# State Comptroller Report

November 2024 | 75A Part Two

Abstracts



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Office of the State Comptroller | Jerusalem

Catalogue Number 2024-A-004 ISSN 0334-9713

www.mevaker.gov.il

Graphic Design: ER Design Team



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# Foreword

**The State Comptroller's annual audit report – November 2024** is submitted to the Knesset according the State Comptroller's Law, 1958 [Consolidated Version]. The report includes the results of the audit on government ministries, state corporations, and the local government. The report also includes two special (separate) reports pursuant to Section 14(b)(1) of the State Comptroller's Law.

Since October 2023, the State of Israel is engaged in the Iron Swords War, both in the northern and southern regions, following the murderous surprise attack by the Hamas on settlements in the Gaza Envelope and its vicinity during the Jewish holiday of Simchat Torah, on October 7<sup>th</sup>. As previously announced, our office is conducting a comprehensive audit on matters related to the massacre on October 7<sup>th</sup> and the Iron Swords War. In my view, there is a public and moral obligation to conduct an audit that will examine the performance of all ranks on the day of the massacre, in the period leading up to it, and in the period thereafter.

Alongside this audit regarding the Iron Swords War, our office continues to conduct audits on other matters. Below is an overview of several audits:

The Office of the State Comptroller places special emphasis on conducting audits on systemic issues with broad national implications. The report outlines findings from a systemic audit regarding **The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector**. The cost of living in Israel is pivotal in the lives of its citizens; Private consumption expenditure on food and non-alcoholic beverages amounted to NIS 138 billion in 2021. Some of the rising prices stem from structural challenges in the food and consumer markets, including centralization, economy competitiveness, customs barriers, plant protection barriers, and public health constraints. The audit raised that three food suppliers dominate over 85% of total sales of 20 food products categories, with Israel's import rate (relative to GDP) standing at only 23.4%, compared to an OECD average of 47% as of 2020. Additionally, food and consumption prices rose by 2.9% during the first three months of the Iron Swords War, according to an examination conducted by the Ministry of Economy.

It is noteworthy that following the audit, three legislative amendments were enacted, intended to increase the volume of import as part of the "What is good for Europe is good for Israel" reform. The Ministries of Finance, Economy, Agriculture, and Health, along with the Competition Authority and the Consumer Protection Authority, must proactively undertake measures to encourage and increase market competition and



#### Foreword

reduce centralization, each through the tools available to it and with collaborations of the relevant government ministries, and should it be necessary to increase the arsenal of tools at their disposal act to establish the relevant legislative amendments. The Prime Minister, alongside the Ministers of Finance, Economy, Health, Agriculture, and others involved in the Ministerial Committee addressing the cost of living (Environmental Protection, Energy and Infrastructure, Welfare and Social Security, Religious Services, Construction and Housing, the Negev, the Galilee and National Resilience, Communications, Tourism and Aliyah, and Integration), should monitor the implementation of the reforms, act to complete and update the reforms if necessary, and ensure that government actions aimed at reducing the cost of living remain coordinated and updated, in order to effectively address the cost of living and the rising food prices.

• In the past 15 years, the global financial market for digital assets, including digital currencies (cryptocurrencies), has experienced significant growth, including in Israel. The digital asset market is characterized by volatility, reaching a peak of approximately \$3 trillion in 2021 and 2024. The estimated tax collection potential in Israel from income derived from cryptocurrency activities is high, potentially amounting to NIS 2-3 billion. This report includes an audit regarding the Taxation of Digital **Currencies.** The audit found that Israel was among the first countries to establish principles for cryptocurrency taxation; However, over time, while other nations, including the European Union, the United States, and the United Kingdom, have advanced their regulatory frameworks, Israel has fallen behind. The audit indicated that between 2018 and 2022, an average of only 500 individuals reported cryptocurrency activities to the Tax Authority, out of a potential reporting base of approximately 200,000 users. The definitions and taxation guidelines of this matter were not regulated by legislation, leading to unresolved taxation uncertainties regarding many issues in the crypto field, despite the significant influence of taxation rules and various definitions on the determination of tax liability and calculations.

It is recommended that the Tax Authority evaluate the effectiveness of procedures of tax payment via the Bank of Israel to the regulation of tax payments, and consider making adjustments and extensions to additional populations. The Tax Authority should consult with the Bank of Israel, the Money Laundering and Terror Financing Prohibition Authority, and other market stakeholders in this matter, in order to prevent the formation of an additional barrier to income reporting from cryptocurrencies. Furthermore, it is recommended that the Tax Authority collaborate with professional organizations, industry bodies, and counterparts from other countries to establish and publish clear taxation rules, as recently published by the European Union and the United Kingdom. Additionally, it is recommended that the Minister of Finance, in coordination with the Tax Authority, finalize the preparation of a bill to promote regulation in taxation, as outlined in Government Resolution 204 of February 2023.



Clear taxation policies have the potential to enhance public trust in the Tax Authority, facilitate the outlining of a path promoting the growth of Israel's cryptocurrency sector, and ensure that Israel maintains its position as a technological leader, thus reaping the benefits of increased reporting rates and maximizing tax collection from cryptocurrency activities.

The electricity sector is expected to face major challenges by 2030. those challenges stem from an accelerated demand for electricity driven by climate change, requirements to comply with governmental goals, including a transition to clean electricity production, the electrification of various transportation means (vehicles, public transport), and the establishment of additional desalination facilities. An audit regarding Development of the Electricity Sector Towards 2030 indicates that it is inadequately prepared to address these challenges. Significant gaps exist between decision-making timelines and the necessary timeframes for the sector's development, characterized by under-regulation, insufficient physical infrastructure development, delayed decision making, short-sighted planning, and failure to address existing barriers. The electricity sector is on the verge of a crisis that may result in an inability to meet electricity demand in the coming years, potentially inflicting substantial economic damage. The Office of the State Comptroller has estimated annual losses ranging from NIS 0.76 to 2.4 billion, based on projections from Noga - Israel Independent System Operator Ltd., for the years 2027 and 2028 (respectively) in the event of failure to develop the production systems as required. Noga has indicated that delays in the development plan could equate to approximately 6.5 hours of unmet electricity demand in 2027 and approximately 9.9 hours in 2028. There is a doubt regarding the ability to close these gaps within the remaining time, especially in light of numerous existing barriers to the required development.

All stakeholders in the electricity sector, including the Ministry of Energy, the Ministry of Finance, the Electricity Authority, Noga, and the Israel Electric Company, must act urgently to remove barriers and further develop the electricity sector to the required extent by 2030. Alongside, they should currently examine and formulate long-term development plans, to establish policy and developmental needs in order to ensure these needs are addressed effectively. It is recommended that the Minister of Energy, who holds overarching responsibility for the development of the electricity sector, act to make the required decisions in advance and ensure the rectification of the deficiencies raised in the audit, to ensure reliable, available, efficient, and quality electricity supply as set in the electricity sector's objectives.

 According to the Ministry of Transport, approximately 72 million taxi travels take place annually, and according to the Tax Authority data, the revenues of the taxi industry reached approximately NIS 6.5 billion in 2022. The Ministry of Transport as the main regulator of the industry, together with the Ministry of Finance, sets travel fares and



the taxation policy. The audit regarding the **The Taxi Sector in Israel** raised that in order to improve the service provided to the passengers, changes in regulation are required, regarding several key aspects – monitoring the licenses of operating and driving taxis, establishing additional regulation regarding enforcement violations in the industry, equitable fare pricing for both drivers and passengers, increasing transparency regarding the rights and obligations of taxi drivers, and reducing the air pollution associated with transportation activities. Additionally, it is essential to regulate the 'share taxi' branch and the taxis operation in the Ben Gurion Airport area. Between 2019 and 2023, 70% of public complaints submitted to the National Public Transport Authority, totaling 4,668 out of 6,641 complaints, were related to price gouging (1,761 complaints, 26.5%), refusal of drivers to operate a meter (1,448 complaints, 21.8%), and driver behavior (1,459 complaints, 22%). Furthermore, the Claims Unit of the Ministry of Transport received 1,055 claims, resulting in only 152 indictments (approximately 14% of claims) against taxi drivers, out of about 72 million annual trips.

The Ministry of Transport, the Ministry of Finance, the Tax Authority, and Israel Airports Authority must each operate within their respective responsibilities and collaborate as required to rectify the deficiencies identified in this chapter.

According to projections of the Water Authority dated June 2023, the supply of natural water is expected to decline until 2050, while demand for potable water is anticipated to rise in line with the expected population increase in Israel. A primary method for augmenting water supply is seawater desalination. This report includes an audit regarding the **Regulation and Oversight of Seawater Desalination Facilities**. Israel currently operates five large desalination facilities, which provided approximately 33% of total potable water in 2022, with the state incurring, in respect thereof, costs of approximately NIS 1.5 billion. For water supplied in 2023 that exceeded limits set in concession agreements, the Desalination Administration imposed on the desalination facilities agreed damages amounting to about NIS 1.6 million, an amount deemed insufficient to effectively deter excess supply.

In the coming decade, two concession agreements with desalination facilities are set to expire, with a production capacity of 205 million m<sup>3</sup> for the facilities operated under these agreements. The Accountant General Division at the Ministry of Finance and the Desalination Administration must prepare in advance for the expiry of these agreements. The Accountant General Division, along with the Desalination Administration, should address this matter promptly, as delaying decisions may cause urgencies, forcing hasty and not thorough potentially decision-making process, which could increase costs for consumers. It is recommended that the Ministry of Health, the Water Authority, the Accountant General Division, and the Desalination Administration draw conclusions from this audit's findings, taking into consideration insights from prior

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engagements with desalination facilities. This evaluation should encompass enforcement measures, scope of agreed damages, incentives, required inspection frequencies, agreed performance indicators and thresholds, and adherence to reporting obligations.

The conclusions can assist and support future decision-making concerning the terms of agreements with future desalination facilities that will operate the facilities following the expiration of current concessions, as well as with respect to additional desalination facilities to be constructed in the future, including their regulation and supervision.

The report also features two audit chapters regarding local government operations: Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations; Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel. The audit found that despite all the resources allocated in recent years to advance planning within the non-Jewish sector, the planning institutions, local authorities, and committees have been unable to complete the development of detailed plans necessary for issuing building permits, in order to solve the housing crisis in this sector. This setback stems, inter alia, from the need to make changes to local outline plans, and in one case examined, also changes to a national outline plan, requiring approvals from the National Planning and Building Council as part of the promotion process, and legal complexities related to private land ownership and consolidation and division of land, unauthorized construction undermining planning efforts and the level of cooperation between local authorities and planning institutions.

In light of the importance of arranging the development of settlements in the non-Jewish sector, including addressing the housing shortage, the Minister of Interior should instruct the relevant planning authorities to focus and find solutions to advance planning in this sector, and monitor the promotion of those solutions, alongside enhancing enforcement measures to prevent unauthorized construction. The Planning Administration, the Ministry of Housing, the local authorities, and planning and construction committees must collaborate to identify and address the barriers to effective planning in non-Jewish settlements.

• Monitoring the rectifying of deficiencies raised in previous reports is an important tool whose purpose is to ensure rectification by the auditees. This report presents the findings of two follow-up audits: one on a classified subject, therefore confidentiality measures were taken by the Knesset's State Control subcommittee, in accordance with paragraph 17 of the State Comptroller Law, 1958 [combined text], and another concerning the Accessibility of Public Transportation for People with Disabilities.



The preparation of the report required a significant effort by the employees of the Office of the State Comptroller, who prepared it professionalism, thoroughness, fairness, and care and who carry out their public role out of a true sense of mission and they have my gratitude.

We will continue to pray and hope for the victory of the IDF and the Defense Establishment in this difficult war forced on us by our most bitter of enemies seeking to destroy us as a nation and as a state, for the return of the hostages to their homes, the return of residents from affected areas in the south and the north, the recovery of the injured and for peaceful and routine days.

notagh 5pm

Matanyahu Englman State Comptroller and Ombudsman of Israel

Jerusalem, November 2024



# Chapter One

# Systemic Issues



Systemic Issues

The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

# The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

#### Background

The cost of living<sup>1</sup> in Israel, including prices in the food and high turnover consumer goods sector, affects every household in the country. Effective approaches to addressing the cost of living include: promoting competition, including reducing the influence of concentration groups on price levels; reducing regulation and the bureaucratic burden on importers, manufacturers, and retailers; investing in research and development for local production; encouraging regulatory reforms that foster competition; promoting free trade between countries; and encouraging informed consumer behavior.

The impact of the cost of living is particularly pronounced among populations of low and middle socio-economic status, as the proportion of their income spent on essential living expenses is significantly higher than that of populations in higher socio-economic brackets.

In 2011, following the rise in food prices, the Committee for Socioeconomic Change, chaired by Prof. Manuel Trajtenberg (the Trajtenberg Committee), analyzed changes in the cost of living in Israel and the key factors underlying these changes. It concluded that three fundamental factors under government control contributed to the increase in the cost of living: (a) a basic and ongoing failure in the economic regulation implemented by the state; (b) a lack of effective exposure to international competition in various sectors of the economy, including numerous import barriers; and (c) the existence of concentrated markets and reduced competitiveness in most economic sectors.

The Kedmi Committee in 2011 and the Lang Committee in 2014 identified additional factors influencing food prices, including government regulation and policies, consumer behavior, input costs, and macroeconomic policy impacts. In the years 2014–2016, several government decisions were made to promote parallel imports of food products through a reform in the importation of regular food products to Israel ("the Cornflakes Reform").

<sup>1 &</sup>quot;Cost of living is a term that refers to the average cost of household consumption in a given area, required to maintain a certain standard of living. As such, it represents the purchasing power parity in specific countries (or cities), positioning it as having a cardinal impact on the standard and quality of life of citizens in Israel." From the website of the National Digital Israel Initiative on the internet.





Following the publication of the Lang Committee's recommendations, several government decisions were made in the years 2014–2015<sup>2</sup> to promote the parallel import of food products through a reform in the import of regular food items to Israel ("the Cornflakes Reform").

In addition, new laws and legislative amendments were enacted to enhance consumer protection. For example, the Promotion of Competition in the Food Sector Law, 2014 (Food Law)<sup>3</sup> and the Public Health Protection (Food) Law, 2015, were legislated. Amendments were also made to laws such as the Consumer Protection Law, 1981, which establishes provisions for consumers, including prohibitions on misleading practices, labeling goods, and displaying prices; the Price Control of Goods and Services Law, 1996; and the Economic Competition Law, 1988 (formerly called the Restrictive Trade Practices Law until its amendment in 2019) (Economic Competition Law or Competition Law)<sup>4</sup>. In recent years, the State Comptroller's Office published a series of reports highlighting actions that the audited entities must take to combat the high cost of living<sup>5</sup>. In May 2021, the State Comptroller released a report titled Addressing Monopolies and Concentration in the Food Sector (the previous report). This report addressed various issues related to the cost of living, including concentration in supplier and retailer segments, barriers to competition in the food sector, and various import barriers. Furthermore, in 2024, the State Comptroller's Office published a report on price regulation<sup>6</sup>, raising issues related to price supervision under the purview of the Ministry of Finance, the Ministry of Economy and Industry (Ministry of Economy), and the Ministry of Agriculture and Food Security (Ministry of Agriculture).

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<sup>2</sup> Among others: Government Decision No. 1169: Promoting Parallel Import of Food Products (January 12, 2014); Government Decision No. 1606: Reform in the Import of Regular Food Products to Israel (April 18, 2014); Government Decision No. 338: Removing Barriers to the Import of Regular Food Products (Cornflakes) – Approval of the Ministerial Committee for Social and Economic Affairs' Decision (August 5, 2015); Government Decision No. 1854: Reducing the Cost of Living in the Consumer Goods Sector (August 11, 2016).

<sup>3</sup> In July 2024, Amendment No. 8 to the law (Promotion of Competition in the Food Industry (Amendment No. 8 and Temporary Provision), 2024) was approved. This amendment extended the prohibitions and restrictions outlined in Chapter B of the law concerning retailer-supplier relations to include the pharmacy sector starting January 2025 and established regulations concerning geographic competition in this sector. As part of these amendments, the law's title was changed to: The Promotion of Competition in the Food and Pharmacy Sectors Law, 2014.

<sup>4</sup> Restrictive Trade Practices Law (Amendment No. 21), 2019.

<sup>5</sup> State Comptroller Reports: Handling Monopolies and Concentration in the Food Sector (2021); Competitiveness in the Automotive Sector: Regulation and Import Competition (2022); Price Supervision in the Food Sector (2024).

<sup>6</sup> State Comptroller Report: Price Supervision in the Food Sector (2024).



#### Key Figures

# 23%, 37%

increase rate in the Food Price Index (excluding fruits and vegetables) and the Fruits and Vegetables Price Index, respectively, in Israel, from 2011 to May 2024, compared to the Consumer Price Index, which rose by only 17%

# up to 300%

the purchasing power of Israeli consumers is lower compared to that of consumers in England, France, and the United States in terms of hours worked to purchase the products under consideration

# **138** NIS billion

private consumption expenditure on food and non-alcoholic beverages in Israel in 2021



the increase rate in food and consumer goods prices during the first three months of the war, according to the Ministry of Economy's assessment<sup>7</sup>

### **3** Food suppliers

control over more than 85% of total sales in 20 food product categories only 23.4%

import-to-GDP ratio in Israel compared to 47% on average in OECD countries, as of 2020 only **6.9%** 

average market share of private labels in Israel (which could enable price reductions) compared to 36.1% in selected European countries



price gap for frozen vegetable products in Israel (more expensive) in 2023 compared to European countries

7 Cumulative weighted change based on weekly averages.

The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

# NIS **38** million

aggregate household savings on tuna products following tariff reductions, compared to NIS 11 million in lost state revenue



increase in pineapple consumption in Israel, with prices dropping by approx. 50% after tariff reductions and the opening of an additional import source

# 210 stores

out of 848 large stores<sup>8</sup>, have a high geographic concentration ("calculated rate"<sup>9</sup> above 30%) as of 2021



maximum price gap for sampled makeup products in 2023 between [the more expensive] Israel and selected European countries, even after the parallel import

reform for cosmetics came into effect

# **Audit Actions**

From August 2023 to March 2024 (the conclusion of the audit), the State Comptroller's Office examined actions taken by government ministries and other entities since the publication of the previous report in 2021 to address the causes of rising food and consumer goods prices and tackle import barriers. The audit reviewed the following areas: examination of the cost of living in Israel; compliance with relevant legislative provisions; international comparisons; assessment of the food and consumer goods market in Israel, including the supplier and retail segments, market trends, the impact of import barriers on the market, the implementation of reforms in food, agricultural, and consumer goods, and the effects of the "Swords of Iron" war. The audit was conducted at the Israel Competition Authority, the Consumer Protection and Fair Trade Authority, the Ministry of Economy and Industry, the Ministry of Agriculture, including the Plant Protection and Inspection Services, the Chief Economist's Department at the Ministry of Finance, the Budget Division at the Ministry of Finance, and the Ministry of Health, including the National Food Service and the Cosmetics Department, as well as the Israel Tax Authority. Additional checks were performed at the Israel Consumer Council, and complementary meetings were held with manufacturers, importers, retailers, application developers, and research institutes within the food and consumer goods market.

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<sup>8</sup> A store is defined as a retail location for selling food and consumer goods, including online stores, provided it consistently sells fresh fruits and vegetables, dairy products, and cleaning supplies, with over 50% of its sales turnover derived from food sales. A large store is defined as a store with a sales area of at least 250 square meters, excluding online stores.

<sup>9</sup> The calculated rate refers to the market share held by a major retailer within a competitive group. It is determined by the ratio of the sales turnover of the major retailer's large stores within the competitive group (including the store under review) to the total sales turnover of all large stores in that competitive group.



# **Key Findings**

- Declaration of Monopolies and Concentration Groups by the Competition Authority – except for its activity in the tea market in 2023, the Competition Authority did not systematically examine additional categories in the food and consumer goods sector characterized by high concentration levels, particularly regarding suppliers' ability to influence competition and product prices, including categories dominated by direct importers. It was found that in 36 out of 38 food categories, market concentration remains high (over 50% of the market). In 20 food categories, the share of the three dominant companies in the category exceeds 85%, with an average share of approximately 84% across all categories. For example: in the cream category, the three largest companies hold 99% of the market; in the instant coffee category, they hold 93%; in the breakfast cereals category, they hold 87%. Despite the significant concentration of suppliers controlling more than 50% of supply in 36 food categories, as of 2023, the Competition Authority has not examined the necessity of declaring concentration groups in the food sector or instructing their members to take steps to significantly enhance competition in the industry.
- The Impact of the Iron Swords War on the Cost of Living during the war, the workforce in the industrial sector decreased by 18%, and the output of factories in Israel fell by about 50% in the first three months of the Swords of Iron War. Additionally, food prices increased by 2.9% to 6% in food retail chains<sup>10</sup> during the same period. At that time, no legislation existed to enable the Consumer Protection Authority to address price increases that appeared to lack economic justification.
- Conglomerates<sup>11</sup> in the Food and Consumer Goods Sector as of 2023, there are at least 13 companies and commercial groups in Israel identified as conglomerates in the food and consumer ods sector. This means they operate simultaneously in multiple categories within the sector. Some of these companies also hold significant market shares in the categories in which they operate.
  - New Mergers when a major supplier of a food product seeks to expand into another category within the food sector through a merger with a supplier in the other category, i.e., a conglomerate merger, the Competition Authority examines the impact of the merger on competition in the other category. Additionally, the

<sup>10</sup> A 2.9% increase in the first three months of the war, according to a study by the Ministry of Economy. A 6% increase in the price of a basket of goods from August 21, 2023, to October 15, 2023, according to the Consumer Protection Authority. An increase of 5% to 5.6% in the price of an average basket of goods ("the thousand-item basket") in October and November 2023 compared to the same months in the previous year, based on a study by the Consumer Protection Authority.

<sup>11</sup> A corporation that controls several different businesses, sometimes unrelated to one another.



Authority evaluates the potential harm to competition in the existing areas in which the acquirer operates. However, mergers of this type, where the parties operate in different sectors, generally do not raise clear concerns of harm to competition, unlike mergers involving suppliers operating in the same sectors. As a result, the Competition Authority faces challenges in quantifying its concerns and substantiating objections to mergers with these characteristics.

- Previously Approved Mergers the food sector also includes conglomerates resulting from past mergers, where the standing of these entities in the categories in which they operate may have since changed. Additionally, there are conglomerates not formed through mergers that hold significant market shares in at least one food category. The Competition Authority does not assess the impact of their activities on competition in other food categories.
- Supplier Segment Impacting Market Concentration in the Food and Consumer Goods Sector – the market share of the five largest suppliers in the food and consumer goods sector has slightly declined over the years, with these suppliers holding approximately 37.5% of the market share in Israel's food sector in 2022, compared to 42.7% in 2017. However, according to the Competition Authority, the market remains concentrated, reflecting the high levels of concentration in Israel's food and consumer goods market.
- Private Label Marketing it was found that the share of private label products in the total retail market sales of food and consumer goods increased moderately from 2014 to 2022, reaching only 6.9%. This is significantly lower than the average private label market share in selected European countries, which is five times higher than in Israel (36.1% compared to 6.9%, respectively). Only in 2023 did the Competition Authority begin examining the impact of the strengthening of private labels by large retailers on competition, including the effect on smaller suppliers and their shelf presence with these retailers. The Authority has yet to evaluate the need to invoke Section 11 of the Food Law, which empowers the Commissioner for Competition to issue directives to retailers regarding private labels.
  - Geographical Competition Among Retailers it was found that the Food Law does not provide the Competition Authority with tools to address the geographical concentration of large retailers in other areas that may harm competition. This includes the opening of new neighborhood stores not classified as large stores under the Food Law, as well as their expansion into the wholesale market, which turns them into suppliers for small and medium-sized retailers. This could impair the ability of smaller retailers to compete in the same geographical area with the stores of large retailers that also serve as suppliers.

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Examining the Effectiveness of the Food Law – the Food Law, enacted in 2014, is unique to Israel and aims to enhance competition in the food and consumer goods sector to reduce consumer prices. The law was legislated following the conclusions of the Kedmi Committee and includes provisions regarding the geographic competition of retailers, price transparency, and rules governing the relationship between suppliers and retailers. From the law's enactment until the audit's conclusion, the Ministry of Economy, the Competition Authority, and the Consumer Protection Authority, each within its respective area of responsibility, did not examine the overall impact of the Food Law on consumer prices and competitiveness in the food and consumer goods sector. However, they did explore additional methods to advance the Food Law's objectives.

The Ministerial Committee for Combating the Cost of Living – the committee, comprising the Prime Minister and the Ministers of Finance, Economy, Agriculture, Environmental Protection, Energy and Infrastructure, Health, Welfare and Social Security, Religious Services, Construction and Housing, the Negev, Galilee, and National Resilience, Communications, Tourism, and Aliyah and Integration<sup>12</sup>, was established in June 2023. As of the conclusion of the audit, it convened seven times: twice in June 2023, twice in July 2023, twice in September 2023, and once in February 2024. This occurred despite certain importers and suppliers announcing price increases of dozens of percent during its tenure, and despite the economic challenges presented to the public by the Swords of Iron War. Additionally, during a committee meeting<sup>13</sup>, it was decided that the legislative process for the What' s Good for Europe is Good for Israel reform would conclude by April 7, 2024. The reform's legislation was completed in July 2024<sup>14</sup>.

The Agricultural Reform – the Ministry of Agriculture drafted an amendment to the Plant Protection Regulations; however, following the formation of the new government in 2022, the amendment was not advanced by the Minister of Agriculture. Additionally, no discussion was held regarding the duration of the reform's freeze, its implications, or alternative options should the freeze remain indefinite. Furthermore, prior to the reform's suspension and as part of its components, the Ministry of Finance and the Ministry of Agriculture failed to reach agreements on providing direct support to farmers as compensation for tariff reductions and market liberalization for imports. The reform was halted before completion, and no deliberation was held on the consequences of this decision on the variety, quantity, and prices of agricultural products in the markets. The partial implementation of the reform hindered the anticipated benefits, which could have facilitated fruit and vegetable imports for consumption and reduced the cost of living.

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<sup>12</sup> The following officials shall be regularly invited to committee discussions: the Director General of the Prime Minister's Office, the Director General of the Ministry of Finance, the Director General of the Ministry of Economy, the Director General of the Ministry of Agriculture, the Head of the National Economic Council, the Head of the Budget Division in the Ministry of Finance, the Head of the Regulatory Authority, the Governor of the Bank of Israel, and the Commissioner for Competition.

<sup>13</sup> On February 29, 2024.

<sup>14</sup> In July 2024, the law passed its second and third readings.

The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

The lack of direct support for farmers, according to the Ministry of Agriculture, resulted in damage to agricultural production in certain sectors.

Tariff Reduction – it was found that the reduction of tariffs on grapes by the Ministry of Finance did not lead to a significant increase in supply. Following the tariff reduction in 2023, 13,607 tons were sold compared to 12,314 tons in 2021, prior to the reduction. This contrasts with findings regarding pineapples, where the tariff reduction was more substantial, and an additional country was opened for imports. These measures likely contributed to an increased supply of the product and a significant price decrease.

Food Standards – as of the audit's conclusion, the Ministry of Health had not met the timelines recommended by the Committee for Examining Food Standards and their inclusion in the Fourth Annex to the Standards Law, which would allow the import of products or processes that comply with foreign regulatory requirements. The Ministry of Health failed to present the results of its evaluation regarding the potential inclusion of any of the 15 standards recommended by the committee. Additionally, contrary to Section 313b of the Public Health (Food) Law, the Ministry of Health did not remove the official status of eight standards by January 1, 2024, as mandated by the committee. Import and sale of products subject to these standards are only permitted if they conform to unique Israeli standards, which could unnecessarily restrict imports. Examples of products. Furthermore, Israel maintains unique standards relating to shelf-life, such as those that apply to canned fruits and vegetables, pickled or brined vegetables in vinegar or edible acids, canned fish in oil, canned tomato products, and more.

Adoption of European Standards for Listeria Presence – adopting European regulations, subject to risk management, could ensure that the regulations are straightforward and clear regarding both requirements and enforcement for regulators and food businesses alike. The Food Service Division of the Ministry of Health has not yet conducted a comprehensive assessment of the possibility of adopting European standards for listeria presence in food in a manner that ensures public health in Israel, nor has it established a timeline for completing this work. Until this assessment is completed, many products marketed in the European Union remain prohibited for import into Israel, not necessarily for justifiable reasons.

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Import Through the European Path and Approval of Qualified Importers $^{15}$  – data from the Ministry of Economy indicates that obtaining a shipment release approval from the port under the European import path takes approximately 5 days, compared to 74–111 days under the sensitive food import path, which requires prior approval outside the European path framework. According to the Ministry of Economy, an importer bringing certain dairy products through the European path can save approximately 11% of the retail cost compared to importing through the regular path. However, it was found that approximately 150 major food importers have not transitioned to the European path as qualified importers, and the majority of sensitive food imports continue to follow the regular path, which requires prior import approval and inspections at Israel's entry points. The preference of importers for the more expensive path indicates their ability to pass the additional costs onto consumers and reflects a lack of sufficient competition in the market, with importers not facing adequate competition from rivals. Importers argue that the conditions of the food import reform under the European path do not fully address their needs; for example, the inability to import both products included in the reform and products excluded from it in the same container.

The High Cost of Healthy Food – it was found that barriers to the import of frozen vegetables exist, including barriers stemming from Ministry of Health regulations, regarding the presence of bacteria, that do not align with European standards, as well as tariff barriers. These barriers contribute to price differences of over 100% for most frozen vegetable products sold abroad compared to those sold in Israel. Additionally, frozen vegetables are subject to high tariffs and market concentration with a dominant supplier, which impact consumer prices, resulting in price gaps of up to approximately 161% compared to prices abroad. Furthermore, contrary to the Ministry of Health's recommendations for healthy eating, price controls are applied to white bread but not to whole-grain bread (the healthier option). Price gaps in the bread categories examined between Israel and selected countries amount to 82%. The high price of products considered healthy may also limit their consumption by the public.

**The High Cost of Cosmetics** – even after the parallel import reform for cosmetics came into effect in January 2023, based on approval of their conformity to referenced cosmetics, makeup products in Israel remain up to 403% more expensive compared to

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<sup>15</sup> Any company, corporation, or licensed business registered in Israel may apply for importer registration. For imports intended for the Palestinian Authority territories, the applicant must either hold a Palestinian Authority ID or be a company, corporation, or licensed business registered in the Palestinian Authority territories. The registration certificate includes the names and details of the importers, as well as the information about the warehouse where the imported food will be stored. Importers are required to obtain valid approval for the warehouse from the district health office in the jurisdiction where the warehouse is located. Additionally, the importer must meet one of the following conditions: possess a business license for food storage suitable for storing the products they intend to import, and submit the appropriate documents; enter an agreement with a business providing licensed storage services (for imports into the Palestinian Authority territories, a warehouse is not required). For further details, see the Ministry of Health website. https://www.gov.il/he/service/non-animal-derived-food-importer-registration.

The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

selected European countries. For example, a 30 ml Revlon foundation costs an average of NIS 25.4 in the sampled countries, compared to its price in Israel, which is NIS 102.4.

**The Israel Competition Authority's Actions Following the Previous Report's Findings** – the State Comptroller's Office positively notes the enforcement measures taken by the Israel Competition Authority (ICA) in response to the previous report's findings. The ICA analyzed the tea market and identified a company with significant market power that was not classified as a major supplier under the Food Law, leading to its designation as a monopoly in the food sector (tea), the first such declaration in over 20 years. The ICA conducted several surveys to map import barriers; initiated legislative amendments to address anti-competitive practices; examined agreements between suppliers and retailers; investigated public statements made by market players in the food industry; prohibited major suppliers from managing shelf arrangements in large retail chains; and required the submission and review of contracts between direct importers and their suppliers abroad.

Actions of the Plant Protection and Inspection Services Following the Previous Report's Findings – the State Comptroller positively notes the proactive measures taken by the Plant Protection and Inspection Services (PPIS), such as developing a service charter to facilitate the import of fruits and vegetables; establishing an internal procedure to regulate imports, and expanding the list of countries permitted to export fruits and vegetables to Israel. These actions have contributed, among other things, to an increase in the volume of pineapple imports and a significant reduction in its consumer price.

### **Key Recommendations**

It is recommended that the ministerial committee on combating the cost of living, chaired by the Prime Minister, convene regularly to advance the issues for which it was established and address factors affecting the cost of living. Additionally, the committee should coordinate between relevant bodies by mapping the tools at their disposal and, if necessary, propose additional measures, including legislative amendments, to curb price increases observed since the publication of the previous report and during 2024, which also saw price hikes. The Prime Minister, along with the Ministers of Finance, Economy, Health, Agriculture, and other ministers involved in the committee's work, should monitor the implementation of reforms and their outcomes, including the What's Good for Europe is Good for Israel initiative, and take appropriate action accordingly.

The Competition Authority Should examine whether conditions exist for declaring monopolistic status in additional food and consumer goods categories, including direct

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importers, and to take appropriate action against those meeting such conditions, using the tools at its disposal, to prevent the abuse of market power and the resulting increase in the cost of living. It is further recommended that the Competition Authority assess the level of competition among suppliers in food industry categories with high concentration levels and examine barriers to the entry of new competitors or the display of their products on shelves. A systematic review and identification of concentrated sectors and anti-competitive practices could also help map which additional oversight and regulatory tools the Competition Authority requires, thereby aiding in providing recommendations to enhance competition.

- The Ministry of Economy, the Competition Authority, and the Consumer Protection and Fair Trade Authority should establish measurable targets (such as the number of suppliers whose products are available on shelves, the number of stores in a given area, and product diversity) to provide decision-makers with an up-to-date picture of the Food Law's impact on competitiveness in the food sector and on food prices.
- The Ministries of Finance, Economy, and Agriculture should continue examining the impact of maintaining tariffs on food products on the cost of living, particularly regarding products not produced or grown in Israel. This examination should include, in coordination with the Competition Authority, whether and how the lack of tariff reductions affects consumer prices, market concentration, and the variety of products offered to consumers. This should be done while considering the implications of tariff reductions on local industry and agriculture and the need to preserve them, especially in light of the reality created by emergency events, such as the Covid-19 pandemic and the Swords of Iron War. Furthermore, it is recommended that the Ministries of Finance and Agriculture set a timeline for the freeze on the agricultural reform or propose an alternative plan that addresses the need to reduce the cost of living by opening the market alongside promoting local agriculture.
- It is recommended that the Ministry of Health, the Competition Authority, and the Ministries of Economy and Finance examine market conditions, competition, and other relevant aspects concerning the approval process for importing food categories where importers prefer to employ the path requiring prior approval and inspections at Israel's entry points. This preference persists despite the additional costs involved, which ultimately are passed on as added costs to the product, borne by consumers.
  - Given the high prices of healthy products and the importance of their consumption, it is proposed that the Ministry of Finance monitor the effectiveness of opening quotas and reducing tariffs, in their current scope and levels, on the retail price to consumers, while examining the implications for agricultural production in Israel. It is recommended that the Competition Authority examine competition in the relevant sectors and provide the appropriate authority with recommendations on ways to enhance it. Additionally, it is recommended that the joint price supervision committees of the Ministry of Finance and the Ministry of Economy or Agriculture, in consultation with the Competition Authority and the Ministry of Health, define the categories of healthy foods characterized by the Ministry

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The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

of Health, including whole-grain bread, and utilize the tools at their disposal to reduce their market price. If necessary, they should take action to develop additional tools and expand the committees' authority to encourage the public to consume healthy food.

It is recommended that the Ministry of Economy, the Consumer Protection Authority, and the Competition Authority define measures and actions to prevent retailers and suppliers from exploiting states of emergency in Israel to increase their profits.

#### Prices of Various Products in Israel and Abroad and Purchasing Power, 202417 (in terms of currency and hourly wages)

			Price per kilogram/ liter, excluding VAT, in NIS	Price per kilogram/ liter, including VAT, in NIS	How many kilograms/ liters of products can be purchased in exchange for one hour of work
Tuna	Israel	*	33.3	38.9	2
	England		<u>41</u>	<b>41</b>	2.5
	USA	٩	25.6	25.6	5.5
凸	Israel	*	3.9	4.6	16.6
	France		4.2	4.4	23
Coca Cola	USA		4.9	4.9	21.4
D C C C C C C C C C C C C C C C C C C C	Israel	*	10	11.8	6.5
	France		10.8	11.3	9
Pasta	USA		14.2	14.2	9.9
	Israel	*	6.1	7.1	10.7
Milk	England		4.5	4.5	23
	USA		3.2	3.2	43.8
ST)	Israel	*	8.3	9.7	7.8
	England		4.2	4.2	24.6
Bread	USA		10	10	14.1

According to data from domestic and international retail chains (product prices), the Bank of Israel (exchange rates), and the OECD<sup>16</sup> (wage data<sup>17</sup>), as processed by the State Comptroller's Office.

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<sup>16</sup> VAT rate on food products: in Israel - 17% (no VAT on fruits and vegetables); in France - 5.5%; in Britain and the U.S. - 0%. Exchange rates to the shekel: Euro - 3.91, Dollar - 3.62, Pound Sterling - 4.56. Hourly wage in NIS: in Israel Pound Sterling – 4.56 76; in Britain – 104; in France – 102; and in the U.S. – 141.

In each country, annual wage data for 2023 was used. The data was divided by 52 weeks and then further divided 17 by the number of weekly working hours in each country.

The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector

# Summary

The cost of living in Israel is a central issue in the lives of its citizens. Some of the price increases reflect structural problems in Israel's food and consumer goods market, which require attention. These include market concentration, low levels of competition, customs barriers, phytosanitary restrictions, and public health regulations. A balanced approach must be found to reconcile all interests, including the need to maintain the national security minimum of local industrial and agricultural capabilities. Following the audit's conclusion, three legislative amendments were approved, aimed at expanding imports under the What's Good for Europe is Good for Israel reform. The Ministries of Finance, Economy, Agriculture, and Health, along with the Competition Authority and the Consumer Protection Authority, should undertake proactive measures to open the market to competition and reduce concentration levels. Each should leverage its available tools and collaborate across relevant government ministries. If necessary, further legislative amendments should be pursued to enhance the arsenal of tools required.

The Prime Minister, the Ministers of Finance, Economy, Health, and Agriculture, as well as other relevant ministers (Environmental Protection, Energy and Infrastructure, Welfare and Social Security, Religious Services, Construction and Housing, the Negev, Galilee and National Resilience, Communications, Tourism, and Immigration and Absorption), who are members of the Ministerial Committee on the Cost of Living, must supervise the implementation of reforms, ensure their completion and updates as necessary, and verify that government actions to reduce the cost of living are coordinated and up-to-date to effectively address the cost of living and rising food prices.



# Chapter Two

# Government Ministries



Ministry of Finance – The Tax Authority

# Taxation of Digital Currencies



Abstract

# **Taxation of Digital Currencies**

#### Background

Over the past 15 years, the global financial market for digital assets, including digital currencies (cryptocurrencies), has significantly grew, with notable developments in Israel. The digital asset market is characterized by volatility, peaking at about USD 3 trillion in 2021 and again in 2024. The potential tax revenue from cryptocurrency activities in Israel is estimated to be substantial, potentially reaching NIS 2 to 3 billion.

The regulation of digital currencies is a concern for the Israel Tax Authority (the Tax Authority) and other regulatory bodies. The "Task Force,"<sup>1</sup> tasked with integrating cooperation among enforcement agencies, has identified digital assets as critical, and it is characterized as generating crime.

This audit examined various aspects of the taxation of digital currencies. Determining the taxation rules for decentralized digital currencies presents numerous challenges, some similar to those encountered in other areas of taxation, while others are unique. These challenges stem from the management technology of digital currencies, difficulties in accurately assessing their value, and the nature of digital currencies as intangible assets transferred globally.

The growing number of digital currency users in Israel and worldwide, along with the increasing value of these currencies over the years, generating income for their holders, necessitates regulatory advancements in cryptocurrency, enabling optimal tax collection, foster economic growth, and maintaining Israel's position as a leader in technology and its products.

Recent developments in crypto have been observed in developed countries, including the United States, the United Kingdom, and the European Union. In January 2024, the United States permitted investment funds to trade in Bitcoin-type digital currencies through an exchange-traded fund (ETF) held directly or via a third party.

At the end of 2017, the Tax Authority published digital currencies taxation rules.

<sup>1</sup> According to Government Resolution 4618 of January 2006, the combatting of serious crime, organized crime, and their associated products has been designated as a long-term objective. A "task force" has been formed, with the primary responsibility of establishing goals, policies, and defining action priorities. The Attorney General serves as the chair of this task force, which includes the State Attorney, the Police Commissioner, the Director of the Tax Authority, and the Chairman of the Securities Authority.

Taxation of Digital Currencies

#### Key Figures

# about **0.2–1.67** million holders

of digital currencies in Israel in 2023, according to various estimates



about NIS

# 0.25% of reporting entities report to the Tax

about

#### Authority on their activities in digital currencies. 500 reports on average in 2018–2022, out of a minimum reporting potential estimated at 200,000

# 8 publications

which include crypto taxation rules, were issued by the Tax Authority in 2017– 2023. However, the rules were not incorporated in the legislation

# about 31.5% decrease

in the assessors and coordinators in the Tax Authority in 2019–2023 from 833 to only 570

# **0** bookkeeping audits

were carried out to date by the Tax Authority to examine the recording of a transaction for which crypto was received

# **0** inquiries to the Tax Authority

in the payment of crypto activity tax application within the "Procedure for tax payment through the Bank of Israel" from the publication date on December 31, 2023, until the audit end



average annual income in a digital wallet in Israel
### **Audit Actions**

From October 2023 to February 2024, the State Comptroller's Office audited aspects of digital currency taxation.

The audit was performed at the Tax Authority, focusing on the Income Tax Professional Department, the Legal Department, the Assessment and Audit Department, the Procurement Department, the Investigations Department, the National Unit for Investigations and Fight Against Economic Crime (Yahalom Unit), the Spokesperson's Department, the Collection Department, and select assessment offices, as well as in the VAT Professional Department and Assessment and Audit Department. A supplementary audit was conducted within the Tax Authority's Data Processing Unit (SHAAM), the Innovation Authority, the Chief Economist Division of the Ministry of Finance, and the Bank of Israel.

Meetings were held with stakeholders in the cryptocurrency market, including the Forum of Cryptocurrency Companies, entities involved in investing and trading in cryptocurrencies, and company owners in this sector (cryptocurrency market stakeholders), as well as with representatives working vis-à-vis the Tax Authority and a designated representative organization.

#### **Key Findings**

- Tax Collection from Cryptocurrency Israel's estimated tax revenue potential from cryptocurrency activities income is significant, potentially reaching NIS 2–3 billion. The audit raised that the Tax Authority has not adequately assessed the existing tax potential within the cryptocurrency market using available tools and relies on outdated estimates. This may demonstrate a lack of attention to the matter. Due to insufficient projections or underestimations, a misleading representation was raised to mitigate the lack of cryptocurrency activities reporting, including identifying issues, preparing a work plan, and setting targets for increasing reporting and optimizing tax collection on cryptocurrency revenues.
- The Actual Reporting Rate on Cryptocurrency Activities, Compared to the Reporting Potential – it was raised that from 2018 to 2022, the average annual number of those reporting cryptocurrency activity to the Tax Authority was merely 500. The cryptocurrency activity reporting rate to the Tax Authority is virtually zero against the estimated potential of at least 200,000 users.

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#### Taxation of Digital Currencies

- Regulation of Cryptocurrency in Israel it was found that the Tax Authority published taxation guidelines for cryptocurrency at the end of 2017, making Israel one of the first countries to take such action. However, since 2018, the Tax Authority has only issued three cryptocurrency taxation publications. It has not made the necessary adjustments despite significant advancements in cryptocurrency, particularly with various financial instruments based on blockchain technology, and notable regulatory developments in the European Union, the United States, and the United Kingdom. Thus, the Tax Authority added to the tax uncertainty. Uncertainty concerning regulation negatively affects the ability of companies and individuals to operate in Israel and may lead to a migration of activity to other countries. Furthermore, as of the audit's end date, the Tax Authority and the State Revenue Administration have not finalized the memorandums necessary to amend the Income Tax Ordinance and the VAT Law, nor have they drafted subsidiary legislation. Consequently, these have yet to be published by the Minister of Finance despite the elapsed timeframe allocated in Government Resolution 204 of February 2023, which expired in August 2023.
- **Bookkeeping Instructions for Cryptocurrency Transactions** the audit raised that the Tax Authority has not revised bookkeeping instructions for cryptocurrency, including valuation determination in crypto transactions and the requirement to issue receipts for cryptocurrency transactions and regarding disqualification of books, even though it was authorized to do so under Section 130 of the Income Tax Ordinance. Moreover, as of the audit end date, the Tax Authority has not conducted bookkeeping audits concerning transactions where cryptocurrency was received. This hinders identifying bookkeeping deficiencies and imposes penalties as done for other payment methods, creating an environment for tax evasion and undermining deterrence.
- Frequency and Method of Reporting Cryptocurrency Activity the audit raised that the Tax Authority has not adjusted the frequency of reporting obligations or the capital gains reporting form (Form 1399) to reflect the nature of digital currency usage, characterized by numerous transactions, intricate calculations, and the complexities of tax payment. The prevailing situation imposes significant compliance costs and bureaucratic burdens on taxpayers, consequently affecting the volume of reporting to the Tax Authority regarding transactions and profits generated.
- Retrospective Reporting of Cryptocurrency Activity the audit raised that the Tax Authority has not set principles to retrospectively process income reports from cryptocurrency activities. This inconsistency in handling such cases among tax officials may lead to violations of proper administrative procedures and hinder the Tax Authority's obligation to maintain uniformity and equitable policies for all taxpayers.
- Assessors Training in Cryptocurrency it was found that the limited training provided to income tax assessors by the end of 2023 failed to equip them with the practical tools necessary for constructing assessments and the requisite professional capacity to address assessments with representatives specializing in the field.

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Furthermore, the Tax Authority has not supplied assessors with technological calculation tools. Moreover, VAT auditors had not received any cryptocurrency training by the audit end date.

- Technological Tools to Calculate Tax from Cryptocurrency Activities the audit found that the Tax Authority has yet to complete a technological procurement process to calculate capital gains and tax from digital currencies using dedicated software, which has been available for several years, particularly among representatives in the sector. The protracted duration of this process, exceeding three years, has hindered the Tax Authority's ability to achieve the professional standards present in the market, adversely affecting deterrence and tax collection efforts.
- Human Resources at the Tax Authority for Cryptocurrency Taxation it was found that from 2019 to 2023, the number of assessors and coordinators in the Income Tax Division decreased by 263, while the number of auditors and VAT coordinators decreased by 55 when the Tax Authority has not adequately recruited personnel to replace those leaving. As of the end of 2023, the Authority has not implemented significant measures to mitigate the trend of employee attrition, which adversely affects its assessment functions, including those related to cryptocurrency, and its overall objectives. Furthermore, the retention strategies employed for tax assessors in 2023 focused primarily on financial incentives, with no substantial efforts directed toward other motivational factors relevant to the Authority's workforce.
- Information Exchange with Other Countries in the Cryptocurrency Sector in 2023, the legal tools and most operational mechanisms of the Crypto-Asset Reporting Framework (CARF), established by the OECD to facilitate international information exchange in this domain, were finalized. Israel has yet to commit to this initiative, and the Tax Authority has not made significant progress towards fulfilling the CARF requirements in preparation for the information exchange as early as 2027. This increases the risk of Israel being placed on the OECD's blacklist of tax evasion countries.

Tax Obligations Related to Cryptocurrency Activities – an inherent contradiction was found within the state authorities' activities regarding cryptocurrency taxation. The Tax Authority mandates tax payments on profits from cryptocurrency activities, which must be processed through the banking system. Simultaneously, based on the interpretation of the regulation by the Bank of Israel and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), banks refuse to accept funds in some cases derived from cryptocurrency activities, even after the Proper Conduct of Banking Business Directive No. 411<sup>2</sup> was amended following the High Court of Justice ruling. The Tax Authority published a procedure for tax payment through the Bank of Israel on December 31, 2023, after years of this issue being unresolved. Initially, the procedure was released as a six-month temporary order, and an extension was approved until July

<sup>2</sup> Proper Banking Management Instructions (PCB) are instructions published by the Supervisor of Banks concerning the methods of operation and management of a banking corporation.

#### Taxation of Digital Currencies

1, 2024. It was not until April 3, 2024, that the Tax Authority issued an executive order to activate this procedure over three months following its publication after half the activation window defined in the temporary order had lapsed. The operational methods for the procedure within assessment offices and the processes for representatives and taxpayers remain undetermined, and the form for submitting tax payment requests under the above procedure has not been issued. The procedure currently applies solely to individuals, places an unnecessary bureaucratic burden on the applicants, and imposes on the Tax Authority responsibility exceeding its purview to combat money laundering. Moreover, by the audit end, no inquiries had been processed within the framework of the procedure. Furthermore, the Tax Authority was not prepared for the procedure's implementation before its publication, among other things, since it had not yet completed technological procurement to examine the taxpayers' reports and had not determined an "auditing party" whose designation is necessary for the operation of the procedure.

**Publication of Taxation Rules in the Cryptocurrency Sector** – the Tax Authority commenced the publication of cryptocurrency taxation rules at the end of 2017, positioning Israel among the first countries to do so.

**Crypto Training** – initiated by the Income Tax Investigation Division, a course encompassing theoretical and practical aspects of cryptocurrency began in February 2024, with representatives from each tax office expected to complete the training.

#### **Key Recommendations**

It is recommended that the Tax Authority expedite the anchoring of crypto taxation rules within the legislation. Until a comprehensive legislative procedure that fully lays out the Authority's position regarding questions arising from the public on significant issues is finalized, it is recommended that the Authority disseminate its positions through available channels, including professional publications, guidance to representatives, and the publication of taxation decisions relevant to the sector.

In collaboration with the Tax Authority and the State Revenue Administration, the Minister of Finance should prepare the memorandum of law and draft secondary legislation to set crypto taxation rules under Government Resolution 204. This will facilitate the publication of the rules, fostering clarity and certainty regarding taxation for crypto holders.

It is recommended that the Tax Authority investigate the reasons for the low digital currency activities reporting rates and devise a strategy to address it, incorporating goalsetting and actionable plans to enhance the scope of reporting.

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- The Tax Authority should regulate retrospective reporting, including crypto income. It is recommended that this regulation be implemented via formal legislation rather than through temporary measures to monitor these reports and standardize their handling by tax assessors and other units of the Authority.
- The Tax Authority should implement the International Crypto-Asset Reporting Framework (CARF), enabling the collection of information regarding Israeli crypto users who fail to report taxable operations, thereby integrating them into the tax system.
- Before any further extension of the tax payment procedure through the Bank of Israel, it is recommended that the Tax Authority draw conclusions, implement adjustments, and consider consulting with professional bureaus and market stakeholders.
- It is recommended that the Bank of Israel facilitate tax payment executions through commercial banks. It is recommended that the Bank of Israel engage in consultations with the Tax Authority and IMPA and cooperate with them, particularly in response to the court's directive to address the challenges associated with tax payments related to crypto income.



Taxation of Digital Currencies

The Average Number of Annual Reports on Crypto Activity was Reported Out of the Estimated Minimum Reporting Potential for 2018–2022



According to data from the Tax Authority and the Chief Economist's report, processed by the Office of the State Comptroller.

The diagram indicates that from the estimated reporting potential of about 200,000 digital wallet holders in Israel, the actual reported activity in digital currencies is negligible, averaging about 500 tax reports per year for the tax years 2018 to 2022.

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## Summary

Since 2009, digital currencies have occupied an increasing volume in the financial world worldwide. Given its complexity, the regulation of digital currencies has become essential to mitigate risks associated with this emerging technology and its potential benefits. The taxation of digital currencies challenges stem from various factors, including the management technology of digital currencies, the difficulties in ascertaining their value, and their nature as intangible assets that can be transferred globally. Insufficient attention to these challenges facilitates tax planning and evasion.

Israel was among the first nations to set cryptocurrency taxation principles. However, the European Union, the United States, the United Kingdom, and other countries have significantly advanced their regulations in this field, with Israel lagging.

Legislative definitions and taxation rules in this area have yet to be formally anchored in legislation, resulting in ongoing taxation uncertainty in the crypto sector despite the substantial influence of taxation rules and various definitions on determining tax liability and tax calculations. The Tax Authority must address this matter.

The Tax Authority should adapt the required reporting frequency and forms to reflect the nature of cryptocurrency usage. Increased outreach efforts concerning the reporting and taxation of cryptocurrency activities through various communication channels are recommended, along with the consolidation of reporting and taxation rules for ease of access to expand the scope of reporting.

To ensure practical and professional assessment and treatment, the Tax Authority should prioritize recruiting and retaining qualified personnel and provide practical training for handling cryptocurrency cases, including using technological tools for report examination.

Additionally, the Tax Authority should evaluate the impact of the procedure for tax payment through the Bank of Israel to alleviate difficulties in tax compliance and make adjustments and expansions for diverse populations in consultation with the Bank of Israel, IMPA, and other relevant market stakeholders to ensure that tax payment challenges do not hinder reporting on cryptocurrencies income.

Collaboration with professional bureaus, industry stakeholders, and international counterparts is recommended to formulate and publish clear taxation rules, similar to recent initiatives in the European Union and the United Kingdom. Furthermore, in coordination with the Tax Authority, the Minister of Finance should finalize a memorandum of law regulating taxation, as outlined in Government Resolution 204. Enhanced clarity in taxation can strengthen public





The Ministry of Energy and Infrastructure

**Development of the Electricity Sector Towards 2030** 



Abstract

## **Development of the Electricity Sector Towards 2030**

Background

The Israeli electricity sector will face significant challenges by 2030 due to a sharp increase in electricity demand driven by climate change, including the increased frequency of extreme weather events; the need to meet various government-mandated targets, such as the transition to clean electricity production<sup>1</sup>; electrification of different modes of transportation (vehicles and public transport); and the construction of additional desalination facilities.

These developments require accelerated development of the electricity sector and large-scale financial investments, alongside the completion of projects from previous development plans that have not yet been implemented. Rapid development is needed in both the production and network segments and is accompanied by technological challenges that must be addressed in order to ensure reliable, high-quality, and accessible electricity supply, as required by the Electricity Sector Law, 1996.

In August 2022, Noga – Israel Independent System Operator Ltd. (Noga or the Noga Company) – prepared an integrated development plan for the electricity sector, encompassing the production and delivery segments (transmission and transformation systems), through 2030. This plan aims to address these needs. In November 2023, the Minister of Energy and Infrastructure (the Minister of Energy)<sup>2</sup> approved the delivery segment development plan<sup>3</sup> within the integrated plan. Below is a description of the structure of the electricity sector and the key players operating within it.

<sup>1</sup> Alongside additional decisions regarding the reduction of greenhouse gas emissions, the decrease in coal usage, energy efficiency, and more.

<sup>2</sup> The approval was granted with the consent of the Minister of Finance, in accordance with the provisions of the Electricity Sector Law.

<sup>3</sup> This section includes the transmission and transformation system.



Prepared by the State Comptroller's Office.

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Abstract | Development of the Electricity Sector Towards 2030

#### Key Figures

## NIS **0.76**-**2.4** billion

The annual damage estimate calculated by the State Comptroller's Office, based on Noga's estimates for unmet electricity demand in 2027 and 2028, respectively, due to insufficient development of the generation system, reflects 6.5 hours and 9.9 hours of unmet demand, respectively

### Approx. 33%

The cumulative growth rate in peak electricity demand is expected to reach 19.4 GW by 2030, compared to a peak demand of 14.6 GW in 2022

## **9—12** years

The time required to establish a conventional power plant, starting from the initiation of the approval process in planning institutions to the operation of the plant<sup>4</sup>

## **2** billion kilowatthour (kWh)

The estimated shortage of electricity generated from natural gas in 2030 if the risks identified by Noga in its analysis of a potential natural gas shortage materialize

#### Only 12.5%

Electricity generation from renewable energy sources as a percentage of total electricity generation at the end of 2023, compared to the government target for renewable energy generation in 2030, which is set at 30%

#### Only **5** megawatts (MW)

The storage capacity in 2023, compared to the target of 400 MW in standalone facilities and 168 MW in PV facilities combined with storage for 2023. The storage target for 2030 is 2,300 MW

## Only **8** years

#### The planning horizon for Israel's electricity transmission system, starting in 2023. This horizon is shorter compared to the planning horizons in developed countries reviewed in the audit, which range from 10 to 20 years

## NIS **2.9** billion

The average annual investment in the years 2023-2030 (a total of NIS 25.8 billion, including NIS 4.7 billion from projects in previous plans and NIS 21.1 billion from the current development plan), which is 2.23 times higher than the average for 2018-2022. These investments are expected to result in a 33% increase in the length of network lines

4 A power plant operated on fossil fuel: natural gas as the primary fuel and diesel as a secondary fuel.

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#### **Audit Actions**

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From July 2023 to February 2024, the State Comptroller's Office examined the planning and development of the electricity sector, including demand forecasts, development challenges for 2030, and the development plans for the generation and transmission segments and their alignment with government targets. The audit was conducted at the Ministry of Energy, Noga – Israel Electric System Operator Ltd., the Israel Electric Corporation Ltd. (IEC), and the Electricity Authority.

#### **Key Findings**

Long-Term Planning of the Electricity Sector – planning of the electricity sector must address projected electricity consumption to ensure optimal electricity supply at the national level. Previous State Comptroller reports noted that electricity infrastructure planning in Israel is characterized by a short-term outlook, covering just a few years, and that for a prolonged period, the electricity sector has operated without a master plan. While most developed countries plan their electricity sectors over a 10-20-year horizon, planning in Israel remains shorter, currently spanning only eight years after being extended from five. This is despite Israel's unique characteristics, such as being an energy island, its population density, the disparities between peripheral areas where electricity is generated and central areas where it is consumed, and its reliance on a single dominant renewable energy source - solar energy - which underscores the importance of long-term planning and timely decision-making. Previous reports also noted that the generation segment developed without a comprehensive plan, relying instead on decisions by the system operator and the Electricity Authority, as well as specific programs formulated according to various government targets. The audit found that the Ministry of Energy has not addressed the deficiency highlighted in previous reports concerning the lack of a master plan for the electricity sector. Consequently, electricity sector planning continues to occur without a comprehensive long-term perspective.

Projected Power Supply Shortfalls – Potential delays in constructing generation units and storage facilities, which Noga's documents indicate are highly likely, could undermine the reliability of the power supply, resulting in a significant increase in the hours during which the electricity sector cannot meet full demand. Thus, the results of the simulation conducted by Noga for this scenario reflect 6.5 hours of unmet demand in 2027 and 9.9 hours in 2028 – up to 3.4 times the planned unmet hours outlined in the

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development plan – potentially causing significant damage to the economy. These delays, which Noga indicates are highly likely to occur, could inflict significant economic damage on the economy, estimated at NIS 776 million in 2027 and NIS 2.44 billion in 2028<sup>5</sup>.

- Approval of the Development Plan under the Electricity Sector Law, the Minister of Energy approves development plans formulated by the system management license holder (Noga), following consultation with the Electricity Authority and with the consent of the Minister of Finance. The audit revealed that, although Noga submitted an integrated development plan covering both the delivery and generation segments, the Electricity Authority had not finalized its recommendations for all components of the plan. Instead, it recommended that the Minister of Energy approve only the development plan for the delivery segment, while its recommendation for the generation segment plan remained pending. Consequently, the Minister of Energy did not fully approve the integrated development plan within the required timeframe and prior to the plan's scheduled implementation in January 2023. The Minister only approved the development plan for the delivery segment in November 2023.
- Delayed Decision-Making on Establishing Conventional Generation Plants Required by 2030 – the timelines set by the Ministry of Energy for formulating and approving the planning inventory of generation facilities (July 2023) required for 2028– 2029 left only five to six years for the construction of power plants. This period may be insufficient compared to the six-to-seven-year timeline needed to establish a private power plant in Israel. For example, the tender for the Shorak generation plant, with a capacity of 680–900 MW designed to meet electricity demand starting in 2028, was published only in November 2023. Additionally, approval of the plan for the Kesem generation plant, with a production capacity of 870 MW intended to address demand starting in 2029, was granted only in May 2023.
- Shortage of Natural gas for Electricity Generation a discrepancy exists between the natural gas supply forecasts for the electricity sector prepared by Noga, in charge of electricity sector planning, and those prepared by the Gas Authority, in charge of gas sector planning. Noga's forecasts indicate a risk of natural gas shortages for electricity generation beginning in 2026, while the Gas Authority projects no such shortage. If the forecasted shortage materializes, the damage estimated by the State Comptroller's Office will be at least NIS 186 million in 2030. It was further found that Noga, responsible for preparing development plans for the generation segment, lacks data on the volumes of natural gas available to various electricity producers, partly because this information constitutes proprietary commercial data of private producers. The lack of such essential data (regarding the volume of natural gas available to each producer) undermines Noga's

<sup>5</sup> The calculation is based on Noga's assumption that the installed capacity shortfall is expected to total 1,180 MW in 2027 and 2,150 MW in 2028. Assuming 6.5 and 9.9 hours of unmet electricity demand in 2027 and 2028, respectively, with a deduction for the reliability criterion of 1.8 hours (resulting in total deviations of 4.7 and 8.1 hours of unmet demand from the reliability criterion), and assuming a cost of NIS 140 per kWh not supplied.

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ability to plan and manage the electricity sector optimally. This disconnect could result in production plans based on Noga's identified needs not aligning with the actual gas supply available to individual producers, thus preventing electricity generation from meeting the identified demand using natural gas.

Electricity Generation from Renewable Energy – the scope of renewable energy generation in Israel has consistently fallen short of the targets set by the government. For instance, the 2020 target of 10% renewable energy generation was only achieved at the end of 2022, largely due to numerous barriers, including the inability to connect renewable energy facilities to the grid, statutory constraints, and land limitations. The share of electricity generated from renewable energy in Israel in 2022 (approximately 10%) was also significantly lower compared to the OECD average of 31.3% for the same year.

Energy Storage – energy storage facilities offer numerous benefits, including enhancing the system's capacity to integrate renewable energy facilities and optimizing the use of renewable energy by utilizing it at desired times; ensuring the necessary operational flexibility of the electricity sector; maintaining the reliability and resilience of the power grid; providing rapid response capabilities, making energy storage a substitute for peaker units and reducing air pollution; addressing the intermittency of solar and wind energy (for instance, due to cloud cover or fluctuating wind speeds). In addition, energy storage allows for better utilization of generation capacity, serves as a substitute for building additional generation facilities in some cases, defers investments in the power grid, and optimally leverages grid resources. The audit revealed that although Noga indicated in its development plan from August 2022 that storage facilities with a capacity of 1,800 MW should be established by 2030, and that it is required to prepare a follow-up plan for integrating energy storage facilities into the electricity grid, Noga has yet to prepare such a plan. This includes critical analyses of the required types of storage facilities, their optimal locations, capacities, and deployment schedules. However, the Electricity Authority failed to issue regulations for storage facilities providing ancillary services within the required timeframe. Moreover, storage facilities with a capacity of 400 MW, mandated for completion by 2023, have not yet been established. In 2020, the Electricity Authority initiated competitive processes to integrate 777 MW of PV systems combined with storage. According to the development plan, 168 MW of PV systems with integrated storage were expected to be operational by 2023, with an additional 659 MW planned for 2024-2025. Yet, as of the end of 2023, only 5 MW of such systems had been established.

Energy Storage in Israel Compared to the World – while countries with extensive energy storage capabilities, such as the United States (especially California, which began regulating the issue as early as 2008), China, and Germany, established targets and appropriate regulations in the previous decade, Israel only began addressing the storage issue at the start of the current decade. For example, it was only in 2022 that Noga set



targets for 2025 and 2030 within its development plan, and the Electricity Authority began issuing regulations in 2020. As a result, by the end of 2022, Israel's battery storage capacity amounted to only a few megawatts.

- Incomplete Implementation of Previous Development Plans Israel Electric Corporation (IEC) has yet to complete projects from previous development plans amounting to a total of approximately NIS 4.7 billion. By the end of 2022, 27% of the projects from the 2018–2022 development plan remained unfinished and were carried over into the 2023–2030 development plan. As of December 2022, these delays included the non-completion of projects involving approximately 253 km of 400 kV transmission lines, 909 km of 161 kV lines, and 17 substations. These delays compound the significant development financing requirements for the coming years, averaging NIS 2.9 billion annually between 2023 and 2031.
- Barriers to Implementing the Development Plan for the Transmission Segment – over the years, statutory planning has been a significant barrier to implementing development plans and establishing the required transmission infrastructure for the electricity sector. For example, statutory planning for an extra-highvoltage transmission line takes an average of eight years and can extend to 14 years in complex areas. Legislative arrangements introduced in June 2023 have the potential to streamline the planning process and shorten timelines for infrastructure construction. However, regarding 161 kV lines, most of which were built without formal plans, realizing the potential of the June 2023 legislative arrangements will be challenging. Upgrading these lines is contingent upon the approval of a designated National Outline Plan, which, as of the audit's conclusion, had not yet been approved. Another reason for significant delays in planning upgrades to power lines is the inability to halt their operation to carry out the necessary upgrade works. This challenge stems from the refusal of Noga to grant approvals for outages, combined with underdevelopment of the network by the Israel Electric Corporation (IEC), which has created obstacles to securing such approvals.
- Financing the Development Plan since 2020, the financial condition of the Israel Electric Corporation (IEC) has deteriorated, as reflected in a 26.3% increase in its financial debt and a 10.9% decrease in its operating profit. Consequently, IEC has failed to meet its financial targets. This trend is expected to continue through 2030, according to IEC's long-term financial forecast. Given IEC's worsening financial condition and its failure to meet its targets, there is a significant risk that the development plan may not be fully implemented. This risk is further amplified by historical precedent, which demonstrates that IEC has previously failed to fully execute development plans under similar conditions.
- Low Effectiveness of Regulatory Actions in Advancing the Electricity Sector the actions of the Ministry of Energy, in charge of advancing the electricity sector, have proven insufficient in promoting the construction of the required electricity infrastructure at the necessary pace in the coming years. The ministry has failed to ensure that various

#### Development of the Electricity Sector Towards 2030

projects are executed as planned, within the approved scope of resources and timelines. This includes the selection of conventional power plants to be built, failure to meet renewable energy targets, and other shortcomings. As a result, the risk of failing to implement the development plan is high. Moreover, entities within the electricity sector such as the Ministry of Energy, the Electricity Authority, Noga, and the Israel Electric Corporation (IEC) often act hastily and inefficiently to address immediate crises stemming from the lack of viable solutions to critical infrastructure challenges. Hence, delayed decision-making has raised concerns about the ability to fully meet electricity demand in central Israel. Such ad hoc solutions carry the risk of managerial and economic failure, increasing the overall cost to the economy and hindering the construction of essential strategic infrastructure for Israel.

▶ Power Supply to Central Israel – in recent years, the Ministry of Energy, the Electricity Authority, IEC, and Noga have made decisions regarding power supply solutions for central Israel, in response to the inability to fully meet demand in this region starting in 2026. In some cases, these decisions reflected changes in position and even contradicted previous decisions. They were often made belatedly, preventing adherence to the timelines required to implement the necessary solutions. The changes in decisions are, among other factors, a result of insufficient long-term planning, including the failure to develop alternatives and to address power supply needs in a timely manner following the decommissioning of the Reading power station. These shortcomings have pushed the electricity sector closer to the brink of a supply crisis in the Tel Aviv metropolitan area. Over the years, ongoing concerns have persisted about a significant risk to the reliability of power supply in the region – a risk that remains unresolved due to the challenges in implementing the development plan.

**Formulation of an Integrated Development Plan for the Electricity Sector by Noga** – in December 2021, Noga submitted, for the first time, an integrated development plan for the electricity sector to the Minister of Energy for approval. This plan encompasses the development of both the transmission segment and the generation system. In August 2022, the Electricity Authority published the plan for public consultation.

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#### **Key Recommendations**

- The Electricity Authority should promptly formulate its recommendation regarding the development plan for the generation segment, including any necessary modifications, and submit it to the Minister of Energy. It is recommended that the Ministry of Energy ensure the completion and approval of a comprehensive long-term master plan for the energy sector. This plan should encompass all segments of the sector and include targets for the desired generation mix (renewable energy, storage, and conventional generation) as well as the required scope of development for the transmission system.
- It is recommended that the Ministry of Energy, in collaboration with the Electricity Authority, Noga, and the Ministry of Finance, work to remove the remaining barriers and take expedited steps to complete the approval processes for constructing power plants and the necessary regulations. These efforts should align with the tight timeline required for the operation of these plants. Additionally, the Ministry should accelerate the construction of the required power plants to fully meet the electricity sector's needs within the specified timeframe. The Ministry of Energy should submit a recommendation to the Minister outlining the conditions and criteria for preparing a National Infrastructure Plan for electricity generation at natural gas power plants. It should also propose steps to ensure the necessary planning reserves, aligned with the sector's needs through 2040, so that the Minister of Energy and the Minister of Finance can present these recommendations for government approval in accordance with the directives set forth in the government decision. Furthermore, it is recommended that Noga finalize the development plan for the electricity sector through 2040 and submit it for ministerial approval.
- Given the financial implications of a natural gas shortage in the electricity sector, it is recommended that the Ministry of Energy, the Natural Gas Authority, and Noga examine the discrepancies between the scenarios presented by Noga and those outlined by the Natural Gas Authority. They should determine whether the existing mechanisms within the export permits adequately address these demands to ensure that the required quantities of gas are supplied to the electricity sector. If it is found that the anticipated demands of the electricity sector are not fully met, the Ministry of Energy should take steps to secure the necessary natural gas supply. Additionally, the Ministry of Energy should ensure, as part of its natural gas export policy, that there is a balance between domestic needs and the issuance of export permits, guaranteeing that the local market's full requirements are met. This issue is of heightened importance, particularly given the risks to the regular gas supply that arose during the Swords of Iron War.
- It is recommended that the Ministry of Energy explore ways to ensure that Noga has the necessary information for planning the electricity sector. This information should include the gas needs of the entire electricity sector on an hourly basis over the long term, as well as the existing gas supply on an hourly basis while taking into consideration various factors such as the gas transmission capacity in the pipelines, the gas production capacity from

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the reservoirs, and the volume of gas guaranteed to each electricity producer. This would enable Noga to identify gaps, alert relevant parties, and reflect these issues to government bodies so that they can explore ways to close these gaps.

The Ministry of Energy, in consultation with the Electricity Authority and Noga, should update the Roadmap for Renewable Energies in 2030 based on current data regarding actual renewable energy capacity, the effectiveness of measures taken, as well as remaining barriers and newly identified gaps. The updated plan should include timelines, milestones, and new steps required to achieve the targets. The Ministry of Energy should approve the plan as mandated by the provisional directive set forth under the Electricity Sector Law.

It is recommended that, in addition to the actions already taken by Noga, it promptly prepare a follow-up plan for integrating energy storage facilities into the electricity grid and publish it for public review. This would help increase certainty among developers regarding the required locations and types of storage. The Electricity Authority should act swiftly to publish regulations for the construction of storage facilities containing capacity necessary for ancillary uses. Additionally, it is recommended that the Authority formulate regulations for the establishment of storage facilities for 2029–2030 and monitor the pace of their construction through 2030, in alignment with the overall development plan.

Given the importance of infrastructure projects in the electricity sector, the Ministry of Energy should formulate additional measures in collaboration with relevant government entities, including the Electricity Authority, Noga, and external stakeholders such as various planning bodies, including the National Planning Administration. These measures should be developed within an emergency framework to remove remaining barriers and facilitate the advancement of these projects within reasonable timelines, ensuring that the needs of the electricity sector are not compromised. Given the significance of this issue, all parties must demonstrate a willingness to develop immediate solutions designed to address the electricity sector's development needs and ensure the proper functioning of the sector as a whole in the coming years.

It is recommended that the Ministry of Energy, the Electricity Authority, and Noga draw lessons from the failure to make decisions within the required timelines and the resulting impact on their ability to meet development needs for the central region and beyond. They should ensure that future planning for the sector is conducted proactively, including evaluating alternatives to overcome development barriers and ensuring the timely implementation of chosen solutions. Additionally, it is recommended that the Ministry of Energy, the Electricity Authority, Noga, and the Israel Electric Corporation (IEC) monitor the implementation of the transmission alternative in all its components and ensure that the projects are completed on time in order to provide the central region with the required electricity reliably and with the necessary quality. Furthermore, it is recommended that the projects do not progress according to the required schedule.



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#### Unsupplied Energy in the Years 2027–2030 Under Various Scenarios, Without the Construction of Co-Generation Power Plants (NGPPs) GWh 8 Scope of renewable energy generation: **18%** 7 Scope of renewable energy generation: 24% Scope of renewable energy generation: 30% 6 5 4 3 2 1 0 2027 2028 2029 2030

Source: Integrated Development Plan, August 2022.

Development of the Electricity Sector Towards 2030

#### Summary

The electricity sector is expected to face numerous challenges in the coming decade, including international trends and government decisions in areas such as green energy, electricity generation from renewable sources, energy storage, emission reductions in the transportation sector, the introduction of electric vehicles, and more. All these require accelerated development of the electricity generation and transmission segments.

The audit revealed that the electricity sector is not prepared to address these challenges, with significant gaps between the pace of decision-making and the time required for sector development. These gaps include insufficient regulatory frameworks, lack of physical infrastructure development, delayed decision-making, short-term planning, and failure to address barriers. The electricity sector is on the verge of a crisis, the consequences of which may manifest in the inability to meet electricity demand in the coming years, causing significant damage to the economy. Doubts exist as to whether the gaps can be bridged in the remaining time, particularly given the numerous barriers to the required development. All stakeholders in the electricity sector, including the Ministry of Energy, the Ministry of Finance, the Electricity Authority, Noga, and the Israel Electric Corporation (IEC), must act to remove these barriers and develop the sector to the required extent by 2030. Additionally, they should already begin examining and formulating long-term development plans in order to define policies and address future development needs effectively.

It is recommended that the Minister of Energy, who holds overall responsibility for the development of the electricity sector, ensure that decisions are made in a timely manner and that the deficiencies highlighted in this report are addressed to guarantee a reliable, available, high-quality, and efficient electricity supply, as outlined in the sector's objectives.



The Ministry of Regional Cooperation

Activity of the Ministry for Regional Cooperation



## Activity of the Ministry for Regional Cooperation

#### Background

The Ministry for Regional Cooperation (MRC or the Ministry) was established in 1999 by a government decision but ceased operations in 2003. In 2009, the Ministry was re-established by another government decision (the establishment decision), which outlined its areas of responsibility. These include promoting economic cooperation with countries in the region and the Palestinian Authority, as well as implementing joint economic projects to foster economic welfare and stability in the region. Additionally, it was determined that the Ministry would collaborate with entities involved in regional development to mobilize resources and encourage investments aimed at fostering cooperation. The Ministry was also tasked with coordinating efforts among relevant government ministries in these areas.

Shortly after the 2009 establishment decision, the government decided to transfer certain responsibilities of the Israeli-Palestinian Joint Economic Committee (JEC) from the Ministry of Finance to the MRC. It was further decided that the Minister for Regional Cooperation would chair the JEC.

The MRC furthers its objectives through several mechanisms: issuing calls for proposals, inviting local authorities and higher education institutions to undertake activity related to regional cooperation; providing grants to public institutions (such as non-profit organizations) under Section 3A of the Budget Foundations Law; engaging in tenders; and fostering interministerial collaboration.

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Activity of the Ministry for Regional Cooperation

#### **Key Figures**

NIS **39–74** million

The Ministry's annual budget in the years 2018–2023



Of the Ministry's budget in the years 2018–2023

#### 58% of the Ministry's resources

in the years 2018– 2023 (approximately NIS 91 million out of NIS 156 million) were spent on salaries and operational expenses

#### 40% of the success indicators

in the work plans for 2019 and 2022 were not fully achieved

# NIS **8.3** million

were invested in the business lounges at Sha'ar Efraim and Gilboa. However, activity in the Sha'ar Efraim lounge is minimal, and the establishment of the Gilboa lounge has not yet been completed

#### NIS **60** million

were invested in bridge construction as part of the Jordan Gateway project

## 26 years

have passed since the signing of the agreement with the Kingdom of Jordan to establish the Jordan Gateway project. In practice, its construction has been halted

## **15** years

have passed since the government decision to establish a Ministerial Committee for Regional Cooperation, but the committee has not been formed



#### Audit Actions

From August 2023 to January 2024, the State Comptroller's Office examined aspects of the Ministry for Regional Cooperation's activities. The audit was conducted primarily within the Ministry for Regional Cooperation, with additional examintions carried out in the Budget Department of the Ministry of Finance and in the Ministry of Environmental Protection. In addition, information was sought from nonprofit organizations involved in promoting regional cooperation projects. These NPOs are not subject to oversight under the State Comptroller Law, 1958 (Consolidated Version).

#### **Key Findings**

- Government Decision to Establish the Ministry for Regional Cooperation In the June 2009 government decision to establish the Ministry for Regional Cooperation (MRC), the Ministry's function was defined, but its authority was not. This contrasts with the Ministry for the Development of the Negev and Galilee, for which specific areas of authority were outlined in the relevant government decision, as well as the decision establishing the Authority for Economic and Social Development of the Druze and Circassian Sectors. The audit revealed that neither the government decision nor any other binding source clearly defined the responsibilities of the MRC. In order to advance and implement its key projects, the Ministry depends on the cooperation and goodwill of other government ministries and agencies. As a result, most of the Ministry's projects have been delayed for many years and have yet to materialize. For example, the completion of the Jordan Gateway project has been significantly delayed, despite 26 years having passed since the agreement to establish it was signed, and 12 years since the first government decision addressing the project.
- The Ministerial Committee for Regional Cooperation The June 2009 government decision regarding the establishment of the Ministry for Regional Cooperation (MRC) stipulated that a Ministerial Committee for Regional Cooperation would be established, to be chaired by the Minister for Regional Cooperation. The decision also stated that the committee's composition and authority would be determined in a separate government decision. However, despite the 2009 government decision, the Ministerial Committee for Regional Cooperation was never established or convened.
- The Organizational Structure of the Ministry for Regional Cooperation During the audited years, the Ministry's staffing level averaged 84% of its authorized positions, with 29 positions filled out of an average of 34.5 authorized positions. Furthermore, the



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audit revealed that approximately 20 positions (out of an average of 34.5) were designated for political appointees in the offices of the Minister and the Director-General, leaving professional roles in the Ministry understaffed. As a result, the Ministry became heavily reliant on a single official: the Director of the Economics Division, who has served in the role since July 2017. Among the professional staff, he is one of the few who has remained with the Ministry for an extended period.

Internal Auditing in the Ministry for Regional Cooperation – Despite the significant importance of the Jordan Gateway and Red Sea–Dead Sea Canal projects, the activities carried out under the Ministry for Regional Cooperation's calls for proposals, and the grants provided under Section 3A of the Budget Law, no internal audits have been conducted to examine these projects and activities. The absence of internal audits to review the projects that the Ministry for Regional Cooperation is in charge of (as well as its activity related to calls for proposals, grants, and various financial operations) hinders the ability to present the Ministry's leadership and relevant stakeholders with insights into the significant delays in implementing these projects. Furthermore, it prevents the drawing of lessons learned that could benefit other projects.

The Jordan Gateway Project – The Jordan Gateway Project is an initiative for a joint industrial park between Israel and the Kingdom of Jordan. The Jordanian side of the project was intended to house Israeli and Jordanian factories, while the Israeli side was planned to serve as a logistics hub and a base for transporting goods to Israeli ports. Despite over NIS 60 million having been invested in the project and the approximately 26 years passed since the agreement to establish it was signed (along with 12 years since the first government decision addressing the project in practical terms), as of the conclusion of this audit construction of the Jordan Gateway project has been halted. In fact, since the bridge's construction in 2019, no further actions have been taken to build or establish additional infrastructure on the Israeli side to advance the project. The continued delay of the Jordan Gateway project jeopardizes the originally envisioned economic benefits and the investment exceeding NIS 60 million. Furthermore, it could undermine the trust between the Kingdom of Jordan and the State of Israel.

Implementation of the Ministry's Work Plan Projects – 45% of the success indicators and approximately 40% of the Ministry's key indicators for 2019 and 2022, cumulatively, were not fully achieved. For example, it was found that the Ministry for Regional Cooperation failed to fully achieve 80% of the key indicators set in 2022 for the goals of "promoting economic and civil cooperation between Israelis and Palestinians for the mutual benefit of both societies and economies" and "establishing the Ministry as a knowledge hub for regional cooperation." The failure to achieve most of the Ministry's success indicators – among them the key indicators – may indicate poor planning of the annual work plan, as well as deficiencies in the formulation of the Ministry's goals and objectives. It also suggests inefficient and ineffective use of resources and difficulty adapting to changes and unforeseen events in its environment.



Budget Execution Rates of the Ministry – In the years 2018–2023, the Ministry was allocated an annual budget ranging from approximately NIS 39.3 million to NIS 73.7 million. Of this amount, the Ministry utilized up to 49% of its total approved budget, with only 12% to 41% of the budget designated for initiating projects and implementing its programs being executed. Additionally, on a cumulative basis in the years 2018–2023, the Ministry spent approximately 40% more on its operational costs than on activities aimed at fulfilling its mission. In the years 2018–2019, approximately 85% of the Ministry's financial resources were spent on salaries and operational expenses.

Business Lounge Projects at Land Crossings from the Palestinian Authority – Over the years, there has been a downward trend in business activity at the Sha'ar Efraim business lounge, which was constructed at a cost of approximately NIS 4 million. This decline is reflected both in the number of participants in business activity – which decreased from 609 in 2018 to 405 in 2023 and in the proportion of business activity for which the lounge was originally intended, dropping from 88% in 2018 to 60% in 2023. Although the lounge was initially designed to facilitate meetings between businesspeople, it lacks common support tools for such interactions, such as wireless internet access, printers, and computer stations. Additionally, the construction of the business lounge at the Gilboa Crossing, for which the Ministry for Regional Cooperation allocated NIS 3 million for planning and construction, remains incomplete and has yet to fulfill its original purpose.

**The Joint Economic Committee (JEC) for Israel and the Palestinians** – Despite the importance attributed to the convening of the Joint Economic Committee (JEC) for Israel and the Palestinians, and despite its inclusion as one of the primary tasks in the Ministry's work plan, as of the conclusion of this audit the JEC has convened only once under the MRC, on September 2, 2009. It should be noted that a meeting of the JEC was scheduled for June 2023 but was postponed by the Palestinians. Another meeting was planned for September 13, 2023, but the Palestinians requested another postponement to October 26, 2023. However, due to the outbreak of the Swords of Iron War on October 7, 2023, the committee did not convene as planned, and at this stage, no future date has been set for its meeting.

Implementation of the Strategic Work Recommendations – It was found that although the MRC recognizes the strategic needs for regional development, it has not advanced the recommendations of its 2021 strategic work plan. These recommendations included exploring alternatives for improving food security, protection of the seas, and fostering collaboration among specialized entities to provide long-term direction for achieving the Ministry's goals.

**Enhancing Cooperation with Morocco** – The State Comptroller's Office commends the projects and various collaborations initiated by the Ministry with entities in Morocco.

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These initiatives include organizing delegations to Morocco, convening conferences on culture, sports, and academia, and hosting a delegation of influencers from Morocco in November 2022. Notably, the Ministry facilitated the signing of a memorandum of understanding between the bar associations of both countries in May 2022 and hosted a delegation of Moroccan business leaders in Israel in March 2022 as part of a joint initiative. At a total investment of approximately NIS 4 million, these activities have played a key role in strengthening ties, promoting mutual understanding, and deepening collaboration between the nations.

**Investment in Innovation Centers and the MEHAMEM Project** – The State Comptroller's Office also highlights the Ministry's commitment, in late 2023, to invest in innovation centers and initiate the MEHAMEM project<sup>1</sup> (Training, Information, and Research Center).

#### **Key Recommendations**

In light of the findings in this audit report, it is recommended that the Prime Minister and the Minister for Regional Cooperation evaluate the need for the continued existence of the Ministry for Regional Cooperation as an independent entity. If it is determined that the Ministry's activity is essential, a strategic plan should be promptly formulated, including tasks and objectives for the Ministry's operations, and steps should be taken to implement it. Additionally, there should be a review to decide the necessary authority and resources for the Ministry, in order to enhance its functionality and enable the execution of largescale infrastructure projects.

It is further recommended that the Ministry, in collaboration with the Government Secretariat, define the responsibilities and authority of the Ministry for Regional Cooperation and align them with the roles assigned to it by the government. The Ministry should also work to establish the Ministerial Committee for Regional Cooperation, as stipulated in the 2009 government decision, and the Minister for Regional Cooperation should ensure that the committee convenes with the necessary frequency.

The Ministry for Regional Cooperation should adapt to geopolitical developments and initiate cooperation projects in areas that are becoming increasingly critical to the region, such as food security and advanced agriculture, water desalination, green energy, and the creation of new and attractive trade routes. Additionally, it is recommended that the Ministry complete the strategic review process initiated in 2021 to develop actionable

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<sup>1</sup> MEHAMEM – Training, Information, and Research Center. The purpose of the MEHAMEM Project is to consolidate existing knowledge in the field by establishing an online portal, developing metrics for successful cooperation, and conducting training sessions, written tutorials, etc.



decisions for more effectively advancing various regional development projects and work towards their implementation.

👳 The Ministry should implement a planning and resource allocation process for its various tasks and programs to ensure more efficient planning and execution of its work plans. It should also establish guidelines for adjusting work plans in response to unforeseen changes.

#### The Ratio Between the Ministry's Operational Budget Execution and Activity Budget Execution (Allocated for Projects and Programs) 2018–2023 (in NIS Thousands)



According to data from the Accountant General, as processed by the State Comptroller's Office.

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#### Activity of the Ministry for Regional Cooperation



Photographed by representatives of the State Comptroller's Office, December 2023.

\* Approximately NIS 60 million from the Ministry of Transport's budget was invested in the construction of the bridge; it has never been opened and remains non-operational.



Abstract | Activity of the Ministry for Regional Cooperation

#### Summary

Upon its establishment, the Ministry for Regional Cooperation was intended to play a substantive role, recognizing that activities in the realm of inter-state cooperation and the initiation of regional projects involving Israel and neighboring countries could significantly advance shared interests. Such activities were envisioned to naturally strengthen political, economic, and cultural ties with the citizens of these countries.

The Abraham Accords, signed in 2020 with several Gulf states, and the growing regional need for meaningful solutions in the fields of water, energy, food security, advanced agriculture, and medicine, further underscore the potential of fostering collaboration in these critical areas between Israel and neighboring countries. These solutions have the potential to become key drivers of Israel's growth, both economically and diplomatically.

The audit report reveals that the Ministry for Regional Cooperation has neither adapted to the needs and changes occurring in the geographical region nor succeeded in capitalizing on the significant potential for cooperation with neighboring countries in relevant areas in recent years. Over a multi-year perspective, the ministry's outputs have been minimal, consistently showing budget execution rates below 41% for the allocated activity budget. In addition, deficiencies were identified in the Ministry's operations and its management of the various projects under its responsibility over the years. The Ministry's flagship project, the Jordan Gateway, has failed to materialize despite the many years since the Israeli government decided to launch it. Part of the Ministry's weakness can be attributed to its lack of authority vis-a-vis other government ministries and agencies.

The findings in the audit report raise serious doubts about the Ministry's ability to fulfill its mission, its effectiveness as a driving force for advancing regional cooperation, and the justification for its continued operation.

In light of the findings in this audit report, is recommended that the Prime Minister and the Minister for Regional Cooperation evaluate the need for the continued existence of the Ministry for Regional Cooperation as an independent entity. Should it be determined that the Ministry's independent operation is indeed necessary, its areas of responsibility and authority must be clearly defined, and a strategic plan outlining tasks and objectives for its activity should be promptly developed and implemented.





Ministry of Transportation and Road Safety

Accessibility of Public Transportation for People with Disabilities – Follow-Up Audit


Abstract

# Accessibility of Public Transportation for People with Disabilities – Follow-Up Audit

Background

According to data from the Central Bureau of Statistics (CBS), in 2022 there were approximately 1.096 million people with disabilities in Israel, constituting nearly 11.5% of the total population that year. The difficulties experienced by people with disabilities are compounded by challenges in using public transportation (PT), which is essential for independent mobility. Adapting the environment to accommodate the physical, sensory, emotional, and cognitive abilities of people with disabilities will significantly improve their functioning.

The obligation to provide accessibility is anchored in the Equal Rights for Persons with Disabilities Law, 1998 (the Equal Rights Law); the International Convention on the Rights of Persons with Disabilities; rulings by the Supreme Court; and various accessibility-related regulations enacted since the passing of the Equal Rights Law.

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#### **Key Figures**

# 1.096 million

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Number of people with disabilities in Israel in 2022 – approximately 11.5% of the total population that year

# 908,000

Number of people aged 20 and above with severe functional disabilities<sup>1</sup> approximately 16% of the population in these age groups in 2022

# **26** years

since the passing of the Equal Rights Law (1998); the obligation to provide accessibility in intercity bus lines has yet to be established in law<sup>2</sup>

# 19 years

since the amendment to the Equal Rights Law (2005), in which the Minister of Interior was required to enact accessible road regulations, and they have yet to be enacted

## Only 2.6% and 4.3%

Percentage of intercity bus lines in 2023 that were accessible; and the percentage of accessible intercity bus lines planned for 2024

# 10.5%

Average rate of noncompliant findings regarding interior accessibility (sensory accessibility) on intercity bus lines, identified among most public transport operators in the first half of 2023

# **48%**

Percentage of bus stops approved for accessibility upgrades by the Ministry of Transportation in February 2023 for approximately 109 local authorities, out of the total requests submitted (5,852 out of 12,234)

# 300 to 800

Number of accessible taxis nationwide lacking (as of 2023) to fully meet the needs of people with disabilities, according to an estimate calculated by the State Comptroller's Office based on Ministry of Transportation data.

1 According to CBS data, a person with a severe functional disability is someone who has great difficulty, or is entirely unable, to perform at least one of the following activities: seeing, hearing, walking or climbing stairs, dressing or bathing independently, remembering, or concentrating.

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<sup>2</sup> Except for the obligation under the Equal Rights for Persons with Disabilities Regulations (Sensory Accessibility in Intercity Buses), 2017.



## Audit Actions

In October 2021, the State Comptroller published a report on "Accessibility of Public Transportation for People with Disabilities"<sup>3</sup> (the previous report or audit). From August 2023 to March 2024, the State Comptroller's Office conducted a follow-up audit on the rectification of deficiencies identified in the previous report. The primary examination was carried out at the Ministry of Transportation and Road Safety, with supplemental examinations conducted at the Commission for Equal Rights of Persons with Disabilities within the Ministry of Justice (the Commission for Equality) and the Ministry of Interior. Additionally, meetings were held with organizations and associations related to accessibility for people with disabilities.

### **Key Findings**

- Legislation of Accessible Roads Regulations Amendment No. 2 to the Equal Rights for Persons with Disabilities Law, 2005, stipulates that intersections and sidewalks "shall be designed, constructed, and adapted" to ensure accessibility for persons with disabilities and that the Minister of Interior shall establish the required accessibility adaptations. The previous audit revealed that, as of its conclusion in March 2021, the Minister of Interior had not yet enacted the Accessible Roads Regulations. In response to the findings of the previous audit, the Ministry of Interior stated that the target was to present these regulations to the Knesset's Labor Committee during the summer session of 2022. However, by the conclusion of the follow-up audit in March 2024, it was found that the issue had been rectified only to a small extent. Approximately 19 years after the amendment to the Equal Rights Law, and despite a Supreme Court ruling in June 2023 and the recommendations of the State Comptroller in the previous audit report, the Minister of Interior had yet to enact the Accessible Roads Regulations. Nevertheless, it was found that the Minister of Interior, through the Ministry of Interior, had initiated a process to advance the enactment of the regulations, which, as of the conclusion of the follow-up audit, had not yet been completed.
- Barriers to Accessibility of Public Transportation for Persons with Pisabilities – The previous audit revealed that in 2019, the Ministry of Transportation conducted a survey on the accessibility of public transportation (PT) for persons with disabilities. However, the survey did not include critical data such as the number of users with

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<sup>3</sup> See State Comptroller, Annual Report 72A – Part Two (2021), Accessibility of Public Transportation for People with Disabilities, pp. 643–741.

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disabilities, their travel habits, the barriers preventing them from using PT, findings regarding their mobility limitations, and the reasons behind these limitations. Furthermore, no proposals were developed to remove these barriers following the survey. The follow-up audit found that this deficiency has been **rectified only to a small extent**. It was found that the Ministry of Transportation prepared a professional literature review in order to promote the removal of barriers to PT accessibility for persons with disabilities. Additionally, the follow-up audit revealed that the Master Plan for PT Accessibility is in preparation by the Ministry but has not yet been approved. However, the Ministry of Transportation has not conducted a survey that includes the aforementioned data on persons with disabilities – the number of users, their travel habits, barriers preventing them from using PT, findings, and reasons for their lack of mobility.

• Accessibility of Urban Buses – The previous audit revealed that, as of its completion (March 2021), amendments had not been made to the Equal Rights for Persons with Disabilities Regulations (Public Transport Accessibility), 2003, to reflect the technological advancements introduced since their enactment. Additionally, the Ministry of Transportation had not prepared a comprehensive and detailed plan to address this issue, in order to improve service accessibility for public transportation (PT) users on urban bus routes. The follow-up audit found that this deficiency has been rectified only to a small extent. As of the conclusion of the follow-up audit (March 2024), despite technological advancements since the Regulations were enacted in 2003 and amended in 2016 – and despite the deficiencies arising in the previous audit report underscoring the need for amendments - the Ministry of Transportation has neither reviewed nor pursued revisions to these Regulations, although such amendments fall within the Minister of Transport's authority. Moreover, the Ministry has not prepared a comprehensive and detailed plan to improve service accessibility for PT users on urban bus routes in light of these technological advancements since the Regulations were first enacted in 2003.

#### Accessibility of Intercity Buses

Regulating the Accessibility of Intercity Buses – The previous audit revealed that, despite the enactment of the Equal Rights for Persons with Disabilities Law in 1998, the Law still does not mandate the physical accessibility of intercity buses. In response to the findings of the previous report and the Prime Minister's response<sup>4</sup>, the Ministry of Transportation stated that for the past two years, it has been working on a proposal for a comprehensive update to the Equal Rights regulations for persons with disabilities. This proposal is expected to include updates to existing regulations and the introduction of new ones regarding the accessibility of local railways and metro systems, service dogs, the use of new technologies, and more.

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<sup>4</sup> Prime Minister's Comments on the State Comptroller's Report 72A, Part Two (October 2021), pp. 109– 131.



The follow-up audit revealed that this deficiency **has not been rectified**. The Ministry of Transportation has not established a statutory requirement for the physical accessibility of intercity buses, despite the fact that the Equal Rights Law was enacted 26 years ago, in 1998. This failure to legislate physical accessibility is inconsistent with the Ministry of Transportation's own policy, which states that every person using a wheelchair should be able to reach their destination via accessible and convenient public transportation.

- Accessibility of Intercity Buses (Physical Disability) The previous audit revealed that the Ministry of Transportation had not advanced the accessibility of intercity buses, and aside from a letter from the Equal Rights Commission to the Knesset in 2018, no written requests from the Commission or the Ministry of Transportation were identified regarding promoting their accessibility. The followup audit found that this deficiency has been rectified only to a small extent. While the Equal Rights Law was not amended and there is no legal requirement to make intercity buses accessible, the Ministry of Transportation initiated a pilot program for making intercity bus routes accessible. In the years 2023–2024, 44 accessible intercity bus routes are planned to operate with 114 accessible buses serving 56 cities nationwide. In 2023, 27 intercity bus routes operated with 74 accessible buses; in 2024, an additional 17 intercity bus routes are planned to operate with approximately 40 more accessible buses. The follow-up audit further revealed that, as of November 2023, there were approximately 1,032 bus routes classified by the Ministry of Transportation as intercity routes. Thus, the 27 accessible intercity bus routes operated as part of the pilot program in 2023 represented approximately 2.6% of all intercity bus routes in Israel, while the 44 accessible intercity routes planned for 2024 would account for approximately 4.3% of all intercity bus routes in Israel.
- Accessibility of Bus Stops In the previous audit, it was revealed that as of 2019, approximately 10,000 bus stops had been made accessible, leaving approximately 13,500 urban stops and 3,500 intercity stops still inaccessible. Additionally, it was found that in 37.5% of 80 localities examined, not all of the stops had been made accessible, and in 22.5% of the localities, fewer than 85% of the stops had been made accessible. The follow-up audit found that this deficiency has been **rectified only to a small** extent. In March 2022, the Ministry of Transportation issued a public call to assist local authorities in completing the accessibility of bus stops under their jurisdiction, supported by financial assistance from the Ministry's budget. The follow-up audit and data from the Ministry of Transportation revealed that by February 2023, approximately 109 local authorities had submitted requests for the accessibility of approximately 12,234<sup>5</sup> bus stops. By that date, the Ministry of Transportation had approved the accessibility of approximately 5,852 bus stops (approximately 48% of the requests) at a total cost of

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<sup>5</sup> Regarding the remaining approximately 1,038 stops (approximately 8% of the requests), no accessibility actions were required.



approximately NIS 76.5 million, to be paid to local authorities from the Ministry's budget. For an additional 5,344 stops (approximately 44% of the requests), funding for accessibility was not approved because maintenance work unrelated to accessibility was required. It should be noted that, according to documents from the Ministry of Transportation, local authorities are required to complete the accessibility of the approved bus stops no later than the end of 2025, with the final deadline for utilizing the budget allocated by the Ministry for this purpose set for September 2024. The follow-up audit also found that, as of its conclusion in March 2024, the Ministry of Transportation did not have comprehensive information on the number of bus stops made accessible in the local authorities under the approved plan. The Ministry had not been updated by the local authorities regarding the number of bus stops within their jurisdiction that had been made accessible since March 2022, as required by the reporting obligations set out in the Accessibility Regulations Implementation Procedure from January 2011. Furthermore, the Ministry did not insist on receiving updates or reports from the local authorities on this matter.

Staffing in the Public Transport Accessibility Department at the Ministry of Transportation – The previous audit found that, apart from the department manager, there were no additional employees in the Accessibility Department, with two external consultants assisting the manager in day-to-day operations. The audit also revealed that, during the two years preceding the previous audit period (September 2020 to March 2021), plans were made to establish sub-units within the department to enable it to fulfill all its tasks. However, the Ministry failed to advance the plan, and the department remained in its current framework. The follow-up audit found that the deficiency has not been rectified – the Accessibility Department still has no staff members apart from the department manager, sub-units have not been established, and the manager continues to rely on external consultants.

Reports from Public Transport Operators to the Ministry of Transportation and Public Accessibility Information – The previous audit found that the Accessibility Department did not have reports from public transport operators as required by the Ministry of Transportation's procedures. Additionally, the Ministry of Transportation did not request information regarding the publication of accessibility details by operators, the installation of signage, or the handling of public complaints. Furthermore, the National Public Transport Authority failed to issue semi-annual reports concerning urban bus stops. The follow-up audit found that the deficiency had not been rectified. According to data provided by the Ministry of Transportation and its response to the State Comptroller in April 2024, no reports from public transport operators were found, as required by the Accessibility Regulations Implementation Reporting Procedure issued by the Ministry of Transportation in January 2011.

Accessibility Complaints Received by the Ministry of Transportation – The previous audit revealed that the Ministry's annual reports failed to address accessibility

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issues or include a breakdown of findings on this topic across the various areas covered in the reports, such as analyses of different modes of transportation and operator-level activities. The follow-up audit found that this deficiency has been **rectified only to a small extent**. A review of the Ministry of Transportation's 2022 complaints report indicates that it does not include information about the accessibility of public transportation or a breakdown of complaints related to this issue. As a result, the Ministry of Transportation lacks data on complaints related to the accessibility of public transportation, which hinders its ability to effectively oversee and monitor public transport operators. It should be noted that the Ministry of Transportation is updating the "Accessible Government" form for submitting public complaints to the National Public Transport Authority. According to the Ministry, the updated form is scheduled to go online in the third quarter of 2024 and will include an option to select "Accessibility" as a complaint category.

#### Accessible Taxis

- Quantity of Accessible Taxis The previous audit revealed that approximately 950 licenses for operating accessible taxis were issued, resulting in a ratio of one accessible taxi per 1,600 persons with disabilities, compared to a ratio of one nonaccessible taxi per 340 persons without disabilities. The follow-up audit found that this deficiency had not been rectified. Calculations by the State Comptroller's Office, based on data from the Ministry of Transportation, indicate a current shortage of 300 to 800 accessible taxis to adequately serve wheelchair users, which is projected to increase in the future. It was also found that the current framework for operating accessible taxis, which includes provisions for the number of accessible taxi licenses, is set to expire in 2024. In the Equal Rights for Persons with Disabilities Regulations (Exemption from License Fee for Operating an Accessible Taxi), 2014 (the Accessible Taxi Regulations), it is stipulated that ten years after receiving a license for an accessible taxi, the license holder may convert it into a regular taxi. The Ministry of Transportation has not developed a new framework to determine the desired number of accessible taxis. Although the Ministry is reviewing alternatives for the operation of accessible taxi services starting in 2024, no alternative has been selected to date. Additionally, the follow-up audit found that the decisions of the Public Petitions Committee of the Knesset from March 2022 regarding the shortage of accessible taxis for persons with disabilities have not been implemented by the Ministry of Transportation. These include amending the regulations governing accessible taxis and publishing updated and accurate information on the Ministry of Transportation's website regarding accessible accessible taxi operators and the corporations managing them.
- Agreements with Accessible Taxi Operators In the previous audit, it was found that the recruitment of accessible taxi operators was conducted without the Ministry of Transportation setting criteria or threshold requirements. Any entity that submitted a request was granted a license based on the number of licenses allocated by the Ministry. Following the issuance of licenses, and even after the

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operators began providing services, the Ministry of Transportation did not establish agreements with them to define their rights and obligations related to this service. The follow-up audit found that the deficiency **had not been rectified**. As of the conclusion of the follow-up audit in March 2024, the Ministry of Transportation has yet to establish agreements with accessible taxi operators, in order to regulate their rights and obligations concerning this service or to facilitate oversight and monitoring of their activity. Therefore, the Ministry relies on the Accessible Taxi Procedure established by it, which states that the Ministry will conduct regular oversight and monitoring processes for accessible taxi operators, without saying how this will be done. It should be noted that in practice, the Ministry of Transportation does not apply oversight or monitoring of the operators.

- Fare Rates for Accessible Taxis and Maintenance of Travel Logs In the previous audit, it was found that despite the operators of accessible taxis receiving a significant discount of approximately 95% on the licensing fee for an accessible taxi, deficiencies were identified concerning the overcharging of fares and the lack of documentation in travel logs, as required by the Accessible Taxi Procedure of 2014. The follow-up audit found that the deficiency had not been rectified. It was found that the Ministry of Transportation does not verify whether the corporations operating accessible taxis maintain travel logs as required or whether the drivers of accessible taxis overcharge passengers.
- Oversight and Enforcement by the Ministry of Transportation of Accessible Taxi Operators – The previous audit revealed that the Ministry of Transportation's oversight unit does not monitor the implementation of the procedure within corporations, based on its detailed provisions. Additionally, the unit lacked data on trips, such as the number of trips performed, fares charged, and quality of service. The follow-up audit found that this deficiency had not been rectified. The Ministry of Transportation still does not possess data on complaints, the number of trips, fares charged, or the quality of service across the accessible taxi sector. Consequently, the Ministry's ability to carry out effective oversight and enforcement in this sector is significantly impaired.
- Training of Accessible Taxi Drivers by Corporations The previous audit revealed that no detailed guidelines were established for the training of accessible taxi drivers. Furthermore, the Ministry of Transportation did not verify whether drivers of accessible taxis held a certificate issued by the corporate managers confirming their training. Additionally, the State Comptroller's Ombudsman's Office had received complaints from passengers regarding the service provided by accessible taxi drivers. The follow-up audit found that the deficiency had not been rectified. Similar to the findings of the previous audit, the Ministry of Transportation has neither established detailed training guidelines for accessible taxi drivers nor verified whether these drivers have been adequately trained or possess a certificate from the corporate manager attesting to their training.

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Reports from Accessible Taxi Operators to the Transportation Superintendent – The previous audit found that the Transportation Superintendent did not require accessible taxi operators to submit reports regarding the execution of accessible rides, their scope, and their locations. Consequently, the Ministry of Transportation lacks information about the accessible rides conducted, their volume, and their geographical distribution. Without reports from the operators, the Ministry cannot effectively monitor the services provided to persons with disabilities or ensure compliance with its guidelines. The follow-up audit found that the deficiency had not been rectified.

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Training of Bus Drivers and Relevant Support Staff - The previous audit highlighted complaints regarding the behavior of drivers and the lack of proper training, as noted in surveys and public participation processes conducted by the State Comptroller's Office. However, these issues were not reflected in the Ministry of Transportation's oversight reports. The previous audit also noted that the Commission for Equal Rights reported receiving complaints about discriminatory behavior by drivers towards persons with disabilities using public transport, stemming from a lack of awareness and intolerance, as well as insufficient training of employees at public transport operators. The follow-up audit found that this deficiency has been largely rectified. It was found that public transport drivers now participate in 50 hours of annual training, 10 of which focus on accessibility, safety, and passenger service. According to an updated driver training document from the Ministry of Transportation, dated November 2023, the percentage of public transport drivers employed by nine operators who underwent training ranged from 64% to 95%, with an average of approximately 76%. The follow-up audit also revealed that the Ministry of Transportation plans to enhance the training program in order to increase its effectiveness. Additionally, since April 2023, the Ministry of Transportation has had a procedure in place addressing the training of public transport drivers and relevant support staff.

**Ensuring Service in Accessible Taxis** – The previous audit report noted that, upon the issuance of licenses for accessible taxis, the Ministry of Transportation became aware, through complaints and gathered information, that some corporations were preselling licenses for operating accessible taxis at inflated prices in the market. However, proving such sales was not possible, as transactions were conducted via power of attorney without an actual transfer of ownership. The follow-up audit found that this deficiency **has been largely rectified.** The Ministry of Transportation has implemented a block in its computer systems, preventing the transfer of ownership from an accessible taxi license to a regular taxi license within ten years of the license's issuance. This restriction can only be lifted if the owner of the accessible taxi license pays the difference between the regular taxi license fee and the reduced fee for accessible taxis.

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### **Key Recommendations**

The Minister of Interior, in consultation with the Minister of Transportation, should continue advancing the process of legislating accessibility regulations for roads through the respective ministries as soon as possible, to enable persons with disabilities to travel optimally. This is especially urgent given the significant delay of approximately 19 years since the amendment of the Equal Rights for Persons with Disabilities Law, 1998, in 2005. They should also establish a realistic timeline to promote the process effectively and efficiently.

👳 The Ministry of Transportation should finalize the approval of the master plan for public transport accessibility, ensuring it includes achievable timelines and goals. This will enable the Ministry to systematically address barriers to public transport accessibility for persons with disabilities and improve the services provided to them. Additionally, it is recommended that the Ministry of Transportation conduct a comprehensive survey to gather data on persons with disabilities using public transport, including the number of users, their travel habits, barriers preventing them from utilizing public transport, findings, and reasons for their lack of mobility. The Ministry should explore obtaining such information in alignment with data-sharing procedures from government agencies and other entities holding relevant information.

👷 The Ministry of Transportation and the Minister of Transportation should continue working to provide an updated response to the needs of persons with disabilities who rely on public transportation, some on a daily basis, to facilitate their use of public transportation in an optimal and responsive way, tailored to their needs. Accordingly, they should consider amending the Equal Rights for Persons with Disabilities (Regulation of Accessibility to Public Transportation Services) Regulations, 2003, to align with technological advancements and better accommodate passengers with disabilitiesText Text.

It is recommended that the Ministry of Transportation and the Equal Rights Commission urgently advance mandatory legislation regarding the accessibility of intercity bus lines and all matters related to intercity transportation. It is further recommended that the Ministry of Transportation continue advancing the pilot program for making intercity bus lines accessible in municipalities, significantly improving the ability of persons with disabilities to travel from one municipality to another as needed. This aligns with the Ministry's policy that ensuring accessibility for all intercity bus lines will enable any individual using a wheelchair to reach their destination via accessible and convenient public transportation. Additionally, it is recommended that the Ministry of Transportation contact local authorities to obtain information regarding the status of the implementation of the bus station accessibility process within their jurisdiction, as per the 2022 call for proposals. This will allow the Ministry to monitor the implementation of the program it has budgeted and will fund upon its completion, as well as track the overall progress of making all public

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transportation stations accessible. Lastly, it is recommended that the Ministry of Transportation continue striving to achieve the accessibility of all bus stations nationwide.

It is recommended that the Ministry of Transportation review the structure of the Accessibility Division and the resources allocated to it to ensure that the division can carry out its tasks and achieve its objectives within the designated timelines.

The Ministry of Transportation must ensure that public transportation operators submit reports regarding all accessible bus routes, the dissemination of information to the public about these accessible routes, and the presence of accessible signage at bus stops, as required by the Ministry's regulations. These reports will assist persons with disabilities in traveling more efficiently and easily using public transportation and will improve public transportation services for this population.

It is recommended that the Ministry of Transportation promptly arrange the continued operation of accessible taxi services for individuals with disabilities who rely on wheelchairs. This service is a critical mode of public transportation for independent mobility, as it enables door-to-door travel, either as a standalone option or in combination with other public transportation modes. The importance of this service is heightened by the fact that there is still no legal requirement for the accessibility of intercity bus routes. The Ministry of Transportation, in collaboration with the Equal Rights Commission, should explore ways to increase the availability of accessible taxi services for individuals with disabilities nationwide, with particular attention to areas where such services are lacking. Additionally, the Ministry should formalize the provision of these services through agreements with accessible taxi operators, thus facilitating more effective oversight and regulation in order to improve the quality of this service.

It is recommended that the Ministry of Transportation and the Transportation Superintendent require corporations operating accessible taxis to provide structured reports on the execution of accessible rides, as stipulated in the Ministry of Transportation's Accessible Taxi Procedure. This reporting is essential for analyzing the data, drawing necessary conclusions, and improving the accessible taxi service provided to persons with disabilities. Additionally, it is recommended that the Ministry of Transportation and the Transportation Superintendent establish an online reporting system and that the Ministry's oversight unit develop and implement a proactive monitoring plan to ensure optimal service in accessible taxis for persons with disabilities.

It is further recommended that the Ministry of Transportation establish an effective oversight and monitoring process for the accessible taxi sector. This process should include examining all complaints brought to its attention, not limited solely to issues of overcharging for rides in accessible taxis. Such oversight is crucial for enhancing the service provided to passengers with disabilities, who rely on this service for independent transportation to specific locations and at specific times of their choosing.

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People with Disabilities, by Gender and Age, Rate per 1,000 Population, 2022

According to data from the Central Bureau of Statistics, processed by the State Comptroller Office.



## Summary

According to data from the Central Bureau of Statistics for 2022, there were approximately 1.096 million people with disabilities in Israel that year, accounting for nearly 11.5% of the country's total population. In addition to the challenges they face, individuals with disabilities also encounter difficulties in using public transportation, which is essential for their independent mobility. Adapting the physical and human environment to the physical, sensory, emotional, and cognitive abilities of people with disabilities would enhance their functionality and yield extensive economic and social benefits. These include increased social and economic mobility, new employment opportunities, and improved labor productivity in the economy. Under the Equal Rights for Persons with Disabilities Law, 1998, Israeli society is obligated to uphold the rights of people with disabilities, based on the principles of equality, the inherent dignity of all individuals, and mutual respect.

The follow-up audit revealed that the vast majority of deficiencies identified in the previous audit report, a total of 22 deficiencies, were either not rectified or only partially rectified: 13 deficiencies were not rectified at all, including the absence of a statutory requirement for intercity bus line accessibility in the Equal Rights Law; the lack of updates to the Equal Rights for Persons with Disabilities (Regulation of Accessibility to Public Transportation Services) Regulations, 2003; a shortage of accessible taxis; the absence of agreements with operators of accessible taxis; and inadequate oversight of reporting from public transportation operators. Seven deficiencies were partially rectified, including the enactment of accessibility road regulations, the preparation of a master plan for public transportation accessibility, the promotion of intercity bus line accessibility, improvements in bus stop accessibility, and the development of technological tools (such as applications for fare payment or accessing public transportation services. The remaining two deficiencies were largely rectified. The Ministry of Transportation must take prompt action to address or complete the rectification of deficiencies that have not been resolved or have only been partially resolved.

The State Comptroller recommends that the Ministry of Transportation complete the preparation of the public transportation accessibility plan by 2040. The plan is expected to address the need to close the gaps in the accessibility of public transportation across Israel. Additionally, the State Comptroller recommends that the Ministry of Transportation legislate mandatory accessibility for intercity bus lines, especially considering the 26 years that have passed since the enactment of the Equal Rights Law in 1998. The Ministry is further advised to regulate the accessible taxi sector, ensuring that their services are equitably distributed across the country, available within the designated timeframes, and provided effectively at the cost of standard fares. These measures would significantly enhance the ability of persons with disabilities to travel independently.

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# Extent of Rectification of the Main Deficiencies Indicated in the Previous Report

			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Regulation of accessibility in public transportation	Ministry of Transportation	Approximately 16 years after the amendment to the Equal Rights Law, the Minister of Interior has yet to enact Accessible Roads Regulations.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Barriers to accessibility in public transportation for persons with disabilities	Ministry of Transportation	In 2019, the Ministry of Transportation conducted an insights survey regarding the accessibility of public transportation for persons with disabilities. However, the survey did not examine the following data regarding persons with disabilities using public transportation: the number of users, their travel habits, the barriers preventing them from utilizing public transportation, findings, and the reasons for their lack of mobility. Additionally, no proposals were developed following the survey to address and remove these barriers.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessibility of urban buses	Ministry of Transportation	Since the enactment of the Equal Rights for Persons with Disabilities Regulations (Accessibility of Public Transportation Services) 2003, numerous technological advancements have required the revision of these regulations. In 2017, the Ministry of Transportation proposed amendments to these regulations. However, by the conclusion of the previous audit, the regulations had not been updated, and the Ministry had not prepared a comprehensive and detailed plan to address				
The obligation to make intercity buses accessible	Ministry of Transportation	Although the Equal Rights Law was enacted back in 1998, it has yet to establish a statutory obligation for the physical accessibility of intercity buses.				

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		The Deficiency Noted in the Previous Audit	The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessibility of intercity buses – physical disabilities	Ministry of Transportation	Aside from a letter from the Equal Rights Commission to the Knesset in 2018, no additional written appeals from the Commission or the Ministry of Transportation advocating for the accessibility of intercity buses were identified.				

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			The Exten	ncies Rectificat Iow-Up Audit	ion Noted	
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessibility of intercity buses – sensory disabilities	Ministry of Transportation	The insights survey conducted by the Ministry of Transportation highlighted the need to improve the accessibility of intercity buses by defining fixed locations for accessible stop buttons and announcements, standardized heights and placements accessible to persons with disabilities, wheelchair- adapted heights, and tactile features for individuals with visual impairments. The survey further noted that, as the Equal Rights Law currently does not apply to intercity buses, accessibility measures such as grab handles, announcement systems, and visual screens are required.				

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			The Exten		ncies Rectificat Iow-Up Audit	tion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Training of drivers and other employees of public transportation operators	Ministry of Transportation	In surveys and a public consultation process conducted by the State Comptroller's Office, complaints emerged regarding driver behavior and the lack of proper training for providing services to persons with disabilities. However, these issues were not reflected in the Ministry of Transportation's oversight reports. The previous audit also noted that in April 2021, the Commission for Equal Rights informed the State Comptroller's Office that it had received complaints about discriminatory behavior by drivers towards persons with disabilities using public transportation, stemming from a lack of awareness and tolerance, as well as inadequate training of employees of public transportation operators.				

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			The Exten		ncies Rectificat Iow-Up Audit	tion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessibility of bus stations	Ministry of Transportation	In 2019, approximately 10,000 bus stations were accessible, but an estimated 13,500 urban stations and 3,500 intercity stations remained inaccessible. Additionally, it was found that in 37.5% of 80 localities examined, not all of the stops had been made accessible, and in 22.5% of the localities, fewer than 85% of the stops had been made accessible.				
Use of applications to improve public transportation accessibility	Ministry of Transportation	The State Comptroller's Office recommended that the Ministry of Transportation and the Commission for Equal Rights consider implementing recent technological developments to facilitate the independent mobility of persons with disabilities.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Smart transportation and flexible transport services	Ministry of Transportation	The Ministry of Transportation is exploring technological solutions to optimize transportation systems for persons with disabilities; however, their implementation has yet to commence.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Travel planning	Ministry of Transportation	The 2019 insights survey conducted by the Ministry of Transportation highlighted the following conclusions: the National Information Center requires the capability to fully support trip planning from the point of origin to the desired destination, including taxis and service taxis, with a focus on accessibility, as existing applications are not accessible to all individuals with disabilities. There is a need to add accessibility information for transportation modes in existing applications and improve the accuracy of arrival time data. Accessible transportation options, including intercity routes and taxis, should be publicized.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Public Transportation Accessibility Division at the Ministry of Transportation – staffing	Ministry of Transportation	The Public Transportation Accessibility Division lacks staff beyond its director, who relies on two external consultants for routine operations. In the two years preceding the previous audit, plans were made to establish subunits within the division to address all its tasks; however, the Ministry did not advance the plan, leaving the division in its current structure.				

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			The Exten		ncies Rectificat Iow-Up Audit	ion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Public Transport Accessibility Division at the Ministry of Transportation – Reports to the Ministry of Transportation	Ministry of Transportation	No reports from public transport operators were found in the Public Transport Accessibility Division in accordance with the Accessibility to Public Transport Services Regulations, nor did the Ministry of Transportation require information from operators on publicizing accessibility services, installing static signage, or handling public complaints. Nor did the Ministry request a list of accessible bus stops from local authorities, and the National Public Transport Authority failed to produce a semi-annual report on urban bus stops.				

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			The Exten		ncies Rectificat Iow-Up Audit	tion Noted
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Public Transport Accessibility Division at the Ministry of Transportation – reporting on received complaints	Ministry of Transportation	An analysis of topics and information from the Ministry's annual reports revealed that accessibility is not addressed in these reports, across various categories such as analysis of transport modes and operator- level activities.				
Accessible taxis – licensing for operators	Ministry of Transportation	Approximately 950 licenses for accessible taxis have been issued, equating to a ratio of one accessible taxi per 1,600 persons with disabilities, compared to one non- accessible taxi per 340 persons without disabilities.				

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	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-Up Audit				
The Audit Chapter			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified	
Accessible taxis – geographical distribution of the service	Ministry of Transportation	Of the 19 corporations holding public rights, seven are located in the Jerusalem area, four in the Tel Aviv and central regions, and six in other areas. The licenses for most of these corporations are set to expire within approximately five years from the conclusion of the previous audit. It was further found that some of these corporations did not utilize all the rights granted to them for operating accessible taxis. This impacted the availability of services for target populations and the quality of service, as reflected in public complaints, particularly in peripheral areas.					

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The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-Up Audit				
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified	
Accessible taxis – agreements with operators	Ministry of Transportation	The recruitment of accessible taxi operators was carried out without the Ministry of Transportation establishing criteria or threshold requirements. Any entity expressing interest in obtaining a license received it based on the number of licenses allocated by the Ministry for this purpose. The Ministry failed to establish agreements with the operators in order to regulate their obligations and rights regarding the provision of these services.					

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Accessibility of Public Transportation for People with Disabilities – Follow-Up Audit

			The Extent of Deficiencies Rectification N in the Follow-Up Audit			
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessible taxi fare and trip log management	Ministry of Transportation	Despite corporations benefiting from a 95% discount on the license fee for operating a taxi (NIS 10,000 instead of NIS 240,000), deficiencies were noted, including charging high fares and failing to maintain trip logs as required by the Accessible Taxi Procedures of 2014.				
Training of accessible taxi drivers by corporations	Ministry of Transportation	No detailed guidelines have been established regarding the training of drivers, and the Ministry of Transportation has not verified whether accessible taxi drivers hold a certificate from corporate managers attesting to their training.				

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			The Extent of Deficiencies Rectification Noted in the Follow-Up Audit				
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified	
Accessible taxis – reporting to the Transportation Superintendent	Ministry of Transportation	The Transportation Superintendent did not require reports on accessible taxi rides, in the format specified by the Ministry of Transportation's procedure, from the corporations operating accessible taxis. As a result, the Ministry of Transportation lacks information regarding the scope and locations of these specialized rides. The absence of such reports from the corporations hinders the Ministry's ability to monitor the service provided by them to persons with disabilities and to verify compliance with its directives.					

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Accessibility of Public Transportation for People with Disabilities – Follow-Up Audit

The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-Up Audit				
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified	
Accessible taxis – oversight and enforcement	Ministry of Transportation	The oversight unit within the Ministry of Transportation does not monitor the implementation of its guidelines by corporations operating accessible taxis, as required by the detailed provisions. Additionally, the unit lacks data on rides conducted by these corporations, including the number of rides, the fares charged, and the quality of service provided.					



			The Extent of Deficiencies Rectification Noted in the Follow-Up Audit			
The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Accessible taxis – ensuring service	taxis – Transportation issuance of licenses bega service Transportation issuance of licenses bega the Ministry Transportation learned, following complaints received and information collected, that some corporations	issuance of licenses began, the Ministry of Transportation learned, following complaints received and information collected, that some corporations had pre-sold				
		accessible taxis				
	at inflated market prices. However, this could not be substantiated as the sales were conducted through powers of attorney without actual transfer of ownership.					

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Accessibility of Public Transportation for People with Disabilities - Follow-Up Audit

# All Deficiencies Arising in the Previous Report, Categorized by the Extent of Their Rectification





Ministry of Transportation and Road Safety

The Taxi Sector in Israel



Abstract

## The Taxi Sector in Israel

#### Background

Each year, tens of millions of taxi rides take place in Israel. According to estimates by the Ministry of Transportation and Road Safety, there are approximately 72 million rides annually. Based on data from the Israel Tax Authority, revenues in the taxi sector totaled approximately NIS 6.5 billion in 2022. There are two main types of taxis in Israel: special taxis which are reserved for the transportation of the individual requesting the ride, and service taxis which collect passengers along fixed routes. As of the end of 2023, there were 25,050 taxi-operating licenses in Israel.

The taxi sector in Israel is regulated by the Road Transport Ordinance and the Road Transport Regulations, 1961, which govern *inter alia* the types of vehicles permitted to operate as taxis; safety requirements and signage for taxis; the process for obtaining a taxi-operating license and transferring it to another party; obligations of taxi operators; and oversight of fare rates nationwide.

The Ministry of Transportation is in charge of formulating and implementing policies in the transportation sector, as well as overseeing transportation services across sea, air, and land. In addition, it serves as the primary regulator of the taxi sector through the following entities:

- The National Public Transport Authority deals with the planning, licensing, and operation of public transportation. The Transportation Superintendent is responsible for issuing operating licenses for special taxis and service taxis, ensuring the quality of service provided to users, and conducting nationwide supervision and oversight of service lines for buses and taxis.
- The National Prosecution Unit is in charge of law enforcement across all areas of oversight within the Ministry of Transportation's jurisdiction.
- 3. The Division of Vehicles and Maintenance Services is in charge of ensuring and approving that the models proposed for operation as taxis meet mandatory requirements. Additionally, it verifies compliance by way of the annual vehicle licensing test for vehicles used as taxis.
- The Licensing Division oversees the professional training of drivers of commercial vehicles, including drivers of taxis. Additionally, it handles the registration of vehicles designated for taxi use.

In recent years, the Israeli government has implemented deliberate changes in the taxi sector, including reforms in the regulation of service taxis and updates to fare rates for special taxis.

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The Taxi Sector in Israel

In March 2016, the Ministry of Transportation and the Ministry of Finance began advancing a reform in taxi fares, which are regulated by the Price Committee in accordance with Prices of Commodities and Services Law, 1996. In March 2018, the Price Committee presented the public with a new fare structure, and a new pricing method took effect in May 2018. In 2016, the government initiated a process to reorganize the service taxi sector. In August 2016, Government Resolution 1851 was adopted, entitled: Opening the Taxi Sector to Ridesharing and Developing the Service Taxi Sector. In February 2018, Amendment No. 120 to the Road Transport Ordinance was enacted (Law No. 120, 2018), forming the basis for the reform in the service taxi sector, which is still being implemented. According to this law, licenses to operate service taxi routes are to be granted to corporations established in Israel through a "competitive, equitable, and transparent process," i.e., a tender conducted by the Ministry of Transportation.


### Key Figures

## 72 million

Special taxi rides in 2017 according to Ministry of Transportation estimates

# 25,050

Number of taxi operating licenses in Israel as of the end of 2023

## **70%**

Of the public complaints submitted to the National Public Transport Authority in the period 2019-2023, (4,668 of 6,641) focused on the following: overcharging - 1,761 complaints (26.5%); failure to use the meter - 1,448 complaints (21.8%); driver behavior -1,459 complaints (22%)

# Only **152** indictments

were filed against taxi drivers in 2023. In 2023, 2,041 complaints against taxi drivers were filed with the Public **Inquiries Department** of the Ministry of Transportation. Additionally, 2,261 proactive enforcement actions were conducted, out of approximately 72 million annual taxi rides

# NIS **5,136**

Cumulative additional costs borne by taxi drivers in the years 2020–2023, due to the difference between the diesel price calculated in the government-set fare and the diesel price reported by the Central Bureau of Statistics (CBS), additional costs that were not reflected in fare rates

### Only 3 inspectors

full-time inspectors and two additional inspectorinvestigators employed by the **Enforcement Division** of the Ministry of Transportation to monitor taxi drivers' compliance with regulations governing 72 million annual taxi rides. In 2023, 2,261 proactive enforcement actions were conducted, a 50% decrease compared to 2019

### Only **59** service taxis

are currently in operation. On the eve of the reform in the sector, 844 service taxis were in operation, compared to the goal of 2,500 service taxis set by the reform

# ts service taxis

In violation of the Road Transport Ordinance and Regulations, 31 licensing centers subject to oversight by the Ministry of Transportation conducted roadworthiness tests in 2023 for 165 service taxis whose licenses to operate on service routes were invalid

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### Audit Actions

From August 2023 to May 2024, the State Comptroller examined the processes for issuing licenses to operate taxis and for licensing vehicles used as taxis. The audit also reviewed the ongoing oversight and monitoring of taxi operations and the handling of public complaints. Additionally, the State Comptroller evaluated the work processes for implementing deliberate changes in the taxi sector, including the reform of service taxi regulation and updates to fare rates for special taxis. The audit was conducted within various units of the Ministry of Transportation. Complementary examinations were carried out at the Israel Airports Authority (IAA), the Ministry of Environmental Protection, the Ministry of Finance, the Ministry of Justice, the Ministry of Labor, and the Tax Authority.

### **Chapter One: Special Taxis**

### **Key Findings**

Oversight of Taxi Operating License Holders – The Road Transport Ordinance requires the Taxi Committee to examine the background of individuals applying for a taxi-operating license, as well as those to whom a license is to be transferred from another individual. However, the audit revealed that the Ministry of Transportation lacks an administrative directive for monitoring taxi-operating license holders to ensure they continue to meet the eligibility criteria required for obtaining the license. Moreover, the Ministry of Transportation does not conduct follow-up checks on existing license holders, which could result in situations where a license holder continues to retain their license even if they were convicted (after receiving the license) of an offense that could have disqualified them from obtaining a new license or eligibility to receive a taxi-operating license from another person. In the absence of such monitoring, a license holder's status may change after obtaining the license, including committing an offense that would disqualify them from holding a license, yet they may still retain their operating license.

Supervision of Renting out of Taxi-Operating Licenses – The National Public Transport Authority in the Ministry of Transportation does not supervise the renting out of taxi-operating licenses. In the absence of regulation on this matter, a license holder

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may rent out their license to another person who does not meet the requirements set forth in the Traffic Ordinance for obtaining a taxi operating license. Such rentals are neither reviewed by the Taxi Committee within the Ministry of Transportation nor documented by the Licensing and Emergency Economy Division under the National Public Transport Authority. Consequently, individuals who rent operating licenses but are not taxi drivers – and therefore have not undergone the training required for a D1 license<sup>1</sup> – can easily bypass the existing controls established by the Ministry of Transportation.

- Monitoring of Fee Payments by the Ministry of Transportation The computerized system of the Division of the National Public Transport Authority responsible for granting licenses, allows for the issuance of a license without automated verification of the fee payment. Confirmation of payment is instead checked manually by the Licensing and Emergency Economy Division within the Authority. The computerized systems do not document these manual verifications of fee payments. In the absence of automated controls or documentation of the manual verification within the government payment system, there is no audit trail to ensure that fees have indeed been paid. Therefore, the current process does not provide sufficient safeguards to detect fraud or identify unpaid fees.
- I Complaints Against Taxi Drivers In the years 2019–2023, the majority of complaints submitted to the National Public Transport Authority in the Ministry of Transportation concerned "overcharging" (1,761 complaints, 26.5%), "failure to operate the meter" (1,448 complaints, 21.8%), and "driver behavior" (1,459 complaints, 22%). Together, these complaints account for approximately 70% of all complaints in the taxi sector. It was further noted that the number of complaints in 2022-2023 increased compared to 2019-2021, despite the number of taxi operating licenses at the end of 2023 (25,050) being similar to the number at the end of 2019 (24,552). Out of the 6,641 complaints against taxi drivers submitted in the years 2019–2023, only 2,346 complaints (35%) included details allowing identification of the taxi's license plate and car-roof number - which are necessary for continuing any investigation. Of these 2,346 complaints, 2,205 complainants initially expressed willingness to testify at the time of submitting the complaint; however, only 1,374 complainants (62% of those willing to testify and 20.6% of all complaints) made their appearance in order to provide testimony in the investigation. The low percentage of complaints containing the required identifying details and the low attendance rate for testimony may indicate that the Ministry of Transportation does not sufficiently inform the public of its obligation to record the two identifying details in order to file a complaint against a taxi driver. It also suggests that the public may not be aware that in order for the Ministry to investigate complaints, the complainant must appear in person at the Investigation Department offices to provide



their version of the event. Furthermore, the obligation to provide testimony in person may deter many complainants, leading them to abandon their complaints.

Enforcement Conducted Solely Through Criminal Proceedings – In 2023, the Ministry of Transportation received 2,041 complaints about taxi drivers. Of these, 760 complaints (37%) included the details required for further action, and in 643 of the complaints that included these required details (85%), the complainants expressed their willingness to provide testimony, which is an integral part of the criminal enforcement process – the only enforcement route at the time. In other words, only 643 out of 2,041 complaints (32%) submitted in 2023 proceeded to further investigation, as they met the threshold for initiating an inquiry. However, only 278 out of 643 complainants (43%) who initially agreed to provide testimony actually appeared to do so. Simultaneously, the Inspection, Monitoring, and Service Quality Unit at the Ministry of Transportation conducted 2,261 enforcement actions, and findings from approximately 400 of these actions were referred for investigation. In total, the Prosecution Unit received 1,055 cases, but only 152 indictments (14%) were filed. This enforcement effort occurred in the context of an estimated 72 million annual taxi rides, according to the Ministry of Transportation.

Promoting Administrative Enforcement – The audit revealed that the Ministry of Transportation and the Ministry of Justice both agree that introducing administrative enforcement alongside the currently applied criminal enforcement would be more effective, enabling faster and more efficient enforcement while deterring violations. It was found that a number of proposals for legislative amendments aimed at implementing this approach had been attempted. As of the conclusion of the audit in May 2024, enforcement in the taxi sector was still conducted exclusively through criminal proceedings. It should be noted that on August 7, 2024, following the audit's conclusion, the Administrative Traffic Violations Law, 2024 ('the new law') was published in the Official Gazette. The law establishes administrative enforcement as the default for behaviors defined as "traffic violations" (currently categorized as "fineable offenses"). The law is set to take effect 15 months after its publication. However, it was found that common violations in the taxi sector, such as overcharging and failure to operate the meter, are not defined in the new law as "traffic violations" and will therefore continue to be enforced solely through full criminal proceedings. Additionally, it was noted that these frequent violations are included in draft regulations that the Ministry of Transportation has yet to finalize after three years, in order to classify the violations as administrative offenses under the Administrative Offenses Law, 1985 (Draft Regulations on Administrative Traffic Fines, 2024).

Regulation of Taxi Fares – The regulation of taxi fares in Israel is determined under the Supervision of Prices of Commodities and Services Law, 1996. This law stipulates that the minister in charge of the sector in which the authority to set a maximum price for a good or service is exercised, in coordination with the Minister of Finance, is

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authorized to issue an order setting a price or maximum price for a good or service. The State Comptroller's audit identified shortcomings in the work of the Pricing Committee regarding the preparation of the fare structure for the taxi sector, as detailed below:

- Economic Summary Document The Pricing Committee of the Ministries of Transport and Finance failed to produce a document summarizing the economic model it presented in March 2018. Such a document was supposed to have detailed the updated fare structure, the full methodology for establishing the basis for fares, the calculations underpinning the decisions made, and the rationale for these decisions. In the absence of a summary document, relevant information for the public is not readily accessible and requires searching through multiple public records. Furthermore, significant documents necessary for understanding the fare model are not publicly available, such as the economic consultancy report that formed the basis for many of the working assumptions. Additionally, the calculation sheets prepared by the Pricing Committee are not publicly available either.
- Average Taxi Utilization Although utilization data is highly important for determining fares, the Pricing Committee's protocol from the Ministries of Transport and Finance which explains the key methodology underlying the determination of utilization rates, does not detail the calculation method or the rationale for setting the rate at approximately 57.7%. A preliminary analysis of taxi trip data conducted for the Ministry of Transportation in 2023 revealed a significant discrepancy between the utilization rate assumed in the fare model (57.7% of trips are with a passenger, according to the Ministry's model) and the utilization rate based on a preliminary analysis of actual trip data (indicating that only 21.4% of trips are conducted with a passenger). This discrepancy suggests that the estimated annual trip volume in the fare model (6,500 trips per taxi per year) may be overstated, potentially resulting in a fare that is too low and does not accurately reflect the actual cost of a typical taxi ride.
- Price of Diesel The Pricing Committee of the Ministries of Transport and Finance set the base price of diesel at NIS 5.87 per liter, based on a survey conducted by it in March 2018 among 19 gas stations, rather than using the diesel price reflected in data from the Central Bureau of Statistics (CBS), which was NIS 6.40 per liter 53 agorot higher than the base price ultimately determined by the committee based on its survey. The State Comptroller's calculation (based on the diesel price published by the CBS and the applicable refund amount for 2018) showed that the annual diesel cost was approximately NIS 1,170 higher than the annual diesel cost set by the Pricing Committee. Consequently, the total cost of operating a taxi in 2018 would be NIS 1,160 per year higher than according to the model used by the Pricing Committee.
- Return on Equity from Purchasing and Operating a Taxi According to the Ministry of Finance's price supervision methodology, the rate of return to be

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#### The Taxi Sector in Israel

determined varies by sector, depending on the level of risk associated with activity in that sector. This allows investors in regulated firms operating within the sector to achieve a fair return on their investment. However, the audit found that the Pricing Committee of the Ministries of Transport and Finance did not present supporting data or a detailed explanation of how they set the rate of 8% return on equity for purchasing and operating a taxi. The lack of justification is inconsistent with the principles of administrative law and supervisory methodology, which require clear explanations of how the return on equity rate was established, including the method for determining the variables comprising it. In the absence of justification, it cannot be determined whether the return on equity set for taxi owners reflects the appropriate return they should receive.

- Return on Foreign Capital Invested in Taxi Purchases Changes in Interest Rates – The interest rate in the economy fluctuates according to decisions by the Bank of Israel, and in general, car loans are issued at rates linked to the prime interest rate. However, the audit found that the interest rate model in the fare structure framework of the Pricing Committee of the Ministries of Transport and Finance does not include an adjustment mechanism linked to changes in the prime interest rate, but rather is only linked to the Consumer Price Index (CPI). Linking solely to the CPI has resulted in lower fare updates compared to what would have been determined if the interest rate in the fare model had been linked to the prime rate. As a result, when the prime rate increases faster than the CPI, an additional cost may be imposed on taxi drivers for loan interest, which is not accounted for in the economic model. Calculations by the State Comptroller estimated that the future value of recognized costs for return on borrowed capital for the years 2020-2023, based on the Pricing Committee's 2023 interest rate model, amounts to approximately NIS 4,001. In contrast, calculations that include linkage to the prime rate estimate future costs at NIS 5,797 (prime + 1%) or NIS 5,059 (prime + 0.5%) for 2023. These amounts are, respectively, NIS 1,796 and NIS 1,058 higher than the estimates in the Pricing Committee's fare model. These differences represent the additional financing costs borne by taxi drivers for obtaining loans to purchase vehicles, compared to the price set by the Pricing Committee, and are not reflected in corresponding fare increases.
- Technological Changes An analysis of taxi propulsion types reveals that in 2018, 96.1% of taxis were diesel-powered, while 3.3% were hybrid. By 2022, the proportion of diesel-powered taxis decreased to 67.4%, while the proportion of hybrid taxis increased to 30.5%. Additionally, about 0.4% of taxis were electric. Hybrid taxis, and especially electric ones, differ from diesel-powered taxis in terms of vehicle costs, energy consumption, and routine maintenance. Despite this technological shift in the taxi sector marked by a transition from diesel-powered vehicles to a fleet where roughly a third are hybrids the economic model used by the Pricing Committee of the Ministries of Transport and Finance, which serves as

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the basis for deriving fare rates, remains centered on a single typical vehicle powered by diesel.

- Updating the Fare Rate Basis Although the price supervision methodology recommends updating an economic model used to establish regulated prices every one to five years, seven years have passed since the preparation of the economic analysis addressing fare rates for special taxis in 2017. As of May 2024, an updated analysis to replace the existing fare rate basis with a new one for the special taxi sector has yet to be completed by the National Public Transport Authority in the Ministry of Transportation and the Pricing Committee of the Ministries of Transport and Finance.
- **BI System for Analyzing Data from Smart Meters** As of the audit's conclusion in May 2024, nearly four years after the introduction of a requirement to install smart meters capable of collecting data (introduced in May 2020), the Ministry of Transportation has not yet implemented a computerized BI (Business Intelligence) system for retrieving and analyzing the data. Consequently, no comprehensive analysis of the data has been conducted, which could have facilitated broad insights into the sector.
- Special Fare Rates for Key Destinations The audit revealed that in six major cities worldwide (London, Rome, Madrid, Barcelona, Berlin, and New York), in addition to standard fare rates based on travel time, distance, or a combination of both, special fare rates are applied to key destinations such as airports. This practice is observed even in metropolitan areas with characteristics similar to those of the Tel Aviv metropolitan area, such as New York and Barcelona, which feature multiple cities and dense populations. In contrast, in Israel, the Ministry of Transportation and the Pricing Committee have not established special fare rates for key destinations, including travel to Ben-Gurion Airport (TLV). Determining a dedicated fare rate for Ben-Gurion Airport could alleviate concerns regarding the cost of travel for tourists as well as Israeli passengers unfamiliar with the taxi payment system, including the obligation to use the meter.
- Air Pollution from Taxis Taxis are characterized by significantly higher mileage, up to more than four times that of a regular private vehicle. Despite accounting for only about 0.6% of the total vehicle fleet, their total mileage constitutes 2.4% of road travel. As of the end of 2022, the majority of taxis (over 15,000, or 67% of all taxis) were diesel-powered, a propulsion method associated with particularly high air pollution levels. Taxis frequently operate in urban centers, covering large distances and running during most hours of the day, contributing disproportionately to nitrogen oxide emissions compared to their share of the total vehicle fleet in Israel.
- Low-Emission Taxis According to data from the Central Bureau of Statistics, by the end of 2022, there were 195 taxis in Israel powered by gas, electricity, or plug-in hybrid systems, constituting less than 1% of all taxis (about 22,400). The Ministry of

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#### The Taxi Sector in Israel

Transportation and the Ministry of Finance have not advanced the use of fully electric taxis ("clean vehicles") as outlined in Government Decision 529, adopted in 2015, which aimed to grant public rights for 500 fully electric special taxis in exchange for half the standard fee. A draft bill to implement this decision was released for public comment by the Ministry of Transportation only in 2022. It was found that the decision was supported by the recommendation of the Ministry of Transportation, an RIA document from 2021, and a recommendation by the Ministry of Environmental Protection from 2020. However, it was advanced only to the stage of a draft bill and has not matured into a formal legislative proposal even nine years after its preparation. Additionally, Government Decision 542, which stipulated that starting in 2023, no new operating licenses for special taxis would be issued unless they are clean vehicles, has not been promoted by the Ministry of Transportation into legislation, thereby exceeding the timelines set by the government decision. Moreover, the purchase tax policy implemented by the Ministry of Finance and the Tax Authority, formed through coordination with the Ministry of Transportation, does not provide a meaningful tax incentive to encourage the purchase of cleaner taxis. This tax policy, which caps the maximum tax rate for taxis at 8% compared to a maximum purchase tax rate of 83% for private vehicles, effectively provides no significant tax incentive to purchase low-emission taxis. Even for vehicles with a low environmental rating, the tax rate remains capped at 8%, offering little motivation to transition to cleaner taxis. This approach is inconsistent with government decisions aimed at reducing air pollution and greenhouse gas emissions and transitioning to a low-carbon economy.

Incentives for Transition to Electric Taxis – Various cities worldwide (London, Barcelona, Stockholm, Amsterdam), as well as the Canadian government, are promoting a transition to electric taxis by offering financial incentives to drivers and developing infrastructure for charging taxis in public spaces. In Israel, no legislation has been advanced to support the replacement of existing taxis with zero-emission taxis.

### **Key Recommendations**

It is recommended that the Ministry of Transportation implement a monitoring mechanism to ensure that license holders continue to meet the conditions required for obtaining a license.

The Ministry of Transportation is advised to extend its oversight to include the renting out of licenses, thereby ensuring compliance with the regulations established by the state for the operation of taxis.

It is recommended that the National Public Transport Authority within the Ministry of Transportation incorporate technological measures to verify fee payments, thus ensuring

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that licenses are issued only after payment confirmation. Until computerized monitoring is implemented, it is recommended to record in writing every verification of payment completion for each license issued.

- It is recommended that the Ministry of Transportation inform taxi passengers about the process for filing a complaint and the details required for its submission in cases of driver misconduct. This could include placing informational signs inside taxis. Moreover, given the high rate (65%) of complaints lacking two identifying details, it is advised to deal with complaints even when only one identifying detail is given, provided it allows for precise identification of the subject (e.g., the taxi' s license plate number, which identifies the vehicle owner).
- The Ministry of Transportation and the Ministry of Justice are advised to promote legislation (either primary or secondary) that would establish administrative enforcement alongside regular criminal enforcement for additional traffic regulations not currently addressed by the new law. It is recommended that the Ministry of Transportation and the Ministry of Justice prepare for the implementation of the new law, update operational procedures, and make the necessary adjustments to the Ministry of Transportation's enforcement activity to ensure its application upon commencement within 15 months.
- In light of exogenous changes, audit findings regarding the base price of diesel, newly available trip data, and the recommendation in the pricing supervision methodology to conduct model reviews at least every five years, it is recommended that the Ministry of Transportation and the Pricing Committee promptly update the fare base model. This update should include the preparation of a comprehensive report detailing the complete economic model, including the underlying assumptions and rationale for the determined values. The report should also address the methodology for determining recognized costs and taxi utilization.
- The Ministry of Transportation should act to implement government decisions regarding the reduction of air pollution from taxis, including promoting the relevant legislation. It is also recommended that the Ministry of Transportation explore additional measures to encourage the adoption of low-emission vehicles in the future. It is further recommended that the Ministry of Transportation, the Ministry of Finance, and the Israel Tax Authority optimize the tax mechanism of the purchase tax imposed on taxis to enhance incentives for purchasing low-emission taxis. Additionally, the Ministry of Transportation, the Ministry of Finance, and the Ministry of Environmental Protection should study international practices on supporting the acquisition of zero-emission taxis and adapt these practices for implementation in Israel, with the necessary modifications.

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Chapter Two: Service Taxis

### **Key Findings**

- **The Reform in the Service Taxi Sector** The reform promoted by the Ministry of Transportation in the service taxi sector, designed to reverse the decline in their operation and increase their number threefold to 2,500 taxis, failed and did not achieve its goals. On the contrary, the number of service taxis plummeted by 93%, from 844 in 2017 to 59 in 2023. This decline in activity persisted in the years 2018–2023 and intensified from January 2022 onwards. As of December 31, 2021, many routes had not undergone tender processes and continued operating under the old framework based on existing operating licenses. Due to the Ministry of Transportation's failure to complete competitive processes on time and its decision not to extend the previous arrangements beyond December 31, 2021, dozens of service taxi operators who had previously worked under state licenses were involuntarily turned into illegal operators before many had the opportunity to legalize their status through tenders. As a result of the reform's failure, service taxis do not provide a complementary transportation solution in large parts of Israel.
- Operation of Service Taxis by Geographic Division As part of the service taxi reform, the Ministry of Transportation awarded tenders for service taxi operations in 10 out of 24 geographic clusters (42%). By the end of the audit (May 2024), only 59 out of the 400 taxis (15%) designated to serve the public in these clusters were operational. Of the ten clusters where a tender process was conducted and winners were selected, six did not commence any operations, while four began partial operations. Despite the Ministry of Transportation's plan to allocate clusters across a wide geographic area, from Nahariya to Eilat, licensed service taxis operated in only four of the 24 planned clusters in 2023. These active clusters were exclusively in the Tel Aviv and Central Region. Service taxi lines do not operate in the following clusters: Eilat, Ashkelon-Ashdod, Be'ersheva and Northern Negev, Tel Aviv-Jerusalem, Urban Jerusalem, Haifa-Nazareth, Tiberias, Akko-Nahariya area, Ono Valley, Sharon area, Urban Netanya, Intercity Netanya, Regional Netanya, Petah Tikva, Urban Rishon LeZion, Urban and Regional Rehovot, Gush Etzion-Jerusalem, Jerusalem-Allenby Bridge, Ben-Gurion Airport-Jerusalem area, and Ben-Gurion Airport-Central area.
  - Supervision of Service Taxis It was found that, in contravention of the provisions of the Traffic Ordinance and its Regulations, 165 service taxis without the appropriate

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license to operate on a service route, as required by Amendment 120 to the Ordinance, underwent an annual licensing test at 31 licensing institutes subject to supervision by the Vehicle Division of the Ministry of Transportation. It was also found that there is no computerized control tool to verify that service taxis have an active license in line with the updated provisions.

### **Key Recommendations**

It is recommended that the Ministry of Transportation revalidate the entire operational concept for service taxis, considering current market needs – including with regard to the need for supplementary services through service taxis or through the addition of public transport services with small buses in areas with topographical limitations or low demand for travel. It is recommended that the Ministry of Transportation translate the results of its examination into a renewed operational concept and implement it as a practical plan. If, following the examination, the Ministry of Transportation concludes that there is a need to change the framework established by the government in 2016 and legislated in 2018, it should promptly formulate recommendations and submit them to the government to determine a new policy in the service taxi sector.

It is recommended that the Ministry of Transportation, based on the audit findings, identify and take action regarding taxis whose licenses to operate as service taxis were renewed following an annual licensing test even though they are not operated by a corporation holding a service line license according to Amendment 120 of the Traffic Ordinance. It is also recommended to examine how these "service taxis" were able to receive approval from licensing centers for passing the annual licensing test and to address this deficiency. Furthermore, it is recommended that the Ministry of Transportation establish and operate a computerized control tool to monitor the validity of service taxi operating licenses and that the Licensing and Emergency Management Division verify whether all license plate numbers appearing in the computerized system were issued following tender awards and are assigned to service lines, as required by the legislation. The Taxi Sector in Israel

**Chapter Three: Taxi Operations at Ben-Gurion Airport** 

### **Key Findings**

Special Taxi Operations at Ben-Gurion Airport – Following the failure of the tender conducted by the Israel Airports Authority (IAA) to manage and operate a comprehensive taxi passenger service from Ben-Gurion Airport to destinations across the country, special taxis operated for six years (June 2017 - August 2023) under an "open market" model, meaning they were managed directly by IAA without a managing taxi corporation. The absence of a contracted taxi corporation effectively contributed to an increase in the activity of unauthorized taxis ("pirates") at Ben-Gurion Airport. Without a managing corporation, there was a decline in the quality of service provided to passengers, an increase in various violations by taxi drivers, and challenges in enforcement.

Enforcement by the Airports Authority Regarding Special Taxi Driver Conduct at Ben-Gurion Airport – In recent years, IAA has struggled with recurring violations by taxi drivers, including passenger solicitation (a prohibited behavior under Regulation 517 of the Traffic Regulations, 1961: "No person shall solicit passengers to travel in a taxi from the terminal or transport their luggage in any manner, including by calling out, signaling, or similar actions"), refusal to perform rides, failure to operate the meter, fare overcharging, and even incidents of violence. Documents provided by IAA to the State Comptroller revealed that it does not fully utilize the enforcement tools at its disposal and lacks enforcement authority over some of the offenses committed on its premises.

Delays in Service Taxi Tenders at Ben-Gurion Airport – The reform in the service taxi sector was initiated in 2018; however, by the end of 2023, the Ministry of Transportation had yet to publish a tender for the service lines operating at Ben-Gurion Airport. In 2018, the Ministry began planning tenders for service lines across the country, including from Ben-Gurion Airport to the Jerusalem and Central Regions only. The audit revealed that no tender was planned for the Region of Haifa and the North, despite the existence of an operational service line to this area, which still requires formal regulation. The failure to extend the transitional provisions, which had permitted service taxi lines to operate under the old framework until the end of 2021, combined with delays in tender processes for regulating the lines under the new framework, rendered the operators of these lines – including those at Ben-Gurion Airport – illegal. Some of these operators have yet to be given the opportunity to formalize their status through tenders.

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Negotiations have been held between IAA and the Ministry of Transportation over the regulation of service lines in the Ben-Gurion Airport area; however, they have yet to result in a formal arrangement, and the lines continue to operate without a legal framework.

- A Legal, Lower-Cost Alternative to Special Taxi Fares Despite Ben-Gurion Airport operating 24/7, regular public transportation services (trains and buses) do not operate around the clock, and service taxis in the Ben-Gurion Airport area currently operate without a license from the Ministry of Transportation. The Ministry has not provided the public with a legal alternative at a cost lower than that of special taxis in the hours when regular transportation services are unavailable.
- Signage at Ben-Gurion Airport Regarding Service Taxis During the audit, it was found that in the taxi waiting areas at Ben-Gurion Airport, several signs bearing the logo of the government-owned Israel Airports Authority were displayed, showing fare rates and schedules for service taxis. However, the licenses for service taxis operating in the Ben-Gurion Airport area expired at the end of 2021. The Israel Airports Authority stated in its July 2024 response to the State Comptroller's Office that it accepts this criticism and has removed the sign identified during the audit.

## **Key Recommendations**

- Given the selection of a corporation to manage the taxi transport system and the experience gained by the Israel Airports Authority (IAA) during the seven years it operated the taxi area under the "open market" model, it is recommended that IAA implement an ongoing and effective supervision process of the new transport system, applying the lessons learned from its direct management experience.
- It is recommended that IAA exercise its existing enforcement powers regarding taxi operations in line with relevant legislation and IAA regulations.
- It is recommended that the Ministry of Transportation, in collaboration with IAA, examine the enforcement powers required at Ben-Gurion Airport to ensure that taxi drivers comply with the applicable regulations and maintain public order. Additionally, the Ministry and IAA should monitor the performance of the corporation selected to manage the taxi transport system at Ben-Gurion Airport. Collaboration with the police should also be initiated, as needed, to ensure proper and orderly conduct at Ben-Gurion Airport, which serves as the main gateway into Israel.
- It is recommended that IAA prepare for the implementation of the Traffic Violations (Administrative Penalties) Law, 2024, under which violations of traffic regulations related to taxi operations at Ben-Gurion Airport (such as soliciting passengers and parking

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arrangements) will be enforced via administrative procedures as a default. For this purpose, it is recommended to authorize IAA employees as inspectors, as permitted by law.

It is recommended that the Ministry of Transportation expedite the issuance of a tender for operating service taxi lines in the Ben-Gurion Airport area, given the continuous flow of passengers, including during non-standard hours when buses and trains are either unavailable or operating on a limited schedule.

### Number of Service Taxis in Israel, 2005–2023



Based on data from the National Public Transport Authority, processed by the State Comptroller's Office.

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Source: data received from the Public Inquiries Department of the National Public Transport Authority.

\* The data regarding enforcement actions referred to the Prosecution Unit is not recorded in the Michael system; rather, it is calculated based on other data.

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### Summary

According to Ministry of Transportation estimates, approximately 72 million taxi rides take place annually, generating revenues of approximately NIS 6.5 billion. The Ministry of Transportation serves as the primary regulator of the sector, determining the technical specifications for vehicles used as taxis, the requirements for operating a taxi, the conditions for obtaining a taxi driver's license, driver conduct regulations, and drivers' obligations. Additionally, in collaboration with the Ministry of Finance, it sets fare rates and taxation policies.

The audit revealed that improving passenger service involves enhancing regulation in several aspects, primarily including oversight of the issuance of operating and driving licenses to drivers who interact with the public, continued regulation of enforcement measures for violations in the sector, fair pricing of fares for both drivers and passengers, increased transparency regarding taxi drivers' rights and obligations, reducing air pollution caused by the operation of taxis, and regulating the activity of the service taxi sector in Israel as well as taxi operations in the Ben-Gurion Airport area.

The State Comptroller recommends that the Minister of Finance and the Minister of Transportation, in consultation with the joint Pricing Committee of the Ministry of Transportation and the Ministry of Finance, update the base fare rates for special taxis, while presenting a summary document explaining the economic model and underlying assumptions from which the fare updates are derived.

The Ministry of Transportation, the Ministry of Finance, the Tax Authority, and the Israel Airports Authority (IAA) should act within their respective areas of responsibility and collaborate as necessary to address the deficiencies noted in this report.

Implementing the recommendations outlined in the report may improve regulatory processes in the taxi sector and lead to an overall improvement in service levels for citizens, including broader availability of transport services, fair and regulated pricing, reduced taxi-related air pollution, and enhanced passenger safety.

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Ministry of Transportation and Road Safety

Operation of Toll Roads



Abstract

### **Operation of Toll Roads**

### Background

The transportation sector is one of the key economic sectors in the economy, and its development is essential for the efficient functioning of a modern and growing economy. Therefore, its advancement and improvement serve as a critical lever for economic growth, urban and regional development, enhancement of safety standards, improvement of citizens' quality of life, amelioration of environmental conditions, and even reduction of economic and social disparities.

The investment required for establishing transportation infrastructure is substantial and competes with numerous other needs funded by the state budget. One method of addressing budgetary limitations in the development of transportation infrastructure is the Public-Private Partnership (PPP) model. This approach involves various models of collaboration between the public and private sectors in order to carry out public projects.

One such model under PPP is the BOT model (Build-Operate-Transfer). According to this model, a public entity enters into a long-term concession agreement with a private sector operator who assumes responsibility for financing, designing, constructing, operating, and maintaining the public infrastructure. In return, the private operator is granted the right to collect fees from the facility's users. At the end of the agreement period, the facility is transferred to the public entity at no cost.

In Israel, there are three toll roads developed under the BOT model: the Carmel Tunnels, Highway 6, and the Fast Lane.

# Key Figures

# 4 private concessionaires

operate the three toll roads. Two concessionaires operate Highway 6 – one for the central section and the other for the northern section; a single concessionaire operates the Carmel Tunnels, while another manages the Fast Lane

# NIS **9.75** billion

Construction costs of the toll roads by the private consessionaires. According to data from the Accountant General's Office, the construction costs for the toll roads are as follows: Highway 6 (central section) - NIS 5.5 billion; Highway 6 (northern section) -NIS 2.5 billion; Carmel Tunnels - NIS 1.25 billion; Fast Lane - NIS 0.5 billion

## Approx. 207.5 km

The total length of toll roads in Israel out of more than 8,500 km of roads in Israel: Highway 6 (northern, central, and (nontoll) southern) – 188 km; Carmel Tunnels – 6.5 km; Fast Lane – 13 km

## 36–50 km/h

The average speed measured on certain sections of Highway 6 during peak morning hours, and 47 km/h in the afternoon, where the maximum speed permitted is 120 km/h

# Approx. 273%

The cumulative growth rate of traffic on the central section of Highway 6 between 2003 and 2019. Until 2017, the annual average growth rate was approximately 8.8%, but it decreased to 4.6% starting in 2017, primarily due to drivers shifting to off-peak hours as a result of the increasing number of hours during the day with traffic congestion and the decline in average travel speeds

### 70% decrease in average travel speed

The expected change in 2030 on Highway 6 in the section between Baka and Nitzanei Oz compared to the current situation without the expansion of Highway 6. Across other examined sections of Highway 6, the expected reductions in average speed vary, ranging from 70% to 51% in three segments, and from 72% to 45% in three others

# **390** NIS million

The estimated national economic benefit in 2030 from expanding Highway 6 and building the Beit Nehemia interchange as a regular road amounts to NIS 260 million when operated as a highoccupancy lane (HOV)

## NIS **15.22** and NIS **11.01**

The toll rates in Section 18 of Highway 6 in the central section, for occasional users and video subscribers respectively, compared to 9.27 and 7.94 NIS in Highway 6 North for occasional users and video subscribers respectively - a difference of 64.2% and 38.6% for occasional users and video subscribers respectively, despite the geographical proximity and similar topography

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## Audit Actions

From August 2023 to April 2024, the State Comptroller's Office examined the operation of toll roads in Israel, the level of service provided on these roads, oversight by the Trans-Israel Highway Company as the regulatory authority over concessionaires, and the actions taken by the Trans-Israel Highway Company and the state regarding the Highway 6 expansion project. The audit was conducted at the Trans-Israel Highway Company, the Ministry of Transportation and Road Safety, and the Ministry of Finance.

### **Key Findings**

I.

- Examining the Desirability of the PPP Model Versus Government-Funded Road **Construction** – As of 2024, there are three toll roads in Israel, with a total length of approximately 207.5 km, out of about 8,500 km of roads nationwide. In the years 2019-2023, under the contractual safety net arrangements, while the state received NIS 111 million and NIS 85 million from the central section concessionaire of Highway 6 and the Carmel Tunnels concessionaire, respectively, it paid out NIS 390 million and NIS 170 million to the northern section concessionaire of Highway 6 and the Fast Lane concessionaire. After offsetting the revenues, the state ended up paying out approximately NIS 363 million to the concessionaires under the safety net criteria over these years. However, the audit revealed that the Ministry of Transportation and the Ministry of Finance did not conduct a retrospective analysis of the overall economic desirability of the PPP road construction model compared to state-funded road construction. Nor did they evaluate the benefits of the toll road projects or assess whether their intended goals in terms of overall profitability and service quality were achieved. This analysis would include comparing the initially estimated economic desirability at the time of decision-making to the actual results, while taking into account changes to the original concession agreements, financial compensation required by the state to ensure project continuation, state payments to concessionaires under the contractual safety net mechanism, toll rates set for users, and other payments stipulated within the context of addendums made to the concession agreements.
- Traffic Congestion on Highway 6 in the Central Section Data from the transportation consultant for the Ministry of Transportation and Trans-Israel Highway Company revealed that, in November 2019, there was moderate-to-high traffic congestion southbound from 5:00 to 9:00 AM between the Iron Interchange and Nachshonim, and from 2:00 to 7:00 PM between the Horshim Interchange and

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Nachshonim. Northbound congestion occurred from 7:00 to 9:00 AM between the Ben Shemen Interchange and the Kesem Interchange and from 2:00 to 7:00 PM between the Ben Shemen Interchange and Nitzanei Oz. The transportation consultant's data indicated that, without expanding Highway 6, the average travel speed on the road would steeply decline relative to current conditions. By 2030, the average speed in three segments from Iron to Nitzanei Oz is projected to drop between 30-45 km/h, a decrease of 51-70%, while in the three segments from Nitzanei Oz to Horshim, the speed is expected to fall between 14-30 km/h, a decline of 18-57%. Further projections show that by 2040, the average speed in the segments from Iron to Nitzanei Oz would drop between 30-63 km/h, a decrease of 70-72%, and in the remaining three segments between 35-38 km/h, a decrease of 45–72%. These findings, presented to the Inter-Ministerial Tender Committee for Transportation Concession Projects1, highlighted that during morning peak hours, speeds in certain segments drop to 50 km/h and even 36 km/h, while in the afternoon, speeds fall to 47 km/h, significantly below the maximum speed limit of 120 km/h. The road fails to perform as expected for a highway designed for high service levels. According to Trans-Israel Highway Company calculations presented to the Tender Committee, the annual loss from not implementing the expansion by 2030 is estimated at approximately NIS 390 million without a high-occupancy vehicle lane2 (HOV lane) and NIS 260 million with an HOV lane. It was found that studies and discussions within the Tender Committee regarding the Highway 6 expansion, which culminated in August 2022 in a third amendment to the concession agreement to extend the highway by 2028, only began in 2020 despite the heavy congestion that started years earlier. The State Comptroller had already warned the Ministry of Transportation, the Ministry of Finance, and the Trans-Israel Highway Company about the congestion.

The Disparity in Toll Rates Between the Central and Northern Sections of Highway 6 – toll rates on toll roads are determined, among other things, by the cost of construction, operation, and maintenance of the projects, as well as the level of state funding invested in them. According to the law, regulations, and concession agreement, and with the approval of the regulatory authority, the toll for private vehicles with a PassCal subscription on the central section of Highway 6 (for three or more segments, excluding Segment 18 (between the Iron Interchange and Ein Tut Interchange) ranges from NIS 13.97 to NIS 23.8. For occasional users, the toll ranges from NIS 22.39 to NIS 31.71 (62.4% to 73.4% of the toll for occasional users). Including Segment 18, the toll for PassCal subscribers ranges from NIS 20.77 to NIS 30.08, compared to NIS 29.19 to NIS 38.50 for occasional users (71.2% to 78.1% of the occasional user rate). In contrast, subscribers to Highway 6 North do not receive a discount on the base toll compared to

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<sup>&</sup>lt;sup>1</sup> An inter-ministerial committee chaired by a senior deputy to the Accountant General, including representatives from the Accountant General's Office, the Budget Department, the Ministry of Transportation, Inbal Insurance Company, and the Trans-Israel Highway Company.

A lane permitting, according to the Ministry of Transportation's policy, the travel of private vehicles only if a minimum number of passengers (including the driver) is present. The minimum number can range from 2+ (driver and one passenger), 3+ (driver and two passengers), or even 4+ passengers or more.



occasional users. The average toll per segment in the central section of Highway 6 is significantly higher than that of Highway 6 North: for private vehicles, the toll is NIS 2.82 and NIS 2.30 higher for occasional users and video subscribers, respectively (60.1% and 57.9%, respectively). Segment 18 tolls in the central section of Highway 6 are NIS 5.95 and NIS 3.07 higher for occasional users and video subscribers, respectively, compared to the tolls on Highway 6 North (64.2% and 38.6%, respectively), despite the geographical proximity and similar topography of these road segments. This variability in toll rates between Highway 6 North and Segment 18, as well as between the average toll per segment in the northern and central sections of Highway 6, and their lack of clarity, may cause confusion among users, particularly occasional users, making it difficult for them to decide whether using the various road segments is worthwhile. The audit found that the Ministry of Transportation and the Ministry of Finance had not considered the possibility of standardizing and simplifying toll rates on toll roads, including by adjusting state funding levels for the different projects.

**Toll Structure on the Central Section of Highway 6** – despite increasing congestion on the road, the Ministry of Transportation, the Ministry of Finance, and Trans-Israel Highway Ltd. have not collaborated with the concessionaire to modify the toll structure for private vehicles on the central section of Highway 6, as stipulated in the original concession agreement. A revised toll structure could establish a link between toll rates and service levels by implementing a differential tolling system. Such a system would encourage drivers to shift travel from peak hours to off-peak hours and incentivize the concessionaire to maintain service levels consistent with those expected of a highway. This approach could reduce congestion and improve service quality, similar to the model employed on the Fast Lane, where dynamic pricing increases as congestion rises, ensuring an average speed of 70 km/h.

Expansion of Highway 6 in the Central Section – following the last expansion in 2014, the concessionaire fulfilled its obligations regarding road expansion. However, the concessionaire has no commitment to future expansions under the concession agreement unless implemented through a change directive. Consequently, any additional expansion is not part of the original concession agreement signed in 1998 and requires specific planning and preparations. These include designing the expansion and determining its scope, estimating the costs of the expansion project, deciding on the implementing party, and setting a timeline.

Maintenance of Highway 6 South – unlike other sections of Highway 6 maintained by concessionaires, maintenance work on Highway 6 South is carried out by Netivei Israel (NATI) according to a maintenance plan and prioritization based on a governmentapproved budget. A discrepancy was identified between the required funding, calculated according to the maintenance model developed by NATI (NIS 2.4 billion annually), and the actual allocated and executed budget – NIS 1.4 billion as of 2023. As a result, some of the road maintenance is not performed at the required standard defined by Netivei's

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maintenance model. Consequently, Highway 6 South is not maintained at the same level as the central section of Highway 6, where a toll is charged.

Economic Desirability of Operating the Expansion Lane as a High-Occupancy Vehicle Lane (HOV Lane) - the Highway 6 expansion project includes adding a fourth lane in both directions between the Kesem Interchange and the Iron Interchange, adding a third lane in both directions between the Iron Interchange and the Ein Tut Interchange, and upgrading the Beit Nehemia Interchange. The decision by the Inter-Ministerial Tender Committee in March 2021 to designate the new lane as an HOV lane from the day it opens was found to lack economic desirability. Based on data from the traffic consultant, the national economic benefit in 2030 without the HOV lane is estimated at NIS 390 million, compared to NIS 260 million with the HOV lane – a difference of NIS 130 million. The data also indicates that operating the lane as an HOV lane would only become economically viable starting in 2040. A technological risk related to the implementation of the HOV lane was identified, as no technological system capable of distinguishing between HOV lane users exempt from tolls and those required to pay had been developed at the time of the committee's discussion. Additionally, the discussion highlighted uncertainty about how the new lane would be operated if the passengercounting system failed to meet its targets. Specifically, there is no clear plan for whether the lane would immediately be converted into a standard lane, which would increase the concessionaire's revenue and could affect the concession period. Leaving the issue of the HOV lane's passenger-counting system unresolved with the concessionaire creates a potential for disputes that could delay project progress, jeopardize public service, and diminish the benefits expected by the state from the project.

Examination of Highway 6 Operation After the Concession Period – The concession period for Derech Eretz is expected to be extended by three additional years, until 2032, due to the Highway 6 expansion project. It was found that despite a statement by a representative of the Budget Department in the Tender Committee in March 2021 that toll collection would cease at the end of the concession period in 2032, as of the beginning of the audit in August 2023, no discussions had taken place within Trans-Israel, the Ministry of Transportation, or the Ministry of Finance regarding the operation of Highway 6 after the concession period ends. Only after the audit began did Trans-Israel and the Ministry of Transportation start examining four alternatives for the operation of Highway 6 after the concession period: operation and maintenance by the state, toll-free; maintenance by a concessionaire for a periodic fee, toll-free; operation and maintenance by a concessionaire with differential toll collection to regulate traffic; operation and maintenance by a concessionaire with toll collection for developing projects aimed at improving user benefits.

Base Fare for Travel in the Carmel Tunnels – The base fare for the Carmel Tunnels has increased in real terms since their opening in December 2010 - private vehicles by NIS 4.39 (a 65.3% increase); public transportation vehicles by NIS 13.29 (a 66.3%)

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increase); trucks by NIS 21.95 (a 65.3% increase). This is despite the reduction in the toll rate and the implementation of the discount stipulated in the December 2017 addendum to the concession agreement, which was funded by the state in the amount of hundreds of millions of shekels. The real increase stems from adjustments tied to the Consumer Price Index (CPI) and three fare updates during the first eight years of tunnel operation, which raised the base fare from NIS 5 to NIS 8 (a 60% increase). Combined with CPI adjustments, the total increase exceeded the fare reduction and discounts introduced in 2017 by approximately 65%. Data from Trans-Israel indicate that more than 95% of tunnel users drive private vehicles, with around 11% being occasional users. Round-trip users pay NIS 40.60 per day for two segments and NIS 893.32 per month (based on 22 days at the subscriber rate), representing a significant expense that may deter potential users from using the tunnels. According to Trans-Israel, peak-hour capacity utilization in the tunnels ranges between 70% and 77%, leaving an unused capacity of 23% to 30% during peak hours. This surplus capacity may be attributable to the real increase in toll fares. In a September 2015 report by a traffic consultant for Trans-Israel, it was recommended to modify the toll structure in order to regulate tunnel traffic between peak and off-peak hours, enable better utilization of the tunnels, provide advantages for regular users, and increase trips by medium-frequency users by 30%. A more recent study from January 2023 confirmed that the toll remains a major barrier to increased tunnel use. The fare of NIS 3.2 per kilometer for subscribers is perceived as expensive, even when compared to other toll roads in Israel: Trans North - NIS 0.4–1.2 per kilometer; segment 18 of Highway 6 - NIS 0.44 per kilometer; Highway 6 overall up to NIS 0.7 per kilometer.

- Assessment of the Necessity for Additional Shuttle Routes in Employment Hubs Within the Tel Aviv Metropolitan Area - It was found that the additional shuttle route from the Fast Lane parking lot to the Rothschild area in Tel Aviv was determined by Trans-Israel based on a survey conducted in February 2018 by a traffic and survey consultant. However, no further systematic surveys have been conducted as of April 2024. Additionally, Trans-Israel is not specialized in conducting surveys or determining routes and destinations for bus and shuttle lines, and the examination focused solely on the Rothschild shuttle without assessing the necessity of additional shuttle routes to other employment hubs within the Tel Aviv metropolitan area. It was also found that the concession agreement stipulated that the concessionaire is required to add only one additional shuttle route. The possibility of needing to operate additional routes in the future, considering developments, future needs, population growth, the operation of the light rail, and other factors, was not accounted for, except through a potential modification to the existing concession agreement, which would require negotiations with the concessionaire. Moreover, as of June 2024, Trans-Israel lacks ongoing information regarding the occupancy rates of the shuttles.
- The Level of Service Provided to the Public by the Concessionaires Trans-Israel Highway Company, as the supervising authority, conducted covert user surveys at the customer service centers of the concessionaires for the central section of Highway

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6, Highway 6 North, and the Carmel Tunnels. Additionally, the Trans-Israel Highway Company conducted a passenger survey among users of the shuttles on the Fast Lane. The following are findings from the surveys conducted by Trans-Israel Highway Company:

- Customer Service for the Central Section of Highway 6 According to a covert user survey conducted by Trans-Israel from May to July 2022, the average and median wait times for a customer service representative at the call center of Derech Eretz, which operates the central section of Highway 6, were 3:40 minutes and 3:11 minutes, respectively. In 15 cases, the wait time exceeded seven minutes. In a letter sent in October 2022 to the concessionaire's CEO, the average wait times for each day of the week (Sunday through Friday) were presented. However, the distribution of wait times for the 200 calls made during the survey was not included. Such data could indicate how many calls had wait times exceeding seven minutes, how many had wait times between six and seven minutes, etc., which would allow for the calculation of the percentage of calls with the longest wait times. Additionally, the letter did not specify the maximum acceptable wait time required of the concession agreement between the state and the concessionaire does not define a maximum wait time.
- Customer Service at the Carmel Tunnels A survey found that in 2023, the average response time for a service representative increased by 44 seconds compared to 2018, from 1:26 minutes to 2:10 minutes, and by 48 seconds compared to 2021, from 1:22 minutes to 2:10 minutes. Additionally, in 2023, the percentage of callers waiting for a response for more than two minutes was approximately 69%, compared to 16% in 2018 and 4% in 2021, respectively. The findings indicate that in 2023, the level of service declined compared to 2018, as evidenced by a 51% increase in the average response time and a significant rise in the percentage of callers waiting for more than two minutes, from 16% in 2018 to 69% in 2023.
- Shuttle Service from the Fast Lane Parking Lot According to a passenger survey conducted by the Trans-Israel Company in 2023 among shuttle users from the Fast Lane parking lot, it was found that the daily passenger rate had significantly decreased compared to previous years. There was a 34% decline in the average daily number of passengers compared to 2016, and the percentage of users utilizing the service daily dropped by over 50% to 14%. Since 2015, a downward trend in shuttle usage has been observed, particularly on the shuttle line to the Kirya in Tel Aviv, where daily usage declined from 1,239 to 760 passengers between 6:30 AM and 9:30 AM (a decrease of approximately 39%). On the shuttle line to the Diamond Exchange District (Bursa), usage declined from 823 passengers per day in 2015 to 327 passengers per day in 2020 during the same hours (a decrease of

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approximately 60%). However, from 2020 to 2023, usage on this line increased from 327 to 525 passengers per day (an increase of approximately 61%). Despite this growth, the current usage level is still 298 passengers lower (approximately 36%) than in 2015, during the hours of 6:30 AM to 9:30 AM. In the survey, approximately half of the passengers provided general comments, mainly emphasizing the need to add stops (particularly due to the temporary closure of the HaShalom Station for construction) and to include real-time shuttle location and arrival time updates in the mobile application.

### Handling Claims of Drivers who Filed Appeals Against Billing Notices

- Claims of Non-Receipt of Billing Notices by Mail Most appellants argued before the appeals committees that they had not received the billing notice by mail. On the central section of Highway 6, the number of such claims increased from 399 in 2020 to 500 in 2023 (a rise of approximately 25.3%), and their proportion of total appeals grew from approximately 60.2% in 2020 to approximately 77.9% in 2023. On the northern section of Highway 6, the number of appeals tripled between 2020 and 2022, rising from 296 to 896 appeals (an increase of approximately 203%). However, in 2023, the number of appeals decreased to 595 (a drop of approximately 33.5%), though this still represents an increase of approximately 101% compared to 2020.
- Unresolved Appeals It was found that since 2021, the number of unresolved open appeals for each toll road has been on the rise, increasing from 88 cases to 475 cases an increase of approximately 440% (more than fivefold). Additionally, according to the records of the Appeals Committees Secretariat managed by the supervising authority, the Appeals Committee for the Fast Lane has not operated since March 2021 due to the lack of appointment of a chairperson and a public representative. The Appeals Committee for the Carmel Tunnels has not operated since July 2023 due to the absence of a chairperson, while the Appeals Committee for Highway 6 North did not operate for about eight months in 2022 for the same reason.

**Debt Collection** – The concessionaires employed various methods to collect debts from drivers, including opening legal enforcement cases for debts of only a few shekels, which could swell to hundreds of shekels. In August 2022, a relief agreement was signed between the state and the Highway 6 central section concessionaire. Under this agreement, for low debts, the concessionaire may open enforcement cases only 30 days after notifying the debtors and only upon receiving confirmation that the debtor received the billing notice. However, this relief agreement applies exclusively to debtors of the Highway 6 central section concessionaires, where a small debt of 10 NIS can grow to 500 or even 600 NIS.

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Evaluating Lessons Learned – Evaluating the suitability of infrastructure projects, including toll roads, for the PPP model requires significant experience and knowledge from state decision-makers across numerous fields. Due to the complexity of these projects, as well as their operation and ongoing management, decision-makers must undertake thorough and structured processes in order to draw lessons, formulate actionable recommendations, and implement them in future projects. This is essential for improving the tender preparation process and ensuring effective project execution. The audit found no documentation at the Ministry of Finance or the Ministry of Transportation indicating that lessons learned sessions or drawing of conclusions were conducted from existing projects in order to inform future endeavors.

**Risk Allocation in the Highway 6 Expansion (Sections 14–18)** – The State Comptroller commends the proper risk allocation between the concessionaire and the state, as well as the risk mitigation measures employed in the Highway 6 expansion project for sections 14–18. These achievements are attributed, in part, to the extensive experience of Trans-Israel as the supervising authority in managing such projects and to its stable and experienced management team, which underscores the importance of managerial continuity and institutional memory.

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## **Key Recommendations**

It is recommended that the Ministry of Transportation and the Ministry of Finance, in collaboration with Trans-Israel, analyze the actual economic benefit of roads previously constructed using the PPP model compared to roads funded through the state budget. This analysis should take into account eight transportation projects currently in various stages of development under the PPP model and aim to organize and consolidate knowledge in this field within government ministries and Trans-Israel to better prepare for similar projects in the future. It is also recommended that Trans-Israel, the Ministry of Transportation, and the Ministry of Finance document lessons learned sessions in order to preserve institutional knowledge and ensure continuity among state entities managing these projects. This documentation should support improved preparation for similar tenders in the future and ensure that correctable lessons are implemented during the execution of ongoing projects.

- Given the increasing traffic congestion and declining service levels on the road, it is recommended that the Ministry of Transportation, the Ministry of Finance, and Trans-Israel continuously monitor vehicle traffic, travel speeds, and other parameters in order to identify vulnerabilities affecting service levels. These entities should work to implement optimal solutions to these issues as quickly as possible.
- It is recommended that Trans-Israel, the Ministry of Transportation, and the Ministry of Finance work to complete the expansion of Highway 6 by the set deadline in order to prevent ongoing harm to commuters and the national economy. They should rigorously monitor the completion of the competitive process for selecting contractors and ensure that the execution of construction work adheres to established quality standards.
- It is further recommended that the Ministry of Transportation, the Ministry of Finance, and Trans-Israel thoroughly examine the issue of HOV (High-Occupancy Vehicle) lanes, taking into account all related aspects, including the effectiveness of HOV lanes and their impact on traffic; the desirability and timelines for implementing an HOV network; and extension of the concession period.
- Additionally, it is recommended that Trans-Israel, the Ministry of Transportation, and the Ministry of Finance explore the possibility of unifying and simplifying the method for setting toll rates. This would prevent significant discrepancies in toll rates across different road sections, enhance transparency, and enable drivers to make better-informed decisions. This recommendation is particularly relevant in anticipation of the addition of new concessionaires with the planned extensions of Highway 6.
- The is recommended that the Ministry of Transportation, Trans-Israel, and the Ministry of Finance work to formulate a differential toll structure for private vehicles that aligns with the level of service provided on Highway 6 and reduces traffic congestion. An agreement with the concessionaire should be reached in advance, prior to the completion of the

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expansion, so that a differential toll structure aligned with the level of service can be implemented immediately upon the project's completion. Additionally, it is recommended to establish a unified toll collection system that facilitates ease of use for drivers, while taking into account various considerations, including an oversight mechanism to prevent monopolistic practices and avoid confusion among users, especially regarding Highway 6, in light of the potential for multiple concessionaires in the future.

### The Average Travel Speed on Highway 6 During Peak Morning Hours Heading South in a No-Expansion Scenario



Source: Trans-Israel Ltd.

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### Summary

The transportation sector is one of the key economic sectors in the economy, closely interconnected with other industries. Therefore, its development and improvement serve as a critical lever for economic growth, urban and regional development, and enhancing safety, benefiting the country's citizens. One way to address state budget constraints in the development of transportation infrastructure is through public-private partnerships in implementing public projects under the BOT (Build-Operate-Transfer) model. Trans-Israel Ltd. is a wholly-owned government company established in March 1993 to promote the construction of Highway 6 using the BOT method. It serves as the oversight authority for Highway 6, which is operated by two private concessionaires, as well as for the Carmel Tunnels and the Fast Lane, both of which were also developed under the BOT model.

The State Comptroller's Office recommends that the Ministry of Transportation, the Ministry of Finance, and Trans-Israel Ltd. evaluate and draw lessons-learned and document such deliberations to preserve organizational knowledge. Additionally, they should analyze the actual economic desirability and benefit of roads previously constructed using the PPP method compared to roads funded by the state budget, in order to prepare appropriately for similar projects in the future. It is further recommended to continuously monitor traffic congestion, vehicle movement, travel speed, and other parameters, and implement optimal solutions to address these issues as quickly as possible. The State Comptroller's Office also recommends completing the expansion of Highway 6 within the set timeline in order to prevent ongoing harm to passengers and the national economy, as well as examining the HOV (High-Occupancy Vehicle) lanes, including their effectiveness, impact on traffic, economic benefit, and timeline for establishing an HOV network, as well as extending the concession period. Moreover, it is recommended to evaluate the claim that the Integrated Transportation Projects Procedure procedure does not fully assess the economic benefits of public transportation lanes compared to private vehicle lanes, and update it if necessary. The State Comptroller's Office further recommends that Trans-Israel Ltd., the Ministry of Transportation, and the Ministry of Finance consider establishing a uniform, consistent, and stable fare structure linked to vehicle type, subscription type, and travel distance to prevent significant fare discrepancies and provide passengers with transparency for better decision-making. This is especially important given the anticipated addition of concessionaires following Highway 6 extensions. Finally, they should develop a differential fare structure for private vehicles aligned with the level of service provided on Highway 6, thereby reducing congestion. An agreement with the concessionaire should be reached in advance, prior to the completion of the expansion, and thus ensure the implementation of a service-based differential fare structure once the expansion is complete.

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# Chapter Three

# Corporations



The Water Authority

# **Regulation and Oversight of Seawater Desalination Facilities**
## **Regulation and Oversight of Seawater Desalination Facilities**

Background

According to the June 2023 projections of the Water Authority (Israel's governmental authority for water and sewage), the supply of natural water<sup>1</sup> in Israel is expected to decrease by 2050 (from 1,278 MCM in 2022 to 886 MCM in 2050), while the demand for freshwater<sup>2</sup> is projected to rise (from 1,776 MCM in 2022 to 2,727 MCM in 2050), in line with the anticipated population growth in Israel.

One of the primary methods for increasing water supply is seawater desalination. According to the Water Authority's forecasts, the production capacity of desalinated water is expected to increase from approximately 596 MCM per year in 2022 to a target of approximately 1,700 MCM by 2050.

Desalinated water is produced in desalination facilities, absorbed by Mekorot Water Company Ltd. (Mekorot) from various desalination plants, transferred to its national water supply system, and distributed to its various customers. In 2022, the state purchased desalinated water from the desalination plants for approximately NIS 1.5 billion.

<sup>1</sup> Including groundwater and water from surface sources, such as the Sea of Galilee, springs, and streams.

<sup>2</sup> High-quality, toxin-free water that is safe for human consumption.

### Key Figures

### 5 plants

5 major seawater desalination plants in Israel as of the audit's conclusion: Palmahim, Hadera, Ashdod, Ashkelon, Sorek A

### For over 13 years

the Water Authority has not completed the preparation of a master plan for the water sector, nor has it submitted it for approval by the Water Authority Council (the Council) or the government, as required by the 2010 government resolution<sup>3</sup>

# **18** High turbidity events

necessitated halting the water supply from a desalination plant in 2023; however, due to the desalination plant operator's failure to report, supply was not halted as required

## 1,700 мсм

The planned desalinated water production capacity according to the Water Authority by the year 2050. As of the audit's conclusion, the production capacity established in the concession agreements of the five largest seawater desalination plants in Israel was approximately 596.4 MCM

## At least once a year

Frequency required for audits of desalination plants under Ministry of Health regulations. However, in the years 2018– 2023, no audits were conducted at any desalination plant by the Ministry of Health, as required

### 33%

of the freshwater provided in 2022 came from desalination plants

NIS 1.5 billion

approximately NIS 1.5 billion to

the Desalination Administration

compensation of approximately

desalination plant operators for

water supplied that deviated

from the standards set in the

concession agreements

In 2022, the state paid

imposed agreed-upon

NIS 1.6 million on all

desalination plants for the

water it purchased. In 2023,

## 14 incidents

of seawater contamination that resulted in production halts at desalination plants were reported between 2007 and the audit's conclusion. Of these: 8 incidents were caused by microbial contamination, 4 resulted from fuel and oil pollution, and 2 were due to water turbidity during storms and an earthquake

## More than a decade

Of delay by the Ministries of Health, Finance, Agriculture, and Energy, as well as the Water Authority, in implementing public health regulations regarding the establishment of a pilot facility. The conclusions from its operation are intended to determine the feasibility of adding magnesium to desalinated water

3 Government Resolution 2348, Principles for Managing Israel's Water Sector (October 24, 2010).

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### **Audit Actions**

From August to December 2023, the State Comptroller's Office examined the regulation and oversight of desalination plants by the Ministry of Health, the Desalination Administration, and the Water Authority. The audit included, *inter alia*, regulation related to desalination plants, inspections and audits conducted by regulators, enforcement measures, incidents of seawater contamination, the addition of magnesium to desalinated water, forward-looking planning of the desalination sector, and preparations for the expiration of concession agreements at desalination plants. The audit was conducted at the Ministry of Health, the Desalination Administration, the Water Authority, the Ministry of Finance – Accountant General's Division, and Mekorot. Supplemental examinations were conducted at the Hadera and Sorek A desalination plants.

### **Key Findings**

- Master Plan for the Water sector Despite more than 13 years having passed since the 2010 government resolution, and despite repeated remarks by the State Comptroller to the Water Authority in October 2012, October 2015, October 2018, and October 2020 regarding the absence of a master plan for the water sector, as of the audit's conclusion, the Water Authority had still not completed preparation of a master plan. Furthermore, it had not submitted the plan for approval by the Water Authority Council or the government, as required by the 2010 government resolution. The failure to complete the master plan for over a decade, particularly given the need for long-term planning in the desalination sector, could hinder the management of the water sector. As stated by the State Comptroller in 2018: "Such a plan would enable the water sector to be managed sustainably, help avoid future crises, outline policy, and establish priorities for the water sector in the coming years".<sup>4</sup>
- Approval of a Long-Term Development Plan for the Desalination Sector Through 2050 – In June 2023, the Water Authority presented the Water Authority Council with the long-term production needs for the desalination sector through 2050. However, as of the audit's conclusion, the Water Authority Council had not yet approved the proposed long-term development plan for the desalination sector through 2050. Approving a development plan through 2050, and even beyond, is essential for

<sup>4</sup> State Comptroller, **Annual Report 69A** (2018), Planning and Management of the Water Sector, p. 7.

Regulation and Oversight of Seawater Desalination Facilities

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continuing planning efforts to advance the establishment of desalination plants and to remove statutory barriers, if any, as early as possible.

Seawater Contamination at Intake Points – Contaminated seawater can reach the intake points of desalination plants, polluting the raw water and potentially affecting desalinated water guality. Additionally, contaminated seawater can damage desalination facilities and lead to production halts. From 2007 until the audit's conclusion, 14 seawater contamination incidents resulted in production halts at desalination plants. These production halts lasted from several hours to up to five days. The reasons for the production halts were test results that included microbial contamination, fuel and oil pollution, and turbidity. Microbial contamination of seawater could result, among other factors, from the discharge of wastewater and effluents into rivers or directly into the sea. The Hadera, Sorek A, and Palmachim desalination plants together supply approximately 62% of the desalinated water. When combined with the Sorek B desalination plant, located near Sorek A and expected to begin operations in 2024, these facilities will provide approximately 72% of the desalinated water. The Sorek A, Sorek B, and Palmachim desalination plants are located near the mouth of the Sorek River, and the Hadera desalination plant is located near the Hadera River. According to Water Authority documents, surplus effluents and raw sewage are discharged into these rivers, particularly during periods of heavy rainfall, increasing the risk of raw water contamination. Despite this, as of the audit's conclusion, the Water Authority and the Ministry of Environmental Protection had not yet found solutions to prevent the discharge of sewage and effluents into these rivers.

Load Shedding at Desalination Plants – The concession agreements and the arrangements with desalination plant operators regarding load shedding - namely, the cessation of electricity supply to a plant to regulate electricity consumption in the power grid – do not grant the Water Authority or the Desalination Administration explicit and unequivocal authority to approve or prevent operators from participating in loadshedding agreements whenever Noga - The Electricity System Operator Ltd. (Noga) proposes such an arrangement. Similarly, they are not explicitly authorized to issue directives on prioritizing load shedding among desalination plants based on operational or other considerations. This is beyond the general authority to issue any directive intended to ensure the implementation of the desalination agreement, which could be subject to interpretation in specific cases where the Water Authority might demand that operators refrain from participating in load-shedding arrangements. Thus, in situations where the water sector approaches its limits of supply capacity - such as the loadshedding event at desalination plants on June 2, 2023, during which load shedding occurred at several major desalination plants simultaneously, resulting in their operations being halted for several consecutive hours, the Water Authority and the Desalination Administration did not prevent the operators from implementing the load-shedding arrangements. The explicit and unequivocal regulation of authority is of heightened importance in emergency scenarios, such as security threats, that could disable

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desalination plants, whether due to direct damage to the facilities or disruptions to their electricity supply.

- Climate Change Preparedness It was found that the Ministry of Health has yet to conduct the survey it deemed necessary regarding algal toxins and other toxins released into the water by invasive species, given the climate crisis, which may harm the raw water quality of desalination plants. This risk is partly due to the proliferation of these invasive species in the Mediterranean Sea.
- Supervision, Monitoring, and Reporting on Water Quality Although the procedure for supervising water suppliers stipulates that desalination plants with a production capacity exceeding 30 MCM should be inspected at least once a year, in practice, from 2018 to 2023, the Ministry of Health failed to conduct annual inspections at any desalination plant as required by the procedure. Furthermore, the Ministry of Health's central office lacks reports from the regional offices on the execution of these inspections.
- Random Spot Checks of Water Quality by the Water Authority and the **Desalination Administration** – A review committee appointed by the former-Minister of Energy in May 2019, following prolonged deviations in water quality at the Sorek A desalination plant (the Review Committee), determined, among other findings, that the state had not sufficiently utilized its tools for conducting random spot checks of water quality. The Review Committee recommended, among other measures, that the Desalination Administration conduct "proactive, high-frequency, and variably-timed inspections of product quality at desalination plants." The audit found that, despite more than four years having passed since the submission of the Review Committee's recommendations, as of the audit's conclusion in December 2023, the Water Authority had not conducted random spot checks at a "high frequency", as recommended by the Review Committee. The Water Authority informed the State Comptroller's Office that, after the audit's conclusion, random spot checks had commenced at all desalination plants, with the sampling frequency increasing to approximately ten samples per month at each facility. Additionally, despite the advantages of using an automatic sampler, which enables random spot checks at any time of day without being constrained by the working hours of Desalination Administration personnel, it was found that, as of the audit's conclusion, the Desalination Administration had not installed remote automatic samplers at four of the five largest desalination plants. Physical access was still required for conducting random spot checks at these facilities.
- Enforcement by the Ministry of Health It was found that in all five examples reviewed in the audit– failure to report that the product water tank at Desalination Plant D was open to hazards, such as bird droppings found inside it; reporting violations by Desalination Plant B, noted by the Ministry of Health in 2022 and 2023; failure of Desalination Plant C to immediately report a diesel fuel spill near the desalination plant in October 2020; a delay in Desalination Plant D's immediate reporting of a malfunction

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in May 2023 that caused an increase in turbidity levels in the supplied water; and failure of Desalination Plant C to immediately report multiple events in which operations were halted for more than 12 hours, including failure to report on return-to-normal procedures. In these cases, the operators did not fulfill their obligation to report malfunctions, irregular phenomena, or deviations from threshold values immediately after discovery; nor did the Ministry of Health implement enforcement measures, such as filing indictments, and settled for holding discussions with the operator and sending correspondence clarifying that the operator did not act as required and outlining the necessary action to be taken. It should be noted that the current enforcement tools available to the Ministry of Health, such as imprisonment or fines, require criminal proceedings, which may take considerable time and do not provide effective deterrence against violations of the reporting obligations. Failure to meet reporting obligations to the Ministry of Health may impair the Ministry's ability to instruct the operator to take action to ensure the quality of water supplied from the desalination plant and prevent risks to public health.

Enforcement Measures by the Desalination Administration – In 2023, 18 highturbidity incidents occurred at Desalination Plant B, which required, in addition to reporting to the Ministry of Health, halting the supply of water from the plant. However, the operator reported only a portion of these incidents, only after being asked to do so, and failed to halt the water supply from the plant as required. Although under the concession agreement, the Desalination Administration was entitled to demand agreedupon compensation from the operator for each of the 18 incidents in 2023 where turbidity levels exceeded the permitted thresholds outlined in the concession agreement, as well as the levels requiring reporting to the Ministry of Health that were not reported in a timely and proper manner, amounting to several hundred thousand shekels, it ultimately demanded compensation of only several tens of thousands of shekels. The Water Authority responded to the State Comptroller in May 2024 that, in the Desalination Administration's professional judgment, the range of remedies implemented was balanced and provided an adequate response to these incidents. The operator informed the State Comptroller in July 2024 that the plant had begun operating concurrently with planned rehabilitation work aimed at addressing the turbidity issue, which is expected to be resolved once the rehabilitation is completed.

Agreed-Upon Compensation for Water Quality Violations – The revenue of desalination plant operators from state water purchases amounted to approximately NIS 1.5 billion in 2022, for 540 MCM supplied from desalination plants that year. The audit found that the agreed-upon compensation amounts imposed by the Desalination Administration on operators for water supplied at quality levels not meeting the thresholds set in the concession agreements are low, and do not provide effective deterrence. For example, the total agreed-upon compensation imposed by the Water Authority on all operators from 2018 to 2023 ranged from approximately NIS 0.35 million in 2018 to approximately NIS 1.6 million in 2023. Low compensation amounts may fail

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to deter operators from violating concession agreements, raising concerns that an operator might, for cost-benefit reasons, prefer to pay the agreed-upon compensation rather than ensure water quality compliance as stipulated in the agreements. In the absence of compensation amounts that serve as an effective enforcement measure, the quality of water supplied to the national water system could be compromised. However, it should be noted that agreed-upon compensation amounts have increased compared to those stipulated in the concession agreements for the first desalination plants.

- Failure to Implement a pilot for Adding Magnesium to Product Water Although the regulations stipulated the Establishment of a pilot facility to examine the feasibility of technologies for adding magnesium to water, aimed at obtaining reliable results regarding the feasibility of various technologies by September 2018, the Ministry of Health, Ministry of Finance, Ministry of Agriculture, Ministry of Energy, and the Water Authority – whose representatives were required by the regulations to participate in a steering committee to determine the framework for the pilot facility – did not significantly advance its establishment, and there is no projected timeline for its commencement. This is despite the Ministry of Health's position that adding magnesium to desalinated seawater is necessary.
- Palmachim Desalination Plant Preparation for Concession Expiry Despite the concession for the Palmachim Desalination Plant being set to expire in 2029, the lengthy period required to establish a desalination plant, and the significant complexity involved in preparing for the concession's expiry – stemming from the private ownership of both the long-term lease rights to the land and the plant itself – no significant proceedings had been conducted as of the audit's conclusion by either the Accountant General's Division or the Desalination Administration with the landowners or the plant owners to reach agreements on the concession's termination.

**Preparation for the Concession Expiry of the Ashkelon Desalination Plant** – As of the audit's conclusion, the Water Authority had Begun preparing for the concession expiry of the Ashkelon desalination plant in May 2027. Among other steps, it initiated statutory procedures to upgrade the plant and expand its production capacity.

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### **Key Recommendations**

It is recommended that the Water Authority complete the master plan for the water sector, submit it for approval by the Water Authority Council, and, once finalized, present it for government approval, as required by the government resolution. It is further recommended that the Water Authority Council work to approve a long-term development plan for the desalination sector, at least through 2050, in line with its policy, and consider making decisions regarding an even longer planning horizon.

👳: It is recommended that the Water Authority explicitly and unequivocally define its authority to approve or prevent the implementation of load-shedding arrangements, including considerations related to the operational and managerial needs of the water sector. This should include requiring desalination plant operators to seek its approval for implementing load-shedding arrangements. For example, this authority could be established in future agreements with the operators or through regulatory procedures under the Water Regulations. If the Water Authority believes that its general authority under the Water Law to ensure continuous water supply permits it to prevent operators from participating in load-shedding arrangements based on operational and water sector management considerations, it is recommended that a clear and approved position on this matter be adopted. This position should be sanctioned by the Water Authority Council and publicized, including a requirement for operators to seek approval for any activation of load-shedding arrangements, ensuring that such authority can be exercised immediately when needed. Until the expiration of the current concession agreements, it is recommended that the Water Authority establish a solution requiring operators to seek its approval for load-shedding arrangements during the term of the agreements. This could be achieved through procedures, mutual agreements, or other mechanisms. Additionally, it is recommended that the Water Authority present this issue for discussion by the Water Authority Council.

It is recommended that the Ministry of Health's headquarters and regional offices supervising desalination plants develop a multi-year inspection plan for each desalination plant and that the headquarters monitor its implementation. It is further recommended that the Ministry of Health establish criteria for the frequency of routine inspections required at the various desalination plants, beyond the minimum frequency of once per year, based on the experience gained from supervising the operators. Additionally, it is recommended that the Ministry of Health instruct the regional offices to conduct microbial and chemical laboratory tests as part of their inspections, monitoring, and supervision of desalination plants.

It is recommended that the Water Authority act without delay to implement the Review Committee's recommendation to conduct high-frequency spot checks. To enable spot checks at any time using an automatic sampler, it is further recommended that the

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Desalination Administration promote the deployment of automatic samplers at each of the major desalination plants, and prepare for the installation of automatic samplers at desalination plants planned for construction in the coming years, such as the Sorek B and Western Galilee plants.

It is recommended that the Ministry of Health initiate a legislative process to establish appropriate and effective enforcement powers in cases where desalination plant operators violate reporting obligations. These powers could include the authority to impose administrative fines or financial penalties. It is further recommended that the Desalination Administration utilize all enforcement measures at its disposal in cases of non-reporting of deviations, to achieve effective deterrence and prevent recurring instances of non-reporting and repeated supply of non-compliant water to the national water system.

It is recommended that the Ministry of Health advance an amendment to the Public Health Regulations to establish an updated schedule for the pilot facility's development and a decision on the addition of magnesium to desalinated water, including the method of financing its implementation. It is further recommended that the Ministry of Health, the Water Authority, the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Energy complete the establishment of the pilot facility in order to assess the feasibility of various technologies for adding magnesium to desalinated water and reach a decision on the matter. Additionally, it is recommended that during the interim period – until a decision is made regarding the addition of magnesium to desalinated water – the Ministry of Health should publish information for the public regarding the absence of magnesium in desalinated water, the potential effects of this deficiency, and dietary or alternative recommendations to address it. This is intended to promote public health and prevent illnesses that could endanger human life.

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## Planned Desalination Capacity Through 2050 According to the Water Authority's Forecast\*

Source: Water Authority presentation, presented to the Council in June 2023.

\* As of the audit's conclusion, the Sorek B and Western Galilee desalination plants were under construction, whereas the Emek Hefer plant was in the planning stage.

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## **Contamination Incidents that Caused Production Halts as** Directed by the Ministry of Health due to Raw Water Quality, by Type of Contamination, 2007–2023 2, 14% 8, 4, 57% 29% Turbidity during storms Microbial contamination Fuels and oils and earthquakes\*

Based on documents from the Water Authority and the Ministry of Health, processed by the State Comptroller's Office.

In turbidity events caused by storms and earthquakes, microbial deviations were detected in the \* raw water.

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Regulation and Oversight of Seawater Desalination Facilities

### Summary

According to the Water Authority's forecasts from June 2023, the supply of natural water is expected to decline by 2050, while the demand for freshwater is anticipated to increase in line with the projected population growth in Israel. One of the primary methods for increasing water supply is seawater desalination.

Within the next decade, the concession agreements with two desalination operators, whose facilities have a combined production capacity of 205 MCM under these agreements, are set to expire. The Accountant General's Division in the Ministry of Finance and the Desalination Administration must begin preparing now for the end of these concessions, particularly regarding the Palmachim facility. Due to the complexities arising from the private ownership of the long-term lease rights to the land and the private ownership of the desalination facility itself, decisions regarding its continued operation and expansion are not solely in the hands of the state. The Accountant General's Division and the Desalination Administration must address the matter and make decisions well in advance. Delaying such decisions could result in a constrained timeline that forces rushed actions and a less-than-optimal decision-making process. This, in turn, could increase the costs passed on to consumers through water tariffs.

The Ministry of Health, the Water Authority, the Accountant General's Division in the Ministry of Finance, and the Desalination Administration must address the deficiencies identified in this report. It is recommended that the Ministry of Health, the Water Authority, the Accountant General's Division, and the Desalination Administration conduct a structured process of lessons learned based on the findings highlighted in this report, and the experience gained thus far from engagements with desalination operators. This process should cover various aspects, such as enforcement measures, agreed-upon compensation amounts, incentives, required inspection frequencies, performance indicators, threshold values under agreements, and compliance with reporting obligations. The conclusions from this structured lessons-learned process could serve as input for decisions regarding the terms of future agreements with operators who will manage desalination plants after the current concessions expire, as well as for additional desalination plants to be established in the future, including their regulation and supervision.

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## Chapter Four

# The Defense System



The Defense System

Expanded Follow-up Audit on a Classified System Within the Ministry of Defense and the IDF



Abstract

## Expanded Follow-up Audit on a Classified System Within the Ministry of Defense and the IDF

Background

The State Comptroller conducted an expanded follow-up audit of a classified system in the Ministry of Defense and the IDF. Under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and considering the need to safeguard state security, the State Comptroller has decided not to submit the audit report on this matter to the Knesset or to publish it.

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## Chapter Five

# Local Government



Local Government

Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations



Abstract

## Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations

#### Background

To ensure that local authorities fulfill their obligation to allocate resources in an orderly and transparent manner and to prevent the unequal distribution of these resources, the legislature has established, among other things, arrangements for resource allocation by local authorities. According to the Municipalities Ordinance [New Version], a municipality may not enter into a contract for the transfer of goods, procurement of goods, or the execution of work "except through a public tender." From a public perspective, tender laws aim to uphold the principle of equality by providing equal opportunities to anyone wishing to submit their candidacy. From an economic perspective, tender laws reflect the aspiration to manage public funds efficiently and economically, while maximizing benefits for the tender issuer. According to the Mandatory Tenders Regulations, 1993, which apply to central government entities, a framework tender is a public tender conducted in two stages: in the first stage, the Tender Committee selects more than one framework supplier and signs a framework agreement with the selected suppliers. In the second stage, the specific supplier from whom goods, work, or services will be procured is determined from time to time during the framework agreement period, according to the terms of the framework tender. Tender laws<sup>1</sup> in the local government sector do not regulate the process of conducting framework tenders for local authorities. However, a local authority that decides to issue a framework tender must adhere to the principles of the tender laws and the competitive process. For guidance in this regard, it may draw on the rules applicable to central government entities. In its 2018 audit report, the State Comptroller recommended that the Ministry of the Interior establish guidelines for local authorities regarding the process of contracting with suppliers chosen in the for-framework agreements tenders<sup>2</sup>.

<sup>1</sup> Municipalities (Tenders) Regulations, 1987 (hereinafter: the Municipalities (Tenders) Regulations); the Fourth Annex to the Local Councils Order, 1950 (hereinafter: the Local Councils Order); the Second Annex to the Local Councils (Regional Councils) Order, 1958 (hereinafter: the Regional Councils Order).

<sup>2</sup> State Comptroller, Report on the Audit of Local Government for 2018 (2018), "Rehovot Municipality – Renovation of the Cultural Center" pp. 393–451.

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### Key Figures



of the entities audited (23 out of 35) published tenders for framework agreements in the years 2019–2022

## NIS **18.3** million

The average annual payment made by the audited entities through tenders for framework agreements

#### the average number of tenders for framework agreements published by entities that issued such tenders in the years 2019–2022



of the entities that published tenders for framework agreements (21 out of 23), the tenders were issued without procedures regulating the publication and management processes

## 20 years

The time elapsed since the Ministry of Interior was required to establish regulations concerning the application of tender requirements to municipal corporations, but has not done so, despite a Supreme Court ruling and State Comptroller reports on this matter

## 85%

Of the winners of tenders issued by the **Petah Tikva Development Company** in the years 2019–2022 (64 out of 75) submitted a proposal that matched the minimum discount coefficient set in the tender conditions

## **2** out of **7**

The number of tenders in the **Yavne Municipality** in which the majority of payments were made to suppliers who did not offer the lowest price, out of all tenders in which more than one supplier won and payments were made

## 19 projects

In which the Petah Tikva Development **Company** paid significant amounts ranging from NIS 1 million to approximately NIS 7.4 million to contractors for projects executed through framework agreements, without ensuring that ordering work through a framework agreement was better than issuing an individual tender

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### Audit Actions

From March to December 2023, the State Comptroller examined the use of tenders for framework agreements by local authorities and municipal corporations. The audit was conducted in the **Yavne** and **Kiryat Bialik** municipalities (the local authorities reviewed) and the **Petah Tikva Development Company** (PTDC)<sup>3</sup>; (hereinafter: the in-depth audit)<sup>4</sup>. Supplementary examinations were conducted at the Ministry of Interior. Additionally, questions were sent to 16 local authorities and 16 municipal corporations. The entities reviewed as part of the in-depth audit and the questionnaire process will be referred to as "all entities included in the audit."

### **Key Findings**

Lack of a Normative Framework for Tenders for Framework Agreements in Local Government – while a detailed normative framework for the publication and management of framework tenders exists for the central government – established through secondary legislation and guidelines – the Ministry of Interior has not established a similar framework for local authorities and municipal corporations. The State Comptroller comments the Ministry of Interior for failing to establish the necessary regulations or set specific rules for tenders in municipal corporations, although approximately 20 years having passed since the regulations were intended to be enacted. This, despite rulings by the Supreme Court and several State Comptroller reports addressing the issue. This is particularly concerning given the large number and significant financial activity of municipal corporations in Israel. As of May 2022, there were 627 municipal corporations operating in Israel, with an annual financial scope of NIS 17 billion.

Monitoring Purchases Under Tenders for Framework Agreements – the Yavne and Kiryat Bialik municipalities do not maintain a record detailing which work orders were issued under the tenders for framework agreements published by them in the years 2018–2022. At PTDC, which manages tenders that often include several sections, it was found that while there is a record specifying which work orders were issued under each tender, the record for the individual sections – each of which constitutes a sub-tender is

<sup>3</sup> An audit of the Petah Tikva Municipality revealed that the municipality failed to publish framework tenders in the years 2018–2022. Framework tenders for work in Petah Tikva were published through Petah Tikva Development Company.

<sup>4</sup> The in-depth audit examined tenders issued in the years 2018–2022.

Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations

written as free-text rather than structured field in the computerized system. This lack of structured records for work orders undermines the ability to effectively monitor the execution of orders issued under the tenders and their management.

Selection of Framework Suppliers in PTCD Tenders – the process for conducting PTCD framework tenders included the use of a "floor price" (minimum discount coefficient), which effectively resulted in 11 out of the 12 tenders for framework agreements where PTCD set a "floor price" being executed at that set price, offering discounts ranging from 5% to 25% off list prices. PTCD determined the identity of the winners based on relatively subjective criteria, which were difficult to evaluate, and it did not establish parameters for assessing these criteria. Furthermore, PTCD did not provide any explanation, as required in the tender protocols, for giving a particular bidder a specific quality score. This conduct by PTCD may affect and even violate principles of competition, transparency, equality, and fairness, which are fundamental to the tender process.

Yavne Municipality's Selection of a single BID in a Tender for Framework Agreement – in a tender for plumbing services, the Yavne Municipality selected the sole bid submitted. Contrary to the Municipalities (Tenders) Regulations and relevant case law, the Yavne Municipality's Tender Committee did not examine, in tenders where only a single bid was submitted, whether the bid exceeded market prices or whether there was only a single bid due to collusion among bidders. This issue is particularly significant in cases where the offered discount is lower than the municipality's estimated benchmark, and when the tender is intended to select multiple suppliers for plumbing services. In this case, the sole bid submitted was 8% higher than the municipality's estimate (a 2% discount in the bid compared to the municipality's 10% estimated discount).

Failure to Establish Criteria for Selecting Specific Supplier from Framework Tender Winners – PTCD and the Kiryat Bialik Municipality granted themselves broad discretion, without limitations, to select contractors from the 'winners of the first stage of the tender for the framework agreement, without convening a Tender Committee or establishing clear criteria for choosing which winner would perform a specific task. This applied to one of four tenders for framework agreements issued by the Kiryat Bialik Municipality and to all 13 tenders for framework agreements issued by PTCD. In two instances, PTCD allocated significantly extensive scope of work to bidders who did not have the highest weighted score, with differences amounting to approximately NIS 8.3 million and NIS 2.4 million. Similarly, the Kiryat Bialik Municipality allocated different work scopes to two bidders who offered the same discount percentage, with a difference of approximately NIS 3.3 million.

Failure to Implement for Selecting a Specific Supplier from Among Suppliers that Won Tenders for Framework Agreements – in the Yavne Municipality, 31 out of 315 work orders were found to have been allocated to suppliers without a

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competitive bidding process, even though the work exceeded the threshold amount requiring such a process under the tender terms, sometimes by six or nine times the required amount. These included work orders unrelated to summer renovations. In three tenders issued by the **Kiryat Bialik** Municipality, where it had committed to distributing work as equitably as possible, no rules were established to monitor the allocation of work among the tender winners. This lack of monitoring undermined the equitable distribution of work among suppliers. For example, in a tender for renovation work at educational institutions, **Kiryat Bialik** Municipality paid 73% of the total payments to a supplier who offered a 26% discount, while paying only 27% to a supplier who offered a 27% discount (NIS 4.9 million compared to NIS 1.8 million, respectively). Similarly, in a tender for roof sealing and whitewashing work at educational and public institutions, the **Kiryat Bialik** municipality paid 71% of the total payments to a supplier who offered a 39% discount, while paying only 29% to a supplier who offered a 42% discount (approximately NIS 500,000 compared to NIS 200,000, respectively).

Determining the Entity in Charge of Executing the Second Stage of the Tender – it was found that staff members in the Yavne, Kiryat Bialik, and Petah Tikva municipalities, as well as in PTCD, made exclusive decisions regarding which winner of the tender for the framework agreement would execute specific work orders. These decisions were made without the involvement of a Tender Committee or any other professional committee, without verifying that issuing work orders through a framework agreement was preferable to issuing an individual tender, without the Yavne, Kiryat Bialik municipalities and PTCD establishing criteria to guide their decisions, and without transparency. This process raises concerns about potential favoritism. Some of these work orders amounted to millions of NIS in the Kiryat Bialik Municipality and PTCD. For example, PTCD paid approximately NIS 7.4 million to a single contractor for the execution of one project.

- **Bid Guarantee and Participation Fees** significant discrepancies were found in the amounts set for bid guarantees and participation fees in the tenders for framework agreements of the **Yavne** and **Kiryat Bialik** municipalities and **PTCD**. Thus, the bid guarantees in the tenders reviewed ranged from NIS 0 to NIS 200,000, while participation fees ranged from NIS 0 to NIS 2,500. It was found that none of the 22 tenders reviewed in the **Yavne** and **Kiryat Bialik** municipalities or **PTCD** included an estimate, making it impossible to determine whether these amounts aligned with the recommendation of the Federation of Local Authorities in Israel. This recommendation states that bid guarantee should not exceed 2.5% of the contract value, except in special cases justified with documented reasons. Furthermore, the amounts for bid guarantee and participation fees were determined without any established criteria and without providing justifications for these decisions in any of the tenders.
  - Preference for Women-Owned Businesses it was found that in two tenders for framework agreements issued by the Kiryat Bialik Municipality and in all 13 tenders for

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Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations

framework agreements issued by **PTCD**, no provisions were made to grant preference to women-owned businesses.

Engaging Consultants Through Tenders for Framework Agreements in the Kiryat Bialik Municipality – The process for selecting consultants in the Kiryat Bialik Municipality requires neither a transparent and equitable procedure nor rules to ensure that the selection process aligns with the predetermined selection method or enables monitoring and oversight. As a result, the majority of the work was allocated to a specific consultant, a practice inconsistent with the principles of tender laws. For example, in Section A of a tender for providing management and supervision services for engineering projects, where ten suppliers were selected, approximately 87% of the total payments were made to Consultant A.

**Preference for Women-Owned Businesses** – in the tender for a framework agreement issued by the **Yavne** Municipality and in six out of eight tenders for framework agreements issued by the **Kiryat Bialik** Municipality, it was stipulated that if the best offers were identical, and one of the offers was from a women-owned business, preference would be given to that offer, in alignment with the Municipalities (Tenders) Regulations.

**Publication of Tenders for Framework Agreements** – the State Comptroller commends the publication of tenders for framework agreements by the reviewed local authorities and municipal corporations on their websites.

### **Key Recommendations**

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The Ministry of Interior should examine the need to update the legislation applicable to local government and consider adopting the principles established in the normative framework applicable to the central government, with necessary modifications. This should include, among other aspects, the normative principles regarding the management of tenders for framework agreements, adapting them to changes that have occurred over time, and making adjustments for emergencies. The Ministry of Interior should also seek to enact regulations regarding transactions of local corporations and establish rules for conducting tenders in municipal corporations, taking into account the existing regulatory framework in Israel. Until the matter is regulated by legislation, it is recommended that the Ministry of Interior provide guidance to local authorities and municipal corporations on the proper conduct of the tender processes for framework agreements. This is to ensure competitive procedures and adherence to the principles of equality and fairness that are core values of the bidding system.

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In light of the absence of specific guidelines regarding tenders for framework agreements in local government, and given the complexity of such tenders and their scope, it is recommended that the **Yavne** and **Kiryat Bialik** municipalities, the **Petah Tikva Development Company** (PTCD), and all local authorities conducting tenders for framework agreements establish procedures that include provisions to ensure compliance with the principles of tender laws. These should include, among other things, the conduct of a competitive process during the selection of the winners.

It is further recommended that the Yavne and Kiryat Bialik municipalities and PTCD establish rules enabling them to monitor work orders issued under the tenders they publish. These rules should include structured fields in the computerized system necessary for monitoring work executed under the tenders.

As part of the first stage of the framework tender, the **Kiryat Bialik** Municipality must ensure that the tenders it publishes include clear and measurable criteria for selecting winning suppliers. If the selection is based on the lowest bid, this should be explicitly stated. In the second stage of the tender, **PTCD** and the **Kiryat Bialik** Municipality must establish clear, predetermined, and measurable criteria for selecting a specific supplier to execute a particular task from among the suppliers who won in the first stage of the tender for the framework agreement. They must also justify the selection process and the considerations evaluated, based on which they assigned specific tasks to particular suppliers. The **Kiryat Bialik** and **Yavne** municipalities must implement the criteria determined in their tenders for framework agreements while maintaining efficiency and transparency.

PTCD should evaluate whether its current practice of setting a maximum discount coefficient, which determines the actual execution price, aligns optimally with the principles of tender laws, as this approach leaves little room for price competition. PTCD must ensure that the tenders it publishes uphold the principles underlying tender laws, including maintaining a competitive process, establishing clear, evaluable, and measurable criteria, and operating transparently while providing justifications for its decisions.

It is recommended that the **Yavne** and **Kiryat Bialik** municipalities, as well as **PTCD**, manage the process of selecting a specific supplier to execute a particular task under tenders for framework agreements by establishing a monitoring mechanism for work orders, and ensuring the process is transparent. As part of this recommendation, for highvalue engagements (over NIS 50,000), it is advised that the second stage of the tender be managed by the Tender Committee or by a professional committee comprising the local authority's CEO, treasurer, and legal advisor, as stipulated in the Ministry of Interior's circular regarding engagements by local authorities through framework tenders conducted by a public entity. This process is intended to ensure optimal efficiency in utilizing the tender for framework agreement for specific tasks.

It is recommended that the Ministry of Interior address the issue of determining the amounts for bid guarantees and participation fees required in tenders for framework agreements issued by local authorities and municipal corporations. This recommendation

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is made in light of the difficulty in deriving these amounts from the financial scope of those tenders, as their total monetary value is not estimated at the time of publication, and due to the absence of rules for setting these amounts in the tenders for framework agreements of the **Yavne** and **Kiryat Bialik** municipalities and **PTCD**.

The **Kiryat Bialik** Municipality and **PTCD** must ensure that their tender conditions include a preference for women-owned businesses, as stipulated in the Municipalities (Tenders) Regulations.

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Based on data from the 35 entities examined (both through in-depth auditing and via questionnaires), as processed by the State Comptroller's Office.

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Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations

### Summary

Local authorities are required to allocate their resources through an orderly and transparent process to prevent inequitable distribution of resources and ensure proper governance, fair competition, and equal opportunity for all. The audit found that the legislation governing the conduct of public tenders in local authorities does not regulate the conduct of tenders for framework agreements. Additionally, the Ministry of Interior has yet to enact regulations regarding the application of tender provisions to municipal corporations, despite approximately 20 years having passed since these regulations were intended to be established. This, despite the State Comptroller's comments in previous reports and Supreme Court rulings on the matter.

The findings presented in this report emphasize the need for the Ministry of Interior to guide local authorities and municipal corporations about managing framework agreements tendering processes, given their unique characteristics. This guidance is essential to ensure that the principles of equality and fairness, which are the core values of the bidding system, are upheld at all stages of the tender process. The Ministry should also evaluate the need to update the legislation governing local authorities by adopting, with necessary modifications, the principles for managing framework tenders established in the legislation applicable to the central government.

Local authorities and municipal corporations must ensure that the publication and management of tenders for framework agreements comply with tender law principles and are conducted efficiently, transparently, and fairly, while providing equal opportunities to bidders, both in selecting framework suppliers and in allocating the work among them.



Local Government

Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel



Abstract

## Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel

#### Background

At the beginning of 2023, Israel's population stood at approximately 9.7 million, of which approximately 2.04 million (21%) belonged to the Arab, Bedouin, Druze, and Circassian sectors (the non-Jewish sector). The majority of the non-Jewish sector resides in 85 local authorities: 13 municipalities, 68 local councils, four regional councils that include 19 villages, and 26 villages within mixed regional councils where the majority of the population is Jewish. A significant portion, 69 (81%) of the local authorities in the non-Jewish sector are in socioeconomic clusters 1–4. Additionally, 68 (80%) of these local authorities are located in northern Israel, home to approximately 973,000 residents. In Israel, 93% of the land is owned by the state, the Development Authority, and the Jewish National Fund (JNF), while the remaining 7% is owned either by local authorities or privately. That is, less than 7% of the land in Israel is privately owned, with half owned by Jewish individuals and the other half owned by the non-Jewish sector. Private ownership in the non-Jewish sector is historically based on family or clan structures, with plots often registered in the land registry under the name of the head of the extended family. To ensure adequate functionality and quality of life, land-use planning and the organization of physical spaces are essential. The purpose of planning processes is to enable optimal decision-making through a comprehensive perspective that considers the impacts of planning interventions in various domains, including social, environmental, and economic aspects.

Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel

#### Key Figures

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# **2.04** million (21%)

The number of residents belonging to the Arab, Bedouin, Druze, and Circassian sectors and their percentage of Israel's population

# NIS **39.2** million only

The amount utilized (49%) of the NIS 80 million budget allocated under Government Resolution 922 to the Planning Administration and local authorities for master and detailed planning in the non-Jewish sector 2016–2020

### NIS **41** million only

The amount utilized (20%) of the NIS 206 million authorizations transferred by the Ministry of Construction and Housing for planning strategic settlements in the non-Jewish sector, 2016–2020, as part of the implementation of Government Resolution 922

## 3,000

Number of buildings constructed without permits on agricultural land in the neighborhoods of Ein Jarrar and Al-Ara'ish in **Umm al-Fahm** 

# **268,282** (appox. 24%)

Number of housing units designated for the non-Jewish sector out of the 1,135,310 housing units approved by planning authorities between 2013 and 2022

### 20 months

Deviation from timelines for handling Preferred Housing Plans (TAMAL 1077) in **Umm al-Fahm** compared to the schedules set by law (over 44 months in practice compared to 24 months stipulated in legislation)

### Audit Actions

From May to November 2023, the State Comptroller's officeexamined the advancement of master and detailed planning in non-Jewish sector communities in northern Israel. The audit was conducted in four local authorities: the municipalities of **Umm al-Fahm** and **Shfar'am** and the local councils of **I'billin** and **Yarka** (the reviewed local authorities). The audit was also conducted in three local planning and building committees to which these local authorities belong: **Gva'ot Alonim**, **Central Galilee**, and **Iron**. Additionally, the audit examined the Planning Administration within the Ministry of Interior (the Planning Administration), as well as the district planning offices and district committees of **Haifa** and the **North**. Complementary examinations were conducted at the Ministry of Construction and Housing (the Housing Ministry), the **Shfar'am** Water and Sewage Corporation (**Shfar'am** Corporation), and the **Kiryat Ata** Local Planning and Building Committee.

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# **Key Findings**

- Implementation of Government Resolutions to Promote Planning and Construction Programs in the Non-Jewish Sector – of the NIS 80 million allocated under Government Resolution 922 for master and detailed planning, the Planning Administration and local authorities utilized only NIS 39.2 million (49%). Additionally, out of the NIS 100 million allocated in the same resolution for splitting regional committees and strengthening local committees, the Planning Administration allocated NIS 28 million for employing strategic planners However the local authorities were only granted authorizations totaling NIS 15.8 million (56% of the allocated budget). Under Government Resolution 959, addressing planning for the Druze, Circassian, and Bedouin sectors for 2016-2020, following Resolution 2332-NIS 50 million was allocated for master and detailed planning, in addition to NIS 8 previously allocated by the Planning Administration under Resolution 2332. Of this budget, NIS 18.2 million (31%) was utilized in that period for master planning and planning consultancy, while NIS 37 million (64%) was authorized by the Planning Administration for detailed planning to benefit local authorities in these sectors. From the NIS 252 million allocated for infrastructure planning in built areas and the employment of strategic consultants under Resolution 922, the Ministry of Construction and Housing authorized NIS 206 million for planning strategic settlements. Of this, local authorities utilized approximately NIS 41 million (20%). Additionally, authorizations of NIS 2.33 million were allocated for employing strategic consultants, of which local authorities utilized only NIS 0.85 million (36%). Government resolutions over the past decade highlight the housing crisis and the lack of planning solutions for expanding construction in this sector. They emphasize the necessity and importance of promoting systemic plans and advancing master and detailed planning. The six resolutions adopted in the years 2016-2021, along with the partial utilization of budgets by local authorities, point to significant barriers to advancing planning. These barriers include the need for land consolidation and subdivision, improving mechanisms for allocating land for public use, and a lack of public awareness and engagement. Although inter-ministerial teams have mapped these barriers, formulated recommendations, and begun implementation, the conditions for extensive residential construction have not yet materialized.
  - Advancing Comprehensive Master Plans the comprehensive master plan for Umm al-Fahm, initiated in 2016, was intended to establish a framework for detailed planning, thereby enabling the city's long-term development through the addition of approximately 23,320 housing units and assisting in the prevention of construction violations. However, the seven years that have passed since the plan was submitted by the inter-ministerial steering committee (in 2016) and the ongoing delay in its approval process (which had not been completed as of the audit completion date) could affect the planning solutions provided to residents. The preparation of a comprehensive master

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#### Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel

plan for **I'billin** began in 2017, involving the **Northern District Planning Office** and representatives from various government ministries; however, as of the audit completion date, it had not yet been deposited. Due to the local council of **I'billin's** decision in August 2023 to withdraw the plan, there is concern that its advancement will come to an abrupt halt, potentially hindering the community's development and wasting the resources invested in its preparation.

Advancing Land Consolidation and Subdivision Plans in the Reviewed Local Authorities – Umm al-Fahm – for six out of 12 (50%) areas in Umm al-Fahm included in detailed plans approved over a decade ago - in which thousands of housing units could potentially be built - land consolidation and subdivision plans, which are a prerequisite for issuing building permits, have not yet been prepared. This prevents the issuance of building permits in these areas and consequently hinders residents from realizing the construction potential established by law in the detailed plans. Shfar'am: in nine areas with acreages ranging from 17 to 92 dunams, where detailed plans approved 6 to 28 years prior to the audit completion date indicate the potential for approximately 1,560 housing units, the required land consolidation and subdivision procedures have yet to be completed. This prevents the issuance of building permits and, consequently, the realization of the construction potential in these areas. Yarka: during public participation meetings held by the Planning Administration in November 2021 to finalize the plan for the Al-Rujab neighborhood, designated to include approximately 950 housing units, issues emerged that delayed planning progress. The latter included the inability to allocate land for public use due to unauthorized construction already present in the planned neighborhood, objections from some landowners to the consolidation and subdivision plan, and resistance to the proposed percentages of land allocation for public purposes.

Unauthorized Construction – in the local authorities of Umm al-Fahm, I'billin, Yarka, and Shfar'am, as well as in the local planning and building committees of Gva'ot Alonim, Central Galilee, and Iron, there was no information on the number of constructions built without permits within the four authorities' jurisdiction. Moreover, they have not taken sufficient action to identify, enforce, or prevent unauthorized construction. One of the objectives of two detailed plans in Umm al-Fahm (currently being advanced in the planning institutions but not yet approved) was to regularize existing unauthorized construction. For example, Preferred Housing Plans (TAMAL 1077) in **Umm al-Fahm** address unauthorized construction in the neighborhoods of Ein Jarrar and Al-Araish, where approximately 3,000 buildings were constructed without permits, most of them on agricultural land, and the El-Ayun Suweisa neighborhood, which aims to regulate around 600 existing unauthorized buildings. Since 2018, when planning for the Al-Rujab neighborhood in Yarka (an area already dense with unauthorized construction) began, new unauthorized buildings have been added. This ongoing construction undermines the planning process and diminishes the likelihood of completing and approving the neighborhood's plan.

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Delays in Advancing a Wastewater Endpoint Solution – in order to facilitate new construction plans in I'billin and Shfar'am, work began over a decade ago, in 2011, on the construction of a new sewer line for the city of Shfar'am, designed to connect to the Haifa wastewater treatment facility. This line is designed to serve both I'billin and Shfar'am and is planned to replace the existing line. As of the audit completion date, the wastewater endpoint solution had yet to be completed, despite significant resources invested in the project, including its statutory regulation as part of several plans. The primary reason for this delay is the reluctance of the Kiryat Ata Local Planning and Building Committee to advance the issuance of permits for constructing the main pumping station and transferring portions of the transmission lines within its jurisdiction, in alignment with approved plans. This stands in contrast to the 2011 directive from the Haifa District Planning and Building Committee to the planning institutions within its jurisdiction to expedite the processes for establishing the new sewer line for Shfar'am and I'billin, given its considerable public importance. Nevertheless, the proceedings at the Kiryat Ata Local Committee have stretched over seven years, during which it imposed unnecessary obstacles rather than seeking to resolve the matter. This conduct by the Local Committee contradicts its public duty to act with loyalty and fairness, hinders progress in resolving the housing crisis in **Shfar'am**, and creates a substantial risk of a public health hazard in nearby communities.

Advancement of Detailed Planning by the Ministry of Housing in the Yarka Local Council – the Ministry of Housing supports and funds the planning of seven complexes within the Yarka Local Council's jurisdiction. The Northern District of the Ministry of Housing, which leads planning processes in northern communities, including Yarka, has not appointed a management company to assist in advancing the planning of the complexes it oversees within the council. As a result, the detailed planning of five out of the seven complexes it has been managing for over three years has not progressed in the planning institutions to the stage of being integrated into the Planning Administration systems.

Advancing Preferred Housing Plans (TAMAL 1077) in Umm al-Fahm – during April and May 2022, an investigator appointed by the National Committee for Preferred Housing Plans (VATMAL) held five hearings to address objections to TAMAL 1077. In March 2023, the investigator submitted his recommendations. However, as of the audit completion date, the Subcommittee for Objections had not made a decision in this matter. While the VATMAL Law stipulates a timeframe of 75 working days (approximately three to four months) for hearing objections and making decisions regarding them, the objection phase for TAMAL 1077 has continued for over 21 months (approximately 450 working days), and as of the audit completion date, the process had not been concluded by VATMAL. Additionally, despite an investment of approximately NIS 3.44 million for planning the Rabin Neighborhood in **Yarka** (designed to provide 3,800 housing units to address homelessness) the Local Council of **Yarka** and the Ministry of Housing have been unable to advance the plan for nearly nine years. The plan aimed to regularize

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Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel

unauthorized construction carried out over the years by private landowners and build additional housing units to alleviate the housing shortage in the community.

**Providing an Explanation to the Public on Private Land Planning Through Consolidation and Subdivision Processes** – in August 2021, the Planning Administration published on its website a booklet detailing the process for preparing a consolidation and subdivision plan in the non-Jewish sector. This booklet was distributed to all local authorities and local planning and building committees. In March 2023, the Planning Administration produced an animated video explaining, in both Hebrew and Arabic, the importance of planning private lands through consolidation and subdivision processes and published it online.

# **Key Recommendations**

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It is recommended that the Planning Administration and the Ministry of Housing work in collaboration with local authorities in the non-Jewish sector to complete outline planning, advance detailed planning, and utilize the budgets allocated for these purposes. This should include accelerated efforts to remove the unique barriers in each locality, such as recruiting specialized professionals – planners, surveyors, lawyers, and mediators – to develop practical solutions.

It is recommended that the Haifa District Committee map out the reasons for the prolonged processes required to approve Umm al-Fahm's comprehensive plan. Following the completion of appeal procedures and in accordance with their resolution, the committee should bring the plan for final approval.

The Local Council of I'billin and the Northern District Planning Bureau should work to resolve the issues delaying the advancement of I'billin's comprehensive plan, in order to secure its approval.

It is recommended that the Municipality of Umm al-Fahm and the Iron Local Committee, as well as the Municipality of Shfar'am and the Gva'ot Alonim Local Committee, work to advance consolidation and subdivision plans based on detailed plans approved, near the time of their approval. They should also promote consolidation and subdivision plans within detailed plans approved in the past, enabling residents to realize the construction potential inherent in the approved planning.

The Planning Administration, the Northern District Committee, the Central Galilee Local Committee, and the Local Council of Yarka should cooperate without delay to resolve the issues hindering the advancement of planning in Yarka as soon as possible,

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in order to release land for construction and increase the supply of housing units in the locality.

The local authorities of **Umm al-Fahm**, **I'billin**, **Yarka**, and **Shfar'am** should collaborate with the local committees of **Gva'ot Alonim**, **Central Galilee**, and **Iron** to locate and map all structures built without permits and ensure that all available enforcement measures are taken to halt unauthorized construction.

The **Kiryat Ata** Local Planning Committee should immediately take all necessary action to issue construction permits for completing the new sewer line and pumping station in **Shfar'am**. The **Haifa** District Committee should exercise its authority under Section 28 of the Planning and Building Law to impose a timeline on the **Kiryat Ata** Local Planning Committee for completing the process and act in its place if those timelines are not met. Since proceedings have also commenced with the National Infrastructure Committee (VATAL), it is recommended that VATAL assess how it can contribute to completing the wastewater endpoint solution.

The Ministry of Housing should closely monitor the planning it oversees and funds in **Yarka** and appoint a management company to help advance it. This is particularly crucial given the three-year delay in progressing the detailed planning under its supervision and the deficiencies in the planning of four complexes, as noted by the Northern District Planning Bureau.

The VATMAL should intensify its efforts to advance the approval process for TAMAL 1077 in Umm al-Fahm, including completing discussions on the investigator's recommendations regarding the objections to the plan and making a decision regarding them. This would address the construction crisis in Umm al-Fahm and regularize unauthorized construction in the neighborhoods of Ein Jarrar and Al-Ara'ish.

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The Number of Potential Housing Units (and the Number of Detailed Plans) Approved by Planning Institutions, Including the Number of Plans and Housing Units Approved in the Non-Jewish Sector, 2013–2022



Housing units (plans) in the non-Jewish sector

Housing units (plans) in the Jewish sector

According to data published annually in the Planning Administration's yearbook and data provided to the State Comptroller's Office by the Planning Administration, as processed by the State Comptroller's Office.



### Summary

In the non-Jewish sector, there has been a longstanding shortage of outline plans and detailed plans. This issue has been addressed in government decisions made in the years 2016–2021 aimed at reducing disparities, including advancing comprehensive and detailed planning and allocating dedicated resources for this purpose.

It was found that despite the resources allocated in recent years to promote planning in the non-Jewish sector, planning institutions, local authorities, and local planning committees have not succeeded in closing the gap in preparing the necessary plans to address the housing crisis in this sector. This is partly due to the need for amendments to local outline plans, and in one case, even to a national outline plan, requiring the approval of the National Council for Planning and Building as part of the planning advancement process. Additional challenges include legal issues regarding private land ownership, issues related to consolidation and subdivision, unauthorized construction hindering planning progress, and the degree of cooperation between local authorities and planning institutions. The lack of detailed planning precludes the issuance of building permits.

Given the importance of regularizing the development of communities in the non-Jewish sector, including addressing the housing shortage, the Minister of Interior should instruct the relevant planning authorities to find solutions for advancing planning in the non-Jewish sector, focus their efforts on this critical issue, and monitor the progress of housing solutions in the sector. This should be accompanied by intensified enforcement to prevent unauthorized construction. The Planning Administration, the Ministry of Housing, local authorities, and local planning and building committees should work collaboratively and concentrate efforts on overcoming the barriers delaying planning in communities within the non-Jewish sector.

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# Chapter Five

Special Reports



Special Reports

Waiting Times for Specialist Medical Services – Special Report



Abstract

# Waiting Times for Specialist Medical Services – Special Report

#### Background

The National Health Insurance Law, 1994, establishes that the national health insurance system is based on principles of justice, equality, and mutual assistance. The law guarantees every resident's right to receive a health services package that is periodically updated and includes a comprehensive, universal, equitable, and equal set of medical services funded by the state. These services are provided through one of four health funds of the resident's choice: Clalit Health Services (Clalit), Maccabi Healthcare Services (Maccabi), Meuhedet Health Fund (Meuhedet), and Leumit Health Services (Leumit).

Different levels of medical care are available to insured individuals within Israel's healthcare system. The main levels are primary care, secondary care (consultative or specialist care), and tertiary care (provided in hospitals by specialists with additional dedicated training). Secondary care is delivered by health funds in both community settings and in hospitals, by specialist physicians such as otolaryngologists, dermatologists, or orthopedic doctors. Its role is to address complex and specific medical issues. The success of consultative care provided by the health funds to their insured members in the community is essential for maintaining a high-quality healthcare system that promotes public health and efficiently utilizes available resources.

The waiting time for an appointment with a physician or for medical services in the community reflects the availability of healthcare services for members of the health funds. In order to ensure the optimal availability of consultative care in the community for all population groups, it is necessary to guarantee, among other things, a sufficient number of physicians to meet the population's needs while considering projected demographic trends. Additionally, it is crucial to efficiently utilize medical human resources, especially in areas where availability is suboptimal, and to manage the demand for consultative medical services effectively.

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Waiting Times for Specialist Medical Services – Special Report

# Key Figures



The average waiting time in endocrinology for individuals aged 70 and above compared to those aged 20– 30, who wait an average of 32 to 40 days

53-71 days

Waiting time in rheumatology health fund the specialty with the longest waiting times among the 13 specialties examined across all four health funds

53%

of scheduled consultative care appointments in the four health funds in 2022 were not realized, either due to cancellations or noshows. Approximately 24% of appointments that were not canceled resulted in the insured not showing up ("no-shows"), amounting to around 3.5 million secondary care appointments in the community annually

# **58%**

of Israeli medical graduates in 2020 studied abroad, more than in any other OECD country

# Only 18–35

Number of medical specialties available in the peripheral communities examined is significantly lower compared to the 69 specialties offered in Tel Aviv 34%

of newly licensed physicians in Israel in 2022 graduated from foreign universities that the Ministry of Health has ceased to recognize. In peripheral regions, most of the new physicians are these graduates: 51% in the Southern District and 63% in the Northern District

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# Audit Actions

From January to December 2023, the State Comptroller's Office examined waiting times for specialist medical services, including public service quality and appointment management. The review included mapping and analysis of waiting times - from the scheduling of an appointment until its realization (in days), examining the geographic distribution of specialist physicians in the community, utilization of appointments, and instances of no-shows. The audit was conducted at the Ministry of Health and the health funds, with supplemental examinations performed at the Ministry of Finance. The audit employed both quantitative and qualitative tools to provide a comprehensive perspective on the audited subject. The audit team collected big data on all specialist medical appointments in the public healthcare system from all four health funds for the years 2019 and 2022 (a total of approximately 57.3 million appointment records, including follow-up appointments) and analyzed them using quantitative tools such as linear regressions. Some of the data were cross-referenced with data from the National Insurance Institute, which includes socioeconomic information about recipients of consultative medical services. Linear regressions were used to identify relationships between explanatory variables and dependent variables, and the actions of the Ministry of Health and the health funds were evaluated in light of these relationships. Additionally, two roundtable discussions were held with the participation of 21 specialist physicians from two health funds (Clalit and Maccabi) in order to ascertain the challenges faced by specialist physicians in peripheral areas. In June 2023, an online survey was conducted among a panel of respondents who had required or been referred to specialist care over the past year. A total of 708 insured individuals aged 21 and older responded. The survey was aimed at gathering firsthand public opinions regarding the availability of specialist appointments and satisfaction with the care provided.

# **Key Findings**

Partial Information at the Ministry of Health on the Physician Workforce in Israel – The Ministry of Health lacks accurate data on the physician workforce in Israel, leading to discrepancies in its various publications, which rely on different datasets and present varying figures for the number of physicians. For instance, according to the Healthcare Professions Workforce 2021 report, published by the Information Division, there were 3.9 physicians per 1,000 population. In contrast, data from the Strategic and Economic Planning Division of the Ministry, used to project the number of employed physicians per 1,000 population for the years 2020–2035, indicated 3.21 physicians per

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Waiting Times for Specialist Medical Services - Special Report

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1,000 population, a difference of 0.69 physicians per 1,000 population. When calculated for the entire population of Israel, this discrepancy amounts to more than 6,000 physicians.

Ministry of Health Projections for the Number of Physicians in Israel – According to projections for 2020–2035, the number of physicians in Israel per 1,000 population is lower than the OECD average, ranging from 3.16 in 2019 to 3.02 in 2035, compared to 3.5 in the OECD over the same period. In 2020, 48% of physicians in Israel were aged 55 and older, the highest percentage among OECD countries (where the average was 33%), second only to Italy (56%). The Ministry of Health's policy proposals to increase the number of physicians, along with plans to establish three new medical schools, aim to ensure the required quantity of physicians and maintain their high professional standards in the long term. However, in the short and medium term, it was found that while the Ministry of Health has commenced internal planning work, it has not yet been completed or developed into a comprehensive operational program with defined goals and metrics by medical specialties and geographic regions. In the absence of such a program, it is not possible to adequately address the shortage of specialist physicians across different geographic areas.

Standard for the Availability of Medical Services – According to the National Health Insurance Law, healthcare services included in the health services basket must, among other things, be provided within a reasonable time. The Ministry of Health's Director-General Circular from February 2013 outlines the components of standards for providing quality service and improving the patient experience in the healthcare system. Regarding the availability of medical services, the circular states that the waiting time for an appointment for an examination or treatment, whether in the community or via hospitalization, should align with the patient's clinical condition and be reasonable from a service perspective. The audit revealed that while the Ministry of Health has established a standard addressing the availability of medical services in the community, it has not defined measurable indicators for it – such as the desired and reasonable availability range. It should be noted that the health funds have set their own internal standards for the availability of consultative medical services; however, they are not disclosed to the public.

Measuring Waiting Times for Medical Services – As part of the national program to strengthen public healthcare, the Ministry of Health launched, at the end of 2019, a national system for measuring waiting times for consultative medical services in the community and reporting them to the public. The calculation method used in the Ministry of Health's measurement system is prospective. This method allows for estimating the future distribution of waiting times for appointments during a specified period, based on the availability of open appointments in physicians' schedules as offered by the health funds to their insured members. It was found that this method does not examine the

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correlation between demographic factors – such as gender, age, or population group of the insured – and waiting times.

- Consultative Medical Specialties with Particularly long Waiting Times According to data from the health funds for 2022, the majority of appointments (approximately 70%) are concentrated in the common specialties: gynecology, orthopedics, dermatology, ophthalmology, and otolaryngology (ear, nose, and throat). However, it was found that in three health funds - Clalit, Maccabi, and Leumit - these specialties do not necessarily have the highest rates of long waiting times. In Clalit, the specialties with the highest number of appointments with waiting times of more than 90 days are breast surgery, endocrinology, and neurology. In Maccabi, gastroenterology and endocrinology account for a significant proportion of the specialties with waiting times exceeding 90 days. In Leumit, the specialties with the highest number of appointments with waiting times over 90 days are endocrinology, rheumatology, and psychiatry. Analysis of the data also revealed that in 2022, there was an increase compared to 2019 in the total number of appointments (across the top 50 specialties) with waiting times longer than 90 days. Clalit experienced a significant increase of approximately 31% (from 221,573 to 290,105). Maccabi saw an increase of approximately 43% (from 360,010 to 513,517). Leumit reported an increase of approximately 8% (from 109,665 to 118,308). Additionally, across all four health funds, the specialty with the longest average waiting time was rheumatology (ranging from 53 to 71 days), followed by endocrinology (ranging from 47 to 53 days). The shortest average waiting time was for orthopedics (ranging from 13 to 20 days), followed by otolaryngology (ear, nose, and throat) (ranging from 15 to 21 days).
- Average Waiting Times for Consultative care by Districts In most specialties examined across the districts of Clalit, Maccabi, and Leumit, waiting times were shorter and statistically significant in the districts of Jerusalem, Northern Israel, and Judea and Samaria compared to the Tel Aviv District. For example, Jerusalem District Clalit, shorter waiting times were found across all specialties except for ophthalmology and cardiology; in Maccabi, shorter waiting times were found except for ophthalmology, psychiatry, and geriatrics; in Northern Israel in Maccabi, all specialties except for ophthalmology and Samaria Clalit, all specialties except cardiology, and in Leumit except for otolaryngology (ear, nose, and throat). Additionally, it was noted that in certain specialties, such as endocrinology, waiting times in the Tel Aviv District were significantly longer compared to other districts across all three health funds.
- Correlation Between Patient Age and Waiting Time According to the survey conducted by the State Comptroller's Office, individuals aged 70 and above schedule more appointments via the telephone call center (approximately 7 percentage points higher than the overall respondents) and fewer appointments online (approximately 10 percentage points lower than the overall respondents) compared to younger insured individuals (aged 21–59). This reliance on the telephone hotline may limit their options

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for scheduling appointments, for instance, due to difficulties in reaching the hotline or a reduced ability to consider traveling slightly farther from their place of residence to secure an earlier appointment. The majority of appointments for individuals aged 70 and above are follow-up visits with the same physician (21.5-28.1 percentage points higher than other age groups). Respondents aged 70 and above reported longer waiting times compared to younger insured individuals, with an average of 14 days more than the overall respondents. An analysis of health fund data revealed a positive correlation between patient age and waiting time: the older the patient, the longer the wait for an appointment. For example, in endocrinology, each additional year of age increases the average waiting time by: 0.3 days in Clalit, 0.36 days in Maccabi, and 0.29 days in Leumit. Across all three of these health funds, unique patterns were identified in the services provided to individuals aged 70 and above. On average, the waiting time for appointments in all consultative care specialties is 8–12 days longer for individuals aged 70 and above compared to those aged 20-30 (26-34 days vs. 17-23 days, respectively, across the three health funds). This raises concerns about a potential decline in the quality of service for older adults, which could negatively impact their well-being. The data also showed that as the age of insured individuals increases (including those aged 70 and above) they are less likely to schedule appointments for consultative care outside their town of residence, which may also contribute to longer waiting times. For example, 25% of appointments booked by women at Leumit Health Fund in Kiryat Shmona were scheduled within the town by women aged 55 and older, whereas 75% of appointments outside the town were scheduled by women aged 30 and younger.

Analysis of Waiting Times Based on Demographic Variables – In nearly all the medical specialties examined, waiting times for appointments in Arab towns or areas were shorter than in Jewish or mixed towns and areas. The survey revealed that in Arab society, there is a growing tendency to visit a specialist based on a recommendation from a family doctor. This can help shorten waiting times, as the family doctor often provides appropriate medical care, eliminating the need for additional referrals to specialists. Additionally, Arab respondents showed a greater willingness to schedule appointments outside their residential area compared to other groups (Haredi and non-Haredi Jewish respondents). It was also found that in most specialties across Clalit, Leumit, and Maccabi, waiting times for consultative care were shorter in towns with a higher percentage of Haredi residents. Among the survey respondents, 24.7% of those who identified as Haredi reported that when attempting to bring their appointment forward, they scheduled an additional appointment with another specialist in the same field (compared to 7.3% among non-Haredi Jewish respondents and 5.4% among Arab respondents). These findings may partially explain the correlation observed in the data analysis between the proportion of Haredi or Arab residents in a town and shorter waiting times for appointments. Furthermore, it was found that in 32 out of the 37 specialties examined in Clalit, Maccabi, and Leumit, men had shorter waiting times than women, with differences ranging from one day to 22 days.

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- Utilization of Consultative Medical Appointments in the Community More than half (52.5%) of the appointments scheduled for consultative care at the four health funds were not utilized (i.e., they did not result in the insured visiting the specialist). In Leumit Health Services, the utilization rate of appointments booked shortly before the consultation date was higher compared to the other health funds. For example, only about 15% of same-day appointments in Leumit were not utilized, whereas in Meuhedet, Clalit, and Maccabi, the rates were approximately 22%, 41%, and 56%, respectively. If the utilization rates of appointments booked up to 10 days before the consultation date in Maccabi and Clalit were similar to those in Leumit, an additional 2.2 million appointments with community-based specialists could have been fulfilled.
- **No-Show for Appointments** The phenomenon of no-shows (patients not showing up for scheduled appointments without canceling them) significantly impacts the availability of appointments, wastes physicians' time, and extends waiting times for insured individuals who require medical treatment. Certain specialties have significantly higher no-show rates than others. In Leumit Health Services, the average no-show rate across all specialties is approximately 20%. This includes specialties with high no-show rates, such as pediatric rheumatology (43%), proctology (32%), and immunologyallergology (31%), as well as specialties with low no-show rates, such as medical genetics (6%), liver diseases (11%), and pediatric otolaryngology (13%). In Maccabi Health Fund, the overall no-show rate is approximately 21%. High no-show rates were observed in oral medicine (41%), pediatric urology (35%), and proctology (34%), while low no-show rates were found in geriatrics and pediatric rheumatology (14%), liver diseases (12%), and diabetes (9%). Despite the importance of taking steps to reduce no-shows for scheduled (and non-canceled) appointments, as of the conclusion of the audit, the government had not submitted a legislative proposal to the Knesset to address this issue. Such a proposal could include mechanisms like imposing co-payments for missed appointments.
- The Impact of the Yatziv Reform on the Number of Physicians in Peripheral Areas – In 2022, 34% of those receiving medical licenses in Israel were graduates of foreign universities that the Ministry of Health no longer recognizes. In peripheral regions, most new physicians are graduates from such programs: 51% in the Southern District and 63% in the Northern District. As a result of the Yatziv Reform, and in the absence of a full and adequate alternative source of new physicians, a significant decline in the influx of new doctors is expected starting in 2026. From that year onward, Israeli graduates of unrecognized foreign medical schools will no longer be eligible for medical licenses in Israel. This group constitutes a substantial portion of new graduates – onethird – and the change is likely to disproportionately affect peripheral regions, where there is a high concentration of physicians from unrecognized institutions. Specialist physicians who are graduates of Israeli medical schools are primarily concentrated in Jerusalem, the Tel Aviv metropolitan area, and Haifa. By comparison, the concentration of unrecognized foreign medical school graduates in Tel Aviv and Haifa is lower. Conversely, in peripheral towns and regions (the North and South), the concentration of

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graduates from now-unrecognized foreign medical school is higher than that of Israeli graduates.

Availability of Consultative Care in Peripheral Areas – According to Ministry of Health data from June 2023 on physician schedules across the four health funds, it was found that in the seven peripheral towns examined (Katzrin, Kiryat Shmona, Safed, Eilat, Sderot, Netivot, and Ofakim), the health funds do not provide face-to-face (frontal) services in all specialties. For example: in Kiryat Shmona, 12 out of 35 specialties are not offered to Maccabi members (approximately 3,500 insured individuals). In Safed, 11 out of 32 specialties are not available to Clalit members (approximately 17,100 insured individuals). In Eilat, a city with over 57,000 residents, the health funds offer 25 medical specialties. Of these, only four (obstetrics and gynecology, pediatrics, family medicine, and ophthalmology) are provided by all health funds. The remaining specialties are offered only by some of the health funds. It was also found that in many specialties examined in the seven peripheral towns, the health funds offer only one specialist per specialty. Consequently, insured individuals in these towns are unable to choose their preferred physician. Moreover, since members of one health fund cannot receive services from a physician affiliated with another health fund in the same town, not only is competition among physicians eliminated, but the level of service to which the insured are entitled is compromised. For instance, in Safed, Clalit and Leumit offer nine specialties with only one physician each, while Maccabi and Meuhedet provide 12 such specialties out of the 32 specialties available across all health funds in the city.

#### Economic Aspects of Consultative care in the Community

- The Correlation Between Physicians' Salaries and Treatment Hours A negative correlation was found between the salaries of physicians in the top income deciles and the number of treatment hours offered to health funds. This may stem from the tendency of individuals to allocate more time to leisure as their income increases, thereby reducing their working hours (income effect). In other words, at these salary levels, as income rises, fewer treatment hours are offered to the community. For example, physicians in the community with an annual income of NIS 600,000–700,000 offer an average of 26.7 treatment hours per week to the health funds. In contrast, physicians earning NIS 1.5 million–2 million annually offer 4.38 fewer hours per week on average, amounting to approximately 22.32 hours.
- The Impact of the Model of Competition Between Health Funds on Competition Among Physicians in Peripheral Areas – The structure of competition between health funds is suitable for regions with a large pool of specialist physicians in the community within each fund, such as in central areas. However, it is less suited to peripheral areas, where the pool of such physicians is already limited. The low population density in peripheral regions, which prevents health funds from providing all specialist medical services locally and forces insured

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individuals to travel to other towns to receive necessary care, requires the Ministry of Health and the health funds to evaluate a model that addresses the gap in service levels available to residents of peripheral areas. In this regard, it is worth noting that the Israel Medical Association (IMA) recommended in 2017 adopting a "unified clinic" model in towns with a shortage of community clinics. It should be noted that during the early weeks of the Swords of Iron War, insured individuals evacuated from their homes were able to receive services from any health fund, regardless of their registered fund. The shortage of physicians in peripheral areas is expected to worsen, based on Ministry of Health projections and the implementation of the Yatziv Reform, which is anticipated to reduce the number of new physicians entering peripheral regions due to the non-recognition of certain foreign medical schools.

Actions by the Ministry of Health to Increase the Number of Physicians in Peripheral Areas – The Ministry of Health has taken measures to mitigate the decline in the number of specialist physicians in peripheral areas. Examples include the Ilanot Program – enrolling 60 medical students with strong ties to the Negev and Galilee, who are expected to work in these regions after completing their studies and specialization; the Star Physicians Program – concentrating outstanding medical residents from across the country, placing them in peripheral areas, and training them to become future leaders in Israeli healthcare, particularly in the periphery; the Ofakim Program – offering conditional loans to fund medical studies abroad. Students who choose to specialize in high-demand fields and work in peripheral areas may have their loans partially or fully forgiven. However, as of the conclusion of the audit, these initiatives have yet to yield significant results, with their impact anticipated in the future. This is alongside the projected effects of the Yatziv Reform, set to come into play starting in 2026.

## **Key Recommendations**

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It is recommended that the Ministry of Health, in collaboration with all relevant entities, including the Tax Authority and the Population and Immigration Authority, develop an appropriate model for transferring information regarding the physician workforce in Israel. Based on this information, the Ministry of Health should map out the number of active physicians by specialty.

Additionally, it is recommended that the Ministry of Health, together with the health funds, formulate an operational plan to develop a data infrastructure and a standardized measurement system to enable the retrospective measurement of waiting times for appointments (actual waiting times). This would allow for the assessment of correlations between the demographic characteristics of insured individuals and waiting times. For example, it would allow examination of whether waiting times differ by gender, age groups,

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or population segments based on their characteristics. Such measurements would facilitate tailored responses suited to various population groups. Furthermore, it is recommended that the Ministry of Health and the health funds analyze the specialties with a large number of appointments that are not follow-up visits and have particularly long waiting times (over 90 days). They should identify the reasons for the increase in such appointments and develop solutions to reduce this trend.

It is recommended that the Ministry of Health establish metrics for the standard of availability of medical services in the community and, in collaboration with the health funds, examine the results of the data analysis conducted in the audit and the reasons for the disparities identified in waiting times for appointments. In particular, it is recommended that they assess waiting times for appointments among the senior population and consider the following: establishing a dedicated call center or at least setting unique rules within existing call centers for the senior population; allocating appointments; assigning dedicated service coordinators to assist this population. Regarding the gender-related disparity observed – where women's waiting times for appointments are almost always longer than men's – it is recommended that the Ministry of Health and the health funds further investigate this finding, identify the underlying causes, and analyze the effectiveness of appointment scheduling from a gender perspective. For example, this could include examining changes made to scheduled appointments, such as preferences for specific specialists that may result in longer waiting times.

It is recommended that the Ministry of Health, after consulting with the health funds, examine the consultative care specialties that genuinely require referrals. This is to ensure the availability of consultative care in the community, particularly in light of various trends, such as physician retirements, population aging, and the implementation of the Yatziv Reform, which may negatively impact the availability of medical services, including consultative care. It is further recommended that the Ministry of Health, together with Meuhedet and Leumit, identify the reasons for the low realization rates of appointments scheduled well in advance (over 40 days prior) and take measures to reduce this rate. Additionally, it is recommended that the Ministry of Health, along with all four health funds, identify the reasons for the discrepancies in realization rates of appointments scheduled up to 10 days prior to the visit and work with the health funds in order to reduce this discrepancy.

Recommendations regarding peripheral areas: it is recommended that the Ministry of Health periodically assess the effectiveness of actions taken to increase the number of physicians in peripheral areas, particularly in addressing the anticipated shortage of doctors. It is further recommended that the Ministry examine alternatives to the competition structure in peripheral areas, such as regional tenders among health funds, creating a "unified clinic" that would provide a pool of all physicians and community-based medical services to insured individuals of all health funds, or other alternatives that would enhance competition among service providers. Changes to the competition structure in

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All fields

All fields

peripheral areas could lead to direct competition among physicians, broaden the range of medical services available to residents – particularly in specialties with a low supply of doctors, such as neurology – and create economic viability for maintaining expensive medical equipment in clinics. Furthermore, strengthening peripheral hospitals could enable them to provide appropriate tertiary care (in the hospitals) for residents of the region. It is recommended that before adopting any alternative, a pilot program be implemented.

# Average Waiting Times for Selected Specialties Across the Four Health Funds, 2022 (in Days)<sup>1</sup>



<sup>1</sup> Due to differences in the way data is managed by the health funds, there may be variations in the definitions of appointments and specialties, which can affect waiting times. Therefore, comparisons can be made between specialties within each health fund, but not between the health funds.

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#### Summary

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The National Health Insurance Law stipulates, inter alia, that healthcare services must be provided based on medical discretion, at a reasonable quality, within a reasonable time, and within a reasonable distance from the insured's place of residence. These principles also apply to consultative medical services in the community, which are provided by specialist physicians, through the health funds. According to projections by the Ministry of Health, the availability of healthcare services provided to the population, including consultative medical services, is expected to be impacted in the coming years. Among the reasons for this are the retirement of physicians; the implications of implementing the Yatziv Reform, which defines the recognition criteria for medical studies abroad; the lengthy time required for training specialist physicians; and the increasing demand for consultative care, partly due to an aging population.

Ensuring the continued availability of consultative medical services is essential for maintaining a high-quality healthcare system in line with the principles of the National Health Insurance Law. It is recommended that the Minister of Health and the Ministry of Health, in collaboration with the health funds, formulate solutions to guarantee the availability of services to the insured population, particularly in peripheral areas. The focus should be on ensuring equitable services for all insured individuals, with an emphasis on senior citizens, and on optimizing the utilization of available resources.



Special Reports

The Ministry of Justice's Handling of Insolvency and Financial Rehabilitation Proceedings



Abstract

# The Ministry of Justice's Handling of Insolvency and Financial Rehabilitation Proceedings

#### Background

Insolvency proceedings provide a framework for addressing situations where debtors are unable to meet their financial obligations. In September 2019, the Insolvency and Financial Rehabilitation Law, 2018, came into effect, encompassing all legal provisions related to insolvency proceedings. The law has three main objectives: (1) to achieve the financial rehabilitation of the debtor; (2) to maximize the repayment rate to creditors; and (3) to enhance legal certainty and stability, shorten proceedings, and reduce the bureaucratic burden. The Commissioner of Insolvency and Financial Rehabilitation Proceedings, operating within a division of the Ministry of Justice, is in charge of handling insolvency cases. These include insolvency proceedings for individuals and corporations, company liquidations, corporate restructuring, and creditor arrangements. The Commissioner's authority over cases of individuals applies to insolvency proceedings where the debt exceeds NIS 150,000<sup>1</sup>, while cases involving smaller debts are managed by the Enforcement and Collection Authority. Each year, more than 20,000 applications for receivership orders or initiation of proceedings are filed in the field of insolvency for individuals; approximately 15,000 orders are issued, and over 60,000 active cases are managed. In 2022, the courts issued orders to operate corporations for financial rehabilitation in 20 cases; issued liquidation orders for 953 corporations; and approved 20 financial rehabilitation plans. The total claims filed in insolvency proceedings in 2021 amounted to over NIS 60 billion (approximately NIS 43.7 billion in individual cases and NIS 16.7 billion in corporate cases). The average repayment rate in insolvency cases of individuals handled by the Commissioner was approximately 7% in 2021 and 13% in 2022.

1 Section 104 of the Insolvency and Financial Rehabilitation Law. The updated amount for this matter, according to Notice No. 2 (2023), Official Gazette 5783 11052, 3076, is NIS 161,236.45.

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#### **Key Figures**

# NIS **786** billion

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The scope of household debts. Approximately 70% of these are for housing, and approximately 30% are consumer debts. As of 2019, 9% of the adult population in Israel had cases opened against them in the Enforcement and Collection Authority

# Over NIS **60** billion

The total claims in 2021; each year, more than 20,000 applications for receivership orders or initiation of proceedings are filed

# Only approximately **7%** repayment

The average repayment rate in insolvency cases for individuals handled by the Commissioner in 2021 (13% in 2022) Total annual bad debts are approximately NIS 49.5 billion

# Only **7** employees

supervising approx. 450 trustees managing approx. 60,000 debt collection cases, involving debts totaling approx. NIS 60 billion

# Increase of approx. 60%

in complaints filed against trustees in 2021 (3,496 complaints) compared to 2020 (2,148 complaints)

#### Only approx. 20 investigation cases

handled by the Investigations Unit each year, although the Administrator estimates that violations occur in over 2,000 insolvency proceedings each year

# Only approx **850** Debtors

Out of an estimated 37,500 debtors for whom financial education is relevant, according to estimates, less than 3% had completed a program for proper financial management by June 2023 The number of databases within separate unsynchronized computing systems used by the Administrator

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# **Audit Actions**

From January to June 2023, the State Comptroller's Office examined the Ministry of Justice's handling of insolvency and financial rehabilitation proceedings<sup>2</sup>. The audit focused, among other topics, on the following areas: determining monthly payments for debtors; training in financial rehabilitation; guidance and oversight of trustees; enforcement activities; computing systems; data analysis and research; the allocation of authorities in handling insolvency proceedings; engagement with external parties (representatives) to carry out the Commissioner's duties; and the splitting of the General Guardian's Division, the Registrar of Inheritance Affairs, and the Commissioner of Insolvency into two distinct entities. The audit was conducted in the Commissioner of Insolvency Proceedings Division within the Ministry of Justice, including its headquarters and regional offices. Additional examinations were carried out in other units within the Ministry of Justice, the Enforcement and Collection Authority, and the Budget Division of the Ministry of Finance. Meetings were also held with former senior managers in the Commissioner's office, attorneys specializing in insolvency from the private sector and the Israel Bar Association, academics researching insolvency, and representatives from third-sector organizations.

# **Key Findings**

- Determining Monthly Payments for Debtors as of the audit completion date, September 2023, the Minister of Justice had not issued subsistence allowance regulations, contrary to the provisions of the Insolvency and Financial Rehabilitation Law. These regulations are necessary for establishing a basis for calculating the monthly payment required from debtors within the insolvency process.
- Providing Information on the Calculation of Monthly Payments the Commissioner does not provide debtors with the information used to determine the interim periodic payment amount. This includes the data taken into account and the method of calculation for the periodic payment amount.
- Oversight and Supervision of Trustees the Trustee Supervision Unit within the Commissioner of Insolvency Proceedings (established to fulfill the Commissioner's legal

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<sup>2</sup> This audit report was originally supposed to be included in the State Comptroller's annual report and published in May 2024. However, due to the outbreak of the Swords of Iron War, the completion of the audit report was delayed. It is now being published, reflecting the data available during the audit process.



responsibility for ensuring the integrity, fairness, and efficiency of insolvency proceedings) does not conduct proactive reviews or in-depth investigations into the conduct of the approximately 450 trustees under its supervision, who handle approximately 20,000 cases annually. This includes oversight of their interactions with debtors and the courts, the quality of their work, the distribution of funds to creditors, and the scope of fees paid to trustees, often from the trustee's escrow account. In the absence of such reviews and investigations, no sanctions have been imposed on trustees who failed to properly perform their duties. Regarding trustee conduct, the unit focuses on technical monitoring, such as verifying the physical presence of trustees in court proceedings and the actual submission of reports.

Handling Complaints Against Trustees – over the years, there has been a 60% increase in the number of complaints against trustees received by the Commissioner (2,148 in 2020, 3,496 in 2021). The Commissioner has not established a structured mechanism for handling complaints against trustees. Among other shortcomings, no mandatory timeline has been set for processing complaints; no criteria have been defined for categorizing complaints; no guidelines have been issued for handling complaints based on their classification until their resolution; and no mechanism exists for providing updates or information to complainants and trustees (or respondents). Additionally, there are no established rules for appeals, sanctions against trustees for substantiated complaints, or criteria for imposing such sanctions.

Computerized Complaint Management System – the Commissioner lacks adequate and efficient computerized tools for managing, monitoring, and documenting complaints. As of the audit completion date, the Commissioner manually managed approximately 200 complaints, deemed significant, out of thousands. An effective computerized system is particularly essential given the high volume of complaints (over 3,400 in 2021).

Service Surveys Among Debtors – service surveys conducted by the Commissioner reveal that more than half of the debtors surveyed expressed dissatisfaction with the trustees' handling of their inquiries (56%) and their availability (55%). Additionally, 70% of respondents stated that they did not receive a full and clear response from the trustee. Despite these findings, the Commissioner has neither intensified its oversight of trustees nor analyzed the survey results, conducted a lessons-learned process, or taken deignated actions to address the deficiencies identified in the surveys.

Scope of Activity of the Investigations Unit – the Commissioner's Investigations Unit operates on a limited scale, handling only about 20 cases annually during the audit period. From 2015 to mid-2023, the unit dealt with a total of approximately 80 cases. This is despite the Commissioner's estimate that insolvency-related offenses occur in approximately 10% of ongoing proceedings – more than 2,000 cases annually – with bad debts resulting from these offenses amounting to approximately NIS 5 billion per year. The investigations unit's activity in corporate cases only began in 2023, four years after

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the law granted its investigators criminal enforcement authority in this area. Under these circumstances, concerns arise that the lack of broad and effective activity by the Commissioner through the Investigations Unit undermines both deterrence against abuse of insolvency proceedings and enforcement capabilities regarding criminal activities in the field, particularly the concealment or diversion of assets that could increase the repayment rate for creditors.

- The Investigations Unit Faces a Manpower Shortage with only 12 investigator positions filled out of 25 authorized positions, as per the staffing standards established when the unit was created nearly thirty years ago. This is despite the fact that, during this period, the number of insolvency cases has increased by thousands of percent, requireing additional resources and tools to fulfill the unit's functions and objectives. The Commissioner is constrained in the scope of investigations it can conduct and is forced to act only in cases where cooperation agreements have been reached with a specific police unit. Under these circumstances, all 80 cases handled by the unit from 2015 until the end of the audit were investigated in collaboration with the police.
- Intelligence Gathering and Focusing Investigation Efforts The Commissioner's activity in the field of intelligence is extremely limited, and the Intelligence Unit lacks the tools and technological systems necessary for collecting and analyzing intelligence to support its operations. Under these circumstances, the Administrator's capcity to focus investigative activities based on intelligence is significantly limited.
- Scope of the Proper Financial Management Training Program as of June 2023, nearly four years after the Insolvency and Financial Rehabilitation Law came into effect, only about 850 debtors less than 3% of the estimated 37,500 debtors for whom the training was relevant had completed the financial management training program. These figures indicate that financial rehabilitation programs, including the training program for proper financial management, which began operations in March 2021 (a year and a half after the law came into effect, making debtor rehabilitation a central objective), have been operating on a limited scale with insufficient resource allocation. These factors have directly contributed to the low implementation rate of the training programs.
- The Commissioner's Computing System the Commissioner's operations rely on outdated operational computing systems based on Magic technology, which are among 40 such Magic-based systems used by the Ministry of Justice. These systems have been in operation for about 30 years and require extensive maintenance. Despite improvements made over time, they continue to experience frequent malfunctions. The computing systems are not suited to the organization's needs, forcing the Commissioner's staff to work manually. This manual work is time-consuming, inefficient, and prone to human errors in data entry and retrieval of outdated information, failing to provide adequate and comprehensive support for organizational requirements. As a result, there is a risk of disruption or even paralysis of the Commissioner's ability to

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manage approximately 60,000 cases, which could, in the Commissioner's assessment, negatively impact Israel's business and economic sectors. Despite the 2017 decision by the Ministry of Justice and the Commissioner to develop a new computing system, no progress has yet been made on the project.

The Commissioner's computing systems include eight separate databases that are not continuously synchronized. This lack of integration prevents the transfer and sharing of information between systems, complicates the formation of a nationwide snapshot report, increases the risk of data distortion, heightens maintenance complexity, and could result in inefficient case management. It should be noted that the need to reform the department's computing systems was first raised in the 1996 Avrahami Committee Report.

- Collection of Information and Data and Research for Implementing the Insolvency and Financial Rehabilitation Law contrary to the requirements of the Insolvency and Financial Rehabilitation Law, the Commissionerdoes not conduct proactive research in the field of insolvency proceedings, particularly in core areas of its operations such as financial rehabilitation, payment orders, and guidance and supervision of trustees. Furthermore, the Commissioner's office lacks designated staff with the necessary research expertise relevant to these matters. Additionally, the Ministry of Justice has not conducted research to support the implementation of the Insolvency Law. While the Ministry initiated the research process and engaged an external research team for this purpose, the project was not completed due to the research team's concerns regarding methodological challenges. These gaps are inconsistent with the obligations imposed on the Ministry of Justice and the Commissioner under the law.
- Division of Powers in Handling Insolvency Proceedings The Ministry of Justice decided to examine, as part of a policy review, and approximately three years after the Insolvency and Financial Rehabilitation Law came into effect, the need to improve the efficiency of the existing model for managing insolvency cases. This review includes assessing the model that determines the divison of powers between the Commissionerand the Enforcement and Collection Authority. However, the audit found that this decision, made in May 2022, has not yet been advanced by the Ministry of Justice in practice.

Splitting of the General Guardian's Division, the Commissioner of Insolvency, and the Registrar of Inheritance Affairs – the process of examining the possibility of splitting a large and complex division (which included three entities, employed over 500 staff members and approximately 150 representatives in headquarters and regional units) was conducted over an exceptionally short period of less than two months (from March 3, 2022, to April 28, 2022). During this period, and even before an informed decision was made on the matter, practical steps already had been taken toward splitting the division. This process was carried out without decision-makers having access to a

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complete status report of the situation (required for making an informed decision about the split) and without addressing the logistical needs necessary for the decision's full implementation. In light of the above, the reasons underlying the decision to split the division and the nature of the process undertaken do not provide sufficient grounds for implementing such a significant and extensive organizational change. Additionally, this process involves appointing additional senior officials while balancing other priorities and projects under consideration by the Ministry of Justice.

**Professional Training Program** – as of December 2022, more than 600 professionals have completed specific training designed for those involved in roles that promote financial rehabilitation and poverty awareness.

# **Key Recommendations**

- The Minister of Justice, with the approval of the Constitution, Law and Justice Committee, should complete the enactment of regulations for the calculation of subsistence allowances, and the method for determining an individual's earning capacity.
- The Commissioner should supervise the conduct of approximately 450 trustees managing approximately 60,000 cases annually. To achieve this, it is recommended that the Commissioner develop a comprehensive and detailed work framework to ensure effective supervision of trustees. He should define the required supervisory actions, criteria for evaluating the quality of trustees' work, and methods for addressing irregularities found during supervisory activity. Additionally, it is recommended that the Administrator establish an effective mechanism for ensuring professional handling of complaints against trustees.
- It is recommended that the Commissioner expand the Investigations Unit's scope of activity, both for individual cases and corporate cases, in alignment with the number of insolvency proceedings. This activity should be based on defined goals designed to support the unit in fulfilling its purpose through enforcement and creating deterrence against abuse of insolvency proceedings. It is recommended that the Commissioner, in collaboration with the Ministry of Justice's management, the Civil Service Commission, and the Ministry of Finance, conduct a comprehensive assessment of the resources necessary to the Investigations Unit. The Commissioner should formulate an appropriate response to maximize the unit's activity and achieve its objectives.
  - It is recommended that the Commissioner and the police establish work interfaces to ensure effective collaboration, maximizing their mutual capabilities to enhance enforcement in the field of insolvency.

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The Commissioner should assess the alignment between the rate of recommendations for referral to training programs and the proportion of cases where such referrals are deemed necessary. Additionally, the Commissioner should take all necessary steps to expand the scope of training programs, in order to match the potential number of debtors that need such training. It is proposed that the Ministry of Justice and the Commissioner implement an appropriate organizational framework for financial rehabilitation activity. This framework should include the formation of an operational structure to expedite the development and implementation of financial rehabilitation programs and processes, with particular emphasis on training for proper financial conduct.

It is proposed that the Ministry of Justice, in collaboration with the Commissioner, promptly develop a structured work plan regarding the Commissioner's computing systems. This plan should ensure that insolvency proceedings are conducted with computing systems that enable the Commissioner to perform his duties efficiently, provide adequate service levels, and comply with legal requirements.

It is proposed that the Commissioner and the Enforcement and Collection Authority conduct an assessment regarding the need to establish a joint information system for handling insolvency proceedings. This assessment should consider the advantages and disadvantages of such a system, its associated costs, and the efficiency of its use.

It is recommended that the Ministry of Justice promote a policy review to evaluate an appropriate and efficient organizational structure for insolvency-related activity, focusing on the division of powers between the Commissioner and the Enforcement and Collection Authority. This is intended to optimize resource utilization, maximize operational outcomes, improve public service in general, and enhance and improve the efficiency of insolvency proceedings in particular. Based on the findings of this policy review, it is further proposed to examine the potential need for legislative amendments to allow for necessary adjustments in accordance with the developed framework.

When making decisions regarding the organizational structure, which have a broad impact on the organization's operations, the Ministry of Justice, and particularly the Director-General of the Ministry, should base such decisions on a thorough preliminary examination. This examination should include consideration of all relevant data, factors, and alternatives, and should allocate sufficient time to conduct the evaluation process.

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According to data from the Commissioner and the Enforcement and Collection Authority, as processed by the State Comptroller's Office.

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#### Summary

The handling of insolvency proceedings has a profound impact on hundreds of thousands of debtors and creditors, as well as on numerous corporations, and it can also have broader financial and social impacts on the economic sector and at the national level.

The findings of this audit indicate significant deficiencies in the Ministry of Justice's handling of insolvency proceedings, as well as gaps in the Commissioner's ability to address the challenges it faces, with a particular emphasis on the management of insolvency cases of individuals. Notably, deficiencies were identified in three core areas of the Commissioner's operations: Financial Rehabilitation – Only a small portion of debtors for whom training for proper financial management is relevant actually participate in such programs. Supervision of Trustees – The Trustee Supervision Unit does not conduct proactive reviews or in-depth investigations into the conduct of trustees. Investigations – The Investigations Unit operates on a limited scale, handling only a small number of cases, raising concerns about the potential erosion of deterrence and the ability to enforce the law effectively.

The findings of this report, addressing various operational and organizational aspects, necessitate broad rectification action to enable effective operations in achieving the goals outlined in the Insolvency and Financial Rehabilitation Law. Strengthening the Commissioner's activities in the core areas mentioned requires addressing the gaps highlighted in the report across organizational, operational, and supportive dimensions. These include advancing measures to ensure the functionality of the computing system, collecting data for analysis and research purposes, and addressing structural and organizational gaps identified across all core areas. Additionally, it is proposed that the Ministry of Justice, responsible for the two operational branches managing insolvency (the Commissioner and the Enforcement and Collection Authority), conduct a policy review to evaluate the existing organizational structure. This policy review should assess the need for changes designed to optimize resource utilization, improve and increase the efficiency of insolvency proceedings, and enhance public service. When making decisions regarding the organizational structure, which have wideranging implications, the Ministry of Justice - and particularly its Director-General - should base such decisions on a thorough and comprehensive preliminary examination. This process should allow sufficient time for evaluation and consider all relevant data, considerations, and alternatives. Additionally, the organizational change implemented in 2022, which divided the department into two branches, should be analyzed and studied as part of a lessons-learned process to guide the Ministry of Justice in future organizational initiatives.

The Ministry of Justice and the Commissioner must work to address the deficiencies raised in this report.

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