

State Comptroller of Israel

Aspects of Dealing with the
Cost of Living



State of Israel

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Cost of Living



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Foreword

This report was presented to the Prime Minister and the Chairman of the State Audit Affairs Committee on August 15, 2023, and was scheduled for publication following the 2023 Tishrei (New Year) holidays.

On Saturday morning, 'Shemini Atzeret' (the Eighth day of Assembly holiday), October 7, 2023, the Hamas terrorist organization launched a murderous surprise attack on the Communities near the Gaza Strip and the surrounding area, along with heavy firing of thousands of missiles and rockets at the south of the country and its center. The Israeli government declared the "Swords of Iron" War, and the IDF and Israel security forces entered combat in the south of Israel in Gaza, as well as in the north of the state. Since then, IDF soldiers and security forces have been fighting day and night to protect the residents of Israel.

In coordination with the Chairman of the Knesset and the Chairman of the State Audit Affairs Committee, the date for submitting these reports before the Knesset has been postponed, as well as the date for their publication.

Since the outbreak of the war, I have conducted field tours, especially in the communities along the conflict lines in the south of the country and in the north. The tours took place in local authorities, hospitals, hotels where evacuees have been staying and in the Shura Camp for the identification of fatalities; All, to better understand disparities in the government bodies' handling of the civilian home front and in the response to the needs of Israel's residents during the current emergency. The Office of the State Comptroller brought some of the disparities to the attention of the relevant bodies so that they address them without delay.

As part of my tours in the south, I visited Sderot, Kibbutz Beerli, Ashkelon, Netivot, Ofakim, as well as the Eshkol, Hof Ashkelon and Merhavim regional councils and the party area in Re'im; In the north, I visited Kiryat Shmona, Ma'alot-Tarshiha, Tiberias, as well as the Mateh Asher, Ma'ale Yosef, the Upper Galilee, Mevo'ot HaHermon and Emek HaYarden regional councils; I also visited the Soroka and Barzilai hospitals and hotels in Eilat, Tiberias, the Dead Sea, Jerusalem, Shefayim and Ma'ale HaHamisha, that took in evacuees from Beerli, Nir Oz, Kfar Gaza, Kerem Shalom, Nir Yitzhak, Magen, En Ha'Shlosha, Netiv HaAsara, Nirim, Re'im, Sderot, Tkuma, Kiryat Shmona, Shlomi, Shomera, Dafna, Malkia and Iron.

About one month following the beginning of the war, I referred to the Prime Minister's and for his further addressing the main failures and disparities concerning the handling of the civilian home front raised from the many tours conducted by the Office of the State Comptroller and from a detailed inquiry into the public's complaints received by the Ombudsman in my office.



In my letter, I stated that "The government's emergency preparedness was supposed to be comprehensive, detailed, practiced and ready for operation. This is the expected standard, against which the disparities and failures in the functioning of the civil systems in the first month of the war should be examined. This is also the standard expected of a country whose emergency preparedness is a necessary and fundamental element in its confrontation with its complex security challenges. The first month of the emergency period should not be characterized by a gradual and slow process of government organization, but rather by quickly launching ready-made programs and arrays. The government ministers are required to continue working, each in their own field, to improve the handling of the civilian home front at this time; The wonderful spirit of volunteerism found among us is of crucial importance and contributes to national cohesion, but at the same time it highlights the need for an effective and quick response from the governmental system".

These days, our office is completing the formulation of a comprehensive audit plan on the "Swords of Iron" War, in which all of our office's audit divisions will take part. The regular audit of the handling of the home front will begin in the coming days, however the audit of the defense System will begin according to the war's development. As these days the war is still ongoing, and for over 90 days the IDF officers and soldiers have been fighting night and day in a bloody war inside the Gaza Strip and in the north of the country, and all of Israel must stand by their side. The audit will examine the activities of all ranks – the political, the military and the civilian rank – during the period preceding the outbreak of the abominable attack, during the days of the attack and thereafter. However, I made it clear that at this time it is our duty to support the IDF and the security forces so that they can contend with one thing – and that alone – victory over our enemy, since this is a war for our existence in our country. The Office of the State Comptroller will leave no stone unturned to get to the truth and point to the responsibility of the parties at all levels. The state audit's comprehensive activity will begin at a time to be determined by me.

Along with the beginning of the audit on the issues of the war, I decided to publish the report on the cost of living, the preparation of which was completed, as mentioned, prior to October 7, 2023, and whose publication was planned following the Tishrei holidays. The cost of living in Israel skyrocketed even before the "Swords of Iron" War, and with the beginning of 2024, costs continued to rise.

The damage caused by the war to the various sectors, combined with a high interest rate environment, impose a heavy burden on households in Israel, including households of reservists who are risking their lives for the State of Israel, and of many evacuees from the south and the north.

Along with the "Swords of Iron" War, the issue of the cost of living must be at the forefront of the Prime Minister's and the government ministers' agenda. As for the formulation of the 2024 budget – the government must also consider the effect of the war on the cost of living in Israel and rectify the report's deficiencies.



We will all continue to pray and wish for the victory of the IDF and the defense system in this difficult war, that was forced upon us by our most bitter enemies, who seek to destroy us as a people and as a country.

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, January 2024



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Ministry of Finance and Bank of Israel

Preparation for an Inflation Outbreak



Preparation for an Inflation Outbreak

Background

Inflation is a general increase in the prices of goods and services in an economy over some time. High inflation, accompanied by uncertainty and unusually high volatility of price changes, adversely affects economic activity and growth. 2022 was characterized by a high inflation environment of 5.3%, compared to the previous years, as part of a global trend that led to a significant deviation from the inflation target range set by the government (1%–3%), similar to the worldwide trend. It should be noted that the inflation rate in Israel in 2022 (5.3%) was considerably lower than in most developed countries during that year.



Key Figures

5.3%

the actual inflation rate in Israel in 2022 (compared to 2.8% in 2021)

**1% –
3%**

the inflation target range in Israel set by the government since 2003

4.5%

the Bank of Israel basic interest rate in April 2023 (compared to 0.1% at the beginning of 2022)

**4.4%
(NIS 20.4
million)**

the linkage rate of the government spending in the state budget from 2022 to 2023, based on the index change average rate in 2022

3.36%

the interest rate gap¹ in the banking system as of September 2022 (compared to 3.20% in December 2021)

60%

the transmission rate² between the Bank of Israel basic interest rate and the interest rate on public deposits as of August 2022

**52%
(about NIS
530
million)**

from the CPI-indexed government debt. 1% increase in the index is expected to increase the total debt by about NIS 5.7 billion and the annual interest and principal expenses by about NIS 460 million

**13.5%
(about NIS
60 million)**

the expected growth rate in the government spending in the biennial budget for 2023–2024³. This increase is the highest growth rate in about a decade

- 1 The gap between the average interest that banks charge for the credit they provide to their customers and the average interest they pay on the balance of their deposits, which reflects the banks' profitability from core banking activity.
- 2 The transmission refers to the Bank of Israel interest rate increase rolled into the increase in interest paid by the banks on the public's limited time deposits.
- 3 On February 24, 2023, in Government Decision 237, the government approved the state budget proposal for the years 2023–2024. The budget proposal was placed on the Knesset table on March 23, 2023. The budget law was approved by the Knesset in May 2023.



Audit Actions



From August 2022 to January 2023, the State Comptroller's Office examined the preparations of the various bodies in the country for an inflation outbreak. The audit was conducted at the Bank of Israel – in the Research Division and Banking Supervision Department, in the Ministry of Finance – in the Accountant General Department, in the Budget Division (Budget Division or AGAT), and the Chief Economist Department. Completion examinations were conducted at the National Insurance Institute, the Central Bureau of Statistics, and the National Economic Council.

Key Findings

The Inflation Rate in Israel Vis-a-Vis the Government Inflation Target – the inflation target set by the government has remained unchanged since 2003 and stands at 1%–3%. It was found that from 2003 to 2022, actual deviations of inflation occurred in both directions of the target range (from 1.9% to 3.9%). 2022 was characterized by an inflation environment of 5.3%, higher than in recent years, resulting in a considerable deviation from the inflation target range (2.3 percentage points), similar to the worldwide trend.

It should be noted that from 2019, as part of a strategic plan, the Bank of Israel is reassessing the inflation target to decide whether to maintain the existing target or recommend that the government change it. This derives from a long-term perspective on the policy required due to the changes in the economic environment since the current policy framework was formulated (valid since 2003).



Contingency Plan for Inflation Outbreak – in 2022, the Budget Department of the Treasury and the Research Division of the Bank of Israel conducted ongoing monitoring (each body separately), frequently examining the macroeconomic and economic developments in Israel and worldwide, emphasizing on the implication of the rise in the Consumer Price Index. However, the Budget Department decided not to prepare a dedicated contingency plan for the increase in inflation, stating that no such contingency plan is required because no unusual inflation outbreak has been observed in Israel. Therefore, the Ministry of Finance does not have a contingency plan for fiscal measures to contend with an inflation outbreak.



Analysis of the Inflation Effect on the Government's Expenditures and Revenues – based on the work of the Chief Economist Division in the Ministry of Finance in 2017, it was found that 1% increase in the Consumer Price Index (CPI) would increase



the state's expenditures by NIS 2.5–2.9 billion per year. At the same time, state revenues will grow by NIS 1.8 billion. In other words, 1% rise in the CPI would increase the annual budget deficit in the state budget by about NIS 0.7–1.1 billion. However, it was found that as of the audit date, the Chief Economist Department had not prepared an updated assessment of the sensitivity of state revenues to inflation. In addition, there was no indication that the Ministry of Finance has a forecast of the effect of inflation on the government deficit, despite the significant increases observed in the price index, rising from 2.8% in 2021 to about 5.3% in 2022.

📌 The Linkage Mechanism to the CPI in Forming the State Budget – in 2003, the government decided that the procurement budgets of the government ministries are not automatically increased according to changes in the CPI. Since then, government decisions have determined that a "nominal freeze of the state budget" shall continue. Consequently, the procurement budgets of the government ministries are not automatically increased according to changes in the CPI. For example, even though the CPI increased by 19% from 2009 to 2022, the transition coefficients for purchasing budgets in the state budget were 0% in these years.

It was found that, on the one hand, the government decision from 2003 has nominally frozen the transition coefficients used to build the state budget, and this decision is ratified each time the state budget is approved. On the other hand, the government decision regarding the 2023–2024 budget updated the overall expenditure, considering the rise in inflation, and essentially rendered the decision on a nominal freeze meaningless. For example, in the formulation of the 2023–2024 budget, the "transition coefficient" of the purchasing budget remained at 0%; however, the budget framework as a whole was increased by 4.4% to account for price adjustment.

📌 The Existing Exposure of Government Spending to the CPI – in 31% (11 government ministries) of the government ministries, which manage about 41% (about NIS 187 billion) of the state budget, the budget exposed to the index is from 51% to 80% of the ministry's total budget, in 25% of the ministries (9 government ministries) which manage 24% (NIS 109 billion) of the state budget, over 80% of the ministry's budget is exposed to the CPI⁴. In addition, over 50% of the government debt is linked to the CPI. This exposure constitutes a budgetary risk for both the short and long term. This is because an increase in the index will increase interest expenses and debt repayment in the state budget by hundreds of millions of NIS and will also affect the state budget in the long term due to government debt growth.

📌 Concentration of Data Regarding the Exposure of Government Ministries' Engagements to the CPI – the audit raised that procurement processes financed through the state budget have several linking mechanisms. For example, there are

⁴ These budgets are not automatically adjusted in the budgeting process, and they receive a transition coefficient of "0" from year to year.



procurement processes that government ministries conduct directly – the linking of payments is done in full. In contrast, in the procurement processes of local authorities, which involve the participation of government ministries, there is no obligation to link the agreement. Payments can be linked to situations where the change in the index was higher than 4%. However, the Accountant General Department in the Ministry of Finance does not centralize all the information regarding the extent of exposure of the state budget regarding index-linked engagements. For example, the Infrastructures and Projects Division in the Accountant General Department does not monitor the state budget's exposure to the various linkages of contracts executed under the PPP⁵ method, and the Central Procurement Administration does not monitor the exposure of central procurement tenders regarding linkages.

Linkage of Support Clauses in the State Budget – it was found that budgeting of the support clauses in the state budget, as part of which government ministries support the activity of thousands of public institutions (as defined in section 3a of the Budget Foundations Law – a body that is not a state institution operating for purposes of education, culture, religion, science, art, welfare, health, sports or a similar purpose) does not include a linkage mechanism. Although state support for public institutions is voluntary, the absence of a linkage mechanism in an inflationary environment may lead to erosion of the financial support transferred to public institutions and, as a result, potentially impact their functioning and ability to fulfill their purpose.

The Fiscal Policy Measures Taken in an International Comparison – the fiscal policy measures taken in the surveyed countries (France, Italy, Great Britain, Spain, and Germany) are divided into three: (a) measures to reduce the prices of specific products or services; (b) measures to increase the income of vulnerable populations; (c) measures to increasing state revenues to fund the measures above. It was raised that while in Israel only one step was taken to reduce energy and fuel costs, in the rest of the surveyed countries, three types of measures were taken as detailed above. The main measures published by the Ministry of Finance in January 2023, which focused on reducing energy and fuel costs, were not accompanied by prior consultation with the Chief Economist Department and the Bank of Israel⁶.

The Interest Gap in the Banking System Between Interest on Credit and Interest on Deposits – from the banking system's standpoint, the increase in interest and inflation benefits the banks in the short term since they generate increased interest income. However, it could negatively impact the future due to concerns about a decline in credit quality, reducing borrowers' ability to continue meeting their loan repayments. It was found that in 2021–2022, there was a significant increase in the interest gap (3.20% in December 2021 and 3.36% in September 2022) compared to 2019–2020,

5 Infrastructure projects carried out by the government in collaboration with the private sector.

6 In this context, it should be noted that the energy crisis is more acute in the surveyed countries compared to Israel, and that energy prices in these countries, like other European countries, have risen much more sharply compared to the increase in energy prices in Israel.



with a decrease in the interest gap (2.91% in December 2019 and 2.84% in 2020). The increase in the interest gap in the first half of 2022 was due to both inflation and the increase in the Bank of Israel interest rate.

👉 The Transmission Between the Bank of Israel Interest Rate and the Interest that Banks Pay on the Public's Limited-Time Deposits – “Transmission” refers to the Bank of Israel interest rate increase transmitted into the interest paid by the banks on the public's limited-time deposits. It was found that, unlike the rise in the Bank of Israel interest rate, which the banks fully transferred to the banking credit given to the public, the increase in the interest rate paid by the banks on public deposits⁷ was partial and was only about 60%, as of August 2022. This partial transmission also contributed to the banks' profits significantly. It should be noted that the transmission rate for new limited-time deposits of up to three months increased considerably during 2022, from about 25% in April 2022 to about 50% in December 2022. Therefore, the Bank of Israel's interest rate increased from 0.35% to 3.25%; however, the interest paid to the public for its bank deposits increased only from 0.06% to 1.55%.

👉 Bank Assets – Comparison Between Fair Value and Presentation of Value in Financial Statements – investments in bonds made by the bank classified as redemption bonds are presented in the banks' books at a discounted cost and not at market value. It was found that the uncredited losses from adjustments to fair value in Bank A for held-to-maturity bonds are about NIS 1,177 million and about NIS 669 million in Bank B. Therefore, the potential loss not yet recorded in each bank concerning those held-to-maturity bonds is about 1%–2% of the balance of equity of the two banks above.



Increasing the Issuance of Zero-Coupon Bonds – the scope of zero-coupon bond issuance, which serves as a kind of substitute for the public's deposits with the banks, has increased considerably from NIS 45 billion in the third quarter of 2022 to NIS 109 billion in the last quarter of 2022 (an increase of about 142%).

⁷ For different repayment periods.

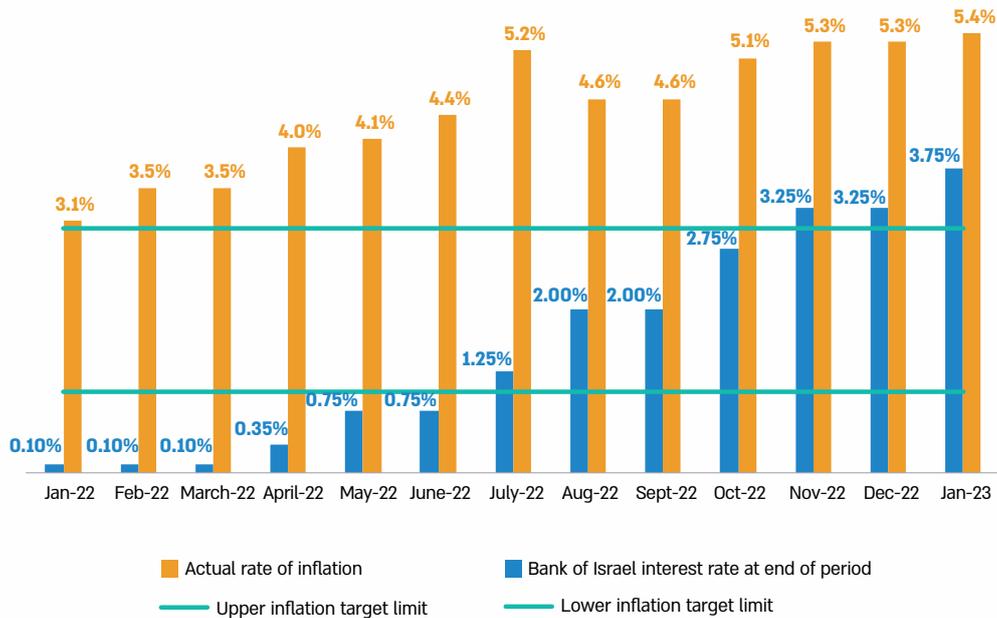


Key Recommendations

-  It is recommended that the Bank of Israel complete its reassessment of the inflation target with a long-term view, considering the changes in the economic environment in Israel and worldwide, particularly in light of the inflation development after the Covid-19 crisis. If necessary, the Bank of Israel should formulate recommendations to the government.
-  It is recommended that the Ministry of Finance prepare economic plans for the government in consultation with the relevant professional bodies, including various departments in the Ministry of Finance and the Bank of Israel. This is while considering the recommendations from relevant international entities such as the OECD.
-  It is recommended that the budget department consider complementary and targeted fiscal measures to assist companies and households severely affected by the rise in inflation. This should be done alongside measures for fiscal tightening to prevent inflationary pressures.
-  It is recommended that the Budget Department establish a systematic process to determine the transition coefficients for purchases and reserves for price increases. Thus, even with a significant price increase, the budget will allow the government to realize its goals and priorities by allocating the available resources.
-  It is recommended that the Accountant General map all government engagements and participations while following up on the scope of active contracts linked to the price index, the contracts' method of indexation, and the flow of expected payment growth following a sharp price index increase. Furthermore, it is recommended that the Accountant General formulate a coherent policy for responding to the various types of contracts and risk management, following the budgetary exposure of contracts linked to different indices.
-  The supervisor of banks should increase the transmission between the increase in the Bank of Israel interest rate and the interest paid on public deposits, thus reducing the interest rate gap.



The Government's Inflation Target Range, the Bank of Israel Interest Rate, and the Actual Inflation Rate in 2022

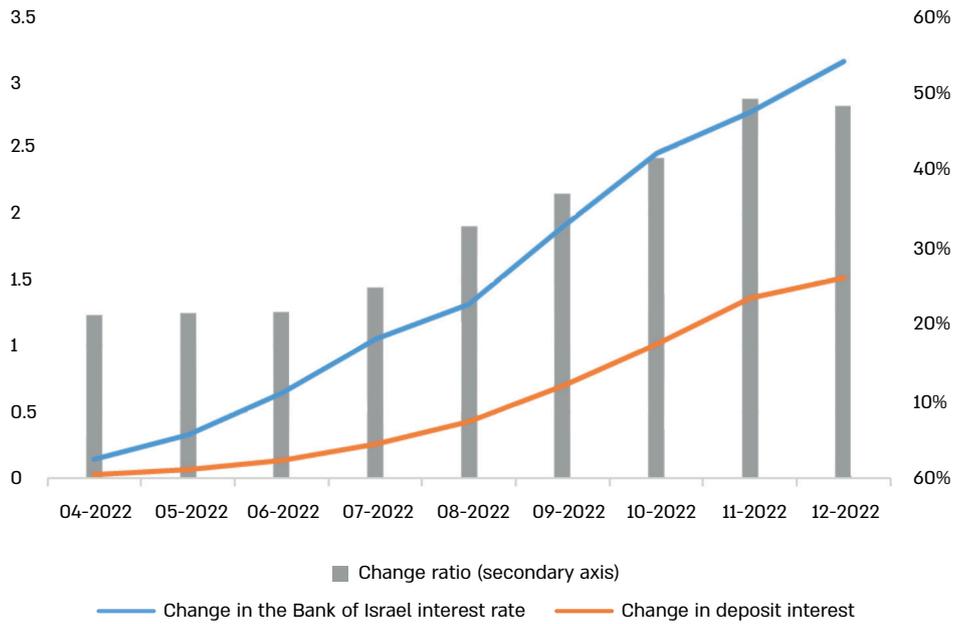


According to data from the Bank of Israel and the CBS, processed by the State Comptroller's Office.

* The inflation rate is calculated at the end of each period based on the change in the Consumer Price Index in the last 12 months.



The Cumulative Monthly Change in Interest on New Deposits for a Limited Time of up to Three Months, in the Bank of Israel Interest Rate, and the Ratio Between them (the transmission), April 2022 – December 2022



Source: Bank of Israel, **Analysis from the Bank of Israel 2022 Report**, Transmission from the Monetary Policy to Deposit Interest in Israel, March 2023, pp. 2–3.

* Average interest rate of the Bank of Israel per month, and average deposit interest for new deposits for a limited time of up to three months, non-indexed fixed interest, overall banking system, households without private banking.



Summary

High inflation, accompanied by uncertainty and high unusual price volatility, adversely affects economic activity and growth. 2022 was characterized by an inflationary environment of 5.3%, higher than in previous years. This is part of a global trend resulting in a significant deviation from the upper limit of the inflation target range set by the government (3%). It is essential that the various bodies in Israel prepare to contend with rising inflation. The audit found that the Bank of Israel took various monetary measures, including raising the interest rate and issuing zero-coupon bonds, while the government took some fiscal measures. It was also found that there was an increase in the interest rate gap in the banking system in the first half of 2022, stemming from both inflation and the increase in the Bank of Israel interest rate. As opposed to the rise in the Bank of Israel interest rate, which was fully transferred to the bank credit offered to the public, the increase in the interest rate on public bank deposits was only partial and stood at about 60% as of August 2022.

It is recommended that the Ministry of Finance prepare for a changing inflation environment while taking targeted measures to reduce the possibility of an inflationary spiral on the one hand and support populations worthy of promotion affected by the rise in inflation on the other hand. The bank supervisor should ensure the banking system's stability on the one hand and, on the other hand, prevent the banks from earning excessive profits due to increased interest rates at the expense of savers.



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Ministry of Economy

Price Control in the Food Industry



Price Control in the Food Industry

Background

The level of prices in Israel (in purchasing power) is 27% high compared to the average in the countries of the Organization for Economic Cooperation and Development (OECD); the price gap in the food industry is even higher, 37% (compared to OECD countries) and 51% compared to European Union countries¹.

From surveys conducted by the Chief Economist Division at the Ministry of Finance in 2015–2022², it was found that there is abnormal profit among food and pharmaceuticals importers in Israel, especially among the ten largest importers. In 2021, the State Comptroller's Office found that market concentration in certain product groups in the food industry is high³. All these combined indicate that the prices of many food products in Israel, including essential food products, are high compared to other countries in the world and that the price gap is due, at least in part, to abnormal profit margins due to insufficient competition (for example, among the largest importers of food and toiletries in Israel), and not only due to unique conditions of the Israeli economy such as its size and geographical location.

The desired policy for contending with the lack of competition – one of the results of which could be abnormal profit and excess profits – is to promote structural solutions that increase competition in the long term. However, the options are limited in specific markets where structural changes cannot be promoted or in the time required for them to mature. One option is to activate price control tools.

Price controls on products and services in Israel prevent exaggerated raising of prices and excess profit. These are possible in non-competitive product markets. In Israel, controls are imposed under the Supervision of Prices of Commodities and Services Law 1996 in the following areas: energy, transportation, health, education, and food. As of 2023, the Ministries of Finance, Economy, and Agriculture jointly supervise the prices of 46 food products at different levels of supervision.

Orders of the relevant ministers impose price controls, and the levels of supervision and maximum prices (according to the level of supervision) are determined after consultation between the ministers and the pricing committee. The latter consists of representatives from the Ministry of Finance and representatives from the relevant ministry. The price committees

- 1 Explanatory Notes to the Economic Plan Bill (Legislative Amendments for Implementing the Economic Policy for Budget Years 2021 and 2022), 2021, Bill No. 1443.
- 2 Chief Economist Division in the Ministry of Finance, profitability of food and pharmaceuticals importers and the cost of living (February 2022).
- 3 State Comptroller, Report 71c (2021), "Handling of monopoly and market concentration in the food industry", p. 23.



in the food industry are the joint committees of the Ministries of Finance and Economy and the Ministries of Finance and Agriculture.

Key Figures

51%, 37% price level gap

of food products in Israel (in purchasing power) compared to EU countries and an average of OECD countries respectively

46 food products in Israel

subject to price control at different levels. Of which 20 products are supervised by the Ministry of Economy and Industry (of which 13 serve as an input for the food industry, among others) and 26 products are supervised by the Ministry of Agriculture

82% gap price in whole meal bread

in Israel (NIS 9.3) per 500 grams as opposed to its average price in the four countries (NIS 5.1) (USA, UK, New Zealand, and Spain). The price of whole meal (whole wheat) bread in Israel, in purchasing power parity, is the same as in the United States and is about 66% more expensive than in the other three countries (UK, New Zealand, and Spain), as of January 2021

8–9 years

the time in which the pricing committees in the food industry did not update base prices (determining the price level and input basket) for the bread and milk products under supervision (16 products, which constitute about 52% of the food products under "close" supervision)



253%

the average price gap between the prices of whole wheat flour bread (2.17 NIS per 100 grams) and the prices of supervised regular flour bread (0.84 NIS per 100 grams)

60% increase in the price of imported butter

since the removal of the "close" supervision (price-setting) at the end of 2021 until the end of 2022 (on average, an increase of about NIS 21.5 per kg)⁴. This is compared to a moderate increase in the price of local butter, which rose only by about 5.7%

8% only

the business rate examined by the Enforcement, Trade, and Measures Administration at the Ministry of Economy about the exaggerated raising of prices in the food industry in 2021 (1,200 out of 15,000)

only 2.5 NIS million ransom fines were imposed

imposed by the Ransom Committee in 333 cases of violation of the maximum prices of food products subject to "close" supervision instead of criminal proceedings in 2018–2021; about NIS 7,600 per average price control case in these years, about 0.8%–2.5% of a small food retailer's monthly revenue

⁴ According to a survey published by the Ministry of Agriculture in February 2023, a change in the average price (and not a change in prices compared to a fixed basket of products); thus, changes in the average consumer price include both price changes and changes in the products' quantities and composition.



Audit Actions

 From August 2022 to February 2023, the State Comptroller's Office examined the work of the Joint Pricing Committee of the Ministry of Finance and the Ministry of Economy and Industry, and of the Ministry of Finance and the Ministry of Agriculture and Rural Development; the work of the price inspectors in the Ministries of Economy and Agriculture, and the enforcement and supervision of maximum prices set under the Supervision of Prices of Commodities and Services Law 1996 in the Ministry of Economy and the Consumer Protection and Fair Trade Authority. Among other things, the following issues were examined: The price control policy in the food industry, the effectiveness of price controls, the pricing committee's considerations in imposing, removing, or changing the level of supervision, and the effectiveness of enforcement and tracking of control decisions and orders. Completion examinations were conducted at the Competition Authority, the Ministry of Health, and the Central Bureau of Statistics. Meetings were held with the Food Manufacturers Association in the Manufacturers Association, with manufacturers and marketers whose products are subject to price controls, and with an academic expert in law and economics.

Key Findings



-  **Monitoring the Profitability and Costs of the Supervised Products** – the Ministry of Economy inspector did not orderly monitor the supervised activities (the bread bakeries, the starch and glucose manufacturer, and the salt manufacturer, for example) according to the Price Committee's procedures, he neither requested nor received cost and profitability reports, as defined in his work procedures for all the supervised products in 2018–2021. Moreover, as of 2023, the latest report on the profitability and costs of the supervised bread bakeries held by the Ministry of Economy inspector has been updated for 2017.
-  **Examining the Application of Price Controls on Food Products** – as of the audit completion (February 2023), it was found that various markets and segments in the food industry are still quite concentrated (the aggregate market share held by the ten most significant suppliers in the food industry was greater than 50% of the entire food and consumer products industry). In addition, the industry has significant price gaps compared to prices in developed countries and the European Union (37% and 51%, respectively). However, in 2018–2022, the pricing committees in the food industry did



not consider new products for supervision⁵, except for assessing the level of competition in the whole meal bread market. Consequently, they did not recommend imposing "tight" (setting a maximum price) or "soft" (monitoring without setting a maximum price) price controls on new food products. As of the audit completion, there are no products in the food industry that have been placed under "soft" control (according to Chapter 7), whereas 15 products previously subject to "tight" supervision were downgraded to "soft" supervision to examine profitability and monitoring. In addition, the Ministry of Agriculture is expected to conduct an examination in 2023 on the need to continue close supervision of dairy and egg products (12 out of the 26 products under the ministry's supervision).

-  **The Absence of Procedures and Criteria for the Application of Controls Under Section 6(b) of the Supervision Law** – the procedures of the pricing committees in the food industry do not include explicit instructions and criteria for the application of any of the conditions of Section 6(b) of the Supervision Law: An essential product that requires price supervision for the public benefit; product shortage due to extraordinary circumstances; to curb inflation or achieve the government's economic and social policy goals. It was also found that, despite the significance of certain food products as essential for everyone, there is an absence of a defined list of essential products and services across various industries of the economy, particularly in the food industry. This absence is notable in both legislation and decisions made by different government ministries and in the procedures outlined by price committees within the food industry.
-  **Gaps in the Execution of Market Surveys and Monitoring of Competition Levels and Prices of Products Under Supervision, Whether Subject to Supervision or Excluded from it** – it was found that in 2016–2022, the Ministry of Agriculture inspector conducted market surveys, as defined in the procedures of the price committees in the food industry, independently and not as part of the price committee, both on products under the supervision and those exempt from it. On the other hand, he (at that time) did not conduct periodic analyses during these years to identify the prices of products under supervision, analyze them, and monitor them (except for an independent examination of the prices of yeast outside the scope of the committee's work) or such that require supervision (except for a single examination in 2019 in collaboration with the Strategy Division in the Ministry of Economy).
-  **Publication of Reports by Monopolies in the Food Industry** – as of the audit end and over a decade after the publication of the Trachtenberg Committee recommendations and Government Resolution 3984 (from 2011), the Minister of Economy did appoint a team to examine the publication of reports by declared non-public monopoly companies. However, the team did not publish a memorandum of law, and no

5 This refers to the products first examined in the time frame between January 2018 and December 2022, rather than the products the committee continued to discuss following the examinations that began in 2016, such as the marketing margin on fruits and vegetables and the prices of baby food compounds, which ended in 2019 with a recommendation not to impose any supervision.



obligation to publish financial reports was imposed, neither on monopolistic companies throughout the economy nor on large food suppliers, as defined in the Food Law, which are not public.

-  **Conducting Tests to Update the Price Levels and Determine the Inputs for the Supervised Products (baseline checks)** – the pricing committees in the food industry failed to perform baseline checks (price levels and basket of inputs) according to the time specified in the supervision procedures and methodology. It was found that the tests regarding the supervised dairy and bread products had not been updated for 8–9 years, respectively, compared to two to five years as defined in the supervision methodology and work procedures of the committees in the food industry (supervised dairy and bread products constitute about 52% of products under "tight" supervision – 16 out of 31 products). In addition, as of the audit end, about five years have passed since a baseline check was conducted for the prices of the supervised dairy products (which was neither approved nor made public) and about six since the financial activity on which it is based; hence, it is highly doubtful whether this test still accurately reflects the costs of the dairies that produce the supervised products.

-  **Time Intervals for Regular Updates to the Prices of the Supervised Products (linking)** – it was found that a regular update of the prices of dairy products and edible eggs in 2021–2022 was carried out for extended periods (between 153 and 280 working days) from the date of contact made by the supervised or from the date of the first discussion in the Pricing Committee – Agriculture, until permission to increase by order from the Ministers of Finance and Agriculture. The Prices Committee – Agriculture submitted its recommendations within the legally allotted time frame or with a slight deviation (4 working days). The delay occurred in the phase between submitting the committee's recommendation to the ministers and signing the update orders by the ministers. The time from the committee's recommendation to the approval of the increase by order from the Ministers of Finance and Agriculture is 2.4–5.2-fold longer than the time allotted to the price committee to formulate its recommendation to the ministers (45 working days). It was also found that a regular update without the need for ministerial order signing is performed within the time specified by the law and in a short time (30 working days on average) to a considerable extent (the time is shortened by 86%) compared to a regular update that requires the ministers to sign an order (232 working days on average).

-  **The Application of Controls on the Price of Whole Meal Bread** – despite the Ministry of Health emphasizing in 2014 the need to consume whole meal bread (rather than regular bread) to reduce morbidity and improve health, the Prices Committee – Economy recommended in 2021 not to impose any control on the prices of whole meal bread. This decision was made without consulting with the Competition Authority and without an external consultant regarding the level of competition and concentration in the whole meal bread market. As of the audit end, there is no supervision of the price of



whole meal bread, and it is, on average, 2.58-fold the price of controlled regular bread (NIS 0.84 compared to NIS 2.17 per 100 grams, without VAT).

-  **The Supervision of Regular Bread Prices (controlled bread)** – the Prices Committee – Economy did not assess the level of competition in the controlled bread market for over 20 years from the enactment of the Supervision Law in 1996 until 2019. It was also found that as part of the regular update check of supervised bread prices in 2022, the Price Committee found it necessary to reduce the price of white bread by about 0.7%. However, reducing the price of a product under supervision, according to Chapter 6, is not within its authority, and it is entitled to recommend to the ministers that the product be supervised, according to Chapter 5, for a short time. The committee did not recommend tightening the level of supervision to reduce the price, among other things, since there is an ongoing trend of decline in the consumption of supervised white bread among the general population (the scope of production of sliced and packaged white bread out of the production of all supervised breads decreased from 0.8% in 2015 to 0.4% in 2017).
-  **The Effect of Removing Butter Prices from "Tight" Supervision** – according to the Ministry of Agriculture survey, the average price of imported butter has risen by about 60% since being removed from "tight" supervision in November 2021 until December 2022. The State Comptroller's Office found that in the United Kingdom, the average consumer price of butter in a 250-gram pack increased by about 29% from June 2019 to the end of 2022 (about 31% in 2022 alone). In the United States, the average consumer price of butter in a pack weighing about 450 grams increased by about 23% from June 2019 to the end of 2022 (about 38% in 2022 alone). At the same time, it should be noted that from June 2022 to February 2023, there has been a continuous decline in the wholesale price of butter in Western Europe (including the UK), with the price decreasing by about 16%.
-  **Audits and Enforcement of Controlled Prices** – there was a decline in the number of enforcement cases opened in 2021 (127) compared to those opened in 2018–2019 (1,574). The number of price violation cases decreased from an average of 118 per year in 2018–2019 to 32 cases in 2021 (a decrease of about 73%). In 2018–2021, only 27% of the audit cases in which violations of the control prices were found and then transferred from the Administration of Enforcement, Trade, and Measurement in the Ministry of Economy to the Claims Department in the Ministry of Economy matured into punitive measures (609 cases, of which 68 cases ended with a warning, 208 filed indictments, and 333 price violation cases). About 90% of the investigation files that did not lead to punitive measures, which the administration transferred to the Claims Department in 2018–2019, were reviewed by the Claims Department and closed due to lack of guilt. The internal audit conducted by the Ministry of Economy on the administration's work in 2021 found that in 2019, about 78% of the investigation files were transferred to the Claims Department, and significant investigation completions were required. These data may indicate a lack of effectiveness in enforcement.



 **Deterrence Through Penalties for Exaggerated Raising of Prices** – the median and common ransom fine in the sample (NIS 3,900) and the average ransom for 2018–2021 (NIS 7,600) are low, both compared the maximum fine allowed by the Criminal Procedure Law (13%–26%, respectively) and to the proceeds of those dealing in the industry (0.4%–2.5%). The low ransom compared the ultimate fine set in the penal laws and criminal procedure (NIS 226,000 and 29,200, respectively) and to the proceeds of small businesses in the food industry (NIS 304,000–954,000) may not deter those involved in the industry from breaking the law and causing harm to consumers.



Announcement of a Monopoly and Enforcement of the "Excessive Price Grounds" in the Competition Law – in 2023, the Israeli Competition Authority declared a monopoly in the food industry (a variety of tea products in the retail sector) and enforced the excessive price grounds by imposing a financial sanction of NIS 8 million under the Competition Law, for the first time since 1996 and since the statement of opinion in this matter from 2014, on a company operating outside the food industry. This enforcement may contribute to curbing the power and profitability of monopolists in all industries, including the food industry.

Key Recommendations

-  It is recommended that the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Economy collaborate with the Competition Authority, utilizing all their tools to address the cost of living through structural solutions such as expanding imports and, if necessary, consider the incorporation of price supervision as an interim solution until these structural solutions are expressed in increased competition (the number of players in the food sector).
-  It is recommended that the Ministry of Finance, the Ministry of Justice, and the Competition Authority, together with the Ministry of Economy (tasked in the government's decision from 2011 with examining the need to publish financial reports of non-public monopolistic companies), consider publishing the financial reports of significant food suppliers with substantial financial activity in the food industry, and accordingly promote regulation.
-  To determine the level of supervision of food products, it is recommended that the pricing committees in the food industry consult with the competition authority, especially in assessing the level of competition in food product markets that are important in general and to public health in particular, such as whole meal bread.
-  It is also recommended that the Pricing Committee – Agriculture collaborate with the Competition Authority to examine if there is abnormal profit in butter imports and the

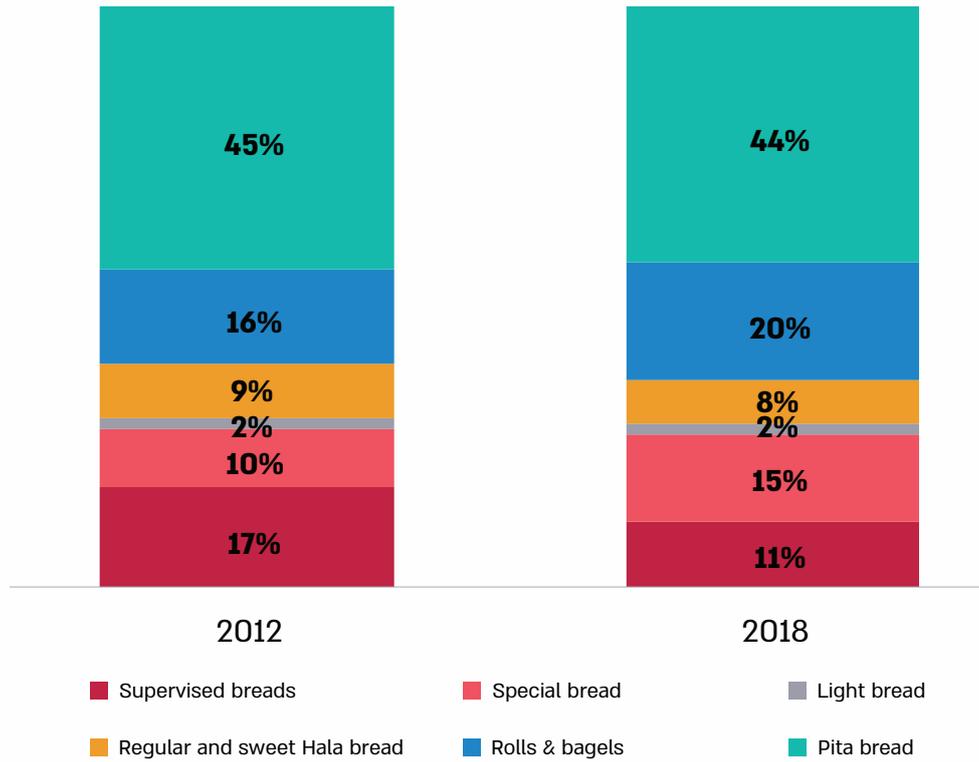


source of that profit, if it exists, in the marketing/import segment (sale to retailers) or the retail segment (sale to final consumers), and accordingly tighten supervision.

-  The Ministry of Economy inspector should regularly monitor the activities of the supervised entities in the various products and demand financial reports on costs and profitability, according to the procedures of the pricing committees in the food industry, as is done by the inspector in the Ministry of Agriculture.
-  It is recommended that the pricing committees in the food industry periodically consider including new food products under "soft" price control (according to Chapter 7) for certain products that may require supervision due to the grounds specified in the Supervision Law. This should be based on considerations such as the absence of competition, overall market concentration, and the lack of competition in essential products.
-  It is recommended that the Ministry of Economy consider to increase the effectiveness of supervision and deterrence, including the initiation of legislative amendments to the Supervision Law and adding administrative enforcement tools under Government Decision 1898 of 2014, as previously done in the Competition Law and Consumer Protection Law. It is also recommended that the ransom committee examine the effectiveness of the ransom amounts imposed by it.



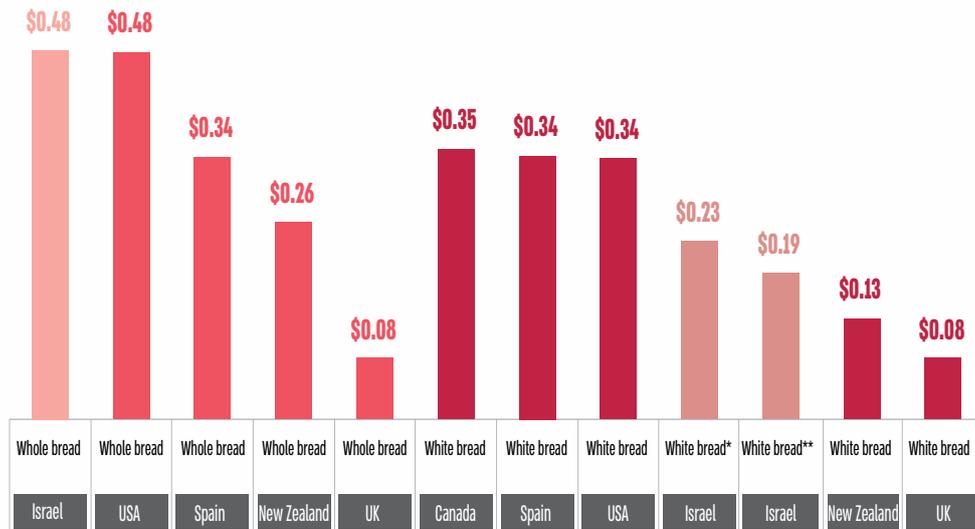
The Relative Expenditure on Bread of Households in the Bottom (lowest) Income Quintile, 2012 and 2018



According to the Pricing Committee – Economy decision on the matter of baseline checks for the supervised bread prices, processed by the State Comptroller's Office.



Prices of Whole Meal Breads and Supervised Breads in Israel and in Several Countries in the World, Without Indirect Taxes, Adjusted to 100 Gram and in Purchasing Power Parity, January 2021



According to pricing committee data and international data as specified in Appendix B, processed by the State Comptroller's Office.

* Packaged and sliced

** All supervised breads.



Summary

Food is a vital necessity and has a decisive impact on an individual's well-being and health, as well as government expenditure on welfare and health services. The average Israeli household's expenditure on food, including fruits and vegetables (2,818 NIS out of the total expenditure on consumption – 15,990 NIS), is the third largest expenditure in the goods basket of an average household (about 18%). Some food products under supervision are necessities consumed by populations entitled to promotion in society, and it should be ensured that the retailers do not exaggeratedly raise their prices.

The main purpose of the Supervision of Prices Law, in general, and in the food industry, in particular, is to prevent the exaggerated raising of prices and harm to consumer welfare, primarily due to the lack of competition, while maintaining fair returns for the supervised entities, especially industrialists and farmers in Israel's food industry. After setting the maximum price of the products, the Enforcement, Trade, and Measures Administration at the Ministry of Economy enforces their existence in the markets (price to consumer).

Examination of the pricing committees' work and price inspectors in the food industry indicated two main trends: The reduction of the "tight" supervision (according to chapters 5–6) on food products that have been supervised for years. And the failure to consider the imposition of price controls on new products through "soft" supervision for monitoring and control purposes (chapter 7). These trends have occurred despite high market concentration in the food industry in Israel and abnormal profit in specific segments of the food industry, particularly among the top ten importers in the food and pharmaceuticals industry. Also noted are significant price gaps in Israel compared to the world in food products (37% compared to OECD countries and 51% compared to European Union countries), including food products such as whole meal bread.

An examination of the enforcement of maximum prices among the retailers found that in 2018–2021, most of the enforcement cases (61%–93%) transferred by the administration to the claims department were closed due to lack of fault. It was also found that the average ransom imposed in 2018–2021 (7,600 NIS) is low compared to the ultimate fine set in the penal code and criminal laws and compared to proceeds of small businesses in the food industry, and that it may not sufficiently deter industry participants from breaking the law and harming consumers.

The Israeli economy is still centralized and uncompetitive in many product markets, especially in the food industry. It is recommended that the pricing committees and inspectors in the food industry increase monitoring of various markets (in their ongoing work in the preliminary phase to impose "soft" or "tight" supervision), considering changes in consumer preferences in recent years. In product markets with a lack of competition and an abnormal profit, the focus should be on essential products with positive benefits for consumers and society, such as health benefits and nutritional security (e.g., whole meal bread).



State Comptroller of Israel | Aspects of Dealing with the Cost
of Living | January 2024

Bank of Israel

Credit Database



Credit Database

Background

The Bank of Israel's credit database is a central database that began operating in April 2019. The Bank of Israel established the database under the Credit Data Law, 2016 (the Law) as one of the steps to advance competition in Israel's credit market. The database collects data about the credit liabilities of individuals who are citizens and residents of the State of Israel and how liabilities are paid. The above data sources are mainly credit entities, such as bank corporations, credit card companies, and off-bank credit providers, as well as various public authorities: The Insolvency and Financial Rehabilitation Commissioner, Execution Offices, and the Restricted Accounts Unit at the Bank of Israel. In addition, there are two credit bureaus currently operating in Israel. A credit bureau is a company that has received a license to operate credit data services and is authorized to provide various services, such as credit reports, credit ratings, and consulting services.

The bank corporations' control over the household credit derives, among other things, from the considerable amount of information they have on their clients. This information allows the bank corporations to accurately analyze a client's risk and whether or not it is advisable to grant credit to this client. Hence, to allow additional players to join the credit market and minimize the advantage of the large bank corporations over them, it was decided to establish a database that would be available to all credit providers in the market. Such a database might improve credit pricing and promote other credit providers' ability to compete with bank corporations. It should be noted that upon the completion of the report, the interest rate in Israel and around the world increased, and therefore, the importance and impact of the database increased as well.



Key Figures

NIS

770 billion

the total household debt to the financial sector as of the end of 2022 (an increase of about 49% compared to 2017)

97%

of household debt for housing in 2022 were to bank corporations and the rest were to institutional bodies

22%

the credit recipients' rate in 2022 who took a consumer loan from a credit provider who does not manage their current bank account

**only
13–15
basis
points**

the extent of reduction in "captive client premium"¹ following the establishment of the database

12,352,776

number of queries from credit bureaus to the credit database to obtain information in 2022 (an increase of about 210% compared to 2019)

36%

rate of public's queries to the credit database on the free channels (about 387,000 out of about 1.09 million queries). Other queries (about 700,000) were put on paid channels

**NIS
163
million**

the extent of deviation from the direct cost of the establishment of the credit database by the Bank of Israel (about NIS 255 million compared to about NIS 92 million, the initial cost estimate)

**NIS
30
million**

the extent of deviation from the first year's ongoing operating costs of the credit database (about NIS 60 million compared to about NIS 30 million, the initial cost estimate)

1 The bank corporation where the client manages his current account knows that the client has difficulty switching to another bank corporation and can therefore charge an excess premium from that client.



Audit Actions



From July 2022 to March 2023, the State Comptroller office examined various aspects of the establishment and operation of the credit database, including implementation of the provisions of the law, fulfillment of the purposes of the law, and the various interfaces between the credit bureaus and the information sources. The costs of the database's establishment and operation, its administrative structure, and the handling of public complaints were also examined. The examination focused on the unit responsible for credit data sharing at the Bank of Israel.

Key Findings



Increasing Competition in the Retail Credit Market – a credit database is necessary for the development of competition in the credit market, and its activity is essential for the existence and development of off-bank credit providers, and for integrating technological and financial entities in credit activities. Despite the growing use of the database by both the public and the credit providers, the Bank of Israel inspections showed that there had not been substantial changes in the mobility of the banking basket (a change of about 2% in the rate of borrowers who opened a current account at a new bank following the establishment of the database, compared to the rate of such borrowers in the first quarter of 2018) or in the decomposability of the banking basket² (The rate of credit recipients who took a consumer loan from a credit provider who do not manage their current account (minus the off-bank credit providers) was about 17% and remained essentially unchanged until the end of December 2020). According to the Bank of Israel, the data indicate a causal relationship between the database and improvement in competition. Still, they do not quantify the full effect of the database on competition. The very possibility of mobility created a change in competition by reducing the captive client premium; however, even this change did not significantly affect the market as a whole since after the establishment of the database, the captive client premium was reduced by only about 10 to 13 basis points (by about 13 to 15 basis points according to research update from March 2023).

2 Decomposability of the financial basket is the consumption of financial products from different suppliers which means that even if the client maintains a current account in one bank, he consumes additional financial services from another financial institution, even though these services are included in the basket of financial services of the bank where he maintains the current account.



Minimizing Discrimination in Credit Provision and Economic Gaps – it was found that the Bank of Israel indicated in the Governor's annual report to the Knesset's Economic Committee for the year 2020 that the database may have benefited medium and medium-low-rated local authorities but did not significantly benefit the residents of the low-rated local authorities (in a research update from March 2023, the Bank of Israel indicated that the lowest-ranked local authorities paid the highest excess premium and that following the establishment of the database, the captive client premium was significantly reduced even in the lowest-ranked local authorities, but remained the highest excess premium among the rating groups). According to the Bank of Israel, as of the third quarter of 2021, the rate of individuals who took out a consumer loan in non-Jewish local authorities was high compared to other local authorities (about 52% and 57% in low and medium-ranked non-Jewish local authorities, respectively, compared to about 41% and 39% in ultra-orthodox Jewish local authorities, respectively), a figure that supports the hypothesis that in the Arab society, consumer loans, are widely used to finance the purchase of an apartment. It was further found that out of all population groups, the ultra-orthodox population demonstrates the highest rate of housing loan takers (about 43%). This raises doubts about the database's success in meeting the goal of minimizing discrimination in credit provision amongst different populations.

Indication on the Question of Whether to Give Credit to a Client that a Credit Bureau Transfers to a Credit Provider to Enter into a Credit Transaction – the credit data regulations specified the circumstances under which it must be clearly stated that the client fails to make payments on time for credit indication. The regulations specify, among other things, the following circumstances: there are data on a request to initiate proceedings submitted by the debtor; An order was issued to initiate proceedings and a request for debt settlement was submitted; An execution office case where the amount of the debt at the time of opening exceeds NIS 5,000; Data from the Restricted Accounts Unit of the Bank of Israel according to which the account holder is restricted or significantly restricted, and the like. The regulations establish a closed list of circumstances that indicate that the client fails to repay his debts and do not allow a broader answer to whether or not to grant credit to the client, but rather a "yes" or "no" answer. Therefore, all those clients of whom there is derogatory information may be harmed by this, even though there may be positive information about them that might be of great value to the credit provider, for example, clients who received derogatory indication due to one of the circumstances specified in the regulations, will continue to receive a derogatory indication for three years even though they meet their other obligations. Furthermore, the Credit Data Law sought to avoid a "black" list of clients who will not receive credit but rather to open the market to a broader range of cases in which clients may receive credit. A situation where the answer to a question is "yes" or "no" generates a "black" list of recipients of negative answers, and that might harm the purpose of the law.



Transfer of Information to the Credit Database by Public Bodies – it was found that the Insolvency and Financial Rehabilitation Commissioner occasionally refuses to accept the request of the Credit Data Sharing Commissioner to correct data transferred to the database. For example, Data correction is required in cases where the court issues an order to end proceedings. The client should contact and present the order (if he is aware of it) to the Insolvency and Financial Rehabilitation Commissioner, and the Commissioner will then close the case and report to the credit database. Therefore, the Commissioner's reporting to the credit database is carried out from the date the Commissioner receives the order from the client and not from the date on which the court issues the order, and as a result, derogatory information on clients remains in the database for a longer time. The time gap might extend further in case clients are unaware of the need to submit the order to the Insolvency and Financial Rehabilitation Commissioner so that the Commissioner can close the case and update the credit database.

Use of the Credit Database by the Institutional Bodies – it was found that although the volume of non-housing credit granted by institutional bodies to households in 2022 was about NIS 33 billion (about 14% of the volume of credit in this sector), the volume of the institutional bodies' requests for credit reports that year was the lowest among the other bodies (bank corporations, credit card companies and regulated bodies) and amounted to about 15,000 requests (about 0.31% of the total number of requests for credit reports).

Differences in Rating Amongst Credit Bureaus – credit rating is one of the main services credit bureaus provide (estimating the likelihood that clients will repay their liabilities). This service, provided to credit providers and private clients, is based on a statistical model of each of the bureaus. It turned out that the rating scale of each of the bureaus is different, and the difference may mislead the public. For example, a client's credit rating of 700 will be considered a "reasonable" rating in credit bureau A compared to a "good" rating in credit bureau B.

Bureau A		Bureau B	
Defining the Scale	Scale Range	Defining the Scale	Scale Range
excellent	851–1000	very good/excellent	720+
good	731–850	good	660–719
reasonable	561–730	reasonable	640–659
low	321–560	low	580–639
very low	0–320	very low	300–579



The Credit Bureaus' Business Model – during the discussions of the Supreme Steering Committee³ in 2016, it was determined that according to the data analysis, the revenue potential from the core activity of the bureaus is meager and reaches about NIS 10 million. The conclusions that were raised from the analysis are: (a) the Bank of Israel is required to subsidize the system; (b) at a certain point in time, the Ministry of Finance and the Bank of Israel will be required to consider allowing the bureaus to engage in additional areas, which requires the approval of the Knesset's Economic Committee. In 2017, the Supreme Steering Committee confirmed that it is necessary to expand the activity base of the bureaus and allow them to offer the following services: financial information pooling services, budget management services, economic consulting, and formation of economic models. In addition, it was proposed to expand the list of information sources to all supervised credit providers, including the entities supervised by the Capital Market, Insurance, and Savings Authority, under the Supervision of Financial Services Law. However, it was found that the credit bureaus cannot use the credit data in the context of the additional services they were authorized to provide by the Governor and that the additional services that the credit bureaus are authorized to provide to credit providers are minimal since they are only allowed to provide consultation based on the credit data and not on any other kind of data. It was further found that officials at the bureaus are concerned with the current business model's profitability and might give back their license, to provide credit services, to the Bank of Israel. Moreover, it was found that the Bank of Israel is not prepared for a scenario in which it would be required to find solutions for continuing the operation of the credit data sharing market, for direct queries from all credit providers, for developing a valid statistical model, etc.

Supervision by the Commissioner of the Credit Bureaus and Supervision of the Users of Credit Data – it was found that the Supervision and Control Unit at the Commissioner's office audits the bureaus by an external accounting firm and that supervisors from the Bank of Israel are not present when these audits take place, which does not comply with the provisions of the law. It was further found that the Supervision and Control Unit of the Commissioner of Credit Data Sharing performs on-site audits of 3 out of about 40 credit data users each year; therefore, credit data users may not be audited on-site for over a decade. The Bank of Israel noted that the Commissioner carries out supervision and control procedures beyond the on-site audits.

Examining the Purpose of Expanding Access to Credit – it was found that the staff of the Research Department at the Bank of Israel has limited ability to determine whether the purpose of the law regarding the expansion of access to credit is fulfilled since the database only contains data on approved credit applications but not on rejected ones.

3 An inter-ministerial steering committee headed by the Deputy Governor of the Bank of Israel and the Director General of the Ministry of Finance. The duties of the committee, among others, are to provide support in the process of establishing of the database and discuss the main professional issues related to the project.



Therefore, the Bank of Israel cannot examine its compliance with this purpose of the law.

Improving Credit Rating – it was found that even upon audit completion, some business entities in the credit market were providing clients with paid services even though these services were free of charge. These entities offered clients improvement in their credit rating. Still, in practice, they logged into the system with the clients' personally identifiable information, excluded the clients from the database, and immediately afterward re-included them. Performing such actions deletes clients' information from the system, and the clients might become credit excluded.

Establishment of a Fund for Credit Excluded Individuals – it was found that seven years after the law was approved in 2016, no fund for credit-excluded individuals has been established, despite the commitment of the Minister of Finance at the time, and although, as part of the establishment process, three tenders were published to select a credit provider who will offer loans under the protection of the state for a low rating. Two of the tenders were not successful, and the winner of the third one, which was successful, is expected to start operating the fund in September 2023. It was further found that the Ministry of Finance and the Bank of Israel do not have information about the scope of credit-excluded individuals.

The cost of Establishing and Operating the Database

- **The Cost of Establishing the Database** – the total cost of establishing the credit database was about NIS 287 million: about NIS 255 million – direct cost, and about NIS 32 million – indirect cost⁴. It was found that the direct cost exceeded both the initial estimates (an increase of approximately 177% compared to the initial estimate of about NIS 92 million, which did not include the indirect cost) and the project budget that was approved by the Bank of Israel (an increase of about 19% compared to a total of about NIS 214 million approved by the Administrative Council in May 2017 before the agreement with the supplier was signed).
- **Database Operating Costs vs. Database Effectiveness** – it was found that according to the estimate of the Budget Department, the benefits from a credit database are about NIS 100 million per year, and the running costs of the database in 2022 is almost NIS 100 million (about NIS 80 million for ongoing operations in addition to about NIS 17 million for changes and improvements, a total of about NIS 97 million). It should be noted that according to the Bank of Israel's assessment, the benefits from the database are more significant than the Budget Department estimates but cannot be quantified.

⁴ An indirect cost is a cost that does not directly apply to the Bank of Israel, but rather to other entities related to the database.



The Increasing Frequency of Generating Data Pooling Reports from the Credit Database – the data from the reports that are generated from the database show that the use of data from the credit database is increasing, from a volume of about 117,000 reports in 2019 (April to December), about 151,000 reports in 2020 and about 289,000 reports in 2021, to about 1.09 million reports in 2022 (an increase of about 619% in 2020–2022). The increase of about 276% in the number of reports produced in the years 2021 and 2022 might be due to the service provided by the credit bureau that allows clients to receive updates regarding changes in the credit rating on an ongoing basis based on a data pooling report. The increasing frequency of generating data pooling reports applies to credit providers who receive the data and segment them to come up with an offer to clients who can see the broad picture of their financial situation and the credit they use. However, the volume of public queries on the free channels constitutes about 36% of the total number of queries (about 387,000 queries out of about 1.09 million queries).

Key Recommendations

-  It is recommended that the Bank of Israel and the Ministry of Finance examine the reforms to increase competition in the credit market while considering the costs and benefits of promoting the reforms most efficiently and beneficially.
-  It is recommended that the Bank of Israel formulate a methodology for examining the realization of the purpose of expanding access to credit. It is recommended to obtain sample data on rejected credit applications as part of the examination if necessary.
-  It is recommended that the Bank of Israel and the Ministry of Justice examine ways to eradicate the phenomenon of business entities that offer clients to improve their credit rating but, in practice, log into the system with the clients' personally identifiable information, exclude them from the database and immediately re-include them. The Bank of Israel and the Ministry of Justice should formulate an arrangement that will balance between maintaining clients' right to submit a request for exclusion, and abuse of the right of exclusion, which undermines the purposes of the law. Hence, credit applicants will not be harmed by business entities that want to make a profit, particularly at the expense of citizens from low socio-economic backgrounds. In this framework, it is recommended to consider adding a field to the credit database that indicates that the client submitted a request for exclusion and, after a pre-defined time, was re-included in the database.
-  It is recommended that the Ministry of Finance establish the credit-excluded fund, announce it to the public, and examine the effectiveness of its activity after a while to



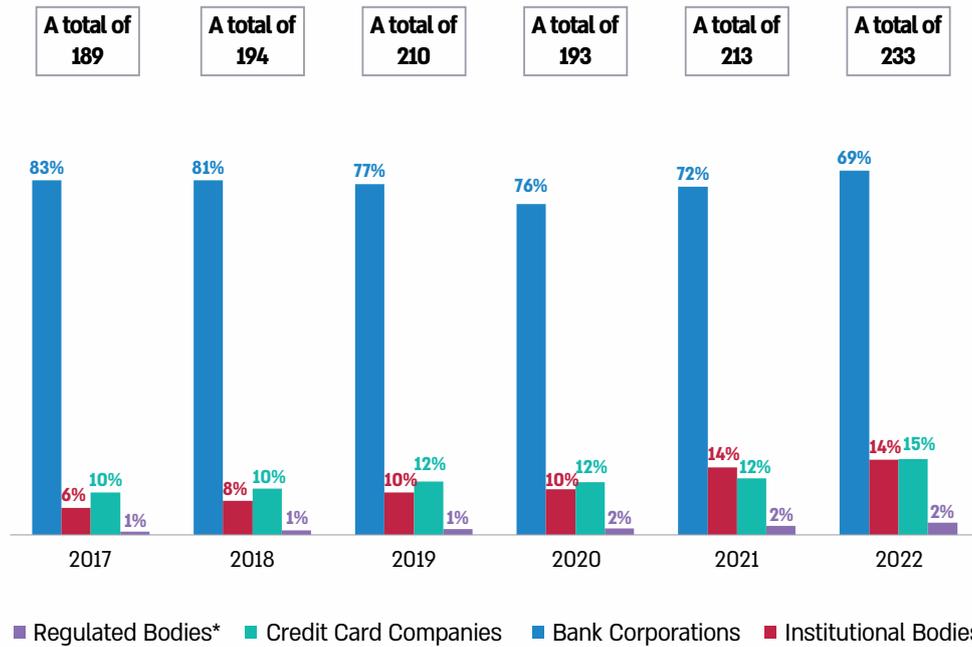
optimize its operation. It is further recommended that the Ministry of Finance consider additional channels to improve the financial situation of credit-excluded individuals.



It is recommended that the Bank of Israel draw lessons from the underestimation of the database cost, prepare in advance for the establishment of business and technological projects both in terms of their scope and their complexity, and periodically examine the available budgetary alternatives while considering the budget. It is further recommended that the Bank of Israel draw conclusions regarding the gap between the initial estimates of costs and actual costs and ensure the inclusion of indirect costs as part of the costs presented upon project approval.



Segmentation of Household Debt Balance (for purposes other than housing) to the Financial Sector, 2017–2022 (in percentages and billions of NIS)



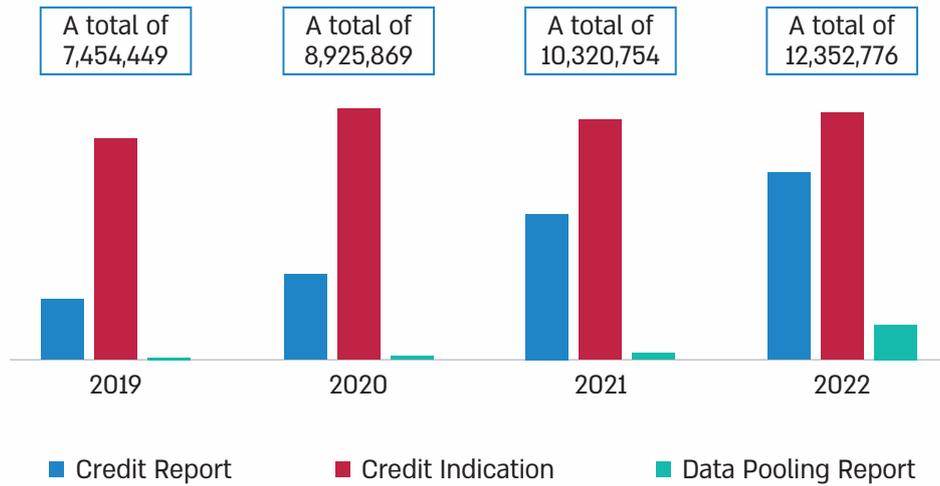
According to the Bank of Israel's Information and Statistics Department and the Committee for Examining Competition in the Credit Market report, it is processed by the Office of the State Comptroller.

* Regulated bodies⁵ are presented according to the report to the Committee for Examining Competition in the Credit Market; the change in 2022 compared to 2021 was measured according to the rate of change.

5 According to the Governor's report to the Knesset's Economic Committee on the implementation of the Credit Data Law in 2019 which was submitted in May 2020, regulated bodies are non-institutional bodies that are licensed to provide credit, to provide deposit and credit services or to operate a credit mediation system according to the Financial Services Supervision Law (Regulated Financial Services), 2016.



Informational Queries to the Database Made by Credit Bureaus, 2019–2022



According to the reports of the Bank of Israel's Governor to the Knesset's Economic Committee, it is processed by the Office of the State Comptroller.



Summary

The credit database, established by the Bank of Israel, which began operating in April 2019, is intended to improve transparency in the Israeli credit market, increase competition for credit clients who repay their debts, and provide credit institutions in the Israeli market with extensive, current and updated information on the history and credit habits of loan applicants while assessing their repayment capacity. The audit found that the direct cost of establishing the database was about NIS 255 million (a deviation of about 177% from the initial estimate) and that the indirect cost, which was not considered initially, is estimated at about NIS 32 million so the total cost of establishing the database is estimated at NIS 287 million. It was further found that the operating cost for 2022 was about NIS 97 million, while the Budgetary Department at the Ministry of Finance estimated that the benefit of a credit database would amount to about NIS 100 million per year.

Despite the cost of establishing and operating the database, it was not found that the purposes of the law were fully met. Moreover, it was found that the Bank of Israel could not examine the implementation of many of the purposes, such as expanding access to credit, reducing discrimination in the provision of credit, and minimizing economic gaps. As for the increased competition in the non-housing household credit market, in which the scope of debt balances at the end of 2022 was about NIS 233 billion, it was found that the database did not affect the mobility of clients between bank corporations and did not reduce credit costs to new clients. The Bank of Israel indicates that the interest rate gap between exclusive and non-exclusive borrowers narrowed following the establishment of the database, but this change was not substantial either. It was further found that the database did not contribute to increased competition in the household credit market (for housing), in which debt balances at the end of 2022 were about NIS 536 billion.

Upon audit completion, the interest rate in Israel and the world increased, so the database became even more critical and influential. The Bank of Israel, including all parties responsible under the Credit Data Law, such as the Credit Data Sharing Commissioner, should rectify the report's deficiencies and implement the recommendations to improve all Israeli citizens' access to credit. Moreover, the entities above should also expand the benefits derived from the database, increasing competition and decreasing the cost of credit in Israel.



State Comptroller of Israel | Aspects of Dealing with the Cost
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The Capital Market, Insurance, and
Savings Authority

The Capital Market Authority's Supervision of Institutional Entities Managing Long-Term Savings



The Capital Market Authority's Supervision of Institutional Entities Managing Long-Term Savings

Background

"Institutional entities that manage long-term savings" are companies that manage the public's medium-term and long-term savings by various tracks, such as pension funds, provident funds, life insurance policies, and study funds. Their activities are supervised by the Capital Market, Insurance, and Savings Authority, established in November 2016 as an independent authority. In 2010–2022, there was an average annual increase of about 8% in the scope of the assets managed by the institutional entities supervised by the Capital Market Authority, and in 2022, their value amounted to NIS 2.180 trillion. Given the significant scope of these assets, which are managed for the general public, the Authority's close supervision and control over the activity of the institutional entities is critical to protect the interests of policyholders and savors.



Key Figures

**NIS
2.180
trillion**

the scope of the public's savings managed by the institutional entities by the end of 2022 (about 130% of GDP)

**about
90%**

of the public's pension savings is held by 8 institutional entities

**NIS 358
billion**

total of alternative investments¹ of the institutional entities in 2021

12 years

after the Authority's work on the Regulation Codex² began, it was not completed

**only 4
financial
sanctions**

were imposed by the Authority over 7 years (2015–2022) for pensions and provident funds under Supervision of Financial Services Law (Provident Funds), 2005. The sanctions amounted to NIS 4.2 million

**only
35%,
13% and
20%**

the rates of the Authority's engagements in 2020–2022 (respectively) from the scope of the annual budget it defined for engagements to perform audits at the institutional entities

**NIS 0.36
million**

the budget for an employee in the Capital Market Authority, which is about half of the budget for an employee in the Israel Securities Authority (NIS 0.71 million) and about a third of the budget for a Bank of Israel employee (NIS 1.17 million)

**only 13
audits**

the Authority has conducted on cyber risks, of which only 3 were completed

- 1 Investments in non-tradeable assets outside the capital market, including real estate, infrastructures, commodities, private loans, technology companies and alternative funds (hedge funds, private investment funds, venture capital funds).
- 2 A regulations guide designated to facilitate familiarity with the Authority's instructions and to serve as an effective means for the Authority to enforce its instructions, to supervise the institutional bodies and to protect the owners of insurance policies and savings accounts.



Audit Actions

 From September 2022 to March 2023, the State Comptroller Office examined the Capital Market Authority's supervision of the institutional entities that manage the public's long-term savings, including provident funds, severance pay funds, study funds, pension funds, and insurance companies' funds³. The audit focused on the Authority's supervision of the institutional entities' management of the public's medium and long-term savings. The audit was carried out at the Capital Market Authority. Supplementary examinations were conducted at the Israel Securities Authority, the Competition Authority, and the Bank of Israel. In addition, meetings were held with selected institutional entities' representatives and questionnaires were sent to institutional entities – insurance companies, investment houses, and provident funds. By the audit end date, 35 of 55 institutional entities responded to the above questionnaire.

Key Findings



The Capital Market Authority's Resources, the Structure of Financial Supervision, and the Interactions Between the Authority and Financial Regulators

 **The Status of the Capital Market Authority** – the original budget allocated to the Capital Market Authority in 2022 was low compared to parallel regulators, even though the scope of assets supervised by it is the largest (about NIS 2.180 trillion) and is constantly growing. The considerable gap between the authorities' budgets originates from the differences in the number of employees each employ and the salary levels. As of 2022, the average salary at the Capital Market Authority was about NIS 16,800, the average salary at the Israel Securities Authority was about NIS 28,600, and the average salary at the Bank of Israel was about NIS 35,700.

 **The Capital Market Authority Budget** – in 2022, the execution of the Capital Market Authority's budget was NIS 54.75 million out of NIS 142.62 million (amended budget), which means that 38.39% of the amended budget was utilized. The total fees collected by the Capital Market Authority in 2022 was about NIS 20.5 million, compared to the Israel Securities Authority, which collected about NIS 189.78 million. The budget proposal documents for 2023 submitted by the Authority specify the need to increase its

³ With the exception of the old pension funds – provident pension funds that are not insurance funds that were first approved according to the provident funds regulations, prior to January 1st, 1995.



overall budget, among other things, by changing the fee model. However, as of the audit end date, the Authority has not yet adopted a new model for collecting fees from the various supervised entities.

HR Standardization – in 2022, the standard was 204.5 employees, while the actual staffing was 158 employees⁴, which means 77.3% staffing. The pay gaps between the Capital Market Authority and other financial regulators, such as the Bank of Israel and Israel Securities Authority, make it difficult for the Authority to recruit employees, particularly employees with relevant skills, and to fulfill its tasks. For example, the original budget for 2022 for an employee at the Capital Market Authority was NIS 0.4 million, about half of the budget for an employee at the Israel Securities Authority and about a third of the budget for a Bank of Israel employee.

The Interactions Between the Authority and the Financial Regulators and the Structure of Financial Supervision – the Committee⁵, which was established by a government decision in August 2021, to examine the structure of financial supervision, to improve the structure, and increase competition in the financial markets, did not complete its work and did not submit its recommendations to the Minister of Finance and the Governor of the Bank of Israel within 300 days from the date of its establishment.

Centralization and Competition Between Institutional Entities

Centralization and Competition Between the Institutional Entities – the long-term savings market in Israel is characterized by great dominance: 8 institutional entities hold about 90% of the public's savings, about NIS 2 trillion. The fact that the institutional entities have a considerable part of the companies in the Israeli market and that the entities' investment mixes are relatively identical raises concerns about the inefficient allocation of resources in the market and lateral risks. Moreover, there is a risk of simultaneous movement of financial assets and their simultaneous realization when exposed to shocks. I.e., in the event of financial instability, entities with similar holdings will act similarly, thereby deepening the consequences of the situation.

Mobilization of Public Funds Between the Institutional Entities – although there is a possibility of mobility between the funds, most requests for money transfers between different pension funds and different provident funds were made by members who were recruited by agents (50%–65% in pension funds and 57%–85% in provident funds);

4 It should be noted that there is a discrepancy between the Budgets Department's data and the Capital Market Authority's data regarding the actual staffing of positions.

5 A committee established by the Minister of Finance in collaboration with the Governor of the Bank of Israel. Committee members: Director General of the Ministry of Finance (Chairman of the Committee), the Deputy Governor of the Bank of Israel, the Chief of Staff to the Governor of the Bank of Israel, the head of the Budgets Department at the Ministry of Finance, the Deputy Attorney General, a representative of the National Economic Council and public representatives.



the agents are remunerated for recruiting new customers, and therefore this does not necessarily indicate a competition that is beneficial for the customers.

-  **Competition Among Different Institutional Entities in Investment Products for the Public's Idle Money** – despite their name, savings policies are not used as an insurance instrument but as a short and medium-term investment with no limit on the funds deposited each year. The tax benefits embodied in the provident fund for investment give it an advantage over the savings policy, but, its deposit ceiling puts it at a disadvantage vis-à-vis the policy in amounts beyond the first level of investment. Since only the insurance companies are allowed to market savings policies, the competition between them and the investment houses may be adversely affected. Furthermore, the average management fee in savings policies is 0.94%, while the average management fee in investment provident funds is 0.64% – a substantial difference of 0.3% percentage points; therefore, the lack of competition at the high investment level (above the deposit ceiling for funds) is reflected in the management fees.

The Capital Market Authority Supervising the Institutional Entities

-  **The Regulation Codex** – upon the audit end date, about 12 years after the Capital Market Authority had started working on the Regulation Codex, it was not completed, though it was intended to be completed by the end of 2013. Many chapters are still missing from the Codex, and it does not include all the Commissioner's instructions given over the years. The Authority continues to publish circulars separately from the Codex and does not publish amendments to the various chapters of the Codex as it has committed to. Thus, the institutional entities have to follow both the Codex provisions and the circulars issued separately from it.
-  **The Authority's Relations with the Institutional Entities** – about half (54%; 19 out of 35) of the institutional entities that answered the State Comptroller Office questionnaire (which are part of the group of insurance companies and investment houses) expressed moderate or lower satisfaction with the level of professionalism of the referents who handle their funds at the Capital Market Authority. About 40% of the institutional entities that responded to the questionnaire indicated that they had not received a response to the inquiries or requests they sent to the Authority in the last five years. Moreover, the Capital Market Authority does not have a service charter regulating the service provided to the institutional entities; thus, service levels, including the method of application, measurement of response time, and the response format, were not set. The authority has no preliminary decision procedure ("pre-ruling") except for accounting issues, and usually, according to the institutional entities, the Authority's response to their inquiries is given orally rather than in a written form.
-  **Imposing Financial Sanctions by the Authority on the Institutional Entities** – for 7 years (2015–2022) 4 sanctions were imposed on companies that manage the public's pension savings funds for pensions and provident funds violations under the



Supervision of Financial Services (Provident Funds) Law, 2005; about 13% of the total sanctions imposed in these years (the rest of the sanctions were imposed in the insurance sector, on financial service providers and agents). The total number of sanctions was NIS 4.2 million after a reduction of 60.8% (estimated at NIS 10.96 million), which was 7.7% of the total number of sanctions after the reduction. The low number of sanctions imposed on the institutional entities over the years impairs the Authority's ability to deter the supervised entities from violating the provisions of the law. It should be noted that the Authority has additional deterrence tools that can be used, including the Commissioner's authority to order the restitution of funds as part of investigating public complaints against institutional entities.

 **The Risk Management System** – the supervisory evaluation process, intended to serve, among other things, as a basis for the evaluation of risk management conducted at institutional entities, was implemented only by insurance companies and was discontinued in 2020 at the former Commissioner's request. No other process had been implemented from that point until the audit end date. Nor has a parallel evaluation process been formulated in institutional entities other than insurance companies, despite its great importance and the fact that it is included in the Authority's work plan for 2022. Moreover, the main part of the Authority's examination of the risk management system regulation was based on questionnaires that focused on implementing the Authority's positions as part of the RBS procedure. However, the Authority has not conducted individual audits of all the institutional entities' risk management systems since the publication of a comprehensive document in 2016, and has not examined whether its positions were implemented to rectify the deficiencies. The Capital Market Authority has no comprehensive and updated situation report about the risks inherent in each of the institutional entities activity, and it does not usually demand regular updates on the results of the risk management process, particularly from institutional entities that are not insurance companies.

 **Supervision of Cyber Risks**

- The Capital Market Authority has no information on how the institutional entities implement the cyber risk procedure or parts of it and does not have an established, frequently updated assessment of the risk profile of each of these entities. The Authority does not require information from the entities regularly, which might have helped it assess the cyber risk profile of each entity. However, it requests information only in case of a cyber incident or technological failure, even though it indicates missing applications. Without the information above, the Authority cannot produce an updated situation report of the institutional entities' ability to defend themselves effectively against cyber incidents and cannot assess the implementation of the cyber risk circular procedures and their effectiveness. The Authority's ability to point out specific and lateral failures to focus inputs on improving the protection against the realization of cyber risks is also impaired.



- The Authority carried out a limited number of audits (19 audits, of which 7 were completed) in 2017–2022 to assess the readiness of the institutional entities for cyber incidents and information technology management, and most of them were not completed. Moreover, due to the Authority's technology and cyber risk management policy, no significant tools that could have helped the institutional bodies defend against cyber risks and improve their defense and preparedness mechanisms were made available to them. This was reflected in incomplete applications relative to those promoted by other financial regulators to strengthen the protection against the realization of technology and cyber risks.
- Since 2016, the Capital Market Authority has held 4 round table meetings (one meeting was held in May 2023) and 3 professional meetings that focused on cyber issues. The meetings were not held regularly, despite the inherent benefits of sharing information to improve defensive capabilities against cyber incidents, and no summaries of the meetings were prepared for distribution to the representatives of the institutional entities.
- Contrary to the Banking Supervision Department, the Authority does not have data on the number of institutional entities included in the Financial CERT⁶. This is despite the inherent importance of joining the Financial CERT to receive information to which access is limited or impossible.
- The Authority did not regulate sectoral cyber exercises and periodic extreme testing, the main tools financial regulators use to evaluate and optimize defense capabilities against cyber incidents.

 **The Capital Market Authority's Information Systems** – the systems that are currently used for organizational knowledge management at the Authority is not updated, the systems used for providing services to the general public are outdated and require updating, and the systems used for analyzing the data received from the institutional entities are deficient. It was further found that the internal computing system available to the Investment Division for processing institutional entities' reports does not allow for retrieval of data using search questions according to the Division's needs and cannot monitor deviations from the investment rules, identify specific and systemic exposure points and send red flag alerts.

 **Capital Market Authority's Audits and Enforcement at the Institutional Entities** – as of the audit end date, the Authority did not have an overall situation report of its audits. Thus, multiple audits are conducted at one institutional entity, and very few audits conducted at other entities do not correspond with the risks inherent to the

6 Israel National Cyber Directorate, in collaboration with the relevant government ministries, has established 7 national sub-centers for the management of cyber incidents that provide a response against unique cyber threats and are divided into sectors. The Financial CERT (Computer Emergency Response Team), managed by the Ministry of Finance, serves as the state's protective shell for financial entities.



institutional entities. The Authority does not have a systematic methodology for prioritizing audit subjects and institutional entities based on a systematic supervisory evaluation process, despite the scope of the entities and the areas supervised by it. It has no mechanism to monitor the rectification of deficiencies found in its audits, nor does it organize and access information regarding the extent of deficiencies rectification by the audited institutional entities. The average Authority's audit duration in 2017–2022 was 37.2 months – over 3 years.

-  **Intelligence Capabilities of the Capital Market Authority** – the computerized work environment of the Authority's Intelligence Unit is deficient and outdated. The information systems are not linked and do not allow the Intelligence Unit (which includes one manager) to locate different parties under investigation and to cross information from all the systems. Moreover, the Unit lacks advanced technological equipment due to insufficient manpower at the Authority in general and at the Intelligence Unit in particular and the lack of a computerized system to manage inquiries. There is concern that under these circumstances, the Authority's ability to deter potential capital market offenders is impaired.

Core Issues of the Institutional Entities' Activities and Their Supervision

-  **Supervision of Alternative Investments** – the Capital Market Authority does not have regular procedures for examining alternative investments. Moreover, only 21% of the Authority's audits in 2017 – 2022 on investments (out of 53 audits in the field of investments) dealt with alternative investments, even though their rate in the portfolio has doubled in the last decade and even though it is necessary to strengthen the supervision in this field given the expected increase, due to, among other things, the designated bonds reform.

-  **Responsible Investments and ESG Risks⁷** – the ESG circular were interpreted in different ways by different institutional entities in terms of the duties and expectations derived from it; therefore, some of the entities considered the circular as binding, while others considered it as a collection of guiding principles – a gap that led, among other things, to different forms of implementation.

-  **Submitting Applications for the Approval of Officials at the Institutional Entities** – to approve the appointment of an official, the institutional entities submit a detailed application accompanied by various documents to the designated referent at the Capital Market Authority. Automating the application process at the institutional entities will help the Authority's referents check the applications and cross the information about the candidates based on the information accumulated in the various systems. In practice, the Authority did not prioritize establishing such a system. Despite the scope of the institutional

7 ESG – responsible investments that consider social welfare in addition to economic profit considerations. They focus on values of environmental friendliness, social justice and corporate governance.



entities subject to its supervision (including sectoral provident funds), this process is carried out using manual forms that are scanned into the system and do not allow cross-checking of information or background checks of candidates by computerized tools, but only by relying on organizational memory.

 **Frequency of Investment Regulations Review** – although the investment regulations, regulating investments at institutional entities and creating uniformity in pension savings products, were established in 2012 and updated in recent years, the Capital Market Authority did not define the need for a periodic review of the regulations considering changes in the markets.



Establishment of a Hotline – the State Comptroller's Office commends the establishment of a hotline by the Capital Market Authority.

Regularization of Publication of New Regulations in the Arrangement Law by the Capital Market Authority – the State Comptroller Office commends the regularization of publication of new regulations by the Capital Market Authority under the principles outlined in the Arrangement Law, 2021, to optimize regularization of government bodies and public corporations, so that they achieve clear goals anchored in the powers of the regulator, without excess regulatory burden.

Key Recommendations

 Given the increase in the volume of assets managed by the institutional entities supervised by the Authority, at about NIS 2,180 billion, it is recommended that the Budgets Department at the Ministry of Finance, in collaboration with the Authority, examine the resources that are required for the Authority to fulfill its tasks, and if adjustments are needed – increase its resources, including fees, and provide it with adequate budgets and HR standardization. Staffing of positions at the Authority is required, given additional roles and powers that have been assigned to it over the years. In addition, it is recommended that the Capital Market Authority, in collaboration with the Ministry of Finance, examine the process of transferring the fees to the Authority to utilize them during the current year.

 Given the disputes between the various parties, the Minister of Finance, in collaboration with the Governor of the Bank of Israel, should advance agreements with the financial regulators regarding the structure of the financial regulation. Thus, it will help resolving difficulties in areas such as duplication of regulation, regulatory arbitrage, lack of uniformity in regulation, etc.

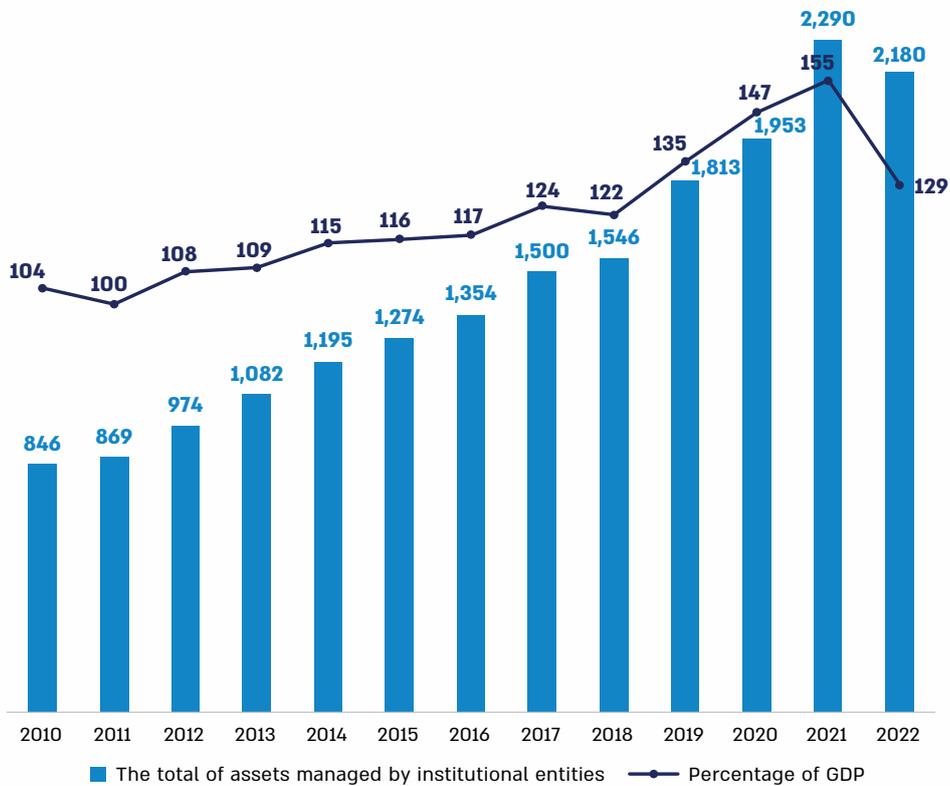


-  It is recommended that the Ministry of Finance consider establishing a designated follow-up committee to examine the extent of the institutional entities' substantial holdings in companies in the Israeli market and the similarities in the entities' investment mixes, according to the recommendations of the Centralization Team, since these are the long-term savings of the Israeli public, managed by the institutional entities, and their financial volume is considerable and continues to grow every year.
-  The Authority should complete the Regulation Codex 2012 in an accessible way so that users can conduct advanced searches in different sections. In addition, the Authority should continue the issuance of circulars by updating the Codex.
-  It is recommended that the Capital Market Authority publish its professional positions, as other regulators do, and even consider establishing a pre-ruling mechanism to share its positions on various issues with the institutional entities to assist them in making decisions. Moreover, the Capital Market Authority should consider conducting a satisfaction survey of its service to the institutional entities to improve this service.
-  It is recommended that the Capital Market Authority consider increasing its involvement in the supervision of technology and cyber risk management at institutional entities to improve the security systems formulated in the sector. In this context, it is recommended that the Authority consider frequently meeting with a professional forum of institutional entities to share and distribute information and knowledge, continue to encourage institutional entities to join the Financial CERT and monitor their joining, as well as advance further cooperation with the Israel National Cyber Directorate to ensure the transfer of essential information to the institutional entities and utilize the inspection tools. It is further recommended that the Authority consider integrating sectoral exercises and extreme testing on cyber in its work and define the time frame for their execution, increase the number of audits on cyber according to the risk profile of each institutional entity, and examine ways to receive frequent and complete information on how the cyber risks circular is applied, hence supporting the development of a risk profile for each institutional entity and the optimization of the actions to protect against cyber incidents.
-  The Capital Market Authority is recommended to establish the Digital Technologies and Information Division to provide all the Authority's units with the computerized services required for supervising the institutional entities. It is further recommended that the Digital Technologies and Information Division advance IT and cyber risk surveys of the Capital Market Authority and systems' penetration testing. The Capital Market Authority should examine the resources it needs in this area according to its goals and work plans and utilize the budgets allocated to it to fulfill its mission. It is recommended that the Capital Market Authority develop a comprehensive system to supervise all the Authority's audits, including all its audits by external auditors and employees, as well as the relevant analyses, thus informing the Authority's management of all the audits carried out. This could assist in devising an annual work plan, streamlining the audits, and increasing their effectiveness. Comprehensive monitoring of all audits will allow the Authority to examine the number of



audits conducted in the same supervised entity during the year and the necessity of additional audits in the same field. It will also allow it to monitor the number of hours set for the auditor, the total scope of the audits, the total expenses that year on each supervised entity, the duration of the audit, and the time of sending the payment request, as well as the management of tender budgets and their distribution among the auditors.

The Total Assets Managed by the Institutional Entities and Their Share of the GDP, 2010–2022 (in billions of NIS)



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



Summary

For years, the Capital Market Authority operated as a division of the Ministry of Finance (Capital Market, Insurance, and Savings Division) until it was established as an independent authority in 2016 under the law. However, it remained dependent on the Ministry of Finance. Compared to other financial regulators, the Authority has poor resources (the budget for an employee at the Capital Market Authority is about half of the budget for an employee at the Israel Securities Authority and about a third of the budget for an employee at the Bank of Israel), mainly due to the significant expansion of its duties, affecting the nature and scope of the supervisory activities. The lack of resources raises concerns that the Authority's inputs will not match all the areas of activity required and undermine its ability to monitor the funds of long-term savers effectively. Therefore, it is necessary to consider ways to ensure that the Authority has the professional capacity and adequate resources and that its inputs are used efficiently to empower the Authority as the gatekeeper of the insured and savers.

The audit raised that the institutional entities are highly dominant in the Israeli market (the scope of the assets managed by the institutional bodies as of 2022 is about 130% of GDP) and that there is a considerable similarity between their investment portfolios, which raises concerns about inefficient allocation of market resources. It was further found that the Capital Market Authority does not use the budget sufficiently and that its computer systems are outdated and deficient. In addition, it was found that there were gaps between the various financial regulators and that the Authority's regularization processes were inadequate, including the non-completion of the Regulation Codex. Deficiencies were also found in the risk management supervision system, particularly in cyber, and in the Authority's audits and enforcement program – an essential part of the mechanism to deter and supervise the institutional entities.

Given the increase in the scope of assets managed by the institutional entities supervised by the Authority and given the assignment of additional duties to the Authority over the years (for example, supervision of companies and individuals operating in the field of regulated financial services), it is recommended that the Minister of Finance consider empowering the Authority to fulfill its tasks. It is further recommended that the Budgets Department, in collaboration with the Authority, examine the resources required for the Authority and, if adjustments are needed – provide it with appropriate budgets and HR standardization according to its mandate and similar to other regulators. The Authority should be able to properly fulfill the roles assigned to it under law, and its duty towards the public of saving and insured citizens. Furthermore, the Authority should utilize its allocated budget to supervise the institutional entities' activities properly.



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of Living | January 2024

Ashdod Port Company

The Ports Sector in Israel and Aspects of Operation and Service at Ashdod Port



The Ports Sector in Israel and Aspects of Operation and Service at Ashdod Port

Background

Israel's seaports are strategically crucial to the country's international trade. The fact that about 99% of Israel's total export and import cargo (in tons) passes through these ports indicates the high dependence of Israel's international trade on seaports. This dependence stems primarily from its source and destination markets not being adjacent to it due to its geographic location and geopolitical situation. In addition, the scarcity of natural resources requires an open economy with a high rate of import that meets all market needs.

Regular activity at the seaports is essential in light of their importance to Israel's economy. Ships delayed at Israel's ports create a bottleneck in Israel's economic activity, reduce market productivity, and harm export and import components used for investment products. Beyond that, as long as the damage to exports and imports continues, it may harm employment in industries directly affected by the import of inputs (industry, trade, construction, and agriculture) and the cost of living.

There are several types of cargo ships. The main ones are container ships, general cargo ships, bulk carrier ships, and automated facilities ships. A container is a steel box designed to store cargo for its transport; general cargo is not packed in a container, and it might refer to units (such as vehicles) packed in packages, boxes, and the like; bulk cargo – general cargo that is not packed but loaded on a ship in bulk, such as grains, coal, cement, and metal ore; automated facilities used to transport cargo such as cement, phosphates, chemicals, fuel, and grains. The level of service in cargo handling is affected by many factors – endogenous (related to the conduct of the port) and exogenous (which do not depend on the conduct of the port).

During the audit, the Ashdod Port Company was the only port left still owned by the state. In its reply to the State Comptroller's Office in July 2023, it stated that in 2005–2018, it transferred NIS 733 million to the state as dividend and is supposed to transfer another NIS 90 million for 2019–2020. It Also noted that in 2011–2022 it transferred NIS 591.4 million to the state as royalties.



Key Figures

6

commercial ports operating in Israel¹: Port of Haifa, the Bay Port, Israel Shipyards Port, Port of Ashdod, the South Port and the Port of Eilat²

60,713

thousands of tons of cargo passed through Israel's ports in 2022 – a 70% increase compared to 2000 (in which 36,098 thousand tons passed)

about 80

the record number of ships waiting in Israeli ports (The peak months are May 2021 and May 2022)

26%

the decrease in output per work hour at Ashdod Port in bulk cargo in 2017–2022

13 out of 14

the Port of Ashdod rank out of 14 comparable ports worldwide in terms of container ships' dwell time (second to last), according to the World Bank inspection, processed by the State Comptroller's Office

2.7 days

the median dwell time at Israel's ports for bulk carriers in 2021 compared to 1.7 days on average in ports of comparable countries around the world. This is the longest dwell time among the ten inspected countries

70%

the decrease in the work team responsiveness ("hands") in the bulk cargo at the port of Ashdod in 2017–2022. As for containers and general cargo, the decrease in those years was 24% and 60% respectively

NIS

5.1 billion

estimated damage to export in 2021, according to the Chief Economist Division at the Ministry of Finance inspection, processed by the State Comptroller's Office. The estimated damage to import in 2021, in investment products and final goods, was NIS 3.9 and 4.8 billion respectively. In that year, the addition to inflation was estimated at 0.1%

- 1 Ashdod Port is operated by Ashdod Port Company Ltd., which is a governmental company. The rest of the ports are operated by private companies.
- 2 In addition, there are also several specialized terminals relatively small Compared to the mentioned above, including the Haifa Granaries; the South Gadot Terminal; Northern Chemicals Terminal and the Petrol Port.



Audit Actions

 From August 2022 to April 2023, the State Comptroller's Office audited the ports sector in Israel and the service level at Ashdod port. The audit included, among other things, an analysis of the activity of the ports in Israel in 2021, which was affected by damage to the global supply chain following the Covid-19 crisis. Moreover, the level of service provided by the Administration of Shipping and Ports (the body that regulates the port sector), the Israel Ports Company Ltd. (the ports' property company), and the Ashdod and Haifa Ports, until 2022, were examined. The audit was conducted at Ashdod Port Company Ltd., Israel Ports Company Ltd., and the Administration of Shipping and Ports. Supplementary audits were conducted at the Ministry of Transport and Finance. On January 10th, 2023, the privatization process of Haifa Port Company was completed, and 100% of its shares were transferred from the state to a private investor.

Key Findings



-  **The Impact of Ports' Congestion on the Cost of Living and of Importers' in 2021 Following the Covid-19 Crisis** – ports' congestion has significant economic consequences, including among other things, damage to the GDP due to loss of exports; disruptions in inputs' supply followed by a decrease in output in the industry, construction, and agricultural sectors; damage to private consumption as a result of the rising prices of products; potential damage to employment as trade, export, and production branches are affected; damage to the reputation of Israeli exporters and importers; imposing additional costs on importers and exporters. According to the Chief Economist Division at the Ministry of Finance calculations and additional State Comptroller's Office calculations, the estimated annual damage to export as a result of ports' congestion in 2021 in GDP terms was about NIS 5.1 billion; the estimated annual damage to import of investment products was about NIS 3.9 billion; the estimated annual damage to import of final goods in terms of GDP was about NIS 4.8 billion; and an addition of 0.1% to inflation for an entire year. It should be noted that the inflation rate in 2021 was 2.8%.
-  **The Number of Ships Waiting Outside Israel's Port** – at the beginning of 2021, there was a steep increase in the number of ships waiting at the ports' gates, up to a peak of 77 ships in May 2021. In the second half of 2021, a downward trend was recorded, but at the end of this year, an upward trend began again, reaching a peak of 82 ships in May 2022. The highest number of ships waiting in 2021 and 2022 was mainly evident outside the Port of Ashdod.



The Reasons for the Formation of Queues of Ships in the Ports in Haifa and Ashdod – all four service indicators tested in the Port of Ashdod, the Port of Haifa, and the Israel Shipyards Port – the average ship's waiting time, the average ship's dwell time, the average output per hour of work, the level of responsiveness to the demand for working hands – worsened in 2018–2022, compared to 2017, negatively affecting the quality and level of service and raises the price of shipping, which means that end consumers pay more and that the cost of living is higher. It was also found that the deterioration of service indicators had already begun in 2018, about two years before the outbreak of Covid-19 in early 2020. This finding indicates a structural problem in the service efficiency provided at the examined ports in Israel. Below is a specification of the trends that led to the formation of queues, according to data published by the Administration of Shipping and Ports:

- **Increase in Waiting Time** – "waiting time" is defined as the time from the beginning of the first shift to which the work team was called ("the hands") until the work begins on the ship of the first team. The audit found that the average waiting time for the three types of cargo (containers, general cargo, and bulk cargo) had risen from 2017 to 2021. Waiting Time at Ashdod Port from 2017 to 2021 for unloading containers, general cargo, and bulk cargo rose from 8.8 to 17.3 hours, from 31.2 to 123.6 hours, and from 49.4 to 313.2 hours, respectively. In percentages, the increase in waiting times for these loads was 150%, 270%, and 644%, respectively. At the port of Haifa, the waiting time for container unloading, general cargo, and bulk cargo increased in 2017–2021 from 4 to 17.4 hours, from 25.2 to 98.3 hours, and 19.5 to 90.3 hours, respectively. In percentages, the growth rate in the areas above was 335%, 290%, and 363%, respectively. It should be noted that in 2022, the waiting times decreased compared to 2021 for all types of cargo, except for general cargo at Ashdod Port, where the waiting time increased by 7% compared to a 37% decrease in other ports.
- **Increase in Dwell Time** – the average "dwell time" of ships is defined as the time (in hours) measured from the beginning of the first shift to which the work crew was called ("the hands") until the ship's departure. It was found that the average dwell time for the three types of cargo had been on the rise from 2017 to 2021. The dwell time for unloading containers, general cargo, and bulk cargo at Ashdod Port from 2017 to 2021 increased from 34 to 53.6 hours, from 93 to 196.8 hours, and from 159.5 to 570.6 hours, respectively. In percentages, the growth rate in the operations above was 58%, 111%, and 258%, respectively. At Haifa Port, the dwell time for unloading containers, general cargo, and bulk cargo increased in 2017–2021 from 20.1 to 43.8 hours, from 70.8 to 163.4 hours and from 90.1 to 218.6 hours. In percentages, the growth rate in the operations above was 118%, 130%, and 143%, respectively.



- **Decrease in Output Per Hour of Work** – the output per hour of work is defined as the average amount of cargo in tons per actual hour of work of general cargo and bulk cargo ships and as the number of containers in container ships. Concerning containers, at Ashdod port, the output per hour of work in 2017–2021 decreased from 43.3 to 39.1 containers per hour of work (a decrease of about 10%). In 2022, there was an 8% increase in output per hour of work at Ashdod Port compared to 2017. At Ashdod Port, in 2017–2022, the output per hour of work for general cargo and bulk cargo decreased from 136 to 116 tons per hour and from 258 to 195 tons per hour, respectively, and in percentages – a decrease of 14.7% and 24.4% respectively. In 2017–2022, in the Port of Haifa, output per hour of work in containers, general cargo, and bulk cargo, decreased from 58.6 to 46.6 containers, from 127 to 108 tons, and from 167 to 126 tons, and in percentages – a decrease of about 20.5%, 14.9%, and 24.6%, respectively.
 - **Decrease in the Port's Responsiveness to the Demand for Allocation of Work Crews ("hands")** – this index reflects the average ratio between the total number of hands (crews) the ship's agents order on a working day for handling cargo and the number of hands assigned on that particular day. Meeting 80% of the demand for hands is considered fully meeting the demand of the ship's agents. It was found that in 2017–2022, the responsiveness to the demand for hands was declining. For most cargo types, the rate was generally much lower than 80% in each of the years 2017 and 2022. At the Port of Ashdod, in containers, general cargo, and bulk cargo, there was a decrease of 24%, 60%, and 70%, respectively, in 2022 compared to 2017. At Haifa Port, the rates were 36%, 63%, and 60%, respectively. At the Ashdod Port Company, the rate of responsiveness to hands was lower in 2017–2022 than the Haifa Port Company rate, which added to the downward trend at both ports.
-  **Assigning Crews to Shifts** – it was found that most of the crews assigned to unloading and loading at the ports of Ashdod and Haifa were assigned to the first shift (06:30–14:30), while the rate of assigning crews to the second (15:00–22:30) and third shift (22:30–05:30) was declining. The decline was less steep about containers, but about general cargo and bulk cargo, there was a considerable decline – from allocation of 56% and 52% to the first shift at Ashdod and Haifa Ports, respectively, to a rate of 9% and 8% to the third shift. The causes for the decline were, amongst other things, labor agreements, factories' inability to receive cargo at night, and safety instructions. This situation leads to an extension of ships' dwell time and waiting time and to non-optimal utilization, to the point of structural unemployment, of the docks, and of the unloading and loading equipment, which does not operate at full capacity or close to it.
-  **Assignment of Operational Workers at Ashdod Port** – in 2018–2022, between 13.8% and 22.0% of the operational workers were not assigned to unloading and loading tasks. In 2021 and 2022, the rate of the operational workers who were not assigned was higher compared to previous years (19.7% and 22.0%, respectively), which may indicate



an inefficient utilization of human resources and even affect the ships' operation queues. In 2021, which was characterized by damage to the global supply chain, a steep increase in the number of waiting ships also began, up to a peak of 77 ships in May 2021.

📌 The Cessation of Unloading Work at the Port of Ashdod due to Reaching the Total Premium for Certain Types of Cargo – premium agreements are supposed to increase workers' motivation to increase productivity and shorten dwell time at the port. It was found that for certain types of cargo (metals and iron, which make up about 3% of the port's activity, according to the Ashdod Port Company), a work crew designated to unload ships at the Port of Ashdod, which reaches the level of output for which it will receive the most premium, stops the unloading work and waits until the end of the shift since continuing the work will not yield any additional income. It was further shown that at Ashdod Port, the premium agreements include inefficient and ineffective components, causing cessation of work instead of continuing work with increased output, which is contrary to the purpose of the premium mechanism, intended to increase the output and the level of efficiency.

📌 Utilization of Reserve Docks to Reduce Congestion at the Ports – it was found that in July 2021, there was a request from the Bay Port to utilize the reserve docks to handle general cargo, to reduce congestion. However, the handing over of the docks to the new ports by the Ministries of Transport and Finance was delayed and executed only in April 2022.

📌 Operation Queue Rules – the operation queue policy is anchored in the Port Regulations and regulates the following issues: the procedures of entering and exiting the port and the order of precedence for certain ships entering and leaving the port. In addition, the policy also states which docks are defined as commercial docks, for which the Administration of Shipping and Ports has determined that their availability to vessels will be determined following an agreement between the port operator and the ship's owner. It was found that the operation queue rules established by the Administration of Shipping and Ports in 2008 and their updated versions do not reflect the changes in the competitive environment in recent years, with an emphasis on the operation of the new ports: the rules create inefficiency about the entry and exit of ships; they include a broad definition of hazardous materials, which prioritize certain types of cargo unjustifiably; for example, priority is given to container ships over general cargo ships, even if they wait for more than 24 hours. Moreover, the priority established in the operational queue rules for livestock ships is sometimes not realized due to the prioritization of other ships.

📌 International Comparison of Dwell Time and Service Level at Israel's Ports Compared to Ports in Other Countries – it was found that the Administration of Shipping and Ports, Israel Ports Company, and the Ashdod Port Company do not conduct international comparisons of service-related indicators. Thus, they do not fulfill the Administration of Shipping and Ports' obligation to do so according to the Shipping and Ports Authority Law, 2004, and the Israel Ports Company's obligation according to its



authorization, although such a comparison, had the Ashdod Port Company carried it out, would have allowed it to examine the quality of service it provides to its customers. In an international comparison conducted by the State Comptroller's Office, based on research conducted by the World Bank in collaboration with (S&P)³, and based on UN data, Israel's ports were demonstrating a low level of performance in dwell time indicators, compared to ports in other examined countries, and about all main types of cargo: general dry cargo, bulk cargo, and containers. The Port of Ashdod was ranked second to last in the general ranking of 2021 according to dwell time within the comparison group (13th place out of 14 ports). The low level of performance relative to comparable ports makes it difficult for importers and exporters to compete and causes economic damage.

Unavailability of Scoops and Funnels and Equipment for Unloading Bulk Cargo – as for bulk cargo, an increasing trend of average unavailability of scoops and funnels was found at Ashdod Port in 2018–2022, to the point of almost complete unavailability (100%), which reached its peak in April 2022. During this period, the work was carried out using equipment not designated for handling bulk cargo, such as cranes with a handle. As for general cargo, different types of arm cranes for handling general cargo and bulk cargo were unavailable mainly due to inadequate breakdown maintenance for many months and forced unavailability.

Unloading Imported Grains in Ashdod and Haifa – in 2021, about 5.6 million tons of grains were imported to Israel. About 75% of the imported grains are intended for animals and the rest for humans, and they are used as raw material in the food industry for both humans and animals. Grains are an essential part of human nutrition, and a shortage of grains may lead to a shortage of flour and flour-based products such as bread, rice, and pasta and a shortage of animal food products, such as milk, dairy products, eggs, and meat. 84.9% of imported grains are unloaded in the Haifa port area, and only 15.1% are unloaded at Ashdod port despite the demand for grains being divided between the north and the south at a rate of 55% and 45%, respectively. The reasons for that are the poor service level at Ashdod Port, delays in the operation of the grain conveyor, and, according to the Ashdod Port Company, a shortage of truck drivers. In practice, the scope of unloading grains at Ashdod Port does not reflect the distribution of demand between the north of Israel and the south of Israel. It was further found that the grain conveyor at the Port of Ashdod was handed over for operation in January 2023, which is nine months behind the original schedule, 12 years after the Minister of Finance and the Minister of Transport decided to build the conveyor in October 2010, and with a deviation of about NIS 12 million from the original budget of NIS 225 million.

3 Ports' performance can be measured based on a set of indicators, such as: port capacity or utilization of storage areas, costs, the degree of connectivity between different areas in the port, services provided at the port and other indicators. The World Bank report in collaboration with Standard & Poor's (S&P) is based on available empirical data exclusively associated with the dwell time of ships at the port. This report should be considered as an indicative, though not absolute, measure of the port's performance in terms of handling containers.



Relative Efficiency of the Port of Ashdod in Handling 8,001 TEU⁴ up to 13,500 TEU Container Ships – the Ashdod Port ranks relatively high in handling these ships compared to the group of comparable ports and is ranked third out of 11 ports (73% of the ports are lower in rank).

Promoting Competition in the Containers – the market share of the Bay Port in the Haifa Port area and the South Port in the Ashdod Port area in 2022 in containers was 29.6% and 10.4%, respectively, which indicates a process of creating competition between the new ports and the existing ones, and is mainly evident at the Bay port in containers. However, the market segmentation of containers, a year and a half after the new ports began operation, does not indicate full exploitation of the competitive potential.

Key Recommendations

 Given the importance of ports to Israel's economy and their impact on the cost of living, it is recommended that the Ministers of Transport and Finance improve the efficiency of cargo handling at Israel's ports and shorten the dwell time of ships at the gates. Furthermore, the ministers should ensure that the audited bodies, under their responsibility and authority, rectify the reports deficiencies and monitor their implementation. Among other things, it is recommended that the Ministry of Transport, the Ministry of Finance, and the Israel Ports Company reduce the shortage of drivers and trucks, consider renovation of the railroad, and address the problems presented by the users, ports' representatives and the chair of Israel Road Transport Board.

 It is recommended that the Ministry of Transport and the Administration of Shipping and Ports cooperate with the ports to examine the reasons for the high number of waiting ships, to reduce their number, to set objectives for the ships' dwell time, so they are within the acceptable range according to an international comparison with comparable ports and follow-up on the realization of the objectives. It is further recommended to examine the structural reasons for the decline in the service level at the audited ports (Ashdod, Haifa, and Israel Shipyards Port), especially in the general cargo and bulk cargo, and to consider regulatory solutions as much as possible to increase the efficiency of handling these types of cargo. Furthermore, it is recommended to set objectives to increase efficiency, and in particular to increase productivity and improve service levels, while creating monitoring and

⁴ Twenty-foot Equivalent Unit – a capacity unit of cargo equivalent to the capacity of a standard container that is 20 feet long. Containers are manufactured in different sizes, and cargo capacity in the shipping industry is usually indicated as capacity units of a 20-foot-long container.

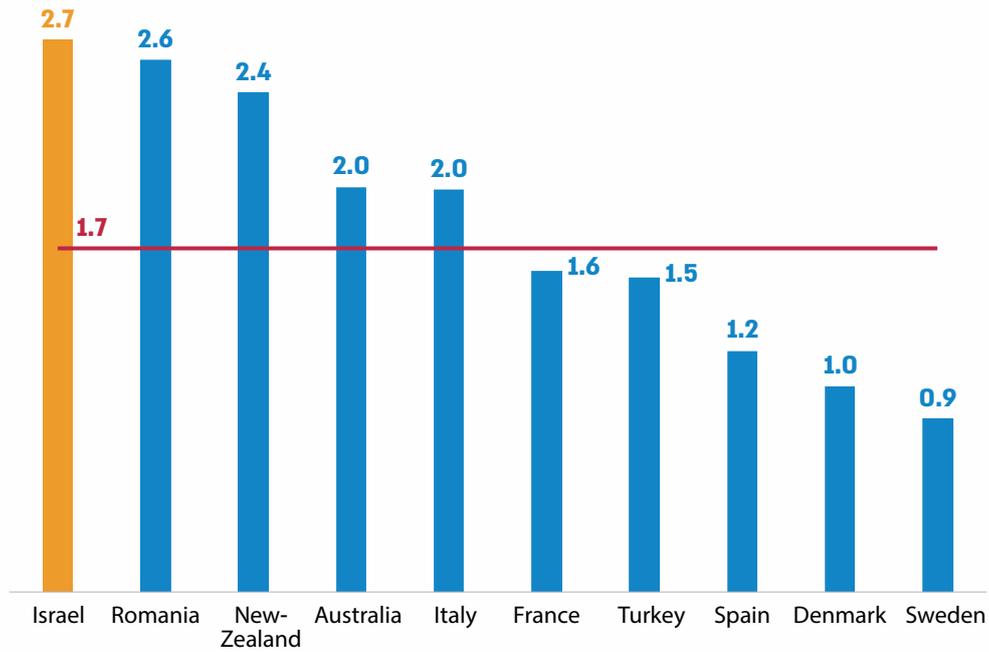


reporting mechanisms about the necessary steps and progress to meet the objectives, and, if necessary, adjust the wage agreements to the new objectives.

-  It is recommended that the Ashdod Port Company, the Administration of Shipping and Ports, and the Ministry of Transport examine the reasons for the inefficient allocation and asymmetric distribution of work shifts in cargo unloading at the Port of Ashdod and, if necessary, incentivize operational workers and cargo owners to unload cargo at night as well. The bodies above should also increase the number of operational workers assigned at the Port of Ashdod to optimize cargo handling at the port. It is recommended that Ashdod Port Company examine the reasons for the high rate of unavailability of unloading equipment and increase the level of equipment availability, given the effect that unavailability has on the level of service and the volume of ship queues.
-  It is recommended that the Ministry of Transport and the Ministry of Finance examine the consequences of granting authorization to the new ports (the Bay Port and the South Port) to operate the reserve docks and the need for their continued operation to handle general cargo so that the new ports have long-term certainty and so that there is competition in general cargo as well, decreasing the cost of port services, reducing the volume of queues and, by implication, reduce the cost of living, following government policy. It is recommended that the Port of Ashdod, Israel Ports Company, the Ministry of Transport, and the Administration of Shipping and Ports ensure that the scope of unloading grains in the Haifa Port area and at the Port of Ashdod complies with the demand for grains in the north and the south, to prevent the need for shipping of grains to the center and the south by trucks, and to reduce the risk of shortage of such a basic product during an emergency, in case one of the granaries does not function.
-  It is recommended that the Ministry of Transport and the Administration of Shipping and Ports update the operation queue policy to the changes in the port sector in recent years, including the introduction of new ports, the privatization of Haifa Port and handing over maritime traffic management to maritime traffic companies; at the same time, they should also examine and refer to reservations of the various professional entities operating in the industry.



Median Dwell Time at Comparable Ports of Countries for Ships Carrying Bulk Cargo, (Dry Break Bulk) 2021* (in days)



According to UNCTAD data processed by the State Comptroller Office.

* The calculation of the average dwell time at comparable ports does not include Israel.



Summary

The audit findings found that the level of service and operational efficiency of Israel's ports are low compared to previous years and compared to similar and comparable ports in other countries. All of the above lead to reduced productivity, harm exports, harm the import component of investment products, and ultimately affect the cost of living. Since 2018, there has been a decrease in the level of service compared to the level in 2017, which is reflected in longer waiting times and dwell times for ships, which increased by hundreds of percent compared to 2017 and reached a peak during the Covid-19 period in 2021. There is also a decline in output per hour of work for all the types of cargo specified above, especially bulk cargo. In 2022, there was an improvement in waiting and dwell times, but they were still tens of percent higher than their level in 2017. The output per hour of work at the Port of Ashdod, mainly about general and bulk cargo, decreased compared to 2017. The efficiency problem at the Port of Ashdod is also reflected in the level of responsiveness to the allocation of hands, which fell by tens of percent compared to 2017. It was further found that for various reasons, between 13.8% and 22.0% of operational workers, who could have minimized the operation queue, were not assigned to unloading and loading tasks. It was further found that in 2018–2022, in the Port of Ashdod the unavailability of specialized equipment increased, including cranes, scoops, funnels, and additional cargo handling equipment. This increase was mainly caused by faulty breakdown maintenance and a very low level of preventive maintenance performed by the Ashdod Port Company. All of the above indicates that the queue of ships waiting outside Ashdod Port was affected not only by the Covid-19 crisis but also by structural operational problems, which include, among other things, low efficiency of cargo handling and the unavailability of specialized equipment at Ashdod Port, which are among the factors that affect the efficiency of cargo handling work.

Due to the importance of the ports to Israel's economy, it is recommended that the Ministry of Transport, the Administration of Shipping and Ports, and the Ashdod Port Company rectify the report's deficiencies. Among other things, they should increase service levels for all types of cargo, including shortening dwell and waiting times, increasing output per hour of work, increasing availability of cargo handling equipment, and increasing responsiveness to the demand for hands. This is possible through streamlining work procedures, among other things, according to international comparisons with comparable ports, appropriate and sufficient allocation of work teams, and operational flexibility, which will enable quick response to crises and optimal assignment of operational workers at the ports. These will lower the costs of maritime shipping and, as a result, reduce the cost of living in Israel and improve the employment situation in the industries that use imported raw materials.

