'The Democracy and Workers
Rights Center in Palestine

Labor Bulletin

On Socio-Economic Issues

This quarterly socio-economic bulletin published by the Democracy and Workers' Rights Center in Palestine aims to inform workers about the latest economic and social developments in the occupied Palestinian territory.

The budget of the Palestinian National Authority for the year 2013

Issue #1 – 2013

The general budget of the Palestinian National Authority for the year 2013, which reaches nearly 3,888 billion US dollars, was approved by the government and endorsed by President Mahmoud Abbas on March 31, 2013, without referring it back to the non-functionning Palestinian Legislative Council for ratification, as stipulated in article 61 of the Basic Law. The breakdown of the total budget expenditures of $3,538 billion is $1,880 billion for wages and salaries, $1,577 billion for other current expenses, $81 million for loans and $350 million for developmental expenses.

Total revenues have been estimated at $2,611 billion. Net revenues reach $ 2,488 billion, $890 million from domestic revenues, $1,722 billion from clearance revenues and $123 million from tax returns. This means that the current deficit before external financing is $1,050 billion, while the total deficit (current + capital) before external financing reached $ 1.4 billion!

The general budget is unable to achieve financial sustainability and is a major channel for dependency on the international community

Financing of the year 2013 budget deficit depends entirely on external funding,in the form of grants and aid to support the current budget by $1.100 billion and grants to finance developmental expenditures by $300 million.

Fiscal deficit is an inherent feature of the general budget since the establishment of the Palestinian National Authority. This deficit is mainly or completely covered by donors. The budget relies on external funding to cover capital deficit and current deficit, which means that salaries and wages of public servants are dependent on donor aid receipt. In other words, fiscal policy is unable to achieve the purpose of obtaining sufficient financial revenues to finance public expenditures.

The general budget is based on assumptions that may not be realized

Donor aid may not be provided within the expected timeframe or reach the amounts foreseen in the budget, and the Israeli government may withhold clearing transfers, which in fact happens quite often. This would lead the Palestinian Authority into a series of financial crises that may force the government to borrow from commercial banks and increase public debt at high interest rates and short-term policy arrears, and follow a policy of delaying payments of staff salaries and postponing payments to private sector suppliers and contractors. This will have negative effects by undermining the confidence of the private sector and public employees in the efficiency of public finances. It is thus necessary to adopt fiscal policies embodied in a public budget that gradually increases its capacity of achieving higher financial sustainability through rationalizing public expenditures and increasing domestic revenues by encouraging local production and demand, rather than maintaining reliance on donor assistance and transfer by Israel of taxes and duties on imports, which are unstable. In the general budget for the year 2013, clearance revenues constitute around two-third (66%) of total public revenues (before external financing), while domestic taxes account for 34%. There is no doubt that such a fiscal policy does not only lead to a serious deficit in the trade balance, but also harms domestic production and its capacity to generate job opportunities for the growing workforce. Successive Palestinian governments became used to encouraging imports in order to secure revenues from customs duties and taxes levied on imports for financing current expenditures. This has led to an increase of the deficit of the trade balance and the budget at the same time!

Dominance of consumption characteristic in the 2013 budget

91% of estimated total public expenditures for the year 2013 are current expenditures, while only 9% are developmental expenditures. This reflects the fact that public spending is dominated by comsumption at the expense of investment expenses required for the development of economic infrastructure. This infrastructure suffers from quantitative and qualitative shortcomings, while it plays a direct role in influencing productivity and growth in direct production sectors, and generating job opportunities. In addition, infrastructure is considered one of the main key elements for increasing economic competitiveness and attracting foreign investments, even if political stability retains first importance.

A budget adopted without ratification from the Legislative Authority

At these lines are written, the general budget is still not published on the website of the Ministry of Finance, not to mention the delay in its approval by the government and the President of the Palestinian National Authority, and the lack of involvement of the non-functioning Palestinian Legislative Council (PLC) in its discussion, and this although the budget has allocated NIS 47 million to the PLC for the year 2013! So, Plc members continue to perceive salaries, without discussing the general budget items, in terms of revenues and from where they originate, or in terms of how expenditures are distributed?

43% of wage employees in the private sector in Palestine are paid less than the minimum wage of NIS -1450- per month.
26.7% of wage employees have written work contracts
52.1% do not have any work contract
1% are working under a collective agreement and
20.2% are working under an oral agreement
21.3% of wage employees obtain their severance pay or pension benefits

(**Source:** Palestinian Central Bureau of Statistics)

Low proportional importance of human development sectors in the budget

Why are the Ministry of Interior and National Security allocated NIS 3.594 billion, which is equivalent to about 58% of the governance sector budget and 28% of the total general budget of NIS 12.792 billion? (see website of the President's Office).

Despite the importance of infrastructure for direct productive sectors such as agriculture and industry, and the significant decrease in its quantity and quality according to a World Bank report dated March 19, 2013, its share is limited and amounted to only 3.4% of the total annual budget. We also noted the low share of agriculture, which was about NIS 98 million, equivalent of 7.7% of the budget. Although this share has increased compared to previous budgets, more than 68% of the Ministry of Agriculture's budget is in fact constituted of wages and salaries. The year 2013 budget can be credited with an increase of the shares of the Ministry of Education, amounting to NIS 2,135 billion, the Ministry of Health, with NIS 1,394 billion, and the Ministry of Social Affairs, with NIS 1,347 billion, respectively equivalent to about 16.7%, 10.9% and 10.5% of the total yearly budget. Yet the combined shares of education and health remain lower than the share of the Ministry of Interior and National Security. If one adds the share of the Ministry of Higher Education (about NIS 219 million), or the equivalent of 1.7% of the general budget, the share of education and health would finally match the share of security, yet this still remains low from the perspective of sustainable human development, which is the main pillar for the development of the Palestinian economy.

New indicator of achievement in the general budget: expanding the scope of the poor!

Interestingly, the Palestinian government has developed in 2011 a new indicator to measure its achievements, which is to expand the coverage of social assistance to more than 95 thousand families in the Gaza Strip and the West Bank (Draft General Budget Law 2012, statement of the Ministry of Finance in March 2012)! A true indicator of achievement would be the opposite, i.e a reduction of the number of families benefiting from social assistance. In this regard, in trying to determine whether a country is on the path of development or not, Dudley Sears, a renowned professor of economics asked the following questions: What happened to deep poverty? What happened to unemployment? What happened to the distribution of income?

World Bank report: Financial Challenges and Long-term Economic Costs of the Palestinian Economy

The World Bank, looking at Palestine from one perspective!

The World Bank concludes its report on the Palestinian economy by the following:

1. The Palestinian Authority faces severe financial problems that might worsen in 2013, with the decrease of donor aid and uncertainty about transfers and tax returns from Israel to the Palestinian Authority. Therefore, this report emphasizes the need for the Palestinian Authority to pursue its reform efforts to increase revenues and contain expenditures, while maintaining basic services. At the same time, it is essential that donors continue to support the general budget of the Palestinian Authority, as this financial support is crucial for the sustainability of commendable progress in institution-building made by the Palestinian Authority. The report confirms that Palestinian institutions have the capacity to undertake the functions carried out by the State.

Donor aid has not succeeded in building a productive base and reducing dependency on the Israeli economy

It is noteworthy to mention that donor aid to the Palestinian Authority has not succeeded in building a productive base for the Palestinian economy in order to reduce its absolute dependency on the Israeli economy. Moreover, development expenditures financed by donors were unable to reach area C and Jerusalem, as donors are reluctant or refuse to fund developmental projects in these areas without the approval of the Israeli occupying power. Donor aid was focused on supporting recurrent expenditures, specifically financing of salaries and wages, at the expense of developmental expenditures. That means that donor aid has contributed, in one way or another, to stimulating consumption at the expense of savings, and stimulating imports at the expense of domestic production. Thus, the Palestinian Authority has reached a situation, where they cannot forgo donor aid in the foreseeable future, because of inherent problems in the general budget.

The World Bank calls for easing Israeli movement restrictions, but not for liberation from the occupation

2. The Israeli system of closures and restrictions is destroying the economic competitiveness of Palestinian areas. The report indicates that the longer these restrictions last, the more the costs and time necessary for restoring the productive capacity of the Palestinian economy increase. It adds that without easing current restrictions, investments will remain limited to activities of low productivity, unable to play a driving role for sustainable economic growth in the future.

Thus, the World Bank report calls for the occupying power to ease current restrictions, but not to remove them, i.e end the occupation and remove Israeli settlements, which are illegal and contravene international law. In other words, the World Bank has succeeded in diagnosing the issue, but failed in identifying the remedy that will allow treating it.

The report exposes serious structural imbalances in the Palestinian economy, labor market and public finances, which were reflected in a slow down of economic activity and a decline of real gross domestic product (GDP) growth in 2012, compared with 2011. This decline applies to the West Bank and the Gaza Strip, and was accompanied by high rates of unemployment, especially among young people, which is causing serious concerns. With continuous Israeli restrictions on trade, movement and investments, it is unlikely that private investments will increase much. Therefore, the private sector will not be able to generate enough jobs to absorb the growing numbers of job seekers. As for the public sector, which also played a role as employer, its ability to generate jobs is expected to decline significantly taking into account the financial pressure on the Palestinian Authority and the large workforce that is already employed in the public sector. The following are the most important imbalances:

First: A large fiscal deficit, and accumulation of arrears and loans from local banks that exceeded expectations in 2012

1. The current budget deficit at the end of 2012 exceeded targets by 55%! The size of this deficit was $1.46 billion. The total deficit, including current and capital deficit (development expenditures), reached $1.7 billion, while total external support received was much lower than expected.

2. Significant accumulation of arrears and unexpected loans from local banks.

The balance of accumulated arrears of the Palestinian Authority in 2012 was nearly $578 million, mainly consisting of arrears of wages and salaries of public employees, suppliers and the pension fund. The year 2012 ended with $71 million in salary arrears and with staff strikes, because of repeated delays in the payment of salaries from June 2012, or due to payment of only half the salaries. The accumulated additional arrears to suppliers from the private sector amounted to $192 million dollars in 2012, which led to an increase in the balance of accumulated arrears to the private sector since 2009 to more than $0.6 billion. Preliminary estimations indicate that accumulated arrears for the pension fund that must be paid by the Palestinian Authority amount to more than $1.3 billion. Due to additional loans from banks in 2012, the balance of domestic debts owed by the Palestinian Authority to local banks increased to $1.4 billion dollars, equivalent of 14% of GDP at the end of 2012, and 112% of its capital!

Second: Long-term economic costs

The report confirms that the Israeli system of multiple restrictions has negative effects on growth in the short term, as well as on the Palestinian economy's competitiveness in the long term. The report tracks the decline of competitiveness of the Palestinian economy through a number of indicators, including the following:

1. From 1994, the industrial sector has been suffering from recession. The report (p. 12) shows that its share of GDP dropped from 19% in 1994 to 10% in 2011 (but in p. 14 it shows that it dropped to 11%, which is a contradiction in figures). During this period, productivity per worker decreased in the industrial sector. Industrial production mostly relies on low-value added industries, such as building stones, ceramics, materials packaging, and other industries that are using old technology.

2. Another example of the decline of the Palestinian economy's competitiveness is the agricultural sector. Usually, when a country develops, employment in this sector decreases while productivity increases. Yet the opposite has happened in Palestinian agricultural sector; the workforce has doubled between 1995 and 2011, increasing from 53 thousand to 99 thousand workers. At the same time, the share of the agricultural sector in the GDP has decreased from 13% to 6%, respectively. During this period, productivity per worker of the agricultural sector has decreased by almost half. As a result, the Palestinian economy depends very much on food imports, primarily from Israel. While Israel has the same climate and soil quality, they are able to meet most of their food needs by depending on local production.

It should be noted that the report also indicates restrictions on the import of technology and agricultural inputs, and restrictions on access to land, investment and the export of agricultural products. However, it does not mention Israeli settlements and the Annexation Wall that swallow Palestinian lands, or the policy of dumping subsidized Israeli agricultural products on Palestinian markets, or the Israeli occupation policies that aims at emptying the land from its Palestinian population, and turning Palestinians into cheap labor for the Israeli economy, nor does it refer to other factors that hamper investment in Palestine in general, and in agriculture in particular, and which are at the root of the conflict.

3. With the drop of the proportional importance of the agricultural and industrial sectors, the export capacity of the Palestinian economy deteriorated in terms of size, composition, or in terms of the added value of exports. The share of exports of goods in the Palestinian economy (GDP) has declined from about 10% in 1996 to about 7% in 2011. This figure is the lowest in the world. The combined exports of goods and services constitute 14% of GDP. This rate is low compared with other small economies. In addition, exports are concentrated in low value-added activities, such as building stones and primary agricultural products. There is one exception, pharmaceutical industries, which use advanced technology, but they only constitute about 2% of total exports. Various restrictions on economic activities have led to a gradual erosion of exporting capacity. Another worrying trend is the fact that exports and imports are taking place with a small number of trading partners. In 2011, more than 86% of total Palestinian exports went to Israel and about 73% of imports came from Israel. This is an exceptionally unusual situation that has been going on for years.

4. Low labor force participation, high rates of unemployment and long-term unemployment has denied many Palestinians of working age the opportunity to develop their skills through working. In 2011, the unemployment rate (according to ILO standards) in the Palestinian territories was 21% (19% for men and 28% for women). The average period of unemployment was 12 months. This rate has almost doubled since 2000. The length of the unemployment period, especially among young people, may potentially weaken social cohesion and threaten social peace and stability.

In addition, the employment of the labor force is concentrated in small businesses, in sectors characterized by low productivity that are unable to develop workers' skills so that Palestinian workers become competitive in the global economy. In general, 3.5 workers on average are working in Palestinian establishments, and this number is 4.5 workers in the industrial sector. There are only 27 establishments employing more than 100 workers, and these are medium-sized establishments according to European Union standards. Most small enterprises undertake activities with limited possibilities of growth and expansion, such as internal trade, which includes a large number of small enterprises, and employs about 40% of the total number of employees. In addition, the Palestinian Authority is not in a position to help them allocate significant resources to vocational training. The public sector has absorbed part of the labor force, but this sector does not offer a permanent solution to the problem of unemployment. Between 1998 and 2009, the share of employment in the public sector has increased from 17% to 26%. The expansion of public sector employment is mostly due to recruitment of personnel in health, social work, and education sectors, and public administration.

5. Deterrioration of the quality of infrastructure led to a loss in economic productivity. There is also a lack of access to key assets and resources, such as water supply, roads and a lack of public utilities in certain geographical areas, such as electricity, water and sanitation, transportation, and restrictions on land access in areas classified as C area. Thus, decisions to invest in infrastructure for transport, energy or water cannot be taken as needed. For example, telecommunications companies are prevented from installing fiber optic cables across area C, which forced them to undertake less efficient investments to serve their customers. This will end with sunk costs, even if restrictions on accessing area C are removed in the future.

Despite the importance of investing in infrastructure, donor aid allocated to infrastructure was not sufficient and did not focus on the development of infrastructure for vocational training and schools, which is perhaps a more appropriate way for reducing unemployment than academic higher education.

A concluding observation is that there can be no economic and social development under Occupation. Occupation constitutes a fundamental obstacle for development. Therefore, ending the Israeli occupation is a necessary requirement to achieve sustainable growth, even if it would not be sufficient.

Do you know that…?

-93,000 Palestinian workers are working in the Israeli labor market or settlements.
-According to Israeli labor law and the Constitution of the Histadrut, Palestinian workers are not allowed to become members of the Histadrut.
-From 1970 until 2009, NIS 132 million (before interest) were deducted from Palestinian workers' wages for the benefit of the Histadrut for "organizing services" (source: Kav LaOved & AIC report on "The Economy of the Occupation")
-The Histadrut has not provided any services to Palestinians workers.
-In 1990, the Histadrut signed an agreement with the Israeli Contractors' Association according to which 2% of workers' wages will be deducted for the benefit of the "fund for promoting and developing the construction sector in Israel"; part of the money of this fund was allocated to the building of the settlements. These 2% were also deducted from the wages of Palestinians workers', while many of these workers saw their lands confiscated to build Israeli settlements for new immigrants in Israel. Wage deductions for the construction fund continued until the year 2004.
-The total amount of money stolen from Palestinian workers' wages until 2009 was estimated at NIS 8,350 billion (according to Kav LaOved & AIC report)

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