality and governorate.

- Prepare a financial model (MS Excel) that meets the objectives, to include:
  - Entry screens for all municipal financial data and trial balance accounts.
  - The model accommodates data for several fiscal years (five years).
  - Integrate all financial ratios and indicators that measure municipalities' financial stability.
  - Test the financial model and ensure that all ratios and indicators are correct.
  - Ensure that the model conforms to the accrual basis and the modified accrual basis.
  - Ensure that the model factors in the ease of understanding and usage by finance departments atmunicipalities.
  - The model includes a graphics panel that depicts the financial condition of each municipality and its level of exposure to risks.

- Enter financial data into the financial model for all municipalities in the selected sample, after verifying the validity and accuracy of their financial data.
- Perform financial analysis according to the following steps:
  - Study and analyze all sources of revenues for municipalities, addressing revenues streams that are legally available to LGUs but are not utilized.
  - Study and analyze all municipal expenses and expenditures.
  - Study and analyze employees' salaries and the ratio of salaries to each citizen.
  - Study and analyze each municipality's services to every citizen living within its territory.
  - Define and measure the role of donors in the municipalities' financial performance.
  - Determine the role of governmental agencies and their funding of municipalities.
  - Study the types of capital and operating expenditures.
  - Compare the value of cash deficit/surplus at the levels of each municipality, all municipalities and according to each classification.
  - Study and analyze financial ratios that measure risks.
  - Study and analyze financial ratios that measure returns.
  - Identify financial stability indicators.
  - Conduct vertical analysis of select trial balance accounts and audited financial statements.
  - Conduct horizontal analysis of some trial balance accounts and audited financial statements.
  - Generate comparisons between municipal classifications A, B and C, as well as at the level of governorates.

- Contrast the situation of municipalities before and after the Corona pandemic.
- Formulate an integrated, standard model for each classification (A, B and C), which municipalities can rely on to constantly measure their financial health.
- Identify linkages between select municipal financial indicators and demographics and per capita incomes.
- (It should be noted that the steps outlined above were performed at two levels: the first according to classification, and the second at the aggregate level.

- Propose recommendations based on financial analysis, covering:
  - Expenditure management and expenses file.
  - Revenue file management.
  - Recommendations for managing financial risks facing municipalities.
  - Recommendations for confronting financial instability.

1.5 Study limitations

The research team faced a number of challenges in performing this study, most notably:

- Some municipalities are accredited on a cash basis, while other municipalities are accredited on an accrual basis, or a modified accrual basis. This creates difficulties in comparing them.
- It is necessary to verify the accuracy of the trial balance data and audit it, especially in the absence of an external legal audit.
- The structure of accounts is not uniform across all municipalities but varies. This requires additional effort to unify the structure of accounts, in order to enable financial analysis.
- Financial statements are not uniform (from year to year) at some municipalities, which required building a unified model compatible with the accounts of that municipality.
- Generating unified standards to measure the financial stability of all Palestinian municipalities, according to their legal classifications, was a challenge, given differences in the nature of challenges and capabilities between different classifications.
- A lack of cooperation between municipalities and central government units in providing detailed data, according to the study's timeframe.
- There may exist divergent perceptions between local and central levels of government on the reasons for the financial fragility of LGUs and plausible solutions.
- A significant lack of data was evident, relating to budgets and trial balances.
- Trial balance data was received for a number of municipalities, with most submitting this data for two years only – insufficient for the purposes of time-series financial analysis.
- Budget data was received for a number of municipalities. However, after examining this data, the research team found a large and fundamental difference between trial balances and budgets, or discrepancies in the value of some accounts. This prompted the team to omit these, and not include them in analysis.
- Relevant authorities were requested to provide data for the remaining (outstanding) years, but this was not provided. Moreover, there was a major problem with the availability of budget tracking accounts in trial balances, since numerous municipalities operate on a cash basis, and not accrual or modified accrual (no data on fixed asset accounts, debts, etc.). Therefore, the data collection plan was modified such that audited financial reports were used, despite difficulties in transferring account balances to the trial balance model approved by the MoLG and MDLF.

- Resorting to audited financial statements was the result of a lack of confidence in the data prepared and submitted by municipalities, especially after tests and audits were conducted that proved data inaccuracy and unreliability, as sourced by some municipalities. Additionally, there is an evident lack of financial center accounts, as most municipalities operate on a cash basis.

Chapter Two:Global experiences in diversifying the sources of LGUs' revenues

It is clear from the data on global municipal finance that there are fundamental changes in the composition of municipal revenue sources, regardless of their classification or location. For example, central government funding to municipalities in OECD countries declined by an average of 12% over the period 2010-16. Overall, municipalities face a constant dilemma - balancing their revenues with their expenditures. This requires successful and effective management in order to avoid a deficit in the municipal budget, which is a possibility, given the growth in municipal expenditures, directly linked to population growth. Therefore, to meet the increasing requirements for service delivery - coupled with the scarcity of material resources- several municipalities have resorted to differing methods to increase revenues from existing sources, in addition to creating new revenue sources to achieve financial sustainability (Schmautzer et al, 2019).

Despite the diversity of sources for municipal revenues across the globe, these revenue sources are limited to a specific number of comprehensive classifications, as follows:

- The first and most important source is fees, collected by municipalities from citizens and establishments in return for providing certain services, such as waste and sanitation management, construction and management of public facilities such as parks, schools and healthcare centers.
- Another source of municipal revenues is taxes, such as taxes imposed on property, land and real estate.
- Penalties (fees), such as construction, traffic and public health violations (and others). These are one of the most important sources of revenue for municipalities, through which they can control public safety and see to incorrect citizen practices.
- The last source (one of the most prominent sources with potential for expansion) is investment (of all kinds) and especially in assets. The most prominent municipal investments are prepaid parking, real estate leasing, asset appreciation and investments in stocks and bonds (securities), either commercial or governmental (such as municipal bonds). Moreover, there is the option of adopting projects to provide services in partnership with the private sector (public-private partnership, or PPP).

2.1 Strengthening municipal revenue sources

Before delving into details on the various sources of revenues by citing examples from different countries, it is necessary to highlight the most prominent methods to increase revenue sources and how to apply them. For example, concerning fees for services, taxes and penalties, the most prominent method is to increase the value of these fees, while justifying this increase to citizens by linking it either to the high cost of providing these services, or by applying the rule of discriminatory fees. These are based on a number of premises that aim to classify service recipients into specific categories, such as place of residence, the current income bracket of the service recipient, the intensity of demand for services from service recipients, and other premises. Some municipalities resort to introducing new fees and taxes in exchange for providing new services.

Another way to increase municipal revenues is to increase the efficiency and effectiveness of municipalities in collecting fees, taxes and penalties, and by increasing the efficiency of human resources (HR) at LGUs, through training and tools' provision to boost their efficiency in collection, thereby reducing evasion by service recipients. In the same context, expanding the collection base horizontally, by targeting categories of citizens who are not included in the tax or fees' collection base, helps to increase municipal revenues on the one hand, as well as improving tax equality across the citizenry.

Despite the diversity of municipal revenue sources (as noted above), the ability of municipalities to increase their revenues from various sources varies, due to a number of factors. For example, initiatives to increase municipal revenues - by raising the value of fees and taxes imposed on citizens or by introducing new fees and taxes - may result in opposition from citizens. Conversely, revenue sources from expanded investments and capitalized municipal assets paves the way for municipalities to expand their revenues without burdening citizens. It also allows municipalities to diversify their sources of revenue in ways that help to reduce the risks related to the decline in revenues collected from other sources, by cross compensating. Resultantly, this diversity depends on a municipality's (financial and human) capabilities in managing these resources. (Schmautzer et al, 2019).

Countries vary in the extent to which their municipalities depend on diverse revenues. In Finland, the central government decides the types of municipal taxes, leaving municipalities free to set rates. These taxes are mainly income taxes (for individuals), corporate income tax and property tax (Loikkanen & Nivalainen, 2011).

In 2017, revenues collected from local taxes constituted approximately 51% of the total local revenues of municipalities in Finland. This represents the highest percentage in terms of type of revenue, in that it constitutes more than 50% of total municipal revenues (fluctuating from year to year). Meanwhile, revenues derived from fees for services constituted 21% of total revenues during the same year.

The Finnish government also deploys a revenue transfer mechanism to municipalities that are unable to raise the financial resources to cover their activities, according to the law and specific standards. (European Committee of the Regions, 2023).

For example, the Finnish government has adopted a transfer system - in the form of state grants to municipalities - since the 1860s. The value of these grants was standardized at the time, aiming to enhance municipal capabilities in service delivery. Such grants helped municipalities to cover part of their expenses: salaries for teachers and doctors within their jurisdiction. They also contributed to covering the costs of establishing and managing hospitals, which they could not have done without the help of the central government. The system of central government grants to Finnish municipalities was developed at the beginning of this century, to make the value grants proportional to the volume of expenditures for each municipality (after the value of the grant was fixed and standardized for all municipalities), creating a form of justice in distribution. Larger grants were allocated to rural municipalities (which are considered marginalized) than those allocated to urban areas and cities. Therefore, with these amendments, the Finnish government aimed to ensure that grants match changing economic and financial circumstances faced by municipalities. In 1993, a system of government grants to municipalities was developed that no longer depended on the actual expenditures of a municipality, but rather on calculated (estimated) service requirements and the costs of delivery. (Loikkanen & Nivalainen, 2011).

It should be noted that since the 1990s, the dependence of Finnish municipalities on government grants has declined significantly (to around 20% of total revenues). In recent years, the trend in municipal financing has been to rely more on services' fees and income generated from commercial and investment projects owned by municipalities. Finnish municipalities have actively worked to expand these sources (services' fees and investments), compared to tax revenues, given the latter's decline with high rates of aging in Finnish society. This is reflected in the decrease in income taxes collected from working individuals; these amounted to 41.8% of total tax revenues in 2018, but are expected to decline significantly in coming years. (Oulasvirta & Valkama, 2021).

Funding sources for municipalities and state governments in the United States (U.S.) are very similar to Finland, although their distribution differs. For example, state governments and municipalities raise approximately 45% of their revenues from taxes, especially income taxes from individuals and corporations (levied only by state governments), as well as from sales' taxes and property taxes. Revenues from fees for services and utilities accounted for about 25%, with the remainder is distributed between central government transfers (18%) and other revenues such as investments in assets and municipal bonds. This distribution has not changed significantly since 1996. It should be noted that fluctuation and instability in municipal tax revenues and fees depend on several factors, most notably fluctuation in the economic conditions of taxpayers, and the impact of recessions and economic crises. (NASRA, 2023).

The sources of municipal tax revenue in the U.S. are divided into several categories. Some are collected by municipalities themselves, such as income taxes, in addition to taxes collected from entertainment services such as sporting events and concerts. Furthermore, there are common revenues between several municipalities, shared according to specific criteria, the most prominent of which are highway tolls. Specific criteria (based on the number of registered vehicles and the number of miles traveled on the road) are used to divide fees collected across municipalities and states. Another common revenue source is business licensing fees (merchant licenses). The criteria for distributing shared revenues vary from one state to another, but they are mainly based on municipal reports that include estimates of their future needs, as well as previous years' expenses.

In the case of South Africa, during 2021, revenues from fees for services (electricity, water, sanitation, etc.) constituted 48% of total municipal revenues; followed by transfers and grants, whether from the government or donors (22.3%); with property taxes in third place (17.8%). It is worth noting a drop in revenues from municipal investment activities: dividends from investments constituted only about 3.1% of the total. (Parliament of South Africa, 2022).

The situation in Jordan differs, as municipalities do not enjoy complete independence from the central government, neither in determining the value of revenues and the mechanisms for collecting them; nor the possibility of carrying out the collection process independently. As with other countries, municipal revenue sources in Jordan consist mainly of taxes (mainly fuel taxes and property taxes), as well as fees for services. Another source is grants and aid transferred by the central government, in addition to other revenues transferred by central government to municipalities, mainly consisting of investment dividends, fines and customs' duties.

The last source (other revenues) constitutes the largest share of municipal revenues, at about 59.5% of total revenues. Taxes and fees constitute about 38.6% of total revenues, according to 2013 data. (UCLG and OECD, 2016).

In Egypt, local governance suffers from structural constraints that limit its ability to provide services to citizens efficiently, due to an ongoing significant, financial deficit stemming mainly from an inadequate legal framework that hinders the process of collecting revenues, as well as the poor efficiency of HR at LGUs in performing collection. LGUs in Egypt are limited in their ability to mobilize the financial resources necessary for them: the percentage of revenues collected independently by LGUs does not exceed 10% of their total revenues. The collection of other forms of revenues is controlled by the central government, which then distributes these to LGUs. This dependence is caused by conflict between laws and legislation, where some laws give powers to LGUs to collect revenues from various sources, while other laws limit these powers indirectly, by giving more authority to central government. The lack of a clear decision-making structure and little coordination between government agencies, combined with the weakness of HR cadres at LGUs, erode the decision-making process in terms of increasing revenues in an efficient and effective manner. (El Hemaily et al, 2022).

In general, LGUs' revenue sources in Egypt consist of taxes and fees for providing certain services (waste collection and recycling, water, electricity, sanitation fees, etc.), as well as revenues collected from business activities (commercial, industrial and real-estate projects owned by LGUs across various economic sectors). Revenues also include government subsidies and transfers, as well as loans, fines and returns on investments made in national funds (such as services and social development funds, investment funds, housing and roads funds, industrial services funds, and others). (El Hemaily et al, 2022).

2.2 Innovative methods to increase revenues

This section discusses a number of experiences that a selection of countries have undergone in increasing their revenues, as well as certain lessons learned from these experiences that can be used to enrich the experience of Palestinian municipalities in enhancing their revenue sources and managing their expenses effectively.

- In Egypt, some LGUs have made strenuous efforts to energize revenue collection, where each employee is entitled to a 5% share of the value of the revenues that they collect. This contributed to a significant increase in revenues collection, from EGP 59 million to EGP 270 million during one fiscal year, in 2021. The problem with the continued application of this approach in Egypt is that it relies only on decisions taken by some LGUs, and is not supported by the legal framework with appropriate laws and legislation. Therefore, the methodology proposed here is to increase municipal revenues by awarding financial incentives, such as a percentage of the total collection to collectors, in the hope that this will motivate them to increase their collections, thereby furthering the interests of the associated LGU. To underwrite success, the legal framework should be amended to legalize these incentives, allowing for continuity in utilizing this approach.

- A lesson learned from the experiences of state governments in the U.S. is the 'Pay-As-You-Go' system, enabling a municipality to finance projects through existing revenues, instead of borrowing. A specific percentage of the financial surplus derived from taxes, grants and fees is allocated to financing capital development projects. For example, some municipalities collect such revenues by deducting USD 0.01 (one cent) from property taxes, allocating these to a separate fund (or making allocations via additional revenues from the sale of fixed assets). Another option is to allocate a specific annual amount, deducted specifically for capital development funds, where the value of the deduction varies according to a municipality's standards. (Center on Budget and Policy Priorities, 2019).
- Non-tax revenue instruments, such as fees paid by citizens for services (water, electricity, sewage, solid waste), are considered more diverse and flexible (in that they allow for more control over the value and sources of these revenues) when compared to tax revenues. These are more flexible tools (compared to tax revenues) that can be adapted to increase the revenues of LGUs. This advantage can be exploited to cover several needs. For example, LGUs must make more effort to expand the subscribers' base for these services, reaching potential subscribers who are currently untapped, by intensifying the pace of service provision. In the same context, adopting a price discrimination strategy (by dividing subscribers into categories, based on several criteria) can help to increase equality in collection, while also increasing the value of collection revenues, especially if discrimination is based on the elasticity of subscribers' demand for services. Finally, new revenue sources can be created within the current legal framework, by identifying and taking advantage of untapped revenue streams. (El Hemaily et al, 2022).
- The experiences of numerous municipalities in different countries have demonstrated the success of investing in productive projects to create new revenue sources, as an alternative to increasing the tax burden on citizens. It is necessary to point out that in order for these projects to succeed, the development process must begin with sound planning based on a participatory approach involving representatives of the local community, non-governmental organizations (NGOs) and the private sector (in project planning). This ought to be accompanied by amending (or expanding) the current legal framework to give more powers to LGUs in terms of participating in – and benefiting from – such projects.
- It is important to involve educational institutions (private laboratories and universities), as well as the private sector, in the project development process. This requires signing a memorandum of understanding (MoU) for municipal project ideas, to ensure that the LGU's needs are entailed in business models that (can be adapted to) generate revenues for LGUs, in addition to helping them achieve their social goals in terms of providing services to their citizenry. (The Egyptian experience). (El Hemaily et al, 2022).
- One of the tools deployed by municipalities in several countries (especially those whose municipalities enjoy high financial independence) is the issuance of financial bonds. Municipalities with high creditworthiness usually borrow money by issuing negotiable municipal bonds, in exchange for a pledge to repay the value of the bond - plus due interest - to the holders of these bonds on specific dates. The types of municipal bonds vary depending on the purpose of issuing them and the methods of repayment. The most prominent type are General Obligation Bonds, which base their credit evaluation on the credit capacity of the municipality in question. Their dues are paid through the municipalities' general revenues, without being linked to a specific project. Another type is the so-called Revenue Bonds, which are issued to finance specific public projects. In this case, the bonds' dues are paid primarily from the revenues of these projects, and not from the general revenues of municipalities. (El Hemaily et al, 2022).

- Despite the great importance associated with issuing municipal bonds (constituting an important source of revenue for countless municipalities around the world), applying this tool in the Palestinian context may face major challenges. This is due to the necessity of having specialized knowledge of investments within local municipal teams, which is not the case most of the time. Some LGUs also hold weak credit ratings, combined with insufficient internal revenues required to cover debt (bond) receivables, especially if the proceeds of these bonds are not used for income-generating, municipal projects.
- The partnership system with the private sector is considered one of the most successful methods in increasing municipal revenues; improving the quality of public services; and enhancing the efficiency of service delivery. Such partnerships help municipalities by entrusting the private sector with the provision of infrastructure or services that were traditionally provided by the public sector or municipalities. The importance of this partnership stems from the fact that it exempts municipalities from the financial responsibility of covering the capital costs necessary for investment, which are borne by the private sector in this case. These partnerships also help municipalities to earn additional (net) revenues, as a result of transferring a portion of operational costs to private operators. Such partnerships also provides municipalities with the opportunity to benefit from the expertise - and specialized skills - of private sector partners. In the same context, partnerships with the private sector open up opportunities for municipalities to provide services, especially those that require significant capital, without having to borrow (and be liable for interest payments and commissions). It even negates the need to rely on support from central government transfers or from donors. This increases the financial and administrative independence of municipalities, while improving their revenue flows. Alternatively, numerous problems limit the positivity of public-private partnerships (PPPs). The most prominent point of conflict is the difference in the nature of PPP services that need to be provided by the private sector to citizens, when comparted to requirements from before the partnership. There also exist problems related to contracting; delays in the implementation process; and problems that can appear during implementation and operational phases. The lack of clarity on how risks and tasks are shared by contracting parties is another significant problem, especially at municipalities in developing countries, which typically feature an inadequate legal framework to regulate this process and protect the rights of all parties. This applies to the Palestinian case (see Chapter 3 for more details).
- Strengthening community accountability and participatory budgeting preparation with citizens. Numerous experiences, especially state governments in the U.S., have proven that involving citizens in formulating municipal budgets (whether they are individuals or representative associations), and increasing their involvement in important decisions on increasing revenues and spending money, would bring many benefits. The most prominent is enhancing the ability of citizens to follow-up on the implementation of budgeted work streams, as well as revenues and spending, thus holding officials accountable in a more accurate and knowledgeable manner. One of the most notable benefits is increased transparency, as a result of improved, direct, popular participation in decision-making. Participatory budgeting improves communication and dialogue between municipalities and their citizens, thus enhancing social integration by allowing citizens to have a voice in municipal decisions. It should be noted that despite the positive aspects of participatory budgeting, it may face many challenges that can limit its positivity. Most notably, these include the lack of sufficient representation of citizens in preparing the budget, as well as an increase in the time required to prepare the budget, which may take longer than usual. (UN-HABITAT, 2009).

- The emergence of the participatory budgeting trend led to the emergence of a pattern of performance-based budgeting. This aims to evaluate how resources are used effectively, and the extent to which a municipality achieves its goals. It also aims to improve the financial management of municipalities, where the limited resources available to municipalities are expended as effectively and efficiently as possible. This performance-based budgeting approach is based on the need to allocate resources according to their most efficient and effective operational use, thus enhancing the overall efficiency of a municipality's work. Performance indicators are adopted (whether for people, projects or investments) that are measurable and verifiable. Performance measures are used to develop and justify budget requests, as well as to help determine future budget needs. (UN-HABITAT, 2009).
- At present, there has not been a consensus on a clear and specific definition of performance measures, as municipalities differ globally in the measures they adopt to measure performance depending on the nature of their resources, their employees' skills, and the extent to which they are able to measure according to a changing performance standard. Several municipalities rely on a wide range of standards, most notably inputs, outputs, efficiency and goals. In general, the budget concept provides performance information along with budgeted amounts, which contributes to improving the budget decision-making process by focusing funding options on the results of programs and projects (including the human-material resources needed for implementation). When following this approach, it is necessary to create a special system for measuring performance that clearly delineates the standards on which it will be based, specifying the reasons for allocating financial resources for each goal or task, and the size of each allocation.
- Methods for the allocation of spending based on performance vary. Some municipalities rely on linking the budget to past performance and expected results (along with other information), in a way that helps decision-makers allocate financial resources to specific budget items. This method is simpler than the alternative method, which is to use complex mathematical equations to determine the amount of funding that will be allocated to each budget item, representing a more stringent form of performance-based budgeting[1]. It must be noted that for the successful application of performance-based budgets (regardless of how they were prepared), municipalities must adopt advanced systems for collecting, analyzing and making use of data and information. Typically, this is accompanied by the implementation of comprehensive reforms within the municipality to support its digital and technological transformation, especially in the adoption of a financial (and administrative) management information system (FMIS). Implementing this budget also requires supporting a gradual transition that provides the opportunity for staff to learn and train across all the foundations of this transition. This must be done by starting to support these internal changes at an early stage (usually the process of adapting to the transition may require at least a year), before starting to approve the first, performance-based budget. An additional need is to determine the timeframe necessary for this transition process, and to try to adhere to it. (Klosek & Geraghty, 2016).
- In the final analysis, it must be noted that the failure to adopt the performance-based budgeting approach typically stems from insufficient municipal revenues (mostly), pre-requiring a more efficient use of limited resources (resource allocation). Experience has also proven that this type of budget shifts focus to achieving municipal priorities, rather than the private goals of municipal workers, which may conflict with the public interest. Such budgets also enhance transparency.

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1 https//:freebalance.com/en/blog/pfm/what-is-performance-budgeting

- In various countries, modern technological means and tools have helped municipalities to achieve financial sustainability. For example, the South African experience has shown that the use of a Geographic Information System (GIS), has improved the performance of local LGUs, especially rural ones, in collecting and updating data on all areas under their jurisdiction. A GIS is a method for managing, analyzing and displaying geographical information computer-wise on readable maps. These systems also help to measure the quality of services and examine the availability of infrastructure: water, sewage, gas and electricity networks, and others. A GIS can also spatially determine trends in urban population growth (urban expansion trends). Such systems enrich the planning process, helping to determine the readiness of municipalities in providing services in their areas and establishing infrastructure. This directly relates to the revenues and budgets of the municipality implementing these projects, which in turn depend on local taxes and fees and the level of collection from an expanded urban population in a particular area. (Hicken, 2010).
- One of the most prominent examples of municipalities deploying GIS is land planning. This covers reviewing land divisions, generating maps, identifying roads and public facilities that need to be maintained, evaluating infrastructure and its needs, mapping property management, and supporting emergency management and traffic planning. (Lennox, 2012).
- GIS also help to analyze land usage patterns and the size and trends in population growth, helping municipalities to identify potential areas for new development or re-development. The process of adopting GIS at municipalities requires large spending, significant effort, and the financial resources required to purchase and employ the technology and software to support GIS (as well as updating these systems and further developing them). Additionally, employees need to be trained in using these systems, ensuring effective communication between all departments within the municipality, and between the municipality and its external communities, in order to ensure the proper transfer of data. These measures create additional costs for municipalities, especially in the first years following the transition to the adoption of these new systems. However, proper application bears fruit in terms of improving municipal revenues across both the medium and long terms.
- Some municipalities in the U.S. impose one-time fees, commonly referred to as 'Impact Fees'. Their value is determined by the relevant municipality, and allocated to raising capital to create and develop infrastructure projects (mainly), such as constructing and paving roads/sidewalks; building schools, educational facilities, parks and public spaces; and improving sewage networks. [2]Such projects serve the citizenry as a whole. These fees are usually imposed on private investors, with the aim of covering the costs of new infrastructure and public services, resulting from the establishment of these projects. Fees help protect citizens (public taxpayers) from having to bear the additional cost of expanded public services (if provided by the private sector). Another benefit is reducing the economic burden on municipalities, that may not have sufficient funds to cover the rapid growth of infrastructure components associated with a growth in private-sector investments (of various types, such as residential, commercial, industrial, services, real estate). It is also a speedy source of income, as it is collected from investors in advance. Conversely, imposing additional taxes sometimes discourages - rather than stimulating - private sector investment. [3]
- The value of these fees is typically based on the cost of the project, as well as the nature and size of its potential development. The experiences of many municipalities and state governments in the U.S. have shown that when these fees are based on a comprehensive development plan,

2 https//:mrsc.org/explore-topics/planning/land-use-administration/impact-fees#definition
3 https//:mrsc.org/explore-topics/planning/land-use-administration/impact-fees#definition

they can be an effective tool is ensuring adequate infrastructure to accommodate increasing population growth. Success in collecting revenues by applying this tool was achieved in about half of the states by enacting legislation to regulate the general framework for collecting and spending these fees. (APA, 1997).

- Another way to increase revenues that has proven successful in several countries is to impose progressive taxes based on the level of income (such as some municipalities in the U.S.). In Finland, numerous municipalities have amended the pricing models for traffic violations, by contrasting the value of the imposed violation with other measures: most notably, the income of the violator(s) and the extent to which violator(s) exceeded the permissible maximum speed limit. This has helped Finnish municipalities to increase their revenues by an average of 12%, in addition to boosting compliance with traffic laws in order to avoid violations. (Schmautzer et al, 2019).

Chapter Three: Analyzing the legal framework from the perspective of LGUs' revenues and expenditures

In Palestine, the local governance sector and its organs are regulated. There are a set of laws and decrees that define the powers and responsibilities of LGUs in managing their financial affairs. This Chapter provides an overview of the most prominent laws and legislation affecting the work of LGUs in Palestine, through a discussion of how such legislation affects the ability of LGUs (municipalities) to collect revenues and manage expenditures. This Chapter identifies problems within the current legal framework, putting forward proposals for change in the recommendations' section.

Law No.1 (1997) concerning Palestinian LGUs is one of the most prominent laws governing local governance bodies in Palestine, granting these bodies a legal personality with financial independence (Article 3). Article 15 stipulates around 27 tasks and powers assigned to LGUs in providing services to their citizenry. This covers planning roads, granting building permits, monitoring the construction of buildings, providing water, electricity and sanitation services, managing solid waste, organizing public markets, ensuring public health and safety, establishing and maintaining parks and public spaces, contributing to the establishment of cultural and sports' institutions, and other tasks and powers for providing public services to citizens. These main tasks branch out into a larger number of sub-tasks that require the availability of human, financial and material (equipment) resources in order to perform these tasks appropriately.

Numerous problems have arisen in the work of most LGUs in Palestine, as a result of the lack of proportionality between the size of the tasks required of LGUs according to the text of the law, and their financial and human capabilities. These are often characterized by insufficiency and volatility, negatively affecting the planning process and the implementation of the tasks required from LGUs. This is a major problem in the current legal and regulatory framework, failing to distinguish between the nature of LGUs' obligations based on their size, legal classification and human/material resources (classifications A, B or C, and village councils) and the adequacy of their revenues. This has resulted in the marked inability of LGUs to provide services even to a relatively small number of citizens (both municipalities and village councils), or to perform their tasks and fulfill their obligations. This is further compounded by inefficiencies in providing these services, especially when savings are required to provide adequate services.

Law No.1 (1997) contains numerous contradictions in its articles. One such contradiction concerns the financial independence of LGUs, given that the Minister of Local Governance must approve a large bulk of each LGU's transactions and financial affairs, before their implementation. For example, an LGU's governing board cannot sell, donate, mortgage or lease immovable property (for a period exceeding three years), except with the approval of the Minister (Article 20). Article 21 stipulates that the Minister's approval is required (as well as executive guarantees) for loan transactions, in the event that an LGU resorts to borrowing to conduct its business. The requirement for the Minister's approval applies to numerous LGU activities and decisions, across a number of articles in the Law. In the same context, LGUs cannot exceed spending limits stipulated in approved annual budgets, except with the approval of the Minister (Article 30). The Minister is also required to approve LGUs' annual budgets before implementation, while his approval is also required of any amendments to approved budgets, again before the implementation of these amendments (Article 31). The requirement for the Minister's approval applies to the process of introducing financial systems to increase LGUs' revenue sources, whether via taxes, fees or fines. The same applies when placing incentives or fines on citizens charged with paying fees and taxes to the LGU (Article 28). Finally, Articles 33-٣٦ give the MoLG the authority to impose and enforce a host of financial regulations and procedures on how GLUs' daily financial affairs are managed, under the supervision of the Minister of Local Government.

The goal of central authority interference is to prevent the possibility of financial corruption and the misuse of public funds. These may occur, in the absence of effective accounting and accountability systems.[٤] However, the high degree of executive interference - and the associated increase in the number of procedures requiring the approval of the Minister of Local Government - disrupts and delays LGUs' decisions and tasks, negatively affecting their performance, and even their independence, in collecting their revenues and spending these as they see fit.

Subsequent to this Law, several laws and decrees emerged, negatively affecting the powers of LGUs in collecting revenues, and thus compromising their administrative and financial independence. For example, Decree-Law No.21 (2017) amends the temporary Law No. 79 (1966), concerning the planning of cities, villages and buildings. The amendment ended the membership of LGUs on the Higher Planning Council, making membership exclusive to certain ministries (Article 4). Article 5 specified that the 14 members of regional planning and construction committees (across governorates) represent ministries, without any form of representation by LGUs. This limit on LGUs' membership of the Higher Planning Council affects their authority, in terms of setting and collecting taxes on properties and buildings.

Within the same context, Cabinet Decision No.1 (2018) worked to revise the initial lists of crafts classified within the Crafts and Industries Law No.16 (1953) and its amendments. However, it did not specify LGUs' role in the licensing process, even though one of the tasks specified by Law No.1 (1997) relates to LGUs' role in issuing business licenses and regulating crafts and industries. This Decision did not clarify process divisions in granting licenses between LGUs and relevant ministries (responsible for various industries). This lack of clarity negatively affects the ability of LGUs to develop their own regulations for licensing professions and crafts within the area that falls within their jurisdiction. Moreover, the proposed system did not provide any details on the roles of small- and medium-sized municipal councils and village councils. Also within the same context, Article 2 in this Cabinet Decision specified a minimum amount (JOD 25), that must be collected for each craft classification upon licensing. However, the Decision does not grant LGUs – responsible for granting licenses - the authority to amend this amount. Finally, this Decision does not clarify the role of LGUs in granting licenses, and determining the financial value of licenses.

Decree-Law No.12 (2018) amending the Building and Land Tax Law within municipal areas and local councils No. (11) of 1954 granted the Council of Ministers, based on the recommendation of

4 Interview with the Minister of Local Governance.

the Minister of Local Government and in coordination with the Minister of Finance and Planning, the right to delegate or cancel authorization to a number of bodies. Local powers of the Ministry of Finance and Planning to collect tax and fines for failure to pay it through municipal employees. The decision also specified that the Ministry of Finance is responsible for delivering all orders, instructions, announcements, notices, notifications and tax records related to the local authority area. The decision did not specify the nature of the criteria that would allow the Council of Ministers to grant or cancel this authorization. Which makes this amendment so broad that it does not give municipalities and local bodies full authority to collect this tax.

Decree-Law No.12 (2018) amends the ‘Buildings and Land Tax’ Law No.11 (1954), as it applies to municipalities and local councils. It grants the Council of Ministers - based on the recommendations of the Minister of Local Governance, and in coordination with the Minister of Finance and Planning - the right to cancel the delegation of the Ministry of Finance and Planning’s powers to LGUs, in terms of collecting taxes, and fines for failing to pay via municipal employees. This Decision also specified that the Ministry of Finance and Planning is responsible for issuing all orders, instructions, announcements, notices, notifications and tax records related to an LGU’s area of jurisdiction. The Decision did not specify the nature of the criteria that allows the Council of Ministers to grant or cancel such delegation of powers, making this amendment so vague that it does not give municipalities and LGUs full authority in collecting these taxes.

Similarly, the Council of Ministers’ Resolution No.11 (2019), regarding LGUs’ financial systems, defines (across several articles) limitations on their ability to diversify revenue sources by tapping into non-traditional fees and taxes. For example, LGUs cannot borrow (or obtain credit facilities) from banks except with the approval and guarantee of the executive branch of government (Article 12). An LGU is not entitled to a banking overdraft, except after the approval of the executive (Article 26). Overdrafts are a useful, short-term source of funding that LGUs may turn to in order to cover operational costs, such as salaries and wages. Within the same context, this Resolution re-affirmed the limited independence of LGUs in spending independently, especially in changing budgeted items already approved by the MoLG. Article 9 states that if the Minister does not approve the budget (or until he/she does), the amount spent on any budget item must not exceed one-twelfth of the item’s allocation in the last, approved annual budget. Article 10 states that an LGU cannot reallocate unspent allocations from one budget line to another, unless such reallocations are also amended in a revised LGU annual budget that requires the Minister’s approval before implementation. Article 14 delineates financial ceilings for various obligations, stating the financial amounts approved for spending in annual budgets, and setting the maximum limits for spending. Finally, Public Procurement Law No.5 (2014) obligates LGUs to obtain the approval of the Higher Council for Public Procurement Policies, and the MoLG, for all bidding processes, causing disruptions and delays in the work of LGUs.

In the final analysis, it must be noted that Regulation No.5 (1998) on Signs and Advertisements in a Local Authority Area codified the role of LGUs in collecting fees on signs and billboards, according to specific standards. These fees are considered one of the important sources of revenue for the LGUs if they are exploited appropriately. This is discussed further in the section analyzing LGU revenues and expenditures.

The legal framework regulating the partnership between the public and private sectors

Regarding the partnership approach between the public sector (LGUs) and the private sector, PPPs remain unorganized within an integrated legal framework, limiting the anticipated benefits of such partnerships in helping LGUs to provide their services to citizens more efficiently. As a starting point for creating an integrated legal system that regulates partnerships, a PPP system was approved between LGUs and the private sector [No.27 (2022)]. This primarily aims to strengthen and encourage such partnerships for developing, building and rehabilitating infrastructure and public facilities within an LGU's boundaries, allowing it to provide high-quality services through implementing effective partnerships with the private sector. A clear problem in this system is that it is limited to organizing partnerships between LGUs and the private sector within the limits of the 27 tasks required of LGUs, without allowing any room for legalizing the participation of LGUs in other investment projects that generate additional income for them. This is a major limitation of this system. Furthermore, the system does not regulate the process of establishing private companies affiliated with an LGU, to establish and implement investment projects.[5]

Below is a listing of the most important, additional legislation affecting PPPS, positively or negatively (directly or indirectly):

- Decree-Law No.25 (2016) established the Municipal Development and Lending Fund (MDLF), aiming to bolster the development of LGUs and build their capabilities, as well as assisting in overcoming financial, administrative and technical difficulties when providing services within their geographic authority. Given the nature of its role and tasks, MDLF plays a major role in enhancing the pattern of PPPs between LGUs and the private sector, as a method to provide services to citizens through such partnerships.
- Article 15 in Law No.1 (1997) empowers LGUs with the power to cooperate with the private sector in providing services entrusted to them (the 27 services listed in this Law), provided that the duration of such partnerships does not exceed three years. The Law restricted the authority of LGUs to enter into partnerships with the private sector for a period exceeding three years, except with the approval of the Minister of Local Governance.
- Public Procurement Law No.8 (2014), and Cabinet Resolution No.5 (2014) on the Public Procurement System, were conceived to regulate public procurement deals for works and services, while defining the role of the Higher Council for Public Procurement Policies in organizing public procurement operations, as well as implementing regulations and laws to accomplish this. Resolution No.5 details the role of this Council in preparing programs and strategies required to develop and train HR in the public sector in the field of public procurement and in methods for implementing such programs. These two acts of legislation stipulate the promotion of fair competition and transparency in public procurement procedures between the public sector (including LGUs) and the private sector, as well as creating equal opportunities (without discrimination) across all private investors. The PPP approach encourages public participation, however, regulation is insufficient, failing to specify the principles on which PPPs should be formulated.
- Therefore, public purchasing decisions are primarily based on awarding contracts to the lowest-priced bidder, without specifying criteria related to the quality of services that must be provided. This conflicts with the partnership needs of the private sector in local government projects, usually requiring the private-sector partner to possess effective management capacity, practical

5 Interview with officials from ALPA.

experience and appropriate technologies, which increases the cost in a way that disqualifies qualified private-sector partners from competing on price. This legislative deficiency is exacerbated by the fact that the majority of LGUs suffer from a significant shortage of qualified HR to manage partnership contracts with the private sector, and adapt them to serve the interests of local authorities and their citizens.

- The Franchise Law was drafted in 2005, aiming to regulate the process of LGUs entering into partnership contracts with the private sector. However, this Law has not yet been passed. Despite the absence of a unified law to regulate concessionary contracts in Palestine across different types of partnerships and sectors, there are many regulations concerning select economic sectors. These laws have contributed to the development of partnerships between the public and private sectors in some economic spheres, such as the energy and electricity. Law No.12 (1995) regarding the establishment of the Palestinian Energy and Natural Resources Authority (PENRA) stipulates in Article 3 the possibility of providing electricity services through concessionary contracts, or granting licenses to provide electricity services through private-sector partners. On the other hand, other services such as water, sanitation and solid waste management usually require capital investment, large-scale operational expenses, and specialized expertise. These lack a clear legal framework that regulates partnership contracts with the private sector, making the process of entering into these contracts fraught with high risks, affecting all parties concerned.

Perhaps encouraging LGUs and private sector partners to enter into investment partnerships requires some legal and institutional changes to overcome the aforementioned challenges. The most prominent is the necessity of working to adopt an integrated and comprehensive legal and legislative framework to regulate partnership contracts between the private and public sectors, especially LGUs. There is a need to specify the contractual, institutional and legal details governing these partnerships, while repealing any conflicting laws and legislation in this regard. One of the most prominent amendments required is the necessity of including - in the Public Procurement Law - additional provisions for the governance of PPPs in a clear and detailed manner. The legal amendment must also include reconsidering the enactment of the Franchise Law, which has yet to be enacted, with the need to make amendments that are commensurate with the current financial and administrative conditions of LGUs. Legal amendments must also include clear and specific criteria to regulate the Minister of Local Government’s approval of partnerships whose duration exceeds three years. Within the same context, it is necessary to work on creating an official body or department, affiliated with the MoLG, or establish such a body as an independent legal entity. Its goal is to encourage and organize the partnership process, while determining the ability of LGUs to enter into partnerships with the private sector and the nature of the projects that can be implemented through partnership, in consultation with LGUs.

Chapter Four: Analyzing governance at LGUs in Palestine and the management of their financial and human resources

4.1 Challenges in collecting revenues and managing expenses at LGUs in Palestine

Before starting to examine the challenges facing LGUs in Palestine in collecting their revenues and managing their expenses, we must first address their most prominent sources of revenues. Based on the legal framework, Article 22 of the Local Authorities Law (1997) stipulates three basic sources of revenue for LGUs: taxes and fees collected directly, central government transfers of taxes and fees (usually collected by central government on behalf of LGUs), and finally grants and external support. These three sources constitute the largest percentage of LGUs' total revenues in Palestine. Many of these bodies rely on secondary sources of revenue, such as donations from informal sources, as well as income-generating activities such as leasing an LGU's assets and entering into investment partnerships. It can be observed that there is a similarity between sources of revenues for LGUs in Palestine and global experiences detailed in Chapter 2. There is a difference in the extent of reliance on each source (i.e. the percentage of revenues collected from different sources). LGUs in Palestine lack of an important source of revenue available to LGUs in other countries, which is allocations from the central government's general budget, transferred to LGUs on a regular and periodic basis. This is not provided to LGUs in Palestine, especially given the lack of a legal framework to support such a measure in the Palestinian context.

1. The primary source of revenue is direct collection from citizens, in exchange for providing services. As previously mentioned, LGUs must provide 27 services to their citizens (as stated in the Local Authorities Law). Fees are collected from citizens so that an LGU can provide services such as water supply, solid waste management, sanitation, public markets, licenses for crafts and buildings, and others. This also includes taxes that many municipalities collect directly (without the mediation of the central government), such as the education tax, which is collected from facilities' operators within the boundaries of each municipal administration. The provisions of Decree-Law No.8 (2017) authorizes this.

   Self-collected revenues constitute the largest percentage of LGUs' total annual revenues in Palestine. Mostly, they are allocated to cover the costs of services, in addition to allocating any surplus to cover the LGU's operational costs, such as wages and other expenses incurred in running the authority's daily affairs. (Al-Bitawi & Jaffal, 2023).

   Collecting revenues from these sources includes challenges that affect both value and sustainability. The impact of these challenges varies from one LGU to another, depending on the extent of its citizens' commitment to paying, the number of residents, the volume of economic activities within its borders, as well as the LGU's ability to price correctly the services it provides, as well as others. The most prominent challenges can be summarized as follows:

- The sustainability of self-collection revenues is affected by the ability and desire of citizens to pay their service fees, especially in times of economic and political crises, which can negatively affect the citizenry's ability to pay. Although the legal framework stipulates a set of penalties imposed on citizens who fail to pay, they are often not applied for several reasons, most notably the absence of specialized courts for local authorities in Palestine. However, the text of Decree-Law No.46 (2022) specifies otherwise: Article 2 stipulates the establishment of one or more courts for LGUs in each governorate. Yet, this has not been implemented, depriving LGUs of the executive authority necessary to exercise their power.[6] This increases the difficulty of resolving disputes between LGUs and citizens. In the same context, and given that the services provided by local authorities are considered the basis for a decent life for citizens, LGUs do not stop providing their services to citizens who default on payments permanently, or for long periods (Al-Bitawi & Jaffal, 2023). Some LGUs may resort to offering incentives - discounts - to late-payers and defaulters. This reduces the total value of self-collection revenues relative to forecasts, exacerbating the LGU's budget deficit.
- The value of fees that local authorities collect from citizens depends largely on the number of citizens within their borders, as well as on the volume of economic activities therein. The value of revenues is directly proportional to these factors. Therefore, we can conclude that larger LGUs (Class A municipalities) have a greater chance of collecting higher revenues than those that are smaller in size. An example of this is the fees collected by local authorities for crafts and building licenses. The larger the geographic area within the boundaries of the local authority, the greater economic activities and urban expansion, resulting in an increase in fees collected by the local authority.
- A study conducted by MAS on the reality of decentralization in Palestinian governance showed that one of the most prominent challenges affecting the adequacy of self-collection revenues is the incorrect pricing of services provided to citizens. Sometimes, local authorities provide the service at a price equal to - or less than - the cost of the service, especially if this price was set by previous LGU administrations. Some LGUs, especially small municipalities, find it troublesome to change or raise the price of their services, for fear of arousing citizens' dissatisfaction, or protest, by further burdening them.
- One of the most prominent services affected by the mismatch between costs and fees is solid waste management. Interviews with the JSC for Solid Waste Management in the Ramallah/Al-Bireh Governorate indicated that the cost of solid waste services incurred by local authorities varies, depending on the quantity and weight of solid waste produced within each authority's area (measured by the number of hours that waste collection vehicles spend within the limits of each authority). Costs vary depending on seasonality, and the volume of commercial and industrial activity within an LGU's borders. Given that the fees imposed by an LGU on citizens are mostly fixed and do not change with changes in cost, the result is an accumulation of debts by LGUs for solid waste management services, translating to an increase in their budget deficits. Another problem facing the provision of solid waste management services which greatly increases their costs (especially for governorates in the middle of the West Bank) is the lack of an official, landfill for this area, forcing the JSC to transfer its waste to a landfill in the northern West Bank (Zahrat al-Fanjan landfill). This further increases costs due to increases in the cost of fuel, which is directly shouldered by

6 Source: Interview with ARIJ.

local authorities. The absence of organized and official landfills across many local authorities (and their financial inability to establish them) has led to the spread of the phenomenon of random dumping, with accompanying environmental pollution and harm to the population in local areas. It must be noted that the reluctance of some LGUs to participate (and benefit) from the services of solid waste JSCs increases participation costs for those that do join the JSC. The decrease in the number of LGUs requires participating ones to bear a greater proportion of fixed costs (meaning that charges are distributed across a smaller number of LGUs), thus increasing their burden concerning the cost of this service, and reducing their financial efficiency.[7]

- Local authorities in Palestine lack sufficient independence to allow them to introduce new fees and taxes to meet their financial needs. This means that LGUs cannot introduce fees or taxes that are not stipulated in the legal framework, except with the approval of the central government. Local authorities usually do not resort to creating new sources of revenue that depend on collection from citizens, for fear of raising objections and further burdening them. In the same context, local authorities do not benefit from imposing and collecting specific categories of fees that the legal framework entitles them to. For example, Article 24 of Law No.1 (1997) stipulates the right of local bodies to collect brokerage fees from buyers of movable property, if sold at a public auction within the boundaries of that local authority. The value of these fees is 3% of the sales' value. However, in reality, local authorities do not collect these fees. Another fee that local authorities do not exploit is the collection of fees for banners and billboards within their geographic borders. Although LGUs are given the right to collect these fees according to the system of signs and advertisements outlined in Law No.5 (1998), many do not collect them. If they are collected, the value of fees is often not differentiated based on specific criteria stipulated by the Law (Article 9), such as the sign's size, shape, content and material. Rather, a unified fee is imposed on all taxpayers, which deprives local authorities of additional sources of income. This is the result of LGUs' ignorance of their eligibility for such fees, or because of the impact of collecting them on their relationship with their citizens, as mentioned previously.

2. The second source of revenues for local authorities is what the Ministry of Finance collects on their behalf, transferring these funds to LGUs at a later date, based on criteria specified by the text of the law. In exchange, a specific percentage is deducted for the benefit of the executive government. Article 26 in Law No.1 (1997) states that revenues collected by the executive authority are registered for the benefit of the local authorities at the Ministry of Finance. The proceeds are distributed at a rate of (no less than) 50% to the local authorities, while the remainder is distributed as decided by the Council of Ministers, based on the recommendation of the Minister of Local Governance. A number of considerations are taken into account in determining the share of each authority, most notably the number of residents, the LGU's contribution to generating revenues, whether it holds a position of special importance, and whether it entails responsibilities that cannot be performed locally. Other considerations include the LGU's needs in accordance with its development plans (as approved by the MoLG). Essentially, revenues transferred from the central government include property taxes, occupational licenses, and road toll fees. Below is a breakdown of the challenges related to these taxes, conflicting with the notion of adopting them as a sustainable source of revenue for LGUs in Palestine:

- Concerning property taxes, the Ministry of Finance deducts a percentage of 10% from these collections, with the remainder transferred to LGUs within whose borders the collection were

7 Interview with JSC for Solid Waste Management in Ramallah/Al-Bireh

made. Work is currently underway to direct the collection of this tax to local authorities directly instead of the Ministry of Finance. This has commenced at a limited number of local authorities, and will be expanded later. On the ground, local authorities face many challenges in relying on property taxes as a source of revenue, most notably:

- Failure to transfer (all or part) of the LGU's dues from property taxes, as a result of a the Authority's existing dues and previous debts (net lending). In most cases, this results in complete liquidation of the LGU's revenues from property taxes.[8]
- Another challenge is fluctuations in the transferring of dues to local authorities, as a result of the Palestinian government's recurring financial crises, which expends these dues instead of transferring them to the LGUs that are entitled to them.
- Another challenge that limits LGUs' benefit from property taxes is the weakness of collection as a result of the lack of accurate property valuations and settlement activity, especially concerning land. This is further complicated by the small, spatial areas of land estimations, such that it does not fully cover a number of local authorities, nor does it include the entire geographical area of the local authorities in which the estimation process takes place (resulting in a partial assessment). There is no doubt that the weakness of such assessment activities, and the resulting imposition of property taxes on assessed owners, does not only result from a decrease in the value of local authorities' revenues from these taxes, but also negatively affects the achievement of tax equity across taxpaying citizens.
- Local authorities classified as village councils suffer from the absence of property tax collection on their behalf, depriving them of an important source of income and increasing their budget deficit.

- Regarding the second source of revenues transferred from the central government to local authorities, according to Article 25 of Law No.1 (1997), road and transport tolls consist of vehicle acquisition licenses and fines for violations. The same Article stipulates the allocation of about 50% of fees and fines collected under the Road Transport Law within the boundaries of the local authority on its behalf, with the remainder distributed by the executive authority based on the above-mentioned criteria. On the ground, there is a lack of clarity in the mechanism for calculating the value of road/transport tolls transferred to local authorities. A study prepared by MAS showed that many local authorities indicated that this process involves transferring a lump-sum to the local authority, without enclosing any details explaining the period of time during which these fees were collected, or the basis on which they were collected. Local authorities also reported delays in the transfers of these tolls, and a decrease in the value of transfers over time, despite the increase in the number of licensed vehicles across all regions (Al-Bitawi & Jaffal, 2023).
- It must be noted that the failure to allocate deducted amounts from the general budget of the executive government to LGUs on a regular basis exacerbates their financial crises. This is exacerbated by the insufficiency of current legislation and laws, as well the increasing financial deficit of the central general budget, making such transfers impossible in light of the current financial conditions of the executive branch of government.

Finally, the two previous sources of revenues (fees and taxes collected independently of LGUs or collected and transferred by the executive government) are usually allocated to cover the costs of providing services to citizens, in addition to covering the operational costs of local authorities. Taxes and fees are rarely utilized to cover the cost of establishing and developing development projects such as infrastructure projects within the boundaries of

8 Interview with MDLF.

local authorities. Rather, to cover these costs, LGUs often resort to grants and foreign aid - the third source of revenues for local authorities in Palestine.

3. Regarding the third source of revenues for local authorities in Palestine (grants and official support), grants provided by donors are mostly transferred to the MDLF, which in turn distributes these grants to LGUs according to specific criteria. Part of these grants are transferred via the central government (the Ministry of Finance). Several local authorities also communicate directly with donors to finance their projects, without resorting to an intermediary such as the executive government or the MDLF.[9] These grants are mostly allocated to finance the establishment, maintenance and development of infrastructure projects such as constructing and paving roads, [10] constructing and maintaining sewage networks, solid waste management through opening landfills, recycling stations, wastewater treatment and other projects that require large capital investment. Local authorities are often unable to finance these from their own budgets.

The MDLF operates according to a number of criteria, aiming to allocate grants across local authorities. The most prominent criterion is the number of residents within the local authority (with a weight of 20%). This is followed by the amount of financing the LGU needs (with a weight of 30%), determined primarily based on the budgets prepared independently by the LGU, which includes identifying their projected needs on an annual basis, and providing justifications for these needs. Another criterion on which MDLF relies is related to the extent of LGUs' commitment to implementing local governance policies consistent with the goal of building and strengthening a local governance sector that responds quickly and effectively to the needs of citizens. Among the most prominent, additional criteria are the efficiency of the LGU's financial management, the nature community accountability initiatives by citizens and civil-society organizations, the extent of the local authority's receptivity and interaction with these initiatives, the local authority's operation and maintenance program, and finally, the extent of its commitment and responsiveness to official decisions (concerning the development of the local governance sector).

The MDLF's reliance on clear, specific applicable and measurable standards creates a form of justice in the distribution of grants and external support across LGUs. This helps to improve the quality of services provided by the LGU to citizens, while increasing justice and transparency within local authorities, and between LGUs and citizens. This is due to the adoption of standards of accountability, governance and financial management that boosts an LGU's chances of obtaining finance.

It must be noted here that village councils do not benefit from the financing provided through the MDLF; their share of external support is limited to transfers from the executive government upon the recommendation of the MoLG. This is especially the case in collaborative projects between a number of neighboring village councils, in which projects funded by external grants are mostly implemented through JSCs.

Perhaps this heavy reliance by local authorities on grants and external support to finance development and infrastructure projects creates challenges related to the sustainability and the continuity of such revenue sources. Herein, the problem relates to the sustainability of these

9 Interview with ARIJ.
10 Interview with Surda/Abu Qash Municipality.

grants, given that they are often fluctuating and unstable. They change according to local and global economic and political conditions, such as changes in donor priorities towards afflicted areas in the world, resulting in a decline in the value of the official support, whether to the general government or to LGUs. Moreover, some global crises, such as the Corona pandemic, have shown the extent to which external support has been negatively affected. Finally, the political disputes between Palestine and some donor countries, such as the Palestinian-American dispute during the era of former U.S. President Donald Trump with the announcement of the 'Deal of the Century'. This resulted in a reduction in USG support to the Palestinian people, negatively impacting the implementation of a large number of infrastructure projects at local authorities, further exacerbating the decline in the quality of services provided to citizens.

As for grants provided directly by donors to LGUs, there is clear disparity in an LGU's chances of qualifying for this support. This is due to the influence of personal relationships in obtaining such grants.[11] It also demonstrates the extent of disparities in skills across HR at LGUs. Therefore, the chances of LGUs with staff capable of attracting funding are better than those whose staff lack similar skills. Ultimately, these disparities demonstrate the difficulty of relying on grants from this source as a sustainable and stable source of revenue.

Other revenue sources:

Some local authorities rely on other sources than those detailed above to collect revenues, most notably leasing some properties and real estate belonging to the local authority, as well as investing in income-generating projects (such as real estate projects and securities). Despite the importance of additional alternatives to the basic sources of revenue for LGUs, in reality, very few LGUs engage in investment projects directly. This practice is mainly limited to municipalities Class A, and some municipalities classified as B and C. On the other hand, local authorities do enter into partnerships with the private sector (PPPs), in order to provide part of the 27 services stipulated in the Law, in cooperation with partners from the private sector, benefiting from their specialized expertise and entrusting the process of creating and establishing infrastructure for such investments to the private sector. This allows local authorities that suffer from budget deficits to provide services in the interest of all stakeholders, including citizens, local authorities and the private sector. PPPs are typically governed by contracts that define the rights and duties of all parties to the contract.

As with other sources of LGU revenues, local authorities' entry into investment projects (whether directly or through PPPs) faces a number of challenges. The most important is the weak financial and administrative capabilities of local authorities, and the lack of cash surpluses in the annual budget of the majority of local authorities (or their scarcity), preventing them from direct investment. Other challenges include the weakness of HR at the majority of LGUs and their low productivity, especially with regard to the technical and administrative skills required to manage, implement and manage investment projects.

As for challenges associated with of entering into investment partnerships with the private sector, in addition to the financial and human challenges outlined above, the lack of clarity and completeness of the legal framework regulating these partnerships constitutes a prominent challenge. It leads to a reluctance by partners to enter into investments, in many cases such that they can preserve

11 Interview with ARIJ.

their rights (see Chapter 3). Although the policy and legal framework for PPPs was updated in 2019, it has not yet been approved. A further challenge is weak communications between LGUs and MoLG on the one hand, and between potential partners from the private sector on the other hand. This leads to a lack of knowledge by the private sector on the underlying needs of local authorities, preventing their translation into projects that provide services to citizens (MAS, 2021). It must be noted that the entry of LGUs into partnership projects for a period of more than three years requires the approval of the Minister of Local Governance, which increases the complexity of official procedures for entering into such partnerships and delays their implementation, while also conflicting with the supposed 'independence' of the local authority.

Finally, it must be noted that local authorities can, if they choose, resort to borrowing from banks as a source of financing, which is permissible to them within the legal framework. However, LGUs rarely resort to this for several reasons, the most important being the weak financial capacities of the majority of LGUs given their budget deficits, negatively affects their credit ratings and their ability to repay debts incurred by borrowing (loan amount, interest and commissions). This is especially true in light of the fact that should a local authority default on repayment, the interest rate charged by banks includes compensation for credit risks. Within the same context, the legal framework [Cabinet Resolution No.11 (2019)] regarding the LGUs' financial systems stipulates the need for the executive government to approve borrowing transactions (or even overdrafts), and the need for the central government to guarantee the LGU's borrowing activities. This further complicates procedures for obtaining a loan, especially if the process of examining the loan application requires such a long time to approve it.

4.2 Managing local authorities' expenses

It is clear from our previous analysis of the sources of local authorities' revenues that there are numerous deficiencies related to the adequacy, continuity and sustainability of local authorities' revenues across all different sources (official and informal). This fluctuation reflects negatively on the ability of local authorities to direct spending to providing services to citizens in an appropriate manner. The challenges associated with revenue collection (as mentioned previously) are common challenges facing LGUs across all legal classifications (municipal classes A, B or C and village councils). However, the impact of these challenges on the conduct of LGUs' work varies depending on their legal classification. For example, given that Law No.1 (1997) does not differentiate between the tasks required of LGUs according to their legal classification, small-sized LGUs (especially municipalities and village councils) face greater challenges in fulfilling the required tasks. This is due to several reasons, the most notable being the scarcity of financial resources available to them, when compared to larger LGUs. This is accompanied by weak HR qualifications at these LGUs; an important element in implementing a large part of the tasks specified by the legal framework.

Regardless of their classification, the ability of LGUs to conduct their work and provide services to citizens depends on a number of factors affecting their efficiency and continuity. Below is a summary of the most prominent factors affecting the management of local authorities' expenses, and their provision of services:

- Before delving into the material and human obstacles that affect the efficiency of service provision by LGUs, we must first talk about the extent of LGUs' independence in planning their needs - and determining their spending - without needing to refer to the executive (central) government. It is clear to those familiar with the current legal framework that there are numerous shortcomings in the legal framework that conflict with LGUs' independence in determining their spending. As previously mentioned, the legal framework stipulates the need for the Minister of Local Governance to approve many of LGUs' administrative and financial measures, most notably the need for MoLG approval of the annual budget of an LGU, before starting expenditure [Article 15 of Law No. 1 (1997)]. Moreover, LGUs cannot exceed spending limits by more than a specific percentage (10%) of what was approved in the annual budget, without the approval of the Minister. The requirement for the Minister's approval applies to procedures for transferring surplus amounts from one budget item to another. Local authorities can only spend only within the limits of the financial ceilings stipulated in the annual budget, as stipulated by Cabinet Resolution No.11 (2019) regarding LGUs' financial systems. These requirements affect LGUs' freedom to spend.
- Given that legal framework does not distinguish between the nature of the services required from local authorities according to their legal classification and size (the size of their operations, the number of residents, their geographical area, etc.), problems have emerged at smaller LGUs in providing services that require large expenditure. Article 15 of Law No.1 (1997) stipulates tasks a number of LGU tasks such as planning and initiating new urban space and streets, establishing sewage networks, establishing and organizing public markets, establishing health centers and hospitals, as well as establishing public spaces, gardens and parks, libraries and public schools. Other tasks also require a large financial investment, in addition to having specialized and varied HR experiences and skills at LGUs. The fact that the Law does not differentiate in the tasks required of them creates a deficit for smaller LGUs, due to their inability to provide most of the services legally required of them. This leads to a decline in the quality of services that citizens enjoy. In the same context, delegating a large number of tasks to smaller LGUs reduces efficiency and increases costs if economies of scale are important in providing services. Numerous mechanisms have been adopted to adapt to the dilemma of the inability of smaller LGUs to provide services that require large investment, most notably, resorting to the process of merging smaller LGUs into larger, more capable and efficient local authorities. A number of JSCs were established for planning, development, or to provide specific services such as solid waste management. Therefore, the existence of new legal entities such as JSCs contributes to overcoming several obstacles associated with the weak efficiencies of smaller LGUs.
- Local authorities are challenged by the increasing costs of providing services, resulting from several factors, most notably, rapid population growth and the resulting increase in demand for services such as solid waste management (given the significant increase in solid waste that needs to be transported and treated). There is also the need to establish, maintain and expand sewage networks and potable water networks, to accommodate the needs of an increased population. The weak ability of local authorities to provide these (and other) services has led to the emergence of problems with cleanliness and public health, further increasing costs for citizens and local authorities. Their inability to manage solid waste has led to random waste dumping and accompanying health hazards (JICA, 2021). The same applies when looking at the inability of a large percentage of LGUs to establish and maintain sewage networks. This led to the spread of cesspits, often not constructed properly

- wastewater from these may mix with potable groundwater. The inability of smaller LGUs to maintain water networks as (due to high costs) has led to an increase in water losses, further increasing costs to the LGU and its citizens, wasting scarce resources. Therefore, it is clear that the increase expenditure, coupled with fluctuations (and sometimes a decline) in the value of revenues, creates challenges in providing services mandated of LGUs.

- One of the most prominent factors affecting the quality of service provision by local authorities is the efficiency of their HR, whether administrative or executive. Given the nature of specialized services required from LGUs, they need staff cadres with a wide range of specialized and diverse skills for proper implementation. In terms of required skills, the most prominent are financial management, accounting, project management and implementation, specialized engineering skills (solid waste management and the establishment and maintenance of water and sanitation networks), specialized expertise in construction safety and inspection, public health oversight, and others. This allows LGUs to perform the tasks required of them, in coordination and cooperation with the relevant ministries and government agencies (ministries of health, education, local governance, the Water and Energy Authority, and others).

  A study prepared by MAS (2023) shows that there are numerous determinants of the capabilities and skills of HR working at local authorities in Palestine. This human factor can be divided into two parts: the first is the governing administrative body consisting of the Chairman and members of the Board of Directors, elected (or recommended) by citizens; while the second is the administrative cadre of employees, appointed by the governing body. HR challenges can be summarized with the following points:

- With regard to the first classification - the governing (administrative) body, they are appointed either through official elections within periodic electoral cycles or through acclamation, meaning that an agreement is made between families and clans within the boundaries of some LGUs to choose their representatives, without engaging into official elections. In both cases, there is a predominance of tribal family factors and partisan political factors in the process of selecting local council members, negatively affecting scientific and professional competencies that are often set aside (if they do not conform to tribal or political standards). This affects the efficiency of the governing (administrative) body in the event that its members lack the necessary standards. It may also lead to the absence of good governance. It exacerbates the problem of weak HR at LGUs, since local councils are not obliged by the legal framework [Local Authorities Election Law (2005)] to adhere to minimum academic or professional qualifications for candidates. This may result in the election of representatives who lack the qualifications required for the proper management of LGUs. This problem is also exacerbated by the non-commitment of a large portion of local authorities to attend trainings provided by MoLG, civil-society organizations or donors. [12]

  As for LGUs classified as village councils, the head of the local council is not placed on the scale of salaries payable to LGUs' HR. Therefore, running the work of such a local authority becomes a secondary priority for the LGU's Chairman, negatively affecting the smooth operation of the local authority, reflected in the quality of its services. In the same context, and in the absence of financial incentives for Board members and Chairmen at village councils, many suffer from an inability to appoint qualified staff, due to the absence of financial incentives. The impact of this problem is much less pronounced at larger LGUs (such as Class A municipalities).

12 Source: Interview with ARIJ002E

- Concerning the second classification - the administrative cadre that runs the LGU's daily work in providing services and implementing projects - a large percentage lack the skills required to conduct the LGU's work, resulting in a skills' gap. Moreover, the LGU itself may be restricted in its ability to hire employees across various specializations, due to the scarcity of its finances, hindering its ability to pay competitive salaries to attract qualified professionals. In the same context, the majority of LGUs lack the necessary resources to train their current employees on the skills that they need, mainly due to their financial inability to train employees, as well as the lack of sufficient training courses from external providers (whether from the MoLG or donors). The Palestinian National School of Administration (PNSA) was established in 2016, to bridge the skills' gap among public sector employees, including those working in local governance, but no tangible results were achieved. Moreover, the current legal framework does not specify a clear foundation – or standards - to support the process of LGU recruitment and employee training. This creates a form of unfairness between LGUs, increasing the finances of specific LGUs at the expense of others. In the same context, another dilemma relates to the dual absence of quality control in training and mechanisms for follow-up and evaluation, to determine the extent to which training recipients benefited, and the extent to which they utilize training skills in their administrative functions at the local authority. Moreover, there is no measurement system for the extent of training impact on the quality of services provided by trained employees to citizens. (MoLG, 2020).

  Although a large percentage of local authorities (especially smaller ones) suffer from a scarcity of administrative employees, many others suffer from the exact opposite, characterized by the presence of a large number of employees, in excess of the LGU's actual needs, raising the value of salaries and compensation expenses (in some cases, this has reached 60% of total costs).[13] This is operational deficiency creates a form of disguised unemployment within these authorities that hinders them in performing their work and exploiting their limited revenues with the necessary efficiency (especially if a high percentage of employees lack the appropriate skills to cover the skills' gap outlined above). This negatively affects the quality of services. Moreover, price inflation may result from the improper calculation of cost centers for an LGU's services, as well as a failure to link the price of the LGU's to changes in service costs.[14]

  In the final analysis, it must be noted that the challenges associated with collecting revenues and managing expenses mentioned above are macro-challenges that the majority of local authorities in Palestine suffer from. However, there are individual differences between local authorities, and the extent to which these challenges affect them, how they respond and how they adapt. This is reflected in differences in spending across LGUs for similar items. Variations in HR competencies and skills may result in a difference in the cost of providing an identical service between corresponding LGUs. The analysis of differences in revenue and spending between corresponding local authorities is addressed in Chapter 5.

4.3 Community accountability

One of the recent trends in enhancing the transparency and efficiency of the work of LGUs is providing the opportunity for citizens to participate in determining the priorities of their local authority's spending. This participatory system has proven effective in increasing citizens'

13 Source: Interview with MDLF.
14 Source: Interview with ARIJ.

knowledge of the problems and challenges facing local authorities in managing their limited revenues, as well as contributing to defining clear standards for providing services that citizens can depend on. [15] Hence, community accountability is one of the methods that can be used to increase the integration of citizens in this process. Accountability is considered one of the best ways to increase transparency and increase the ability of the local community to hold local officials accountable.

The process of community accountability for local bodies in Palestine is still not organized or codified within a clear legal framework that organizes and institutionalizes it, to ensure increased effectiveness. The MoLG has adopted (across many of its sectoral and cross-sectoral strategies) the principle of enhancing accountability and transparency in local government bodies. The local authorities' budget preparation notes include a clear and explicit text on the necessity of publishing budgets and emphasizing the importance of citizen participation. Yet, no clear mechanisms were agreed upon to organize the process of community accountability between LGUs and their citizens. [16] Mostly, this process occurs as a result of self-initiatives by citizens and civil-society organizations. On rare occasions, local authorities allow a number of citizens to attend municipal/village council meetings. However, invitations are not open to any citizen who wishes to attend. This limited community accountability is accompanied by the lack of the right of citizens (legally) to demand the minutes of the meetings of the governing Council or to oblige LGUs to disclose these minutes.

Therefore, as a result of the absence of effective communication between citizens and local authorities in both directions, the challenges affecting the management of local authorities' revenues and expenditures are further be exacerbated by citizens' lack of knowledge of the finer details of their LGU's work in a clear and detailed manner. This creates a state of citizen dissatisfaction with provided services, making matters even worse, especially if this dissatisfaction is accompanied by a decline in citizens' contributions, in terms of paying fees for services. Hence, establishing and organizing community accountability across all LGUs, regardless of their legal classifications, is an urgent priority, and a first step in local governance reform. Possibly, adopting elements of transparency and accountability according to MDLF's standard would be a serious step to begin comprehensive reform in this regard.

15 https//:decentralization.net/participation-and-accountability
16 Source: Interview with ARIJ.

Chapter Five: Financial analysis of municipal revenues and expenditures

5.1 Introduction

Financial analysis contributes to supporting administrative authorities and enhancing their ability to prepare practical visualizations and evaluations of historical events and previous financial statements, and to provide a perception (to concerned parties) of the financial and administrative performance of their LGU, and the extent to which it is achieving its agreed-upon goals. It also contributes to demonstrating the level of compatibility with established strategies, helping to guide decisions on to making amendments to strategic objectives, interventions and projects, approved by the governing council.

The size of the LGU and the diversity of services that it provides, combined with successive financial defaults, strongly emphasize the need for LGUs to develop their capabilities in effective and efficient management. This requires the availability of appropriate data, and LGUs capable of benefiting from this data in order to reach their stated goals, in addition to enhancing services provided to citizens.

Effective financial analysis depends on a set of tools and indicators, which include financial, societal and economic indicators. It also depends on future forecasts, which help measure the current financial situation of the LGU, serving decision-makers in building perceptions, trends and future expectations (expected expenditures, available funding sources, etc.). It is important to point out that building a detailed and effective budget (for example, classifying similar data into specific accounts, or dividing certain amounts according to principles that help to guide analysis), contributes significantly to the forecasting and analysis process, by providing necessary data.

Forecasting is the best tool for anticipating the financial future of an LGU, by studying previous trends in revenues and expenditures; adjusting these according to assumptions on the future. This serves to build future policies and budgets, greatly assisting both short- and long-term planning.

The translation, compilation and presentation of such analysis and perceptions is performed through the preparation of an annual financial analysis report, and the inclusion of conclusions in a formal and scientific framework, clearly reflecting analytical results and affected indicators.

Within this context, this study builds on the financial statements of LGUs for the previous five years (2018-22), in order to conduct forecasting and financial planning across all its forms. To the best of the research team's knowledge, this is the first study that addresses this issue at this level of depth and comprehensiveness. This helps LGUs to perform a variety of functions, as outlined below.

- Linking the LGU's policies with specific financial plans that must be implemented in the long term and measuring the extent of compatibility with established strategies.

- Building an objective vision of the current and future state of finances, to confront any adverse or undesirable circumstances.
- The readiness of municipalities to meet financial needs during coming periods.
- Helping the municipality commit to providing the services required of it, to the community and citizens.
- Increasing the number of alternative and applicable strategies and clarifying their financial dimensions.
- Assisting municipal creditors and lenders in granting loans to the municipality.
- Disseminating analysis to central government to monitor and ensure progress.
- Presenting sufficient information and analysis to municipal administrations on:
  - The contents of each budget item.
  - The level of change for each item from one year to the next, determining increase/decrease.
  - The relative change for each item, relative to other items included in the budget or accounts presented in the list of activities, or performance, or the statement of financial position.
  - Comparing the budget and its line-items with similar other items at other municipalities.
  - Identifying possible future changes in each of the main budget items.
  - Identifying negative and positive trends.
  - Identifying and analyzing the logic of expectations and assumed projects.
  - The level of confidence and certainty of current and future expectations.
  - Adopting the above-mentioned indicators; as well as studies on the accounts and (real) items in financial statement, while also comparing these with budget balances and allocations.

5.2 Phases in the financial analysis process

The stages of preparing and studying the inputs for the analytical process include collecting and analyzing:

- Establish strategies, administrative decisions and set goals:

  The financial analysis team usually begin their work by studying established strategies, in order to examine the extent of compatibility between objectives, strategies, the situation at hand and practical/financial reality. This analysis requires measuring deviations that occur over the course of the year. Perhaps measuring the extent to which strategies have been achieved requires specialized research, in order to arrive at results that measure the level (and rates) of achievement.

  Every institution or municipality has a strategic plan. However, the absence of mechanisms to evaluate, follow-up, and measure the level of achievement leads to a lack of commitment (or interest) in achieving it. This matter is stated here in order to alert financial analysts as to the importance of this matter at the municipalities in which they are employed, and to deepen benefits for those who depend on it,

- Collect financial and non-financial indicators.
- Obtain historical financial data (budget, lists of activities, cash flows, net assets, change in net assets, allocations' data and specific deductions)
- Demographic data and population numbers, as well as statistics for study areas.

5.2.1 The importance of fiscal and non-fiscal indicators

Fiscal indicators evaluate the financial position of a municipality, identifying positive and negative trends, by examining financial and non-financial indicators.

Financial indicators: These are indicators that measure the financial condition of the municipality and include:

- Revenues.
- Expenses.
- Operational status.
- Debt and its composition.
- Unallocated or covered liabilities.
- Infrastructure.
- Financial standing.
- Financial health.

Examining fiscal indicators is very important for the financial stability of a municipality, enabling it to cover its obligations now and in the long term, in addition to:

- Strengthening the municipality's ability to continue providing services and covering the infrastructure needs: roads, streets, water and sanitation networks.
- The municipality's ability to respond to unexpected events and its capabilities in facing emergency situations such as floods, snow or other crises (such as the current, international economic crisis and price inflation).
- The municipality's ability to respond to the growth in demand for its services, or a decline, or the absence of change.

The growth in demand for services requires a municipality to increase its current operating budget to meet this growth. Will the municipality be able to withstand the decline in collected fees for providing the required services, and the residents' lack of commitment? Or, are there other issues that require cash coverage?

As for non-fiscal indicators, these are divided into:

- Environmental indicators

The conditions surrounding a municipality that create or reduce demand or supply, or reduce resources. These include:

- Population.
- Citizens' needs.
- External economic conditions.
- Internal governmental determinants.
- National and natural disasters.
- Political culture.

- Organizational indicators

It measures the municipality's ability to respond to various environmental factors, administrative practices, governmental and legal policies, and how to respond to them. Examples include:

- The ability to replace administrative employees, as a result of mandated government decision (early retirement).
- Adopting modern methods to collect data on citizenry.

These indicators measure various trends across time, such as the change in average income per person; the change in revenues given a change in population size; and changes in the volume of services to increase in tandem with the increase in population. As this percentage decreases, the municipality must diligently search for financial sources to increase services; and maintain or even improve percentages.

5.2.2 Historical financial data (budget, lists of activities, cash flows, net assets, changes in net assets, specific allocations' data)

Financial statements provide data on the financial position, financial performance and cash flow of a municipality, revealing this data to a wide segment of users, helping them to make (and evaluate) decisions on the distribution of resources. They provide crucial information for the decision-making process, indicating the extent of an LGU's responsibility over the resources entrusted to it:

- Provide information about available sources, their distribution, and the uses of these sources.
- Provide data about the financial conditions of the municipality and any changes that occurred.
- Provide comprehensive data for evaluating the municipality's performance with regard to service costs, effectiveness and achievements.
- Provide information about the level and quality of services.
- Financial statements can also fulfill a predictive role, providing an outlook that predicts the volume of resources required to sustain ongoing operations, and levels of risks.

The research team has relied on official and reliable sources of information: the 2017 population census carried out by the PCBS to calculate income per capita, and the percentage of each calculation of per capita income as arrived at by the municipality. Moreover, an attempt was made to provide data for five years, such that the analysis would be more expressive.

5.3 Research methodology and analytical procedures

This section presents the methods, sample population and sampling tool used in this study, as well as the study's variables, procedures, and statistical analysis, as follows:

5.3.1 Study methodology

For the purposes of this study, the researchers used available, audited financial data received from the study's community, in order to fulfill the objectives of the study.

5.3.2 Sample population

All municipalities and LGUs operating in the West Bank (418 LGUs in 2022) are distributed according to a specific legal classification: Class A, Class B, Class C and village councils.

5.3.3 The study sample

Palestinian LGUs do not usually rely on conventional analytical mechanisms and techniques. Budgets are merely a reflection of trends based on previous data, literally linked to legal requirements. In other words, the budget reflects pure accounting data, and is not presented in the form of administrative policies or perceptions - based on an analysis of future indicators and forecasts - that govern the level of services required (now and in the future). This is in addition to the fact that it relies on estimates that are exposed to distorting influences, moving them away from those expectations.

Effective analysis must rely on statistical studies and the collection of sufficient data from citizens and local communities to create objective perceptions on population, service recipients and their priority needs. This must occur in parallel with the preparation of financial statements that include a list of activities, performance indicators, a statement of financial position, and not based solely on comparing estimated and actual budgets in order to find deviations.

Preparing the budget is considered one of the key steps required for short-term, same-year analysis. This plan centers on preserving the LGU’s liquidity while balancing expenses with revenues, as well as debts that can be collected, the presence of a sufficient reserve, and the extent of commitment to priorities in spending. The budget reflects the general financial situation of the LGU in question.

Moreover, building a successful budget requires separate estimates for operational expenditures and capital expenditures, distinguishing between the planned vs. estimated budget and actual vs. real results. These that take into account changes and amendments during the year. However, given that most LGUs do not use an accrual basis, the benefits of this study are limited, as is the extent to which it serves financial analysis.

Relying on historical financial data is very important, but a large number of LGUs do not provide this data, noting that accurate analysis requires historical data for several years, perhaps up to five. This study only utilized accurate data to build a sound and precise database that can be relied upon in the coming years as a reference point for all LGUs. That is, one of the goals of this study is to reach the stage of involving financial information, analysis and financial planning in building established policies and strategies, and to give each LGU’s administration the ability to measure compatibility between goals and implementation.

The study’s sample covered 29 local authorities in the West Bank, selected by a simple, random method, with the requirement that financial data is fully available: a list of activities and a budget, completed for five consecutive years (2018-22). We excluded any LGU from the sample due to data limitations or incomplete data. The following table illustrates the distribution of the study sample according to its variables.

Table 1: Distribution of the selected sample of municipalities, local authorities and village councils, according to their classification

No.	LGU	Classification	Governorate
		Class A	
1	Hebron	A	Hebron
2	Nablus	A	Nablus
3	Jericho	A	Jericho
4	Tulkarem	A	Tulkarem
5	Bethlehem	A	Bethlehem
6	Ramallah	A	Ramallah
7	Al Bireh	A	Al Bireh
8	Qalqilya	A	Qalqilya
9	Tubas	A	Tubas
		Class B	
10	Beit Sahur	B	Bethlehem
11	Beit Oula	B	Hebron
12	Al Ezariyah	B	Jerusalem
13	Beit Amar	B	Hebron
14	Beit Furik	B	Nablus
15	Ya'bad	B	Jenin
16	Al Yamun	B	Jenin
17	Arrabeh	B	Jenin
18	Tamun	B	Jenin
19	Beit Jala	B	Bethlehem
		Class C	
20	Al Zababdeh	C	Jenin
21	Atarra	C	Ramallah
22	Al Za'eem	C	Jerusalem
23	Al Obaydiyah	C	Bethlehem
24	Jeboos	C	Qalqilya
25	Habla	C	Qalqilya
26	Kufr Ra'ee	C	Jenin
27	Surda	C	Ramallah
28	Kufr Dan	C	Jenin
29	Seelat Al Thuher	C	Jenin

5.3.4 Study tools and model

Palestinian LGUs provide two, primary types of services to citizens: non-commercial services (local governance activities) and commercial services (activities of a profit-making nature). In addition, Palestinian municipalities maintain and manage some funds that are not used to finance municipal activities. In this capacity, the LGU operates as the trustee or supervisor for individuals, governmental bodies or public organizations (trust activities). Examples include the knowledge tax and the pension fund for municipal employees. These three types of budget activities (local governance, for-profit activities and credit management) constitute what are commonly known as “core municipal activities”. In addition, some departments at the LGU may provide others with specific services known as “internal service activities”. These internal services are usually managed on a commercial basis, and both internal services and profit-making activities are collectively known as commercial activities. (Guide to Accounting Policies and Procedures for a Large Palestinian Municipality, 2020).

Non-commercial activities include public health and safety, public works, as well as social, cultural, recreational and security services. In addition, LGUs implement development projects, considered a necessary part of public services. These non-commercial services are known as local governance activities.

The LGU collects nominal fees for some of these services and development projects, wholly or partially, from internal or external sources. Internal financing may arise from fees collected for these services, or from surplus profits arising from non-commercial services.

External funding may originate with central government or a third-party donor, yet, it is important for citizens to know the amount of resources spent on each type of service, and deductions allocated from expenses of each type of service (Guide to Accounting Policies and Procedures for a Large Palestinian Municipality, 2020).

Commercial activities include profitable services provided to beneficiaries external to the municipality. This includes water, as well as other specific services such as electricity, fruit and vegetable markets, and slaughterhouses (Guide to Accounting Policies and Procedures for a Large Palestinian Municipality, 2020). Commercial activities are managed on a purely commercial basis, and do not require municipal financial support. Rather, all costs are supposed to be recovered from entities that receive these services. Therefore, it is important that accounting for each of these commercial services is performed separately, in order to determine the actual cost of the service. This will enable the LGU to set fair and reasonable fees to recover the actual cost of services; and generate profits in order to finance other non-commercial services that it provides (Guide to Accounting Policies and Procedures for a Large Palestinian Municipality, 2020).

As for credit activities, the municipality plays the role of trustee or supervisor on behalf of others, and therefore it cannot use the assets and revenues of these activities to support its activities. Fiduciary activities include pension funds (and other employee benefits), trusts, investment trusts, special purpose trusts and LGU trusts. These three types of trusts should be used to record the resources that are in the hands (and under the management) of the municipality in a fiduciary capacity, for the benefit of individuals and organizations (private or public). These funds are distinguished from LGU funds by the presence of an agreement that specifies the extent of participation in management and the period of time during which resources are retained (Guide to Accounting Policies and Procedures for a Large Palestinian Municipality, 2020).

A special model was designed using MS Excel for the purposes of this study, detailing all requisite financial and non-financial results and indicators, in addition to integrating performance indicators for municipalities of various classifications.

The model (form) is divided into the following sections:

1. Financial inputs section (trial balance, financial position and budget, population census under each municipality's administration, annual per capita income).
2. Vertical analysis section and all ratios based on revenues, expenses and demographic indicators.
3. Horizontal analysis and growth section, including a comparison between each year and the preceding one.
4. Risk analysis (liquidity, debt, financial stability).
5. Comparisons between municipalities/LGUs and identifying indicators that can be relied upon by LGUs and stakeholders.
6. A panel section with graphical representation, showing a quick summary of analytical results represented by a graph.

5.3.5 Analytical procedures

After reviewing previous (local and international) studies on financial analysis, the analytical model was designed in its final form. The study population and sample were selected. This required great effort in reviewing data and the extent of its completeness and suitability for analysis, then transcribing it into the MS Excel model developed specifically for the purposes of this study, in order to derive the desired results from the research.

5.3.6 Analytical process

The analytical process covered:

- Benchmarking comparative analysis
- Vertical analysis
- Horizontal analysis
- Risk and return ratio analysis (Ratio analysis)
- Analysis of demographic indicators.

5.4 Analyzing the population-demographic indicators of municipal classes A, B and C, linking them with financial data

Linking the revenues and expenses of municipalities and LGUs with population indicators is extremely important, as several municipalities rely solely on random numbers - or comparisons with their own indicators from previous years - without clear standards and foundations. One of the goals of this study is to formulate indicators for various classifications and variables, so that they become a reference for mayors, village councilors and decision-makers. The primary goal of municipalities is to provide services to citizens effectively, in the best way, and at the lowest cost. To arrive at specific indicators, the following ratios and indicators were adopted:

1. An indicator based on dividing the basic trial balance accounts by the population.
2. An indicator based on dividing the basic budget and financial position accounts by the population.
3. An indicator based on measuring the percentage of any type of main municipal revenues and per capita income.

4. An indicator based on measuring the proportion of any type of major municipal expenses and per capita income.
5. Financial ratios that measure debt, credit, liquidity risk, and financial distress.

5.4.1 Analysis of revenues and their linkages with demographic-population indicators for all municipal classifications (A, B, C)

Many countries set ceilings for LGUs that they cannot exceed in imposing fees and taxes on residents. This requires a comprehensive study that balances individuals' incomes with taxes or fees, relative to the cost of services. This study examines average revenue vs. population vs. per capita income for all local authorities included in the study sample. Per capita revenue/expenditure was calculated by dividing the average total of each by the number of residents within that LGU's jurisdiction. The ratio of per capita income to revenues and expenses was calculated by dividing each type of expense or revenue by the value of averages income during the five years 2018-22, arriving at the average, annual value of (about) NIS 12,156. Results are illustrated in Table 2 below.

Table 2: Overall average revenues, expenses, and per capita income for sampled municipalities (A, B, C), 2018-22

Account	Average accounts (income and expenses) for classes A, B, and C divided by the population in each locality	Average of vertical ratios of accounts to revenues for classes A, B, and C	Average ratio of taxes and fees to average per capita income (2018-22)
Revenues	976		8.0%
Non-commercial revenues	477	49%	3.9%
Tax revenues	128	13%	1.1%
Other tax revenues	146	15%	1.2%
Other non-commercial revenues	133	14%	1.1%
Income from investments and rentals	78	8%	0.6%
Restricted revenues	36	4%	0.3%
Unrestricted revenues	74	8%	0.6%
Budget revenues solid waste	77	8%	0.6%
Natural revenues Commercial	513	53%	4.2%
Budget revenues water and sanitation	182	19%	1.5%
Budget revenues municipal slaughterhouse	4	0%	0.0%
Budget revenues vegetables market	7	1%	0.1%
Budget revenues gardens	28	3%	0.2%
Processing plant and water refining revenues	7	1%	0.1%
Budget revenues parking	7	1%	0.1%
Budget revenues cultural center	0	0%	0.0%

Account	Average accounts (income and expenses) for classes A, B, and C divided by the population in each locality	Average of vertical ratios of accounts to revenues for classes A, B, and C	Average ratio of taxes and fees to average per capita income (2018-22)
Budget revenues dynamometer	34	3%	0.3%
Budget revenues for other business activities	179	18%	1.5%
Budget revenues electricity	628	64%	5.2%
Revenues - budget credit	55	6%	0.4%
Budget revenues credit	52	5%	0.4%
Expenses	975	100%	8.0%
Payroll expenses and its accessories	312	32%	2.6%
Salaries and wages - permanent (two dwellings)	204	21%	1.7%
Salaries and wages - permanent, non-resident	60	6%	0.5%
Salaries and wages - temporary unhoused	29	3%	0.2%
Salary of the Chairman of the Authority Local	12	1%	0.1%
Salaries and wages – retirees	31	3%	0.3%
General and administrative expenses	286	29%	2.4%
General and administrative expenses	286	29%	2.4%
Related Non-commercial operating expenses	236	24%	1.9%
Related Non-commercial operating expenses	237	24%	1.9%
Related Commercial operating expenses	378	39%	3.1%
Budget expenses water and sanitation	94	10%	0.8%
Budget expenses slaughterhouse	2	0%	0.0%
Budget expenses fruit and vegetable market	5	1%	0.0%
Budget expenses gardens	4	0%	0.0%
Budget expenses processing and water refining	9	1%	0.1%
Budget expenses parking		0%	0.0%
Budget expenses dynamometer	10	1%	0.1%
budget expenses cultural center	16	2%	0.1%
Budget expenses other Commercial	183	19%	1.5%
Budget expenses electricity	416	43%	3.4%
Budget expenses credit	38	4%	0.3%
Budget expenses credit	38	4%	0.3%

Table 2 above shows that a citizen residing across any municipal classification (A, B or C) bears an average amount of NIS 976 during 2018-22, which is 8% of average, annual per capita income in the West Bank.

Revenues of a commercial nature constitute the largest burden on the citizen, at a rate of approximately 53%, with an average value of NIS 513 annually. Electricity revenues are excluded from this percentage, as electricity revenues alone constituted 64% of total revenues (not including the value of electricity). In fact, the value of electricity revenues is the largest and most important (as shown in Figure 1 below), followed by water and sanitation revenues at 19%.

Figure 1: Commercial revenues vs. total revenues for all sampled LGUs (2018-22)

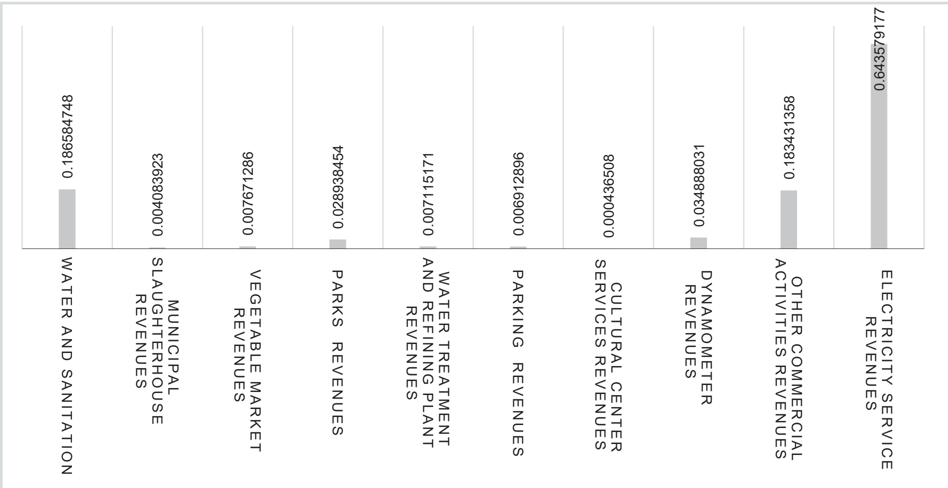
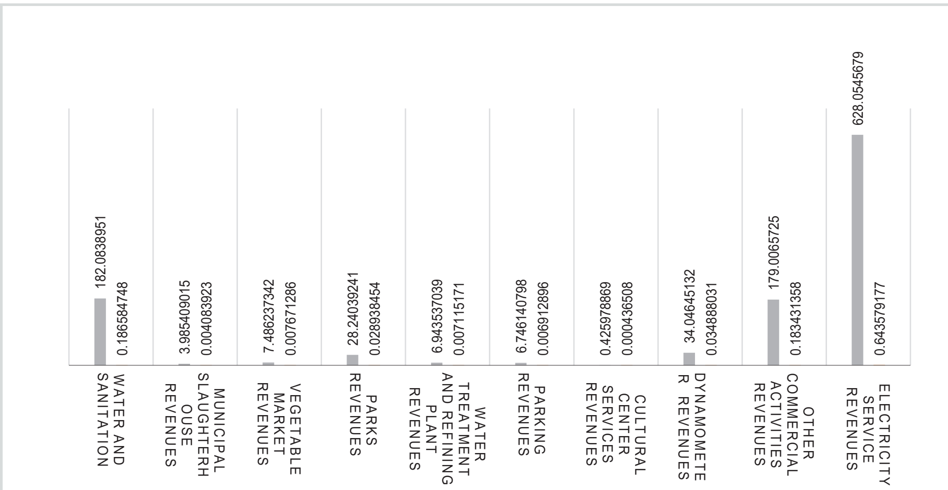


Figure 2: Value of commercial revenues for all sampled LGUs (NIS)



When dividing total electricity revenues by total revenues (not including the value of electricity revenues), we find that the percentage reads approximately 63.5%, with an average of NIS 628 per year per person, i.e. 5.2% of average, annual per capita income in the West Bank. It should also be noted from available data that 18.7% of expenditures are on water and sanitation, with an average amount of NIS 182, or about 1.5% of average, annual per capita income in the West Bank.

Electricity revenues constitute approximately 70% of the revenues of Class A municipalities, followed by Class C at 68.9%, and then Class B at 51.2%. As for sanitation and water revenues, these converge across various classifications, ranging from 17.2% to 20.6%. As for revenues of a non-commercial nature, these are the second-largest burden on the citizen, yet the account for 49% of total municipal revenues, with a total value of NIS 477 (distributed across tax, non-tax and waste management revenues, in addition to grants of all kinds).

Figure 3: Non-commercial revenues vs. total revenues (2018-22)

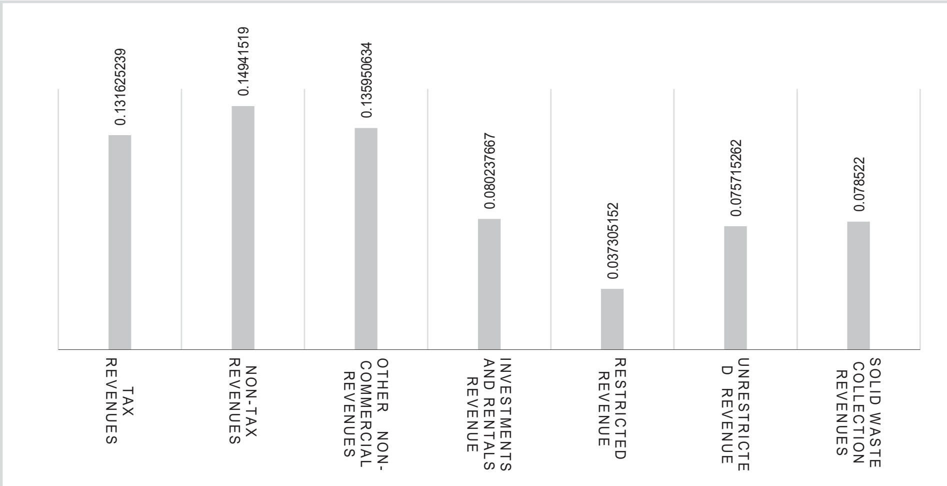
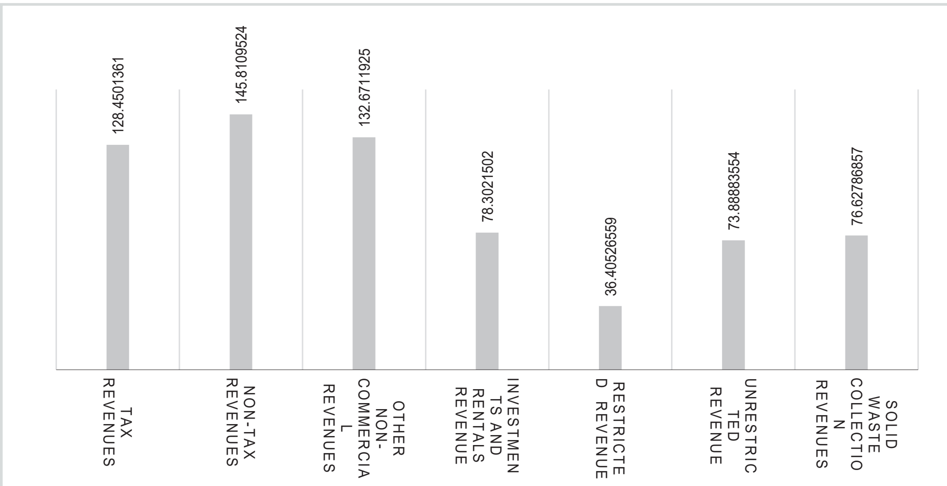


Figure 4: Value of non-commercial revenues for all sampled LGUs (NIS)



With regard to the ratio of non-commercial revenues to per capita income, the results are detailed in Figure 5 below.

When calculating the average across all five years (2018-22) for all revenues (across all LGUs included in the study sample), it was found that commercial revenues carry the most significant weight. Results show that average revenues of a commercial nature amounted to NIS 513, followed by non-commercial revenues at NIS 477 per person, and finally, revenues from credit budgets with an amount that did not exceed, on average, NIS 38 per person.

Figure 5: Average ratio of revenues and expenses to per capita income for 2018-22 across all sampled municipalities (A, B, C)

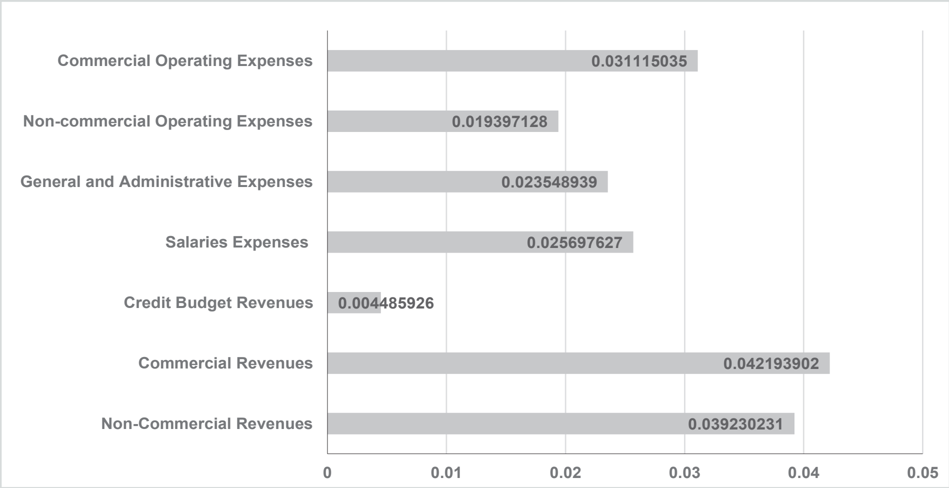


Figure 6: Average revenues per citizen for all classifications, 2018-22 (NIS)

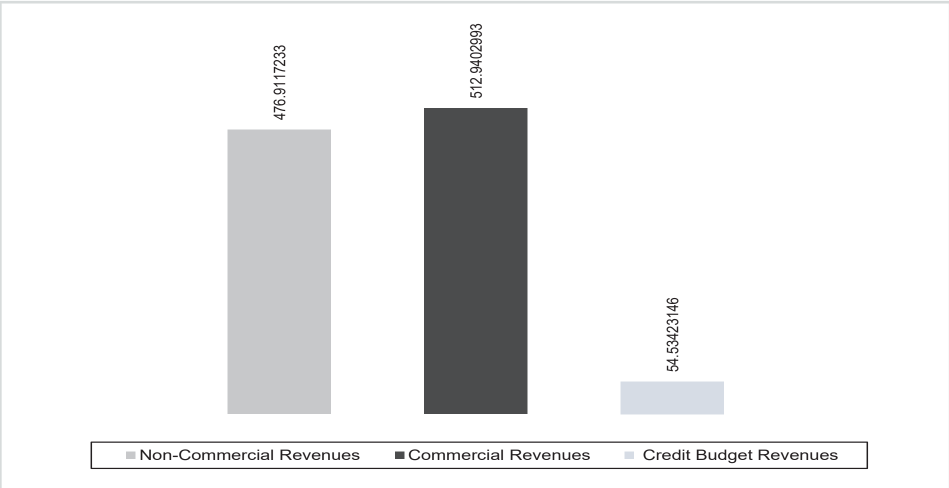
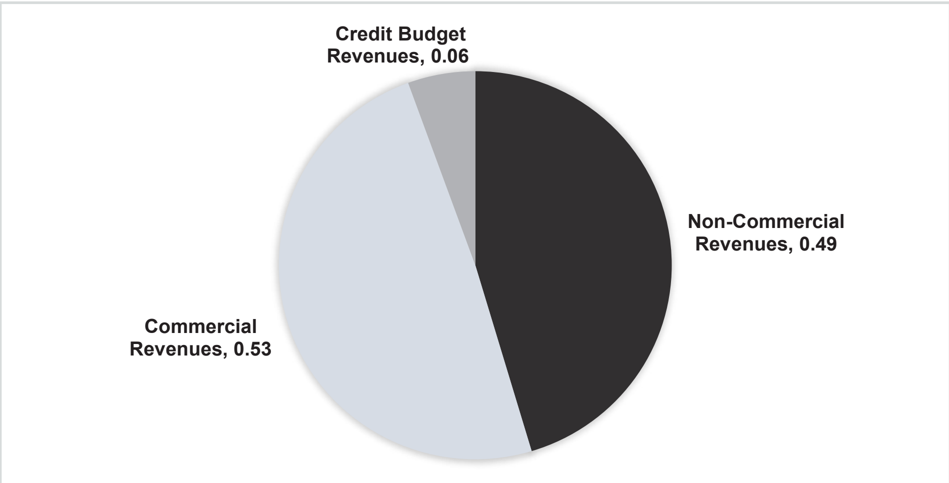


Figure 7: The ratio of each revenue steam to the total municipal revenues (2018-22)



When tracking the relative weight of each type of revenue across the full sample and for all classifications (A, B, C), we find that revenues of a commercial nature constitute 53% of total revenues, followed directly by revenues of a non-commercial nature, with a percentage of 49%. Revenue generated from credit came in last place, amounting to only 6% during 2018-22.

5.4.2 Definition of revenue items and their components

Account	Classification and description	Overall average of vertical ratios of accounts to revenues, classifications A, B, and C
Revenues		
	Non-commercial revenues (local government activities)	49%
Tax revenues		13%
Non-tax revenues	License and permit fees include regular building permit fees, extraordinary building permit fees, building inspection fees, electric elevator inspection fees, signage license fees, residence permit fees, cemetery license fees, burial and transportation of the dead, street vendor license fees, plumbing profession license fees, Fees for electrical professions licenses, fees for swimming pool licenses, fees for mechanical professions licenses, fees for road opening licenses, fees for surveying and building licenses, permit fees . Road occupancy , fire protection inspection license fees, special use license fees, precious metals license fees, public safety fees, crafts and industries license fees, professions and business licenses, fish and bird fees, fruit and vegetable market fees, animal market fees, kindergarten subscription fees . Fees for certifying transactions, site plan fees, fire fees, bidding fees, parallels and measures fees, stall and umbrella fees, various license fees, level determination and street designation fees, regulatory project fees, revenues. Subscriptions to joint planning and development councils . Revenues Among the services: court fees, false alarm fees , parking meter fees, street and sidewalk fees (citizen contribution), registration and blogging fees, cesspit fees, library subscription fees, certificates and maps fees, banners and advertisement fees, rat control fees , transportation fees. Roads, bicycle fees, porters 'fees, retaining wall fees , car parking rentals, fees for tax collection allowances for parties other than the Authority, fees for photocopying documents, other subscription fees , theater and hall rentals, fees for training courses, ticket revenues, fees for obtaining information, revenues. Ambulance , book sales prices	15%
Revenues: Non-commercial, other		14%
	revenues , court fines, unlicensed construction fines, revenues Courts other than fines, delay fines, property assault fines General, various fines, fines for traffic and parking violations.	
Income from investments and rentals		8%
	Income from the use of property and funds , interest on municipal funds (credit interest), income from investments - stocks and bonds, income Municipal machinery rents , revenue Local authority real estate rents , revenues Swimming pool rental, key revenue - retreats, revenue Rentals Kiosks , revenue Including projects and properties, profits from the sale of fixed assets, and revenues Foreign currency differences , compensation for traffic and machinery accidents , sales of road waste, profits from the sale of supplies, profits from the disposal of supplies, revenues Inventory differences	

Account	Classification and description	Overall average of vertical ratios of accounts to revenues, classifications A, B, and C
Restricted revenues		4%
	Fines for violating parking provisions , revenues Deferred in-kind grants	
Unrestricted revenues		8%
	Revenues from various grants and gifts, revenues from government grants and gifts, revenues from foreign grants and gifts , revenues from local grants and gifts, revenues Social activities, revenues from sports committee activities, revenues Gender	
Budget revenues solid waste		8%
	Operating revenues -Solid Waste , Waste Fees, Waste Fees -Residential Buildings , Waste Fees -Commercial Buildings , Waste Fees -Industrial buildings , waste fees -Academic institutions , sanitary waste fees, waste fees -Nonprofit organizations , waste fees -Governmental institutions , waste fees -United Nations, waste fees -Local institutions , waste transportation and transfer fees, fines for violations -solid waste , waste fees - local authorities, construction waste disposal fees , other solid waste fees, fees for maintaining waste containers from other local authorities .	
	Commercial revenues (activities of a profitable nature)	53%
Budget revenues Water and sanitation	revenues - water, water meter reading revenues - residential, water meter reading revenues - commercial , water meter reading revenues - industrial facilities , drinking water prices revenues , revenue Prices of drinking water in tanks, revenues from irrigation water prices, non-refundable/refundable water subscription deposits, fines for late payment of drinking water bills, fees for certifying irrigation water transactions, revenues from water meter prices, contributions for connection to the water network, revenues from water pipes prices , revenues from prices Water subscription supplies, revenues Water service subscription fees, revenues Miscellaneous - water, water disconnection and reconnection fees, water theft fine . Operating revenues - Sanitation: - Fees for contributions to constructing the sewerage network, fees for connecting to the sewerage network, fees for clearing sewerage sewers, fees for maintaining and transporting the water meter, fees for periodic subscriptions to the sewerage network .	19%
Budget revenues Municipal slaughterhouse	revenues - slaughterhouse, revenues Operational –slaughterhouse fees, carcass fees, tanning and leather fees, fines and violations, accommodation and barn fees.	0%
Budget revenues Vegetables Market	Operating revenues - fruit and vegetable market , fruit and vegetable market service revenues , refrigerator fees, loading vehicle license fees, truck entry fees, truck driver fees, fruit and vegetable fees.	1%
Budget revenues Gardens	Revenues Operational –park, revenue Lawn games, revenue Museum, revenues Swimming pool, revenue Supermarket, revenue Garden Restaurant, revenue Garden break, revenue Including park facilities , zoo revenues , park stagecoach ticket revenues, and park cinema revenues.	3%
Processing plant and water refining revenues	Water treatment and refining plant revenues , revenues Purification fees, compensation for purification plant accidents, and revenues Selling refined water	1%

Account	Classification and description	Overall average of vertical ratios of accounts to revenues, classifications A, B, and C
Budget revenues: parking	revenues –garages, parking subscriptions, parking tickets, tourist bus fees .	1%
Cultural center revenues	revenues , revenues Cultural Center .	0%
Budget revenues dynamometer		3%
Budget revenues for other business activities	Revenues from services, budgets, other business activities, revenues Other trade budgets. Revenues Arts and Crafts Village, Revenue Holst Centre, Revenue Childhood Happiness Center , revenues Prosthetics Industry Center , revenues Marine Club, revenues Health Center .	18%
Budget revenues electricity		64%
	Revenues - budget credit	6%
Budget revenues credit	revenues , municipal contribution, employee contribution, revenues Bank interest, short- term investment income , long- term investment income , revenue Others for the retirement fund, revenues End of service allowances (paid by the municipality) . Knowledge tax revenue: Knowledge tax revenue, Knowledge tax interest revenue , Other knowledge tax revenue.	5%

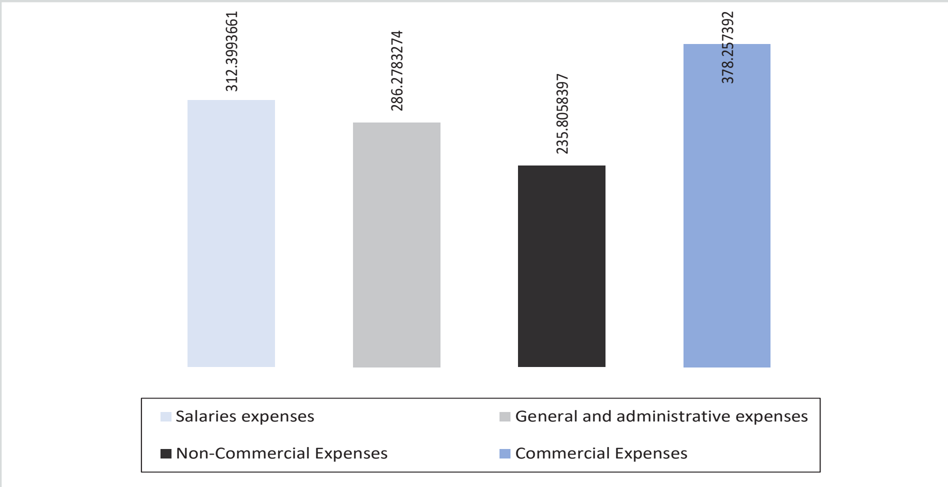
5.4.3 Expenses' analysis (taking into account demographic-population i ndicators for all municipal classes A, B or C

The results of analyzing banking data shows a set of important results, most notably:

- Expenses, on average, for all municipalities and LGUs, across all classifications, amounted to 98.7% of revenues. This indicates an almost balanced management of expenses versus revenues, with some exceptions for specific cases of local bodies.
- Salaries and associated expenses constituted 32% of total expenses, at a rate of NIS 312 per Palestinian citizen (i.e. 2.6% of average, annual per capita income).
- Results demonstrate that expenses of a commercial nature had the highest percentage, approximately 39% (or NIS 378 shekels per person annually), followed by administrative and general expenses at 29%, and expenses of a non-commercial nature at 24%.

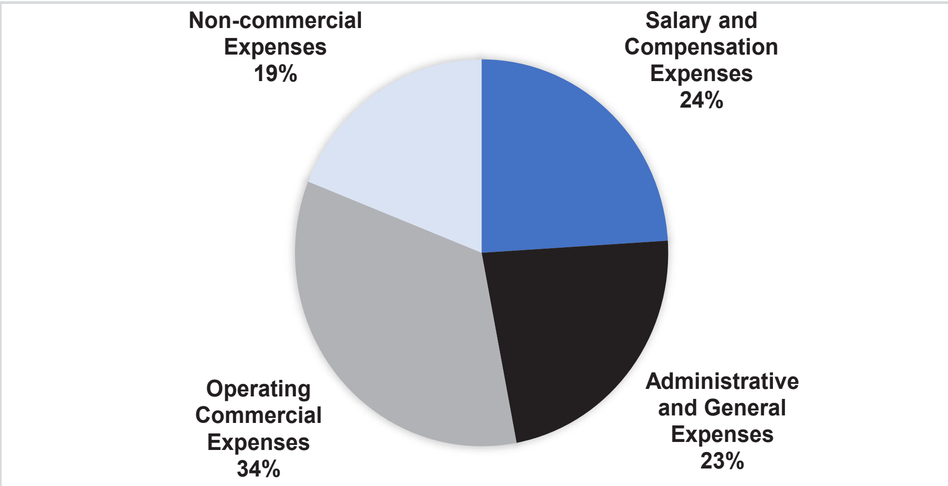
When observing Figure 8 below, we note that operating expenses of a commercial nature had the highest value in terms of their burden on citizens, at a rate of NIS 378 shekels for each individual within an LGU's jurisdiction. The second-largest burden was salaries, at a rate of NIS 312 per person. Administrative and general expenses, combined with non-commercial, operating expenses amounted to NIS 236.

Figure 8: Average distribution of expenses per citizen for all classifications (2018-22)



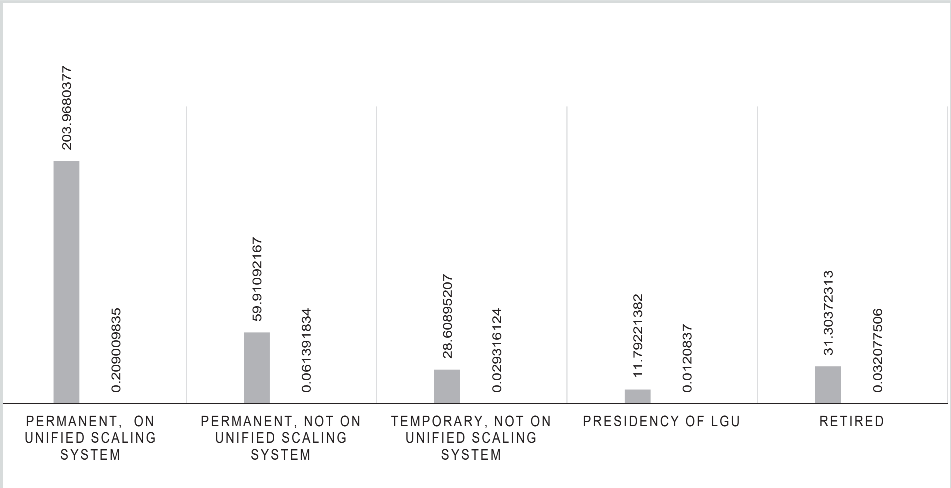
When examining the four, basic expense categories at each municipality (salaries, administrative and general, commercial, non-commercial) nature, we find that non-commercial expenses ranked highest at 34%, followed by salaries at 24%, then administrative/general at 23%. Non-commercial, operating expenses came in last place, as represented in Figure 9 below.

Figure 9: Ratio of each expense category to total expenses (2018-22)



It is important to study all expenses - and their internal distribution - across the main functions, in order to examine variations between one municipality and another. In order to monitor this, an overall average was derived for all LGUs in the study sample. Figure 10 illustrates the ‘salaries and wages’ expense item, and the percentage of each item relative to total revenues at each municipality during 2018-22.

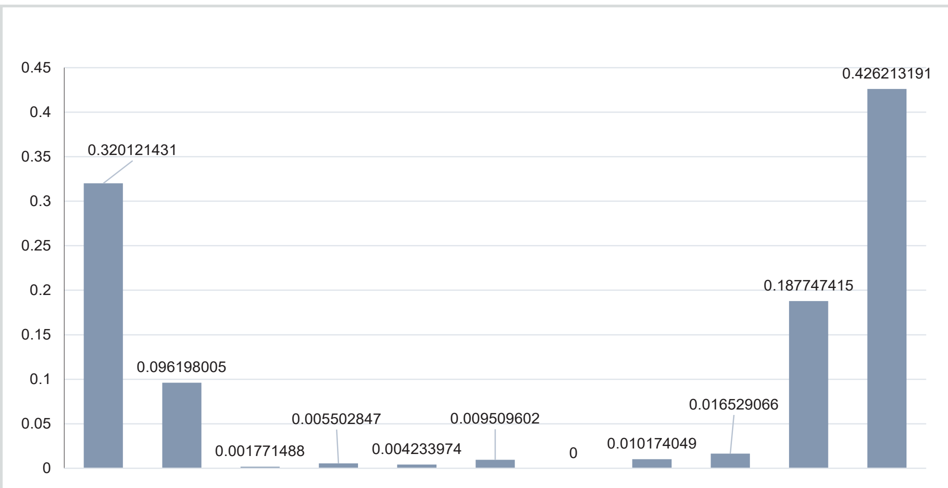
Figure 10: Per capita volume and percentage of non-commercial expenses for salaries and wages across all municipal classifications (2018-22) (NIS)



The values in the graph indicate the general averages for the study sample. Therefore, LGUs can rely on these values as a comparative standard. For example, the percentage of salaries and wages of citizens and permanent residents at municipalities amounted to (about) 21% of revenues, at a rate of NIS 204 per citizen. The salaries of retirees did not exceed the threshold of 3% of total revenues, and the salaries of the Presidency of the local authority did not reach more than 1% of revenues.

When comparing between salary expenses and other, commercial expenses, we find that salary expenses amounted to 32% of a local authority's revenues. These need continuous financial coverage on a monthly basis by the administration, especially given that they rank in second place after electricity expenses (43% of municipal revenues). When compared with water and sanitation expenses, salaries' expenses amounted to more than three times these expenses. Figure 11 shows the results of the comparison between salaries' expenses and commercial expenses across all LGUs included in the study sample.

Figure 11: Per capita combined, commercial expenses and salaries and wage items divided by total revenues for all municipal classifications (2018-22) (NIS)



It can be discerned from Figure 11 above that salaries' expenses constitute a significant burden on all LGUs, exceeding all types of expenses related to commercial activities, with the exception of the electricity budget.

5.4.4 Analyzing financial positioning and budgets; measuring financial stability across Classes A, B and C

The need for data on an accrual basis necessitated focusing on larger municipalities or LGUs with high-quality financial data, based on accounting foundations which provide the analyst with reliable financial data. LGUs were found to lack data or rely on a cash accounting basis only – these LGUs were excluded. Table 3 shows the vertical ratios for each budgeted account, divided by total assets, across all municipal classifications.

Table 3: Vertical ratios of budget accounts to total assets for all classifications and overall average

Category	Class A	Class B	Class C	Overall average
Cash and cash equivalents	1.5%	7.1%	1.5%	3.4%
Accounts receivable, Net	18.4%	22.1%	36.3%	25.6%
Receivables, corresponding	1.6%	0.5%	0.2%	0.8%
Dues from other budgets	2.2%	0.1%	6.0%	2.8%
Dues from government bodies	0.0%	0.8%	0.0%	0.3%
Supplies and materials in warehouses	0.2%	0.3%	0.0%	0.2%
Other current assets	0.9%	0.3%	1.5%	0.9%
Total current assets	22.0%	31.0%	44.8%	32.6%
Investments – net	4.8%	14.3%	0.0%	6.4%
Fixed assets – net	71.7%	57.5%	55.2%	61.5%
Projects under construction	0.8%	2.8%	0.0%	1.2%
Other assets	0.6%	0.0%	0.0%	0.2%
Total assets	100.0%	100.0%	100.0%	100.0%
Payables	3.8%	31.6%	40.7%	25.4%
Current account of the electricity company	3.1%	0.0%	0.6%	1.2%
Dues to other budgets	3.2%	0.3%	0.0%	1.1%
Other current liabilities	2.0%	4.3%	9.4%	5.2%
Dues to government bodies	1.2%	0.0%	0.0%	0.4%
Total current liabilities	13.2%	36.0%	49.4%	32.9%
Long term liabilities	2.7%	0.7%	0.0%	1.2%
Finance leases	0.0%	0.0%	0.0%	0.0%
Commitment from finance lease contracts (other)	0.0%	0.0%	0.0%	0.0%
Long-term operational commitments	0.0%	0.0%	0.0%	0.0%
Long term debt	0.0%	0.1%	0.0%	0.0%
Employee compensation provisions	0.1%	0.4%	0.0%	0.1%
Employee retirement allowance	0.9%	3.0%	0.4%	1.4%
End-of-service specifier	2.5%	0.3%	1.0%	1.3%
Specialized legal issues	0.5%	0.0%	0.0%	0.2%
Other liabilities	7.1%	25.8%	0.3%	11.1%
Total liabilities	26.9%	44.8%	50.9%	40.9%

Category	Class A	Class B	Class C	Overall average
Net assets	73.1%	55.2%	49.1%	59.1%
Total liabilities and net assets	100.0%	100.0%	100.0%	100.0%

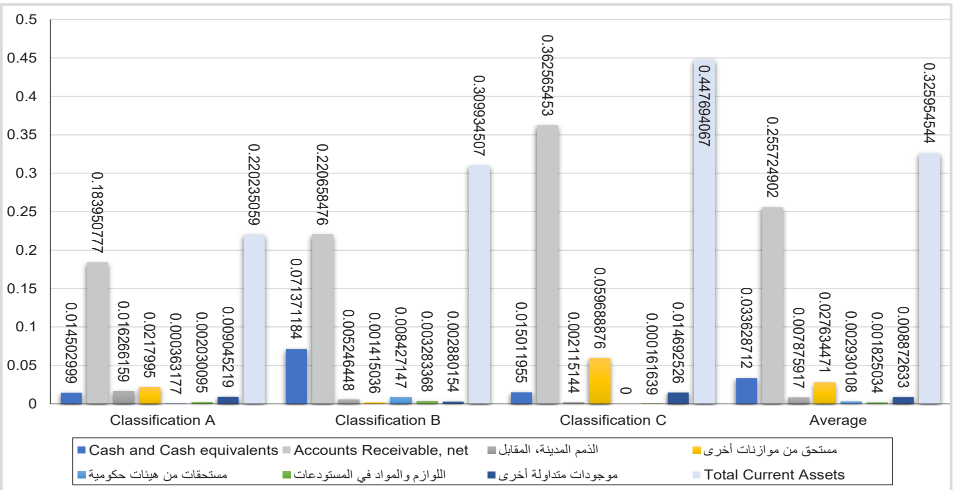
When examining the numbers in Table 3, we find that:

1. Cash liquidity and the ability to make short-term payments are negligible; on average, these do not exceed 3.4% of total municipal assets. Perhaps, the level of risk increases more in municipal classes A and C, where this ratio does not exceed 1.5%. Municipalities must maintain a higher percentage in order to manage their operational operations and cover their cash needs, without resorting to borrowing and incurring high financing costs.

   Moreover, the ratio of total current assets to total assets was about 32%. When analyzing the composition of assets, we find that 78.5% are receivables owed by citizens, making it difficult to liquidate them and convert them into cash, when required by the municipality.

   It appears from the comparison between municipal classifications (in terms of the ratio of receivables to current assets) that Class A municipalities have the highest vertical ratio of current assets to total assets (at 84% of current assets), followed by Class C municipalities at 81%. Finally, Class B municipalities registered a rate of 71%, due to the low percentage of collections from citizens.

Figure 12: Average ratio of cash, receivables and current assets to total assets at municipalities by classification (2018-22)



2. Regarding receivables and debts owed by citizens - the problem of debts owed by citizens is a major one faced by municipalities and LGUs, causing major bottlenecks in cash management. One the main reasons for the prevalence of this debt is the lack of regulatory standards for credit and managing debt. Perhaps some municipalities have begun to pass on the burden from one presidency to another, without there being standards for comparison between municipalities, or ratios that determine the municipality's financial position. To reach comparable standards, actual percentages for groups of municipalities were examined, as shown in Table 4 below. Note that the receivables turnover rate = total revenues divided by average receivables (for the five years 2018-22). The number of collection days was calculated by dividing 365 by the receivables' turnover rate.

Table 4: Arithmetic means of revenue data, averages of receivables, receivables' turnover rate, and number of collection days for each municipality Class A

Municipality	Revenues	Accounts receivable	Receivables' turnover rate	Number of collection days
Average for the municipality of Hebron	105,655,900	369,768,128	0.3	1,445
Average for the municipality of Jericho	35,324,234	21,031,701	1.9	210
Average for the municipality of Nablus	136,777,806	381,594,841	0.4	1,025
Average for the municipality of Tulkarem	88,005,301	399,648,109	0.2	1,662
Average for the municipality of Qalqilya	90,996,807	93,191,895	1.0	374
Average for the municipality of Tubas	8,001,772	11,388,885	0.7	522
Average for the municipality of Ramallah	84,312,475	47,316,299	1.8	206
Average for the municipality of Al-Bireh	54,529,712	97,688,717	0.6	610
Average for the municipality of Bethlehem	25,435,144	37,355,329	0.7	556

Figure 13: Average number of collection days for each municipality in Class A (2018-22)

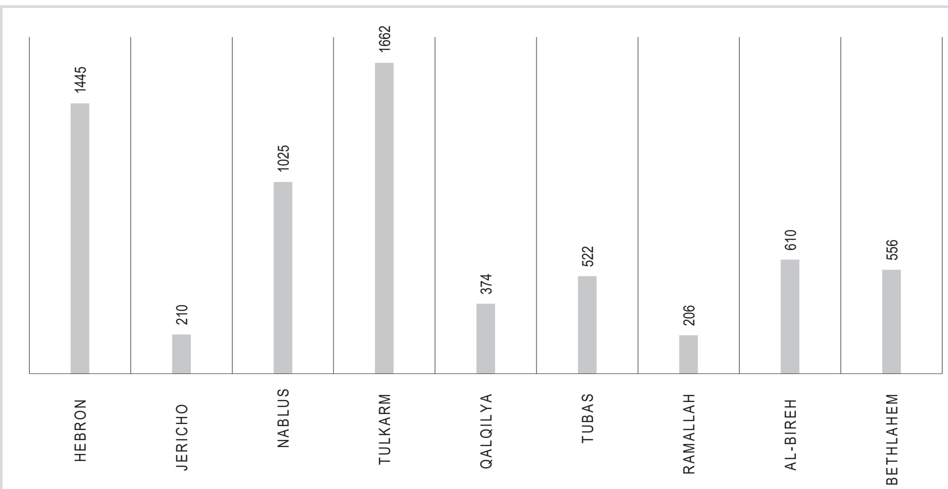


Table 5 details receivables' collections and defaulted collections. The average collection period was about 734 days or at least two years. Moreover, there is a large discrepancy between municipalities. In 2022, the number of collection days at Tulkarem Municipality was 1,270 days, compared to 295 days for Ramallah Municipality and 343 days for Qalqilya Municipality.

Table 5: Arithmetic means for revenue data, averages for receivables, receivables' turnover rate and the number of collection days for each municipality (2018-22)

Municipality	Revenues	accounts receivable	Receivables' turnover rate	Number of collection days
Hebron-2021	182,968,960	384,159,174	0.5	766
Hebron-2020	81,725,930	375,805,454	0.2	1,678
Hebron-2019	84,284,973	368,280,245	0.2	1,595
Hebron-2018	73,643,735	350,827,640	0.2	1,739
Average for the municipality of Hebron	**105,655,900**	**369,768,128**	**0.3**	**1,445**
Jericho-2021	47,095,351	33,724,524	1.4	261
Jericho-2020	29,679,539	20,618,206	1.4	254
Jericho-2019	37,121,442	20,291,174	1.8	200
Jericho-2018	27,400,602	9,492,901	2.9	126
Average for the municipality of Jericho	**35,324,234**	**21,031,701**	**1.9**	**210**
Nablus-2022	204,641,272			
Nablus-2021	150,428,824	406,689,905	0.4	987
Nablus-2020	120,349,723	388,515,250	0.3	1,178
Nablus-2019	145,674,187	378,158,028	0.4	948
Nablus-2018	130,658,491	353,016,181	0.4	986
Average for the municipality of Nablus	**136,777,806**	**381,594,841**	**0.4**	**1,025**
Tulkarem-2022	124,255,897	432,506,320	0.3	1,270
Tulkarem-2021	88,377,399	417,624,238	0.2	1,725
Tulkarem-2020	83,099,420	399,098,175	0.2	1,753
Tulkarem-2019	92,539,083	382,221,914	0.2	1,508
Tulkarem-2018				
Average for the municipality of Tulkarem	**88,005,301**	**399,648,109**	**0.2**	**1,662**
Qalqilya-2022	102,155,700	95,867,899	1.1	343
Qalqilya-2021	99,355,744	106,327,760	0.9	391
Qalqilya-2020	84,917,792	100,417,849	0.8	432
Qalqilya-2019	94,708,728	89,323,220	1.1	344
Qalqilya-2018	85,004,963	76,698,752	1.1	329
Average for the municipality of Qalqilya	**90,996,807**	**93,191,895**	**1.0**	**374**
Tubas-2020	8,841,096	12,724,646	0.7	525
Tubas-2019	7,371,884	13,097,696	0.6	648
Tubas-2018	7,792,336	8,344,313	0.9	391
Average for the municipality of Tubas	**8,001,772**	**11,388,885**	**0.7**	**522**

Ramallah-2022	109,573,940	88,531,364	1.2	295
Ramallah-2021	83,863,622	55,140,577	1.5	240
Ramallah-2020	74,405,394	44,639,798	1.7	219
Ramallah-2019	94,444,330	47,860,714	2.0	185
Ramallah-2018	84,536,553	41,624,105	2.0	180
Average for the municipality of Ramallah	**84,312,475**	**47,316,299**	**1.8**	**206**
Al-Bireh-2022	91,094,926	99,890,441	0.9	400
Al-Bireh-2021	58,350,167	90,589,465	0.6	567
Al-Bireh-2020	43,011,410			
Al-Bireh-2019	67,458,032	118,026,030	0.6	639
Al-Bireh-2018	49,299,237	84,450,655	0.6	625
Average for the municipality of Al-Bireh	**54,529,712**	**97,688,717**	**0.6**	**610**
Bethlehem-2022	174,745,265	48,899,774	3.6	102
Bethlehem-2021	22,754,111	40,695,933	0.6	653
Bethlehem-2020	22,132,034	38,472,387	0.6	634
Bethlehem-2019	31,419,288	32,897,666	1.0	382
Bethlehem-2018				
Average for the municipality of Bethlehem	**25,435,144**	**37,355,329**	**0.7**	**556**
Overall average			0.8 times	734.4 days

1. Fixed assets and municipal property.

   Perhaps one of the most important goals of adopting the accrual basis or the modified accrual basis is preparing a budget with integrated components and accounts, the most important of which is the evaluation and registration of fixed assets. These balances were obtained from audited data and reports and included in the financial analysis process. For more information, see Table 6, which shows the ratio of fixed assets to total assets.

Table 6: Ratio of fixed assets to total assets for municipal classes A, B and C (2018-22)

Category	Class A	Class B	Class C	Overall average
Total current assets	22.0%	31.0%	44.8%	32.6%
Fixed assets - net	71.7%	57.5%	55.2%	61.5%

The high percentage of fixed assets further compounds the difficulties faced by municipalities in paying cash and repaying debts, as the liquidation of fixed assets is mostly out of the question and not feasible, given that fixed assets are infrastructure, furniture, equipment, buildings and cars. This means large losses if the municipality decides to sell.

From the table above, it can be noted that Class A municipalities have the highest rate of investment in fixed assets, reaching 71.7%, followed by Class B (at 57.5%) and finally Class C (at 55.2%). When taking the general average for the entire sample, we find that the percentage of fixed assets reached 61.5% of the total assets.

5.4.5 Analysis of obligations and debts incurred by LGUs

Municipal administrations face a constant challenge in providing liquidity and cash to creditors and suppliers, and any failure in collection leads directly to default and financial hardship. Herein, the situation that municipalities have reached must be examined, specifically liquidity risks and the inability to repay debts, especially short-term ones.

Table 7: Ratio of average debts owed by LGUs to total assets (2018-22)

Category	Class A	Class B	Class C	Overall average
Payables	3.8%	31.6%	40.7%	25.4%
Current account of the electricity company	3.1%	0.0%	0.6%	1.2%
Dues to other budgets	3.2%	0.3%	0.0%	1.1%
Other current liabilities	2.0%	4.3%	9.4%	5.2%
Dues to government bodies	1.2%	0.0%	0.0%	0.4%
Total current liabilities	13.2%	36.0%	49.4%	32.9%
Long term liabilities	2.7%	0.7%	0.0%	1.2%
Finance leasing	0.0%	0.0%	0.0%	0.0%
Commitment from finance leasing contracts (other)	0.0%	0.0%	0.0%	0.0%
Long-term operational commitments	0.0%	0.0%	0.0%	0.0%
Long term debt	0.0%	0.1%	0.0%	0.0%
Employee compensation provisions	0.1%	0.4%	0.0%	0.1%
Employee retirement allowance	0.9%	3.0%	0.4%	1.4%
End-of-service specifier	2.5%	0.3%	1.0%	1.3%
Dedicated legal issues	0.5%	0.0%	0.0%	0.2%
Other liabilities	7.1%	25.8%	0.3%	11.1%
Total liabilities	26.9%	44.8%	50.9%	40.9%

It should be noted that most municipalities are burdened with debts, with the total ratio of debts to total assets amounting to 40.9%. This is a high percentage, indicating a higher level of risk in the coming period, which require taking important and rapid measures. It is interesting to note that Class A municipalities have the lowest default rate, which did not exceed 26.9%, compared to Class B at 44.8% and Class C at 50.9%.

Current liabilities that must be settled during the same year constituted 33% of total liabilities. This is a high percentage, indicating the necessity of constant readiness at LGUs' financial management to cover these short-term obligations and also ensure continuous liquidity. It is evident that Class A municipalities are able to effectively manage their debts, as the ratio fell to 13%, indicating better financial stability and liquidity.

Table 8: Current ratio and ratios of cash to current liabilities

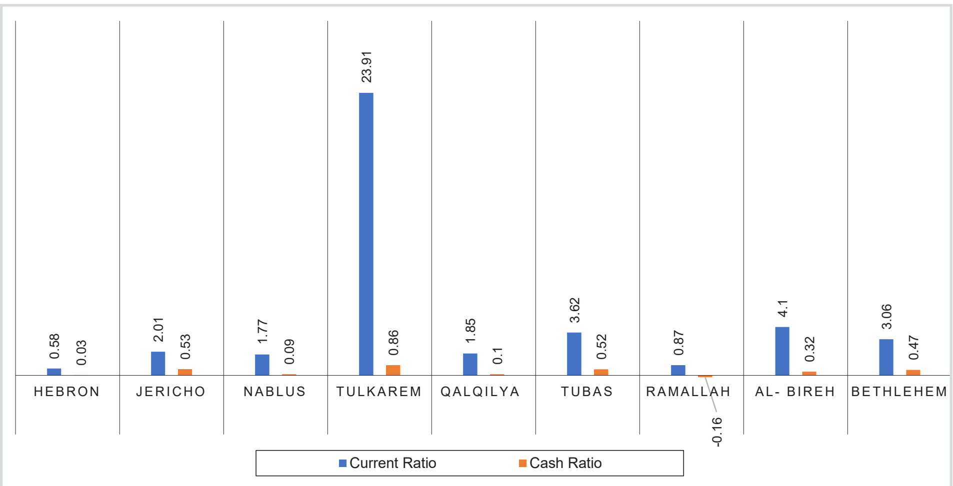
Governorate	Current ratio	Ratio of cash to current liabilities
Hebron	0.58	3%
Jericho	2.01	53%
Nablus	1.77	9%
Tulkarem	23.91	86%
Qalqilya	1.85	10%
Tubas	3.62	52%
Ramallah	0.87	-16%
Al Bireh	4.10	32%
Bethlehem	3.06	47%
Total current ratio	4.35	28%
Current ratio excluding Tulkarm	1.96	

The results outlined in Table 8 above indicate that the current ratio (current assets vs. current liabilities) is within the conventional level, however, in reality, a deeper examination of the composition of current assets reveals the presence of a high level of risk. This is because receivables account for the bulk of current assets, yet these have slow collection cycles requiring an average of 734 days (or about two years).

The cash liquidity ratio, calculated by dividing cash and cash equivalents (including cash in banks and incoming short-term checks) by total debts and short-term obligations, was only 28%. This means that for every NIS 100 in short-term liability, there are only NIS 28 in cash. In other words, most municipalities suffer from a cash liquidity crisis and an inability to pay their short-term obligations. Financial management suffers from severe pressure in dealing with cash, and this may lead LGUs to de-prioritize capital or developmental expenses, operating in the constant fear of a lack of cash.

The current ratio reached 4.35, meaning that for every NIS 1 in short-term obligations, municipalities are covered by NIS 4.35 in current assets. This excludes Tulkarem Municipality, as its numbers pull the result significantly higher, decreasing the ratio to 1.96 (see Figure 14).

Figure 14: Average turnover rates and cash ratios for municipal Class A (2018-22)



When examining results across time, we find a decline in financial liquidity that is not limited to a specific period. Rather, it is a permanent condition and a form of continuous suffering that deserves to be taken into account in order to find standards and solutions for financial administrations at LGUs.

When looking at the data in Table 9 below, we find that some municipalities are dealing with negative cash balances, such as the municipality of Ramallah, while others have a much lower proportion, such as Hebron (3%) and Nablus (9%). Undoubtedly, all this confirms the existence of liquidity risk facing LGUs.

Table 9: Trading and cash ratios for municipal Class A (2018-22)

Governorate	Year	Cash and cash equivalents	Total current assets	Total current liabilities	Current ratio	Ratio of cash to current liabilities
Hebron	2018	8,289,428	322,158,746	656,892,256	0.49	0.01
Hebron	2019	11,609,517	511,115,222	863,515,700	0.59	0.01
Hebron	2020	17,772,184	560,309,737	951,521,540	0.59	0.02
Hebron	2021	19,523,216	696,283,064	1,040,834,059	0.67	0.02
Hebron	2022	11,147,555	65,014,577	120,208,110	0.54	0.09
					0.58	0.03
Jericho	2018	8,806,816	20,481,800	14,286,836	1.43	62%
Jericho	2019	9,925,524	31,996,133	17,736,743	1.80	56%
Jericho	2020	10,765,034	36,687,449	23,748,159	1.54	45%
Jericho	2021	9,932,873	46,171,208	20,447,057	2.26	49%
Jericho	2022	9,785,797	54,345,821	18,065,033	3.01	54%
					2.01	53%
Nablus	2018	20,029,084	378,081,272	224,479,498	1.68	9%
Nablus	2019	20,995,884	405,737,724	249,489,911	1.63	8%
Nablus	2020	19,743,187	414,692,208	262,117,687	1.58	8%
Nablus	2021	25,996,360	439,594,523	267,585,447	1.64	10%
Nablus	2022	36,577,470	684,342,090	297,254,184	2.30	12%
					1.77	9%
Tulkarem	2019	14,878,196	402,087,676	16,026,677	25.09	93%
Tulkarem	2020	15,876,281	420,542,534	18,342,917	22.93	87%
Tulkarem	2021	15,644,052	439,305,946	17,864,000	24.59	88%
Tulkarem	2022	15,451,196	455,107,569	19,750,086	23.04	78%
					23.91	86%
Qalqilya	2018	5,004,034	83,539,372	35,124,812	2.38	14%
Qalqilya	2019	6,141,340	107,079,734	50,149,475	2.14	12%
Qalqilya	2020	7,178,352	111,012,111	45,826,538	2.42	16%
Qalqilya	2021	5,959,377	118,394,900	108,229,396	1.09	6%
Qalqilya	2022	2,877,159	106,148,775	87,766,632	1.21	3%
					1.85	10%
Tubas	2018	2,834,018	11,178,331	4,433,067	2.52	64%
Tubas	2019	1,696,434	16,245,139	3,717,988	4.37	46%
Tubas	2020	1,707,188	14,844,733	3,748,015	3.96	46%
					3.62	52%

Governorate	Year	Cash and cash equivalents	Total current assets	Total current liabilities	Current ratio	Ratio of cash to current liabilities
Ramallah	2018	2,306,642	48,381,266	56,226,642	0.86	4%
Ramallah	2019	(6,979,495)	45,802,279	58,290,385	0.79	-12%
Ramallah	2020	(8,758,043)	39,329,925	58,807,311	0.67	-15%
Ramallah	2021	(19,591,048)	39,585,751	50,489,366	0.78	-39%
Ramallah	2022	(12,057,243)	81,991,487	65,060,317	1.26	-19%
					0.87	-16%
Al Bireh	2018	20,321,559	108,851,890	20,108,577	5.41	101%
Al Bireh	2019	8,856,857	131,852,359	24,206,620	5.45	37%
Al Bireh	2020	193,590	13,679,193	14,445,083	0.95	1%
Al Bireh	2021	2,040,629	146,538,033	31,973,612	4.58	6%
Al Bireh	2022	7,528,450	182,072,186	44,251,157	4.11	17%
					4.10	32%
Bethlehem	2019	10,419,303	46,062,053	12,735,791	3.62	82%
Bethlehem	2020	6,920,488	51,117,338	18,063,643	2.83	38%
Bethlehem	2021	5,776,601	53,076,839	18,203,353	2.92	32%
Bethlehem	2022	7,100,092	56,823,188	19,807,679	2.87	36%
					3.06	47%
					4.35	28%
				Without Tulkarem	1.96	

5.5 Horizontal analysis and the impact of Corona on LGUs

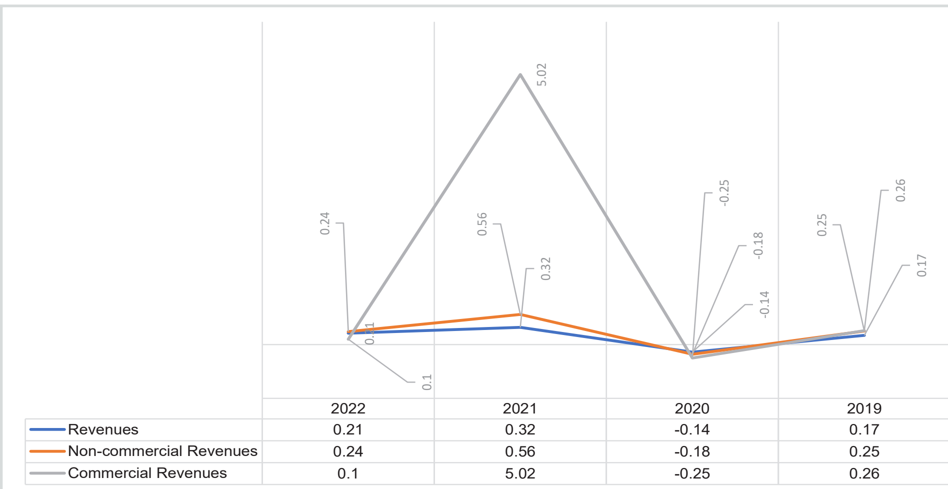
Studying trends in the growth of revenues and expenses highlights the financial reality of municipalities, their ability to achieve financial sustainability and to provide services to citizens. See Table 10 below.

Table 10: Growth rate in revenues and expenses during 2018-22 for municipal Class A

Accounts	2022	2021	2020	2019
Revenues	21%	32%	-14%	17%
Non-commercial revenues	24%	56%	-18%	25%
Tax revenues	1549%	-36%	0%	50%
Other tax revenues	17%	37%	-22%	56%
Other non-commercial revenues	257%	-81%	82%	19%
Income from investments and rentals	106%	131%	-7%	202%
Restricted revenues	267%	58%	89%	-87%
Unrestricted revenues	155%	109%	-42%	
Budget revenues solid waste	6%	-4%	-4%	33%
Natural revenues Commercial	10%	502%	-25%	26%
Budget revenues water and sanitation	4%	63%	-5%	1%
Budget revenues municipal slaughterhouse	12%	23%	-14%	17%
Budget revenues vegetables market	-21%	54%	-5%	-5%
Budget revenues gardens	13%	135%	-51%	-11%

Processing plant and water refining revenues	-17%	23%	-38%	15%
Budget revenues parking	33%	-46%	-20%	82%
Budget revenues cultural center	-5%	-100%	-58%	14%
Budget revenues dynamometer	6%	17%	-3%	3%
Budget revenues for other business activities	6619%	-100%	-16%	9%
Budget revenues electricity	22%	4%	-2%	4%
Revenues - budget credit	53%	-5%	66%	-17%
Budget revenues credit	53%	-5%	66%	-17%
Expenses	-3%	31%	-11%	17%
Payroll expenses and its accessories	1%	6%	-3%	
Salaries and wages - permanent (two dwellings)	26%			
Salaries and wages - permanent, non-resident	-21%			
Salaries and wages - temporary unhoused	86%			
Salary of the Chairman of the Authority Local	6%			
Salaries and wages – retirees	-18%			
General and administrative expenses	-3%	38%	-10%	36%
General and administrative expenses	-3%	38%	-10%	36%
Related Non-commercial operating expenses	9%	1857%	-24%	-18%
Related Non-commercial operating expenses	9%	1857%	-24%	-18%
Related Commercial operating expenses	8%	-45%	12%	-16%
Budget expenses water and sanitation	-7%	354%	-3%	84%
Budget expenses slaughterhouse	454%	-92%	-10%	-8%
Budget expenses fruit and vegetable market	-21%	25%	-30%	-5%
Budget expenses gardens	47%	6458%	-28%	-1%
Budget expenses processing and water refining	158%	41%	-5%	39%
Budget expenses parking				
Budget expenses dynamometer	149%	-18%	-42%	33%
budget expenses cultural center	-43%	-100%	-51%	6%
Budget expenses other Commercial		-100%	-18%	-35%
Budget expenses electricity	16%	-51%	12%	30%
Budget expenses credit	286%	123%	6%	14%
Budget expenses credit	286%	123%	6%	14%

Figure 15: The impact of the Corona virus on revenues (2018-22)

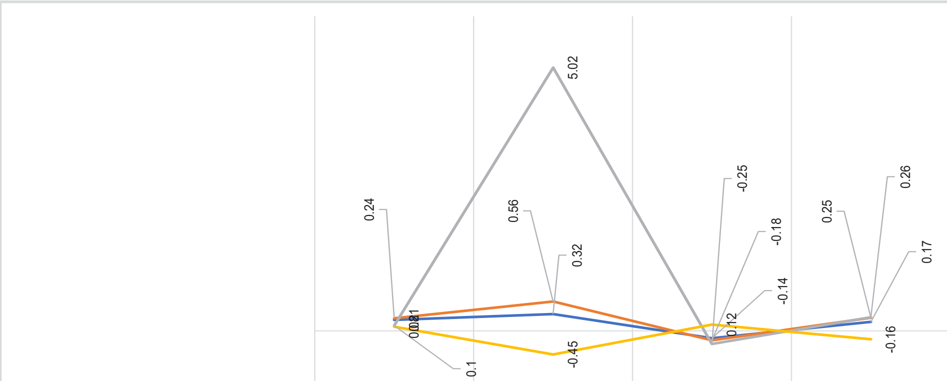


An analysis of the growth in revenues and expenses shows the negative impact of the Corona pandemic on LGUs. 2020 revenues decreased by 14%-25% compared to 2019 (See Figure 15).

It is noticeable that a big jump and clear growth occurred in 2021 compared to 2020, as total revenues increased by more than 32%. There was also a surge in the growth rate of revenues of a commercial nature: these jumped by 502% at larger municipalities (Class A).

Figure 16 shows the impact of the Corona pandemic on expenses, illustrating that municipalities suffered greatly from the pandemic, Meanwhile, total expenses decreased by 14%, general and administrative expenses by 18%, and operating expenses (of a commercial nature) witnessed a more significant decrease, by 25%.

Figure 16: The impact of the Corona virus on revenues (2018-22)



	2022	2021	2020	2019
Expenses	0.21	0.32	-0.14	0.17
General and administrative expenses	0.24	0.56	-0.18	0.25
Non-Commercial Expenses	0.1	5.02	-0.25	0.26
Commercial Expenses	0.08	-0.45	0.12	-0.16

5.6 Class A: Analysis of revenues and their linkages with demographic-population indicators

Class A covers the most important municipalities in the West Bank that oversee the largest population centers, necessitating the need to focus more on these in this analysis. The study was conducted at the level of each municipality and each classification, producing reliable indicators to determine the percentages of revenues and fees borne by citizens from one locality to another, and to determine which municipalities exceed the national average, or those that fall below it. Note that care was taken to obtain accurate and reliable financial data to arrive at these type of indicators that are supposed to be transformed into performance, pricing and cost standards for municipal services and their contribution to managing the needs of citizens.

Table 11: Overall averages for Class A municipalities with regard to revenues and the ratios of revenues and expenses to per capita income and population (2018-22)

Account	Overall average for Class A	Vertical ratio of accounts to total revenues, Class A	Ratio of fees to average per capita income, Class A
Revenues	1,220		10.0%
Non-commercial revenues	704	57.7%	5.8%
Tax revenues	224	18.4%	1.8%
Other tax revenues	209	17.2%	1.7%
Other non-commercial revenues	237	19.5%	2.0%
Income from investments and rentals	148	12.2%	1.2%
Restricted revenues	15	1.2%	0.1%
Unrestricted revenues	79	6.4%	0.6%
Budget revenues solid waste	98	8.1%	0.8%
Commercial revenues	492	40.3%	4.0%
Budget revenues water and sanitation	224	18.3%	1.8%
Budget revenues municipal slaughterhouse	4	0.4%	0.0%
Budget revenues vegetables market	13	1.1%	0.1%
Budget revenues gardens	52	4.3%	0.4%
Processing plant and water refining revenues	14	1.1%	0.1%
Budget revenues parking	12	1.0%	0.1%
Budget revenues cultural center	1	0.1%	0.0%
Budget revenues dynamometer	25	2.0%	0.2%
Budget revenues for other business activities	162	13.3%	1.3%
Budget revenues electricity	860	70.5%	7.1%
Revenues - budget credit	64	5.2%	0.5%
Budget revenues credit	55	4.5%	0.5%
Expenses	1,316	107.9%	10.8%
Payroll expenses and its accessories	532	43.6%	4.4%
Salaries and wages - permanent (two dwellings)	337	27.6%	2.8%
Salaries and wages - permanent, non-resident	99	8.1%	0.8%
Salaries and wages - temporary unhoused	44	3.6%	0.4%
Salary of the Chairman of the Authority Local	4	0.3%	0.0%
Salaries and wages – retirees	55	4.5%	0.5%
General and administrative expenses	482	39.5%	4.0%
General and administrative expenses	482	39.5%	4.0%
Related Non-commercial operating expenses	374	30.7%	3.1%
Related Non-commercial operating expenses	374	30.7%	3.1%
Related Commercial operating expenses	325	26.6%	2.7%

Account	Overall average for Class A	Vertical ratio of accounts to total revenues, Class A	Ratio of fees to average per capita income, Class A
Budget expenses water and sanitation	80	6.6%	0.7%
Budget expenses slaughterhouse	3	0.2%	0.0%
Budget expenses fruit and vegetable market	5	0.4%	0.0%
Budget expenses gardens	11	0.9%	0.1%
Budget expenses processing and water refining	9	0.8%	0.1%
Budget expenses parking		0.0%	0.0%
Budget expenses dynamometer	7	0.6%	0.1%
budget expenses cultural center	10	0.8%	0.1%
Budget expenses other Commercial	251	20.6%	2.1%
Budget expenses electricity	461	37.8%	3.8%
Budget expenses credit	67	5.5%	0.5%
Budget expenses credit	67	5.5%	0.5%

Table 11 illustrates the most prominent results of the analysis of average revenues and expenses for municipal Class A:

- A citizen residing in municipal Class A bore an average of NIS 1,220 during 2018-22. This is 10% of average income for individuals residing at these municipalities.
- Revenues of a non-commercial nature constitute the largest burden at 57.7%, with a total value of NIS 704 shekels per capita, distributed between tax, non-tax and waste revenues, in addition to grants of all kinds.
- Revenues of a commercial nature constituted the most important burden on the citizen, at a rate of approximately 40.3%, with an average value of NIS 492 annually.
- When dividing electricity revenues by total revenues (not including the value of electricity revenues), we find that this percentage is approximately 70.5% or NIS 860 annually, which is 7.1% of average, annual, per capita income.
- Water and sanitation revenues did not exceed 18.3%, with an average amount of NIS 224 per person, or 1.8% of average, annual per capita income. This was calculated by dividing water revenues by total revenues (excluding electricity).
- Expenses – across all sampled LGUs in Class A, amounted to 107.9% of revenues. This indicates an imbalance - and the need for follow-up - to maintain a balance between expenses and revenues (with some exceptions for specific LGUs).
- Salaries and associated expenses constituted 43.6% of expenses, amounting to NIS 532 of total expenses for each Palestinian individual, i.e. 4.4% of average, per capita income.
- Results show that administrative and general expenses reached 39.5% in the Class A sample (NIS 482 per capita), followed (in order) by non-commercial expenses (30.7%, or NIS 482 per person annually), commercial expenses (26.6 %, or NIS 325 per person annually), and expenses of a commercial nature in last place, at a rate of 23.2% (see Table 12 below).

Table 12: Total population at Class A municipalities (2018-22)

Area	2022	2021	2020	2019	2018
Hebron	226774	221136	215571	210081	204662
Jericho	22699	22293	21891	21496	21107
Nablus	171150	167931	164758	161630	158557
Tulkarem	69937	68712	67497	66299	65121
Qalqilya	57169	55946	54737	53547	52380
Tubas	23687	23186	22690	22200	21719
Ramallah	42999	42122	41246	40375	39512
Al Bireh	50692	49657	48625	47599	46581
Bethlehem	31529	30880	30233	29593	28963

To analyze the debt, credit and liquidity ratios of Class A municipalities, vertical budget analysis was deployed from 2018 to 2022. Results show the risk that municipalities are exposed to (from a financial standpoint), especially liquidity risks. These can be observed in Table 13 below.

Table 13: Results related to vertical ratios for liquidity and debt (2018-22) at Class A municipalities

	Average	Average	Average	Average	Average	Average (2018-22)
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2018-2022**
Cash and cash equivalents	1.5%	1.6%	1.4%	1.3%	1.4%	1.5%
Accounts receivable, net	13.6%	18.9%	19.3%	21.7%	18.5%	18.4%
Receivables, corresponding	3.0%	2.0%	1.7%	1.1%	0.3%	1.6%
Dues from other budgets	1.9%	2.8%	2.9%	3.2%	0.1%	2.2%
Dues from government bodies	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Supplies and materials in warehouses	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Other current assets	0.3%	0.5%	1.1%	1.2%	1.4%	0.9%
Total current assets	14.9%	22.7%	23.5%	27.0%	22.0%	22.0%
Investments - net	6.1%	4.5%	4.5%	4.7%	4.3%	4.8%
Fixed assets - net	78.3%	71.8%	70.9%	67.8%	69.9%	71.7%
Projects under construction	0.7%	1.0%	1.2%	0.5%	0.6%	0.8%
Other assets	0.0%	0.0%	0.0%	0.0%	3.2%	0.6%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Payables	3.0%	3.1%	3.4%	5.3%	3.9%	3.8%
Current account of the electricity company	4.4%	3.4%	3.4%	3.8%	0.4%	3.1%
Dues to other parallels	3.0%	3.7%	4.0%	4.0%	1.1%	3.2%
Other current liabilities	1.8%	2.1%	2.2%	2.1%	1.7%	2.0%
Dues to government bodies	1.8%	1.2%	1.2%	1.3%	0.4%	1.2%
Total current liabilities	14.1%	13.5%	14.2%	16.5%	7.5%	13.2%
Long term liabilities	2.2%	3.2%	3.3%	1.9%	3.1%	2.7%

	Average	Average	Average	Average	Average	Average (2018-22)
Year	2018	2019	2020	2021	2022	2018-2022
Finance leases	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commitment from finance lease contracts (other)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term operational commitments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long term debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Employee compensation provisions	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Employee retirement allowance	1.2%	0.9%	1.0%	1.2%	0.0%	0.9%
End of service specifier	2.8%	2.3%	2.3%	2.6%	2.3%	2.5%
Dedicated legal issues	0.0%	0.5%	0.5%	0.6%	0.7%	0.5%
Other liabilities	0.4%	6.3%	6.6%	7.1%	15.3%	7.1%
Total liabilities	20.7%	26.8%	27.9%	30.0%	29.1%	26.9%
Net assets	79.3%	73.2%	72.1%	70.0%	70.9%	73.1%
Total liabilities and net assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	0%	0%	0%	0%	0%	0%

Table 13 shows that municipal Class A suffers from low liquidity ratios and high levels of debt across all years, which calls for effective solutions and measures, as detailed below:

1. Cash liquidity and the ability to make short-term payments are negligible; on average, these do not exceed 3.4% of total municipal assets. Perhaps, the level of risk increases more in municipal classes A and C, where this ratio does not exceed 1.5%. Municipalities must maintain a higher percentage in order to manage their operational operations and cover their cash needs, without resorting to borrowing and incurring high financing costs.
2. Moreover, the ratio of current assets to total assets was about 22%, compared to 32% as an overall average for all LGUs in the study sample. 78.5% are receivables owed by citizens, which makes it difficult to convert them to cash when the municipality needs to do so.
3. The ratio of current liabilities to current assets is very high. Current liabilities vs. total assets amounted to about 13.2%, while current assets vs. total assets amounted to 22%. In reality, 78.5% of them are receivables from citizens and beneficiaries, making these difficult to monetize.
4. Non-current assets constituted about 78% of total assets; meaning that most municipal assets are fixed - or other illiquid - assets, which cannot be easily converted into cash, to cover immediate liquidity needs.
5. Net assets (i.e. assets minus liabilities, or what is termed ‘property rights in the private sector’) stand at 73.1%, increasing the safety ratio, but concurrently burdening the LGU with the remaining obligation, which must be repaid to creditors or suppliers.

5.7 Class B: Analysis of revenues and their linkages with demographic-population indicators

The study also examined municipalities and local authorities classified as B, within a representative sample of the West Bank. The completeness and accuracy of the data was also verified, as a large number of municipalities still rely on the cash basis of accounting and not accrual or modified accrual.

The sample was selected randomly, taking into account municipalities that have audited financial reports including budget data, list of activities and performance indicators (not just a trial balance).

Table 14: Overall averages for Class B municipalities with regard to revenues and the ratios of revenues and expenses to per capita income and population (2018-22)

Account	Overall average for Class B	Vertical ratio of accounts to total revenues, Class B	Ratio of fees to average per capita income, Class B
Revenues	860.67		7.1%
Non-commercial revenues	334.01	38.8%	2.7%
Tax revenues	79.25	9.2%	0.7%
Other tax revenues	82.56	9.6%	0.7%
Other non-commercial revenues	80.41	9.3%	0.7%
Income from investments and rentals	34.91	4.1%	0.3%
Restricted revenues	57.78	6.7%	0.5%
Unrestricted revenues	69.72	8.1%	0.6%
Budget revenues solid waste	74.32	8.6%	0.6%
Commercial revenues	577.43	67.1%	4.7%
Budget revenues water and sanitation	148.12	17.2%	1.2%
Budget revenues municipal slaughterhouse	3.49	0.4%	0.0%
Budget revenues vegetables market	1.91	0.2%	0.0%
Budget revenues gardens	4.57	0.5%	0.0%
Processing plant and water refining revenues	-	0.0%	0.0%
Budget revenues parking	1.04	0.1%	0.0%
Budget revenues cultural center	-	0.0%	0.0%
Budget revenues dynamometer	43.53	5.1%	0.4%
Budget revenues for other business activities	196.32	22.8%	1.6%
Budget revenues electricity	440.63	51.2%	3.6%
Revenues - budget credit	19.44	2.3%	0.2%
Budget revenues credit	19.44	2.3%	0.2%
Expenses	862.50	100.2%	7.1%
Payroll expenses and its accessories	235.69	27.4%	1.9%
Salaries and wages - permanent (two dwellings)	156.84	18.2%	1.3%
Salaries and wages - permanent, non-resident	33.28	3.9%	0.3%
Salaries and wages - temporary unhoused	21.57	2.5%	0.2%
Salary of the Chairman of the Authority Local	10.13	1.2%	0.1%
Salaries and wages – retirees	21.44	2.5%	0.2%
General and administrative expenses	202.12	23.5%	1.7%
General and administrative expenses	202.12	23.5%	1.7%

Account	Overall average for Class B	Vertical ratio of accounts to total revenues, Class B	Ratio of fees to average per capita income, Class B
Related Non-commercial operating expenses	185.30	21.5%	1.5%
Related Non-commercial operating expenses	185.30	21.5%	1.5%
Related Commercial operating expenses	416.20	48.4%	3.4%
Budget expenses water and sanitation	94.61	11.0%	0.8%
Budget expenses slaughterhouse	0.54	0.1%	0.0%
Budget expenses fruit and vegetable market		0.0%	
Budget expenses gardens	1.32	0.2%	0.0%
Budget expenses processing and water refining		0.0%	
Budget expenses parking		0.0%	
Budget expenses dynamometer	12.58	1.5%	0.1%
budget expenses cultural center	4.57	0.5%	0.0%
Budget expenses other Commercial	193.62	22.5%	1.6%
Budget expenses electricity	306.54	35.6%	2.5%
Budget expenses credit	14.19	1.6%	0.1%

The results in Table 14 illustrate a group of important results:

- Citizens who reside in municipal classification B bore a total, annual cost of NIS 861 on average for 2018-22, calculated by dividing the revenues for each year by the number of residents within the municipal boundaries (see Table 15). The general average for municipalities is NIS 976, resembling a decrease of about 13%.
- Revenues of a commercial nature constituted the largest burden on the citizen, at a rate of approximately 67.1% (NIS 577 annually per capita).
- When dividing electricity revenues by total revenues (not including the value of electricity revenues), we find that this percentage reads approximately 51.2% (NIS 440 annually per capita), i.e. 3.6% of average, annual per capita income.
- As for water and sanitation revenues, this percentage did not exceed 17.2%, with an average amount of NIS 148 (1.2% of average annual per capita income), calculated by dividing water revenues by total revenues, excluding electricity.
- On average, expenses for all sampled Class B municipalities amounted to 100.2% of revenues, which indicates the existence of an appropriate balance between expenses and revenues (with some exceptions).
- Salaries and associated expenses constituted 27.4% of expenses, amounting to NIS 235 shekels for each Palestinian individual, i.e. 1.9% of average, annual per capita income.
- Expenses of a commercial nature account for 48.4%, amounting to NIS 325 per person annually.
- The results show that administrative and general expenses reached a rate of 23.5%, at a value of NIS 202 per person for Class B. Expenses of a commercial nature reached 23.2%, followed by non-commercial expenses at 21.5%, or NIS 185.30.

Table 15: Total population at Class B municipalities (2018-22)

Locality	2022	2021	2020	2019	2018
Beit Sahour	13454	13747	14044	14344	14646
Beit Oola	14797	15189	15586	15988	16396
Al Ezariya		19,030	19,488	19,952	20,421
Beit Ummar	17281	17738	18202	18672	19148
Beit Furik	13619	13883	14151	14424	14700
Ya'bad		14,693	15,047	15,405	15,767
Al Yamoon	17,203	17,622	18,047	18,476	18,910
Arrabeh	10,327	10,578	10,833	11,091	11,351
Tamun	4052	4142	4233	4325	4419
Beit Jalla	13659	13957	14258	14563	14870

5.8 Class C: Analysis of revenues and their linkages with demographic-population indicators

A number of local authorities are Class C. These were separated during analysis, to examine differences or discrepancies with other classifications: A and B. Calculated ratios are detailed in 16.

Table 16: Overall averages for Class C municipalities with regard to revenues and the ratios of revenues and expenses to per capita income and population (2018-22)

Account	Overall average for Class B	Vertical ratio of accounts to total revenues, Class B	Ratio of fees to average per capita income, Class B
Revenues	847		6.97%
Non-commercial revenues	392	46.3%	3.23%
Tax revenues	82	9.7%	0.67%
Other tax revenues	145	17.2%	1.20%
Other non-commercial revenues	80	9.5%	0.66%
Income from investments and rentals	52	6.1%	0.42%
Restricted revenues		0.0%	0.00%
Unrestricted revenues	73	8.7%	0.60%
Budget revenues solid waste	57	6.8%	0.47%
Commercial revenues	469	55.4%	3.86%
Budget revenues water and sanitation	175	20.6%	1.44%
Budget revenues municipal slaughterhouse		0.0%	
Budget revenues vegetables market		0.0%	
Budget revenues gardens		0.0%	
Processing plant and water refining revenues		0.0%	
Budget revenues parking		0.0%	
Budget revenues cultural center		0.0%	
Budget revenues dynamometer		0.0%	
Budget revenues for other business activities		0.0%	
Budget revenues electricity	584	68.9%	4.80%

Account	Overall average for Class B	Vertical ratio of accounts to total revenues, Class B	Ratio of fees to average per capita income, Class B
Revenues - budget credit	80	9.5%	0.66%
Budget revenues credit	80	9.5%	0.66%
Expenses	745	88.0%	6.13%
Payroll expenses and its accessories	169	20.0%	1.39%
Salaries and wages - permanent (two dwellings)	119	14.0%	0.97%
Salaries and wages - permanent, non-resident	47	5.6%	0.39%
Salaries and wages - temporary unhoused	21	2.4%	0.17%
Salary of the Chairman of the Authority Local	21	2.5%	0.18%
Salaries and wages – retirees	18	2.1%	0.14%
General and administrative expenses	175	20.6%	1.44%
General and administrative expenses	175	20.6%	1.44%
Related Non-commercial operating expenses	148	17.5%	1.22%
Related Non-commercial operating expenses	150	17.8%	1.24%
Related Commercial operating expenses	394	46.5%	3.24%
Budget expenses water and sanitation	107	12.6%	0.88%
Budget expenses slaughterhouse		0.0%	
Budget expenses fruit and vegetable market		0.0%	
Budget expenses gardens	0	0.1%	0.00%
Budget expenses processing and water refining		0.0%	
Budget expenses parking		0.0%	
Budget expenses dynamometer		0.0%	
budget expenses cultural center	34	4.0%	0.28%
Budget expenses other Commercial	105	12.4%	0.86%
Budget expenses electricity	480	56.6%	3.95%
Budget expenses credit	32	3.8%	0.26%

It can noted from Table 16 above that a citizen who lives in municipal Class C bore a total annual cost of NIS 847 shekels on average for 2018-22. This result was obtained by dividing the revenues for each year by the number of residents within the municipality's jurisdiction (see Table 17). Compared to the overall average for all sampled municipalities at NIS 976, this Class registered a significant decrease, of just over 15%. Other notable results include:

- Revenues of a commercial nature constituted the largest burden on citizens, at a rate of approximately 55.4%, with an average value of NIS 469 annually. This is followed by revenues of a non-commercial nature, at a rate of 46.3% of total revenues.
- By dividing the amount of electricity revenues by total revenues (not including the value of electricity revenues), we find that this percentage reads approximately 68.9%, with a value of NIS 584 annually for an individual, equivalent to 4.8% of average, annual income.
- As for water and sanitation revenues, this percentage did not exceed 20.6%, with an average of NIS 175, calculated by dividing water revenues by total revenues, excluding electricity, i.e. 1.44% of average, annual per capita income in the West Bank.
- Revenues of a non-commercial nature constituted the second-largest burden at 46.3%, or NIS 392, distributed across tax, non-tax and waste revenues, in addition to grants of all kinds.

- Revenues reached the equivalent of 7% of annual per capita income during 2018-22. This percentage was calculated by dividing total revenues with average, per capita income during the study period. This percentage is lower than that for Class A (10% of annual, per capita income), yet similar to Class B (7.1%).
- Expenses, on average, for all municipalities and local authorities amounted to 88% of total revenues, which indicates an imbalance between revenues and expenses, with some exceptions.
- Salaries constituted 20% of expenses, amounting to NIS 169 shekels for each Palestinian individual. When dividing salaries' expenses by total revenues, it was found that this percentage was approximately 1.4% of average, annual income.
- The results show that expenses of a commercial nature had the highest percentage, approaching 55.4%, at a value of NIS 469 per person annually, followed by expenses of a non-commercial nature, at a rate of 46.5%, or a value of NIS 394. As for general and administrative expenses, this percentage amounted to 20.6%, or NIS 175 shekels.

Table 17: Total population at Class C municipalities (2018-22)

Region	2022	2021	2020	2019	2018
Al-Obaidiya	15946	15617	15290	14967	14648
Jayyus	3847	3765	3684	3603	3525
Habla	7806	7639	7474	7312	7152
Kufr Ra'ee	9305	9118	8933	8751	8572
Surda	1442	1413	1383	1354	1325
Kufr Dan	7240	7094	6951	6809	6670
Seelet Al Thoher	8135	7972	7810	7651	7495
Al Zababdeh	4681	4587	4494	4402	4312
Attara	1367	1339	1312	1285	1259
Al Za'im	6936	6789	6643	6498	6354

Chapter Six: Results

6.1 Introduction

This study analyzed the financial and administrative realities of local governance units (LGUs) in the West Bank, in order to highlight their most prominent weaknesses and identify gaps in the process of collecting revenues and managing expenditures .

The general objective of the study was accomplished in conjunction with the completion of other sub-objectives, most notably the review of the legal and legislative framework regulating the Palestinian local governance sector, especially laws affecting the revenues and expenditures of these bodies. The study also featured an extensive review of the experiences of different countries in diversifying their revenues away from traditional sources, in order to derive lessons from these experiences that may benefit the Palestinian context .

The results show that several deficiencies in the current legal framework hinder the independence of LGUs in making decisions to diversify and expand their sources of revenue. The most notable is the need to obtain the central government's approval for a vast array of financial and administrative procedures before the LGU can implement them, accompanied by ignorance on the part LGUs' boards of untapped revenue sources that could be utilized to increase the total value of revenues, such as fees for advertisements and billboards.

Within the same context, the study illustrates numerous problems with fluctuations in the value of municipal revenues across all their types, whether collected directly from citizens by LGUs, or collected by the executive government and later transferred to LGUs. Moreover, much uncertainty surrounds foreign grants and aid, allocated mainly to infrastructure and development projects. Local authorities' financial problems are exacerbated by the non-qualification and non-effectiveness of their HR. Below, we provide a summary of the most prominent results of the analysis of financial statements included in the study's sample.

6.1.1 Results related to revenues:

- An individual residing across all classifications (A , B, C) paid an average of NIS 976 for services provided by local authorities during 2018-22, i.e. 8% of the average annual income for Palestinian citizens residing in the West Bank.
- The average citizen's spending on water and sanitation reached NIS 182, i.e. 18.7 % of total expenditure on services provided by LGUs (1.5% of average annual income).
- Revenues of a commercial nature constituted the largest burden for citizens, at a rate of approximately 53%, with an average value of NIS 513 annually, excluding electricity revenues.
- Sanitation and water revenues were similar across different classifications (A, B, C), between 17.2% and 20.6%.
- When dividing the total amount of electricity revenues by total revenues (excluding the value of

electricity revenues from the supplier), we find that the resulting percentage is approximately 63.5 %, with a per capita value of NIS 628 shekels annually, i.e. 5.2% of the average annual income for a Palestinian citizen residing in the West Bank.

- Electricity revenues constituted approximately 70% of the total revenues of Municipal Class A, followed by Class C (at 68.9%), and finally Class B (at 51.2%).

6.1.2 Results related to expenses:

- For all municipalities/LGUs across all classifications, expenses amounted to, on average, 98.7% of revenues, indicating an almost balanced budget and proper management of expenses against revenues, with some exceptions for local authorities.
- Salaries (and associated expenses) constituted 32% of total expenses, equivalent to 2.6% of per capita annual income.
- The results show that expenses of a commercial nature had the highest percentage, approaching 39%, followed by administrative and general expenses at 29%, and finally expenses of a non-commercial nature at 24 %.

6.1.3 Analyzing cost centers, budgets and measuring financial stability at LGUs

1. Liquidity and the ability to make short-term payments:

   - Cash liquidity decreased significantly. In all cases it does not exceed, on average, 3.4% of total municipal assets. Perhaps the biggest challenge are LGUs classified as A and C , where this ratio did not exceed 1.5%. This is a major challenge for LGUs in terms of managing their operational and covering their cash needs, without resorting to banks and incurring high financing costs.
   - The ratio of total current assets to total assets approached 32%. However, a loser examination reveals that 78.5% of them are receivables owed by citizens, making liquidation difficult and preventing LGUs' from converting this into cash.
   - In terms of the ratio of receivables to current assets, comparisons between municipal classifications shows that Class A has the highest ratio of receivables to current assets at 84% of the latter, followed by Class C (81%) and finally Class B (71%). This can be attributed to low collection rates from citizens.

2. Accounts receivable and citizens' debts:

   - The problem of citizens' debts is fundamental, an issue faced by LGUs of all classifications. Without clear standards and procedures for managing cash and debts, LGUs have begun to inherit the burden from one electoral cycle to another, without a comprehensive assessment of the LGU's financial position given accumulated debts. The results show that the receivables' turnover rate at Class A municipalities stood at 0.8, or the equivalent of 734 days (until the debt is recovered).
   - Fixed assets increase LGUs' difficulties in making cash payments and settling debts, as the liquidation of such assets is typically out of the question, or simply not feasible. A large portion of fixed assets are roads, infrastructure, furniture/equipment, buildings and vehicles. This results in huge losses if the municipality decides to sell, noting that the an actual possibility of selling may not be feasible in the first place. Class A municipalities have the highest rate of investment in fixed assets, reaching 71.7%, followed by Class B (at 57.5%) and finally Class C (at 55.2%).

3. Analysis of LGUs' obligations and debts:

- Municipal administrations face a constant challenge in providing liquidity and cash to creditors and suppliers, and any failure in collection leads directly to default and financial hardship. Herein, the situation that municipalities have reached must be examined, specifically liquidity risks and the inability to repay debts, especially short-term ones.
- It should be noted that most municipalities are burdened with debts, with the total ratio of debts to total assets amounting to (about) 41%. This is a high percentage, indicating a higher level of risk in the coming period, which require taking important and rapid measures. It is interesting to note that Class A municipalities have the lowest default rate, which did not exceed 26.9%, compared to Class B at 44.8% and Class C at 50.9%.
- Current liabilities that must be settled during the same year constituted 33% of total liabilities. This is a high percentage, indicating the necessity of constant readiness at LGUs' financial management to cover these short-term obligations and also ensure continuous liquidity. It is evident that Class A municipalities are able to effectively manage their debts, as the ratio fell to 13%, indicating better financial stability and liquidity.
- Results indicate that the current ratio (current assets vs. current liabilities) is within the conventional level, however, in reality, a deeper examination of the composition of current assets reveals the presence of a high level of risk. This is because receivables account for the bulk of current assets, yet these have slow collection cycles requiring an average of 734 days (or about two years).
- The cash liquidity ratio, calculated by dividing cash and cash equivalents (including cash in banks and incoming short-term checks) by total debts and short-term obligations, was only 28%. This means that for every NIS 100 in short-term liability, there are only NIS 28 in cash. In other words, most municipalities suffer from a cash liquidity crisis and an inability to pay their short-term obligations. Financial management suffers from severe pressure in dealing with cash, and this may lead LGUs to de-prioritize capital or developmental expenses, operating in the constant fear of a lack of cash.
- The current ratio reached 4.35, meaning that for every NIS 1 in short-term obligations, municipalities are covered by NIS 4.35 in current assets. This excludes Tulkarem Municipality, as its numbers pull the result significantly higher, decreasing the ratio to 1.96.
- When examining results across time, we find a decline in financial liquidity that is not limited to a specific period. Rather, it is a permanent condition and a form of continuous suffering that deserves to be taken into account in order to find standards and solutions for financial administrations at LGUs. Perhaps we will find that some municipalities are dealing with negative cash balances, such as the municipality of Ramallah, while others have a much lower proportion, such as Hebron (3%) and Nablus (9%). Undoubtedly, all this confirms the existence of liquidity risk facing LGUs.

6.1.4 Horizontal analysis and the impact of Corona on LGUs:

- Studying trends in the growth of revenues and expenses highlights the financial reality of municipalities, their ability to achieve financial sustainability and to provide services to citizens.
- An analysis of the growth in revenues and expenses shows the negative impact of the Corona pandemic on LGUs. 2020 revenues decreased by 14%-25% compared to 2019. Meanwhile, total expenses decreased by 14%, general and administrative expenses by 18%, and operating expenses (of a commercial nature) witnessed a more significant decrease, by 25%.

6.1.5 Results related to an analysis of the municipal financial cycle:

An analysis of the financial cycles of municipalities (shaped by know-how at the input, processing and output levels) shows many important results, the most notable of which are:

1. The lack of a unified methodology for presenting and preparing financial statements and non-adherence to unified accounting standards across all municipalities and their employees.
2. The lack of a specialized guide to explain the mechanisms of preparing financial statements, their components, and their contents, to be approved by auditors and accountants alike. This limited the ability to reach comparative and analytical results across differing years, municipalities and classifications.
3. There is a difference in the financial data from the cost data for services provided by municipalities (which requires building unified models to calculate the cost of services) and comparable ratios to identify the municipalities that suffer from mismanagement (of their expenditures or the costs of their services). This is in addition to the possibility of relying on the results to determine feasible level of pricing for services that achieves both sustainability and fairness at the same time.
4. During data analysis, it was established that many municipalities still rely on the cash basis, and not the accrual basis or the modified accrual basis. This matter may require either strategic decisions to convert municipalities to an accrual basis and prevent the processing or preparation of data on a cash basis. Alternatively, a special financial model must be prepared for municipalities that operate on a cash basis, and another model for municipalities that operate on an accrual basis.
5. The analysis begins with the inputs and not the outputs, meaning that the analyst cannot adopt specific accounting standards, but must respond to the quality of available data. In our case, many municipalities were excluded from the sample because their data fell below the minimum required standards.
6. In order to analyze the indebtedness of municipalities to beneficiaries (whether citizens, government, or other party), the analyst needs additional information related to the age and duration of the debt, and to measure the allocations for doubtful debts. In the event that municipalities refuse to approve this form of dissemination, the alternative is to provide a table of debt aging and comprehensive analysis for the possibility of collection, especially since some municipalities are owed debts of hundreds of millions from citizens.
7. Several municipalities do not include the value of fixed assets in their accounts, which greatly limits the reliability of the budget and its accounts, in terms of data analysis. To overcome this, we recommend the need to oblige all municipalities to update their fixed assets' data. This requires forming a committee for guidance and follow-up, choosing a group of municipalities that are rated A to commence with.
8. The publication of the municipality's financial statements must become mandatory, not optional, within a specific time limit.

6.2 Proposed roadmap for managing LGU revenues and expenditures in Palestine

The study illustrated a set of financial and administrative challenges associated with the work of local authorities in the West Bank, mainly represented by the scarcity of revenues from various sources, accompanied by ineffective expenditure management or weak financial management. The inadequacy of the current legal framework governing the work of local authorities has exacerbated these challenges. Additionally, administrative HR at many LGUs lack experience in optimal financial management practices, compounded by a lack of knowledge on opportunities within the framework of the Law that can be exploited to diversify revenue sources.

Therefore, this Chapter provides a road map for government, local authorities, civil-society organizations and all relevant stakeholders. It outlines the required regulatory framework and the necessary administrative and financial systems that can be deployed by LGUs to address distortions in the structure of their revenues and expenditures, and achieve the financial sustainability necessary for improving their services.

1. Strengthening the legal framework

Amending the legal framework regulating the local governance sector, to address the direct and indirect legal and legislative challenges associated with it, which negatively affect the ability of LGUs to collect their revenues and manage their expenses. This consists of:

- Amend Law No.1 (1997) regarding Palestinian local authorities, by differentiating between classifications (A, B, C or village councils) in terms of the powers and tasks assigned to them in proportion to their financial capabilities (and their HR efficiency). This also requires reviewing articles that limit LGUs' independence (financial and administrative), or those that require the approval of the Minister of Local Governance. Consultation must take place between all relevant stakeholders in order to achieve this, including LGUs and their representatives, central government (especially the MoLG) and various civil-society organizations, in order to identify priority legal amendments that meet the (current and expected) needs and capabilities of LGUs. These amendments ought to be gradual, allowing LGUs the time required to adapt to new changes.
- Amend Decree-Law No.21 (2017), in itself an amendment of the Temporary Cities, Villages and Buildings Planning Law No.79 (1966). This requires reinstating LGUs' membership on the Higher Organizing Council, giving them more powers in determining and collecting taxes related to property and buildings.
- Redraft Cabinet Resolution No.1 (2018), in itself an amendment of the crafts' schedule at the Appendix of the Crafts and Industries Law No.16 (1953) and its amendments. This requires defining the role of LGUs in organizing and licensing crafts, as well as determining and collecting the financial value of licensing fees. It also requires a clear definition of the powers of both small and medium-sized municipalities, and village councils. LGUs need the freedom to determine the value of their license fees, based on well-studied local criteria.
- Amend the articles in the Council of Ministers' Resolution No.11 (2019) on financial systems for local authorities. This aims to give more financial freedom to LGUs in borrowing and accessing overdrafts, giving them the freedom to amend these items in their annual budget, as they deem appropriate. Moreover, LGUs need the freedom to determine employee rewards, bonuses and compensation, in a method commensurate with their current and future financial standing.
- Adopt an integrated and comprehensive legislative framework to regulate partnership contracts between the private and public sectors (PPPs), especially in the local governance sector. This requires amending the LGU-private sector PPP system defined in Regulation No.27 (2022),

such that PPP regulations complement the 27 tasks mandated of LGUs. This goes beyond allowing LGUs to enter into investment projects that generate additional revenue, specifying the contractual, institutional and legal frameworks regulating these partnerships, and repealing any conflicting laws in this regard. Public procurement laws should include clear and detailed provisions for the governance of PPPs.
- Legal amendments must also include clear and specific criteria to regulate the approval process - required of the Minister of Local Governance - for partnerships that exceed three years. Creating an official body or department (affiliated with the MoLG or as an independent legal entity) to encourage and organize partnerships can also be tasked with determining the ability of LGUs to enter into PPPs, while also determining the nature of projects that can be implemented through PPPs, in consultation with LGUs.
- Accelerate the enactment of the Franchise Law, making amendments commensurate with the current financial and administrative conditions of local authorities.

2. Promoting sustainable financial management for local authorities

The study shows the need to establish a unified finance and administration system for municipalities in each legal classification (Class A, B, C or village council), taking into account the financial, material and human capabilities of LGUs according to their legal classification. These systems should include clear steps aimed at improving policies and collection methods, further developing the quality of financial statements, improving HR skills in financial management, while also defining organizational structures and cash management methods. This includes a set of suggested steps:

- With the participation of all relevant stakeholders (local authorities, APLA, MoLG, MDLF, relevant civil-society institutions, etc.), develop detailed foundations and standards for financial management within local authorities.
- It is necessary for LGUs to ensure accuracy when preparing, approving, and implementing annual budgets, while specifying the budget's building blocks. There is also a need to conduct an annual review of approved annual budgets, what has been accomplished, collected and spent on the ground. We work to find gaps related to revenue shortfalls and increased expenditures, identify their causes, propose ways to treat them, and ensure they do not reoccur.
- Develop effective tools and solutions in the field of financial management to ensure payment of local authorities' debts. For example, enhancing skills and expertise related to preparing the annual budget, managing the cash available to the local authority and its investment mechanisms, managing supply chains and organizing suppliers and contractors who provide services to the local authority (adopting clear criteria in selecting them and measuring their performance, and avoiding randomness and personal considerations in the selection process, etc.).
- Adopt clear and sound principles for measuring the costs of services provided by the local authority to citizens, through accurate and verifiable measurement systems. It is necessary to ensure that the amount paid by the recipient of services is sufficient to cover all costs of providing the service by the local authority, and to take clear corrective measures if these amounts are insufficient.
- Develop an integrated approach to managing local authorities' revenues through coordination between various departments within the LGU, especially departments responsible for financing and for implementation, while ensuring effective financial management policies across both the short and long terms.
- Enhance LGUs' revenue generation capabilities from diversified sources, and the necessity of

exploiting the revenue sources granted to them according to the text of the Law (these are under-utilized, such as fees for billboards). This requires clear rules for HR at local authorities to determine the value of these fees and the mechanisms for collecting them. One of the sources of revenue that can be created in the Palestinian context is the so-called ‘Impact Fees’, imposed on private sector investors to establish and develop public infrastructure to support their own investments.

- Expand partnership frameworks with the private sector. Enhance productive investment projects, with the aim of creating more diverse and sustainable revenue opportunities for local authorities. The importance of involving numerous parties in the process of selecting investment projects should be emphasized.
- Promote cooperation between relevant government agencies and LGUs to expand the base for property taxes, by accelerating the pace of property valuations and dispute settlements (especially land). This ensures the exploitation of potential tax resources in order to achieve tax justice among current and potential taxpayers.
- Reconsider the percentage of property taxes collected by central government, taking into account the extent of LGUs’ ability (within their different classifications) to achieve financial sustainability through current and potential revenue sources.
- Agreements with the central government (the Ministry of Finance specifically) to define clear mechanisms for paying local authorities’ dues from various taxes and fees, such as property taxes and road toll fees, while not linking these to the Ministry of Finance’s dues to local authorities under the ‘net lending’ budget line-item.
- Benefit from the experience of other countries by applying discriminatory fees (adopting a price discrimination strategy), based on a number of criteria: for example, classifying recipients of services into specific categories based on place of residence, income bracket and service usage levels (such as imposing discriminatory fees for solid waste management services).
- Adopt incentive measures for employees’ collections in order to boost collection rates, such as giving them a specific percentage of the total value of what they receive from various services. This method has proven effective in Egypt, resulting in a significant jump in the value of revenues collected by tax collectors. It should be noted that the application of this method is limited to certain services that require collection directly from citizens (such as prepaid meters). Moreover, some LGUs, especially smaller ones, may not be able to implement this due to the scarcity of their financial resources. Alternatively, it is plausible to start with a pilot sample consisting of select (larger) municipalities, and then gradually spread this experiment to other municipalities (if the pilot is successful). This method requires a clear legal reference.
- In order to increase the effectiveness of collection and improve expenditure management, municipalities should adopt the following measures, integrating these into their financial systems:
    - Develop effective systems to collect fees owed from citizens and reschedule postponed fees. This requires, in addition to strengthening law enforcement, developing incentive policies to target categories of citizens who are not included in tax collection or fee collection, provided that this covers all local authorities across all their various classifications. It may also include adopting a prepaid meter, linking some services to each other when paying or obtaining them, and others.
    - Local authorities calculate fees’ revenues based on monthly service delivery, comparing the fees owed to the authority with collections on the ground, examining the causes of gaps in detail and attempting to address them.
    - Review collection policies and impose a ceiling on debt ratios for the duration of the collection period. We now have reliable indicators based on specific standards for each municipality and each classification.

- Setting standards to maintain cash liquidity at specific rates that municipal administrations are not allowed to exceed. The analysis showed that some municipalities do not have any cash in banks or funds. This poses a threat to the continuity of municipal services.
- Study and determine the relative weight of salaries vs. revenues. It appears that some municipalities have very high salary expenses relative to revenues. In this context, average indicators in this study can be refined and utilized to serve as guidance in determining the ceilings and limits of salary and employment expenses at each local authority.
- Compare services' fees and costs across municipalities, so that they are proportional to per capita income and the number of residents under municipal supervision (including waste, taxes, and other fees).
- Municipalities must work to follow-up on the preparation of integrated financial statements that include budgets and specific procedures.
- Municipalities must commit to preparing financial statements according to the accrual basis, including the statement of financial positioning. They should not be satisfied with issuing a list of receipts, while values cannot be examined to determine deficit or surplus.
- Obligate all LGUs to publish their financial statements on their electronic pages and commit to including a table of liquidity, debt ratios and indicators.
- Prepare a new model for financial analysis that contains financial indicators and averages. Distribute this to municipalities to fill-out, with the aim of continuous follow-up and to control financial risks that the municipality may face. Then, organize a workshop on how to use this financial model: how to enter data, understand the results, and deal with the consequences of any deviations that occur.
- Financial analysis should be linked to strategic goals and long-term plans. It should not be limited to differences and deviations in the budget for the same year.
- Study the financial cycle across all its stages and identify gaps, deficiencies and modifications required at the level of data structures, or those working to prepare or audit it. This requires consensus and the formation of a committee of legal and supervisory bodies, specialized experts and financial employees from municipalities.

3. Strengthening administrative systems and governance at LGUs

The study indicated the need to strengthen the administrative systems and governance policies of local authorities by adopting measures that improve and strengthen systems and procedures that LGUs deploy in organizing and managing governance, implementing local services, and ensuring that citizens participate in – and contribute to - local decision-making processes. This includes several issues:

- The need to develop specialized and unified administrative systems across municipalities within similar legal classes (Class A, B, C or village councils), while circulating these to employees. These include (but are not limited to) policies for: enhancing compliance with LGU systems; maintaining records and data; storing them securely (electronically and print copies); facilitating their transfer and reference when required; and adopting an effective follow-up system to monitor and report on system/reporting violations.
- Direct all LGUs (via the MoLG or MDLF) to commit to preparing medium-term strategic plans (for 4-5 years) that are applicable to their context, by taking into account the financial and administrative situation of the specific LGU. LGUs must try to integrate the process of preparing their annual budget with their strategic objectives (as stated in these plans) such

that they are, firstly, applicable, and secondly, based on relevant strategic foundations to further develop the LGU's work and services to citizens.

- Local authorities are required to implement comprehensive, multi-level policies. This may include the development of the local commercial/industrial sectors; promoting local tourism and related services; promoting business formation and partnerships with the private sector (and NGOs) for collaborative projects; developing local markets and small/medium trade; developing HR through training; implementing strategies that increase revenues; and appointing specialists in revenue management.
- Provide easy-to-access payment methods/outlets, to make it easier for citizens to pay their due service fees, by taking advantage of modern technologies to facilitate the payment process through mobile applications.
- LGUs should be required to issue account statements on a monthly (and periodic) basis, detailing all expenses and revenues, to ensure transparency and accountability. Moreover, approving internal systems to hold responsible employees accountable in the event of a defect or negligence.
- Adopt a participatory budgeting approach, similar to other countries, by encouraging civil-society organizations and citizens to participate in preparing the annual budget. This enhances transparency, while also improving dialogue between LGUs and their citizens in a way that enhances social integration through popular participation in decision-making. It also enhances the ability of citizens to follow-up on the implementation of budgeted items, and aspects of revenue and spending. This allows them to hold officials accountable, in a more knowledgeable manner. As a pre-requisite, it is necessary to amend the relevant legal framework to ensure that this approach is framed and codified.
- Involve representatives of the local community, NGOs and the private sector in the planning stage of projects. International experience demonstrates the importance of involving educational institutions, from private laboratories to universities, in the project development process. This requires signing MOUs for investment projects that match suit needs of concerned LGU(s), by presenting business models that can be adopted to generate revenues for local authorities in addition to achieving their social goals in providing services to the citizenry.
- Promote the dissemination of information, making it clearly available to the public. This includes publishing budgets, reports and other information relevant to the work of the local authority.
- In order to enhance transparency with citizens, the LGU is obliged to provide a guide for citizens to inquire about fees for each service provided to them, including the mechanisms for calculating such fees, and their appropriateness given the cost of the service incurred by the LGU.
- Establish tools and mechanisms for accountability that ensure that an LGU bears responsibility for its actions and decisions. This includes conducting a periodic evaluation of the LGU's performance and reporting on it.
- Establish an effective complaints' system. Develop mechanisms for verification, rapid response and taking necessary corrective measures.
- Promote integrity and ethics in all LGUs' work, developing policies and mechanisms to combat corruption.
- Establish and adopt official systems for control and accounting, whether internal control systems (implemented by assigning a specialized employee from within the local oversight

body to implement these systems) or via efficient external oversight systems, by official government institutions such as the MoLG, or through CSOs, or by citizens through community accountability committees. It must be applied continuously and thoughtfully to achieve expected results.

4. Develop and build capabilities for effective financial and administrative policies:

- Build the capabilities of LGUs’ employees in finance and administration, and their ability to implement projects through continuous training. This requires cooperation between central government, CSOs, academia and LGUs, to ensure that training and qualification result in a positive impact on the performance of the tasks required from HR (according to the law). It is necessary to adopt a system to measure the effectiveness of training, while determining its impact on HR performance.
- Increase the efficiency and effectiveness of LGUs in collecting fees, taxes and penalties, by increasing HR efficiency, through training and resource provision, to increase their efficiency in collection and reduce evasion by recipients.
- Re-clarify differences between the trial balance, allocated budgets and expended budgets for financial HR at LGUs, particularly those in a supervisory role. Errors and conflicting concepts were found from one municipality to another. Meanwhile, the research team faced difficulties in communicating with municipalities to obtain clarifications.
- Provide LGUs, especially Class B and Class C, with the necessary educational qualifications and practical experience. This helps to overcome challenges in managing LGUs’ revenues and expenditures, particularly if they are the result of the lack of HR efficiencies. This helps the authority to adhere to the provisions of the annual budget and strategic plans.
- Train HR at LGUs on the foundations of PPPs, such that this coincides with amending the legal framework regulating such partnerships.
- Qualify accountants working at municipalities and LGUs in methods for preparing accounting reports and financial statements according to the accrual basis. Develop their all-round accounting capabilities (from data entry and account keeping, to preparing auditable, publishable and reliable financial reports).

Chapter Seven: Financial Analysis of Hebron Municipality (Case Study)

7.1 Introduction

This Chapter provides an evaluation of the financial situation of LGUs, by conducting a financial analysis of Hebron Municipality as a case study on LGUs in the West Bank. This financial analysis helps estimate a municipality's ability to finance its services and projects over the long term, allowing it to direct resources and make sustainable financial decisions. It also monitors how financial resources are used, and whether they are utilized effectively to meet community needs. It helps to understand the level of debts and financial obligations of the municipality, and how to manage these, providing important information for making strategic financial decisions, setting priorities and directing investments. Moreover, this financial analysis allows the reader to review trends in financial performance over time, and verify whether the municipality is achieving its financial goals and meeting expectations. This evaluation includes a set of analytical measures:

- Demographic analysis
- Benchmarking (comparative) analysis
- Vertical analysis
- Horizontal analysis
- Risk and return ratio analysis (ratio analysis)

7.2 Analyzing the population and demographic indicators of Hebron Municipality and linking them to financial data

In financial analysis, many municipalities rely on comparing their current financial indicators with previous years, without taking demographic changes into account. However, linking the revenues and expenses of municipalities and LGUs with population indicators is extremely important, since the primary goal of LGUs is to provide services to citizens effectively and efficiently. The financial analysis based on demographic indicators includes the following indicators:

1. An indicator based on dividing the basic trial balance accounts by population.
2. An indicator based on dividing the basic budget and financial position accounts by population.
3. An indicator based on measuring the percentage of any type of (main) municipal revenues and per capita income.
4. An indicator based on measuring the ratio of any type of (major) municipal expenses and per capita income.
5. Financial ratios that measure debt, credit, liquidity risk, and financial distress.

7.2.1 Analysis of revenues and their linkages to demographic and population indicators

Numerous countries set ceilings for municipalities in imposing fees and taxes on residents that they cannot exceed. This requires a comprehensive study that balances individual incomes with tax fees or the cost of services. This study details average revenues divided by population, and their percentage of per capita income, across all municipalities and local authorities included in the sample. Table 18 shows the per capita share of revenues or expenses, by dividing the average of each account by the number of residents under the jurisdiction of Hebron Municipality. The ratio of per capita income to revenues and expenses was also calculated by dividing each expense or revenue by the value of the average income during the five years 2018 to 2022. Average annual income was about NIS 12,156.

The numbers show a large gap between average expenses (NIS 744 per person) and revenues (NIS 548 per person). This results in a large deficit at Hebron Municipality, and a high cost of services compared to collected revenues.

Table 18: Average revenues, expenses and per capita income for Hebron Municipality (2018-22)

Account	Average accounts (revenues and expenses) divided by population (NIS per capita)	Average of vertical ratios of accounts to revenues	Average ratio of taxes and fees to per capita income (2018-22)
Revenues	548		4.5%
Non-commercial revenues	310	51%	2.5%
Tax revenues	36	5%	0.3%
Other tax revenues	28	3%	0.2%
Other non-commercial revenues	96	25%	0.8%
Income from investments and rentals	85	11%	0.7%
Restricted revenues	8	1%	0.1%
Unrestricted revenues	24	3%	0.2%
Budget revenues solid waste	33	4%	0.3%
Commercial revenues	226	47%	1.9%
Budget revenues water and sanitation	170	36%	1.4%
Budget revenues municipal slaughterhouse	1	0%	0.0%
Budget revenues vegetables market	19	4%	0.2%
Budget revenues gardens	2	0%	0.0%
Processing plant and water refining revenues	-	0%	0.0%
Budget revenues parking	3	0%	0.0%
Budget revenues cultural center	0	0%	0.0%
Budget revenues dynamometer	21	4%	0.2%
Budget revenues for other business activities	10	3%	0.1%
Budget revenues electricity	-	0%	0.0%

Account	Average accounts (revenues and expenses) divided by population (NIS per capita)	Average of vertical ratios of accounts to revenues	Average ratio of taxes and fees to per capita income (2018-22)
Revenues - budget credit	11	1%	0.1%
Budget revenues credit	11	1%	0.1%
Expenses	744	153%	6.1%
Payroll expenses and its accessories	133	17%	1.1%
Salaries and wages - permanent (two dwellings)	88	11%	0.7%
Salaries and wages - permanent, non-resident	3	0%	0.0%
Salaries and wages - temporary unhoused	15	2%	0.1%
Salary of the Chairman of the Authority Local	0	0%	0.0%
Salaries and wages – retirees	27	3%	0.2%
General and administrative expenses	160	32%	1.3%
General and administrative expenses	160	32%	1.3%
Related Non-commercial operating expenses	216	50%	1.8%
Related Non-commercial operating expenses	216	50%	1.8%
Related Commercial operating expenses	234	54%	1.9%
Budget expenses water and sanitation	185	42%	1.5%
Budget expenses slaughterhouse	3	1%	0.0%
Budget expenses fruit and vegetable market	9	2%	0.1%
Budget expenses gardens	3	1%	0.0%
Budget expenses processing and water refining	-	0%	0.0%
Budget expenses parking	(0)	0%	0.0%
Budget expenses dynamometer	7	2%	0.1%
budget expenses cultural center	0	0%	0.0%
Budget expenses other Commercial	27	7%	0.2%
Budget expenses electricity	-	0%	0.0%
Budget expenses credit	0	0%	0.0%
	0	0%	0.0%

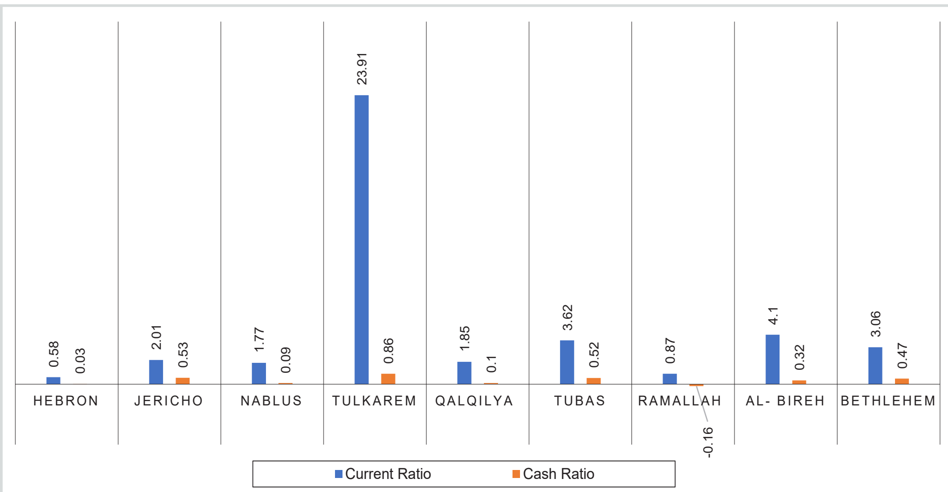
The results detailed in Table 19 below show that an individual residing in any municipal classification (A, B or C) was burdened with NIS 976 annually (on average) during 2018-22. This amount constitutes 8% of average, annual per capita income in the West Bank. In Hebron, this value reached NIS 548, considered a low value compared to the overall average.

Table 19: Average revenues, expenses and per capita income for all sampled municipalities (A, B, C) (2018-22)

Account	Average accounts (revenues and expenses) divided by population (NIS per capita)	Average of vertical ratios of accounts to revenues	Average ratio of taxes and fees to per capita income (2018-22)
Revenues	976		8.0%
Non-commercial revenues	477	49%	3.9%
Tax revenues	128	13%	1.1%
Other tax revenues	146	15%	1.2%
Other non-commercial revenues	133	14%	1.1%
Income from investments and rentals	78	8%	0.6%
Restricted revenues	36	4%	0.3%
Unrestricted revenues	74	8%	0.6%
Budget revenues solid waste	77	8%	0.6%
Commercial revenues	513	53%	4.2%
Budget revenues water and sanitation	182	19%	1.5%
Budget revenues municipal slaughterhouse	4	0%	0.0%
Budget revenues vegetables market	7	1%	0.1%
Budget revenues gardens	28	3%	0.2%
Processing plant and water refining revenues	7	1%	0.1%
Budget revenues parking	7	1%	0.1%
Budget revenues cultural center	0	0%	0.0%
Budget revenues dynamometer	34	3%	0.3%
Budget revenues for other business activities	179	18%	1.5%
Budget revenues electricity	628	64%	5.2%
Revenues - budget credit	55	6%	0.4%
Budget revenues credit	52	5%	0.4%
Expenses	975	100%	8.0%
Payroll expenses and its accessories	312	32%	2.6%
Salaries and wages - permanent (two dwellings)	204	21%	1.7%
Salaries and wages - permanent, non-resident	60	6%	0.5%
Salaries and wages - temporary unhoused	29	3%	0.2%
Salary of the Chairman of the Authority Local	12	1%	0.1%
Salaries and wages – retirees	31	3%	0.3%

Account	Average accounts (revenues and expenses) divided by population (NIS per capita)	Average of vertical ratios of accounts to revenues	Average ratio of taxes and fees to per capita income (2018-22)
General and administrative expenses	286	29%	2.4%
General and administrative expenses	286	29%	2.4%
Related Non-commercial operating expenses	236	24%	1.9%
Related Non-commercial operating expenses	237	24%	1.9%
Related Commercial operating expenses	378	39%	3.1%
Budget expenses water and sanitation	94	10%	0.8%
Budget expenses slaughterhouse	2	0%	0.0%
Budget expenses fruit and vegetable market	5	1%	0.0%
Budget expenses gardens	4	0%	0.0%
Budget expenses processing and water refining	9	1%	0.1%
Budget expenses parking		0%	0.0%
Budget expenses dynamometer	10	1%	0.1%
budget expenses cultural center	16	2%	0.1%
Budget expenses other Commercial	183	19%	1.5%
Budget expenses electricity	416	43%	3.4%
Budget expenses credit	38	4%	0.3%
	38	4%	0.3%

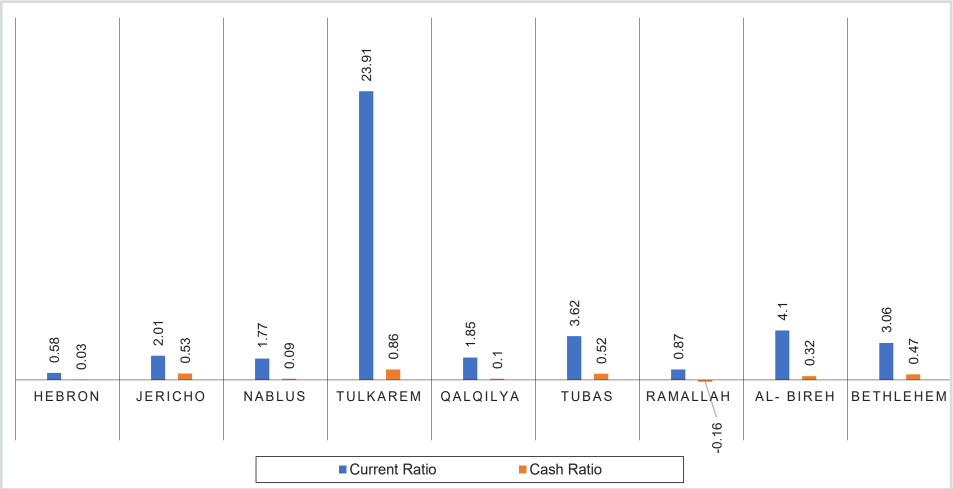
Figure 17a: Revenues according to their classification for the Municipality of Hebron (2018-22)



Commercial revenues constituted the largest burden on the citizen, at a rate of approximately 51%, with an average value of NIS 310 annually, close to the overall average in the West Bank at

53%. Electricity revenues are excluded from this percentage, as they alone constitute 64% of total revenues. The distribution of revenues in illustrated in Figures 17a and 17b below.

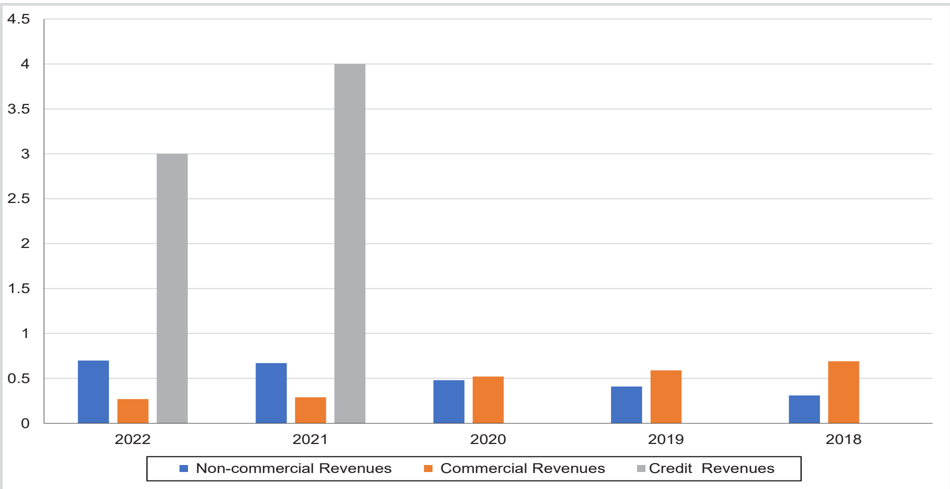
Figure 17b: Ratio of each revenue stream to total revenues for Hebron Municipality (2018-22)



The figures above reveal that:

1. Revenues of a commercial nature are constantly declining, from 69% in 2018 to 27% in 2022, noting that the value of revenues of a commercial nature remained stable during the past five years, ranging from NIS 42 million to NIS 53 million.
2. The reason for the significant increase in the value of revenues of a non-commercial nature, (rising from NIS 23 million in 2018 to NIS 122 million in 2022) must be examined, along with reasons and justifications for this change.
3. Compared to the overall average for Class A, we find that Hebron Municipality is not moving in the same direction as the rest of the Class. This requires an assessment of the state of their revenues, sources and internal distribution.

Figure 18: The ratio of each revenue stream to total municipal Class A revenues (2018-22)



7.1.2 Definition of revenue items and their components

Account	Classification and description	Average of vertical ratios of accounts to revenues, Classes A, B, C
Revenues		
	Non-commercial revenues (local government activities)	51%
Tax revenues		5%
Non-tax revenues	License and permit fees include regular building permit fees, extraordinary building permit fees, building inspection fees, electric elevator inspection fees, signage license fees, residence permit fees, cemetery license fees, burial and transportation of the dead, street vendor license fees, plumbing profession license fees, Fees for electrical professions licenses, fees for swimming pool licenses, fees for mechanical professions licenses, fees for road opening licenses, fees for surveying and building licenses, permit fees . Road occupancy , fire protection inspection license fees, special use license fees, precious metals license fees, public safety fees, crafts and industries license fees, professions and business licenses, fish and bird fees, fruit and vegetable market fees, animal market fees, kindergarten subscription fees . Fees for certifying transactions, site plan fees, fire fees, bidding fees, parallels and measures fees, stall and umbrella fees, various license fees, level determination and street designation fees, regulatory project fees, revenues. Subscriptions to joint planning and development councils . Revenues Among the services: court fees, false alarm fees , parking meter fees, street and sidewalk fees (citizen contribution), registration and blogging fees, cesspit fees, library subscription fees, certificates and maps fees, banners and advertisement fees, rat control fees , transportation fees. Roads, bicycle fees, porters' fees, retaining wall fees , car parking rentals, fees for tax collection allowances for parties other than the Authority, fees for photocopying documents, other subscription fees , theater and hall rentals, fees for training courses, ticket revenues, fees for obtaining information, revenues. Ambulance , book sales prices .	3%
Other non-commercial revenues		25%
	revenues , court fines, unlicensed construction fines, revenues Courts other than fines, delay fines, property assault fines General, various fines, fines for traffic and parking violations .	
Income from investments and rentals		11%
	Income from the use of property and funds , interest on municipal funds (credit interest), income from investments - stocks and bonds, income Municipal machinery rents , revenue Local authority real estate rents , revenues Swimming pool rental, key revenue - retreats, revenue Rentals Kiosks , revenue Including projects and properties, profits from the sale of fixed assets, and revenues Foreign currency differences , compensation for traffic and machinery accidents , sales of road waste, profits from the sale of supplies, profits from the disposal of supplies, revenues Inventory differences	
Restricted revenues		1%

Account	Classification and description	Average of vertical ratios of accounts to revenues, Classes A, B, C
	Fines for violating parking provisions , revenues Deferred in-kind grants	
Unrestricted revenues		3%
	Revenues from various grants and gifts, revenues from government grants and gifts, revenues from foreign grants and gifts , revenues from local grants and gifts, revenues Social activities, revenues from sports committee activities, revenues Gender	
Budget revenues solid waste		4%
	Operating revenues -Solid Waste , Waste Fees, Waste Fees -Residential Buildings , Waste Fees -Commercial Buildings , Waste Fees -Industrial buildings , waste fees -Academic institutions , sanitary waste fees, waste fees -Nonprofit organizations , waste fees -Governmental institutions , waste fees -United Nations, waste fees -Local institutions , waste transportation and transfer fees, fines for violations -solid waste , waste fees - local authorities, construction waste disposal fees , other solid waste fees, fees for maintaining waste containers from other local authorities .	
	Commercial revenues (activities of a profitable nature)	47%
Budget revenues water and sanitation	revenues - water, water meter reading revenues - residential, water meter reading revenues - commercial , water meter reading revenues - industrial facilities , drinking water prices revenues , revenue Prices of drinking water in tanks, revenues from irrigation water prices, non-refundable/refundable water subscription deposits, fines for late payment of drinking water bills, fees for certifying irrigation water transactions, revenues from water meter prices, contributions for connection to the water network, revenues from water pipes prices , revenues from prices Water subscription supplies, revenues Water service subscription fees, revenues Miscellaneous - water, water disconnection and reconnection fees, water theft fine . Operating revenues - Sanitation: - Fees for contributions to constructing the sewerage network, fees for connecting to the sewerage network, fees for clearing sewerage sewers, fees for maintaining and transporting the water meter, fees for periodic subscriptions to the sewerage network .	36%
Budget revenues municipal slaughterhouse	revenues - slaughterhouse, revenues Operational –slaughterhouse fees, carcass fees, tanning and leather fees, fines and violations, accommodation and barn fees.	
Budget revenues vegetables market	Operating revenues - fruit and vegetable market , fruit and vegetable market service revenues , refrigerator fees, loading vehicle license fees, truck entry fees, truck driver fees, fruit and vegetable fees .	4%
Budget revenues gardens	, Revenues Operational –park, revenue Lawn games, revenue Museum, revenues Swimming pool, revenue Supermarket, revenue Garden Restaurant, revenue Garden break, revenue Including park facilities , zoo revenues , park stagecoach ticket revenues, and park cinema revenues .	0%

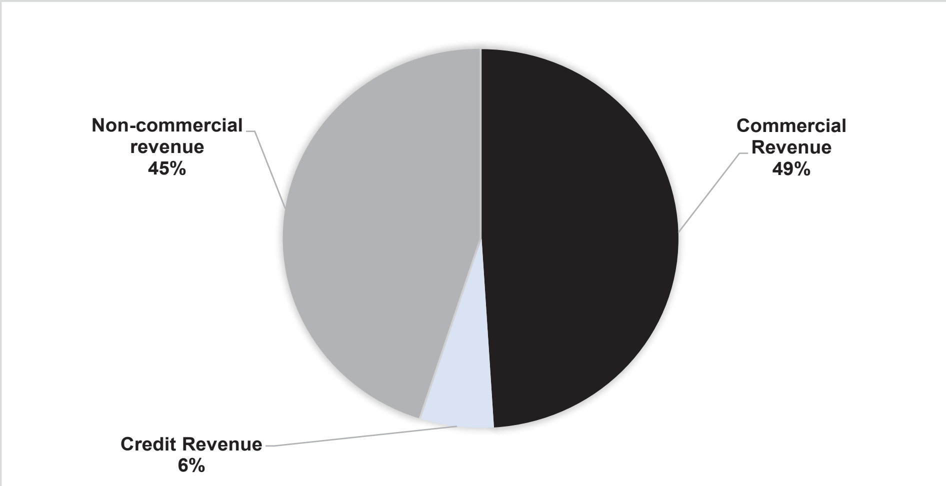
Account	Classification and description	Average of vertical ratios of accounts to revenues, Classes A, B, C
Revenues from processing plant and water refining	Water treatment and refining plant revenues , revenues Purification fees, compensation for purification plant accidents, and revenues Selling refined water	
Budget revenues parking	revenues –garages, parking subscriptions, parking tickets, tourist bus fees .	
Budget revenues cultural center	revenues , revenues Cultural Center .	
Budget revenues Dynamometer		4%
Budget revenues for other business activities	Revenues from services, budgets, other business activities, revenues Other trade budgets Revenues Arts and Crafts Village, Revenue Holst Centre, Revenue Childhood Happiness Center , revenues Prosthetics Industry Center , revenues Marine Club, revenues Health Center .	3%
Budget revenues electricity		0%
	Revenues - budget credit	1%
Budget revenues credit	revenues , municipal contribution, employee contribution, revenues Bank interest, short- term investment income , long- term investment income , revenue Others for the retirement fund, revenues End of service allowances (paid by the municipality) . Knowledge tax revenue : - Knowledge tax revenue, Knowledge tax interest revenue , Other knowledge tax revenue .	

7.1.3 Analysis of expenses (taking into account all municipal classes - A, B, C)

The analysis of banking data shows a set of important results, most notably:

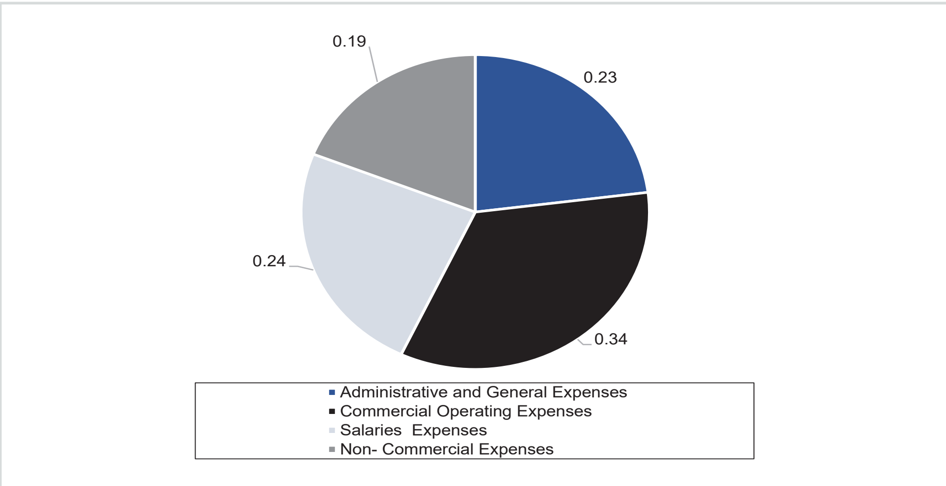
- Average expenses for all municipalities and LGUs across all classifications amounted to 98.7% of total revenues. As for Hebron Municipality, this percentage reached about 153%, which indicates great risks in managing expenses, and the absence of corresponding revenues to cover these expenses as incurred by the Municipality. This result requires quick and practical measures by the Municipality’s administration to avoid the continuation of this large percentage, as it must be reduced to 100% (that is, revenues are equal to expenses each year).
- The percentage of each of the four basic expenses in each municipality (salaries’ expenses, administrative and general expenses, expenses of a commercial nature and expenses of a non-commercial nature) showed that expenses of a non-commercial nature were the highest at 34%, followed by salaries at 24%, then administrative/general expenses at 23%, while expenses of a non-commercial nature came in last place, as shown in Figure 19 below.

Figure 19: The ratio of each expense item to total expenses (2018-22)



When comparing Hebron Municipality with the overall average for Class A (see Figure 20), it can be discerned that there is a significant increase in the value of expenses in 2021 and 2022, illustrating the size of the burden that the Municipality bears to cover these obligations. Hebron Municipality suffers from a double-burden compared to other municipalities, where the overall average in the West Bank is 24%.

Figure 20: Distribution of Expenses at Hebron Municipality (2018-22)



7.1.4 Analysis of the financial position, budget and financial stability measures

Table 20 illustrates vertical budget analysis, performed by dividing the value of each account or classification with total assets.

Table 20: Vertical ratios of budget accounts to total assets for all Classes, overall average, and figures for Hebron Municipality

Category	Class A	Overall average	Hebron Municipality
Cash and cash equivalents	1.5%	3.4%	1%
Accounts receivable, Net	18.4%	25.6%	23%
Receivables, corresponding	1.6%	0.8%	11%
Dues from other budgets	2.2%	2.8%	17%
Dues from government bodies	0.0%	0.3%	0%
Supplies and materials in warehouses	0.2%	0.2%	0%
Other current assets	0.9%	0.9%	2%
Total current assets	22.0%	32.6%	**32%**
Investments - net	4.8%	6.4%	23%
Fixed assets - net	71.7%	61.5%	40%
Projects under construction	0.8%	1.2%	1%
Other assets	0.6%	0.2%	5%
Total assets	100.0%	100.0%	**100%**
Payables	3.8%	25.4%	0%
Current account of the electricity company	3.1%	1.2%	25%
Dues to other budgets	3.2%	1.1%	17%
Other current liabilities	2.0%	5.2%	3%
Dues to government bodies	1.2%	0.4%	10%
Total current liabilities	13.2%	32.9%	**55%**
Long term liabilities	2.7%	1.2%	0%
Finance leases	0.0%	0.0%	0%
Commitment from finance leasing contracts (other)	0.0%	0.0%	0%
Long-term operational commitments	0.0%	0.0%	0%
Long-term debt	0.0%	0.0%	0%
Employee compensation provisions	0.1%	0.1%	0%
Employee retirement allowance	0.9%	1.4%	0%
End-of-service specifier	2.5%	1.3%	5%
Legal	0.5%	0.2%	0%
Other liabilities	7.1%	11.1%	10%
Total liabilities	26.9%	40.9%	**69%**
Net assets	73.1%	59.1%	**31%**
Total liabilities and net assets	100.0%	100.0%	**100%**

By observing the numbers in Table 20, we find that:

1. Cash liquidity and the ability to make short-term repayment are negligible, not exceeding (on average) 3.4% of total assets at municipalities. Perhaps, risks are higher for municipal Class A and Class C, where this percentage does not exceed 1.5%. The percentage was also lower in the municipality of Hebron, where it reached only 1%. Therefore, municipalities must maintain a higher percentage in order to manage their operational costs and cover their cash needs without resorting to banks, and incurring high financing costs. Moreover, the ratio of total current assets to total assets was about 32%, but upon analyzing their contents, we find that 78.5% of them are receivables owed by citizens, which makes it difficult to liquidate them and convert them into cash when the municipality needs to do so.
2. Regarding receivables and debts owed by citizens, the problem of debts owed by citizens is considered one of the fundamental issues faced by municipalities and LGUs, causing major problems in cash management. One of the main reasons is the lack of standards for credit and dealing with debts. Perhaps some municipalities have begun to pass on the burden from one administration to the next, without an evaluation or standards for comparison between municipalities, or ratios that determine a municipality's financial position and risk levels in its management. In order to arrive at comparable standards, actual percentages across for a group of municipalities were examined, as shown in Table 21 below. Note that the receivables turnover rate is equal to total revenues divided by average receivables (for the five years 2018-22), and the number of collection days was calculated by dividing 365 days by the receivables' turnover rate.

Table 21: Arithmetic means of revenue data, averages of receivables, receivables' turnover rate, and number of collection days for each Class A municipality

Municipal averages	Revenues	Accounts receivable	Receivables turnover rate	Number of collection days
Hebron	105,655,900	369,768,128	0.3	1,445
Jericho	35,324,234	21,031,701	1.9	210
Nablus	136,777,806	381,594,841	0.4	1,025
Tulkarem	88,005,301	399,648,109	0.2	1,662
Qalqilya	90,996,807	93,191,895	1.0	374
Tubas	8,001,772	11,388,885	0.7	522
Ramallah	84,312,475	47,316,299	1.8	206
Al Bireh	54,529,712	97,688,717	0.6	610
Bethlehem	25,435,144	37,355,329	0.7	556

Figure 21: Average number of collection days for each Class A municipality (2018-22)

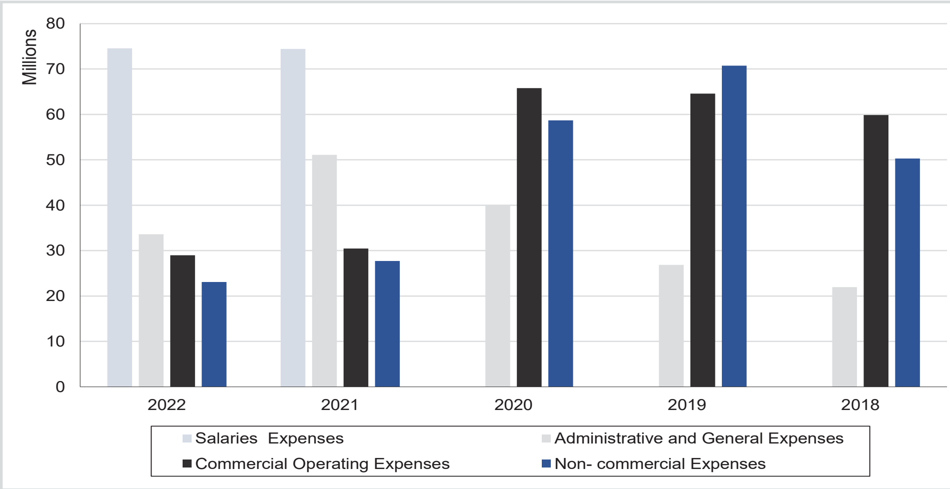


Table 22 below details the collection of receivables and rates of default on collections. The average collection period was about 734 days (or at least two years). There exists a large discrepancy between municipalities: at Tulkarem Municipality, the average number of collection days was 1,662 days; while Hebron Municipality ranked second place in terms of the length of the collection period, at 1,445 days.

Table 22: Arithmetic means of revenue data, averages of receivables, receivables' turnover rate, and number of collection days for each municipality

Municipality	Revenues	Accounts receivable	Receivables turnover rate	Number of collection days
Hebron-2021	182,968,960	384,159,174	0.5	766
Hebron-2020	81,725,930	375,805,454	0.2	1,678
Hebron-2019	84,284,973	368,280,245	0.2	1,595
Hebron-2018	73,643,735	350,827,640	0.2	1,739
Average for the municipality of Hebron	**105,655,900**	**369,768,128**	**0.3**	**1,445**
Jericho-2021	47,095,351	33,724,524	1.4	261
Jericho-2020	29,679,539	20,618,206	1.4	254
Jericho-2019	37,121,442	20,291,174	1.8	200
Jericho-2018	27,400,602	9,492,901	2.9	126
Average for the municipality of Jericho	**35,324,234**	**21,031,701**	**1.9**	**210**
Nablus-2022	204,641,272			
Nablus-2021	150,428,824	406,689,905	0.4	987
Nablus-2020	120,349,723	388,515,250	0.3	1,178
Nablus-2019	145,674,187	378,158,028	0.4	948
Nablus-2018	130,658,491	353,016,181	0.4	986
Average for the municipality of Nablus	**136,777,806**	**381,594,841**	**0.4**	**1,025**
Tulkarem-2022	124,255,897	432,506,320	0.3	1,270
Tulkarem-2021	88,377,399	417,624,238	0.2	1,725
Tulkarem-2020	83,099,420	399,098,175	0.2	1,753
Tulkarem-2019	92,539,083	382,221,914	0.2	1,508
Tulkarem-2018				

Average for the municipality of Tulkarem	**88,005,301**	**399,648,109**	**0.2**	**1,662**
Qalqilya-2022	102,155,700	95,867,899	1.1	343
Qalqilya-2021	99,355,744	106,327,760	0.9	391
Qalqilya-2020	84,917,792	100,417,849	0.8	432
Qalqilya-2019	94,708,728	89,323,220	1.1	344
Qalqilya-2018	85,004,963	76,698,752	1.1	329
Average for the municipality of Qalqilya	**90,996,807**	**93,191,895**	**1.0**	**374**
Municipality	**Revenues**	**Accounts receivable**	**Receivables turnover rate**	**Number of collection days**
Tubas-2020	8,841,096	12,724,646	0.7	525
Tubas-2019	7,371,884	13,097,696	0.6	648
Tubas-2018	7,792,336	8,344,313	0.9	391
Average for the municipality of Tubas	**8,001,772**	**11,388,885**	**0.7**	**522**
Ramallah-2022	109,573,940	88,531,364	1.2	295
Ramallah-2021	83,863,622	55,140,577	1.5	240
Ramallah-2020	74,405,394	44,639,798	1.7	219
Ramallah-2019	94,444,330	47,860,714	2.0	185
Ramallah-2018	84,536,553	41,624,105	2.0	180
Average for the municipality of Ramallah	**84,312,475**	**47,316,299**	**1.8**	**206**
Al Bireh-2022	91,094,926	99,890,441	0.9	400
Al Bireh-2021	58,350,167	90,589,465	0.6	567
Al Bireh-2020	43,011,410			
Al Bireh-2019	67,458,032	118,026,030	0.6	639
Al Bireh-2018	49,299,237	84,450,655	0.6	625
Average for the municipality of Al Bireh	**54,529,712**	**97,688,717**	**0.6**	**610**
Bethlehem-2022	174,745,265	48,899,774	3.6	102
Bethlehem-2021	22,754,111	40,695,933	0.6	653
Bethlehem-2020	22,132,034	38,472,387	0.6	634
Bethlehem-2019	31,419,288	32,897,666	1.0	382
Bethlehem-2018				
average for the municipality of Bethlehem	**25,435,144**	**37,355,329**	**0.7**	**556**
Overall average			0.8 times	734.4 days

1. Fixed assets and municipal property

Perhaps one of the most important goals of adopting an accrual basis or a modified accrual basis is to prepare a budget with integrated components and accounts, the most important of which is the evaluation and registration of fixed assets. These balances were obtained from audited reports and included in this financial analysis. For more information, see Table 23, which shows the ratio of fixed assets to total assets.

Table 23: Ratio of fixed assets to total municipal assets (A, B, C) (2018-22)

Category	Class A	Class B	Class C	Overall average	Hebron Municipality
Total current assets	22.0%	31.0%	44.8%	32.6%	32%
Fixed assets – net	71.7%	57.5%	55.2%	61.5%	63%

The high percentage of fixed assets increases the difficulty of the Municipality in paying cash and repaying debts, as the liquidation of fixed assets is mostly out of the question and unfeasible, given that part of the fixed assets are infrastructure, furniture, equipment, buildings, and vehicles. This means large losses if the Municipality decides to sell. From Table 23 above, it can be noted that municipal Class A have the highest investment rate in fixed assets at 71.7% of total assets, followed by 57.5% of Class B and finally 55.2% for Class C. When taking into consideration the overall average for the entire sample, we find that the percentage of fixed assets to total assets reached 61.5%. Finally, at Hebron Municipality, the distribution of assets across fixed and current assets is similar to the overall average at other municipalities.

7.1.5 Analysis of LGUs' obligations and debts

Municipal administrations faces a constant challenge in providing liquidity and cash to creditors and suppliers. Any failure in collection leads directly to direct financial default. Therefore, the situation reached by municipalities, the risks of liquidity, and the inability to repay debts, especially short-term ones, must be studied.

Table 24: Ratio of average debts owed by LGUs to total assets (2018-22)

Category	Class A	Class B	Class C	Overall Average	Hebron
Payables	3.8%	31.6%	40.7%	25.4%	
Current account of the electricity company	3.1%	0.0%	0.6%	1.2%	
Due to other budgets	3.2%	0.3%	0.0%	1.1%	
Other current liabilities	2.0%	4.3%	9.4%	5.2%	
Dues to government bodies	1.2%	0.0%	0.0%	0.4%	
Total current liabilities	13.2%	36.0%	49.4%	32.9%	٪٥٥
Long term liabilities	2.7%	0.7%	0.0%	1.2%	
Finance leases	0.0%	0.0%	0.0%	0.0%	
Commitment from finance leasing contracts (other)	0.0%	0.0%	0.0%	0.0%	
Long-term operational commitments	0.0%	0.0%	0.0%	0.0%	
Long term debt	0.0%	0.1%	0.0%	0.0%	
Employee compensation provisions	0.1%	0.4%	0.0%	0.1%	
Employee retirement allowance	0.9%	3.0%	0.4%	1.4%	
End-of-service-specifier	2.5%	0.3%	1.0%	1.3%	
Dedicated legal issues	0.5%	0.0%	0.0%	0.2%	
Other liabilities	7.1%	25.8%	0.3%	11.1%	
Total liabilities	26.9%	44.8%	50.9%	40.9%	٪٦٩

It can be discerned from Table 24 that most municipalities are burdened with debt, as the total ratio of debts to total assets reached 40.9%, which is a high percentage indicating significant levels of risks in the coming period. This requires taking important and rapid measures. However, what draws more attention is the fact that municipal Class A have the lowest ratio (26.9% of total assets), compared to 44.8% for Class B and 50.9% for Class C. However, Hebron Municipality exceeded all ratios in terms of debts: the ratio of total debts to total assets reached 69%, a percentage that confirms a near financial crisis facing this Municipality.

Current liabilities (that must be serviced during the same year) constituted 33%, which is a high percentage. This indicates the necessity of constant readiness at financial management to cover these short-term obligations and ensure continuous liquidity. It is clear that municipal Class A are able to manage their debts effectively, reducing this ratio to 13%, making them more stable from a financial and liquidity standpoint.

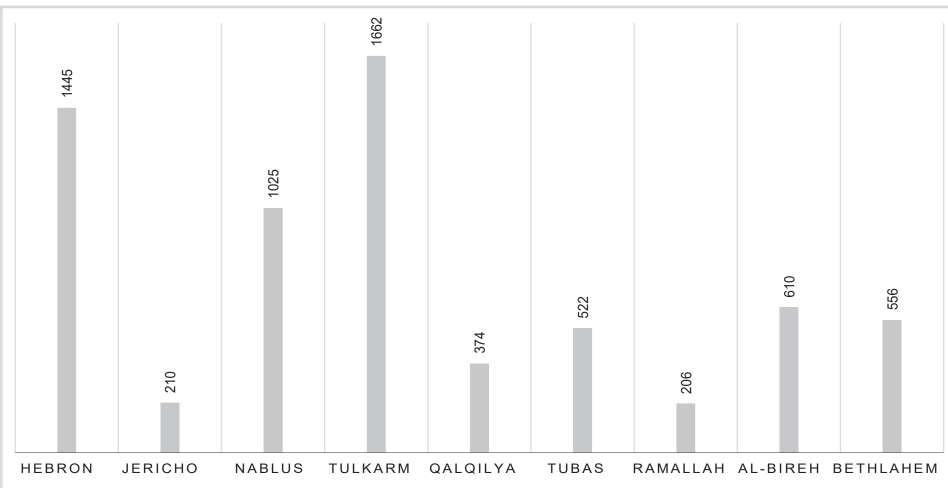
When relying on the conventional liquidity ratios in Table 25, results indicate that the current ratio (current assets vs. current liabilities) is within the conventional level. However, when studying the composition of current assets, we find the presence of a high level of risk, as most current assets are receivables with a slow collection cycle. This average collection period is no less than 734 days, meaning at least two years.

Table 25: Current ratios and cash to current liabilities' ratios

Governorate	Current Ratio	Ratio of cash to current liabilities
Hebron	0.58	3%
Jericho	2.01	53%
Nablus	1.77	9%
Tulkarem	23.91	86%
Qalqilya	1.85	10%
Tubas	3.62	52%
Ramallah	0.87	-16%
Al Bireh	4.10	32%
Bethlehem	3.06	47%
Overall current ratio	4.35	28%
Current ratio excluding Tulkarrm	1.96	

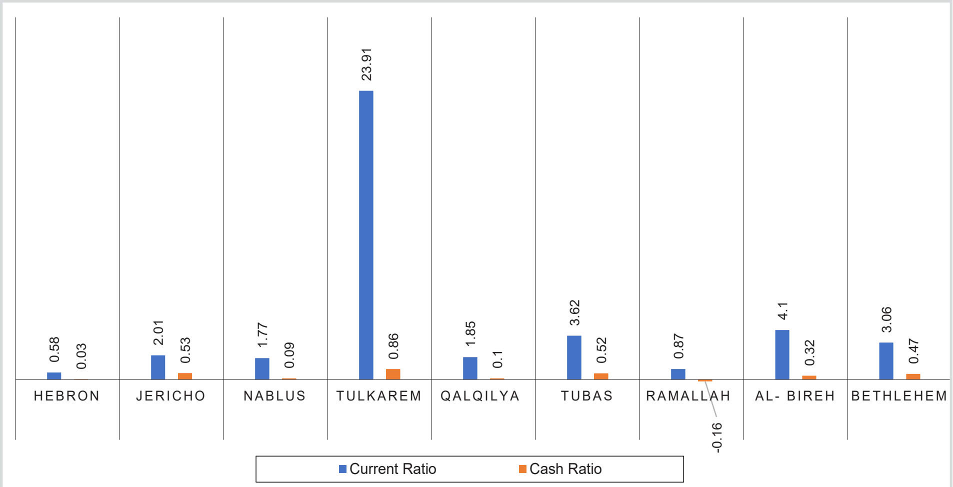
On the other hand, the cash liquidity ratio - calculated by dividing cash and cash equivalents (including cash in banks and incoming short-term checks) by total debts and short-term obligations, - stands at 28%. In other words, for every NIS 100 of short-term liability, there are only NIS 28 in cash. This means that most municipalities suffer from a cash liquidity crisis and an inability to pay their short-term obligations, while financial administrations suffer from severe pressure in managing cash, making them forgo capital or developmental expenses, as a result of the constant fear of running out of cash.

Figure 22 illustrates cash to current liabilities ratios



As for trading value, this amounted to 4.35, meaning that each NIS 1 in short-term obligations is covered by NIS 4.35 in current assets (excluding Tulkarem Municipality, as its numbers pull the results significantly higher, reaching 1.96). Concerning Hebron Municipality, we find that the ratio of cash to current liabilities is very low (amounting to only 3%), meaning that every NIS 100 of short-term liability corresponds to only NIS 3 shekels in cash.

Figure 23: Average turnover rates and cash ratios for Class A municipalities (2018-22)



When looking at the time dimension, we find that this situation was not limited to a specific period, but rather it is an ongoing situation that deserves to be examined, in order to find standards and foundations for guiding the financial administration of municipalities. When reviewing the data in Table 26 below, we find that some municipalities have negative cash balances (such as the Municipality of Ramallah), while others have very low liquidity rates (such as Hebron at 3% and Nablus at 9%). This confirms the liquidity risks facing LGUs.

Table 26: Current ratios and cash ratios for Class A municipalities (2018-22)

Governorate	Year	Cash and cash equivalents	Total current assets	Total current liabilities	Current ratio	Ratio of cash to current liabilities
Hebron	2018	8,289,428	322,158,746	656,892,256	0.49	0.01
Hebron	2019	11,609,517	511,115,222	863,515,700	0.59	0.01
Hebron	2020	17,772,184	560,309,737	951,521,540	0.59	0.02
Hebron	2021	19,523,216	696,283,064	1,040,834,059	0.67	0.02
Hebron	2022	11,147,555	65,014,577	120,208,110	0.54	0.09
					0.58	0.03
Jericho	2018	8,806,816	20,481,800	14,286,836	1.43	62%
Jericho	2019	9,925,524	31,996,133	17,736,743	1.80	56%
Jericho	2020	10,765,034	36,687,449	23,748,159	1.54	45%
Jericho	2021	9,932,873	46,171,208	20,447,057	2.26	49%
Jericho	2022	9,785,797	54,345,821	18,065,033	3.01	54%
					2.01	53%

Governorate	Year	Cash and cash equivalents	Total current assets	Total current liabilities	Current ratio	Ratio of cash to current liabilities
Nablus	2018	20,029,084	378,081,272	224,479,498	1.68	9%
Nablus	2019	20,995,884	405,737,724	249,489,911	1.63	8%
Nablus	2020	19,743,187	414,692,208	262,117,687	1.58	8%
Nablus	2021	25,996,360	439,594,523	267,585,447	1.64	10%
Nablus	2022	36,577,470	684,342,090	297,254,184	2.30	12%
					1.77	9%
Tulkarem	2019	14,878,196	402,087,676	16,026,677	25.09	93%
Tulkarem	2020	15,876,281	420,542,534	18,342,917	22.93	87%
Tulkarem	2021	15,644,052	439,305,946	17,864,000	24.59	88%
Tulkarem	2022	15,451,196	455,107,569	19,750,086	23.04	78%
					23.91	86%
Qalqilya	2018	5,004,034	83,539,372	35,124,812	2.38	14%
Qalqilya	2019	6,141,340	107,079,734	50,149,475	2.14	12%
Qalqilya	2020	7,178,352	111,012,111	45,826,538	2.42	16%
Qalqilya	2021	5,959,377	118,394,900	108,229,396	1.09	6%
Qalqilya	2022	2,877,159	106,148,775	87,766,632	1.21	3%
					1.85	10%
Tubas	2018	2,834,018	11,178,331	4,433,067	2.52	64%
Tubas	2019	1,696,434	16,245,139	3,717,988	4.37	46%
Tubas	2020	1,707,188	14,844,733	3,748,015	3.96	46%
					3.62	52%
Ramallah	2018	2,306,642	48,381,266	56,226,642	0.86	4%
Ramallah	2019	(6,979,495)	45,802,279	58,290,385	0.79	-12%
Ramallah	2020	(8,758,043)	39,329,925	58,807,311	0.67	-15%
Ramallah	2021	(19,591,048)	39,585,751	50,489,366	0.78	-39%
Ramallah	2022	(12,057,243)	81,991,487	65,060,317	1.26	-19%
					0.87	-16%
Al Bireh	2018	20,321,559	108,851,890	20,108,577	5.41	101%
Al Bireh	2019	8,856,857	131,852,359	24,206,620	5.45	37%
Al Bireh	2020	193,590	13,679,193	14,445,083	0.95	1%
Al Bireh	2021	2,040,629	146,538,033	31,973,612	4.58	6%
Al Bireh	2022	7,528,450	182,072,186	44,251,157	4.11	17%
					4.10	32%
Bethlehem	2019	10,419,303	46,062,053	12,735,791	3.62	82%
Bethlehem	2020	6,920,488	51,117,338	18,063,643	2.83	38%
Bethlehem	2021	5,776,601	53,076,839	18,203,353	2.92	32%
Bethlehem	2022	7,100,092	56,823,188	19,807,679	2.87	36%
					3.06	47%
					4.35	28%
				Without Tulkarem	1.96	

7.2 Specific results for Hebron Municipality

- Hebron Municipality faces major problems in managing debts, and it must take quick and immediate action in this regard.
- Financial stability and continuity of services are compromised if the Municipality's financial situation is not addressed.
- The Municipality is classified as one that suffers from real, not temporary, financial hardship.
- There exists a systemic failure in managing expenses, as this percentage exceeds revenues by 1.5 times, or 50% in excess of the permissible limit.
- Salaries at the Municipality are double those at other municipalities. The overall average for all classes exceeded 48%, while the overall average for other types of LGUs did not exceed 24%.
- The average number of days until debt collection is 1,445 days, which is a very long period for collecting debts in exchange for services, especially since the Municipality lacks the liquidity to cover all its expenses.

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Annexes

List of interviewees:

Organization	Official
Atara Municipality	Ms. Zeina Al-Khatib, Accountant
JSC for Solid Waste Management, Ramallah	Mr. Hassan Abu Aoun, Executive Director
ARIJ	Ms. Rasha Yateem, Director of Good Governance Program
MDLF	Mr. Mohammed Al-Ramhi, General Manager
APLA	Mr. Abdelmamoon Afana, Director of Technical-Legal Support Unit Mr. Ziad Al-Taweel, Financial Decentralization Officer
JSC for Solid Waste Management, Nablus	Mr. Sa’ad Abu Zant, Executive Director
Surda-Abu Qash Municipality	Mr. Mohammed Bazzar, Municipal Chairman

Interview Questions for Each Organization/Official:

- **Local authorities:**
    - To what extent is the local authority’s real revenues proportional to their obligations according to the letter of the law?
    - To what degree are the costs of the local authority’s services proportional to the value of the revenue that they collect from citizens in exchange for these services?
    - What is the formula for calculating the value of fees for services provided to citizens? What are its specific elements?
    - What is the rate of default by citizens? For which services? How does this affect sustainability?
    - Are fees and taxes collected by the local authority sufficient to cover its obligations? To what extent are fees and taxes able to bridge the gap, if pricing is reconsidered? What are the determining factors?
    - What factors affect the continuity of current financial sources?
    - To what degree does the local authority rely on external financial support and grants, and what impact does this have on their financial sustainability?
    - Does the local authority tap into new revenue sources under the current legal framework? Can you mention some alternative revenue sources that you expect to earn?
    - To what degree is the central government committed to transferring property taxes and road transportation fees to your local authority? What are the government’s justifications for non-compliance? How does this affect your financial sustainability?
    - To what extent do community-based organizations practice accountability with their citizens?

- **Municipal Development and Lending Fund (MDLF):**

  - To what degree do local authorities rely on external financial support and grants? What impact does this have on their financial sustainability?
  - What are the most prominent aspects of MDLF's grants to local authorities (nature of projects)? Are there other sources to cover these, other than MDLF?
  - Is there another method - or body - to forward grant/aid monies other than MDLF? If yes, what are the coordination mechanisms?
  - On what basis does distributing available funding between local authorities proceed? What are the reasons why village councils cannot benefit from this?
  - What is the impact of applying MDLF's approved standards for distributing finance to local authorities, in terms of improving financial management and encouraging good governance, such as the practice of accountability and transparency by municipalities? How does MDLF measure this?

- **Association of Palestinian Local Authorities (ALPA):**

  - What stops local authorities from creating new revenue sources within the current legal framework? Can you identify some anticipated, alternative revenue sources?
  - What obstacles and problems in the current legal framework prevent APLA itself from diversifying its revenue sources?
  - To what extent does the executive government adhere to the standards specified in accordance with the legal framework, in equitably distributing revenues to local authorities?
  - What are the government's justifications for non- compliance in the distribution of property taxes and road toll fees? How does this affect the financial sustainability of municipalities?
  - What is the nature of the amendments required to the current, legal and legislative framework for the local governance sector to realize sufficient financial flexibility?
  - Has the legal framework for partnership between local authorities and the private sector been approved? What are its anticipated benefits?
  - How do local authorities practice accountability and transparency with citizens?
  - What factors influence encouraging or discouraging the element of community accountability and enhancing transparency between local authorities and their citizens? What are suggestions for further development?

- **JSCs for Solid Waste Management:**

  - What are the most important tasks of the Council? What sources of funding are available?
  - What challenges face JSCs for solid waste management in providing their services?
  - To what extent does the local authority cooperate with the Council? To what extent are authorities satisfied with the distribution of services among them?
  - What criteria are used to estimate the cost of solid waste management services owed by a local authority? What are the reasons for cost differences between authorities with similar legal classification?
  - What are the most prominent problems related to the collection and disposal of solid waste in the region? How does the presence of the Council contribute to resolving this?

- **Applied Research Institute of Jerusalem (ARIJ):**
    - To what extent is the local authority’s real revenues proportional to their obligations according to the letter of the law?
    - To what degree are the costs of the local authority’s services proportional to the value of the revenue that they collect from citizens in exchange for these services?
    - Are there differences in the costs of providing services between corresponding local authorities (with similar legal classification, population size and type of services provided)? What are the justifications for such differences?
    - What factors affect the continuity of the current revenue sources of local authorities?
    - To what degree do local authorities rely on external financial support and grants, and what impact does this have on their financial sustainability?
    - Why are local bodies not pursuing new revenue sources under the current legal framework? Can you mention some expected, alternative revenue sources?
    - To what degree is the central government committed to transferring property taxes and road toll fees to local authorities? What are the government’s justifications for non-compliance? How does this affect financial sustainability?
    - What obstacles and problems in the current legal framework prevent local authorities from diversifying their revenue sources?
    - What type of amendments are required to the current, legal and legislative framework for the local governance sector, that allow for sufficient financial flexibility?
    - How do local authorities organize accountability and transparency with citizens?
    - What factors encourage or discourage community accountability and improved transparency between local authorities and their citizens? What are suggestions for further development?