

PALESTINIAN AUTHORITY

UNITARY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: NO UNIVERSAL CURRENCY
(EGYPTIAN POUND, ISRAELI NEW SHEKEL AND JORDANIAN DINAR
ALL BEING USED THROUGHOUT THE COUNTRY).

POPULATION AND GEOGRAPHY

Area: 6 020 km²

Population: 4.685 million inhabitants (2017), an increase of 2.7% per year (2010-2015)

Density: 778 inhabitants / km²

Urban population: 75.9 % of national population

Urban population growth: 3.2% (2017 vs 2016)

Capital city: Al-Quds (East Jerusalem) (5.9% of national population)

ECONOMIC DATA

GDP: 22.9 billion (current PPP international dollars), i.e. 4 885 dollars per inhabitant (2017)

Real GDP growth: 3.1% (2017 vs 2016)

Unemployment rate: 26.9 % (2017)

Foreign direct investment, net inflows (FDI): 203 (BoP, current USD millions, 2017)

Gross Fixed Capital Formation (GFCF): 22.4% of GDP (2017)

HDI: 0.686 (medium), rank 119 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Palestinian Authority is unitary and semi-presidential. The peculiar nature of the organisation of the Palestinian Authority sensibly affects the administrative division of the territory. Since the establishment of the Ministry of Local Government in 1994 and Local Authorities Law in 1997, there are two levels of administration at subnational level: governorates as deconcentrated entities at the regional level, and self-governing municipalities and village councils at the local level. The governorates are under direct supervision of the Ministry of the Interior while the municipalities and village councils are overseen by the Ministry of Local Government, which acts locally via its offices in the governorates' capital cities.

The 1997 Law gives the local authority the right to set rules in several areas under local jurisdiction, such as setting prices for water and electricity within the limits established by the Ministry of Local Government. However, the law contains a few gray areas that complicate the relationship between the various bodies of local administration. The law, for instance, excludes the 29 refugee camps from the jurisdiction of the Ministry of Local Government, the governorates and the municipalities. These camps fall under the authority of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). In addition, the 1997 law does not clarify the prerogatives or powers of the governors. The governorates therefore depend on the Jordanian law for governing.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	121 municipalities (<i>Baladiyat</i>) 335 village councils (<i>Majalis Al Qura</i>)			
	Average municipal size: 10 274 inhabitants			
	456			456

OVERALL DESCRIPTION. The Palestinian Authority has only one level of subnational government, the municipal level, consisting of municipalities and village councils. There also exist deconcentrated units of the central government at the regional level, the governorates. Following the 1993 Oslo Accords, the territory of the West Bank has been divided into three areas of control: the area A under exclusive control of the Palestinian Authority for civil and security issues in Palestinian agglomerations (covering 18% of the West Bank territory); the area B of partial autonomy of the Palestinian Authority with civilian control over Palestinian rural areas (representing 22% of the West Bank territory); and the area C under Israeli control over civil and security issues in rural areas and several Palestinian agglomerations (60% of the West Bank territory).

Overall, the West Bank and Gaza Strip is highly urbanized (74% of total population), with almost 1.9 million living in the 12 largest cities. Around half a million Palestinians live in medium-sized municipalities between 25 000 to 50 000 inhabitants, while the second largest group live in small municipalities between 4 000 to 25 000 inhabitants. Village councils are home to only around 600 000 people, although they comprise the biggest share of local government units.

MUNICIPAL LEVEL. There are currently 456 local government units, 121 of which are classified as municipalities and 335 as village councils. The distinction between them is mainly based on their size, with most municipalities having more than 5 000 inhabitants. Following the Oslo Accords, the number of municipalities and village councils increased (from 139 in 1997 to 456 in 2017). However, recently, the government has planned to pool several municipalities or villages together to reduce dispersion. As a result, about 100 Joint Service Councils have been created, although none is fully functioning yet.

The municipality is a self-governing body with members directly elected by the population, while the village council is an administrative entity that depends on a ministry with appointed directors. Although they are both regulated by the same legal framework (there is no difference in terms of competences and prerogatives), municipalities are divided into two categories, according to the time of their establishment: 'old municipalities' date back to Ottoman, British and Jordanian rules; 'new municipalities' were created through the Oslo accords. The last local elections in both the West Bank and the Gaza Strip were held in 2017 and in 2012 in the West Bank only.

The 1997 Law created four categories of municipalities based on demographic criteria: class-A municipalities (district capitals, more than 15 000 inhabitants); class-B (municipalities between 10 000 and 15 000 inhabitants); class-C (between 5 000 and 10 000 inhabitants); and class-D (between 1 000 and 5 000 inhabitants).

STATE TERRITORIAL ADMINISTRATION. The 16 governorates (*muhafaza*) are regional administrative bodies, 9 of which are located in the West Bank and 5 in the Gaza Strip. Two additional governorates in the West Bank have the status of separate “autonomous district”, namely Tubas and Salfit. These units are relevant, moreover, as electoral constituencies. All governorates are headed by governors, appointed by the President of the Palestinian Authority. Governors manage security forces and monitor basic service provision, such as education and health, at the regional level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Local Authorities Law specifies 27 domains of activities that are under the responsibility of Palestinian municipalities within their jurisdictions, including town planning, delivering building permits, and regulating commerce and industry. In addition, municipalities are authorized to regulate services in fields such as buildings construction; water supply, electricity supply, sewage and other infrastructural service; public health monitoring, including collection and disposal of solid waste; cultural and sport activities and public parks; natural disasters prevention and risk-management; budget approval and management; in addition to constructing and maintaining schools. Although the 1997 Law contains several provisions on municipal autonomy and responsibility, the ministries de facto assume most of their tasks. In addition, several Palestinian municipalities have been recurring to Public Private Partnerships to deliver certain public services, especially for public parks, produce markets, slaughterhouses, and transit services such as taxi and bus, as well as managing beach fronts.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Administrative services; Public buildings and facilities; Building licensing; Cemeteries
2. Public order and safety	Fire fighting
3. Economic affairs/transport	Management of international aid; Public markets management; Public places management; Land and sea transport (local); Road maintenance operations; Slaughterhouses; Local road; Road signals; Regulation of street vending; Livestock control
4. Environmental protection	Parks & green areas; Waste management (collection, treatment and disposal of waste for houses and other public facilities); Weights and measures control; Advertisement control; Street cleaning; Sewerage (waste water management); Natural disasters prevention and risk-management
5. Housing and community amenities	Control building construction; Set building construction standards; Building regulations; Water supply, distribution, pricing and protection; Electricity supply, distribution and pricing; Paving; Street lighting; Urban and land use planning
6. Health	Public health promotion; Epidemic prevention; Sanitary system implementation; Food inspection; Establishment of hospitals and public health centres (monitoring in coordination with the government agencies)
7. Recreation, culture & religion	Plan activities in coordination with educational institutions; Cultural facilities management (monitoring in coordination with the government agencies); Sports; Museums; Public libraries
8. Education	
9. Social protection	Social services for the poor

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data : municipalities.	Other	Availability of fiscal data : Medium	Quality/reliability of fiscal data : Medium
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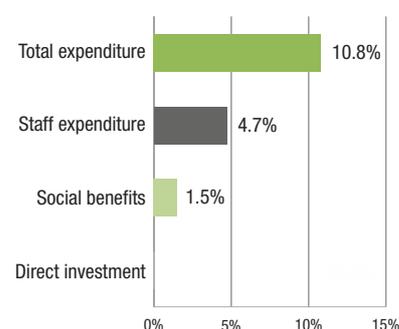
GENERAL INTRODUCTION. The 1997 Local Authorities Law establishes the fiscal framework for local governments in the West Bank and the Gaza Strip. Furthermore, the Jordanian property tax law no. 11 of 1954 and the Egyptian / British property tax law No. 5 of 1942 regulate the property tax system in the West Bank and the Gaza Strip respectively. The financial resources of the Palestinian municipalities are sporadic and unpredictable. Few local taxes are collected in the Palestinian Authority, with the exception of the local tax on education that is dedicated to finance and renovate school buildings as well as to purchase books. The tax bases are set by law while tax rates are defined at the central level. The municipalities and village councils have the same financial assignments, with the exception that village councils are not assigned property tax revenues but collect an education tax instead. The lack of stable financing source deriving from property tax affects the ability of village councils to meet their development and capital investment needs.

The Ministry of Local Government oversees the budget preparation, fixes local taxes, and grants final approval over audits and tenders.

Although in line with other countries in the region, the local government sector in the Palestinian Authority is rather small if compared to other regions of the world, with fiscal decentralisation still in its infancy.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	49	3.7%	100%	
Incl. current expenditure	33	2.5%	67.2%	
Staff expenditure	11	0.8%	22.1%	
Intermediate consumption	15	1.1%	30.1%	
Social expenditure	1	0.1%	2.6%	
Subsidies and current transfers	6	0.5%	12.4%	
Financial charges	0	0.0%	0.0%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	16	1.2%	32.8%	
Capital transfers	1	0.1%	1.8%	
Direct investment (or GFCF)	15	1.2%	31.0%	



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EXPENDITURE. The share of SNG expenditures in total public expenditures and GDP has remained steady in recent years, accounting for 10.2% and 3.3% respectively in 2013 compared to 10.8% and 3.7% in 2016. The increase in the number of municipalities and village councils since 1994 has not been accompanied by a corresponding increase of municipal staff capacities needed to collect local resources. This is reflected in the high share of expenses dedicated to current expenditures (67%), staff expenditures (22%) and consumption of goods and services (30%). Capital expenditures at the municipal level account for a significant share of total public capital expenditures (57.2%) and 1.2% of GDP.

INVESTMENT. 31% of subnational government expenditures are dedicated to direct investment, representing 1.2% of GDP. Palestinian municipalities largely depend on external sources (i.e. international donor countries) to meet their investment needs in public infrastructure, public transportation provision, local school maintenance, and social welfare programs.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Recent trends show that Palestinian municipalities have devoted a significant part of their budgets to general administration, health services and public works. Similarly, village councils have spent most of their expenditures on general administration, health services and general services, the latter encompassing all services other than health, culture and education.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	42	3.1%	8.9%	
Tax revenue	5	0.4%	1.7%	12.8%
Grants and subsidies	4	0.3%		9.2%
Tariffs and fees	0	0.0%		0.0%
Property income	0	0.0%		0.0%
Other revenues	32	2.4%		78.1%

OVERALL DESCRIPTION. The main sources of revenue for Palestinian local governments can be divided into three categories: own resources from taxes and user fees, government fund transfers and international aid. Fees in relation to the provision of public goods and services represent the most important sources of revenue for local governments, in particular deriving from the sale of electricity (included under the category “other revenues”, accounting for 78% of SNG revenue and 2.4% of GDP in 2016). This revenue has been significant primarily for larger cities in the West Bank. Tax revenues represented about 13% of SNG revenue and 1.7% of general government revenue in 2016 while grants amounted to 9.2% of SNG revenue and 0.3% of GDP.

TAX REVENUE. With respect to tax revenues, many municipalities suffer from the absence of an effective collection system. Although the 1997 Law authorizes municipal councils to implement systems that include taxes, fees, revenues and fines, it does not expressly delegate to municipal councils the power to impose taxes on their territory (Article 5 B, Local Authorities Law). Besides, the municipalities require central government approval to increase their taxes, the fee scale for their services or to propose any additional tax.

Tax revenues are primarily composed of revenues from property taxes (around 13% of total local revenues, and 0.4% of GDP). The laws governing property tax were inherited from two old legal frameworks that remain in force: the Jordanian property tax law no. 11 of 1954, enforced in the West Bank, and the Egyptian / British property tax law No. 5 of 1942 in the Gaza Strip. According to the 1954 Jordanian law, property tax is collected by deconcentrated services within the municipal boundaries of the Palestinian territory only. Around 90% of the total amount of collected property tax in the West Bank is returned back to local governments while the remaining 10% is deducted by the Ministry of Finance as expenses and salaries of the Department of Property Tax employees and workers. The capacities and resources of the property tax staff were designed to serve the 30 municipalities that existed prior to 1994, whereas this number has increased dramatically since then. Consequently, there is a lack of collection capacity which is currently being addressed. In the Gaza Strip, local government units are in charge of collecting property taxes.

In addition, Palestinian municipalities raise shared taxes including the transportation tax, which is centrally collected and is supposed to revert to municipalities in proportion to the number of inhabitants. The West Bank local government units also collect a local education tax, the proceeds of which go to the construction and maintenance of schools. The education tax is levied locally on the basis of the property tax (equivalent to 7% of the net rental base). It is noteworthy that revenues associated with education tax do not appear in municipal accounts.

GRANTS AND SUBSIDIES. In accordance with article 26 of the 1997 Law, at least 50% of centrally collected revenues should be distributed to local governments from which they were collected. The remaining revenues should be distributed on the basis of proportions determined by the cabinet and considering the following criteria: size of the municipal population; proportion of municipal contribution to revenue collection; whether the municipality has a special or particular status (class-A to class-D municipalities); whether it is entrusted with tasks beyond the local level; and the basic needs of the municipality according to its development plans (as approved by the Ministry of Local Government).

However, because of a lack of accountability and transparency in intergovernmental relations, some central government transfers that should be collected by local governments are not being properly granted (e.g., half of gasoline taxes, vehicle registration fees and traffic fines should be transferred to local governments, to be spent for road construction and maintenance). On the other hand, the situation of local finances of Palestinian local governments, highly dependent on the political instability of the country, makes them dependent on the provision of external resources and in particular of international aid, mostly for the investment budgets of municipalities and village councils. The World Bank and the European Union are the two main donors in urban areas. These funds are primarily allocated to projects for the construction and rehabilitation of heavy infrastructure in areas such as water, electricity and roads. Local governments can access these funding from the Palestinian Authority and from donors through the Palestine’s Municipal Development and Lending Fund, an independent public institution set up in 2005 by the Ministry of Local Government to facilitate international donations to local governments. The Municipal Development and Lending Fund has a grant allocation mechanism formula that distributes infrastructure grants to municipalities based on their needs and population.

OTHER REVENUES. Other sources of revenues for municipalities in the Palestinian Authority derive from fees levied for the provision of public goods and services. Palestinian local governments are largely dependent on these revenues to cover their operational expenditures and capital investments. Local governments have the authority to administer several fees including those for electricity, water distribution, solid waste collection, parking and, where applicable, public markets and slaughterhouses. However, these revenues diverge from one municipality or village council to another since certain municipalities or village councils have electricity or water distribution functions while others don’t. A 2017 World Bank report estimates that the revenues of village councils with electricity distribution functions can be up to four times higher than those of village councils without such responsibility. Building permits also represent a significant source of revenue for local governments, albeit volatile due to their link to the economic and political context. Municipalities also receive most of the revenues from property rentals, lore tax and profession permit fees.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. Palestinian local governments must prepare their budget execution report and submit it to the Ministry of Local Government every six months. They must also submit a yearly financial report to the Ministry of Local Government by the end of March. In addition, the Ministry is required to ratify the municipal financial accounts. Recent fiscal initiatives have aimed to improve the predictability and transparency of intergovernmental fiscal transfers. Accordingly, the Ministry of Finance and Planning has been requested to publish regular online reports on the amount of fees and charges collected on behalf of municipalities and village councils, as well as on the amount it transfers to municipalities.

DEBT. The 2005 Palestinian Public Debt Law no 24 sets the permitted public debt ceiling at 40% of GDP. In addition, article 21 of the 1997 Local Authorities Law specifies that local government borrowing is subject to the approval of the Ministry of Local Government. The ability of local governments to borrow from banks has been at times influenced by the political situation.



Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: IMF-GFS // Palestinian Central Bureau of Statistics.

Other sources of information: IMF (2018) West Bank and Gaza – Report to the Ad Hoc Liaison Committee // World Bank (2017). The performance of Palestinian Local Governments. An assessment of service delivery outcomes and performance drivers in the West Bank and Gaza // N. R. Sabri (2012). The Palestinian Property Tax Law (Estate, Buildings and Lands) // UNDP (2010). Diagnostic study of property tax in the occupied Palestinian territory, funded by the Government of Japan // A. Signoles (2010). Local Government in Palestine, French Development Agency (AFD)