

Fiscal Sovereignty Under Constraint: A Qualitative Analysis of Palestine's Public Finance System

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Abstract

This paper investigates the structural and institutional limits of fiscal sovereignty in Palestine through a qualitative thematic analysis of public finance documents, international reports, and fiscal data. Anchored in dependency theory and the postcolonial public finance approach, the study conceptualizes Palestine's fiscal system as one shaped by external control and structural asymmetry rather than domestic governance. Drawing on the Oslo Accords and the Paris Economic Protocol, the analysis reveals how Israel's control over clearance revenues, the conditional nature of foreign aid, and the persistent weakness of domestic tax capacity have collectively entrenched a fiscal guardianship regime. The findings indicate that nearly two-thirds of the Palestinian budget depends on revenues collected and transferred by Israel, while foreign aid—covering around half of total expenditures—functions as a politically conditioned instrument that undermines fiscal autonomy. The study further identifies systemic fiscal leakages, limited institutional reform sustainability, and weak accountability mechanisms that perpetuate economic subordination. By combining document-based content analysis with graphical evidence, the research demonstrates that Palestine's fiscal sovereignty crisis is not merely an economic or administrative issue but a multidimensional structural condition embedded in postcolonial power relations. The paper concludes that restoring fiscal sovereignty requires a fundamental revision of the Paris Protocol, de-politicization of aid mechanisms, and capacity-building for autonomous revenue generation within a framework of economic self-determination.

Keywords: Palestine, public finance, qualitative measuring, fiscal sovereignty, Paris Protocol, fiscal guardianship regime.

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Mali Egemenliğin Sınırları Altında: Filistin Kamu Maliyesi Sisteminin Nitel Bir Analizi

Özet

Bu makale, Filistin'de mali egemenliğin yapısal ve kurumsal sınırlarını, kamu maliyesi belgeleri, uluslararası raporlar ve mali veriler üzerinde gerçekleştirilen nitel tematik analiz yoluyla incelemektedir. Bağımlılık teorisi ve postkolonyal kamu maliyesi yaklaşımına dayanan çalışma, Filistin'in mali sistemini yerel yönetimden ziyade dışsal kontrol ve yapısal asimetri tarafından şekillenen bir yapı olarak kavramsallaştırmaktadır. Oslo Anlaşmaları ve Paris Ekonomik Protokolü çerçevesinde yapılan analiz, İsrail'in "clearance revenues" (tahsil edilen ve sonradan aktarılan gelirler) üzerindeki denetiminin, koşullu nitelikteki dış yardımların ve zayıf iç vergi kapasitesinin, Filistin'de kalıcı bir "mali vesayet rejimi"ni kurumsallaştırdığını ortaya koymaktadır. Bulgular, Filistin bütçesinin yaklaşık üçte ikisinin İsrail tarafından toplanıp aktarılan gelirlerden oluştuğunu, toplam harcamaların yaklaşık yarısını karşılayan dış yardımların ise mali özerkliği zayıflatan siyasal koşullara bağlı bir araç işlevi gördüğünü göstermektedir. Ayrıca, sistematik mali sızıntıların, reformların sürdürülebilirliğindeki zayıflığın ve hesap verebilirlik mekanizmalarındaki eksikliklerin ekonomik bağımlılığı yeniden ürettiği saptanmıştır. Belge temelli içerik analizi ve grafiksel kanıtların bir arada kullanıldığı çalışma, Filistin'in mali egemenlik krizinin yalnızca ekonomik veya idari bir sorun olmadığını, aynı zamanda postkolonyal güç ilişkilerine gömülü çok boyutlu bir yapısal durum olduğunu ortaya koymaktadır. Sonuç olarak, mali egemenliğin yeniden tesis edilmesi için Paris Protokolü'nün köklü biçimde gözden geçirilmesi, dış yardımların siyasetten arındırılması ve ekonomik öz-yeterliliğe dayalı bağımsız gelir üretim kapasitesinin güçlendirilmesi gerektiği vurgulanmaktadır.

Anahtar Kelimeler: Filistin, kamu maliyesi, niteliksel ölçüm, mali egemenlik, Paris Protokolü, mali vesayet rejimi.

Introduction

Public finance is considered the cornerstone of a state's economic and administrative sovereignty; activities such as tax collection, public spending, and budget formation directly determine the state's capacity to act independently.³ In this context, the concept of "fiscal sovereignty" refers to a state's power to collect its own public revenues and determine its budget without external interference. However, it is extremely difficult for political entities that have not completed the process of state formation, whose sovereignty is not recognized, and which do not have full control over their territory to establish fiscal sovereignty. The Palestinian Authority (PA), in this regard, operates under a limited fiscal framework defined by the 1993 Oslo Accords and the 1994 Paris Economic Protocol. Rather than meeting the requirements of a sovereign fiscal system, this structure is trapped in a highly fragile cycle of financial dependency in the face of foreign policy developments.⁴

Established during the Oslo process, the Palestinian Authority was granted limited administrative powers in the West Bank and Gaza Strip. However, these powers emerged

³ Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, 5th ed. (New York: McGraw-Hill, 1989).

⁴ Arie Arnon and Jimmy Weinblatt. "Sovereignty and Economic Development: The Case of Israel and Palestine." *World Development* 29, no. 7 (2001): 1051–1067.

within a fragmented structure both geographically and institutionally, and particularly in the field of public finance, the distribution of authority and resources has been marked by significant imbalance. The Paris Economic Protocol, signed in 1994, integrated the Palestinian economy with Israel's under an asymmetric customs union and stipulated that key public revenues (customs duties, import VAT, and excise taxes) be collected by Israel. These taxes, referred to as "clearance revenues," are collected by Israel and subsequently transferred to the Palestinian Authority; however, these transfers are at times suspended or delayed based on Israel's political decisions.⁵ This situation leaves Palestine vulnerable not only in budgetary terms but also in terms of the continuity of public services, exposing it to external risks.

The second main pillar of the Palestinian budget is international foreign aid. This aid, provided by the European Union, the United States, Gulf countries, and the United Nations, primarily supports the provision of essential public services such as salary payments, healthcare, and education.⁶ However, most of these aid funds have been tied to political conditions and have served more as short-term liquidity solutions rather than long-term structural support.⁷ Reports by the World Bank (2023) and the IMF (2022) state that for many years, more than 30% of Palestine's public expenditures have been directly financed by foreign aid, a significant portion of revenues has come from external sources, and the domestic tax base has failed to develop. The tax capacity—that is, the gap between the revenue a state could potentially collect based on its economic structure and what it actually collects—is considerably large in the case of Palestine.⁸ This situation represents not only an economic weakness but also a violation of fiscal sovereignty.

The international academic literature largely discusses the issue of Palestine's public finance along two main axes: first, the direct economic losses and infrastructure destruction caused by the occupation; and second, the weakening of fiscal sovereignty due to donor-driven budgeting and external interventions. Le More (2008)⁹ argues that aid policies have been shaped more by the political priorities of the West than by the actual needs of the Palestinian people, while Turner¹⁰ notes that the functionality of the Palestinian Authority (PA) in the post-Oslo period has been maintained through financial control. Khalidi and Taghdisi-Rad,¹¹ on the other hand, assert that due to Israel's fiscal control and the conditionality of foreign aid, Palestine's fiscal policy has become dependent not only technically but also politically. However, current studies offer limited examples of systematic analysis of this sovereignty issue through public finance documents. This study

⁵ UNCTAD, *Economic Costs of the Israeli Occupation for the Palestinian People: Fiscal Aspects* (Geneva: United Nations Conference on Trade and Development, 2020).

⁶ World Bank, *West Bank and Gaza: Public Expenditure Review* (Washington, DC: World Bank, 2023).

⁷ Anne Le More, *International Assistance to the Palestinians After Oslo: Political Guilt, Wasted Money* (London: Routledge, 2008).

⁸ IMF, *Staff Concludes Visit to the West Bank and Gaza* (Washington, DC: International Monetary Fund, 2022).

⁹ Anne Le More, *International Assistance to the Palestinians After Oslo: Political Guilt, Wasted Money*. London: Routledge, 2008.

¹⁰ Mandy Turner, "Creating 'Partners for Peace': The Palestinian Authority and the International Statebuilding Agenda." *Journal of Intervention and Statebuilding* 3, no. 1 (2009): 1–22.

¹¹ Raja Khalidi and Sobhi Taghdisi-Rad. "The Economic Dimensions of Prolonged Occupation: Continuity and Change in Israeli Policy Towards the Palestinian Economy." *School of Oriental and African Studies Working Paper*, 2009.

aims to fill that gap by evaluating the level of Palestine's fiscal sovereignty based on a content analysis of documents and objective indicators.

Accordingly, the main research question of this study is: **What structural dependencies and external constraints does Palestine's public finance system contain in terms of fiscal sovereignty?** To answer this question, the study adopts a qualitative research strategy, employing document review and content analysis as its methods. The documents examined include the Paris Protocol, the Oslo Accords, the annual budget reports of the Palestinian Ministry of Finance, as well as fiscal monitoring and evaluation reports by institutions such as the World Bank, IMF, and UNCTAD. The aim of the research is to analyze these documents under systematic themes to reveal the historical and structural boundaries of Palestine's fiscal independence. In doing so, the study seeks to reconceptualize fiscal sovereignty not only in political terms but also at the institutional and administrative levels, thereby shedding light on the public finance challenges faced by other semi-sovereign entities with similar status.

1. Theoretical Framework

This section proceeds from a general structural understanding of dependency to the specific institutional and fiscal mechanisms that shape Palestine's public finance. Beginning with dependency theory and post-colonial perspectives, it then narrows down to the operational dimensions of fiscal sovereignty and tax capacity. This progression from macro-structural to micro-institutional levels enables a comprehensive view of the constraints on Palestine's fiscal autonomy.

1.1. Fiscal Sovereignty and the Independence of Public Finance

From this structural background, the discussion now moves toward the institutional dimension of fiscal sovereignty, examining how dependency translates into constraints on public finance autonomy. A state's fiscal sovereignty is not only one of the cornerstones of its economic decision-making power but also of its political legitimacy. Fiscal sovereignty refers to a state's capacity to impose taxes, collect public revenues, and carry out expenditures without external interference. In this context, taxation is not merely a tool for financing; it is also a mechanism through which political authority generates public legitimacy. Indeed, one of the foundational principles of modern public law—the notion that "there can be no taxation without representation"—emphasizes fiscal responsibility and the sovereignty it rests upon as prerequisites for public participation in decision-making processes.¹² Taxes provide the financing for public services, establish a relationship of mutual obligations between the citizen and the state, and thus ground the state's reason for existence at the societal level.

In terms of public finance, fiscal autonomy refers to a state's ability to determine its budget independently, free from external pressures. This is not merely a technical budgeting authority; it also entails the ability to generate and allocate resources without being accountable to external economic or political actors. However, this capacity is directly linked to the state's sovereign boundaries, economic structure, domestic resource wealth,

¹² Alex Van den Berg, "Fiscal Sovereignty and the Limits of State Power," *Tilburg Law Review* (2022).

and the level of administrative institutionalization. The Palestinian Authority (PA) demonstrates a disadvantageous structure in nearly all of these criteria. As Arnon and Weinblatt¹³ point out, a very large portion of revenues in Palestine's public finance system is generated through external actors, which effectively eliminates fiscal independence.

Especially in the period following the 1994 Paris Economic Protocol, the main revenue components playing a central role in Palestine's public finance structure—primarily import taxes, VAT, and excise taxes—have been collected by Israel and then transferred to the Palestinian Authority. In this system, known as “clearance revenues,” the collected public funds are largely under Israel's control. Moreover, the freezing or delaying of these revenues for political reasons at times severely hinders the Palestinian Authority's ability to finance public services.¹⁴ In such a structure, it is not possible to speak of fiscal autonomy; although the Palestinian Authority legally possesses the right to impose and collect taxes, it is unable to exercise these powers in practice. In practice, the limits of fiscal autonomy are most clearly observed in the sphere of taxation, where capacity and authority remain fragmented.

1.2. Tax Capacity and Fiscal Authority

At the most operational level, fiscal dependency manifests through limited tax capacity and uneven authority over revenue sources, as explored below. The primary factor determining a state's control over its public finances is its tax capacity and the authority to utilize that capacity. According to the International Monetary Fund (IMF), tax capacity is defined as the difference between the amount of tax a state could potentially collect based on its economic structure and the amount it actually collects.¹⁵ This gap is shaped not only by the size of the economy but also by various factors such as the state's institutional capacity, administrative infrastructure, law enforcement ability, and voluntary tax compliance. An effective tax capacity is critically important for the sustainable financing of public expenditures and for balancing budget deficits without relying on external sources. Tax capacity is not merely a technical indicator; it is also a matter of sovereignty. Taxes are one of the primary tools through which a state establishes its legitimacy within society. Therefore, tax authority means not only the right to collect revenue but also full control over the sources, rates, and distribution of that revenue. A state that lacks tax authority—or is unable to exercise it—cannot achieve budgetary independence. Merely having control over the expenditure side of the public budget is not sufficient to ensure the proper functioning of the fiscal system as a whole. This situation is even more pronounced in the case of Palestine. Although the Palestinian Authority legally holds the right to impose and collect taxes, in practice this authority is exercised in a highly limited and fragmented manner. Under the structural arrangements introduced by the Paris Protocol, high-yield

¹³ Arie Arnon and Jimmy Weinblatt, “Sovereignty and Economic Development: The Case of Israel and Palestine,” *World Development* 29, no. 7 (2001): 1051–67.

¹⁴ UNCTAD, *Economic Costs of the Israeli Occupation for the Palestinian People: Fiscal Aspects* (Geneva: United Nations Conference on Trade and Development, 2020).

¹⁵ IMF, *Revenue Mobilization in Developing Countries*, Fiscal Affairs Department Policy Paper (Washington, DC: International Monetary Fund, 2016).

tax components—such as import VAT, customs duties, and excise taxes—are collected¹⁶ by Israel and transferred to the Palestinian Authority only in a secondary stage, and subject to political conditions.¹⁷

In this system, tax capacity is determined not only by the limitations of the economic structure but also by the lack of sovereignty and political fragility. For example, within Palestine's administratively divided geography of Areas A, B, and C, tax collection activities are frequently disrupted by military checkpoints and administrative restrictions. In addition, a large informal economy, a low-income population structure, and an environment of political insecurity further limit voluntary tax compliance.¹⁸ When these factors are combined, Palestine's actual tax capacity remains significantly below its potential, resulting in a budget structure that is excessively dependent on foreign aid and indirect taxes collected through Israel.

One of the most fundamental obstacles to Palestine's fiscal independence is its inability to build the institutional and political environment necessary to develop its own tax capacity. The absence of such an environment prevents not only effective revenue collection but also the diversification of income sources and the redistribution of resources based on social justice. The IMF,¹⁹ on the other hand, emphasizes that increasing tax capacity is a strategic priority for low-income and transition economies, as it reduces dependence on external financing and mobilizes domestic resources. This issue is even more critical in the case of Palestine, as the construction of sovereignty must occur not only in the political sphere but also at fiscal and administrative levels.

1.3. Dependency on Foreign Aid and Fiscal Autonomy

One of the most common factors that weaken fiscal sovereignty is structural dependency on foreign debt and aid. In developing countries and entities with limited sovereignty, the continuity and conditionality of foreign aid render budget processes highly susceptible to external influences. External resources provided by global financial institutions such as the International Monetary Fund (IMF) and the World Bank are often delivered within the framework of **structural adjustment programs** aimed at achieving specific macroeconomic targets, which in turn limits the autonomy of national budget policies.²⁰ Although such aid may appear technical in nature, it is well known that in recipient countries, it plays a decisive role in shaping public spending, the distribution of social services, and tax policies. Therefore, dependency on foreign aid should be understood not only as an economic issue but also as a form of administrative and political dependency.

This phenomenon is particularly evident in the case of Palestine. The Palestinian Authority (PA), established following the 1994 Oslo process, has been financially dependent not on its own revenues but largely on external financial flows. Between 1994 and 2020, the total

¹⁶ Arie Arnon and Jimmy Weinblatt, "Sovereignty and Economic Development: The Case of Israel and Palestine," *World Development* 29, no. 7 (2001): 1051–67.

¹⁷ UNCTAD, *Economic Costs of the Israeli Occupation for the Palestinian People: Fiscal Aspects* (Geneva: United Nations Conference on Trade and Development, 2020).

¹⁸ World Bank, *West Bank and Gaza: Public Expenditure Review* (Washington, DC: World Bank, 2023).

¹⁹ IMF, *Revenue Mobilization in Developing Countries*, Fiscal Affairs Department Policy Paper (Washington, DC: International Monetary Fund, 2016).

²⁰ CISA, *The Political Economy of Foreign Aid in the MENA Region*, Policy Report Series (2022).

aid provided to Palestine by international donors amounted to approximately **40 billion USD**, with more than 35% of that amount transferred directly to the PA's general budget.²¹ This level of external resource dependency is unsustainable for any government. The central role that aid plays severely limits the PA's fiscal autonomy—not only in technical terms but also in terms of strategic planning. Since foreign aid is often earmarked for specific sectors, it tends to result in fragmented and conditional financing relationships rather than being integrated into the overall budget framework.

In this context, dependency on foreign aid stands in direct contrast to the concept of **fiscal autonomy**. Fiscal autonomy entails the creation, management, and distribution of public resources through domestic dynamics. However, in structures like Palestine's, which are excessively reliant on foreign aid flows, budget predictability is at serious risk. When aid funds are cut, delayed, or made conditional on political factors, public services are disrupted; long-term investment planning, salary payments for public employees, and essential infrastructure projects are severely hindered.²² This situation has led to the criticism that, while foreign aid may help manage fiscal crises in the short term, it overshadows the development of structural reforms and domestic resource mobilization policies necessary for long-term transformation.

Moreover, the fact that aid is largely directed toward direct expenditures creates no incentive to enhance tax capacity. Budget reports published by the Palestinian Ministry of Finance between 2018 and 2021 also show that the funds allocated to tax reforms remained at a low level. In this context, dependency on foreign aid should be seen as a factor that undermines both budget sustainability and the development of institutional capacity. In particular, the shaping of fiscal planning according to the priorities of external actors eliminates the feasibility of a "sovereign budgeting" approach. The link between aid flows and political relationships leaves Palestine's fiscal system highly vulnerable to external pressures.²³

1.4. The Post-Colonial Public Finance Approach

Building on the dependency framework, the post-colonial approach provides a more specific analytical layer by revealing how historical legacies of control continue to influence the fiscal governance of Palestine. The post-colonial public finance approach argues that public finance institutions and tax systems are not merely technical and neutral structures but are, in fact, political, economic, and ideological tools historically shaped by colonial processes. This perspective serves as a critique of the predominantly Western-centric and universalist normative approaches found in classical public finance literature.²⁴ According to post-colonial analyses, especially in regions such as Africa, South Asia, and the Middle East, public finance systems continue to bear the marks of colonial financial structures even

²¹ Arab Center Washington DC, "Aid to the Palestinian Authority: Solidarity or Conditionality?" (Arab Center Washington DC, April 15, 2022).

²² UNCTAD, *Economic Costs of the Israeli Occupation for the Palestinian People: Fiscal Aspects* (Geneva: United Nations Conference on Trade and Development, 2020).

²³ Anne Le More, *International Assistance to the Palestinians After Oslo: Political Guilt, Wasted Money* (London: Routledge, 2008).

²⁴ James Ferguson, *The Anti-Politics Machine: "Development," Depoliticization and Bureaucratic Power in Lesotho* (Minneapolis: University of Minnesota Press, 1990).

in the post-independence era. Tax policies, budget allocations, and financial management instruments have functioned—directly or indirectly—in alignment with the economic interests of former colonial powers.²⁵ This legacy is reproduced under the guise of “institutional continuity” in the budget processes and tax structures of post-independence states. In the Palestinian case, this configuration also resembles a form of legal pluralism: the Israeli and Palestinian legal–fiscal orders formally co-exist, yet the effective exercise of fiscal authority operates under the dominance of the Israeli legal system. Recognizing this plural structure sharpens the post-colonial diagnosis by showing how legal hierarchies reproduce material dependencies in taxation, budgeting, and fiscal administration.²⁶

Within this analytical framework, tax systems are seen not only as tools for resource generation but also as ideological instruments through which domination is reproduced. Seçilmiş²⁷ argues that in postcolonial public finance studies, the individual who is supposed to establish a bond of citizenship through tax payment is systematically excluded and marginalized—particularly in colonial and postcolonial contexts. According to her, postcolonial fiscal systems possess structures that exclude the tax-paying citizen from decision-making mechanisms and undermine the principles of budget transparency and accountability. In this context, the unequal distribution of the tax burden and the failure to address societal demands reveal the postcolonial nature of the fiscal system.

In the context of Palestine, this approach offers an opportunity to question the historical roots of elements such as occupation, external control, and aid-dependent fiscal governance. The lasting effects of the Paris Protocol on Palestine’s fiscal system are not merely technical issues of the present but reflect the continuity of a postcolonial fiscal structure. Tax revenues collected and arbitrarily transferred by Israel; the influence of foreign donors—particularly Western countries—on the budget; and the allocation of aid to specific sectors all contribute to a fiscal policy framework in which the Palestinian Authority is guided by external powers rather than its own citizens. Such a structure limits the participation of the Palestinian people in fiscal decision-making processes and eliminates the influence of the tax-paying individual on public policy.

In this context, the postcolonial public finance approach serves not only as a theoretical framework for explaining Palestine’s current fiscal structure but also as a tool for critique. Fiscal sovereignty is not merely a matter of technical capacity; it is also a dimension of political subjecthood. The structural external dependency within Palestine’s tax system is not only an economic issue but also a result of postcolonial power relations. Therefore, reform proposals concerning public finance should focus not only on technical improvements but also on the transformation of power dynamics. This legacy of external

²⁵ Thandika Mkandawire, “On Tax Efforts and Colonial Heritage in Africa,” *Journal of Development Studies* 46, no. 10 (2010): 1647–69.

²⁶ Abdullah Enes Mollaoglu, “Hukuki Çoğulluk Bağlamında Hukukun Niteliği Sorununa Muhtasar Bir Bakış,” *DİHA: Journal of Interdisciplinary Legal Studies* 1 (September 2024): 64–87.

²⁷ Aybike Seçilmiş, “Postkolonyal Kamu Maliyesi ve Siyasal Tahakküm: Vergi Ödeyenin Sesi,” *Heretik Düşünce Dergisi* 9, no. 1 (2022): 89–108.

control has profound implications for fiscal sovereignty and institutional independence, which the following section elaborates.

1.5. Dependency Theory: Core–Periphery Dynamics

At the macro level, the fiscal structure of Palestine can be understood through the lens of dependency theory, which frames the broader core–periphery relations that have historically shaped its economic and fiscal trajectory. Dependency theory emerged as a critique of the classical modernization paradigm in development economics, attributing underdevelopment not to the internal deficiencies of countries but to the historically unequal functioning of the global economic system. The core assumption of the theory is that the world economy establishes a structural relationship of dependency between "core" and "periphery" countries. Core countries export industrial goods at high prices, while periphery countries are positioned as economic zones that provide low value-added raw materials, agricultural products, and cheap labor.²⁸

This unequal exchange relationship prevents peripheral countries from accumulating capital, achieving technological progress, and ultimately realizing sustainable development.²⁹ From this perspective, underdevelopment is not simply a state of being behind, but rather a direct consequence of dependency on the core.

The case of Palestine exhibits a number of structural features that align closely with the core arguments of dependency theory. Its economic system is highly dependent on foreign aid, imports, and tax transfers; the lack of sufficient local production, the vulnerability of financial institutions to political interference, and the fact that trade occurs largely under Israeli control have made economic independence nearly impossible.³⁰ For example, the Palestinian Authority conducts the vast majority of its imports through Israel, which effectively eliminates its authority over external trade policy.³¹ Customs revenues are collected by Israel under the Paris Protocol and transferred to the PA; however, these transfers are at times suspended, turning them into a tool of political pressure.

Dependency theory is suitable not only for explaining Palestine's entrapment in external trade relationships but also for understanding its structural dependency in terms of external financing and institutional governance. Foreign aid, in particular, is critically important not only for fiscal sustainability but also for paying public sector salaries, providing social assistance, and funding infrastructure investments. This situation renders the Palestinian Authority unable to conduct long-term budget planning, as the political agendas of foreign donors increasingly guide the budgeting process.³² Aid conditioned by political criteria and reform programs supervised by international financial institutions pose a structural barrier to the development of sovereign fiscal policies.

²⁸ Theotonio Dos Santos, "The Structure of Dependence," *The American Economic Review* 60, no. 2 (1970): 231–36.

²⁹ Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil* (New York: Monthly Review Press, 1967).

³⁰ Arie Arnon and Jimmy Weinblatt, "Sovereignty and Economic Development: The Case of Israel and Palestine," *World Development* 29, no. 7 (2001): 1051–67.

³¹ UNCTAD, *Economic Costs of the Israeli Occupation for the Palestinian People: Fiscal Aspects* (Geneva: United Nations Conference on Trade and Development, 2020).

³² Anne Le More, *International Assistance to the Palestinians After Oslo: Political Guilt, Wasted Money* (London: Routledge, 2008).

The core–periphery distinction of dependency theory can be reinterpreted to explain Palestine’s economic and fiscal fragility not only at the level of the international system but also within the context of its relationship with Israel. Israel functions as both Palestine’s largest trading partner and its most dominant fiscal actor. Through mechanisms such as border control, import approval procedures, and tax collection authority, Israel effectively establishes Palestine’s status as an economic periphery. As a result, Palestine is positioned as an “internal periphery” not only within the global capitalist system but also within the local geopolitical sphere. Such structural dependency not only defines external trade relations but also frames the post-colonial fiscal order that emerged in the Palestinian territories.

2. Literature Review

In line with the theoretical background, the literature review follows the same analytical path—from the broad structural dependencies defined by the Paris Protocol and aid conditionality, to the more specific issues of fiscal imbalance, post-colonial legacy, and limited tax capacity. Palestine’s fiscal sovereignty is addressed not only as an economic issue but also as a matter of political and institutional independence. In the literature, this topic is typically examined under three main themes: structural external dependency and the Paris Protocol, a budget model reliant on foreign aid, and limited tax capacity. Within this framework, Palestine’s fiscal autonomy is constrained by both domestic implementation shortcomings and international political interventions. The Paris Protocol, signed in 1994, forms the fundamental framework governing the economic relationship between Palestine and Israel. According to this protocol, Palestine is subject to a “customs union” regime, and its import-export controls and public finance system are significantly deprived of the capacity to formulate and implement sovereign fiscal policies. This deficiency is not merely a result of lacking technical capacity but is primarily the outcome of structural and external constraints, constituting a fiscal guardianship regime. In the literature, this situation is increasingly interpreted³³ through the lens of “postcolonial public finance” approaches. The loss of fiscal sovereignty is thus discussed as a political issue that extends far beyond the traditional functions of taxation and expenditure.³⁴

In this context, the Paris Economic Protocol signed in 1994 has not been regarded as a framework that ensures Palestine’s fiscal autonomy; on the contrary, it has been evaluated as a mechanism that structurally binds Palestine to Israel. Under the protocol, the Palestinian Authority (PA) does not have direct control over Value Added Tax (VAT), customs duties, or foreign exchange policy. These taxes are collected by Israel, which deducts a 3% commission before transferring the remaining amount to the PA. This arrangement is known as “clearance revenues”³⁵ and accounts for approximately 60% of

³³ Abdelrazzaq Alazzeah and Shahzad Uddin, “(Post)Coloniality and the Financialization of Palestinian Governmentality,” *Critical Perspectives on Accounting* 92 (2025): 102379, <https://doi.org/10.1016/j.cpa.2024.102379>.

³⁴ Raja Khalidi and Sobhi Samour, “Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement,” *Journal of Palestine Studies* 40, no. 2 (2011): 6–25, <https://doi.org/10.1525/jps.2011.XL.2.6>.

³⁵ IMF, *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*, Country Report No. 2023/146 (Washington, DC: International Monetary Fund, 2023).

Palestine's public finance.³⁶ The fundamental issue with this system is that it distances Palestine from the principles of sovereignty and transparency in the collection of financial resources. For instance, in 2017, 66% of the PA's budget was financed through this system. However, the financial impact of this structure is evident not only in tax collection but also in revenue losses. According to UNCTAD (2020), fees and similar income collected at checkpoints such as the Allenby Bridge are not included in the Palestinian budget, which exacerbates the issue of "fiscal leakages." Between 2000 and 2017, the total revenue loss due to the occupation was estimated at \$47.7 billion. Arnon³⁷ (2015) argues that the Paris Protocol institutionalized Israeli-Palestinian economic relations within an asymmetric and coercive framework, functioning less as a tool of economic cooperation and more as an instrument of economic pressure and control.

Alazzeah and Uddin³⁸ argue that this system weakens institutional accountability mechanisms, as the lack of clarity in tax revenues renders the Palestinian Authority's (PA) internal audit systems ineffective and diminishes the impact of international audit reports. In this context, the opacity of the fiscal system increases the risk of corruption and undermines public trust in governance. IMF reports³⁹ have noted that Israel makes arbitrary deductions from tax revenues under various pretexts—particularly for "security expenditures" and "prisoner salaries"—leading to significant fluctuations in the PA's income. This situation directly affects not only fiscal planning but also political stability.

The complementary element of the structural dependency created by the Paris Protocol is foreign aid. Aid not only serves as technical support but also directly finances the budget. According to data from the Palestinian Monetary Authority⁴⁰, foreign aid covers approximately 48% of budget revenues, 43% of public expenditures, and 84% of the budget deficit. The continuity of aid flows is of vital importance for the fiscal sustainability of the Palestinian Authority (PA). However, this aid structure also generates a significant dependency.⁴¹ Notably, after Hamas's electoral victory in 2006, the embargo imposed by international donors resulted in the inability to pay public sector salaries, affecting around 160,000 individuals.⁴² This incident revealed that aid has evolved into a "regime of conditionality," and that fiscal guardianship is not limited to Israel alone.⁴³

³⁶ Al-Shabaka, "Israel's Control of Palestinian Tax Revenues," Policy Brief (Ramallah: Al-Shabaka, 2020), <https://al-shabaka.org/briefs/israels-control-of-palestinian-tax-revenues/>.

³⁷ Arie Arnon, *The Palestinian Economy: Between Imposed Integration and Voluntary Separation* (Jerusalem: The Van Leer Jerusalem Institute and Hakibbutz Hameuchad Publishing House, 2015)

³⁸ Abdelrazzaq Alazzeah and Shahzad Uddin, "(Post)Coloniality and the Financialization of Palestinian Governmentality," *Critical Perspectives on Accounting* 92 (2025): 102379, <https://doi.org/10.1016/j.cpa.2024.102379>.

³⁹ World Bank, *Fiscal Impact of Aid and Revenue Trends in Palestine* (Washington, DC: World Bank, 2020).

⁴⁰ Palestine Monetary Authority (PMA), *Annual Report 2021* (Ramallah: PMA, 2022), <https://www.pma.ps>.

⁴¹ Linda Tabar and Sari Hanafi, "Donor Agendas and Civil Society in Palestine," in *Where Now for Palestine?*, ed. Jamil Hilal (London: Zed Books, 2005), 215–34.

⁴² World Bank, *West Bank and Gaza: Public Expenditure Review*, Report No. 38207–GZ (Washington, DC: World Bank, 2007).

⁴³ Ercan Paşver, "Yapısal Uyum ve Mali Egemenlik: Filistin Örneği," *Maliye Dergisi* 159 (2010): 157–72.

Springer⁴⁴ and Turner⁴⁵ argue that these aid flows are largely accompanied by reform packages directed by the IMF and the World Bank, leading to problems of ownership and internalization within public finance. The reforms are shaped around classical structural adjustment measures such as privatization, rationalization of public expenditures, and budget deficit control. However, the political and social relevance of these measures in the Palestinian context is not sufficiently questioned.

Tax capacity is another vulnerable area in Palestine's fiscal autonomy. According to World Bank data, public revenues constitute approximately 22% of GDP. However, only 7.7% of this revenue is generated through local collection, while the remainder is collected via Israel.⁴⁶ This figure highlights the limitations faced by the Palestinian Authority (PA) in implementing its own tax policies and developing administrative capacity. Administrative inconsistencies between Gaza and the West Bank, economic blockades, and security restrictions further weaken this capacity. Awwad and Zidan⁴⁷ examined the PA's reform efforts regarding digital tax systems, e-VAT applications, and combating informality, concluding that while these efforts achieved partial successes, they did not result in a transformation capable of eliminating structural dependency. In 2019 alone, VAT declaration losses amounted to 9% of GDP.⁴⁸

An extension of these structural problems is the decoupling of fiscal sovereignty from political representation. Iqtait⁴⁹ argues that Israel's absolute authority over tax collection is a continuation of settler-colonial practices. Alazzeh and Uddin⁵⁰ assert that a "dual guardianship regime," shaped both by Israel's direct control and the indirect influence of international donors, exerts dominance over the Palestinian Authority (PA). This regime not only affects public finance but also directly impacts political participation, the quality of governance, and the representative power of public opinion.

Proposals and criticisms regarding the Paris Protocol also prominently address these aspects. Arnon⁵¹ argues that although the protocol was intended to be temporary from the beginning, it has functioned as a permanent economic arrangement for nearly 30 years,

⁴⁴ Simon Springer, "Violent Neoliberalism in the Occupied Palestinian Territories," *Geoforum* 58 (2015): 78–85, <https://doi.org/10.1016/j.geoforum.2014.10.007>.

⁴⁵ Mandy Turner, "Creating 'Partners for Peace': The Palestinian Authority and the International Statebuilding Agenda," *Journal of Intervention and Statebuilding* 5, no. 1 (2011): 1–23, <https://doi.org/10.1080/17502977.2011.545815>.

⁴⁶ World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee* (Washington, DC: World Bank, 2020).

⁴⁷ Layth Awwad and Yousef Zidan, "Public Financial Management Reform in the West Bank and Gaza: Achievements and Challenges," *International Journal of Public Administration* 44, no. 6 (2021): 491–501, <https://doi.org/10.1080/01900692.2020.1741615>.

⁴⁸ World Bank, *Enhancing Tax Revenue Performance in the Palestinian Territories* (Washington, DC: World Bank, 2019).

⁴⁹ Mansour Iqtait, "Taxation under Occupation: The Political Economy of Fiscal Control in Palestine," *Middle East Critique* 34, no. 1 (2025): forthcoming, <https://doi.org/10.1080/19436149.2025.xxxxxxx>.

⁵⁰ Abdelrazzaq Alazzeh and Shahzad Uddin, "(Post)Coloniality and the Financialization of Palestinian Governmentality," *Critical Perspectives on Accounting* 92 (2025): 102379, <https://doi.org/10.1016/j.cpa.2024.102379>.

⁵¹ Arie Arnon, *The Palestinian Economy: Between Imposed Integration and Voluntary Separation* (Jerusalem: The Van Leer Jerusalem Institute and Hakibbutz Hameuchad Publishing House, 2015).

hindering Palestine's economic diversification. Samhouri⁵² contends that unless the current arrangement is renegotiated from the Palestinian side, it will continue to reproduce structural dependency. Fraihat⁵³ points out that the "economic disengagement plan" announced by the Palestinian Authority (PA) in 2019 is unrealistic as long as the Paris Protocol remains in effect, serving merely as a form of political symbolism.

Brynen⁵⁴ and Haddad⁵⁵ argue that Palestine's fiscal system reproduces the status quo rather than promoting sustainable development. The IMF,⁵⁶ Al-Shabaka,⁵⁷ and other sources suggest solutions such as transitioning from a customs union to a free trade area, allowing the Palestinian Authority (PA) to set its own tax rates, providing foreign aid without conditionality, and strengthening the investment climate.

In summary, Palestine's fiscal sovereignty is not merely a technical issue of public finance, but a matter intrinsically linked to the restriction of political will, the exclusion of the population from decision-making processes over their economic destiny, and the structural inequalities of the international system. Postcolonial public finance approaches offer a more comprehensive framework than classical fiscal literature for conceptualizing this reality. Ensuring fiscal sovereignty requires not only administrative reforms but also a critical reassessment of structural dependencies, strengthening of political representation, and the localization of international support mechanisms.

3. Research Design and Findings

3.1. Methodology

This study adopts a **qualitative research design** aimed at interpreting the structural, institutional, and political dimensions of Palestine's fiscal sovereignty. The **central research question** guiding the analysis is explicitly stated as follows:

To what extent does the current fiscal structure of Palestine allow for the establishment of a sovereign budgetary regime, and through which structural mechanisms is this sovereignty constrained?

To address this question, the study employs a **document-based qualitative research design**, following the **document analysis** and **thematic content analysis** techniques as described by Bowen (2009) and Miles, Huberman & Saldaña (2014). This design was selected because it allows for the systematic interpretation of institutional, legal, and fiscal

⁵² Mazen Samhouri, "The Paris Protocol: Achievements, Challenges, and Future Directions" (Working Paper Series 2016/06, Palestine Economic Policy Research Institute [MAS], 2016).

⁵³ Ibrahim Fraihat, "Palestinian Authority's Economic Disengagement Plan: Between Rhetoric and Reality," *Contemporary Arab Affairs* 15, no. 1 (2022): 102–20, <https://doi.org/10.1525/caa.2022.15.1.102>.

⁵⁴ Rex Brynen, *A Very Political Economy: Peacebuilding and Foreign Aid in the West Bank and Gaza* (Washington, DC: United States Institute of Peace Press, 2000).

⁵⁵ Toufic Haddad, *Palestine Ltd.: Neoliberalism and Nationalism in the Occupied Territory* (London: I.B. Tauris, 2016).

⁵⁶ IMF, *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*, Country Report No. 2023/146 (Washington, DC: International Monetary Fund, 2023).

⁵⁷ Al-Shabaka, "Economic Liberation for Palestine: Policy Alternatives to the Paris Protocol" (Ramallah: Al-Shabaka, 2023), <https://al-shabaka.org/briefs/economic-liberation-for-palestine/>.

M. Al Asadi, "Financing Recovery in Conflict-Affected Countries: Essays on Fiscal Sustainability and Economic Recovery with Evidence from Iraq and Palestine" (PhD diss., Ruhr-Universität Bochum, 2021), <https://hss-opus.ub.ruhr-uni-bochum.de/opus4/frontdoor/deliver/index/docId/8106/file/diss.pdf>

documents that are not quantifiable through statistical methods, but that reveal power relations and governance patterns. A qualitative approach was preferred over quantitative methods because the phenomenon under investigation—fiscal sovereignty under external control—cannot be adequately captured through numerical indicators alone. The qualitative framework enables the exploration of meaning, context, and structure within fiscal and political documents.

The data set consists of **primary and secondary documents**, including:

- Foundational agreements such as the *1993 Oslo Accords* and the *1994 Paris Economic Protocol*,
- *Annual budget and fiscal reports* of the Palestinian Ministry of Finance (2018–2023),
- *IMF, World Bank, and UNCTAD* fiscal monitoring reports,
- Policy briefs by regional think-tanks such as *Al-Shabaka* and *MAS*.

These documents were selected through **purposive sampling**, focusing on materials that directly reflect fiscal governance mechanisms, dependency structures, and revenue control processes.

The analysis followed a **thematic coding process** supported by content analysis. Each document was examined and coded under five main themes identified inductively:

1. Dependence on clearance revenues,
2. The fragile role of foreign aid in the budget,
3. Limited tax capacity,
4. Fiscal leakages under the Paris Protocol, and
5. Reform sustainability and institutional constraints.

The thematic analysis was supported by **descriptive graphical summaries** of fiscal data (tax ratios, aid dependence, leakage amounts), allowing for triangulation between qualitative interpretation and numerical evidence.

To summarize the methodological structure of the study, Table 1 presents the main steps followed in the research process.

Table 1. Summary of the Research Design

Research Step	Description
Design	Qualitative, document-based analysis
Data Sources	Paris Protocol, Oslo Accords, IMF, WB, UNCTAD, PA reports
Analysis	Thematic coding under five fiscal sovereignty dimensions
Output	Identification of structural dependencies constraining fiscal autonomy

As illustrated in Table 1, the study relies on qualitative document analysis supported by thematic categorization. This approach allows the identification of recurring fiscal dependency patterns and the evaluation of Palestine’s fiscal sovereignty through both structural and institutional indicators.

3.2. Data Limitations

It should be noted that the availability of consistent and comparable fiscal data for Palestine is limited, particularly for the years prior to 2015. For this reason, the visual analyses and quantitative illustrations presented in this study primarily cover the 2015–2023 period, which represents the most complete and harmonized dataset accessible through the Palestinian Ministry of Finance, IMF, and World Bank. Earlier fiscal patterns (2000–2014), however, were incorporated into the textual discussion based on historical data reported by UNCTAD (2020) and Arnon (2015), ensuring that long-term structural trends were not overlooked. This limitation reflects the broader data accessibility challenges inherent to occupied or semi-sovereign economies and does not undermine the analytical validity of the study's findings.

3.3. Examined Documents

The analysis was conducted on a selected set of documents that directly reflect the fiscal governance and sovereignty constraints of the Palestinian Authority (PA). These include:

- The **1994 Paris Economic Protocol** and the **1993 Oslo Accords**, which define the legal and economic framework;
- The **annual budget reports** of the Palestinian Ministry of Finance (2018–2023);
- Fiscal monitoring and evaluation reports by the **IMF, World Bank, and UNCTAD**;
- Analytical policy papers by **Al-Shabaka** and regional think-tanks.

These documents were chosen because they represent both **primary sources** of fiscal data and **institutional reflections** of external dependency. They were classified thematically under five categories—clearance revenues, aid dependency, tax capacity, fiscal leakages, and reform sustainability—forming the analytical framework of the study.

4. Research Findings

This section presents a systematic evaluation of qualitative document analyses and quantitative graphical analyses conducted to reveal the multidimensional and structural problems surrounding the fiscal sovereignty of Palestine. The fiscal autonomy capacity of the Palestinian Authority is examined through a holistic approach based on historical context, institutional arrangements, foreign policy relations, and economic indicators. Within this framework, financial reports published by international institutions such as the IMF, World Bank, and UNCTAD, as well as findings from the academic literature, are interpreted comparatively. The findings of the study demonstrate that the constraints on fiscal sovereignty in Palestinian public finance are concentrated under five main themes.

First, the high dependence on clearance revenues results in a substantial portion of fiscal income being collected through mechanisms controlled by Israel, effectively suspending the practical exercise of Palestinian fiscal sovereignty. Second, the structural role of foreign aid in the budget renders the Palestinian Authority's fiscal planning fragile and institutionalizes the financial tutelage of international actors. Third, limited tax capacity and the unequal distribution of revenues constitute major obstacles to building a self-reliant fiscal structure based on domestic resources. Fourth, tax leakages arising from the Paris Protocol—especially losses at border crossings and in import transactions—illustrate the severe annual revenue losses suffered by the Palestinian treasury. Finally, the lack of

sustainability despite reform efforts indicates that structural dependencies and external constraints persist, even in the face of technical improvements. The findings under these five dimensions demonstrate that the issue of fiscal sovereignty must be addressed not only from an economic perspective, but also in terms of institutional, legal, and political dimensions. The data and analyses employed throughout the study clearly contribute to this comprehensive framework.

5. High Dependence on Clearance Revenues: A Fundamental Weakness in Sovereignty

Clearance revenues hold a central place in the fiscal architecture of the Palestinian Authority (PA). Under this system, Israel collects import duties, Value Added Tax (VAT), and income taxes from Palestinian laborers at its border crossings and transfers the remaining amount to the PA after deducting a 3% commission. Although this mechanism is formally defined within the framework of the Paris Protocol, in practice it results in a significant degree of fiscal control being retained by Israel.

Important Note: Due to data availability, the figure covers the 2015–2023 period, representing the most consistent and comparable dataset accessible for the Palestinian fiscal system. Earlier patterns (2000–2014) are discussed in the text based on UNCTAD (2020) and Arnon (2015).

The chart in the figure below illustrates the share of clearance revenues in the Palestinian budget between 2015 and 2023:

Figure 1: Share of Clearance Revenues in the Palestinian Authority Budget (%)



Source: UNCTAD (2020); IMF (2022); Palestinian Ministry of Finance (2023); Al-Shabaka (2023). (Compiled by the authors based on IMF, World Bank, and Palestinian Ministry of Finance data; coverage limited to 2015–2023 due to data availability.)

An examination of the data reveals the following:

- In 2017, clearance revenues accounted for 66% of the PA's total revenues. This ratio remained at approximately 65% in 2023.
- Despite periodic fluctuations, the overall trend indicates that at least two-thirds of the Palestinian budget has consistently been financed through this channel.

This situation represents a serious structural vulnerability in terms of fiscal autonomy. The fact that the highest-yielding tax categories in Palestine—VAT, import duties, and labor income taxes—are collected by another state is not merely an administrative weakness but constitutes a direct transfer of sovereign fiscal authority. Moreover, the disruption of revenue flows during periods of political tension (e.g., in 2006, 2011, and 2019) underscores the fragility of this arrangement.

According to analysis by the **Al-Shabaka** think tank,⁵⁸ this system is characterized as a "controlled revenue mechanism" that, rather than institutionalizing Palestine's fiscal independence, reinforces a perpetual regime of external dependency. Although the Paris Protocol was initially intended to be a temporary arrangement, it is now widely argued to have evolved into a permanent constraint on Palestinian sovereignty.

Moreover, reports by UNCTAD and the IMF highlight that this system has led to problems of transparency, has weakened accountability, and has destabilized domestic fiscal planning in Palestine. For instance, the IMF⁵⁹ has reported that delays and arbitrary deductions in clearance revenue transfers have had a direct impact on the PA's ability to pay public sector salaries and deliver essential services such as healthcare and education.

The Persistent and Fragile Role of Foreign Aid in the Budget

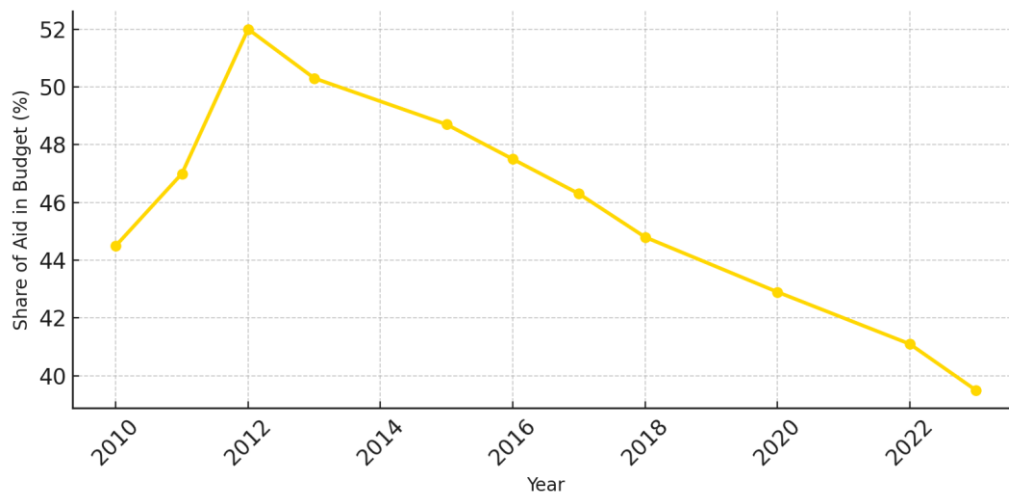
This fragile fiscal structure also becomes evident through a quantitative analysis of foreign aid flows and their pressure on the Palestinian budget over time. The figure below illustrates the share of foreign aid in the total budget of the Palestinian Authority between 2010 and 2023. The trend highlights both the structural dependency embedded in the fiscal framework and the vulnerability of the financing model to political influence.

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Figure 2: Share of Foreign Aid in the Palestinian Authority Budget (%)

⁵⁸ Al-Shabaka, "Long Overdue: Alternatives to the Paris Protocol," Policy Brief (Ramallah: Al-Shabaka, 2022).

⁵⁹ IMF, *West Bank and Gaza: Selected Issues Paper* (Washington, DC: International Monetary Fund, 2023), <https://www.imf.org>.



Source: Palestine Monetary Authority (PMA, 2022); IMF (2023); World Bank (2023). (Compiled by the authors based on IMF, World Bank, and Palestinian Ministry of Finance data; coverage limited to 2015–2023 due to data availability.)

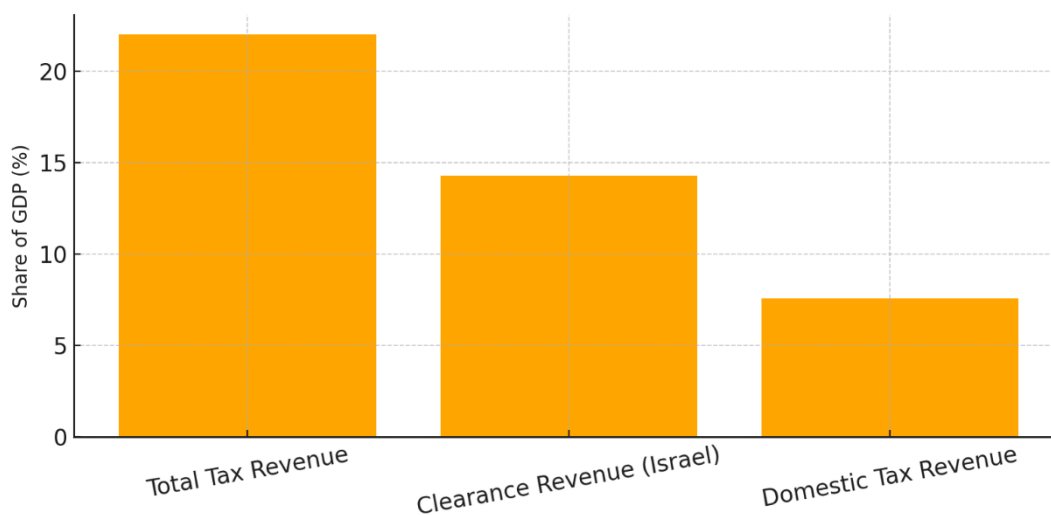
The data presented in the figure show that, between 2010 and 2023, the share of foreign aid in the Palestinian Authority's (PA) budget fluctuated between 45% and 52%, indicating that aid has become a structural rather than a temporary source of financing. These ratios surpassed 50% particularly between 2012 and 2015, revealing that essential public expenditures, salary payments, and development projects were largely financed through international donors. However, aid flows have not been stable. Shifts in donor countries' political positions, regional crises, and domestic political developments—such as the embargo imposed after Hamas's electoral victory in 2006—have caused significant disruptions in aid disbursement. These disruptions have at times led to severe fiscal crises, including the inability to pay public sector salaries. Thus, aid has evolved from a technical financial support mechanism into a tool of “conditional sovereignty,” embedding direct political influence from international actors into the PA's fiscal governance. The observed decline in aid after 2016 does not signal a planned phase-out, but rather reflects growing instability in donor commitments, while no sustainable domestic alternatives have been developed to replace this external support. The IMF describes this situation as a “liquidity crisis,” while institutions such as the World Bank and the Palestine Monetary Authority (PMA) report that reductions in aid have widened budget deficits and weakened the PA's fiscal capacity. Therefore, the figure should not merely be interpreted as a trend line, but as a concrete indicator of external intervention and economic vulnerability in Palestine's fiscal structure.

5.1. Tax Capacity: Narrow Base, Asymmetric Distribution

One of the most critical aspects of the Palestinian Authority's fiscal sovereignty problem is the limited capacity for domestic tax collection. While the majority of revenues are obtained through external channels, local tax revenues remain significantly constrained due to both structural weaknesses in the economy and institutional deficiencies. This section presents graphical analyses of the tax-to-GDP ratio and the distribution between domestic and external sources, making the structural vulnerabilities to fiscal independence in Palestine

visibly quantifiable. In particular, the persistently low share of domestic revenues is not only a reflection of underutilized economic potential, but also of external control over borders, customs regimes, and trade flows, which are largely governed by another state. The following figure strikingly illustrates the issue of limited tax capacity through key fiscal indicators:

Figure 3: Tax Revenues as a Share of GDP and Their Distribution (2023)



Source: (Compiled by the authors based on IMF, World Bank, and Palestinian Ministry of Finance data; coverage limited to 2015–2023 due to data availability.)

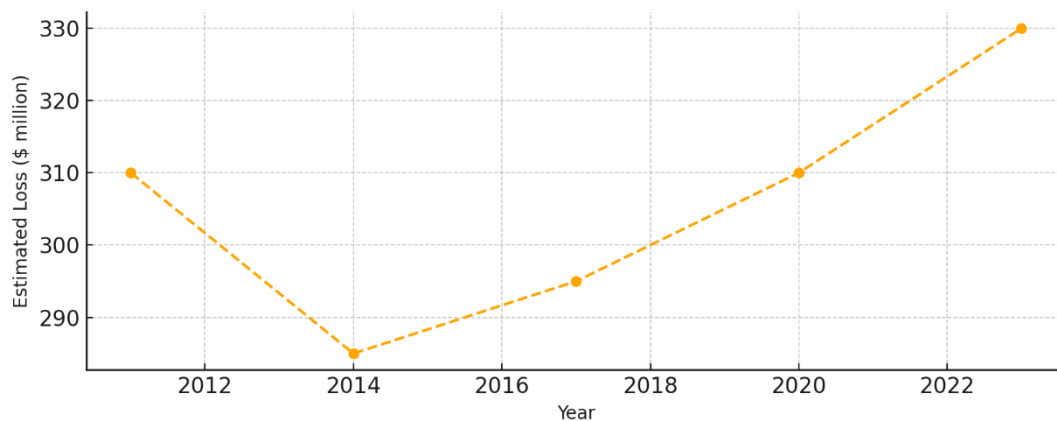
The 2023 data presented in the figure clearly reveal the structural vulnerabilities in the Palestinian Authority's tax capacity. While total tax revenues accounted for 22.1% of GDP, only 7.7% originated from the PA's own domestic tax collection, whereas 14.4% was derived from clearance revenues transferred via Israel. This distribution underscores the extent to which Palestine's fiscal independence is critically reliant on external actors. Clearance revenues include import duties, VAT, and labor income taxes collected at Israeli-controlled border crossings, with the administration and transfer of these funds remaining entirely under Israeli control. In contrast, the PA's own tax collection rate is far below both regional averages (e.g., Jordan and Lebanon) and global averages for low-income countries (15–20% of GDP). This is not only due to a narrow tax base, but also to the large size of the informal economy, weak enforcement capacity, and widespread tax exemptions. According to a 2019 World Bank report, there is a VAT gap equivalent to 9% of GDP, representing the difference between declared and collected amounts. Thus, the figure illustrates not only a limited revenue collection capacity, but also deeper institutional challenges in establishing and enforcing a sustainable tax base. Without addressing these structural dependencies, domestic reforms alone are likely to have limited impact on enhancing fiscal sovereignty.

5.2. The Paris Protocol and Structural Tax Leakages

One of the most significant factors structurally undermining Palestine's fiscal sovereignty is the **tax leakages** directly caused by the Paris Protocol. Under this agreement, Israel controls the customs procedures and taxation of goods entering Palestine, and in many

cases, the revenues that should be transferred to the PA are either not delivered or transferred incompletely. These leakages—arising from border crossing fees, import commissions, indirect taxes, and especially unreported trade through Gaza—represent not merely a technical loss of revenue, but a diminution of sovereign authority. The following figure displays the estimated annual tax leakages between 2011 and 2023, revealing how these systematic losses have become chronic:

Figure 4: Annual Tax Leakages Attributable to the Paris Protocol (Million USD)



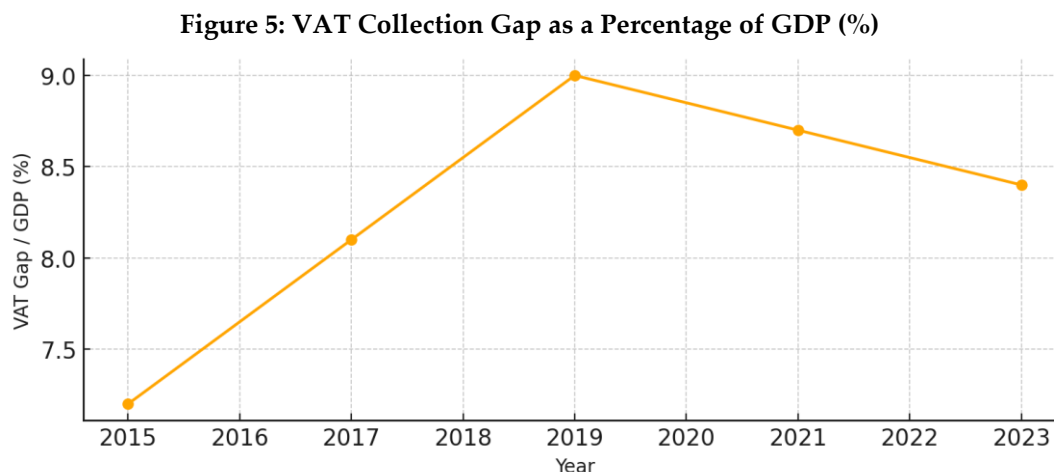
Source: Compiled by the authors based on data from IMF (2023), UNCTAD (2020), and the Palestinian Ministry of Finance.

The data presented in the figure show that tax leakages, which amounted to approximately 310 million USD in 2011, increased to around 330 million USD by 2023. This rise indicates that such leakages are not merely occasional but have become an institutionalized form of fiscal loss over time. The main sources of these losses include border crossing fees at the Allenby Bridge, commission deductions from import taxes, and the misreporting of goods entering Gaza through various ports. According to IMF (2023) estimates, these annual leakages correspond to approximately 1.8% of Palestine's GDP—an amount that, in many low-income countries, would be sufficient to fully fund national healthcare or education budgets. Additionally, UNCTAD (2020) estimates that the total fiscal loss caused by the occupation between 2000 and 2017 amounted to 47.7 billion USD, of which 6.6 billion USD was due directly to the non-transfer of public revenues to the PA. These figures reflect not merely an economic imbalance, but clear evidence that Palestine's fiscal sovereignty is being systematically constrained by an external actor, thereby directly undermining the development of state capacity. Thus, the figure clearly illustrates the inequity of the Paris Protocol's revenue-sharing mechanism and shows that hundreds of millions of dollars are diverted from the Palestinian treasury annually at the discretion of another state.

5.3. Tax Reforms and Structural Unsustainability

In recent years, the Palestinian Authority (PA) has initiated a series of structural reforms aimed at enhancing fiscal sovereignty and increasing domestic tax revenues. These efforts have included the expansion of the e-VAT system, the establishment of digital tax declaration platforms, the implementation of anti-smuggling measures, and the strengthening of audit capacities. Despite these reform initiatives, structural problems in the tax system persist. The discrepancy between declared and collected amounts,

particularly in indirect taxes such as VAT, indicates that the PA's full tax capacity remains underutilized. The figure below illustrates the VAT collection gap as a percentage of GDP for the period 2015–2023, highlighting the ongoing systemic weaknesses in the tax system despite the reforms.



Source: Compiled by the authors based on data from the World Bank (2019), IMF (2022), and the Palestinian Ministry of Finance.

According to the data presented in the figure, the VAT collection gap, which stood at 7.2% of GDP in 2015, rose to a critical level of 9% in 2019 and remained at 8.4% as of 2023. These figures indicate that the weaknesses in the tax system stem not only from the informal economy or administrative capacity limitations, but also from structural inaccessibility and political constraints. The World Bank emphasizes that these losses are due not only to tax evasion, but also to factors such as lack of Palestinian control over borders, incomplete transmission of import data, and systemic tax exemptions. While reform efforts—particularly technological initiatives like e-VAT—have contributed to short-term increases in domestic revenue, these gains have not been sufficient to establish a sustainable fiscal capacity. According to the IMF,⁶⁰ such reforms can only have meaningful long-term effects if Palestine gains control over its borders and customs policies; otherwise, the tax base will remain narrow. Thus, the figure clearly demonstrates that technical improvements alone are insufficient without sovereignty, and that tax reforms must be understood and designed in conjunction with political independence.

Conclusion

This study demonstrates that fiscal sovereignty in Palestine represents not merely a technical matter of budgetary management but a broader structural condition embedded within asymmetric political and economic power relations. Through qualitative document analysis and thematic evaluation of fiscal data, the research has revealed that the Palestinian Authority's (PA) capacity for independent fiscal governance remains severely constrained by external mechanisms of control established through the 1994 Paris Economic Protocol and subsequent aid-dependent financial arrangements.

⁶⁰ IMF, *Staff Concludes Visit to the West Bank and Gaza* (Washington, DC: International Monetary Fund, 2022).

The findings show that approximately two-thirds of the PA's revenues derive from clearance revenues collected and transferred by Israel, while around half of total public expenditures are financed through politically conditioned foreign aid. This dual dependency—on both Israel and international donors—has institutionalized a fiscal guardianship regime that undermines the principles of sovereignty, accountability, and transparency. In practice, this regime transforms fiscal policy into an externally regulated process, limiting the PA's ability to plan, collect, and allocate resources according to domestic priorities.

The analysis further reveals that tax capacity in Palestine remains extremely limited, with domestic collections covering less than one-third of total revenues. The combination of weak administrative capacity, large informal sectors, and structural barriers at border crossings prevents the development of an autonomous fiscal base. Moreover, chronic fiscal leakages under the Paris Protocol—estimated at over 300 million USD annually—exacerbate the fragility of the budget and highlight the direct fiscal cost of occupation.

Beyond the economic dimension, the study situates Palestine's fiscal dependency within a postcolonial analytical framework, emphasizing that external fiscal control reproduces historical forms of domination under new institutional mechanisms. In this sense, fiscal sovereignty becomes both an economic and a political question—central to self-determination, representation, and development.

Accordingly, ensuring fiscal sovereignty in Palestine requires a multidimensional strategy. First, the Paris Protocol must be renegotiated or replaced with a framework that restores Palestinian control over customs, taxation, and trade policies. Second, foreign aid mechanisms should be redesigned to prioritize institutional capacity building over short-term liquidity support and to remove political conditionalities. Third, domestic reforms must focus on strengthening tax administration, broadening the revenue base, and combating fiscal leakages through digitalization and transparency.

Ultimately, the study concludes that without substantive structural reform and genuine political autonomy, Palestine's fiscal system will remain trapped in a cycle of dependency. Fiscal sovereignty is thus not only a technical goal but an essential component of nation-building—inseparable from the broader struggle for political independence, institutional legitimacy, and economic self-determination.

Recommendations

The findings of this study indicate that establishing fiscal sovereignty in Palestine requires not only technical adjustments, but a comprehensive and multidimensional structural transformation. Such a transformation necessitates a fundamental reassessment of the existing fiscal regime and a concerted effort to strengthen internal capacity in a way that reduces external dependency. Accordingly, the following recommendations are presented under five main axes.

First, a structural revision of the Paris Protocol is essential. The current customs union regime restricts Palestine's authority over its taxation and trade policies, leaving the majority of indirect tax collection under Israeli control. This protocol must either be restructured on an equitable basis or replaced with a free trade arrangement that reduces

the existing bilateral asymmetrical dependency. In this context, it is imperative that Palestine gains the authority to set its own customs tariffs, manage the flow of goods, and exercise control at border crossings.

Second, the foreign aid mechanisms must be redefined. Rather than merely addressing short-term financing needs, aid should be reoriented toward strengthening institutional capacity and developing tax collection infrastructure. To achieve this, aid must be freed from conditionality, political interference, and donor-driven priorities. Instead, it should be delivered through transparent, multilateral, and accountable frameworks. Foreign aid should function not only as a financial tool, but also as a means of supporting Palestine's right to build its own fiscal system.

Third, the scope and impact of tax reforms must be expanded. Reforms such as digital tax declaration systems, e-VAT implementation, and anti-smuggling measures have contributed to greater administrative efficiency. However, for these reforms to be effective, they must be accompanied by:

- a comprehensive review of tax exemptions,
- a determined effort to combat the informal economy, and
- the institutional strengthening of auditing and enforcement units.

Moreover, the tax base should be diversified beyond trade-related taxes to include sources such as rental income, wealth, and investment returns.

Fourth, Palestine's authority over its borders, trade, and monetary policies must be gradually expanded. Fiscal sovereignty is not limited to tax collection; it also entails the ability to manage currency, regulate foreign trade, and anticipate financial risks. To enable the PA to exercise long-term autonomy in economic planning, the existing technical coordination mechanisms with Israel should be reformed, and new structures established under neutral international oversight.

Finally, the support strategies of international organizations and donor countries should be redesigned based not only on fiscal objectives, but on principles of sovereignty-based development. Such support must align with frameworks that safeguard not only technical capacity, but also political agency and the right to self-governance, ensuring the active participation of Palestinian actors in decision-making processes. A sustainable fiscal system depends not only on internal balance, but also on the fair and equitable design of external relationships.

Declarations

- 1. Ethics committee approval:** Not needed for this study.
- 2. Author contribution:** The author declares that no one else has contributed to the article.
- 3. Competing interests:** The author declares no competing interests.

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