State of Israel

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ABSTRACTS

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Abstracts

Foreword

The annual audit report presented to the Knesset (Parliament of Israel) today primarily addresses the auditing of the economy and national infrastructure, both of which significantly influence the daily lives of the country's citizens and the prospective development of the economy in the years to come. The following is an overview of select chapters from this report:

- ## Aspects of the Government's Handling of Imports

The issue of the cost of living in Israel has an impact on all households and the standard of living of its citizens. Consequently, addressing this issue is of paramount importance. One approach to dealing with the cost of living is to open the domestic market to competition including by increasing import. A substantial portion of the products consumed in the State of Israel is not produced domestically and must be imported from other countries; however, trade with neighboring countries is constrained, resulting in the characterization of the Israeli economy as an "island economy". In 2023, goods valued at approximately $90 billion were imported to the State of Israel, including: raw materials, consumer goods, investment goods, energy materials and diamonds. The financial scope of imported consumer goods stands at approximately $22 billion, predominantly in the following categories: furniture and household electrical appliances (20%), food and beverages (17%), vehicles (16%), and clothing and footwear (13%). The import-to-GDP ratio of Israel, which was 26.9% in 2023, is notably lower than the OECD average of 51.9% for the same year

An examination conducted by the Office of the State Comptroller in November 2024 revealed price discrepancies between products from parallel imports and those from direct imports, with the latter being approximately 4.8% to 226% more expensive. In addition to parallel imports, personal imports represent another mechanism to reduce the cost of living, whereby consumers procure products directly from abroad at competitive prices. A subsequent examination by the Office of the State Comptroller in February 2025 identified price differentials between products obtained through personal imports and those acquired via commercial imports, with the latter being approximately 20.6% to 130.3% more expensive. In July 2024, the "No Stopping at the Port" reform was implemented, intended to modify the import system so that goods categorized under Import Groups 2 and 3, which are subject to less stringent regulations, will not experience delays at port gates and will gain entry into the Israeli market based solely on a declaration by the importer. Supplementing this reform, the "What's Good for Europe is Good for Israel" reform came into effect in January 2025, entailing the adoption of European regulations and the importation of products marketed in Europe or compliant with European standards, contingent upon proof of marketing in Europe and without necessitating a product portfolio, which may also lead to an increase in the volume of parallel imports into Israel.

It is recommended that the Minister of Economy conduct an examination of the implementation of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms, while addressing the inconsistencies between Israeli law and the stipulations of European regulation. Furthermore, it is recommended to investigate the expansion of the reform to encompass imports from additional countries, such as the United States.

Expenditure on vehicles represents one of the most significant categories of consumer spending among households in Israel. The four principal direct car importers account for approximately 60.3% of the total vehicle imports (the eight largest direct importers collectively constitute around 87.7% of the market). An analysis conducted by the Office of the State Comptroller revealed that in 2022, there was an increase in the profits of importers, despite rising costs and a decline in the volume of vehicle sales.

It is advisable that the Ministry of Transport and the Competition Authority leverage the opportunities presented in the automotive market - in light of the significant transformations within the industry and the electric vehicle revolution - so as to enhance competition. The Minister of Transport is advised to take measures for reducing concentration in the automotive sector, capitalizing on the opportunities arising from the changes that have taken place within the sector and the entry of new manufacturers, by facilitating the entry of new or small importers to the sector.

• Economic Feasibility Studies of Transportation Projects

The Ministry of Transport and Road Safety is tasked with managing and establishing policy within the transportation sector, as well as providing services for maritime, aerial, and terrestrial transportation systems. Among its responsibilities, the Ministry engages in the planning, development, and regulation of integrated transportation infrastructures and systems that facilitate mobility and logistics for both Israeli citizens and visitors, as well as various components of the Israeli economy.

A 2019 analysis conducted by the Bank of Israel found that Israel's investment in transportation infrastructure accounts for approximately 1% of its Gross Domestic Product, comparable to the average investment rate among OECD countries. However, this rate is deemed inadequate due to the rapid growth of Israel's population and given the relative scarcity of infrastructures in Israel. The estimated cost of damage to the Israeli economy due to road congestion, according to the Ministry of Finance estimate from 2024, and the OECD estimate from 2023, is NIS 24-48 billion.

This audit report focuses on land transportation projects, the majority of which are funded through the state budget. From 2020 to 2023, the Ministry of Transport allocated financing for transportation projects at an average expenditure of approximately NIS 20 billion annually, representing about 4% of the total state budget. This amount constitutes the highest civilian investment budget, among all governmental ministries' investment budgets. Given the importance of these projects for economic functionality, the reduction of social disparities, and the alleviation of congestion costs borne by residents, as well as their complexity and budgetary implications, it is imperative that the construction of the projects be undertaken following a rigorous selection process, while examining their economic viability, involving a comprehensive examination of project costs and the anticipated benefits to the public, with the objective of identifying the most advantageous projects within the established budgetary framework.

The audit revealed that although the planning process for transportation projects as outlined in the Transportation Projects Procedure (which serves as the official guideline for assessing the economic feasibility of land transportation projects), includes a mandate that two feasibility studies be conducted during the project's planning stages, in practice, only a single feasibility study is conducted for the majority of projects. Furthermore, this study is not necessarily executed at critical junctions where the decision to proceed with the project is determined, and if approved, in what configuration. The audit also disclosed that the Transportation Projects Procedure is mandated for all types of land transportation infrastructure projects; however, in practice a significant portion of these projects does not undergo a feasibility study at all by the Ministries of Transport and Finance. Additionally, the methodology delineated in the Transportation Projects Procedure predominantly evaluates benefits within the domain of road infrastructure and is not fully adapted for the assessment of mass transportation projects, which include public transport routes, light rail, and metro systems. Furthermore, the Procedure lacks a defined economic threshold for conducting an economic feasibility analysis, and its status and influence within the decision-making matrix remain inadequately articulated.

The audit also identified that the Ministry of Transport experiences a deficiency in engineering personnel, an elevated managerial turnover, and a lack of staffing for senior roles within the Infrastructure Administration, which is tasked with the planning and execution of transportation projects. Additionally, the Ministry lacks an information infrastructure concerning both completed and ongoing transportation projects, with the management of existing information being conducted manually. Consequently, the transition of several individual employees can result in knowledge erosion and the jeopardizing of business continuity, as the management of information largely depends on the memory of specific employees and their familiarity with operational materials.

The implementation of the recommendations embedded within the report's chapters has the potential to enhance the planning processes for transportation infrastructures in Israel, thereby increasing transparency in decision-making regarding project approval and prioritization, improving the alignment of transportation planning with public requirements, and facilitating a more efficient utilization of public resources.

- ## Real Estate Taxation and the Real Estate Information Infrastructure in Israel

The real estate market in Israel constitutes a critical component of the Israeli economy, with its ramifications observed across various domains, including economic, social, employment, and political spheres. Real estate transactions are among the most significant and financially substantial undertakings in an individual's life. Over the past decade, there has been a notable escalation in housing prices in Israel, attributed, in part, to a deficit in housing supply, the prevailing interest rates since 2008, and the ramifications of global economic crises. The housing price index surged by 77.5% from January 2014 to December 2024, while the consumer price index experienced an approximate increase of 15.3% during the same time period.

Between 2018 and 2020, revenues from real estate taxation averaged approximately NIS 11.37 billion, representing about 7% of total direct tax revenues collected by the Tax Authority. In the years 2021-2022, total revenues from real estate taxation rose to an average of approximately NIS 23 billion, constituting about 9% of total direct tax revenues collected by the Authority. However, in 2023, this percentage declined, partly due to the Swords of Iron War, with total revenue from real estate taxation amounting to NIS 14.41 billion, approximately 6% of total direct tax revenues collected by the Authority.

This audit identified deficiencies within the realm of real estate taxation operations. It was found that assessment personnel in regional real estate taxation offices do not execute assessments uniformly or consistently. There is an absence of a defined timeframe for responding to requests for assessment corrections, and many requests are handled after a considerable delay, which may lead to additional costs for taxpayers. Delays in implementing capital gain corrections in income tax assessments have also been noted, with some exceeding three years, complicating the collection of taxes due from these corrections, alongside a lack of estimates regarding total debts collected or refunds unpaid to taxpayers. Furthermore, cooperation among various tax systems is deficient, and the utilization of the designated system for this activity is limited. Many assessments are processed near the limitation period, suggesting inadequate scrutiny of the assessments or insufficient time allocation for taxpayers to present their claims. Additionally, numerous assessments are determined according to best judgment after the assessment has become statute-barred, in contravention of the law.

Deficiencies were identified in customer service within real estate taxation, including the absence of a work procedure for the main customer service system, a lack of defined response times for handling inquiries, and an absence of computerized oversight over response quality and response time. Delays in addressing inquiries on various issues remain prevalent, and service via the Authority's phone response system is nearly nonexistent.

This report also highlighted numerous shortcomings in the collection of real estate transaction data stored in the Real Estate Price Registry and its dissemination to governmental entities and the public. It was found that the implementation of the Committee recommendations and the transition to online reporting by representatives have not substantially enhanced the quality of the Real Estate Price Registry data. The file transmitted to Survey of Israel (SOI) for data cleansing has been found to be both unfitting and incomplete. Many properties are absent from the file; numerous properties are inaccurately represented; essential data that could assist in calculating the housing price index, supporting Tax Authority operations and providing information to citizens, is not collected; repeated data cleansing of the file by its users is lacking; the confirmation of property status provided to citizens is lacking and often incorrect; and the exchange of information among governmental bodies is hindered by the lack of a unique identifier for properties. Significant discrepancies have also been found between real estate information presented in databases publicly released by the Tax Authority and the information presented in the database of SOI.

The Tax Authority should enhance its public service, aiming for efficiency and providing effective service while maximizing taxpayers' rights concerning the collection of actual tax. The Prime Minister's Office should examine and define the entity responsible for establishing a national information infrastructure in the property sector, which would compile information from a multitude of sources. This entity would be accountable, among other things, for information acquisition, quality assurance, data cleansing, and distribution, in collaboration with the Central Bureau of Statistics, the National Digital Agency, the Ministry of Justice, the Ministry of Interior, the Planning Administration, the Tax Authority, the Ministry of Construction and Housing, the Israel Land Authority, and Survey of Israel. Furthermore, it is recommended that the Prime Minister's Office formalize the delegation of powers to the entity overseeing this initiative. Establishing such an information infrastructure will enhance governmental operations and improve the delivery of services to citizens concerning real estate matters.

• Ensuring the State of Israel's Food Security in an Emergency

"Food Security" refers to a condition wherein all individuals, at all times, possess reasonable physical and economic access to adequate, safe, and nutritious food that satisfies their dietary and cultural preferences, thereby enabling them to lead active and healthy lives. The assurance of a sufficient food supply is important during routine times, and is critical in emergency situations, as a consistent food supply is integral to survival in the initial stages of a crisis. During emergencies, the provision of an adequate and balanced food supply poses substantial challenges. Israel, as an "island state" in the sense of its limited capacity to depend on neighboring nations, bears the responsibility of ensuring the availability of sufficient food supplies over extended periods.

Ensuring a sustainable food supply during both routine and emergency situations necessitates advance preparation and planning through the formulation of a food management strategy and the implementation of actions prior to the emergence of relevant scenarios. The current audit indicated that the Israeli government lacks sufficient preparedness to sustain functional continuity in food supply during emergencies. It was determined that Israel does not possess an integrating governmental framework responsible for the State of Israel's emergency preparedness, which encompasses overall authority and responsibility for the matter. Furthermore, there is no integrating entity that oversees the food sector comprehensively, addressing both routine operations and emergencies. Additionally, the State of Israel lacks a long-term strategy for food security. In the absence of an integrating body and long-term planning, in practice each government ministry responsible for aspects of food security manages its designated area in both routine and emergency contexts at its own discretion. Consequently, there are deficiencies in the inventory of certain products stored in emergency warehouses, there is inadequate supervision of essential food production facilities, and insufficient preparedness of these facilities for emergency situations. The Ministries of Economy and Agriculture are bereft of the necessary enforcement mechanisms or incentives to ensure the rectification of existing gaps and clearly lack a comprehensive overview of the preparedness of food facilities for the purpose of formulating an actionable plan to address these deficiencies. Additionally, the Israeli agricultural sector, which serves as the foundation for food security, remains stagnant, with local production exhibiting a downward trend, partially attributable to governmental policies that incentivize the sector through indirect support, which creates distortions.

It is recommended that, pending the formulation of legislative measures pertaining to home front emergency preparedness, the National Security Council, NEMA (National Emergency Management Authority), the Ministry of Agriculture, the Ministry of Economy, the Ministry of Health, and the Ministry of Finance collaborate to immediately integrate and strategize Israel's food policy for both routine and emergency contexts, and undertake necessary actions to secure regular food supplies during emergencies, prepare various entities within the food sector for potential crises, identify existing gaps, and take measures to close them.

Follow-up audits serve as an important instrument for enhancing the impact of state audits, motivating the audited entity to rectify the deficiencies identified during the audit, and preventing their recurrence. This report includes follow-up audits pertaining to the **promotion and development of public transportation within the Haifa metropolitan area.**

This report also includes the audit findings on **the quality of teaching in institutions of higher education.**

In conclusion, I wish to thank the employees of the Office of the State Comptroller, in the Economics and National Infrastructure Audit Division, the Social and Welfare Audit Division and the Headquarters Division, for their hard work in carrying out inspection and audit processes with the highest standards of thoroughness, professionalism and integrity and in publishing clear, effective and relevant audit reports.

It has not escaped my attention that positive actions are taken in the audited bodies, the most prominent of which were described in the audit chapters as required by the State Comptroller Law. At the same time, it is the duty of these bodies to rectify the deficiencies noted in this report in order to better their activities and to improve service to the public in Israel.

We continue to pray and express our hopes for the triumph of the IDF and the security agencies, for the return of all hostages, for the recovery of the wounded, and for peaceful and quiet days ahead.

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, October 2025

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Chapter One

Systemic Issues

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Systemic Issues

Ensuring the State of Israel's Food Security in an Emergency

Ensuring the State of Israel's Food Security in an Emergency

Background

"Food Security" refers to a state of affairs whereby all individuals, at all times, have reasonable physical and economic access to an adequate amount of safe and nutritious food that meets their preferences and their dietary and cultural requirements, enabling them to lead active and healthy lives[1]. The assurance of a food supply is valid during routine times and is critical in emergency situations, as a consistent food supply is integral to human survival in the initial stages of the crisis. During emergencies, the provision of an adequate and balanced food supply poses a substantial challenge. Israel, characterized as an "island state" due to its limited capacity to depend on neighboring nations, bears the responsibility of ensuring the availability of sufficient food supplies over extended periods[2].

The supply of food during emergencies may originate from various sources: the maintenance of a national food stockpile to guarantee its uninterrupted provision to the populace, along with the capabilities for importing, producing, and transporting food, as well as fresh agricultural products and locally sourced food items. Ensuring functional continuity throughout the food supply chain[3] is essential and is a vital component in securing access to food.

The responsibility for coordinating the supply of diverse food products during emergencies is divided among various governmental entities. The primary entities are the National Emergency Management Authority at the Ministry of Defense (NEMA), which operates as a staff unit under the Minister of Defense, whose objective is to assist the Minister in fulfilling his overarching responsibility for managing the home front during emergencies through the planning, coordination, guidance, direction, and oversight of the entities engaged in readiness and preparation of the civil space for emergency situations; the Ministry of Health, which is tasked with defining the amount and quality of the essential food product basket for emergencies; the Supreme Food Authority at the Ministry of Economy and Industry (the Ministry of Economy), which is responsible for coordinating the supply of both dry and fresh food products, defined by the Ministry of Health as essential food, from the producers, importers or strategic reserves to retail marketing chains and supermarkets; the Ministry of Agriculture and Food Security (the Ministry of Agriculture), which is responsible for

1 Definition of the Food and Agriculture Organization of the United Nations, World Food Summit Report, Rome, 1996.

2 In accordance with the established reference scenarios.

3 Starting from the stage of importing or producing basic raw materials, through food production, its transfer to chains and supply to consumers, as well as direct consumption of fresh agricultural produce through the import or production of local agricultural produce, its transportation and distribution to consumers.

maintaining the supply chain for fresh food products within the economy and for providing raw materials for the food industry.

On the Jewish holiday of Simchat Torah, October 7th 2023, the Hamas terrorist organization launched an assault on the State of Israel, with the bombardment of thousands of rockets and the infiltration of thousands of terrorists into Israel Defense Forces (IDF) bases, urban areas, and communities in the Negev region. The ensuing conflict, referred to as the Swords of Iron War (also, the "war"), is marked by a sustained barrage of rockets aimed at Israeli communities, alongside concerns regarding the potential for a multi-front war of protracted duration, exceeding that of Israel’s recent military engagements. The October 7 terrorist attack has had significant impact on the economic landscape of the State of Israel, particularly during the initial months following the attack, and has also impacted the daily lives of the nation's citizens. The damage inflicted on the home front during the conflict necessitates adequate preparation by government entities to ensure the provision of services that support the functional continuity of the economy and mitigate the adverse effects of the war on the populace.

Key Figures

16%

The rate of growth in import-based food supply in 2021 compared to 2011. Compared to a 1.5% increase in the supply of domestically produced food during the same period, indicating an increasing dependence on food imports

-1.3%

The rate of change in agricultural productivity between 2011 and 2021 is the lowest among OECD countries, with the exclusion of Costa Rica

93%

of the grains consumed in Israel in 2022 were imported. In 2020, 97% of the grains consumed in Israel were imported. Israel was ranked 149th out of 169 countries in the grain import dependency ranking in 2020

3 out of 6

major food suppliers are controlled by foreign-owned corporations, without consideration being given to the impact this has on food security and the national security of the State of Israel

Shortage of 3 essential products

The quantity of 3 essential products in the national emergency warehouses under the responsibility of the Ministry of Economy is lower than the quantity required according to the reference scenario. A shortage that ranged, in July 2024, between 12.2% and 56.8% in the various products

About 23%

The proportion of essential food enterprises that are only partially prepared for an emergency in terms of manpower. 12.3% of essential enterprises do not have standard protection

50%–100%

The gap between the required quantity of the various components of animal feed and the quantity required according to the reference scenario

100,000 dunams

The extent of agricultural areas where damage was detected as a result of the Sword of Iron War, as of July 2024 – approximately 8.5% of the total agricultural areas in the State of Israel

Audit Actions

From January to October 2024, the Office of the State Comptroller conducted an examination of the preparedness and readiness of various government entities to ensure food supplies during emergency situations. The audit was conducted at the National Emergency Management Authority, the Ministry of Economy, the Ministry of Agriculture, the Ministry of Health, and the Shipping Authority. Supplementary examinations were carried out at the Ministry of Labor, the Budget Division, and the Chief Economist Division at the Ministry of Finance, as well as at the National Security Council (NSC). Tours were conducted at several essential enterprises, emergency warehouses, and an "Iron Branch"[4] under the jurisdiction of the Ministries of Economy and Agriculture.

Key Findings

Decentralization of Government Responsibility for Food Security in the State of Israel – In the State of Israel, the responsibility and authority pertaining to food security are routinely divided among a multitude of entities, including the Ministry of Agriculture, the Ministry of Economy, the Ministry of Health, and others. In terms of emergency preparedness, the National Emergency Management Agency works in addition to these bodies. Unlike other countries such as Japan, Singapore, Switzerland, and the United Kingdom, which have enacted legislation and designated an integrating body to address the issue of food, the domain of food in Israel – which is also a national objective in home front emergency preparedness – lacks regulation and an integrating governmental framework responsible for it, with the authority to ensure its preparedness. Consequently, each government ministry engaged in food-related issues manages independently emergency preparedness in the field within its purview, frequently without coordination with other ministries. In the absence of an integrating authority responsible for home front preparedness with powers to enforce its directives, and without a dedicated body to ensure food security in routine and emergency situations, there is concern that individual preparedness among entities in the field of food security will yield only a partial and uncoordinated response. Consequently, the economy's needs during emergencies will not be adequately met, potentially resulting in inefficient allocation of resources.

4 A branch of a marketing chain, which will be able to operate in an emergency, subject to Home Front Command policy.

- **Absence of a Food Security Strategy –** In contrast to numerous countries such as Ireland, Taiwan, the United Arab Emirates, and Switzerland, which have established food policies, prepared plans and taken measures to construct a long-term strategy for food security, and contrary to the recommendation of the Committee on Preparedness of the Food System for Climate Change, the State of Israel and its associated bodies in the food sector – including the Ministry of Economy, the Ministry of Agriculture, and the Ministry of Health – have yet to formulate a strategic plan for food security. Such a plan is imperative given the unique characteristics of the State of Israel, which, being an "island state", is confronted with substantial security and geopolitical threats, high population density, limited agricultural land availability, one of the highest population growth rates globally, and its vulnerable geographical location in terms of climate change.

- **Formulation of a Strategic Plan for Food Security by the Ministry of Agriculture during the Swords of Iron War –** In the key points of the government's work plan for 2022, the Ministry of Agriculture set a goal to develop a concept of food security for the State of Israel, which would be implemented by formulating a policy document in the field of food security by December 2022; however, this objective was not achieved. This goal was reiterated in the government's work plan for 2023, wherein the Ministry of Agriculture laid down "developing the State of Israel's healthy food security concept" among its goals and objectives. To this effect, the Ministry proposed to formulate a food security policy plan for Israel by December 2023. In March 2024, the Ministry of Agriculture announced that the Minister of Agriculture intended to present "in the coming days" a proposal for governmental vote regarding a national food security plan, spearheaded by the Ministry of Agriculture, in collaboration with relevant government ministries, which would be formulated and submitted for governmental approval within 180 days. However, the Ministry failed to meet this deadline too, and the development of the plan remained incomplete even following the onset of the Swords of Iron War.

- **Shortage of Essential Products Held in the Ministry of Economy's Emergency Stock –** According to a joint procedure established by the National Emergency Management Authority and the Ministry of Economy in 2020 (the "Food Booklet"), the provision of food to the population during emergencies should include products overseen by the Ministry of Agriculture – fresh meat, fresh fish, eggs, vegetables, and fruits – alongside prepared and packaged items such as rice, sugar, baby food, and bread, which fall under the jurisdiction of the Food Authority within the Ministry of Economy. The audit found that out of the ten essential products under the aegis of the Ministry of Economy, engagements were not finalized with franchisees with respect to two products, to the extent required by the reference scenario, resulting in an engagements shortfall for said two products of 12.2% and 44%, respectively, as of July 2024. It was further found that the inventory level of another essential product in the warehouses was below the specified amount, with an approximately 15.9% shortage of this item as of July 2024. Ten months subsequent to the scenario update, and in light of the emergency status and the potential for its exacerbation, one would expect the deficiencies in essential products to have been addressed; however, the shortage of these products still exists. Shortages of essential products are serious, and in times of emergency can l adversely affect the functioning of residents and the economy. Rectification of these deficiencies is highly urgent, considering the likelihood of the continuation and possible escalation of the Swords of Iron War.

Formulating the Food Requirements of the Population During an Emergency

- The Ministry of Economy has not determined the sources of supply for all products within its purview, nor the necessary quantities in accordance with population growth rates and per capita recommendations. With the exception of certain products stored in emergency warehouses, the State of Israel depends on operational stockpiles within the economy; however, this stock is not being managed – the required quantities of products necessary for the economy at any given time have not been defined, and the Ministries of Economy and Agriculture do not engage in continuous monitoring of the operational stockpiles available in the market for each product.

- In contravention of the protocols set forth by the National Emergency Management Authority, in practice the Ministry of Economy and the Ministry of Agriculture have an updated status of the emergency stock in the emergency warehouses only, and they do not have a comprehensive overview of the operational food stockpiles of essential products in the economy, despite the dependence of public supply on this operational stock. The absence of data hinders the identification of discrepancies between the demand for food products and raw materials and their supply in the market, thereby complicating efforts to address these gaps.

Limited Geographical Distribution of Essential Products Stored in Emergency Warehouses – Four out of the ten products designated for emergency warehouses under the jurisdiction of the Ministry of Economy are concentrated in a single geographical area, while an additional four products are stored in only two areas. The remainder of the products is distributed across three areas. This means that the geographical allocation of the warehouses is suboptimal, thereby increasing the risk that, in the event of transportation disruptions, the products may either fail to be delivered or may not be delivered consistently to the various geographical regions.

Supervision of the Wheat Stockpiles and the Presence of Pests in Wheat Stored in the Emergency Warehouses Under the Purview of the Ministry of Agriculture – The reports prepared by the Ministry of Agriculture following audits conducted at ten storage sites between January 2023 and August 2024, revealed that with the exception of one facility, which demonstrated a commendable level of cleanliness and adherence to pest control protocols, in all the other audited sites, some of the warehouses that store wheat, failed to adhere to the requirements. Among other things, some of the wheat stored was infested with insects, moths, and pigeon droppings; additional wheat was stored at elevated temperatures, rendering it "moldy";

and some was contaminated with dust. Moreover, while the quantity of wheat in the emergency warehouses satisfies the stipulated requirements for emergencies, the Ministry of Agriculture lacks a comprehensive assessment of the extent and quantity of compromised wheat. Consequently, the Ministry is reliant on a wheat stockpile that is present in the warehouses but is not immediately usable, thus failing to provide a reliable supply source to the public during emergencies. The magnitude of this issue remains indeterminate, exposing a deficiency in the preparedness of the economy for emergency wheat supply.

Shortage of Animal Feed in Emergency Warehouses – Although animal feed serves as sustenance for livestock, which in turn serves as a food source for the residents of the State of Israel, it was found that even prior to the outbreak of the Swords of Iron War, there was a substantial gap of approximately 50% between the available volume of animal feed stockpiles in warehouses and the quantity required per the reference scenario. This discrepancy intensified following the update of the NEMA reference scenario subsequent to the Swords of Iron War, necessitating an increase of 300% in existing quantities to attain the requisite amount. Furthermore, the current stock does not encompass essential components, such as liquid and solid oils and vitamins, which are required for the maintenance of animal health and without which the animal feed is unusable.

Ensuring the Import of Food Products and Raw Materials

- In 2021, the supply of imported food products (4,570 thousand tons), was approximately 16% higher than the supply in 2011 (3,955 thousand tons). In contrast, during the same timeframe, local food production experienced a marginal increase of approximately 1.5% (from 6,038 thousand tons to 6,129 thousand tons). The Ministries of Economy and Agriculture did not undertake a comprehensive risk assessment to evaluate the implications of reliance on food imports, particularly concerning essential products. Such an assessment would have facilitated the identification of critical products for which local production goals should be established, akin to practices in other countries, thereby ensuring availability during emergencies. The Ministry of Agriculture did not assess the supply sources of various products under its purview, nor did it analyze the quantity of supplies arriving from each country, etc.. Furthermore, the Ministries of Economy and Agriculture did not develop action plans or strategies to mitigate risks associated with reliance on foreign countries.

- It was found that Israel exhibits relatively high food independence in the sectors of chicken and turkey, dairy products, potato, vegetable, and fruit crops, with the majority of consumption derived from local production and only a small percentage from imports. Conversely, independence in the areas of legumes, oils and fats, fish, and sugar is comparatively low, resulting in significant reliance on imports for these products. Israel's dependence on grain imports and grain products is markedly greater than that of other countries such as the United States, Greece, Italy, Spain, and France, with over 97% of grains consumed in Israel being imported. According to data from the Food and Agriculture Organization[5] (FAO), only 29 countries (17% of the global total), exhibit such a high level of dependence on grain import. Israel ranks 149th out of 169 countries in this regard. Additionally, it was found that wheat imports are predominantly sourced from three countries: Russia, Ukraine, and Romania, some of which are situated in unstable regions. This situation poses a potential risk to the continuity of wheat imports.

- **Weakening of the Agricultural Sector –** The agricultural sector has exhibited a downward trend since the onset of the previous decade. This decline is evident in a reduction in productivity (an average annual decrease of 1.3% from 2011 to 2020), and stagnation in domestic production (a mere 0.96% increase from 2015 to 2021), despite the population growth and rising imports of fresh produce. The weakening of the agricultural sector adversely affects food security in the State of Israel, leading to increased dependence on agricultural imports, which are susceptible to risks.

- **High Rate of Indirect Support in the Agricultural Sector –** From the early 2000s until 2007, the volume of support allocated to the agricultural sector diminished gradually (by approximately 75%, from around $2.17 billion to approximately $550 million); there was also a significant reduction in the percentage of indirect support out of the total support. During this period, the financial scope of direct support, which could serve as a key mechanism for enhancing sector efficiency, also decreased. However, since 2008, the volume of support for the agricultural sector has increased, as has the rate of indirect support, which reached 89% of total support for the sector in 2022, in contrast to an average of 44% in OECD countries. The level of direct support during this period has remained low compared to the average levels observed between 2000 and 2007. The initiatives undertaken by the government, beginning in March 2022, to transition towards a reduction in indirect support for the agricultural sector have not been accompanied by an augmentation in direct support, which could have bolstered the profitability of local agricultural production, enhanced efficiency within the local agricultural sector, and improved the competitiveness of this sector relative to imports. Consequently, these measures have resulted in an outcome contrary to the one desired, as evidenced by the acceleration of the existing downward trend in local production over the last two years and the increase in imports. Ultimately, despite the increase in imports, prices for agricultural produce have failed to go down.

- **Functional Continuity of the Food Industry in Emergencies**

  - It was found that although Government Resolution 1716 of 1986 and Government Resolution 2017 of 2016 empowered government ministries and various authorities, including NEMA, the Ministry of Economy and the Ministry of Agriculture, to prepare

5 Food and Agriculture Organization of the United Nations. Since 2000, the organization has been publishing a Suite of Food Security Indicators for 200 countries, including Israel.

the economy for emergencies in their respective areas, such as the food sector, they lack enforcement mechanisms or the capacity to provide adequate incentives. Notwithstanding the observations made in the State Comptroller's reports[6] and the proposals put forth in the preceding decade for the regulation of emergency preparedness, the relevant sector remains inadequately regulated. In the absence of suitable legal provisions concerning economic preparedness, this domain has yet to be properly regulated. In the absence of appropriate legal regulation concerning emergency preparedness, or, at the very least, the preparation of essential enterprises for emergencies, which would include instruments to ensure adequate readiness, the responsibility for compliance with directives is contingent upon the willingness and capability of the essential enterprises involved to comply with the instructions given them.

- Although government resolutions have authorized ministries to prepare the economy in their areas of responsibility for emergencies, the Office of the State Comptroller's examination revealed that the Ministry of Economy and the Ministry of Agriculture, which oversee the food sector in emergencies, depend on the operational capabilities of essential enterprises that lack the requisite resources for proper functioning during an emergency. It was also found that certain enterprises designated as essential were approved as such without their possessing the full resources necessary for operating in emergency scenarios. In the absence of a mechanism that compels or incentivizes essential enterprises to fulfill the operational requirements needed for emergency situations, it is impossible to ensure the preparedness of these enterprises, consequently jeopardizing the provision of services or products during emergencies. Moreover, the designation of an enterprise as essential, or as one providing essential services[7], enables the Ministry of Labor to issue work call-up orders for the enterprise employees during emergencies, mobilize equipment, etc. Without any guarantee that the enterprise will be capable of functioning and delivering outputs during emergencies, this is liable to result in a waste of resources in such situations.

Supervision of Functional Continuity of Essential Enterprises Under the Responsibility of the Ministry of Agriculture – Despite the Ministry of Agriculture's responsibility for preparing essential enterprises within the agricultural sector for

6 See, for example, the State Comptroller, Special Audit Report (2021), "Preparation for and Protection from Floods"; and a collection of audit reports on the subject of emergency preparedness and readiness (2015), "National Preparedness for Handling Emergency Events in the Home Front".

7 According to the arrangement in the Emergency Labor Service Law, 1967, the Minister of Labor is authorized to approve by order an "enterprise for the provision of essential services" for the purpose of a special situation in the home front or a civil emergency. An essential service is one of the following: the supply of water, food, electricity, health and hospitalization services, sanitation services, and communication and postal services; a service that must be provided in order to prevent serious harm to the population or to an area in respect of which a special situation in the home front or a civil emergency has been declared; a service that, in the opinion of the Minister, is essential for the survival or care of the population or the cessation of which is liable, under the circumstances, to inflict considerable damage to the economy affecting the entire market.

emergency situations, the Ministry of Agriculture headquarters does not monitor the performance of inspections conducted on these essential enterprises by district authorities. Furthermore, the Ministry lacks an updated and comprehensive overview of the frequency and results of inspections carried out at the district level. Additionally, the Ministry does not possess data concerning the basic inputs required for emergencies in a significant proportion of the essential enterprises it inspects, with approximately 13% to 21% of these enterprises lacking essential elements such as generation capability, water collection systems, emergency preparedness portfolios, and supplier lists. Consequently, the Ministry lacks mapping of the preparedness of essential enterprises at the aggregate level, which impedes its capacity to identify gaps, if any, and root problems related to their emergency preparedness, and its ability to formulate appropriate solutions. Even in instances where inspections of essential enterprises have been performed, significant deficiencies have been identified relating to existing basic inputs.

Supervision of Essential Enterprises – The oversight conducted by designated authorities of essential enterprises in the food sector is deficient. The designated authorities (the Ministry of Labor[8], Ministry of Economy, and Ministry of Agriculture) do not perform inspections with the frequency required or, when deficiencies are identified, do not insist on their rectification. Inspections of all essential enterprises have not been carried out by said designated authorities, resulting in an incomplete assessment of the situation. Furthermore, NEMA, on its part, has not conducted regular inspections of the designated authorities, leading to a further inadequacy in NEMA's oversight of the designated authorities and a lack of a comprehensive assessment of the readiness of essential enterprises for emergencies. This situation reveals a concerning landscape regarding the preparedness of essential enterprises for emergency conditions. Noncompliance with operational standards required for functional continuity, insufficient provision of necessary inputs, and failure to adhere to manpower regulations, as well as the absence of protected spaces, etc. will prevent the functionality of essential enterprises during emergencies.

Preparing the Population for Times of Emergency – Despite the service goals delineated by the National Emergency Management Agency, according to which the transmission of essential information, awareness-raising and guidance of the public are among the goals for ensuring economic continuity during emergencies and enhance preparedness for such situations, prior to the outbreak of the Swords of Iron War, no instructions or information were disseminated to the public regarding the preparation for potential emergency events and their impact on food availability. Furthermore, it was found that the Ministry of Health had formulated documents in July 2022 containing instructions regarding a "community food basket for emergencies and non-routine situations". However, these documents were not made publicly available, despite the

8 It should be noted that the Ministry of Labor is responsible for ensuring the continuity of operations of essential enterprises in terms of manpower, and in this aspect as well, gaps were discovered, whereby the Ministry's supervision and monitoring were incomplete.

significant potential for risks, including security incidents, earthquakes, etc., which are liable to occur with little or no warning. The Ministry of Health did not furnish these instructions to the Home Front Command, and consequently, they were not published by the Home Front Command. The Ministry of Health's updated instructions from April 2024 were also withheld from publication in an effort, according to the Ministry, to avoid inciting public panic. Advance preparation of the public during routine periods for emergency events is essential and can substantially enhance public resilience, augment readiness for emergencies, maintain public order, prevent panic among the populace, and allow for proper and better regulation of food products within marketing chains.

The "Iron Branches" Program – The Office of the State Comptroller commends the initiative of the Ministry of Economy, in collaboration with the National Emergency Management Agency and marketing chains, to establish a national program that includes a network of 555 "iron branches"[9] designed to provide service even in times of severe conflict, as well as to define the requisite conditions for those branches and conduct audits to ascertain compliance with these conditions.

Key Recommendations

- The absence of legislative regulation concerning home front emergency preparedness, along with the lack of an integrating body for emergency management in general, and pertaining to food in particular, underscores the need for the National Security Council, working in collaboration with the National Emergency Management Agency, to evaluate the establishment of an integrating body endowed with authority in the domain of food during emergencies, and subsequently present its findings to the government for decision-making. It is recommended that this body have a strategic vision, enabling it to formulate a long-term policy for food emergency preparedness and the authority to execute it.

- It is advisable that the Ministry of Agriculture, in conjunction with relevant entities – including the National Security Council, the National Emergency Management Agency, the Ministry of Economy, the Ministry of Health, and the Ministry of Finance – along with consultations with the Home Front Command, finalize the national food security plan and pursue its approval from the government. The plan should be predicated on a thorough risk analysis and should incorporate the establishment of long-term objectives. Among other components, the plan should delineate essential products that will form the basis of the food security concept, an optimal combination of local production and imports, a risk analysis regarding supply, and action plans addressing the various fields of agriculture, the food industry, and emergency food stockpiles. Furthermore, when designating an entity responsible for the execution of the plan, it is recommended that budgets and financing

9 A branch of a marketing chain, which will be able to operate in an emergency, subject to Home Front Command policy.

sources be established, alongside performance indicators for assessing compliance with and the effectiveness of the plan.

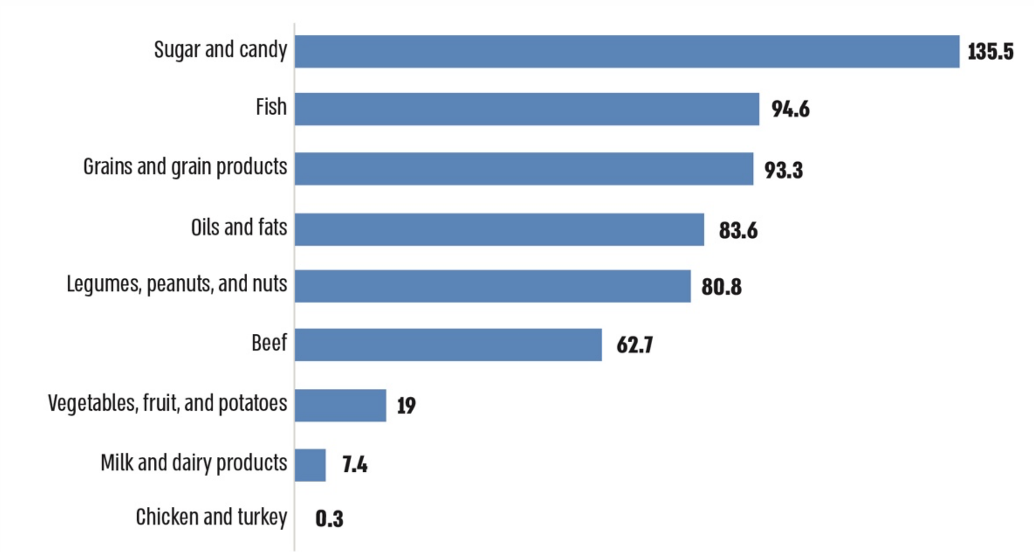
- The Ministry of Economy must promptly address the deficiencies in the emergency stockpiles. The Ministry of Agriculture is required to ensure that wheat is stored in compliance with quality standards at all times and to take immediate measures to enhance its quality or replace it as necessary. It is also advisable for the Ministry of Agriculture to expedite the replenishment of animal feed stockpiles in the warehouses, on all of its components.

- It is recommended that the Ministry of Agriculture and the Ministry of Economy assess, within the framework of the strategic food security plan, the risks related to the State of Israel's significant reliance on imports, particularly for products deemed essential by the Ministry of Health, and to develop strategies to mitigate these risks and their potential impacts.

- The Ministry of Agriculture, in collaboration with the Ministry of Finance, must delineate methods to bolster the agricultural sector’s standing as part of a food security strategy, and sustain agriculture as a strategic sector essential for the State of Israel's food security, with its multiple benefits in protecting state lands and securing borders, as well as aesthetic, environmental and other advantages. It is recommended that the Ministry of Agriculture establish objectives for the agricultural sector, and accordingly, in collaboration with the Ministry of Finance, develop a strategy aimed at reducing distortions, enhancing efficiency within the sector, and preserving its strategic importance in maintaining the nation's resilience during both emergency and routine times.

- The designated authorities within the Ministry of Economy and the Ministry of Agriculture are required to collaborate with the National Emergency Management Agency and the Ministry of Labor to develop a comprehensive, detailed, and current assessment of the preparedness of essential enterprises for emergency situations. This assessment should identify the deficiencies in their preparedness and initiate actions to address these gaps utilizing the available resources. It is advisable for the designated authorities, in conjunction with the enterprises, to devise plans for mitigating the identified deficiencies in accordance with the procedures established by the National Emergency Management Agency, ensuring the implementation of these plans. In light of existing obstacles arising from lack of authority, the absence of enforcement mechanisms or sufficient incentives, as well as budgetary and other limitations, the designated authorities should collaborate with the National Security Council and the Ministry of Finance to develop solutions, including through legislative measures, to ensure the operation of these enterprises during emergencies.

The State of Israel's Dependency Ratio on Imports of Major Food Products, 2022

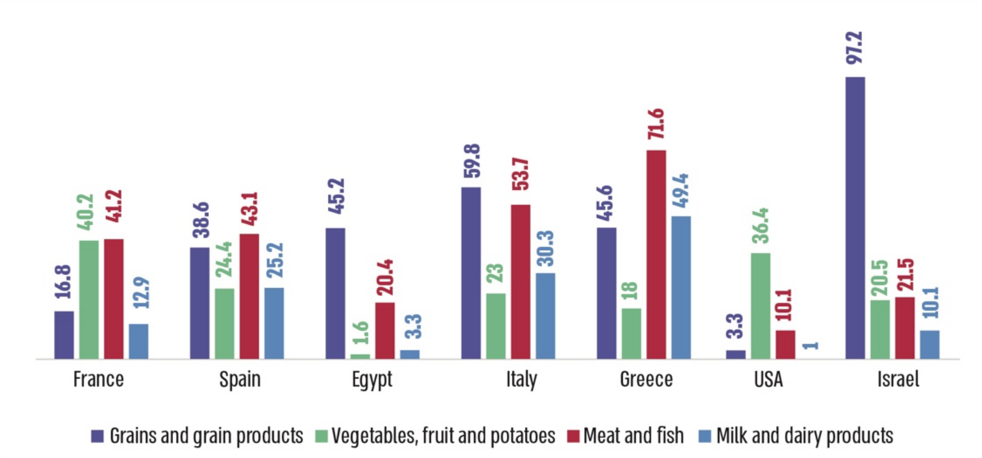


According to data from the Central Bureau of Statistics (CBS), press release, the Food Supply Balance for 2022, March 2024, processed by the Office of the State Comptroller.

* The index delineates the ratio between the imported quantity of a particular product and the total supply of that product (calculated as the quantity produced domestically plus the imported quantity, minus the quantity exported). An import dependence index exceeding 100% signifies that exports are contingent upon imports. This situation typically arises when a specific component of the export commodity is sourced from imports. For instance, the export of jams is reliant on the import of raw sugar utilized in their production.

** A distinction has been made between potatoes and vegetables due to variations in nutritional values.

Import Dependency Ratio for Selected Products in Israel and Selected Countries, 2020



According to CBS data, Food Supply Balance 1950–2021, May 2023, processed by the Office of the State Comptroller.

* The index describes the ratio between the imported quantity of a particular product and the total supply of that product (the quantity produced in the country and the imported quantity, minus the exported quantity).

Summary

Ensuring a long-term food supply during both routine and emergency situations necessitates early preparation and planning through the formulation of a food management strategy and the implementation of actions prior to the emergence of the reference scenario. The current audit revealed that the Israeli government lacks sufficient preparedness to sustain functional continuity in food supply during emergencies. It was found that Israel does not possess an integrating governmental framework responsible for the State of Israel's emergency preparedness, which encompasses overall authority and responsibility for the matter. Furthermore, there is no integrating entity that sees the overall picture pertaining to food, in both routine times and emergencies. Additionally, the State of Israel lacks a long-term strategy for food security. In the absence of an integrating body and long-term planning, in practice each government ministry responsible for aspects of food security manages its designated area in both routine and emergency contexts based on individual vision and practices concerning emergency preparedness. Consequently, there are deficiencies in the inventory of certain products stored in emergency warehouses, there is inadequate supervision of essential food production enterprises, and insufficient preparedness of these enterprises for emergency situations. The Ministries of Economy and Agriculture are bereft of the necessary enforcement mechanisms or incentives to ensure the rectification of existing gaps and lack a comprehensive overview of the preparedness of food enterprises for emergencies, which would enable the formulation of an actionable plan to address these deficiencies. The Israeli agricultural sector, which serves as the foundation for food security, also remains stagnant, with local production exhibiting a downward trend, partially attributable to governmental policies that incentivize the sector through indirect support, which creates distortions.

It is recommended that, pending the formulation of legislative measures pertaining to home front emergency preparedness, the National Security Council, NEMA, the Ministry of Agriculture, the Ministry of Economy, the Ministry of Health, and the Ministry of Finance collaborate to immediately integrate and strategize Israel's food policy for both routine and emergency contexts, and undertake necessary actions to secure regular food supplies during emergencies, prepare various entities within the food sector for emergencies, identify existing gaps and implement corrective measures to address them.

Report of the State Comptroller of Israel | October 2025

Chapter Two

Government Offices

Report of the State Comptroller of Israel | October 2025

Israel Tax Authority

Real Estate Taxation and Israel's Real Estate Information Infrastructure

Real Estate Taxation and Israel's Real Estate Information Infrastructure

Background

According to the Central Bureau of Statistics (CBS), as of July 2024, there are 2.96 million apartments and residential units in Israel. In the past decade, there has been a significant increase in housing prices in Israel, partially deriving from a combination of a shortage in the supply of apartments, the interest rate environment in Israel since 2008 and the impact of global economic crises. From January 2014 to December 2024, the House Price Index rose by approximately 77.5%, while the Consumer Price Index increased by approximately 15.3%.

Government entities can influence housing prices by intervening in the supply side or the demand side. Since 2008, the government has been seeking solutions for the housing crisis, which has been worsening over the years. The government has various tools that can influence housing prices, such as, imposing taxes on real estate transactions and increasing transaction transparency, which promote competitiveness in the real estate market.

The Israel Tax Authority is an important factor in this market. The Tax Authority conducts assessments of real estate transactions and collects the taxes[1] on them. The Tax authority receives and maintains the real estate transactions file, which contains details of real estate transactions and the real estate prices ledger (hereinafter - Real Estate Transactions & Prices File). The Real Estate Transactions & Prices File is used by government bodies for calculating the House Price Index and for research purposes. The Tax Authority publishes the real estate database on the internet, allowing the public to receive up-to-date information on real estate transactions in the market.

1 Real Estate Capital Gains Tax imposed on the capital gain from the sale of a real estate right and Purchase Tax imposed on the buyer when purchasing a real estate right.

Key Figures

NIS 60.5 billion

The total revenue from real estate taxation in 2021–2023 (Real Estate Capital Gains Tax and Purchase Tax), which is 8.4% of the total revenue from direct taxes in these years

NIS 18.5 billion

Debts pertaining to real estate taxation as of December 31st, 2024, in accordance with the financial statements of the State of Israel

903,858 apartments in condominiums

that are not included in the Real Estate Transactions & Prices File, among 1,837,382 condominium apartments registered in the Land Registry. The Real Estate Transactions & Prices File cannot be relied on as a real estate database because it is incomplete

44 objections

whose handling was completed after the end of the limitation period

923 real estate capital gains corrections

that have not yet been corrected by the Income Tax Office, even though more than seven years have passed since the date that the real estate capital gains assessment was amended (as of February 16th, 2025). The result is that the Tax Authority will not be able to collect debit balances generated from tax assessment corrections, and if it involves tax assessment corrections that generate credit balances, it is possible that the refund will not be returned to the taxpayer

256 transactions[2]

in which an assessment was issued to the best of judgement after the end of the limitation period. This action is not in accordance with the law, and if the taxpayer's self-assessment has not been transmitted, it may economically harm the taxpayer and even the taxpayer's rights

1,192 requests for tax assessment corrections

have not yet been processed although more than a year has passed from date of application (as of January 12th, 2025)

4,783 reconside-ration inquiries from employees

regarding the denial of work grants due to real estate asset inventory, were found to be justified (about 84% of the total number of inquiries)

2 Out of 8,821 transactions examined by the audit team and handled between January 2024 and January 2025.

Audit Actions

From August 2024 to March 2025, the Office of the State Comptroller examined the functioning of the Israel Tax Authority, particularly the Real Estate Taxation Division, in relation to taxation of real estate transactions. The Office of the State Comptroller also examined the completeness and accuracy of real estate data and real estate transactions reported to the Tax Authority, the information published to the public, and the use made of this information by other governmental ministries. The audit was conducted at the Tax Authority – at the Real Estate Taxation Division and the Computerized Data Processing Unit (DPU). Supplementary examinations were conducted at the Central Bureau of Statistics, Survey of Israel and Israel National Digital Agency.

Key Findings

First Chapter: Handling Assessments in the Field of Real Estate

Real Estate Taxation Activity – In 2018–2020, the total revenue from real estate taxation was about NIS 11.37 billion on average, approximately 7% of the total revenue from direct taxes collected by the Tax Authority. In 2021–2022, the total revenue from real estate taxation increased to an average of approximately NIS 23 billion, approximately 9% of the total revenue from direct taxes collected by the Tax Authority, while in 2023, the total revenue from real estate taxation decreased to NIS 14.41 billion, approximately 6% of the total revenue from direct taxes collected by the Tax Authority[3]. The total number of transactions reported to real estate taxation offices in 2022 was 178,005, in 2023 – 130,854, and in 2024 – 167,538. Most of the transactions were reported in the real estate taxation offices of Haifa, Be'er Sheva, Reẖovot and Central (in total, an annual average of about 86,400 transactions, which are on average about 54% of the annual average of transactions). It was found that there is no uniformity in the number of assessments handled by the tax assessors in the regional real estate taxation offices. There are regional real estate taxation offices where there is a gap between the relative number of employees and the total number of transactions reported relatively, compared to all regional real estate taxation offices.

3 Among other things, due to the terror attack on October 7th, 2023.

Estimated Real Estate Taxation Debts – In the financial statements of the State of Israel for 2020–2024, there is a breakdown of tax debts in accordance with the type of tax - for example, the financial statement for 2024 includes debts to real estate taxation amounting to NIS 18.5 billion; however, the accounting auditor has expressed reservations since the information systems of the Tax Authority do not always meet all the accounting needs, and there is difficulty in separating the data into the components required for proper accounting presentation (such as composition of assets, the date of their formation and the recording of provision for doubtful debts). The Tax Authority also lacks information regarding the distribution of debt among the different types of debts: Property Tax, Real Estate Capital Gains Tax and Purchase Tax, nor does it have information regarding the aging of debts. Furthermore, for the years 2022, 2023, and 2024, there are differences amounting to approximately NIS 18.7, 18.8, and 18.4 billion (respectively), between the debts presented in the financial statements and the debts presented by the Real Estate Taxation Division. These findings raise difficulties in collecting debts or recognizing bad or doubtful debts. Moreover, the findings raise a question as to whether the debts presented in the financial statements are based on correct data.

Time Frame for Handling Assessment Corrections – The Real Estate Taxation Law does not specify a time frame for responding to assessment corrections and there are no internal guidelines or instructions pertaining to the time frame during which requests should be handled. Despite efforts by the Real Estate Taxation Division management to reduce the number of applications for assessment corrections examined by the audit team[4] that had not been handled for over a year, 73% (4,850 out of 6,602) of the assessment corrections are being handled more than a year after the day of their submission. In addition, there are applications for tax assessment corrections that were submitted in 2019 and have not yet been addressed. The audit found 1,192 applications for assessment corrections that have not been handled although more than a year has passed from day of submission. It was further found that the time frames for handling assessment corrections in the various offices are non-uniform, which might indicate a suboptimal allocation of manpower to real estate taxation offices. Approximately 84% of all applications for assessment corrections that have been pending for more than two years and have not yet been handled were found in two regional real estate taxation offices: Reẖovot and Central. Delay in providing a response to applications for tax assessment corrections creates uncertainty among taxpayers and may result in additional expenses for the state or the taxpayer due to linkage and interest differentials in the event of refund or debt due to the correction of the assessment.

Closing Files before the End of Limitation Period – In accordance with the Real Estate Taxation Law, the seller of a real estate right, the buyer of a real estate right or a right in a real estate association, or an individual performing an action in a real estate

4 Based on partial data received from the Tax Authority.

association, shall submit a declaration to the Tax Authority within 30 days from the day of sale, purchase, or action. Upon receipt of the declaration, real estate tax inspectors are responsible for preparing a capital gains assessment within eight months from the date of submission of the declaration. Such an assessment may be an approval of the self-assessment, or an assessment based on the best of judgment if there are reasonable grounds to assume that the declaration is incorrect. According to the Real Estate Taxation Law, the seller, the party performing the action in a real estate association, or the buyer, shall be given a reasonable opportunity to present their arguments before an assessment based on the best of judgement is made. If no other assessment is determined by the Real Estate Taxation Division within eight months, the self-assessment is approved. Representatives in the Real Estate Taxation Division argued before the audit team that some real estate taxation offices have a tendency to contact representatives for the purpose of conducting assessment proceedings close to the end of the limitation period, so that there is no real opportunity to present arguments. The following are the audit findings on this issue[5]:

- **Approval of Self-Assessment –** Out of 18,297 transactions handled to completion between January 2024 and January 2025 and examined by the audit team, 2,301 transactions (about 13%) were processed and the self-assessment was approved within the month prior to the end of limitation period (that is to say, close to the end of the limitation period); and 586 transactions (about 3%) were processed and the self-assessment was approved after the end of the limitation period as prescribed by law. It is also shown that 372 of the self-assessments (63.5%), approved after the end of the limitation period, were from three regional real estate taxation offices: Tel Aviv, Jerusalem and Reẖovot, where the total number of approved self-assessments constitutes only 32.3% of all self-assessments approved in all the real estate taxation offices.

- **Assessment Based on Best of Judgment –** Out of 8,821 transactions handled between January 2024 and January 2025 and examined by the audit team, 2,403 transactions (approximately 27%) were handled and an assessment was determined based on best of judgment within a month prior to the end of the limitation period (that is to say, close to the end of the limitation period). Additionally, 256 transactions (about 3%) were handled and an assessment was determined based on best of judgment after the end of the limitation period. This conduct is contrary to the law, and if the taxpayer's self-assessment has not been transmitted, it may economically harm the taxpayer and even his rights. The distribution of assessments based on best of judgment determined after the end of the limitation period is non-uniform: in the regional offices of Reẖovot, Tverya, Tel Aviv and Jerusalem, the rate of assessments based on best of judgment approved after the end of the limitation period, out of the total of these assessments in Israel, (19.1%, 7%, 21.5% and 13.7% respectively) is higher than the rate of assessments

5 Based on partial data received from the Tax Authority.

based on best of judgement in the office out of all these assessments (12.3%, 4%, 17% and 9.1% respectively). Conversely, in the regional offices of Be'er Sheva, Center, Hadera and Nazareth the situation is the opposite (0.8%, 3.5%, 1.2% and 2.3% compared to 6.5%, 13.5%, 20.4%, 5.6% and 4.6% respectively).

- **Objections to Assessments Based on Best of Judgement –** The Real Estate Taxation Law specifies that a person who disagrees with an assessment is entitled to object to it within 30 days from the day the assessment notice was delivered to him, and a reasoned written decision shall be provided to the taxpayer within eight months from the day the objection was submitted[6]. If the manager has not given his decision to the objector within the aforementioned period, including any extended period, the objection shall be deemed as accepted. It was found that out of 1,446 objections submitted between January 2024 and January 2025 and examined by the audit team, 841 objections (about 58%) were processed and a ruling made within the month prior to the end of the limitation period (that is to say, close to the end of limitation period), which may indicate that the transactions were handled at a relatively late stage and that a relatively short period of time was given to the taxpayers to present their arguments. Moreover, 42 objections (about 3%) were processed and a ruling made after the end of the limitation period, and 4 of them were even processed more than a year after the objection was submitted.

Income Tax Assessment Corrections following Changes in Real Estate Capital Gains Tax Assessments – It was found that there are 1,456 real estate capital gains corrections that were corrected by the Real Estate Taxation Division but were not amended accordingly in the Income Tax assessment, even though more than three years have passed since the real estate capital gains correction was made. Among these, in 533 real estate capital gains corrections (about 36.6%), more than three years have passed since the date of the real estate capital gains correction but less than seven years; and in 923 real estate capital gains corrections (about 63.4%), more than seven years have passed since the date on which the real estate capital gains correction was made and the Income Tax assessment has not yet been corrected. The three Income Tax offices of Gush Dan, Netanya and Ḏadera are responsible for more than 75% of the real estate capital gains corrections that were not corrected by the Income Tax Division for more than three years following the real estate capital gains correction. A delay of more than three years in the correction of Income Tax assessment following correction of real estate capital gains assessment is unreasonable and deviates from the directive of the Senior Deputy Director General for Assessment and Audit as well as from the directive of the Attorney General. Moreover, in assessment corrections that result in taxpayers' debit balance, there is difficulty in collecting the debt after three years, and special justification and proof of solvency are needed. It was further found that the Tax Authority does not have an estimate of the amount of debts that were not collected or

6 Under special circumstances, the manager is authorized to extend the aforementioned period up to a year from the day the objection was submitted.

refunds that were not paid following real estate capital gains corrections. At the beginning of 2023, the DPU at the Tax Authority began developing software intended to implement real estate capital gains correction automatically for Income Tax assessments. However, by the audit end date, it has not been completed, and the continuation of development is not even included in the Unit's work plan for 2025.

Reports to the Tax Authority on Transactions Executed by the Israel Land Authority – Since the various districts of the Land Authority have started using a new system of online reporting (implemented by the various districts in the course of 2020–2023), real estate transactions in these districts have not been reported to the Real Estate Taxation Division at all, due to lack of a suitable interface between the information systems of the Land Authority and those of the Tax Authority. By January 14th, 2025, 114,633 transactions had not been reported by the Land Authority to the Real Estate Taxation Division. The Land Authority thereby fails to meet its reporting obligation, making it difficult for the Real Estate Taxation Division to monitor the reporting of transactions by taxpayers or to detect unreported transactions; thus, the integrity of the information in the Real Estate Transactions & Prices File is compromised. Although online reporting rules allow the Land Authority to facilitate the process for buyers and save them representation costs in certain cases by enabling them to report through it to the Real Estate Taxation Division, by the audit end date the Land Authority had not made this possible for buyers.

Exchange of Information between the Various Tax Systems – In mid-2022, the Senior Deputy Director General for Assessment and Audit issued a directive according to which the Real Estate Taxation Division, Income Tax Division, and VAT Division should exchange information via a designated communication system. According to the directive, the relevant information should be transmitted through the communication system only. It was found that between November 1st, 2023 and November 20th, 2024, the designated communication system was used only for five inquiries from the Real Estate Taxation Division to the Income Tax Division and nine inquiries from the Real Estate Taxation Division to the VAT Division. These figures indicate limited use of the communication system by the various tax systems as well as non-implementation of the directive of the Senior Deputy Director General for Assessment and Audit from 2020. The lack of cooperation between the different tax systems, as manifested in the lack of actual use of the communication system, undermines the deterrence capability that facilitates collection of taxes and the Tax Authority's internal work processes.

Customer Service in the Real Estate Taxation Division

- **Operating Instructions and Use of the CRM Customer Relations System –** It was found that although the CRM system was launched in 2021, and although it is the Tax Authority's main communication channel with the public in matters pertaining to real estate taxation, no work procedures for the system had been formed by the audit end date.

- **The Quality of Handling Inquiries through the CRM Customer Relations System –** In 2024, 176,549 inquiries were closed in the CRM system, out of which at least one correspondence was initiated per 44,013 inquiries (about 25%), which may indicate that about a quarter of the customers who contact the Real Estate Taxation Division through the CRM system do not receive a satisfactory response on their first inquiry, and are therefore forced to apply several more times through the same system until they are provided with satisfactory service. It was further found that there is no computer-aided quality control or use of AI tools for examining the quality and professionalism of the response provided to these customers.

- **Handling Time for Inquiries –** Current CRM controls are unable to measure the time from the moment the initial inquiry is opened until the conclusion of the last inquiry, making it difficult to implement control over the inquiry handling time. The audit team examined the time taken to handle inquiries about advance payment reduction, real estate asset inventory, updating bank account details for refunds, collection issues (account status inquiry, payments information and refund status inquiry) and correction of an open self-assessment, and found that many of the inquiries were answered after the deadlines set by the Real Estate Taxation Division recommendation to SLA (23%, 40%, 22%, 9%, 27%, 30%, and 36% respectively).

- **Telephone Support at Real Estate Taxation Offices –** It was found that although telephone support is the only quick professional response other than the CRM system, in the Central, Tel Aviv, Ḫadera, Nazareth Netanya, Reḫovot, and Be'er Sheva offices no response was received in any of the audit team's contact attempts. In the real estate taxation offices of Tverya and Jerusalem, the call was not even routed from the call center to the offices and was disconnected. Lack of public reception at the regional real estate taxation offices, combined with the lack of telephone response in these offices, means that taxpayers and representatives can only make inquiries related to real estate taxation issues through the CRM customer relations system, which, as mentioned, does not provide a quick response and in most cases does not provide a sufficiently professional response either.

Second Chapter: Real Estate Database in Israel

Real Estate Assets Not Listed in the Real Estate Transactions & Prices File

- **Entering Unreasonable Data –** From mid-2024, following a change made by the Tax Authority in the transaction reporting system for real estate taxation, the system displays a warning message when unreasonable data are entered for the following values: "Floor"[7], "Parking"[8], "Storeroom"[9], and "Balcony"[10]. However, even if the unreasonable value is not corrected by the submitter, the system will approve it, and no further controls will be implemented. It was further found that in the process of reporting transactions to the Tax Authority, controls are implemented over the floor number of a property (equal to or less than the number of floors in the building), net area smaller than gross area, and a restriction on reporting the year of construction from 1900 to the present – however, even in these cases, any value, even unreasonable ones, can be reported, and the value is registered upon approval of the report. The possibility of entering unreasonable data into the real estate database undermines the quality, reliability, and integrity of the database and the indices published by the Israel Central Bureau of Statistics. This interrupts the taxing process by the various departments of the Tax Authority, and the ability of citizens and governmental bodies to use the information, as presented below.

- **Transfer of Information to External Systems –** It was found that the information in the Tax Authority's files is not fully transferred when conveyed from the Tax Authority's information systems to external systems or to the Authority's website. There is a significant gap, in the scope of hundreds of thousands of records, between the information available on the Real Estate Information website of the Tax Authority and the file transferred to the Survey of Israel (SOI) compared to the information available in the Real Estate Transactions & Prices File. That is, when the data is transferred from the secure information systems of the Tax Authority to the Survey of Israel and to the Real Estate Information website of the Tax Authority, some of the data is omitted or recorded as zero-valued entry, which results in hundreds of thousands of records being transferred incorrectly. In examinations performed by the State Comptroller's Office (year of construction – zero, apartment area – zero, number of floors – zero, small number of rooms relative to meters), tens of thousands of findings emerged in each examination of the files transferred to the Survey of Israel and used by the Real Estate Information website of the Tax Authority, whereas in the same examinations of the Authority's Real Estate Transactions & Prices File, only thousands of findings emerged in each examination. Upon audit completion, the audit team had not received an explanation regarding the scope and nature of the flaw, and even the Tax Authority reported that they had not yet managed to get to the bottom of this malfunction. The Real Estate Transactions & Prices file is the only database used by the Real Estate Information Database of the Tax Authority, which also assists Israeli citizens in various ways, including in comparing housing prices as a basis for making an

7 Value greater than 30.

8 Value greater than 4.

9 Value greater than 200 square meters.

10 Value greater than 200 square meters.

informed decision regarding a new purchase. Missing data impairs the quality, reliability, and usability of a real estate information site.

- **Historical Real Estate Assets –** Out of 1,837,382 apartments in condominiums registered in the Land Registry Office, it was found that 903,858 apartments are not included in the Real Estate Transactions & Prices File. In other words, there are properties that are registered at the Land Registry Office but are not included in the Real Estate Database that relies on the Real Estate Transactions & Prices File. It would appear there are additional properties that are not listed in the Real Estate Transactions & Prices File, as not all real estate assets are registered at the Land Registry Office. The incompleteness of the Real Estate Transactions & Prices File creates difficulty in relying on it as a real estate database. Moreover, incompleteness of information may lead to incorrect tax calculations, errors in citizens' real estate asset inventory and difficulty in locating properties and property owners.

- **Properties that have Undergone Consolidation and Redivision –** When consolidation and redivision of properties are carried out, an update is made in the records of the Land Registry Office, the Survey of Israel and the Land Authority; however, the Real Estate Transactions & Prices File is not updated at all, as it is not a transaction that requires reporting according to the Real Estate Taxation Law. It was found that there are 649,636 transactions of which the reported block and parcels are not included in the list of blocks and parcels regulated by the Land Registry Office, out of 2,967,691 transactions that are included in the Real Estate Transactions & Prices File and were not sold in parts[11]; i.e., there are 649,636 properties in the Real Estate Transactions & Prices File with a block and parcel that have been changed and no longer exist. Properties concerning which at least one sale has occurred, which are registered in the Real Estate Transactions & Prices file and which have undergone consolidation and redivision, will remain in the name of the original owners even after their sale, due to the inability to link the block, parcel, and sub-parcel numbers prior to the consolidation and redivision with the numbers following the consolidation and redivision. Under these circumstances, properties with outdated details are included in the Real Estate Taxation Files, creating a false representation both in relation to the real estate asset inventory in Israel and in relation to the citizens' personal real estate asset inventory.

  It was further found that once a year, up to 2022, the Survey of Israel transferred to the Tax Authority the file of accumulated parceling changes; however, the Tax Authority did not feed these changes into the systems and did not use them to improve the existing transaction files in the Real Estate Taxation Division in a way that links properties before and after parceling. Furthermore, no such file of changes was requested for the years following 2022. The use of these files can help link

11 When 100% of the property is sold by a single seller.

properties before and after parceling, and thus prevent situations where properties are registered under the ownership of taxpayers even though they have been sold.

- **Land on which a Property was Built –** It was found that from the date on which tax rate on land[12] became zero tax rate, and due to the absence of tax liability, the Tax Authority does not enforce the reporting obligation under the Property Tax and Compensation Fund Law on changes made to land. Failure to report changes in land may result in a situation in which the Tax Authority does not have a clear understanding of a person's properties. In the Real Estate Transactions & Prices File, data will not be updated regarding an individual who has become a land owner or has ceased to be a land owner in a manner that is not a transaction required to be reported according to the Real Estate Taxation Law; and all the lands on which properties have been built by someone who is not a professional builder, will continue to appear as land only in the Real Estate Transactions & Prices File, even if the property has been sold. This situation is liable to lead to an unreliable Real Estate Database which is published to the public, incorrect taxation of taxpayers, incorrect handling of taxpayers' requests such as requests related to work grants and participation in the Affordable Housing Program, as well as incorrect evaluation of taxpayers' assets used by the Tax Authority for collection purposes. In addition, these data affect the various indices published by the Central Bureau of Statistics.

Entering Incorrect Data into the Real Estate Transactions & Prices File – Since 1991, 4,021,108 transactions have been reported to the Tax Authority. By omitting transactions where parts of a property were sold by different sellers, the number of transactions is 2,967,691 – meaning, that even if there are several sellers of a property, the sale will be considered a single transaction. The audit team reviewed the following data fed into the Real Estate Transactions & Prices File:

- **Year of Construction –** In at least 53,963 transactions in condominiums included in the Real Estate Transactions & Prices File, the recorded year of construction is incorrect or unknown[13] (before 1900, since there are no such buildings in Israel). This accounts for approximately 4.2% of the transactions reported in the Real Estate Transactions & Prices File for condominiums and about 1.8% of all transactions reported in the Real Estate Transactions & Prices File, excluding properties that were sold in parts. It was further found that this error has been fed more frequently, since the representatives started to report online: since 2018, about 4.7% of the construction year reports were incorrect or unknown, compared to 3.9% prior to 2018. There are also cases in which different construction years are reported for the same property. For example, regarding a commercial structure built in 1975, and for which 96 transactions have been reported since the creation of the Real

12 Clause 17 of the Property Tax and Compensation Fund Law, 1961.

13 In reporting an existing transaction, it is possible to select "19th century" for the year of construction, and then the value "1800" will be entered under year of construction, for the purpose of marking old buildings whose year of construction is unknown.

Estate Transactions & Prices File, there were 21 different reports on the year the building was established, ranging from 1900 to 1990.

- **Number of Floors in a Building –** It was found that there are 452,678 transactions in condominiums included in the Real Estate Transactions & Prices File where the number of floors in the building that were reported to the Real Estate Taxation Division is zero, and in fact incorrect. These transaction reports reflect about 35% of the condominiums' transactions reported in the Real Estate Transactions & Prices File and about 15.3% of all transactions reported in the File. Since these are only transactions where 100% of the property was sold by a single taxpayer, the rate of incorrect reporting is expected to be higher considering the properties that were sold in parts.

- **Apartment Area –** In 80,556 condominium transactions where 100% of the property was sold to a single taxpayer and the same property was sold at least once more, there is a difference of at least 20 square meters in the apartment area reported in the various reports. The audit team found that after omitting transactions related to buildings that have undergone changes according to urban renewal plans – evacuation and construction projects or National Outline Plan (TAMA 38) (where additional space may have been added to the same apartment), there are 47,414 transactions in condominiums with such reporting discrepancies, casting doubt on the quality of the data and the accuracy of the reports.

- **Number of Apartments in a Building –** It was found that there are 578,561 condominium transactions in the Real Estate Transactions & Prices File where 100% of the property was sold to a single taxpayer, and the number of apartments in the building reported to the Real Estate Taxation Office is zero. This concerns approximately 47% of the condominium transactions reported in the Real Estate Transactions & Prices File and about 19.5% of all transactions reported in the File. This percentage is actually higher, considering transactions where the property was sold in parts.

  Incorrect data was also found in entering "apartment address" and "number of rooms" values. It was further found that in transactions with more than one seller, each report of a sold percentage is listed as a separate transaction. Single Transaction – usually the transaction with the largest percentage sold – will include all the information, whereas the other transactions will include only partial information. This makes it difficult for users to understand the information presented, and makes it harder to calculate statistics and perform data cross-sections by bodies such as the Central Bureau of Statistics and Survey of Israel.

The Use of the Real Estate Transactions & Prices File by the Central Bureau of Statistics – The calculation formula of the House Price Index includes many indices taken from the Real Estate Transactions & Prices File. Given the lack of substantial data in the File and its highly questionable reliability, the Advisory Committee,[14] in its interim report, recommended enriching and optimizing the current information received from the Tax Authority, and performing logical controls over the information reported to the Tax Authority in real time upon transition to online reporting. The findings of this report disclosed that no significant improvement had taken place following implementation of the Committee's recommendations, and that many transactions are still reported to the Authority in an incomplete or incorrect manner, and yet the data still constitute part of the calculation formula and affect the House Price Index in a way that may create a false representation of the market and influence consumer behavior. Here are two examples of the current need for the Central Bureau of Statistics to collect data that are not currently reported to the Authority pertaining to these trends, in order to measure their impact on the House Price Index:

- **Contractor Campaigns –** In the course of 2024, the Central Bureau of Statistics presented an annual increase of 7.3% in the House Price Index. When calculating this figure, the various benefits offered by contractors, particularly campaigns for financing apartments and discounts in indexation amounts and interest rates expected to accumulate until payment at the time of occupancy, were not taken into account or were expressed otherwise. This is due to the lack of data on this subject in real time and the need to obtain it from the Tax Authority. It should be noted that on March 14th, 2025, the Central Bureau of Statistics published, as an appendix, the findings of the impact of the financing benefits in relation to the period when these benefits were not part of the campaigns conducted by contractors for home buyers, and it was found that the cumulative impact was approximately 1.3%.

  At the Fair Value Forum held at Reichman University in December 2024, a calculation of the value of the benefit embedded in the financing campaigns was presented. The discount component embedded in a transaction where the remaining 80% of the payment is made upon delivery of the apartment, compared to a transaction where payments are made according to the pace of construction progress, ranges from 5.3% to 7% of the apartment's list price (depending on the timing of purchase). In transactions where 90% of the remaining payment is made upon delivery of the apartment, the discount component will be at a higher rate than the list price of the apartment. The audit team calculated that a financing benefit according to which 80% of the remaining payment is paid upon delivery of the apartment, represents a discount of between NIS 153,500 and NIS 202,700 from the price of an average apartment.[15]

14 The Public Advisory Committee on Construction, Housing, and Real Estate was appointed by the Public Council for Statistics and operated from July 2016 to December 2020.

15 According to data from the Central Bureau of Statistics, NIS 2,896,000 – the average price of new apartments, excluding apartments sold under the Ministry of Construction and Housing and the Israel Land Authority campaigns, from December 2024 to January 2025.

- **Residential Secure Space (Safe Room) –** Following the Swords of Iron War, the demand for apartments with a safe room has increased, affecting their cost. In June 2024, at the request of the Central Bureau of Statistics, a field indicating the presence of a safe room was added to the online reporting form for second-hand transactions. It was found that the requirement to include information about a safe room in the transaction report form is only valid for transactions where the construction year of the property is earlier than 1991 (old apartments). However, in light of the above findings regarding the extent of incorrect entry of the construction year of the sold property, it is doubtful that the data concerning the sale of properties that include a safe room accurately reflects the existence of such a room in the property.

  It was found that by the audit end date, the Central Bureau of Statistics had not yet included the data on a safe room in old apartments in the calculation formula of the House Price index or reflected them in any other way, even though the duration of time that passes and the timing are significant, as these data are influenced by the period and circumstances. Inclusion of these data may have an impact on the House Price Index. It should be noted that in March 2025, the Central Bureau of Statistics received data from the Tax Authority regarding the existence of a safe room in old apartments and examined the impact of transaction data. The examination revealed that the impact of the transaction data received from the Tax Authority is negligible. On March 14th, 2025, the Central Bureau of Statistics even announced that "the residential secure space variable will be regularly included in the calculation of the House Price Index, due to the future possibility that its impact on the House Price Index may increase if the phenomenon of adding residential secure spaces to old apartments becomes dramatic."

Individual Real Estate Asset Inventory – An individual's real estate asset inventory is a list of all the real estate assets owned by an individual. Citizens and government bodies can issue real estate asset inventory certificates on the Tax Authority's website. Among other things, the certificate is given for the purpose of receiving a work grant from the Income Tax Division, participating in affordable housing raffles of the Ministry of Construction and Housing, receiving rental assistance from the Ministry of Construction and Housing, receiving rental aid from the National Insurance Institute and examining a debtor's assets prior to bankruptcy for the purpose of obtaining an exemption. The certificate of asset inventory issued by the Real Estate Taxation Division relies on data from the Real Estate Transactions & Prices File.

It is difficult to present an accurate asset inventory. For example, the Real Estate Transactions & Prices File does not include historical properties that have not been sold, properties received as inheritance and apartments built privately on land. On the other hand, properties that were purchased, underwent parceling, and were sold afterwards, as well as properties transferred in the context of divorce, are included in a person's asset inventory certificate even though they are not under his ownership.

- **Property Inventory Certificates for Work Grants –** A work grant is paid by virtue of Increasing the Rate of Participation in the Workforce and Reducing Social Gaps (Work Grant) Law, 2007. A work grant is an additional income paid to employees and self-employed individuals from the age of 21 who have children or are aged 55 and over without children, and whose income is low and meets the criteria set by law, as a tool for encouraging participation in the labor market. Due to the flaws disclosed regarding the Real Estate Transactions & Prices File, there may be cases in which workers will receive a work grant even though they own additional real estate assets besides a single apartment, and there may be cases where a work grant will not be approved for workers due to the registration of ownership of additional properties, which are not actually in their possession. It was also found that in the course of 2021–2023, 804, 5,700, and 945 (respectively) requests were submitted for a reexamination of the denial of a work grant due to asset inventory, of which 585 (72.8%), 4,783 (83.9%), and 812 (85.9%), respectively, were found to be correct. In other words, in a significant number of cases, the asset inventory did not reflect the worker's actual asset status.

  It was also found that there were requests from citizens who, following the inquiry, were found to be entitled for a grant, but no logical cause was found for the problem in their asset inventory, and among other things, they did not have property that had undergone parceling, property that was part of a divorce arrangement or land that was built upon. It was also found that for an unknown period of time, the examination of the asset inventory, which, as mentioned, affects the exercise of citizens' rights to receive a work grant, is based on faulty files and subsequent inaccurate asset registration, and in practice there are many errors in the asset inventories (84% of the appeals were found to be justified). This makes it necessary for citizens to appeal for amendment and may even result in out-of-pocket loss for citizens who did not request a reevaluation.

National Real Estate Information Infrastructure – In 2024, the Central Bureau of Statistics, in collaboration with the Israel National Digital Agency, began creating a property identification system based on a database of apartments and buildings, with each apartment having a unique ID. As part of the joint work, it was observed that various countries around the world, for example Sweden and Ireland, have managed to create a property registry that identifies every property in the country and a business registry that identifies every business in the country, and linked these two registries to the population registry that identifies every individual in the country. In Britain, a government company supplies the property and street registry with a unique identification value for the properties. Canada has also established a registry that identifies each property by a unique number and even taken measures to register natural assets. It was also observed that in Israel there is a need for a national information infrastructure in the field of properties, and that the main challenge in this matter is the lack of an identification number for properties and the lack of a common language among the government ministries. In the current situation, public bodies that require a property identification number find a way or their own to identify the property, each in a different way and as needed. The bodies that require a property ID number include, among others, the Planning Administration, the Ministry of Construction and Housing, the Tax Authority, the Land Registration and Settlement of Rights Department, the Bank of Israel, the Israel Land Authority, the Jewish National Fund, public housing bodies, local authorities, planning committees, the Electricity Authority, water corporations, the Central Bureau of Statistics, the Survey of Israel and the Home Front Command. It was found that the real estate ID numbers are not identical among the various public bodies, which causes lack of uniformity, lack of integration amongst the various systems, and difficulty in exchanging information amongst the bodies. For example, the identifier of a single property, which is a sub-parcel, is assigned at the stage of registering the property at the Land Registry Office; however, even at earlier stages, various government bodies have a need for an identification number – among other things, when reporting a transaction to the Tax Authority, the sub-parcel is not registered and there is difficulty in accurately identifying the property. As of audit end date, the creation of a system for unique identification of properties is at an early stage. The system for identifying real estate assets proposed by the Central Bureau of Statistics and Israel National Digital Agency is not linked to all government bodies, which have information, among other things, on real estate asset owners, and it has not been determined which body will be responsible for the quality of the data entered.

Gaps in the Information Included in Two Government Real Estate Databases – The public is presented with two databases on two government websites: "Real Estate Database," managed by the Tax Authority, and the "Governmental Real Estate Website," managed by the Survey of Israel. It was found that in the two governmental websites, significantly different results are obtained (such as a different number of transactions, different transactions, inconsistent presentation), in a way that can mislead the public when making decisions based on this information.

Implementation of the Recommendations of the Public Advisory Committee on Construction, Housing, and Real Estate – The committee recommended enriching and optimizing the ongoing information received from the Tax Authority, including defining the floor, elevator, parking, storeroom, and balcony fields as mandatory fields, as part of the transition to online reporting. The committee also recommended implementing logical controls over the information reported to the Tax Authority in real-time, upon transition to online reporting. The Tax Authority has implemented most of the committee's recommendations. However, it was found, as said, that despite the logical controls, it is still possible to feed unreasonable data into the system.

Contractor Campaigns – The State Comptroller's Office commends the decision made by the Central Bureau of Statistics upon audit completion, to publish information regarding the impact of financing benefits on housing prices alongside the House Price index and recommends that it is done periodically.

Key Recommendations

- The Israel Tax Authority should take measures to manage debtors in a way that allows for optimal collection, monitoring and tracking of debtors, and proper presentation in the financial statements of the State of Israel in accordance with accepted accounting principles, as well as act to collect these debts, in order to prevent financial loss to the state treasury. Failure to collect debts also undermines the principle of equality before the law. Moreover, the Tax Authority should take action to guarantee that the data regarding Real Estate Taxation debts are presented in the financial statements and in the Real Estate Taxation systems in a reliable, adequate manner.

- The Tax Authority should act in accordance with the provisions of the law and examine all transactions reported to the Real Estate Taxation Division prior to the end of the limitation period, while allowing reasonable time for taxpayers to present their arguments and submit the required documentation. The Tax Authority should also establish controls over the start date of handling assessments and hearing taxpayers' arguments. Additionally, the Authority should establish clear rules on the matter. Moreover, the Authority should act to prevent the transmission of assessments after the date set by law, among other things by not providing a technical possibility for the transmission of such assessments or alternatively, transmission of an automatic self-assessment after the dates set by law. The Authority should retrospectively review assessments that were transmitted in this manner and determine whether to accept the self-assessment or the taxpayer's objection.

- The Tax Authority should implement real estate capital gains corrections in Income Tax assessments as close as possible to the correction, for the purpose of collecting true taxes and ensuring equal treatment of its taxpayers, as well as perform oversight of the various offices on this matter.

- The Israel Tax Authority and the Land Authority must act in accordance with the requirements of the law and the regulations under it and report the transactions that were not reported from the day of transition to the new system, in each of the districts, until audit end date, as well as provide ongoing reporting on new transactions.

- The Tax Authority should improve the service provided to the Real Estate Taxation Division's customers, among other things, by upgrading the computerized system, especially in light of the cancellation of the public reception service. In addition, it should reassess its policy on the matter, while striving for professional, quick, and efficient service and enhance trust amongst the customers, in accordance with the ultimate goal that the Authority has set for itself, which is to provide customer-oriented services.

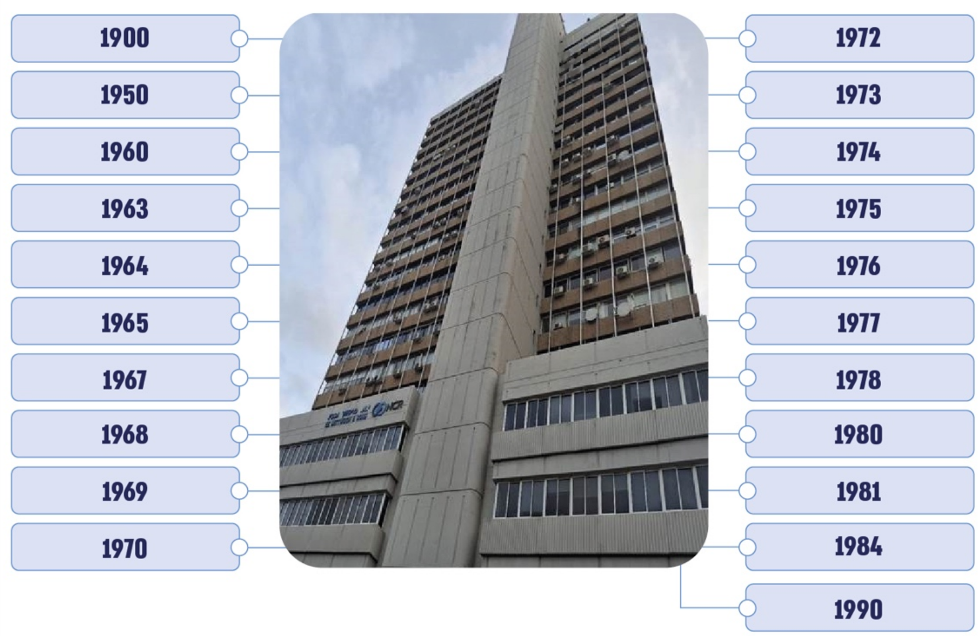
- The Tax Authority should rectify the malfunction that prevents the complete transfer of the database of the Real Estate Transactions & Prices File from the secure systems of the Tax Authority to external systems, and even to the Authority's Real Estate Database. The Authority should also assess the scope and depth of the malfunction and act to rectify it so that the transferred files are complete and valid. The Tax Authority should also improve its computerized capabilities for obtaining data cuts from the Real Estate Transactions & Prices File, in order to enable smarter and more technological use of the File for the needs of the ongoing work and its monitoring. The Tax Authority should consider the possibility of integrating advanced tools such as AI to assist in the work of real estate tax inspectors in cross-referencing data and assessing data plausibility.

- The Tax Authority should monitor changes due to parceling in cooperation with the Land Registry Office and the Survey of Israel, and consider requiring the sale of a property to be reported vis-à-vis its purchase date or the change made to the block and parcel, so that properties may be linked. All this is to ensure that the Real Estate Transactions & Prices file is more reliable and up-to-date, and that the citizens' real estate asset inventory leads to proper taxation and handling by the Tax Authority.

- Based on an updated and accurate asset inventory system, the Tax Authority should reexamine all work grant applications that were denied, and act to ensure the rights of all citizens whose eligibility for a work grant was unlawfully denied. The Authority should also correct the inaccurate real estate asset registration in the system.

- It is recommended to create a national information infrastructure in the field of assets that will contain and consolidate information from a large number of sources. The Prime Minister's Office should initiate strategic work and determine the identity of the body that will be responsible for this infrastructure. This body will be responsible, among other things, for receiving the information, for information quality, optimization and distribution, in cooperation with the Central Bureau of Statistics, the Israel National Digital Agency, the Ministry of Justice, the Ministry of Interior, the Planning Administration, the Tax Authority, the Ministry of Construction and Housing, the Land Authority and the Survey of Israel. Furthermore, it is recommended that the Prime Minister's Office regulate the delegation of authority to the responsible body for carrying this out. Such an information infrastructure will optimize the actions taken by government bodies and the real estate related services provided to citizens.

A Business Structure Built in 1975, for which 96 Transactions were Reported, and 21 Different Years of Construction were Reported



Photographed by the audit team on May 27th, 2025.

The Impact of the Gaps Included in the Report on Citizens

Summary

The real estate market in Israel is one of the most important factors for Israel's economy, and its impacts are seen in various fields: among others, in the economic field, the social field, employment and politics. Real estate transactions are the most important, significant, and expensive transactions in a person's life. In the last decade, there has been a significant increase in housing prices in Israel, resulting, among other things, from a combination of a shortage in the supply of apartments, the interest rate environment in Israel since 2008 and the effects of global economic crises. From January 2014 to December 2024, the House Price Index rose by approximately 77.5%, while the Consumer Price Index increased by approximately 15.3%.

In the course of 2018–2020, the revenues from real estate taxation averaged approximately NIS 11.37 billion, about 7% of the total revenues from direct taxes collected by the Israel Tax Authority. In the course of 2021–2022, the total revenue from real estate taxation rose to approximately NIS 23 billion on average, about 9% of the total revenue from direct taxes collected by the Authority, whereas in 2023 this rate decreased, among other reasons due to the Swords of Iron War: the total revenue from real estate taxation was NIS 14.41 billion, about 6% of the total revenue from direct taxes collected by Tax Authority.

The Real Estate Taxation Division, when taxing real estate transactions, is required to function as a body responsible for transaction reporting and examination, as well as for determining the tax that should be paid. It is required to operate in the most efficient and effective manner to provide efficient and quick service to citizens and effective tax collection for the state. The findings of this report reveal flaws related to the Real Estate Taxation Division's operations. It was found that there is no uniformity in the handling of assessments by the assessors at the regional real estate taxation offices, there is no clear time frame for responding to requests for assessment corrections, and many requests are handled after a significant delay, which can lead to additional costs for taxpayers. It was found that there are delays in applying real estate capital gains corrections in Income Tax assessments – some exceeding three years – resulting in difficulty in collecting the taxes required by the assessment correction, and there is no estimate of the total debts collected or refunds not paid to taxpayers. It was also found that the cooperation between the various tax systems is defective, and that there is little use of the system intended for this purpose.

It was found that many assessments are handled towards the end of the limitation period, which may indicate that the examination of the assessments is not optimal, or alternatively, that taxpayers are not given enough time to present their arguments. It was further found that many assessments are determined based on best of judgment after the end of the limitation period, which is contrary to the law.

Many flaws pertaining to customer service were found in the Real Estate Taxation Division Among other things, there is no work procedure for the main customer service system; required response times for handling inquiries have not been determined; there is no

computerized control over the quality of the response or even over the response time, and there are delays in handling inquiries on various matters. The Tax Authority's telephone response is almost entirely unavailable.

The findings of this report revealed numerous flaws in the collection of real estate transaction data for the Real Estate Transactions & Prices File and its distribution to government bodies and the public. It was found that the implementation of the Advisory Committee's recommendations and the transition to online reporting by representatives did not significantly contribute to the improvement of the quality of the Real Estate Transactions & Prices File data, and the file that is transferred to the Survey of Israel, for optimization purposes, is incorrect and incomplete. Many properties are not included in the file; many properties are listed with incorrect data; significant data that could assist in calculating the House Price Index, in actions taken by the Tax Authority, and in presenting information to citizens are not collected. The file is not re-optimized by users; the real estate asset inventory certificate provided to citizens is incomplete and often incorrect; the exchange of information between government bodies is limited due to the absence of a unique assets' ID. In addition, significant gaps were found in the way real estate information is presented to the public in the different databases published by the Tax Authority and the Survey of Israel.

The Tax Authority should improve its services to the public by striving for efficiency, providing efficient and effective service, and ensuring that taxpayers' rights are fully exercised while collecting true tax.

The Prime Minister's Office should examine and determine the identity of the body that will be responsible for creating a national information infrastructure in the field of real estate assets which will contain information from a large number of sources. This body will be responsible, among other things, for receiving the information, and for the quality, optimization and distribution of information, in cooperation with the Central Bureau of Statistics, the Israel National Digital Agency, the Ministry of Justice, the Ministry of Interior, the Planning Administration, the Tax Authority, the Ministry of Construction and Housing, the Israel Land Authority, and the Survey of Israel. Furthermore, it is recommended that the Prime Minister's Office regulate the delegation of authority to the responsible body for the purpose of conducting this activity. Such an information infrastructure will enhance government activity and improve the services provided to citizens in the field of real estate assets.

Report of the State Comptroller of Israel | October 2025

Ministry of Economy and Industry

Aspects of the Government's Handling of Imports

Aspects of the Government's Handling of Imports

Background

The issue of the cost of living in Israel has an impact on all households and the standard of living of its citizens. Consequently, addressing this issue is of considerable importance. One approach to coping with the cost of living is to enhance competition within the domestic market, which can be achieved, in part, by increasing imports. A substantial portion of the products consumed in the State of Israel is not produced domestically and must be imported from other countries; however, trade with neighboring countries is constrained, and Israel's economy is thus characterized as an "island economy". The country imports an array of products across various sectors, including energy, raw materials, diamonds, investment products[1], and consumer goods[2], all of which exert a direct influence on consumers due to their status as finished products intended for immediate sale and use.

The existence of trade with other countries affects productivity and price levels; the higher the degree of exposure to imports, the more it contributes to increased competition within the domestic market and enhances local efficiency. Nevertheless, excessive reliance on imports may jeopardize national interests, including security interests, the protection of local production as a source of livelihood, food security for the populace, and the safeguarding of public health and safety. Consequently, Israel implements a policy of regulatory and tariff barriers designed to limit the exposure of its economy to imports.

In 2014, the Lang Committee[3] was established to assess import barriers in Israel and propose strategies for enhancing competitiveness and diminishing price discrepancies for consumer goods in relation to OECD countries. The Committee identified several barriers influencing the cost of living, including opening the market to imports; stringent customs pre-clearance inspections; bureaucratic obstacles; and prolonged waiting times for the release of goods from ports. In response to these barriers, the Committee recommended the formulation and implementation of a new import policy, the principal components of which include: aligning the policy with international standards by transitioning from pre-clearance customs

1 Investment products are machinery, medical equipment, generators, vehicles for business needs, etc.

2 Consumer goods are products and services purchased by the final consumer for personal or household use. These products are designed to meet daily needs and are divided into the following categories: (a) Durable goods – products that have a long lifespan and are purchased for continuous use such as furniture, appliances and vehicles. (b) Fast-moving consumer goods (FMCG) – products that are consumed quickly such as food, beverages and personal hygiene products.

3 The Committee for Increasing Competition and Removing Barriers in the Import Sector, November 2014, headed by the then Director General of the Ministry of Economy, Mr. Amit Lang. The Committee's recommendations were adopted in Government Resolution No. 2318, "Increasing Competition and Streamlining Regulatory Processes in the Import Sector" (December 11, 2014).

inspections to market-based inspections; expanding the importer’s responsibility alongside reliance on declarations; enhancing enforcement measures, and increasing penalties; adjusting legal import requirements in Israel to be consistent with those in developed nations; implementing a mechanism for a new import policy; preventing anti-competitive practices by prohibiting restrictive arrangements between foreign manufacturers and direct importers[4] aimed at undermining competition; and ensuring transparency and access to information for the general public, importers, and regulatory bodies.

Furthermore, the Lang Committee found that major areas of the import sector in Israel are characterized by high levels of concentration and a limited number of exclusive importers handling the products of international manufacturers. The Committee acknowledged the substantial role that parallel imports could play in fostering intra-brand competition.

The Lang Committee report and subsequent State Comptroller’s reports on the subject, including the report published in 2024[5] concerning the state's handling of the concentration in the food and consumer products industry, underscored the high concentration prevalent in these sectors within Israel. Consequently, heightened exposure to competition from the import of consumer products is deemed significant for facilitating a reduction in concentration through increased diversity, enhanced competition between importers and local manufacturers, and ultimately a lowering of consumer prices and the cost of living.

A 2025 OECD report[6] that reviewed the Israeli economy addressed, among other things, trade barriers within Israel and pointed out that such barriers, alongside bureaucratic challenges and insufficient competition, contribute to elevated prices. Furthermore, the report highlighted that the reduction of trade barriers, achieved through implementation of the new reforms, may lead to an increase in competition and a subsequent decrease in prices. It also posited that a policy aimed at opening the domestic market was likely to also engender increased productivity and a sustained reduction in the price level.

4 According to the Economic Competition Law, 1988, a direct importer is a person for whom one of the following applies: (1) He imports goods into Israel or distributes goods that have been imported into Israel, in accordance with an arrangement with the manufacturer of the goods in a foreign country; (2) He manufactures goods in Israel, by virtue of an arrangement with a person in a foreign country.

5 The State Comptroller, Annual Report 75A (2024), "The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector".

6 OECD Economic surveys: Israel 2025.

Key Figures

Only 26.9%

The import rate out of Israel's GDP for 2023 is significantly lower than the OECD countries' average of 51.9%. The scope of goods imports in 2023 stood at approximately $90.4 billion[7]

222

The number of product categories imported into Israel in 2023 compared to an average of 245 in OECD countries

4%–226%

The price gap found in a November 2024 comparison between a sample of products from parallel imports and identical products from direct imports that are more expensive

20%–130%

The price gap found in a February 2025 comparison between a sample of products from personal imports and identical products in the local market, which are imported and are more expensive

3.15 times increase

An increase from approximately 16.7 million packages in 2020 to approximately 52.8 million packages in 2024, imported through personal import with a value of up to $75

Only 2%

Collection rate of financial sanctions imposed by the Commissioner of Standardization in 2024[8] (approximately NIS 93,000 out of NIS 4.2 million)

Understaffing of more than 50%

As of November 2024, 9 out of 16 positions in the enforcement branch for import control within the Standards Administration are unstaffed upon the reform's entry into effect, and 7 out of 32 positions in the enforcement branch for market supervision are unstaffed

Only 2.9%

The market share of parallel imports in the automotive industry, which focuses mainly on luxury vehicles, for 2023

7 The rate of monetary imports of consumer goods in 2023 was 25% of all imports of goods, with a monetary scope of $22.7 billion.

8 Before further legal steps are taken by the Enforcement and Collection Authority.

About NIS 14 billion	About 60%	35% increase	21
The state's revenue from vehicle purchase tax in 2023. The vehicle imports value was approximately NIS 30 billion	The market share of the four largest importers in the automotive industry	Real increase in profit of the 12 largest direct importers in the automotive industry in 2022 compared to 2021. Total financial profit of NIS 5 billion in 2022 compared to NIS 3.7 billion in 2021	Number of car brands represented by the eight largest direct importers through import licenses, 10 of which will expire in 2025–2026

Audit Actions

From August 2024 to April 2025 (the audit end date), the Office of the State Comptroller conducted an examination of the actions undertaken by government ministries to eliminate barriers to imports and parallel imports. This examination included the following topics: the implementation of import reforms; adherence to the relevant legal provisions associated with these reforms; international comparisons; assessment of the enforcement mechanisms pertaining to standardization;, governmental actions for dismantling barriers to parallel imports; the barriers and competitiveness within the automotive industry. The audit was conducted at the Ministry of Economy and Industry (Ministry of Economy), the Competition Authority, the Ministry of Health – including the National Food Service and the Cosmetics Department, the Ministry of Energy and Infrastructure (Ministry of Energy), the Ministry of Communications, the Israel Tax Authority, and the Standards Institution of Israel (Standards Institution). Supplementary meetings were conducted with the Regulatory Authority within the Prime Minister's Office, as well as with stakeholders such as customs agents, importers in the consumer goods sectors, retailers, and the Association of Chambers of Commerce (Stakeholders).

Key Findings

In 2023, goods valued at approximately $90 billion were imported to the State of Israel, according to the following distribution: 43% in raw materials (approximately $39 billion); 25% in consumer goods (approximately $22 billion); 16% in investment goods (approximately $14 billion); 12% in energy materials (approximately $11 billion); and 4% in diamonds (approximately $4 billion).

Of the estimated $22 billion scope of imported consumer goods, the predominant import categories were as follows: furniture and household electrical appliances (20%), food and beverages (17%), vehicles (16%), and clothing and footwear (13%).

Israel's import-to-GDP ratio, which stood at 26.9% in 2023, is notably lower than the OECD countries' average of 51.9% for the same year.

Implementation of Import Reforms

The Regulatory Reform ("Cassis de Dijon") of 2022

- To simplify the import process and reduce its costs, the government initiated the regulatory reform known as "Cassis de Dijon". Prior to the introduction of this reform in June 2022, the majority of products imported to Israel (approximately 80%) fell under Group 1 – out of three groups – which is characterized by the most stringent regulations. This classification significantly impacted competition and the cost of living in Israel, as products in this group underwent the longest, most bureaucratic import process, incurring high costs ultimately shifted onto the end consumer.

- The standards reform included an amendment to the Standards Law which effected the following modifications: (a) the reassignment of hundreds of standards from Import Group 1 to Import Groups 2 and 3, which operate under a less stringent regulatory framework, thereby eliminating the laboratory testing requirement for approximately 80% of imported consumer products; (b) the introduction of a Cassis track, allowing goods to be imported into Israel based on a declaration of conformity to international standards, along with the provision that any new official standard would automatically be classified under the Cassis track.

The audit revealed that the Ministry of Economy's implementation of the reform, along with the many accompanying tracks (Green, Gold, Diamond, Alpha, and foreign chains), generated confusion among customs agents and importers and ultimately did not realize the full potential in the importation of goods into Israel by reducing regulation and reducing the cost of living. Thus, for instance, complications arose with the declaration track regarding baby and children’s products, bicycles, and certain pharmaceutical items, due to unique Israeli requirements, which included necessary adjustments for the local market in accordance with diverse regulations and laws, or due to the failure of manufacturers to satisfy the requirements of authorized foreign laboratories, thereby lacking the requisite references for utilizing the declaration track. In the case of "dishwasher liquid" no reduction in import costs was observed due to these unique Israeli requirements. Furthermore, the reform did not promote competition from parallel imports, as existing barriers persisted, including difficulties in providing manufacturer references from abroad in compliance with the requirement for a declaration of standard conformity.

The "No Stopping at the Port" Reform of 2024

- In January 2024, an amendment to the Import and Export Ordinance (No. 6), 2024 was enacted with the objective of eliminating barriers to the importation of goods subject to an official standard, thereby decreasing costs for importers. The Ministry of Economy estimated these costs to be approximately 9% of the import value, which could potentially translate to lower prices for consumers.

- The practical implications of the amendment entail severing ties between importers and testing laboratories, and clearing goods in Import Groups 2 and 3 without delay at port gates, upon the submission of an import declaration affirming that the product complies with the requisite Israeli or European standards. The intended outcome was to facilitate unrestricted importation, thereby minimizing delays at ports and laboratories related to the testing and approval of thousands of products, including baby bottles, toys for children aged three and older, furniture, and household electrical appliances.

It was found that importers and customs agents face difficulties in the implementation of the reform, primarily due to insufficient information regarding the operations of the Commissioner of Standardization in relation to import processes, as well as an overall lack of adequate information concerning the reform itself. For example, gaps have included a lack of clarity regarding storage instructions prior to sampling and the omission of information pertaining to importation reliefs and the availability of necessary certificates and annexes. Additionally, during the audit conducted by the Office of the State Comptroller, there was an absence of a dedicated and professional call center within the Commissioner of Standardization capable of addressing inquiries and concerns from the public.

"What's Good for Europe is Good for Israel", January 2025

- The reform entitled "What's Good for Europe is Good for Israel", which was implemented in January 2025, represents the second phase of the comprehensive reform that commenced in July 2024. This reform aims to facilitate the import of products available in Europe or those compliant with European regulations into Israel without the necessity of undergoing testing at an accredited testing institute. The reform significantly reduces the evidentiary threshold required from importers, and the requirement in Import Groups 2 and 3 is based primarily on a declaration of product compliance with standards. The objectives of the reform are the reduction of barriers and bureaucracy, enhancement of business efficiency, and the lowering of consumer prices. According to the Ministry of Economy, this reform encompasses approximately 90% of consumer products available in the Israeli market and is projected to yield savings of 8% to 16% in import costs, potentially reducing annual product expenses by approximately NIS 6,000 per household.

It should be noted that the reform is taking effect in eight phases: from January to July 2025 five phases were implemented for products such as electrical appliances, baby products and products coming into contact with food, medical and health products. Three additional phases will be implemented starting from July 2026 until January 2028.

The audit revealed that according to Ministry of Economy data, the reform had led to a 44% increase in the import of consumer goods in different categories, and had even led to a decrease of over 30% in consumer prices (for example, in bicycle import). Furthermore, the number of importers in the various categories had increased, and new importers had been added to the list of tens of leading importers in several categories. Notwithstanding, it was found that importers are not familiar with the importation processes, and the Commissioner of Standardization at the Ministry of Economy has not disseminated a document outlining his enforcement policy. This lack of clarity is liable to jeopardize the objectives of the reform, and diminish the number of importers and the volume of imports, while also delaying shipments. Furthermore, although the Ministry of Economy is supposed to submit a report to the Economy Committee regarding the impact of these laws on import costs, in relation to price levels and competition, the assessment is limited to a sampling.

Standardization

Personnel in the Standards Administration at the Ministry of Economy

- The Supervision and Enforcement Branch of the Standards Administration is responsible for the enforcement of standards within Israel. This enforcement is undertaken at both criminal and administrative levels by 62 inspectors, controllers, and field managers.

- Within the framework of the "Cassis de Dijon" standards reform (declaration track), and acknowledging the significance of a robust enforcement system alongside the concessions afforded to importers, the Enforcement Branch of the Standards Administration was augmented to enhance its enforcement activities in the markets. To improve enforcement and in anticipation of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms, it has been determined that the Commissioner of Standardization shall conduct additional inspections at port gates to prevent the ingress of products that fail to satisfy regulatory requirements.

The Enforcement Branch at the Standards Administration was understaffed prior to the implementation of the "What's Good for Europe is Good for Israel" reform. Approximately 22% (7 out of 32) of the positions designated for market supervision remain unstaffed, and over 50% (9 out of 16) of inspector positions are also vacant, in addition to 3 vacant positions for field managers in the Enforcement Branch and 4 vacant professional positions. The disparity in workforce and enforcement is pronounced in light of the outcomes of enforcement operations in the markets between June 1, 2023, and June 1, 2024. Within the framework of these operations, 424 products were sampled, with the majority (approximately 57%) identified as noncompliant with the prescribed official standard. Furthermore, in control operations at the ports, it was found that 39% of the product files reviewed did not adhere to the requirements set by the Commissioner of Standardization, and deficiencies were observed in 36% of the inspections conducted on shipments at the port gates concerning their compliance with established standards.

Competence of Testing Laboratories for Enforcement Purposes

- Market enforcement is conducted by obtaining a product from a retail store shelf and submitting it for testing at a recognized laboratory. As of the audit end date, there exist 61 approved laboratories that have received recognition from the Commissioner of Standardization pursuant to Section 2J of the Import and Export Ordinance. Each laboratory specializes in specific standards, thus not every laboratory can test a product's conformity to a given standard.

- It was also found that Section 10E of the Standards Law mandates that testing conformity with the requirements of European regulation should be conducted in accordance with the corresponding European standard. Nevertheless, the Standards Administration at the Ministry of Economy had not conducted a comprehensive mapping of the testing capabilities of laboratories in Israel in accordance with the European regulation, as a result of which Israeli laboratories operating under the Standards Law may not have the necessary capacity for examining compliance with the European standard. Additionally, it was observed that three months following the introduction of the "No Stopping at the Port" reform, the Ministry of Economy ceased the transfer of products for laboratory testing for a duration of 60 days due to the non-renewal of the Ministry's contract with the laboratories. Furthermore, for approximately six months in 2024, only 10 products were submitted for testing by the Standards Institute for the control of shipments at the port gates.

The Commissioner of Standardization's Enforcement Measures

- The Standards Law delineates the administrative enforcement measures that the Commissioner of Standardization must employ in the execution of enforcement activities. A salient instrument for effective enforcement, as stipulated in the Standards Law, is the implementation of financial sanctions against violators. An inspection conducted by the Office of the State Comptroller revealed that in 2024, the Enforcement Branch of the Commissioner of Standardization opened 618 enforcement files, which are currently in varying stages of processing. Nonetheless, in the same year, financial sanctions were applied and administrative notices were dispatched in only 47 enforcement files (some of which were opened prior to 2024), with the aggregate amount of the financial sanctions in those cases totaling NIS 4.2 million (not final).

- Regarding data on collections – it was found that in 2024, financial sanctions to the sum of NIS 4.2 million had been imposed, prior to the reductions granted to offenders in 47 enforcement files, some of which had even been reduced before 2024. The collection rate from the financial sanctions imposed stood at 29% (some NIS 93,000). The Ministry of Economy pointed out that due to personnel limitations in the sanctions branch and the work volume, the examination and determination of claims was prolonged. In addition, in light of the war waging in Israel since October 2023, many offenders reported a genuine difficulty in exercising their right to a hearing. In 2024, definitive financial sanctions to the sum of NIS 83,000 were transferred to the Center for Fines Collection, of which NIS 69,000 were collected. In 2025, definitive financial sanctions to the sum of NIS 494,000 were transferred to the Center for Fines Collection and by August 2025 NIS 756 had been collected.

Online Personal Import

- Personal import refers to the import of goods by an individual, not via a dealer; the goods are not intended for purposes related to supply, production, or the provision of services, and are imported in reasonable quantities for the personal or household use of the individual importing them. In accordance with a government resolution adopted in 2011, which was part of the implementation of the recommendations put forth by the Trachtenberg Committee, the Tax Authority established an order that exempts personal imports of goods from customs duties under certain conditions. Per the Customs Tariff and Exemptions and Purchase Tax on Goods Order, 2012, shipments containing goods with a cumulative value not exceeding $75 are entirely exempt from import taxes (VAT, purchase tax, and customs duties)[9]. For shipments valued between $75 and $500, VAT and purchase tax shall be paid, while customs duties are exempted. If the value exceeds $500, VAT, purchase tax, and customs duties are applicable in accordance with statutory regulations.

- Notwithstanding the considerable expansion of online commerce, from approximately 16 million packages valued at up to $75 in 2020 to an estimated 52 million packages in 2024 (a 3.25-fold increase), and its significance to consumers resultant from the tax exemption on purchases valued at up to $75, there have not been substantial reductions in consumer prices across many essential product sectors. This is particularly evident in markets dominated by exclusive importers possessing considerable market power.

9 The exemption does not apply to tobacco products, alcohol, or intoxicating products.

Imports in the Food and Cosmetics Sectors

Importing Sensitive Food

- On July 24, 2024, the Knesset sanctioned the reform entitled "What's Good for Europe is Good for Israel", which incorporated amendments to the Public Health Law. Pursuant to Amendment No. 10, 44 European regulations were adopted, including with respect to specific sensitive foods, such as olive oil, honey, and chocolate. Additionally, Section 3A of the Public Health Law was revised to facilitate the swift and uncomplicated integration and updating of changes made in Europe in the original legislation adopted, into Israeli legislation. This aims to ensure that Israeli legislation is contemporaneous and aligned with European regulatory updates to the greatest extent possible. The objective of adopting these European regulations is to streamline the importation process of food products into Israel, obviating the need for compliance with local regulations.

- It was found that the Food Service at the Ministry of Health, at the time the reform was implemented in January 2025, had failed to translate or publicly disseminate 40 out of the 44 European regulations adopted under the "What's Good for Europe is Good for Israel" reform, as mandated by Amendment No. 3A to the Public Health Law in conjunction with Amendment No. 10 aimed at making the import of food to Israel easier for importers. This failure is liable to hinder importers' comprehension of the requisite conditions, attributes, and characteristics that sensitive foods must satisfy. Furthermore, it was found that the Food Service had not yet compiled industry guides pertaining to the areas affected by the reform.

Enforcement in Markets in the Food Sector

- Enforcement within markets in the food sector is an integral part of the reform, since importing via the green track as outlined above heightens exposure to the risks associated with food products, whether regular or sensitive, that fail to meet regulatory requirements, thereby potentially endangering the consumer population. Chapters 9, 10, and 11 of the Public Health Law address the enforcement of the law's provisions. These chapters were adapted to address enforcement within markets and were further expanded in Amendment No. 10 to the law. Among other provisions, these chapters discuss the certification processes for inspectors, their powers, and the enforcement procedures at both criminal and administrative levels, which include the authority to impose financial penalties, issue administrative warnings, make import licenses conditional, designate an importer as "violating trust", and additional measures.

- The National Food Service within the Ministry of Health has published enforcement policies and procedures applicable to the food industry. Nonetheless, when the reform took effect in January 2025, the Ministry of Health had not yet finalized the establishment of an enforcement system for implementing the "What's Good for

Europe is Good for Israel" reform, including a dedicated computerized system, and actual enforcement had not commenced. The implementation of the reform, and the change inherent in it, without a robust enforcement system to effectively assess the goods on the markets is liable to jeopardize public health and impede the expansion of the reform in the sector.

Importing Cosmetics

- Cosmetics[10] include products such as hair dyes, sunscreens, and toothpastes. In November 2021, as part of the Economic Plan Law, the Knesset ratified a regulatory reform pertaining to imports, which established various conditions for the import of cosmetics. This reform instituted two primary import tracks: a basic marketing notification track (the basic track) and a parallel import track for cosmetics, predicated on a certificate of conformity to a reference cosmetic (import track based on a reference cosmetic). The "What's Good for Europe is Good for Israel" reform, which entered into effect on January 1, 2025, introduced an additional import track and implemented several modifications to the existing tracks (the basic track and the import track based on a reference cosmetic).

- However, it was found that as of 2021, the market share of the five largest companies in the cosmetics sector stood at approximately 53%, while the nine largest companies accounted for around 67% of the cosmetics market. This indicates that the cosmetics market in Israel remains concentrated.

Enforcement in the Cosmetics Industry Markets

- Enforcement within the cosmetics industry markets is an integral part of the reform, as the import of products based solely on a declaration and marketing evidence may expose consumers to unsafe products. Representatives from the Ministry of Health have reported instances of cosmetics marketed in Europe that failed to adhere to established European standards.

- It was found that when the reform came into effect in January 2025, the Ministry of Health had not yet initiated the establishment of an enforcement system for implementing the "What's Good for Europe is Good for Israel" reform, including a dedicated workforce, procedures for imposing financial sanctions and issuing administrative notifications, and the establishment of a specialized computerized system for the use of enforcement agencies. The implementation of the reform and the change inherent in it, particularly the provision for importing products based

10 Cosmetics are "any substance or mixture of substances intended to come into contact with the external parts of the human body, for the primary or exclusive purpose of cleaning it, perfuming it, changing its appearance, protecting or preserving it, or improving body odors, except for a preparation, medical device, solid soap, or perfume; for this purpose, 'external part of the human body' – the outer layer of the skin, hair, nails, lips, teeth, mucous membranes of the oral cavity, and the external genitalia".

solely on a declaration, without an enforcement system for effectively evaluating market goods, pose a threat to public health.

Parallel Import of Consumer Goods

- **The Actions of the Competition Authority to Promote Parallel Imports –** The examination conducted by the Office of the State Comptroller found substantial price disparities between parallel imports and direct imports, varying from 4.8% to 226%. In practice, these disparities translate into savings that can amount to hundreds of shekels due to competition between products imported directly and those imported in parallel. The examination further revealed that following the implementation of Amendment No. 23 to the Economic Competition Law in June 2023, the Competition Authority has undertaken proactive measures to impede the obstruction of parallel imports[11]. Moreover, the Authority has engaged with 13 importers across the food, cosmetics, and electrical and electronics sectors, requesting comprehensive data and information to identify potential violations post-Amendment No. 23. Additionally, claims presented by parallel importers during the audit reveal that the number of applications submitted to the Competition Authority by parallel importers from 2022 to 2024 has been limited (only 13), in relation to the extent of the phenomenon of obstruction reported by sources in the sector. This statistic may reflect a partial lack of awareness among parallel importers regarding the legal changes and their entitlement to approach the Competition Authority on this matter. The identified violations disclosed to date in the investigation of the Competition Authority, which encompass actions that obstruct and adversely affect direct importers of parallel imports in contravention of the law, such as contacting foreign manufacturers to provide details about locally sold products so as to obstruct the supply source of parallel imports, have resulted, in at least one instance, in the imposition of a financial penalty, even more than a year after the legal amendments came into effect, which may indicate a partial deterrent effect against direct importers.

- **The Local Market Structure as a Barrier to Parallel Imports –** The concentration level, marketing and distribution capabilities, and structural characteristics of certain industries within the local market, including full or partial integrations (for example, in the electrical and electronics sector where the importer is also likely to hold a retail chain), are liable to adversely affect the potential influence of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms on parallel imports.

11 In June 2023, Amendment No. 23 to the Economic Competition Law was adopted, aimed mainly at preventing the inhibition or reduction of competition from parallel imports or personal imports by a direct importer. In addition, the Competition Authority initiated the amendment to the Economic Competition Rules (Class Exemption for Exclusive Distribution Agreements) (Temporary Provision) (Amendment), 2023 (Exemption for Exclusive Distribution). The purpose of the amendment is to prevent a situation in which a foreign supplier (manufacturer) and distributor agree between themselves that the distributor will refuse a parallel importer's request to sell him products for their distribution in Israel, thereby preventing parallel imports of products.

Import of Private Vehicles

Competition Among Car Importers

- The Automotive Services and Professions Licensing Law, 2016 (the Automotive Services Law), was enacted with the objective, among others, of promoting competition within the automotive industry. In pursuit of this goal, the law established a framework of provisions and conditions that created a structural change in the vehicle import sector. The law defines the categories of importers and the scope of their operations. Furthermore, it extends various reliefs and exemptions to indirect, small, and personal importers, particularly concerning the prerequisites for obtaining a vehicle import license, capital requirements, obligations related to the provision of repair services, and the supply of spare parts (see Article C of the Automotive Services Law, Commercial Importer Liability). Notably, it also permits the personal importation of a used vehicle within two years of its manufacturing date.

- It was found that eight years into the implementation of the Automotive Services Law, and despite the concessions afforded to indirect, small, and personal importers, no substantial competition had emerged between these importers and direct importers. As of 2023, direct importers accounted for approximately 97.4% of the market share in private vehicle imports (with the total import value of vehicles reaching NIS 27.4 billion in 2022 and approximately NIS 30 billion in 2023, reflecting a real increase of 5.2%). Additionally, it was found that the proportion of vehicles imported through indirect channels since the enactment of the Automotive Services Law until 2023 averages only about 3% of total imports. This raises significant concerns regarding the efficacy of the Automotive Services Law in enhancing the volume of parallel vehicle imports.

Import of Vehicles from Vehicle Manufacturers Not Yet Represented in Israel

- In recent years, a significant transformation has been occurring within the global automotive sector, primarily relating to the shift toward electric vehicles. Israel has also experienced considerable changes in its automotive market in recent years, mainly in the transition to electric vehicles powered by rechargeable batteries, which present advantages over vehicles utilizing internal combustion engines (gasoline and diesel). These developments have led to the emergence of new automobile manufacturers in Israel, introducing brands that have not previously operated within the market. This situation represents a unique opportunity to effect substantial modifications in the structure of the private vehicle import market in Israel, with the potential to diminish market concentration by granting the import licenses of new concerns to small importers or to those currently not active in the industry.

- It was found that six large direct automobile importers had obtained import licenses from the Ministry of Transport as direct importers for new automobile manufacturers. The market share of electric vehicles has markedly increased from 1% in 2020 to 24.8% in 2024, equating to approximately 67,000 vehicles of which the majority are new Chinese brands (46,000), thus positioning electric vehicles as the second largest segment within the automotive industry. This may testify to a high level of substitutability from a consumer perspective between gasoline and diesel vehicles and electric vehicles. The allocation of licenses to large importers has the potential to exacerbate the concentration of the large direct car importers and diminish competition in the sector, countering the opportunity presented by market changes and the introduction of new manufacturers producing electric vehicles to enhance competitiveness within the automotive market.

Profitability of Direct Car Importers – The pre-tax profits of the twelve largest importers have reached the highest level recorded by the Chief Economist's Department in the past two decades. In 2022, the aggregate profit of these twelve largest direct importers amounted to NIS 5 billion, reflecting a real increase of 35% in comparison to 2021. Concurrently, in 2022, the pre-tax profit margin, in relation to sales turnover (net of purchase tax) for the twelve largest importers, soared by 16.3% – an increase of 5.5 percentage points relative to 2021.

Barriers to Vehicle Imports

- Parallel importers do not acquire vehicles directly from manufacturers; rather, they purchase them from the secondary market, specifically from car dealers and franchisees. This indirect importation mechanism occasionally presents opportunities to procure vehicles in countries where prices are lower or from car dealers conducting sales promotions for various reasons, such as the desire to allocate equity towards the acquisition of vehicles from the forthcoming model year. These sales campaigns occur towards the end of the calendar year.

- It was found that the consumer in Israelis sometimes deterred from purchasing vehicles that parallel importers acquire from overseas car-dealer sales campaigns, since parallel importers, particularly the small ones, find it hard to adhere to the timeframe for transporting and selling these vehicles within a year of their manufacture. If 12 months have passed since the date of the vehicle's manufacture without the ownership registration being transferred to the customer’s name, the vehicle will be registered in the importer's name. From this point forward, the importer is registered as the first owner of the vehicle, and any subsequent purchaser acquiring the same vehicle from the importer will be classified as purchasing a "second-hand" vehicle, despite the fact that the vehicle is generally brand-new.

Import Volume Restrictions for Small Importers – A small importer license is constrained by an import limit of up to 20 vehicles per annum (volume restriction). The importation of 20 vehicles fails to enable generating income on a scale that can offset operating and marketing expenses, even within the context of a small enterprise. This volume restriction represents a barrier to the growth of their businesses and, from an economic standpoint, redirects small importers towards the importation of luxury vehicles, thereby inhibiting competitive dynamics among various automotive brands.

Registration of Vehicles from Indirect Imports Barrier – In November 2024, the Ministry of Transport transitioned to registering vehicles imported by indirect importers based on the date of their technical registration with overseas vehicle agencies. This practice has prompted disparities in the registration timelines of new vehicles between those imported by direct importers and those imported by indirect importers, leading to a diminution in the profitability of indirect importers. This decline in profitability can be attributed, in part, to the depreciation of vehicles acquired through indirect imports as compared to equivalent vehicles sourced from direct importers, given that the date of road use has a direct influence on the vehicle's market value. Furthermore, it was found that despite the recommendations made in 2012 by the previous Committee for Increasing Competitiveness, which advocated for the elimination of the additional 'ownership' registration requirement for zero-kilometer vehicles, these recommendations were not actualized, resulting in "first-owner 0-kilometer" vehicles being classified and sold as second-hand as at the audit end date.

Implementation of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" Reforms – The Minister of Economy and the Ministry of Economy took measures to implement the reforms, including modifying the import system; applying the principle of adopting European regulations; switching to the importation of products marketed in Europe or meeting European standards based on proof of marketing. These reforms are aimed at facilitating competition within the local market and reducing the cost of living.

Initiatives Undertaken by the Competition Authority to Promote Parallel Imports – The Competition Authority enacted an amendment to the Economic Competition Law (No. 23) and subsequently published Opinion 2/23, elucidating the implications of the amendment. The primary aim of this amendment is to prevent the obstruction or diminishment of competition resulting from parallel imports or personal imports by direct importers. Additionally, the Authority sought to amend the rules governing economic competition, specifically concerning exemptions for exclusive distribution agreements, to avert scenarios wherein a foreign supplier (manufacturer) and a foreign distributor concur that the distributor will deny a parallel importer's request to sell them products for distribution in Israel, thereby obstructing parallel imports. The intent of these initiatives is to enhance competition afforded by parallel imports.

Key Recommendations

- It is recommended that the Ministry of Economy, within the framework of the report to the Economy Committee, expand its examination and assess the impact of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms on competition and price levels in selected markets, in collaboration with the Competition Authority. Additionally, it is recommended that the Commissioner of Standardization at the Ministry of Economy enhance the accessibility of information regarding the reforms for the I community of importers, increase coordination with importers and customs agents to bridge existing gaps, and ensure that all materials required in the import process are published on the Standards Administration website, which should already have been accessible to the community of importers for some time, upon the implementation of the reform.

- The Ministry of Economy should take measures to recruit personnel for unstaffed positions within the enforcement branch of the Standards Administration to enable the full implementation of the reform, while ensuring public safety. Furthermore, it must sustain functional continuity with testing laboratories, examine the supervision and enforcement procedures to enhance efficiency, and reduce the timelines for examining arguments and rendering decisions, as well as monitor the actual implementation of collecting financial sanctions to uphold deterrence.

- The Ministry of Health should expeditiously proceed with the establishment of a unified enforcement system for the protection of public health, which is a key element in deterring non-compliant importers who market products that fail to meet the requisite public health standards.

- It is recommended that all ministries pertinent to the "What's Good for Europe is Good for Israel" reform – the Ministry of Health, the Ministry of Economy, and the Ministry of Energy – collaborate with the Ministry of Finance and the Competition Authority to assess the implementation of the reform across various sectors. This assessment should consider its effects on competition, consumer prices, parallel imports, and the removal of any remaining barriers. Furthermore, it is advisable to examine the extension of the reform to additional markets with considerable exposure to imports, such as the United States, which ranks as the third largest source of goods imported into Israel, to the value of NIS 32 billion in 2024 (12%).

- It is recommended that the Competition Authority evaluate the ramifications of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms on parallel imports. This evaluation should encompass the scope of parallel import and their distribution of parallel-import products within major food chains and markets. If deemed necessary, the Competition Authority should take proactive measures in conjunction with the Ministry of Economy, each operating within their respective domains, to promote the distribution and marketing of products derived from parallel imports.

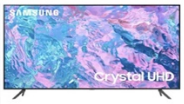
- It is recommended that the Ministry of Economy and the Ministry of Finance, in consultation with the Competition Authority, consider increasing the import tax exemption on online imports for products and sectors characterized by market failures or abuse, as well as excessive pricing by monopolies or exclusive importers wielding considerable market power. This should be balanced with the necessity of safeguarding specific segments of the Israeli retail sector and preventing the diversion of economic activity abroad.

- It is recommended that the Ministry of Transport, in collaboration with the Competition Authority, delineate the obstacles hindering the entry of additional parallel importers and the expansion of existing ones. It should also provide concessions wherever possible, such as broadening the scope for importing used vehicles or by other means that facilitate an increase in the proportion of vehicles imported through parallel importers. Parallel import is likely to enhance the diversity of suppliers for specific brands and enable certain intra-brand competition and the restraint of price increases imposed by direct importers.

- It is proposed that the Ministry of Transport, in conjunction with the Competition Authority, evaluate the possibility of increasing the import volume restriction applicable to small importers or establishing restrictions based on vehicle types to promote economic viability in the development of their businesses as competition drivers. This aims at encouraging the import of non-luxury vehicles and bolstering competition across additional vehicle categories.

- It is recommended that the Ministry of Transport, in coordination with the Competition Authority, leverage the opportunities presented by the significant transformations within the automotive market, and in light of the electric vehicle revolution. They should exercise their statutory authority to enhance competitiveness in order to enable the entry of new importers into the automotive sector, thereby reducing the existing market concentration, as mandated by the provisions of the Automotive Services Law. They should also take measures to allocate the ten import licenses due to expire in 2025 to new or small importers, thereby reducing concentration, while monitoring and evaluating the conduct of importers in response to the regulatory changes, to enhance competition within the automotive industry.

Price Differences Found Between Parallel Imports and Direct Imports in Selected Products

Branded product name		Direct importer price (NIS) (exclusive of promotional sales)	The lowest parallel importer price (NIS)	Price Difference
Colgate Optic White – Charcoal		to 75 ml 36.8	to 125 ml 18.9	226%
Gillette – shaving cream		to 200 ml 20.1	to 200 ml 10.9	84%
Listerine – Cool Mint		to 500 ml 28.1	to 500 ml 10.9	158%
Nespresso Essenza Mini		398	300	32.70%
Samsung Galaxy S24 256GB 8GB RAM		2,890	2,594	11.40%
Xiaomi Redmi Note 13 PRO 5G 512GB 12GB RAM		1,500	1,255	19.50%
Ninja Food Health Grill AG301		938	748	25.40%
Samsung TV 65 UE65CU7000		2,846	2,590	10%
Washing machine 9 kg Bosch WAN28293		3,190	2,970	7.30%
Refrigerator bottom freezer LG 601-liter GRB718MB		7,990	7,623	4.80%

* Through an examination conducted by employees of the Office of the State Comptroller in retail establishments and on the ZAP price comparison website in November 2024. Pharmaceutical products were examined in designated stores. Promotional sale prices were not taken into account. Data for electrical products were sampled from websites showcasing the lowest prices displayed on the ZAP website, encompassing both parallel and direct imports. Certain differences may exist in the ancillary services offered by direct importers as compared to parallel import.

Summary

The issue of the cost of living in Israel impacts every household; it is therefore very important to addressing it. A short-term strategy to address this concern involves promoting import competition in the domestic market, since the issue of imports directly correlates with price levels and plays a crucial role in enhancing competition and consumer welfare. Parallel imports also foster intra-brand competition, enabling consumers to acquire identical products in the domestic market at substantially reduced prices. An examination conducted by the Office of the State Comptroller in November 2024 revealed price discrepancies between products from parallel imports and identical products from direct imports, with the latter being approximately 4.8% to 226% more expensive. Alongside parallel imports, personal imports represent another mechanism to mitigate the cost of living, whereby consumers procure products directly from abroad at competitive prices. Here too, an examination by the Office of the State Comptroller in February 2025 identified price differentials between products obtained through personal imports and those acquired via commercial imports, with the latter being approximately 20.6% to 130.3% more expensive.

In July 2024, the "No Stopping at the Port" reform was implemented, intending to modify the import system so that goods categorized under Import Groups 2 and 3, which are subject to less stringent regulations, will not experience delays at port gates and will gain entry into the Israeli market based solely on a declaration by the importer. Supplementing this reform is the "What's Good for Europe is Good for Israel" reform, which became effective in January 2025, entailing the adoption of European regulations and the importation of products marketed in Europe or compliant with European standards, contingent upon proof of marketing in Europe and without necessitating a product portfolio, which is also likely to lead to an increase in the volume of parallel imports into Israel.

It is recommended that the Minister of Economy conduct an examination of the implementation of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms, while addressing the inconsistencies between Israeli law and the stipulations of European regulation. Furthermore, it is advised that the Minister utilize the authority granted to him under the Standards Law to enact secondary legislation aimed at resolving these contradictions, as deemed necessary. Additionally, it is recommended that the Minister of Economy ensure that the Standards Authority and the associated enforcement mechanisms are prepared for the optimal implementation of the reform. The Minister should also assess, in collaboration with the Competition Authority, the impact of the reforms on markets and parallel imports, making the necessary adjustments to eliminate any persisting barriers. Moreover, it is recommended to investigate the potential expansion of the reform to encompass imports from additional countries, such as the United States.

It is recommended that the Minister of Health verify that all requisite systems for the implementation of the reform are fully established and operational, particularly an

enforcement system. Furthermore, it is advisable to evaluate the reform's implementation and, if required, enact adjustments to eliminate any remaining barriers.

Expenditures on vehicles represent one of the most significant categories of consumer spending among households in Israel. The four largest direct car importers account for approximately 60.3% of the total vehicle imports (the eight largest direct importers collectively constitute around 87.7% of the market). An examination conducted by the Office of the State Comptroller revealed that in 2022, there was a notable increase in the profits of importers, despite an increase in their expenses and a decline in the volume of vehicle sales. In November 2024, the recommendations from the Committee for Increasing Competitiveness in the Automotive Industry were presented to the Minister of Transport and the Minister of Economy, with the objective of fostering competition within the automotive sector. Recent years have seen a revolution in the global automotive industry, primarily driven by the transition to electric vehicles. These developments have facilitated the entry of new car manufacturers into Israel, introducing brands that have not previously operated in the country, presenting a unique and unprecedented opportunity to induce substantial alterations in the structure of the private car import market in Israel, potentially reducing market concentration by issuing import licenses on new concerns to small importers or those not currently engaged in the industry. Such changes could engender heightened competition in the sector, leading to reduced prices and enhanced purchasing conditions.

It is recommended that the Ministry of Transport and the Competition Authority leverage the opportunities presented in the automotive market, in light of the significant transformations within the industry and the electric vehicle revolution. They should act in accordance with their legal authority to enhance competitiveness, facilitating the entry of new importers into the automotive market in a manner that diminishes existing concentration, while monitoring and evaluating the conduct of importers in response to the regulatory changes. Concurrently, the allocation of the ten import licenses expiring in 2025 to new or small importers is recommended, thereby reducing concentration and fostering competition within the automotive sector.

It is recommended that the Minister of Transport ensure the comprehensive implementation of the recommendations put forth by the Committee for Increasing Competitiveness in the Automotive Industry from 2024. Necessary adjustments should be ordered to eliminate remaining barriers while simultaneously emphasizing the encouragement of parallel imports. The Minister of Transport is also advised to actively work toward reducing concentration in the automotive industry, capitalizing on the opportunities arising from the ongoing changes within the sector, and enabling the access of new manufacturers by facilitating the entry of new or small importers.

Report of the State Comptroller of Israel | October 2025

Ministry of Transportation and Road Safety

Economic Feasibility Assessments of Transportation Projects

Economic Feasibility Assessments of Transportation Projects

Background

The Ministry of Transport and Road Safety (the Ministry of Transport) is tasked with managing and formulating policy within the transportation sector, as well as providing services for maritime, aerial, and terrestrial transportation systems. Among its responsibilities, the Ministry engages in the planning, development, and regulation of integrated transportation infrastructure and systems that advance mobility and logistics for both Israeli citizens and visitors, as well as various components of the Israeli economy.

This audit report focuses on land transportation projects, the majority of which are funded through the state budget. From 2020 to 2023, the Ministry of Transport allocated financing for transportation projects at an average expenditure of approximately NIS 20 billion annually, representing about 4% of the total state budget. This amount constitutes the highest civilian investment budget ("development budget"), among all the governmental ministries' investment budgets. In light of this, the average annual investment in road infrastructure during this period totaled NIS 8.6 billion, accounting for approximately 43% of the development budget, and the average annual investment in heavy rail infrastructure totaled NIS 4.3 billion, equivalent to roughly 22% of the development budget.

The Infrastructure Planning and Development Administration[1] (Infrastructure Administration) within the Ministry of Transport handles the operational aspects of all land transportation infrastructures, which encompass various components: heavy trains, mass transit systems in metropolitan areas, public transportation infrastructures, inter-city roads, and municipal roads[2]. The Administration's responsibilities include, among others, the formulation of multi-year plans for transportation infrastructure development projects, the coordination and synchronization of all components of land transportation infrastructures, and the formulation and execution of the Ministry's development budget.

The projects are advanced through government and municipal infrastructure companies[3] (infrastructure companies), which are responsible for executing the planning process and subsequently carrying out the project via private execution contractors. In its capacity, the Infrastructure Administration is also responsible for ensuring efficient budget management

1 Budget proposal for fiscal years 2021–2022.

2 The Ministry of Transport also participates in the financing, planning, and construction of transportation projects in urban areas, and these projects are carried out by local authorities and infrastructure companies.

3 The national infrastructure companies: (a) Netivei Israel – National Transport Infrastructure Company Ltd.; (b) Israel Railways Ltd.; (c) NTA – Metropolitan Mass Transit System Ltd.; (d) Netivei Ayalon Ltd.; (e) Cross-Israel Highway Ltd.; (f) Moriah – Jerusalem Development Corporation Ltd.

and for monitoring the execution of projects in accordance with the budget and established timeframes.

The Economic Policy Research and Design Department (Economic Research Department), within the Department of Economics, Budgeting and Strategy at the Ministry of Transport, engages in the assessment of the economic feasibility of projects through the application of transportation models. Additionally, it conducts various studies pertaining to transportation infrastructure from economic and other perspectives, including the updating of the Transportation Project Assessment Procedure[4]. The feasibility assessment aims to examine whether the benefits derived from the project exceed the costs associated with its establishment and maintenance.

Given the high rate of natural increase in Israel, the level of density in the country – which is already elevated – is anticipated to go up further in the future. In light of the existing deficiency in transportation infrastructure, investment in this sector is critical for the sustained economic and social development of the country. Given their significance for economic functionality, the reduction of social disparities, and the alleviation of congestion costs borne by residents, as well as their complexity and their impact on the state's budget, it is imperative that the construction of transportation infrastructure projects be undertaken following a rigorous selection process and long-term planning, involving an examination of project costs, construction methodologies, and the anticipated benefits to the public, with the objective of identifying the projects that offer the greatest economic advantages within the established budgetary framework.

4 Ministry of Transport and Road Safety, Ministry of Finance, Ministry of Environmental Protection, **Transportation Project Assessment Procedure** (2021). This is the fourth procedure in the series of procedures, and it replaces the 2012 version. The first version of the procedure was published in early 1997 and updated in 2006.

Key Figures

39.6% by 2050

The expected population growth rate in Israel in the years 2024–2050 according to the UN forecast – compared to the global average of 18.7%

1% of GDP

The rate of investment in transportation infrastructure in Israel – similar to the average for OECD countries. This rate is insufficient due to the high natural population growth in Israel and the relatively limited infrastructure availability

NIS 24–48 billion

The estimated cost of damage to the Israeli economy due to road congestion, according to the Ministry of Finance estimate from 2024, and the OECD estimate from 2023

About 120 months

The execution time of a typical transportation project, of which the length of the planning process is estimated at approximately 76 months, and its cost is estimated at approximately 13% of the project cost

317 feasibility assessments

were conducted in 2015–2024 by the Ministry of Transport. An economic feasibility assessment is carried out as part of the planning process to examine whether the benefits of the project outweigh its costs. Of this, 37% of the assessments were conducted for projects carried out by infrastructure companies and the remainder for low-cost municipal projects. However, almost always only the selected alternative, which is usually chosen by the infrastructure company, is examined without the other alternatives being brought to the Ministry of Transport for review, and hence the choice between the various alternatives is made without examining their economic feasibility

Only one engineer

within the Infrastructure Administration deals with approving payment requests from infrastructure companies that build, through private contractors, the national transportation infrastructure. There are no additional engineers involved in approving projects and overseeing their management

Only 15,681 passengers

Passed through the Dimona train station in January–November 2024 – about 1.6% of the estimated 965,000 passengers annually at this station

NIS 2.45 billion

The discrepancy between the expected investment cost of the "Nofit" light rail line, equivalent to NIS 8.2 billion at end-2024 prices, and the initial cost estimate from 2010, equivalent to NIS 5.75 billion at end-2024 prices

Audit Actions

From August 2024 to March 2025, the Office of the State Comptroller examined the processes for the approval of transportation projects, focusing on the economic feasibility assessments conducted during this period. Among the matters examined were processes for preparing strategic plans and five-year plans; economic feasibility assessments of transportation projects conducted in the past or in progress within the Ministry of Transport, in accordance with the "Transportation Project Assessment" Procedure, including the manner of generating cost estimates and benefit projections, their accuracy and the weight given to them within the decision-making processes.

The audit was executed across several units within the Ministry of Transport, specifically targeting the Infrastructure Planning and Development Administration and the Economic Policy Research and Design Department. Additional examinations were carried out within the Budgets Department at the Ministry of Finance, as well as in the government infrastructure entities Netivei Israel – National Transport Infrastructure Company Ltd. (Netivei Israel), Israel Railways Ltd. (Israel Railways), Cross-Israel Highway Ltd. (Cross-Israel Company), and Netivei Ayalon Ltd. (Netivei Ayalon).

Key Findings

Density in Israel and Investment in Transportation Infrastructure: An International Comparison – From 2020 to 2023, the Ministry of Transport allocated an average of approximately NIS 20 billion annually towards transportation projects (of which an average annual investment of NIS 8.6 billion was dedicated solely to road infrastructure during this period), constituting roughly 4% of the total state budget each year, in contrast to an average annual cost of NIS 10.7 billion (approximately 3.2% of the total state budget), from 2014 to 2017. This is the highest civil development budget in relation to the other government ministries.

Forecasts indicate that Israel's population will grow by 39.6% between 2024 and 2050, as opposed to a global average of 18.7%, (ranking 163rd out of 222 countries and territories[5]), thereby yielding a population of 13 million residents. This estimate is relatively conservative compared to projections from the Central Bureau of Statistics (CBS), which anticipates a growth rate in this period of 56.5%, resulting in a population

5 The State of Israel is ranked 223rd out of the 293 countries, territories, and "groups of countries".

of 15.7 million residents. Accordingly, United Nations data project that by 2050, Israel will rank among the most densely populated nations globally (204th out of 222 countries and territories), with 604.9 individuals per square kilometer, contrasted with a global average of 74.1 individuals per square kilometer.

In 2019 the Bank of Israel[6] found that Israel's investment in transportation infrastructure accounts for approximately 1% of its Gross Domestic Product, comparable to the average investment rate among OECD countries. However, this rate is deemed inadequate for two reasons: (a) the rapid growth of Israel's population necessitates a relatively high level of investment to maintain a constant capital per capita; (b) given the low level of transportation infrastructure in Israel compared to the OECD, a higher investment rate is required to bridge the gap[7]. The OECD also estimated[8] that the rate of public investment in infrastructure within Israel does not keep pace with the population growth rate.

In light of Israel's significant natural population increase and the current and anticipated density levels, investments in transportation infrastructure – particularly in mass transit systems – are essential for the nation's continued economic and social advancement. The existing lack of transportation infrastructure, evidenced by road infrastructure levels that are 35% lower than the average in OECD countries and railway infrastructure levels that are 15% lower than the OECD average, and the various investment alternatives, necessitates judicious allocation of the resources invested in transportation infrastructure for choosing the most economically feasible projects in terms of cost-benefit for the economy.

Transportation Project Approval Process – The approval process for transportation projects is complex and protracted, necessitating the endorsement of long-term, medium-term, and short-term plans, as well as statutory approval of plans (required for determining the suitable land designations at the project site). Additionally, the process requires the establishment of priorities for the planning, budgeting, and execution of projects, taking into consideration the relevant factors, including planning elements, the projects' contributions to national development, and their economic feasibility. The audit found that while the planning of the transportation network ought to be anchored in an approved national outline plan, and even though the development of NOP 42 – an integrated national plan for land transportation infrastructure – was initiated in 2007, with anticipated approval by the end of 2011, as at the audit end date, approximately

6 Bank of Israel, **Special Report of the Research Division: Raising the Standard of Living in Israel by Increasing Labor Productivity** (August 2019).

7 According to the Bank of Israel, "Population growth erodes the size of the infrastructure capital stock per capita over time, since infrastructure investment made today must serve a larger population in the future. The faster the population growth rate, the more significant this erosion rate is. Therefore, in order to maintain a given level of infrastructure capital stock per capita (or infrastructure capital stock relative to GDP), a higher investment rate must be maintained the higher the population growth rate".

8 OECD Economic Surveys: Israel 2023, April 2023.

18 years later, the government had yet to sanction the new NOP due to ongoing disputes between the Ministries of Transport and Finance, resulting in its non-implementation.

Transportation Projects – Case Studies – In the feasibility assessments of three projects examined by the Office of the State Comptroller, the following findings emerged:

- **The Haifa-Nazareth light rail line ("Nofit" project) –** The cost of constructing the "Nofit" light rail line increased from approximately NIS 5.75 billion (as projected in 2010 and adjusted to 2024 prices) to an estimated cost of NIS 8.2 billion (including VAT, in 2024). However, the Ministry of Transport did not request a new feasibility assessment to examine the project's ongoing economic feasibility.

- **The Dimona train station –** The economic feasibility assessment conducted for the construction of the Dimona train station estimated a future number of passengers at approximately 965,000. In reality, however, during October-November 2024, only 3,063 passengers utilized the train station, which corresponds to an annual rate of 18,378 passengers (not accounting for seasonality), representing merely 1.9% of the forecasted figure.

- **The "Keshet Modi'in" railway project –** The project intended to connect the Modi'in railway to the high-speed line to Jerusalem revealed a discrepancy between the forecasts for daily passenger increases at each of the three stations involved. Collectively, the actual number of passengers was found to be approximately 10% lower than the forecasted increase.

Establishing a Professional Knowledge Base in Transportation Projects – The Employment of Engineers – Transportation projects are characterized by substantial budgets, the necessity for long-term planning, high technical and managerial complexity, potentially extended construction timeframes, and substantial financial investments, estimated at approximately NIS 20 billion annually, utilized to finance numerous projects executed by various entities. The management of these many entities, the maintenance of control over significant financial resources, and need to address transportation challenges necessitate a robust professional knowledge infrastructure composed of professionals and appropriate information systems. The audit disclosed that, despite observations made by the State Comptroller in 2017 and 2022, as well as remarks from the internal audit at the Ministry of Transport in 2023, and despite the fact that the Ministry of Transport is prepared for the construction of multiple mass transit infrastructures (such as the metro and many light rail lines in the Tel Aviv metropolitan area), there has been a decline in the number of engineers employed within the Infrastructure Administration over the past four years (from 18 engineers in 2020 to 14 engineers in 2025, reflecting a net loss of four personnel). Furthermore, the engineering positions are not fully staffed, with a staffing rate of 82%, indicating a shortage of three engineers in the Senior Traffic Planning and Infrastructure Division. As of the audit end date, only one engineer is employed in the Infrastructure Administration, tasked with the approval of payment requests from infrastructure companies, and no additional engineers are engaged in project approval or management oversight.

Long Term Plans – Strategic Plans – Long term plans, such as startegic plans and master plans, are designed to articulate the transportation vision of the State of Israel and delineate the transportation landscape that the Ministry of Transport aspires to manifest over an extended timeframe. A strategic plan assesses the transportation requirements of the economy, the technological changes and anticipated mega-trends in Israel and throughout the world, establishing a vision, goals, objectives, outcome indicators, courses of action, and planning principles[9]. Some strategic plans include a prioritized list of projects for implementation based on their contribution to the economy from transportation, economic, and social aspects. The audit disclosed that some of the strategic plans pertaining to the various transportation sectors were executed over a decade ago, with both the Ministry of Transport and the Ministry of Finance failing to update them subsequently; for instance, the Public Transportation Development Plan was published in 2012, and the transportation plans for the Haifa (draft) and Tel Aviv metropolitan areas were published in 2015-2016. Furthermore, it was found that the Ministry of Transport did not formulate a strategic transportation plan for the Be'er Sheva metropolitan area and has not finalized the strategic plan for the Haifa metropolitan area, which remains in draft form.

Medium-Term Plans – Five-Year Plans – A medium-term plan is a work plan that outlines the infrastructure company's activities and objectives for the forthcoming years, typically over five years. In accordance with the five-year plan, the Ministry of Finance and the Ministry of Transport compile the budgetary allocations for the projects, based on which infrastructure companies annually initiate projects for planning and implementation. The audit revealed that among the infrastructure companies, Netivei Israel and Israel Railways, possessed five-year plans; however, the Ministry of Transport has not sanctioned five-year plans for Netivei Ayalon and the Cross-Israel Company, resulting in the execution of their activities without a coherent medium-term plan, which may create uncertainty for the companies involved.

The Transportation Project Planning Process – The planning process comprises several essential stages: initial planning, statutory planning, early planning, and detailed planning. At the conclusion of each stage, an "adjudication committee" convenes; this is an internal committee, consisting of professionals from the infrastructure company who evaluate the project data and determine whether to advance the project or discontinue it. The committee significantly impacts the selected route and its configuration within the principles established in the strategic plan. It was found that the Ministry of Transport, whose role includes serving as the "national planner" of transportation infrastructure, accepts the adjudication committee's decisions without being presented with the various project alternatives - their respective costs and benefits. Consequently, its ability to

9 Ministry of Transport, **Comprehensive Strategic Plan for Transportation until 2050, Thought Workshop** (February 2025).

influence the project in accordance with professional and national considerations is constrained.

Conducting Feasibility Assessments for Various Types of Projects – Data obtained from the Economic Research Department reveal that between 2015 and 2024, the Department executed 317 feasibility assessments at different stages of the planning process. Economic feasibility assessments are typically performed in accordance with the Transportation Project Assessment Procedure[10], which serves as the official handbook of the Ministry of Transport and the Ministry of Finance, establishing a systematic methodology for assessing the feasibility of land transportation projects, including the mapping and quantification of both the establishment and maintenance costs of the project, while conversely mapping and quantifying anticipated public benefits, primarily in terms of travel time savings. The audit found that the Transportation Project Assessment Procedure is defined as "encompassing all types of land transportation infrastructure projects: roads and rails, municipal and inter-city transportation, public and general transportation, small and large projects…", and is "a mandatory document for the purpose of preparing feasibility assessments of projects in the land transportation sector in Israel". In practice it was found that the Ministries of Transport and Finance do not conduct feasibility assessments for a substantial number of projects. The Office of the State Comptroller points out to both ministries their failure to establish or define clearly criteria and standards for determining which projects require feasibility assessments, with the matter being left to the individual discretion of officials within these ministries. For instance, the benefits associated with rail projects are evaluated for the rail network as a whole and not for specific routes; projects connecting new neighborhoods are exempted from the feasibility assessment requirement; and urban projects are prioritized through alternative models, without assessment of their feasibility. Additionally, the majority of the routes associated with the MRTS (Mass Rapid Transit System, including light rail and bus rapid transit [BRT] lines) were not subjected to examination. Furthermore, a "mega project" such as the metro in the Dan metropolitan area, costing approximately NIS 150 billion, according to preliminary estimates, was not evaluated by the Economic Research Department, but. was assessed independently of the department by an international firm, utilizing a slightly different methodology from that established in the Transportation Project Assessment Procedure. Consequently, in practice, an economic feasibility assessment according to the Transportation Project Assessment Procedure is conducted almost solely for inter-city road projects and for initiatives executed by local authorities.

Feasibility Assessments for Public Transportation Projects – In recent years, there has been an increase in the number of public transportation projects, in alignment with the policies of the Ministry of Transport and the Ministry of Finance aimed at

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10 Ministry of Transport and Road Safety, Ministry of Finance, Ministry of Environmental Protection, **Transportation Project Inspection Procedure** (2021). This is the fourth procedure in the series of procedures, and it replaces the 2012 version. The first version of the procedure was published in early 1997 and updated in 2006

reducing private vehicle usage while augmenting reliance on public transportation. The audit found that the Transportation Project Assessment Procedure inadequately captures the benefits emanating from these projects. Data derived from feasibility assessments conducted by the Economic Research Department[11] reveal that roads (both municipal and inter-city) exhibit an average benefit-cost ratio of approximately 2.6, surpassing that of public transportation modes, which yield an average benefit-cost ratio of only 1.28. This discrepancy may suggest that the advantages of road construction are ostensibly greater than those stemming from public transportation projects; however, such an assertion is not necessarily accurate.

Conducting the Feasibility Assessment in the Project Planning and Approval Process – The audit found that, in deviation from the Transportation Project Assessment Procedure guidelines, which stipulate the necessity of conducting a feasibility study twice during the project's planning stages to inform decision-making processes as the project progresses, the Ministry of Transport predominantly conducts a single feasibility assessment through the Economic Research Department, at various stages of the planning process. This practice does not typically coincide with critical decision-making junctures regarding the approval of project continuance and configuration (road, bridge, tunnel). The audit found that in practice there lacked a guiding principle as to which stage of the project planning a feasibility assessment should be conducted. For instance, between the years 2015 and 2024, a total of 317 feasibility assessments were conducted by the Economic Research Department- 29% during the early planning stage, 22% during the detailed planning stage, 18% in the initial planning stage, and the rest in other stages. It was also found that the study was predominantly conducted on the selected alternative only, typically chosen by the infrastructure company, without the other alternatives being presented for consideration by the Ministry of Transport. Consequently, decisions between alternatives are made without an examination of their economic feasibility, inhibiting the ability to prioritize options based on their prospective costs and benefits.

The Weight of the Economic Feasibility Assessment Within the Decision-Making Process for Project Approval – The feasibility assessment provides decision makers with information on the anticipated costs and benefits of the project, based on a systematic and uniform analysis, and the audit even disclosed a broad consensus among officials regarding the assessment's importance. However, the role and significance of the feasibility assessment within the decision-making system concerning the initiation of a transportation project remains ambiguous and poorly regulated. The reason for this is that the project evaluation is generally conducted only subsequent to project selection for planning and execution, rather than during the formulation of the outline plans, the strategic frameworks, and the five-year plans. Moreover, an economic feasibility assessment is conducted at various stages of project planning, not necessarily

11 A compilation of data received from the Economic Research Department. The database includes 425 feasibility studies conducted for roads (municipal and inter-city) and 11 studies of public transportation: train line (2 studies), train station (3), BRT (3), light rail (3).

at critical decision-making junctures, and is not even conducted on all the alternatives, but on the alternatives that have already been chosen, thereby failing to function as a decision-support instrument. Finally, in light of the protracted nature of statutory procedures, it transpires that land availability incentivizes the advancement of the project, even when its viability is inferior to that of other projects that are not available for development.

- **Transportation Models –** The significance of updated models lies in their capacity to forecast public behaviorand they are used for short-, medium-, and long-term transportation planning and the performance of feasibility assessments. The audit revealed delays within the Ministry of Transport concerning the completion of work on the new transportation models relative to initial timeframes, and particularly with respect to the national model, which has been neither maintained nor routinely updated and continues to rely on outdated surveys despite its central role in the transportation system. It was also found that there are currently no transportation models for the Haifa and North metropolitan areas or the Be'er Sheva metropolitan area. The transportation models are predicated upon travel behavior surveys (designed to reflect public preferences). The last national travel behavior survey was conducted in 1996, and since then this worktool has been lacking and replaced by regional surveys only. However, the models presently employed by the Ministry of Transport are also based on old travel behavior surveys conducted between 2011 and 2019.

- **Oversight of the Work of External Consultants –** The Economic Research Department engages external consultants to perform feasibility assessments for projects and checks the comprehensiveness of the assessments. To this end, the Department provides estimated project costs, as derived from the infrastructure company, which the consultant employs to assess and quantify anticipated project benefits, thereby enabling calculation of the project's benefit/cost ratio. Despite the expectation that the feasibility assessment report will inform decision-makers in the approval of substantial state budget allocations, the audit revealed that the Ministry of Transport does not subject the feasibility assessment submitted by the external consultants to review by an expert on its behalf.

- **Discount Rate –** The discounting rate applied to the payment stream and benefits derived from a project significantly influences the investment viability therein. Despite substantial fluctuations in the economy's interest rate environment over the past three decades – a decline from 13.7% in 2006 (the year the Transportation Project Assessment Procedure was first published), to a zero level in certain years, followed by an increase to 4.75% in mid-2023 – the discounting rate employed for conducting feasibility assessments remains unchanged at 7%. In 2021, the Ministry of Transport incorporated into the Transportation Project Assessment Procedure a guideline for including sensitivity tests pertinent to the discounting rate; however, the audit team discovered that this guideline was not comprehensively implemented. Specifically, in several feasibility assessments, no sensitivity test at the 4% discounting rate is presented alongside the central test at 7%. Furthermore, the feasibility assessment presents the conclusions in alignment with the primary analysis, while the sensitivity study is relegated to an appendix, so that the decision-maker is not clearly exposed to two results between which there is liable to be a significant discrepancy. Additionally, there lack clear criteria for ascertaining a project's economic viability in situations where the sensitivity study's findings contradict those of the feasibility assessment.

Presentation of Passenger Forecasts – The feasibility assessment is a document that delineates the nature of the project, encompassing the anticipated travel forecast, which constitutes a central element in predicting the benefits emanating from the project's establishment. Although the primary impetus for conducting a project pertains to passenger numbers, the data related to this parameter are neither clearly nor transparently articulated in the feasibility assessment report. The assessment document does not explicitly mention the expected daily usage of the project in terms of passenger volume, opting instead for the term "average morning peak hour"; it fails to specify the anticipated number of vehicles traversing the project, utilizing instead the terms "vehicle unit"[12] or "passenger hours". While the data presentation adheres to the Transportation Project Assessment Procedure, the readability of the feasibility assessment is not simple and and is likely to be less accessible to the reasonable reader who lacks transportation expertise. Moreover, the it is likely to prove impossible to compare data regarding the number of passengers with the actual figures after the launching of the project, as the Central Bureau of Statistics collates data on traffic volumes across road segments via various methodologies, some delineated in terms of vehicles and others in "Comparable Vehicle Units". Furthermore, road operators gather data using cameras or radars, which likewise count vehicles.

Organizational Changes and Senior Staff Turnover in the Infrastructure Planning and Development Administration at the Ministry of Transport – The Infrastructure Administration's responsibilities encompass numerous core activities, including the planning of the national transportation system, the prioritization of projects valued at approximately NIS 20 billion annually, their approval and budget allocation (their approval and funding?), and the oversight and regulation of their execution. To this should be added the increase in transportation infrastructure construction activities, and the expectation of sustained construction efforts in the forthcoming years, as delineated in the strategic plan for 2050. Consequently, the engineering component and the presence of an extensive and professional knowledge base within the Administration are highlyimportant. The audit revealed that between 2020 and 2025, five appointments were made to the role of Head of the Infrastructure Planning and Development Administration; one appointment to a temporary, five-month interim position at the end of 2020, while as of August 2025 the position is being staffed by a temporary official, in an acting capacity. Furthermore, three department heads vacated their positions during

12 The term CVU (Comparable Vehicle Unit) is used to standardize several different types of vehicles in terms of private vehicles. For example: a private vehicle, commercial vehicle, and taxi are 1 CVU, buses and light trucks are 1.8 CVU, and a heavy truck is 2.2 CVU units.

this timeframe, and as of July 2024, the role of Director of the System Planning Division, operating under the Senior Transportation Planning Division, remains unfilled. Furthermore, the deputy head of the Administration left in March 2025, in addition to frequent structural changes within the Administration itself, characterized by shifts in managerial and employee personnel, as well as the establishment, dissolution, and division of departments. This persistent turnover and inadequacy in staffing senior roles within the Infrastructure Planning and Development Administration impedes managerial continuity, exposes the system to a considerable loss of knowledge, and may detrimentally affect project advancement.

Information Systems in the Infrastructure Administration – The Infrastructure Planning and Development Administration is tasked with overseeing and regulating the implementation and progress of projects; however, it lacks a centralized information system for project data. This deficiency has been noted several times by the Office of the State Comptroller, beginning as early as 2017. In practice, information pertaining to transportation projects is recorded manually within personal computer folders and spreadsheets. Among other things, it was found that the original cost estimates and schedules were updated retrospectively, precluding any tracking of nonconformities therein. In the absence of a suitable information system, the transfer of a few staff members from these departments is enough to cause loss of knowledge and harm to business continuity, to the monitoring of viability of a specific project, and to the full picture of the projects. This issue is exacerbated in contexts characterized by high turnover rates among managers and professional personnel. The lack of information and organizational memory are likely to impede the Infrastructure Planning and Development Administration and the Ministry of Finance in their work to make ongoing and systematic improvements in public fund investment, as the lack of documentation obstructs the establishment of quality control measures over project execution. Furthermore, the absence of a database that includes the systematic recording of information about projects hampers evaluation of the quality of pricing models and the need to improve them, as it is impossible to consolidate and compare all estimates against overall execution costs in the course of several years.

In the absence of a historical information infrastructure concerning transportation projects conducted by the Ministry of Transport and infrastructure companies, and in light of the manual management of data, the Office of the State Comptroller had difficulty acquiring information, making it impossible to analyze past performance and derive conclusions regarding the final costs of project execution and the resultant benefits in relation to the forecasts and economic estimates provided during the planning stages.

Key Recommendations

- In light of the current state of affairs, wherein the Infrastructure Administration depends heavily on external consultants to execute a substantial portion of its core functions, while obligated to conduct effective control over their activities, it is recommended that the Ministry of Transport comprehensively staff the engineering positions and align the scope of tasks with both the number of positions and staffing levels. Furthermore, it is advisable that the Ministry of Transport appoint qualified professionals to senior positions within the Infrastructure Administration and ensure the establishment of management continuity, which is required particularly in units responsible for initiating, executing, and overseeing long-term projects that entail economic ramifications and significant budgetary implications.

- It is recommended that the Infrastructure Planning and Development Administration within the Ministry of Transport organize the extensive information it possesses and render it accessible to the Administration's personnel and other stakeholders, by integrating information systems within all infrastructure companies, which will automatically interface with the Ministry of Transport's information system, thereby ensuring data compatibility. In this way, the project data will be extracted directly from the systems of the infrastructure companies and will serve all the units engaged in the planning and budgeting of the projects, as well as in the supervision and regulation of them. The Ministry of Transport is also advised to ensure that the information system presents in a clear fashion complete, measurable, and comparable project data, along with the incorporation of a standardized SKU (stock keeping unit) that will accompany each project across various stakeholders. It is also recommended that the system include original data, such as cost estimates at the various planning stages, to enable an examination of the cost development of transportation projects.

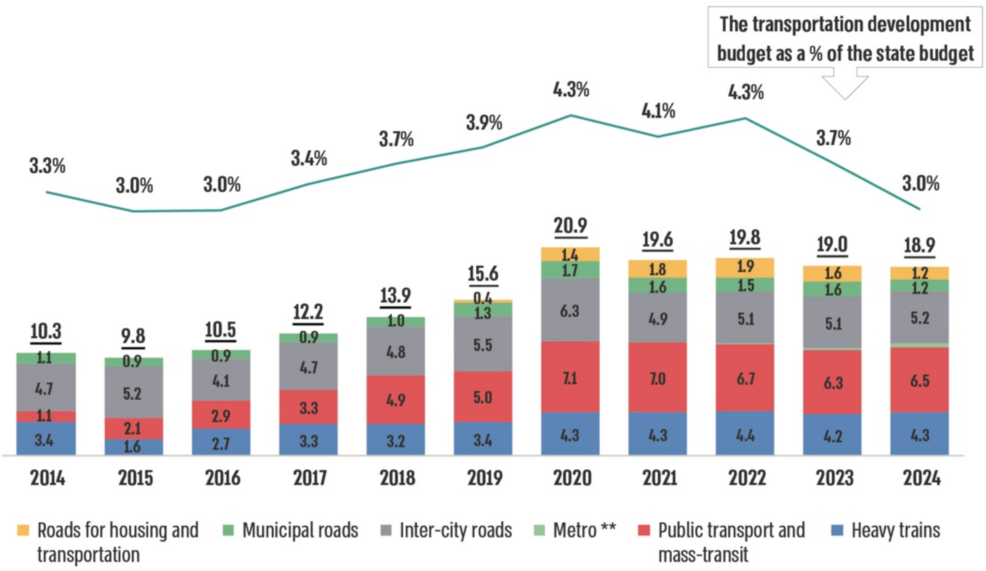
- It is advisable that the Ministry of Transport and the Ministry of Finance tailor the Transportation Project Assessment Procedure to different categories of transportation projects and regulate the performance of economic feasibility assessments and the utilization of the Procedure, elucidating in which cases the assessment is requisite, the format it should adhere to, and the applicable guidelines. This is especially pertinent to projects that are currently excluded, in practice, from the Procedure, including mega-projects, certain heavy rail lines, and housing roads. It is further recommended that the Ministry of Transport and the Ministry of Finance revise the Transportation Project Assessment Procedure to enable the reliable and precise quantification of the benefits arising from public transportation initiatives, such as public transit routes, high-occupancy lanes, heavy rail systems, and MRT systems (e.g. light rail and BRT lines). It is also recommended that the Ministry of Transport develop a uniform ranking system for transportation projects from different domains, enabling comparison and prioritization among various projects, thereby making possible the examination of transportation alternatives based on the economic benefits derived therefrom.

- It is recommended that the Ministry of Transport, in its capacity as the "national planner", the Ministry of Finance, responsible for approving project financing from the state budget, and the infrastructure companies, anchor the role of the economic feasibility assessment within the decision-making framework pertaining to the advancement of transportation projects. This may be achieved by designating the assessment as a "decision-supporting document", which, in conjunction with other considerations, will tip the balance regarding project implementation approval. Should the Ministry of Transport or the Ministry of Finance contend that certain projects entail considerations that surpass the economic feasibility assessment (including political, social, security, transportation, and other factors), they should specify these considerations in a transparent, systematic, and methodological manner within the project approval documentation. Furthermore, the Ministries of Transport and Finance should mandate that two feasibility studies be conducted at different stages of the projects, as delineated in the Transportation Project Assessment Procedure, or alternatively, consider the implementation of a "rolling examination" that will ensure the existence of economic viability at a progressively detailed level as the project advances through the various planning stages, thereby providing input for decision-makers at significant decision-making junctures. It is also advised that ongoing work procedures incorporate the execution of feasibility assessments at fixed stages of the project.

- The Ministry of Transport is encouraged to routinely evaluate the benefits derived from transportation projects post-implementation and compare the findings with the economic feasibility assessment and forecasts presented prior to project initiation. Should notable discrepancies arise between the anticipated benefits and those actually obtained, it is recommended that the Ministry of Transport revise and enhance the feasibility assessments and the models employed for benefit estimation to ensure the establishment and prioritization of transportation projects according to the real public benefit deriving from them. Additionally, the Office of the State Comptroller advises that the Ministry of Transport also routinely assess the final costs of the projects and compare them to various cost estimates, particularly the estimates used for conducting the feasibility assessment, drawing lessons regarding transportation project pricing.

- The Office of the State Comptroller advises the Ministry of Transport to incorporate a centralized information system for documenting the feasibility assessments, enabling among other things the examination of assessment quality upon completion of the project. It is further recommended that this information system be connected to the project management office information system to conduct a cross-cutting examination of the accuracy of feasibility assessments and to monitor project compliance with forecasts, drawing lessons from them. Until structured databases are established, it is recommended that the Ministry of Transport explore the analysis of work materials using an artificial intelligence system tailored to the Ministry's needs, including considerations related to information security.

The Ministry of Transport's Development Budget Broken Down into Areas, Execution in Billions of NIS and its Share of the State Budget in the Years 2014–2023



According to the Ministry of Finance website, "Fiscal Digital" files: breakdown of expenditures by state budget items, processed by the Office of the State Comptroller.

* Excluding the public transportation support item intended for the payment of subsidies required to cover the operating costs of buses, heavy trains and light rail, which are not covered by passenger revenue.

** The metro budget during this period is negligible.

Summary

Between 2020 and 2023, the Ministry of Transport allocated funding for transportation projects at an average expenditure of approximately NIS 20 billion per year, constituting around 4% of the total state budget. This is the highest civilian investment budget ("development budget") among all the investment budgets of government ministries. Given their significance for economic functionality, the reduction of social disparities, and the reduction of congestion costs borne by residents, as well as their complexity and budgetary implications, it is imperative that the construction of such projects be undertaken following a rigorous selection process, involving an assessment of their economic viability for the economy, which includes an examination of project costs and the anticipated benefits to the public, with the objective of selecting the projects that offer the greatest economic advantages within the established budgetary framework

The audit found that although the project planning process includes a guideline to conduct two feasibility assessments at the planning stages of the project, as laid down in the Transportation Project Assessment Procedure - which serves as the authoritative guide for conducting economic feasibility assessments of transportation initiatives - in practice, only a single feasibility study is conducted for the majority of projects. Furthermore, this assessment is not necessarily executed at central junctions where it is decided whether to approve continuation of the project, and if so - in what configuration. It was also found that the Transportation Project Assessment Procedure is defined as a mandatory procedure for all types of land transportation infrastructure projects; however, it was found that in practice a significant portion of these projects do not undergo a feasibility assessment by the Ministries of Transport and Finance. Additionally, the methodology delineated in the Transportation Project Assessment Procedure is designed to evaluate predominantly benefits within the domain of road infrastructure and is not fully adapted for the assessment of mass transportation projects, which include public transport, light rail, and metro systems. Furthermore, the Procedure lacks a defined economic threshold for conducting an economic feasibility assessment, and its status and influence within the decision-making process remain insufficiently clear.

It was also found that the Ministry of Transport lacks engineering personnel, with an elevated managerial turnover and a shortage of staff for senior roles within the Infrastructure Administration, which is tasked with the planning and execution of transportation projects. Additionally, the Ministry lacks an information infrastructure concerning both completed and ongoing transportation projects, with the information being managed manually. Consequently, the transfer of just a few staff members to new positions suffices to cause loss of knowledge and harm to business continuity, as the organization of information largely depends on the memory and familiarity of specific employees with operational materials.

Implementation of the recommendations embedded within the report's chapters has the potential to enhance the planning processes for transportation infrastructure in Israel, while increasing transparency in the decision-making processes regarding project approval and prioritization, improving the alignment of transportation planning with public requirements, and facilitating a more efficient utilization of public resources.

Report of the State Comptroller of Israel | October 2025

Ministry of Transportation and Road Safety

Promotion and Development of Public Transportation in the Haifa Metropolitan Area – Follow-up Audit

Promotion and Development of Public Transportation in the Haifa Metropolitan Area – Follow-up Audit

Background

A widespread, efficient, and advanced public transportation system (PTS) is an essential component of economic growth, and it is expected to provide social, environmental, and safety benefits as well as an appropriate solution to transportation problems in metropolitan areas.

The State of Israel lags significantly behind developed countries in terms of developing infrastructure for PTS, which leads to a widening of the gaps between the periphery and the center of the country.

The Ministry of Transportation and Road Safety (hereinafter: 'the Ministry of Transportation') divided the Haifa metropolitan area into three rings:

- The inner ring ("the core") includes the city of Haifa, the Krayot urban bloc, the city of Nesher, and the city of Tirat Carmel.
- The middle ring surrounds the core and includes scattered settlements in the area, among them large open spaces. The city of Acre (Akko) is the largest urban settlement in this ring.
- The outer ring includes several urban settlements that serve as centers for surrounding Jewish and Arab villages. Nazareth, Nof HaGalil, Nahariya, Karmiel, and Migdal HaEmek are among the prominent cities in this ring. It should be noted that the settlements of the outer ring are larger than those included in the middle ring.

According to the strategic plan of the Ministry of Transportation and the Ministry of Finance from 2015 (hereinafter: 'the 2015 Strategic Plan'), in the years 2016–2045 – over three decades – transportation projects are planned in the Haifa metropolitan area with a total budget of approximately NIS 23.06 billion, including: (a) The heavy rail (doubling of the coastal tracks); (b) The Haifa–Nazareth light rail (LRT); (c) Expansion of the Metronit BRT lines in Haifa and the Krayot, a Metronit line to Tirat Carmel, a Metronit line to Acre, and more (see also the chapter "The Strategic Plan for the Development of Public Transportation in the Haifa Metropolitan Area").

Key Figures

NIS 23.06 billion

Budgetary scope of the Ministry of Transportation for transportation projects in the Haifa metropolitan area for the years 2016–2045, according to the 2015 Strategic Plan

2.8 million

Projected number of daily trips by public transportation and other means of transport in the Haifa metropolitan area, forecast for the year 2040

6 active lines[1] and 4 additional planned lines

Six Metronit BRT lines are operating in the Haifa metropolitan area as of the end of the follow-up audit (March 2025). These lines run between Haifa and the Krayot cities (Kiryat Ata, Kiryat Motzkin, and Kiryat Bialik). An additional four Metronit lines are planned for the Haifa metropolitan area

18–28 years

Estimated time span from the beginning of planning to the completion of the two transportation projects in the Haifa metropolitan area[2] examined during the follow-up audit

78

Number of intersections (65% of total) in which priority is given at traffic lights to the Metronit in the Haifa metropolitan area (including the city of Haifa), compared to the planned figure for 2020 (Approx.120 intersections)

NIS 300 million

Estimated annual loss to the state budget due to fare evasion for all public transportation journeys, which the Ministry of Finance had already estimated at Approx.NIS 300 million in 2021

Additional cost of 19% (NIS 1.3 billion)

The additional cost of the Haifa–Nazareth LRT project as of the end of 2024, compared to the cost estimate approved by a 2016 government resolution (8.2 NIS billion versus 6.9 NIS billion, in real terms at the end of 2024)

0

Number of meetings convened by the Ministerial Committee for National Infrastructure since its establishment in July 2023 (as of the end of the follow-up audit, March 2025)

1 As of the end of the follow-up audit (March 2025), the active Metronit BRT lines in the Haifa metropolitan area are: 1, 2, 3, 4, 5, and 5A – six Metronit lines in total.

2 The projects examined were the Haifa–Nazareth Light Rail Transit (LRT) project and the Tel Aviv–Haifa railway track-doubling project.

Audit Actions

In March 2019, the State Comptroller published a special report: "The Public Transportation Crisis", which included a chapter on "Promotion and Development of Public Transportation in the Haifa Metropolitan Area" (hereinafter: 'the previous audit report' or 'the previous audit')[3]. From August 2024 to March 2025, the State Comptroller's Office carried out a follow-up audit (hereinafter: 'the follow-up audit' or 'the audit') regarding the correction of the main deficiencies that had been raised in the previous audit report. The main examination was conducted at the Ministry of Transportation, and supplementary examinations were carried out at: The National Infrastructure Committee (VATAL) within the Planning Administration of the Ministry of the Interior; the Haifa Municipality; Israel Railways Ltd. (hereinafter: Israel Railways); Netivei Israel – National Transport Infrastructure Company Ltd. (hereinafter: Netivei Israel); and Cross Israel Highway Ltd. (hereinafter: Cross Israel).

Key Findings

Signing of a Long-Term Agreement between the Ministry of Transportation and Yefe Nof Ltd. – In the previous audit it was found that, since the expiration of the framework agreement between Yefe Nof Ltd. and the Ministry of Transportation in 2015 and until the conclusion of the previous audit (February 2018), no long-term agreement had been signed between them, regulating their engagement for the execution of projects. Instead, the existing agreement was extended from time to time for fixed periods of several months with each extension. In the follow-up audit it was found that the deficiency had been **rectified only partially**. It was found that, pursuant to Government Resolution 421 of October 2020, the engagement with Yefe Nof Ltd. was terminated, and all projects in the metropolitan area that it had been in charge of were transferred to other government infrastructure companies. This new situation, in which several government companies entered the project field that a single company had previously been in charge of, created certain difficulties in coordination between the Ministry of Transportation, the Haifa Municipality, and those government companies. The follow-up audit also found that Cross Israel operates without a signed long-term framework agreement with the State, and that the framework agreement of Netivei Israel expired at the end of 2024 and was extended until June 2025, with the possibility of extending it until the end of that year, pending the signing of a new long-term framework

3 State Comptroller, **Special Audit Report on the Public Transportation Crisis** (2019), "Promotion and Development of Public Transportation in the Haifa Metropolitan Area," pp. 385–475.

agreement with the State. In addition, Netivei Israel was, as of the end of the follow-up audit (March 2025), in advanced negotiations with the Ministry of Finance and the Ministry of Transportation for the purpose of signing a new long-term framework agreement with the State.

The Strategic Plan for the Development of Public Transportation in the Haifa Metropolitan Area – In the previous audit it was found that the strategic plan for the Haifa metropolitan area did not stipulate that reducing 'door-to-door' travel time was one of its central objectives, and consequently, no indicator was set in the plan for door-to-door travel time. This was despite the fact that door-to-door travel time is one of the most important aspects of the service provided to the public and one of the main factors influencing passengers' decisions regarding the use of public transportation. In the follow-up audit it was found that the deficiency had been rectified **only to a minor extent:** it was found that in the projects presented in the 2015 strategic plan, one of the variables according to which the projects for 2016–2045 were ranked and selected was the "reduction of travel time in public transportation" indicator. However, this indicator received a weighted variable weight of only 5% in the selection of these projects, and it still was not a central objective according to which they were chosen in the plan. The follow-up audit also found that the most recent strategic plan prepared for the Haifa metropolitan area dates from 2015, and although by the conclusion of the follow-up audit (March 2025) approximately ten years had already passed since its preparation, it had not yet been updated.

Planning of the Metronit Lines – In the previous audit it was found that, within the framework of the 2015 strategic plan for the Haifa metropolitan area, no systematic, reasoned, and documented comparison had been carried out between different technological alternatives. Nor had a cost-benefit analysis been conducted between the option of establishing additional Metronit lines and alternative modes of transport, such as a significant expansion of existing bus services, the establishment of a light rail or a subway, and the installation of escalators as a complementary means of transport in certain cases. In the follow-up audit it was found that the deficiency had been rectified **only to a minor extent:** it was found that as of the conclusion of the follow-up audit (March 2025), six Metronit lines were operating during most hours of the day, one of which (Line 1) operated throughout the entire day. It should be noted that these lines run between the city of Haifa and the various Krayot cities (Kiryat Ata, Kiryat Motzkin, and Kiryat Bialik). It should further be noted that the frequency of these Metronit lines is relatively high compared to other means of transport, such as bus lines. It should also be noted that four additional projects related to new Metronit lines are planned, designed to promote and develop public transportation in the Haifa metropolitan area and to provide the general public with further alternatives to the existing ones, thereby encouraging the use of public transportation. However, the follow-up audit found that no updated feasibility studies had been carried out in accordance with PRAT Procedure[4] with regard to the four future projects of Metronit lines planned to operate in the Haifa metropolitan area. Furthermore, no cost-benefit analysis had been conducted between the option of establishing these lines and alternative means of transport, such as increasing the frequency of existing bus services, establishing a light rail or a subway, and the installation of escalators as a complementary means of transport in certain cases.

Supervision of Passengers in Public Transportation – In the previous audit, it was found that the operating agreement stipulated that the former operator was required to carry out fare inspections. However, in practice, inspectors were not provided with the means that would enable them to monitor the payment of fares. During a field visit conducted by representatives of the State Comptroller's Office in October 2018, inspectors of the former operator noted that they had no enforcement powers and that passengers who had not paid simply ignored their requests to present identification. It was only at the beginning of 2017 that the National Authority for Public Transportation approached the Legal Adviser of the Ministry of Transportation to regulate, through legislation, the granting of effective supervisory powers to the operator's inspectors. In March 2018, a draft bill regarding supervisory powers in public transportation was published, and at the end of November 2018, the Knesset held a first discussion on the proposed law. In the follow-up audit, it was found that the deficiency **had been rectified only to a minor extent:** the audit found that the Transport Commissioner had issued guidelines concerning supervision of fare payment on bus service routes. These guidelines, in force since June 2025, are intended, inter alia, to establish rules for the certification of inspectors by the Transport Commissioner, and to set out the policy of the Transport Commissioner regarding the manner of supervision. However, as of the conclusion of the follow-up audit (March 2025), the legislative regulation of supervisory and enforcement powers in public transportation with respect to non-payment of fares or ticket validation had not yet been completed. Such regulation is of particular importance in light of the estimated loss to the state budget each year resulting from fare evasion on public transportation (estimated at approximately 20% of all journeys on public transportation). The loss to the state budget was estimated by the Ministry of Finance in 2021 at approximately NIS 300 million[5]. It should be noted that a government bill to amend the Traffic Ordinance (No. 126) (Supervision of Fare Payment on Buses), 2018, was first published as early as October 2018, but its legislative process was not completed.

Doubling of the Railway Tracks on the Tel Aviv–Haifa Line

- **Promotion of the Project –** In the previous audit it was found that, according to documents of Israel Railways Ltd., in 2012 it began to promote the track-doubling

4 The PRAT Procedure constitutes a binding framework for conducting feasibility studies of transportation projects, prepared jointly by the Ministry of Transportation and the Ministry of Finance.

5 See also State Comptroller, **Annual Report 72a – Part Two** (2021), "Public Transportation – Use of the Rav-Kav Card (Follow-up) and Payment Applications," pp. 858–859.

project, intended to increase rail capacity and raise travel speed. The plan was declared a National Infrastructure Plan (NIP 65) in July 2014. This project is a long-term undertaking of great importance for the development and advancement of public transportation in the Haifa metropolitan area and in the city of Haifa, as well as for the development of the national railway network. Accordingly, its promotion should have been carried out expeditiously. Nevertheless, it was only in March 2018 – six years after planning began and four years after its declaration as a national infrastructure plan – that the National Infrastructure Committee decided to publish a notice in the press regarding preparation of the plan. The delays in this project, intended to resolve failures in Israel's transport system, imposed a heavy cost in addition to the loss of utility for public transportation users. In the follow-up audit it was found that the deficiency had been **rectified only partially:** the statutory planning of NIP 65A had been fully completed in the planning institutions, and the plan was even approved by the government in December 2023. As for NIP 65B, its statutory planning had been completed only partially in the planning institutions. In October 2023 the National Infrastructure Committee approved the publication of the notice of preparation of the plan, and set conditions for granting building permits pursuant to sections 77 and 78 of the Planning and Building Law, 1965. As of the conclusion of the audit (March 2025), the expected completion date for NIP 65A was 2034, whereas NIP 65B had no projected completion date at all. The follow-up audit also found that Government Resolution 1231 of March 2022 determined that a condition for promoting and executing NIP 65B was the completion of the rail electrification project in the Haifa metropolitan area up to HaMifrats Central Station. The resolution further stipulated that the electrification project should be completed, following approval of the detailed documents, by the end of 2024. However, the audit found that the expected completion date for the electrification project in the Haifa metropolitan area was the end of March 2027, with an estimated cost of approximately NIS 4.7 billion. It also emerged that, as of the conclusion of the follow-up audit (March 2025), the Haifa Municipality opposed the execution of track sinking and tunneling within its jurisdiction, as well as overhead electrification of existing tracks, without the simultaneous promotion and execution of NIP 65B. It should be noted that, concurrently with the planning procedures of NIP 65B still underway in the planning institutions, the Haifa Municipality filed a lawsuit6 in 2024 with the Haifa District Court against Israel Railways Ltd. and other parties. In its claim, the municipality sought a mandatory injunction instructing Israel Railways to sink certain segments of the tracks within Haifa's boundaries, and a permanent injunction prohibiting electrification works on those segments. In the decision of the Haifa District Court in March 2025, the parties were referred to mediation. It should further be noted that the continuation of the track-doubling project on the Tel Aviv–Haifa line beyond 2030 could impair Israel Railways Ltd.'s ability to meet the targets of its strategic development plan for 2040. Moreover, the delay could also increase

6 Tel Aviv (Haifa) 59047-10-**24 Haifa Municipality v. Israel Railways Ltd. et al.**

the risk of deviation from the project's cost estimate, which had been set already at the planning stage, and could undermine compliance with the project's targets and the attainment of its objectives, which include, inter alia, increasing rail capacity and raising travel speed[7].

- **Conducting Economic Feasibility Studies for the Proposed Alternatives –** In the previous audit it was found that, in the track-doubling project, no economic feasibility studies had been conducted for the alternatives that were examined. The data on the basis of which the decision was made whether to approve or reject the alternatives had been assessed only from an engineering, environmental, and urban perspective of the track alignment, without an in-depth economic examination of the costs and benefits inherent in the alternatives. In the follow-up audit it was found that the deficiency had been **rectified only partially**. The audit found that in April 2022 and in May 2024 the Ministry of Transportation conducted an economic feasibility study in accordance with the PRAT Procedure only for NIP 65B (the northern section of NIP 65). For NIP 65A (the southern section of NIP 65), however, no economic feasibility study had been conducted by any competent authority in accordance with the PRAT Procedure, nor had any feasibility study been conducted under any other procedure or agreed economic model.

Promotion of Transportation Projects in the Haifa Metropolitan Area – In the previous audit it was found that although transportation projects such as the cable car, the LRT, and the doubling of the railway tracks had been defined by the Ministry of Transportation as means to resolve transportation problems in the Haifa metropolitan area, and although these projects had been defined by the government as National Infrastructure Plans (NIPs) – and therefore their promotion was supposed to proceed through an expedited process – their advancement was delayed both in the National Infrastructure Committee and in the bodies responsible for promoting them, including the Ministry of Transportation itself. The previous audit also found that there was no single integrative entity for all NIP projects that could have advanced and accelerated the decision-making processes related to them. In the follow-up audit it was found that the deficiency **had been rectified only to a minor extent**. The audit found that the Prime Minister, as chair of the committee, had not convened the Ministerial Committee for National Infrastructure, which had been established by Government Resolution 851 of July 2023. The committee's non-convening prevents the determination of policy on national infrastructure matters, the removal of obstacles to the advancement of infrastructure projects, and the exercise of oversight, monitoring, and follow-up. It was also found that no timetables or milestones had been set for NIP 56 (in all its components) and for NIP 65 after its division. This was despite the fact that these plans had been defined in advance as National Infrastructure Plans, had been deliberated in the National Infrastructure Committee due to their status, and had received its approval (NIP 65A and NIP 56). The follow-up audit further found that for the two projects

7 After the doubling of the railway tracks, the trains will be able to travel on the new tracks at speeds of up to 250 km/h.

examined in the previous audit, and again during the follow-up audit – the Haifa–Nazareth LRT project and the doubling of the railway tracks on the Tel Aviv–Haifa line – the estimated time expected to elapse from the beginning of their planning until the completion of their execution would range from 18 to 28 years. However, it should be noted that the planning stage in the planning institutions for NIP 56 (in all its components) and for NIP 65A (the southern section of NIP 65) had already been completed.

Establishment of Metropolitan Transportation Authorities – In the previous audit it was found that the engagement between the Haifa Municipality and Yefe Nof Ltd. did not resolve the difficulty arising from the fact that Yefe Nof, a municipal corporation of the Haifa Municipality, lacked the powers and tools that would enable it to promote transportation projects vis-à-vis other local authorities in the metropolitan area. In the absence of such powers, the company could not act in conjuction with the planning authorities or with local authorities in the metropolitan area without the approval of the Ministry of Transportation. This impeded the project's advancement and caused adverse impacts for public transportation users and for the potential economic development that could have resulted from the existence of an efficient public transportation system. In addition, the previous audit determined that the establishment of a metropolitan authority with extensive powers in the field of transportation could streamline processes in promoting transportation projects; and the State Comptroller recommended in the previous audit report that the Ministry of Transportation implement the government decisions regarding the establishment of a metropolitan authority. In the follow-up audit it was found that the deficiency **had not been rectified:** as of the conclusion of the follow-up audit (March 2025), the Ministry of Transportation and the Minister of Transportation had not established metropolitan transportation authorities (or, alternatively, regional transportation authorities) in any of the existing metropolitan areas (Tel Aviv, Jerusalem, Haifa, and Be'er Sheva), and in the Haifa metropolitan area in particular. The State Comptroller notes to the Minister of Transportation and to the Ministry of Transportation that approximately 14 years have passed since the government decision (in 2011) regarding the preparation of a draft bill for the establishment of metropolitan transportation authorities and the granting of the powers necessary for their operation, but as of the conclusion of the follow-up audit (March 2025) this draft bill had not been completed.

Operation of the Metronit Lines – In the previous audit it was found that, from the fourth quarter of 2013 until the second quarter of 2016, the average afternoon peak-hour travel time exceeded the standard travel time set in the agreement with the former operator. It should be emphasized that the agreement stipulated a deviation allowance only for the morning peak hours. In the follow-up audit it was found that the deficiency **had been rectified to a large extent**. The follow-up audit found that the "non-performance" index[8] of the current Metronit operator ranged from 0.45% to 1.58% in the years 2022–2024, and remained below the 2.1% threshold; a higher rate is defined in the operating agreement as the "minimum service level".

Traffic Light Priority for the Metronit – In the previous audit it was found that, contrary to the agreement with Yefe Nof Ltd., which stipulated that priority mechanisms would be installed at about 140 intersections prior to the commencement of Metronit operations, the Ministry of Transportation did not ensure the planning of priority mechanisms at all the required traffic lights, except for 19 intersections that were included in the Metronit's planning and construction budget. The previous audit also found that, as of its conclusion (February 2018), the traffic light priority project had not been completed. In the follow-up audit it was found that the deficiency had been **rectified to a large extent:** the follow-up audit found that by 2020 it had been planned for the Metronit to have right-of-way at about 120 intersections, thereby allowing continuous travel on service lines 1, 2, and 3, with detectors to be installed in the first stage at approximately 60 signalized intersections. The follow-up audit also found that, in practice, the Metronit had priority at approximately 78 intersections in the Haifa metropolitan area (including the city of Haifa), constituting approximately 65% of the number of intersections that had been planned by 2020 (120 in total).

Execution of the Light Rail (LRT) Project on the Haifa–Nazareth Line – In the previous audit, it was found that planning of the Haifa–Nazareth LRT project began in 2005. The project was declared a National Infrastructure Plan in 2011, and its budget was approved by the government only in August 2016 and by the National Infrastructure Committee in April 2017. Only a year later, in April 2018, was the project plan submitted for government approval. As of the conclusion of the previous audit, approximately 13 years after planning had begun, it had not yet been finally approved by the government, and consequently its execution had not commenced. The previous audit further found that disputes between the Kiryat Ata Municipality and the Ministry of Transportation regarding the characteristics of the LRT alignment in the Kiryat Ata area delayed the project for approximately six years – from the public and stakeholder presentation of the plan in 2012 until the plan was transmitted for government comments in April 2018. In the follow-up audit it was found that the deficiency **had been rectified to a large extent**. It was found that the plans related to the LRT project (NIP 56[9], in all its various stages) were approved by the government in the years 2018–2023 (inclusive). The follow-up audit also found that execution of the LRT project had begun in its various sections, and that completion was expected by 2029. However, the follow-up audit also

8 The "non-performance" index in the Ministry of Transportation's semiannual monitoring reports is defined as "a trip that appears in the technological system as a departure from the origin station, or a trip that appears in the technological system as a departure from the origin station with a delay of more than 20 minutes, or a trip that appears in the electronic system as a departure from the origin station with an advance of 10 minutes or more, or a trip that appears in the electronic system as a departure when the departure time of the subsequent licensed trip [of the line] has already arrived" (emphasis in the original).

9 In July 2011 the project was declared a "Nationally Significant Infrastructure Project" (National Infrastructure Plan, or NIP). In the planning institutions, the LRT project was designated as NIP 56.

found that the estimated cost of the project (as of the end of 2024) was approximately NIS 8.2 billion, i.e., approximately 19% higher in real terms than the figure presented in the government decision of 2016.

Selection of the Optimal Alternative for the Track-Doubling Project on the Tel Aviv–Haifa Railway Line (NIP 65) – In the previous audit it was found that in 2012 Israel Railways Ltd. began promoting the selection of alternatives for the railway alignment in the Haifa area, as part of the track-doubling project that was declared a National Infrastructure Plan in 2014. As of the conclusion of the previous audit (February 2018), an optimal alternative for the project had not yet been selected. In the follow-up audit it was found that the deficiency **had been rectified to a large extent**. In April 2023 the Subcommittee for Appeals of the National Council for Planning and Building (with the approval of the National Infrastructure Committee in December 2022) approved the preferred alternative (Alternative 102) for the track-doubling project on the Tel Aviv–Haifa railway line (also known as the doubling of the Coastal Tracks). In the summary of the comparison of alternatives it was noted, inter alia, that Alternative 102 (or Alternative 102A) was the preferred alternative compared with the others, and that it had advantages in the following aspects, among others: priority in the operation of the intercity and suburban railway system; greater train frequency; operational simplicity; advantages in phasing construction works and minimal conflicts with existing infrastructure; conformity with statutory planning at the national and district levels; provision of fast rail service to the heart of the Haifa metropolitan area and maximum connectivity and accessibility for rail users within and beyond the Haifa metropolitan area; and lower potential for noise and air quality impacts compared with the other alternatives.

Division of the National Planning Process for the Track-Doubling Project on the Tel Aviv–Haifa Railway Line (NIP 65) – In the previous audit, it was found that the track-doubling project is important to the central artery of the national railway network. In practice, agreements had been reached on most of the section, and the substantive disagreements revolved only around the alignment of the tracks in the Haifa area. A statutory division of the project at an early stage of planning could have advanced the execution of some of its parts, thereby increasing the likelihood of meeting the interim targets of the strategic plan for 2030. Given that infrastructure projects of this kind extend over many years and entail the potential for delays, in cases of disagreement over certain segments, it is both possible and desirable to advance other segments without impairing the overall plan, particularly where there is a direct benefit independent of the project's full completion. In the follow-up audit, it was found that the deficiency **had been fully rectified:** It was also found that in June 2019 the National Infrastructure Committee decided to split NIP 65 into two plans, and to advance first NIP 65A, which was more mature from the planning perspective. NIP 65 was therefore divided into two plans: (a) NIP 65A (upgrade and expansion of the Coastal Railway between Hof HaCarmel Station and Shfayim, i.e., the southern section of NIP 65); and

(b) NIP 65B (the Coastal Railway between the Efraim Workshops and Hof HaCarmel, i.e., the northern section of NIP 65).

Key Recommendations

- The Prime Minister, as chair of the committee, should act to convene the Ministerial Committee for National Infrastructure, which was established precisely to promote national infrastructure projects, in accordance with timetables and key milestones to be set for each project. Convening the committee will also contribute to carrying out oversight, monitoring, and follow-up with respect to the government ministries in charge of these projects.

- It is recommended that the Ministry of Transportation update the 2015 strategic plan for the Haifa metropolitan area and include within it a "door-to-door" service index, together with its value (at different time intervals) according to the various service areas, since this index is of great importance in the eyes of the public when choosing between public transportation options and the use of private vehicles. It is further recommended that the Ministry of Transportation assign the "door-to-door" service index (or, alternatively, the "public transportation travel time reduction" index) a weighted value greater than 5% already at the stage of selecting transportation projects for execution.

- It is recommended that the Ministry of Transportation conduct all the required examinations, in accordance with its procedures, before choosing infrastructure transportation projects, since by their nature these projects are very costly and their execution takes many years, sometimes even decades. Needless to say, such examinations are required in order to allocate the state's limited resources appropriately and to invest them in projects with positive benefits, bearing in mind that once they are established, it is extremely difficult to reverse the situation.

- It is recommended that the Ministry of Transportation and the Haifa Municipality continue to advance the implementation of traffic light priority for the Metronit at all existing intersections in the metropolitan area (approximately 120 in total), in order to shorten the "door-to-door" travel time of public transportation users and thereby improve the reliability of the service. In addition, this measure will encourage more passengers who still do not use public transportation to switch from the use of private vehicles to the use of public transportation.

- As the State Comptroller has previously recommended, the Ministry of Transportation and the Ministry of Finance should complete the regulation of the supervisory and enforcement powers of inspectors in public transportation. This is especially important given the current situation, in which all public transportation users may board through any door, and in light of the estimated annual loss to the state budget from fare evasion across the system, which the Ministry of Finance had already assessed at approximately NIS 300 million in 2021[10]. The State Comptroller further recommends that the Ministry of Transportation implement the Transport Commissioner's directives on fare supervision in bus service lines, which will come into effect in June 2025.

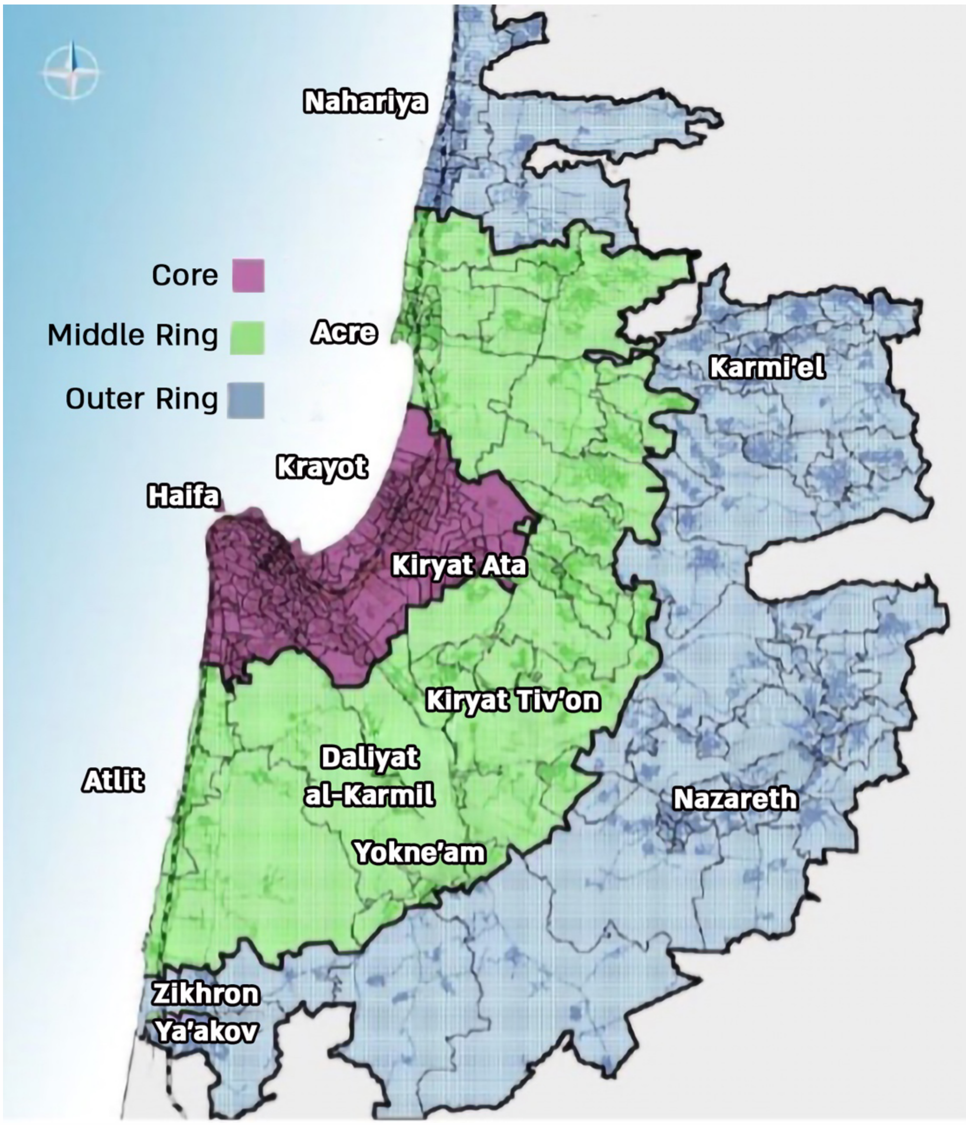
- The Ministry of Transportation and the Ministry of Finance should continue to advance the track-doubling project on the Tel Aviv–Haifa railway line. Its purpose is to promote long-term transportation infrastructure projects that are vital to the development of public transportation in the Haifa metropolitan area and the city of Haifa, and to the strengthening of the national railway network. In addition, this development is also intended to enable northern residents to reach the central region from their homes within optimal travel times.

- It is recommended that the Ministry of Transportation establish timetables and milestones for transportation projects in the Haifa metropolitan area, insofar as possible, so as to advance them promptly and effectively. These are also required to carry out oversight and monitoring of projects whose execution periods, from the planning stage to the completion stage, take many years. It should be noted that these projects are of decisive importance for the advancement of public transportation in the Haifa metropolitan area. They are intended to significantly improve public transportation services in the metropolitan area and to provide a viable alternative to private car use.

- The Ministry of Transportation and the Minister of Transportation should complete without delay their efforts to establish metropolitan transportation authorities (or alternatively regional transportation authorities), as determined in various government decisions between 2011 and 2024. It should be noted that on numerous occasions in past reports, the State Comptroller has remarked on the importance of establishing such transportation authorities.

10 See also State Comptroller, **Annual Report 72a – Part Two** (2021), "Public Transportation – Use of the Rav-Kav Card (Follow-up) and Payment Applications," pp. 858–859.

Some of the Areas and Localities Included in the Three Rings of the Haifa Metropolitan Area



Source: The 2015 Strategic Plan, and State Comptroller, **Special Audit Report on the Public Transportation Crisis** (2019), "Promotion and Development of Public Transportation in the Haifa Metropolitan Area," p. 399.

Summary

The public transportation projects being advanced in the Haifa metropolitan area are of national importance and aim to improve the quality of life of the residents of the metropolitan area. As part of the programs to promote the periphery, the state is investing considerable resources in these projects. Infrastructure transportation projects require in-depth planning, oversight, and monitoring to ensure that the needs of the transportation system are met effectively, as well as efficient allocation of resources.

The follow-up audit in this report focused on the extent to which 13 deficiencies raised in the previous audit report were rectified. One deficiency was not rectified at all – the failure to establish a metropolitan authority in the Haifa metropolitan area; four additional deficiencies were rectified to a minor extent – the development of public transportation in the Haifa metropolitan area, the planning of Metronit lines, passenger supervision, and the advancement of transportation projects in the Haifa metropolitan area; four additional deficiencies were rectified to a large extent – the operation of Metronit lines in the Haifa metropolitan area, the failure to grant the Metronit right of way at all intersections along its routes, the implementation of NIP 56 (the Haifa–Nazareth LRT), and the selection of the preferred alternative for NIP 65A (the southern section of the Coastal Railway track-doubling project from Hof HaCarmel Station to Shfayim); three additional deficiencies were rectified to a partial extent – the advancement of metropolitan public transportation projects by a municipal company (currently by government companies), the advancement of NIP 65A and NIP 65B together (the doubling of the Coastal Railway line on the Tel Aviv–Haifa route), and the conducting of economic feasibility studies for transportation projects; and one additional deficiency was fully rectified – the splitting of NIP 65 (the doubling of the Coastal Railway line on the Tel Aviv-Haifa route).

The Ministry of Transportation should continue to rectify the deficiencies identified in the follow-up audit that were not rectified at all, rectified to a minor extent, or rectified to a partial extent.

The Ministry of Transportation and the Ministry of Finance should continue to advance NIP 65B (the northern section of NIP 65), which lies within the Haifa municipal area, so that the track-doubling project on the Tel Aviv-Haifa railway line (NIP 65) can be completed. Completion of this project will also reduce the travel time for passengers on the Tel Aviv-Haifa line by nearly half of the current travel time (as of the conclusion of the follow-up audit in March 2025).

In addition, the Minister of Transportation, the Ministry of Transportation, and the Ministry of Finance should promote the establishment of the metropolitan transportation authority or the regional transportation authority in the Haifa metropolitan area, as well as in other metropolitan areas (Gush Dan, Jerusalem, and Be'er Sheva). These authorities will enable the optimal promotion and development of public transportation and the advancement of

transportation projects within optimal timeframes in the Haifa metropolitan area. Such measures are also required in view of the Ministry of Transportation's policy of transporting public transportation users from the northern region (the periphery) to the center through the Haifa metropolitan area – all within shorter travel times, thereby improving public transportation services for the residents of the north and of the Haifa metropolitan area.

The follow-up audit found that the construction of some transportation projects in the Haifa metropolitan area, such as the Haifa–Nazareth light rail line (NIP 56) and the track-doubling on the Tel Aviv–Haifa railway line (NIP 65), will take decades; the estimated time from the beginning of their planning to their completion ranges from 18 to 28 years. Despite the lengthy durations of these two projects and the considerable resources invested in them, it was found that the Ministerial Committee for National Infrastructure, established by Government Decision 851 of July 2023, has not been convened.

The Prime Minister, as chair of the committee, should act to convene the Ministerial Committee for National Infrastructure, which was established precisely to promote national infrastructure projects, in accordance with timetables and key milestones to be set for each project. Convening the committee will also contribute to carrying out oversight, monitoring, and follow-up with respect to the government ministries in charge of these projects. The failure to convene the committee hampers effective oversight and monitoring of these projects, despite the substantial financial investment – amounting to billions, and even tens of billions, of shekels. The prolongation of these projects over such an extended period may also result in financial harm (such as deviation from the original project cost estimate) and other adverse impact, since additional projects in development depend on the completion of parts of these projects, including urban renewal initiatives and the addition of housing units along the coastal route of the Haifa Municipality.

Extent of Rectification of the Main Deficiencies Raised in the Previous Report

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Signing of Long-Term Agreement bet. Ministry of Transportation and Yefe Nof Ltd	Ministry of Transportation	In the previous audit it was found that, since the expiration of the framework agreement between Yefe Nof Ltd. and the Ministry of Transportation in 2015 and until the conclusion of the previous audit (February 2018), no long-term agreement had been signed between them, regulating their engagement for the execution of projects. Instead, the existing agreement was extended from time to time for fixed periods of several months with each extension.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Strategic Plan for Development of Public Transportation in Haifa Metropolitan Area	Ministry of Transportation	In the previous audit it was found that the strategic plan for the Haifa metropolitan area did not stipulate that reducing 'door-to-door' travel time was one of its central objectives, and consequently, no indicator was set in the plan for door-to-door travel time. This was despite the fact that door-to-door travel time is one of the most important aspects of the service provided to the public and one of the main factors influencing passengers' decisions regarding the use of public transportation.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Planning of Metronit Lines	Ministry of Transportation	In the previous audit it was found that, within the framework of the 2015 strategic plan for the Haifa metropolitan area, no systematic, reasoned, and documented comparison had been carried out between different technological alternatives. Nor had a cost-benefit analysis been conducted between the option of establishing additional Metronit lines and alternative modes of transport, such as a significant expansion of existing bus services, the establishment of a light rail or a subway, and the installation of escalators as a complementary means of transport in certain cases.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Operation of Metronit Lines	Ministry of Transportation	In the previous audit it was found that, from the fourth quarter of 2013 until the second quarter of 2016, the average afternoon peak-hour travel time exceeded the standard travel time set in the agreement with the former operator. It should be emphasized that the agreement stipulated a deviation allowance only for the morning peak hours.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Traffic Light Priority	Ministry of Transportation	In the previous audit it was found that, contrary to the agreement with Yefe Nof Ltd., which stipulated that priority mechanisms would be installed at about 140 intersections prior to the commencement of Metronit operations, the Ministry of Transportation did not ensure the planning of priority mechanisms at all the required traffic lights, except for 19 intersections that were included in the Metronit's planning and construction budget. The previous audit also found that, as of its conclusion (February 2018), the traffic light priority project had not been completed.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Supervision of Passengers	Ministry of Transportation, Ministry of Finance	In the previous audit it was found that the operating agreement stipulated that the former operator was required to carry out fare inspections. However, in practice, inspectors were not provided with the means that would enable them to monitor the payment of fares. During a field visit conducted by representatives of the State Comptroller's Office in October 2018, inspectors of the former operator noted that they had no enforcement powers and that passengers who had not paid simply ignored their requests to present identification.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		It was only at the beginning of 2017 that the Public Transportation Authority turned to the legal adviser of the Ministry of Transportation to regulate, through legislation, the granting of effective supervisory powers to the operator's inspectors. In March 2018, a draft bill regarding supervisory powers in public transportation was published, and only at the end of November 2018 the Knesset held a first discussion on the proposed law.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Execution of the Haifa–Nazareth Light Rail Line Project (NIP 56)	Ministry of Transportation	The previous audit found that planning for the Haifa–Nazareth light rail project began in 2005. The project was declared a National Infrastructure Plan in 2011, and its budget was approved by the government only in August 2016 and by the National Infrastructure Committee in April 2017. Only a year later, in April 2018, was the project plan submitted for government approval. As of the conclusion of the previous audit, approximately 13 years after planning had begun, it had not yet been finally approved by the government,					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		and consequently its execution had not commenced. The previous audit further found that disputes between the Kiryat Ata Municipality and the Ministry of Transportation regarding the characteristics of the LRT alignment in the Kiryat Ata area delayed the project for approximately six years – from the public and stakeholder presentation of the plan in 2012 until the plan was transmitted for government comments in April 2018.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Splitting of the Track-Doubling Project on the Tel Aviv-Haifa Railway Line (NIP 65)	Ministry of Transportation, National Infrastructure Committee	The previous audit found that the track-doubling project was important for the central artery of the national rail traffic. In practice, agreements had been reached on most of the section, and the substantive disagreements revolved only around the alignment of the tracks in the Haifa area. A statutory division of the project at an early stage of planning could have advanced the execution of some of its parts, thereby increasing the likelihood of meeting the interim targets of the strategic plan for 2030.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		Given that infrastructure projects of this kind extend over many years and entail the potential for delays, in cases of disagreement over certain segments, it is both possible and desirable to advance other segments without impairing the overall plan, particularly where there is a direct benefit independent of the project's full completion.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Promotion of the Track-Doubling Project on the Tel Aviv-Haifa Railway Line (NIP 65)	Ministry of Transportation, Ministry of Finance, National Infrastructure Committee	In the previous audit it was found that, according to documents of Israel Railways Ltd., in 2012 it began to promote the track-doubling project, intended to increase rail capacity and raise travel speed. The plan was declared a National Infrastructure Plan (NIP 65) in July 2014. This project is a long-term undertaking of great importance for the development and advancement of public transportation in the Haifa metropolitan area and in the city of Haifa, as well as for the development of the national railway network. Accordingly, its promotion should have been carried out expeditiously.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		Nevertheless, it was only in March 2018 – six years after planning began and four years after its declaration as a national infrastructure plan – that the National Infrastructure Committee decided to publish a notice in the press regarding preparation of the plan. The delays in this project, intended to resolve failures in Israel's transport system, imposed a heavy cost in addition to the loss of utility for public transportation users.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Selection of the Optimal Alternative for the Track-Doubling Project on the Tel Aviv-Haifa Railway Line (NIP 65)	Ministry of Transportation, National Infrastructure Committee	In the previous audit it was found that in 2012 Israel Railways Ltd. began promoting the selection of alternatives for the railway alignment in the Haifa area, as part of the track-doubling project that was declared a National Infrastructure Plan in 2014. As of the conclusion of the previous audit (February 2018), an optimal alternative for the project had not yet been selected.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Conducting Economic Feasibility Studies for the Proposed Alternatives in the Track-Doubling Project on the Tel Aviv-Haifa Railway Line (NIP 65)	Ministry of Transportation, Ministry of Finance	In the previous audit it was found that, in the track-doubling project, no economic feasibility studies had been conducted for the alternatives that were examined. The data on the basis of which the decision was made whether to approve or reject the alternatives had been assessed only from an engineering, environmental, and urban perspective of the track alignment, without an in-depth economic examination of the costs and benefits inherent in the alternatives.					

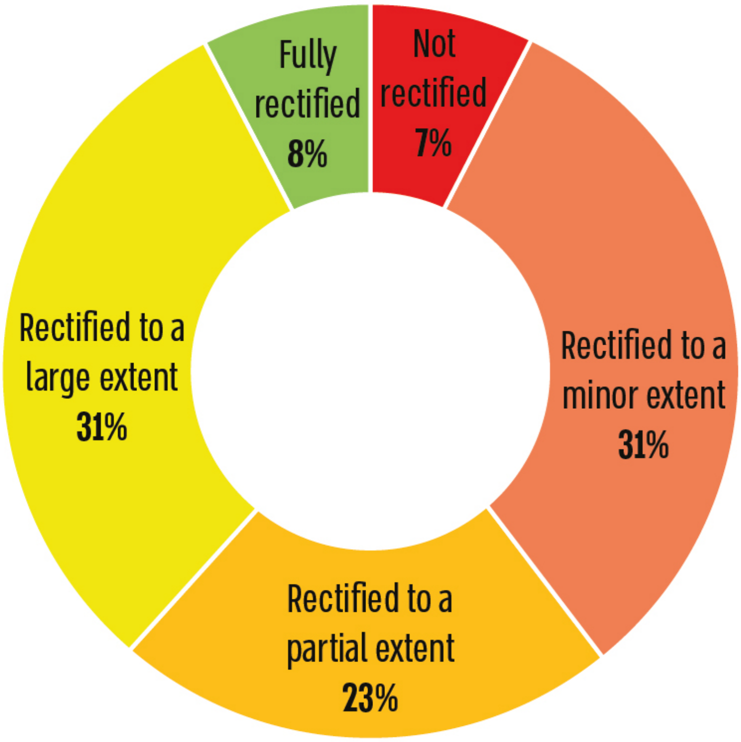
Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Promotion of Transportation Projects in the Haifa Metropolitan Area	Ministry of Transportation	In the previous audit it was found that although transportation projects such as the cable car, the LRT, and the doubling of the railway tracks had been defined by the Ministry of Transportation as means to resolve transportation problems in the Haifa metropolitan area, and although these projects had been defined by the government as National Infrastructure Plans (NIPs) – and therefore their promotion was supposed to proceed through an expedited process – their advancement was delayed both in the National Infrastructure Committee and in the bodies responsible for promoting them,					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		including the Ministry of Transportation itself. The previous audit also found that there was no single integrative entity for all NIP projects that could have advanced and accelerated the decision-making processes related to them.					

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification: Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Establishment of Metropolitan Transportation Authorities	Ministry of Transportation	In the previous audit it was found that the engagement between the Haifa Municipality and Yefe Nof Ltd. did not resolve the difficulty arising from the fact that Yefe Nof, a municipal corporation of the Haifa Municipality, lacked the powers and tools that would enable it to promote transportation projects vis-à-vis other local authorities in the metropolitan area. In the absence of such powers, the company could not act in conjuction with the planning authorities or with local authorities in the metropolitan area without the approval of the Ministry of Transportation.	➡				

Audit Chapter	Audited Body	Deficiency in Previous Audit Report	Main Deficiencies Raised in the Previous Report, by Extent of Rectification				
			Not Rectified	Rectified to a Minor Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
		This impeded the project's advancement and caused adverse impacts for public transportation users and for the potential economic development that could have resulted from the existence of an efficient public transportation system. In addition, the previous audit determined that the establishment of a metropolitan authority with extensive powers in the field of transportation could streamline processes in promoting transportation projects; and the State Comptroller recommended in the previous audit report that the Ministry of Transportation implement the government decisions regarding the establishment of a metropolitan authority.	➡				

Main Deficiencies Raised in the Previous Report, by Extent of Rectification



Report of the State Comptroller of Israel | October 2025

Chapter Three

State Institutions, Government Companies and Corporations

Report of the State Comptroller of Israel |
October 2025

The Higher Education System

The Quality of Teaching in Institutions of Higher Education

The Quality of Teaching in Institutions of Higher Education

Background

The system of higher education engages in two primary functions: academic teaching and academic research. The resources allocated to this system are divided between investment in high-quality teaching, which equips students with the tools and skills that they require, and the need to promote and ensure high-quality research[1].

The Council for Higher Education (CHE) serves as the regulatory and supervisory body for the activities of higher education institutions. The Planning and Budgeting Committee (PBC), a subcommittee of the CHE, allocates the state budget to the system of higher education. The main portion of the annual budget of the system for higher education – the "direct participation" by the Planning and Budgeting Committee in academic institutions funded by the state (about 70% of the budget) – is allocated according to a budgeting model determined by the Committee. The direct participation includes two principal components: the research component, allocated exclusively to universities, and the teaching component, disbursed to both universities and academic colleges. In addition to the direct participation, the PBC's budget includes contributions toward the institutions' pension expenses; together, these fixed elements account for approximately 76% of the total budget. The remainder of the budget (approximately 24% of the entire higher education budget), is allocated by the Planning and Budgeting Committee in accordance with the CHE-PBC's evolving priorities, as delineated in their multi-annual work plans, termed the Flexible Planning and Budgeting Committee Budget.

This report examines the quality of academic instruction within institutions financed by the state via the Planning and Budgeting Committee (the Institutions)[2]. The Institutions comprise eight universities, characterized as research and teaching institutions that confer academic degrees across diverse fields of study, and twenty academic colleges (Colleges), whose primary function is academic instruction.

1 Alongside research and teaching, another mission of the system of higher education concerns social engagement and contribution to the community.

2 The report focuses on undergraduate studies and does not deal with private institutions that are not funded by the state and academic colleges of education, unless otherwise stated.

According to the 2014 report of the Teaching Quality Assessment Committee[3], "quality teaching" encompasses several dimensions in higher education institutions[4]. From the perspective of lecturers, it involves the utilization of advanced teaching methods and tools tailored to specific fields of study, the lecturers' accessibility, and maintaining the relevance of instructional content. From the standpoint of higher education institutions, "quality teaching" refers to the existence of a structured system for training and guidance in pedagogy, initiatives aimed at enhancing lecturers' instructional practices, and the collection of data to evaluate the quality of teaching in the institution, which serves as a foundation for establishing institutional goals and objectives. In the context of state regulation, "quality teaching" pertains to the establishment of objectives for pedagogical improvement, the collection of data to assess the quality of teaching within the institutions, the monitoring and supervision of institutional activities in this domain, and the implementation of a budgetary framework based on uniform indicators.

In recent decades, the system of higher education in Israel has experienced significant transformations, including an increase in student enrollment, the establishment of colleges, a greater emphasis on knowledge areas pertinent to the evolving labor market, and an assertion of the value derived from the studies. In an era marked by the abundance, accessibility and frequent updating of information, particularly following the advent of Generative Artificial Intelligence technology, which is able to summarize, present, analyze and evaluate data, the traditional emphasis on knowledge transmission, memorization, and retrieval has diminished. Instead, there is a growing focus on fostering independent learning capabilities and cultivating "soft" skills, including critical thinking, information management, problem-solving, interpersonal communication, written and oral expression, decision-making, and teamwork skills – collectively referred to as 21st-century skills. Additionally, the prevalence of processes and tasks that have become based on technology, the analysis of data and communication in the digital world, necessitates the development of technological, quantitative, and digital literacy. These processes and shifts require organizational priorities and resources to be directed towards academic instruction, alongside continuous investment in the development and implementation of new teaching concepts and the adoption of dynamic, flexible, and relevant pedagogical approaches employing a diverse array of instructional methods.

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3 See the report of the Teaching Quality Assessment Committee, CHE-PBC (November 2014), pp. 11, 13. The CHE appointed the Committee in 2013 to investigate the mechanisms that should be adopted by the institutions and the CHE to assess and enhance the quality of teaching, as well as to recommend methodologies for budget allocation to institutions based, among other criteria, on the quality of teaching, with the aim of incentivizing investment in this domain (the Teaching Quality Assessment Committee).

4 Higher education institutions engage three categories of academic staff (lecturers), with the nature of their appointments determining their terms of employment. Senior faculty, encompassing the ranks of lecturer, senior lecturer, associate professor, and full professor, possess academic standing within the institution and are recognized as tenured faculty members within their respective departments. Visiting faculty: lecturers, usually holding doctoral degrees, who do not belong to the institution's tenured teaching staff, or are faculty members at other academic institutions, or professionals whose primary occupation lies outside of academia. They are contracted on a short-term basis to teach individual courses. Junior faculty members who hold bachelor's and master's degrees and fulfill roles as teaching assistants or tutors, often concurrently with their pursuit of advanced degrees.

Key Figures

Approx.
188,000
undergraduate students and approx.
33,000
lecturers

in the 28 institutions budgeted by the Planning and Budgeting Committee in 2022

Approx.
NIS **5** billion

The amount allocated by the Planning and Budgeting Committee for the Institutions in 2021 for the "teaching component" – approximately 40% of the system of higher education's budget that year; this amount does not reflect key components of quality teaching, unlike the research component, which is calculated based on a university's research outputs and their quality according to objective indicators

Only **0.5%**
of the Flexible Planning and Budgeting Committee Budget in 2017–2018

The percentage of the budget allocated by the Planning and Budgeting Committee to the Institutions as part of calls for proposal for the promotion of quality teaching, out of the Flexible Planning and Budgeting Committee Budget at its disposal (only NIS 107 million out of approximately NIS 23 billion, cumulatively, from 2016–2017 to 2023–2024). In addition, 34% of the budget allocated to the Institutions was not utilized by them

About 53%
of presidents and about
69% of
college professors

who participated in a survey sent by the Office of the State Comptroller to the Institutions' presidents and lecturers, responded that in the decision-making process for promoting senior faculty at their institutions, significantly greater weight was given to the candidate's qualities in the field of research over the quality of teaching, even though the main role of colleges is academic teaching (compared to approximately 83% of presidents and 91% of lecturers at universities)

About **41%** of lecturers (1,275 out of 3,147)	About **30%** of lecturers (932 out of 3,147)	Only **3** times	**0** Resolutions of the Council for Higher Education Plenary from 2020 to August 2023
who participated in a survey sent to them by the Office of the State Comptroller responded that they had not participated in training in the field of teaching, provided via the faculties, in the two years preceding the questionnaire, and about a third of them had not participated in such training from the Center for the Advancement of Teaching	responded in a survey sent to them by the Office of the State Comptroller that they agreed with the statement "the institution incentivizes and rewards actions to promote the quality of teaching" to a small extent or not at all	The Institutions reported to the Council for Higher Education on their compliance with threshold requirements regarding the quality of teaching defined by the CHE in 2015. As of 2020, the CHE-PBC stopped requiring institutions to report on the implementation of the model	on the need to improve and update teaching and learning in the system of higher education

Audit Actions

From July 2022 to October 2023, the Office of the State Comptroller carried out an examination of various facets concerning the quality of teaching in higher education institutions, and actions for supplementing the examination were conducted at the end of 2024 and the beginning of 2025. The audit was executed within the Council for Higher Education-the Planning and Budgeting Committee (CHE-PBC), encompassing the eight budgeted universities[5] and all 20 budgeted colleges[6]. Within the CHE-PBC several elements were examined, including the budgeting model utilized for state budget allocations to the Institutions, and the use of calls for proposal, designed to incentivize the Institutions to invest in the enhancement of teaching quality. Furthermore, the audit assessed the model formulated by the CHE for the advancement of teaching quality, focusing on its components, implementation within the Institutions, and resultant impact on the advancement of the teaching quality, as well as the CHE's oversight of the quality of teaching within these institutions. At the Institutions, the audit examined the enhancement of teaching quality through various organizational levels – management, faculties or departments, and the Centers for the Advancement of Teaching, a dedicated entity for the advancement of teaching operating in each institution (the Centers for the Advancement of Teaching or the Centers).

Methodologically, the audit team gathered and reviewed pertinent documents, and met with officials from the CHE-PBC, as well as with personnel from the Institutions. Additionally, it established four focus groups with students and lecturers at two institutions, and in July 2023 dispatched surveys to the presidents of the Institutions (the Presidents' Survey), heads of the Centers within the Institutions (the Centers' Survey), and lecturers at the Institutions – senior faculty, junior faculty, and visiting faculty (the Lecturers' Survey). The audit team also convened meetings with the Student Union and the Forum for the Promotion of Teaching and Learning in Israel.

5 The eight budgeted universities: Ariel, Ben-Gurion of the Negev, Bar-Ilan, Haifa, Tel Aviv, the Hebrew University of Jerusalem, the Open University, and the Technion. The Weizmann Institute (which does not grant undergraduate degrees) and the private Reichman University (formerly the Interdisciplinary Center Herzliya) were not included in the examination.

6 The 20 budgeted colleges: Tel-Hai Academic College, Ruppin Academic Center, Sapir Academic College, Tel Aviv-Yafo Academic College, Sami Shimon SCE Academic College of Engineering, Holon Institute of Technology, Hadassah Academic College Jerusalem, the Max Stern Emek Jezreel Academic College, Ashkelon Academic College, Lev Academic Center, Afeka – Tel Aviv Academic College of Engineering, Ort Braude Academic College of Engineering, Shenkar – Engineering. Design. Art, Zefat Academic College, Achva Academic College, Western Galilee Academic College, Bezalel – Jerusalem Academy of Art and Design, Kinneret Academic College in the Jordan Valley, Azrieli Academic College of Engineering Jerusalem, Jerusalem Academy of Music and Dance. No private colleges and academic colleges of education were examined.

Key Findings

Promoting the Quality of Teaching Through the Teaching Component of the Planning and Budgeting Committee's Budgeting Model

- The budgeting model established by the Planning and Budgeting Committee delineates the allocation of the higher education budget across the various institutions. This model serves as the principal instrument for the Committee to influence the budgetary priorities of the Institutions. Most of the annual budget allocated to the Institutions by the Planning and Budgeting Committee (approximately 70%) is derived from direct participation under the budgeting model, which encompasses two primary components: the research component and the teaching component. The research component is determined based on a university's research output and assessed quality of research through objective indicators[7], while the teaching component is calculated for each institution based on the enrollment figures, the rate of timely degree completion, and the student-to-senior faculty ratio. In addition to direct participation, the budget also accounts for the Institutions' pension obligations; these two fixed elements (direct participation and pension expenditures) comprise approximately 76% of the overall budget. The remaining budget (roughly 24% of the higher education budget), is allocated by the PBC according to the evolving priorities of the CHE-PBC, as specified in their multi-annual work plans – the Flexible Planning and Budgeting Committee Budget.

- The teaching component constitutes approximately 40% of the higher education budget. For instance, in the 2021-2022 academic year, the Planning and Budgeting Committee appropriated NIS 5 billion to the teaching component within universities and colleges, out of the system of higher education's budget totaling NIS 12.5 billion. Research indicates an inverse correlation between class size and levels of student satisfaction and achievement, inter alia, because smaller classes facilitate more active learning, interaction with instructors and peers, and a supportive learning environment. In higher education settings, the student-to-faculty ratio is commonly employed as a proxy for class size. However, the definition provided by the Planning and Budgeting Committee excludes junior faculty and visiting faculty, who represent approximately 41% of all lecturers in universities and about 54% in colleges. Consequently, this index does not necessarily reflect class size.

7 Winning of grants from competitive research funds and other sources, and scientific publications – which attest to the research quality attributed to the Institution's lecturers by external professionals.

- The audit revealed that, unlike the calculation of the research component within the budgeting model – which is based on the research outputs and quality of research according to objective indicators – the teaching component is not assessed according to the quality of teaching delivered by the Institution's lecturers or the resources invested in enhancing the quality of teaching at the Institution. In fact, there exists no correlation between the quality of teaching at an institution and its financing by the Planning and Budgeting Committee, apart from the utilization of the student-to-faculty ratio index, which also prompts inquiries regarding its fidelity as a reflection of teaching quality, a concern previously echoed by the Teaching Quality Assessment Committee, established by the Council for Higher Education in 2013 and chaired by Prof. Elisha Babad (the Teaching Quality Assessment Committee).

- Furthermore, the audit found that from 2014 until the audit end date, the Planning and Budgeting Committee failed to examine the incorporation of teaching quality into the budgeting process for the teaching component. In doing so, the PBC did not leverage a significant budgeting mechanism available to influence the Institutions' priorities and focus of attention toward enhancing the quality of teaching. It is pertinent to note that the Planning and Budgeting Committee developed a distinctive budgeting model for the Open University, which incorporates financial incentives aimed at the development and updating of courses and the promotion of advanced learning technologies.

Promoting the Quality of Teaching Through Calls for Proposals – In addition to the budget allocated to the Institutions by the Planning and Budgeting Committee within the aforementioned budgeting model, the PBC also allocated funds from its flexible budget specifically aimed at enhancing the quality of teaching through the publication of calls for proposals[8]. The audit found that this budget was negligible in comparison to the total Flexible Planning and Budgeting Committee Budget – approximately 0.5%, amounting to only NIS 107 million (of which approximately NIS 71 million were transferred in practice to institutions) – out of an approximate cumulative total of NIS 23 billion, from 2016 to 2024. The allocation of a minimal budget fails to reward excellence and innovation in teaching over time and does not incentivize institutions to prioritize the quality of teaching in their activities. Furthermore, the calls for proposals mechanism does not establish a systematic and structured policy for promoting the quality of teaching due to the inherent uncertainty and lack of budgetary continuity associated with this approach. Additionally, the audit revealed that approximately 34% of the budget allocated by the PBC to the Institutions through the calls for proposals mechanism during the years 2016–2024 was not utilized. It is noteworthy that subsequent to the completion of the audit, in April 2024, the Council for Higher Education issued a call for proposals

8 Call for Proposals can be competitive – the PBC selects winners from among the submitted proposals according to the decision of a judging committee; or non-competitive – any interested institution who meets the general criteria participates. Institutions that meet the threshold requirements and are willing to invest resources in the matter may choose to participate in the call for proposals, but are not obligated to do so.

for the "Academy 360" program, which aims to encourage budgeted institutions to develop strategies for updating undergraduate curricula in order to preserve the relevance of academic education.

Implementation of the Council for Higher Education-Planning and Budgeting Committee Model for Promoting Quality of Teaching – Following the recommendations made by the Teaching Quality Assessment Committee, the CHE-PBC developed the quality of teaching model in November 2015, subsequently updating it in 2017. This model encompasses a set of threshold criteria for the implementation of teaching quality initiatives, compliance with which confers the right to PBC funding (the Threshold Criteria). The Threshold Criteria are categorized into four groups: the establishment of a Center for the Advancement of Teaching designed to coordinate the topic of quality of teaching within the institution; the distribution of a student questionnaire that serves as an anonymous satisfaction survey regarding courses and instructors; the undertaking of institution-wide initiatives aimed at enhancing quality of teaching, such as professional development opportunities for lecturers in the field of teaching; and the adoption of measures to elevate the quality of teaching at the department or faculty level, including the development of mechanisms for the periodic revision of curricula and syllabi. Furthermore, the model incorporates a mechanism for calls for proposals to promote budgeting for quality of teaching within designated projects.

The audit revealed that the CHE-PBC had failed to translate the quality of teaching model into a long-term action plan delineating objectives and performance indicators for implementation by the Institutions according to established timelines. This oversight resulted in a lack of incentives for the enhancement and promotion of quality of teaching beyond mere compliance with the Threshold Criteria. Additionally, since the introduction of the quality of teaching model, the CHE-PBC has solicited reports from the Institutions regarding its implementation on only three occasions – in 2017 (prior to the model update), 2018, and 2020; these reports were not utilized to reassess the mode and its impact on the advancement of quality of teaching. As of 2020, the CHE-PBC ceased to mandate reporting by the Institutions on the execution of the model, resulting in a lack of current information regarding its implementation, effectiveness, and relevance to the promotion of the quality of teaching.

Implementation of the Key Threshold Criteria of the Quality of Teaching Model by the Institutions – It is evident that certain institutions have either not implemented essential components of the quality of teaching model or have executed them only in a partial manner. The following examples illustrate this finding:

- **The Operation of Centers for the Advancement of Teaching –** As mentioned, a prerequisite for an institution of higher education to receive funding from the Planning and Budgeting Committee, in accordance with the quality of teaching model, is the establishment of a Center for the Advancement of Teaching. The objectives of the Center are to coordinate teaching quality, equip lecturers with the requisite knowledge, skills, viewpoints, and values necessary for enhancing teaching quality, and raise lecturers' awareness of the importance of incorporating innovative teaching methodologies.

The audit found that such centers were operational in all the budgeted institutions. Nevertheless, since the Council for Higher Education had not delineated the characteristics of these centers (beyond the requirement to staff several positions) and because the Planning and Budgeting Committee had not allocated specific funding for the positions essential for the Center's operation or for the infrastructures required for its activity, the extent and quality of the Center's activities varied according to the administration's discretion at each institution, leading to differences among the Institutions that impacted their capacity to effectively respond to lecturers' needs. Furthermore, a survey conducted by the Office of the State Comptroller involving the heads of the Centers for the Advancement of Teaching revealed that the Threshold Criteria concerning the requisite positions in the Centers were not fulfilled – none of the Centers had a student representative; half of the Centers (13 out of 26) lacked a staff member responsible for digital learning; approximately half of the Centers (54%, or 14 out of 26) did not have a techno-pedagogue; and the majority of the Centers (85%, or 22 out of 26) did not have a member of staff in charge of student questionnaires. In this context, the heads of the Centers for the Advancement of Teaching reported, in the aforementioned survey, that their primary challenge was the scarcity of resources for achieving the Center's objectives (approximately 67% of respondents), and about 52% responded that the most significant challenge was the lack of personnel possessing pedagogical expertise. It was also found that a majority of the heads of the Centers (approximately 77%) believed that the computer systems utilized by the Center supported its requirements only at a medium level or lower. Additionally, nearly half of the Centers (46%) did not routinely disseminate information regarding their activities to lecturers, and in more than half of the Centers (58%), the Center's website did not constitute an up-to-date and comprehensive source of information. All these findings underscore the need to enhance the Centers' capability to promote teaching and achieve their objectives, the necessity for increased support and enhancement from the Institution's administration to ensure the Centers' efficacy, and the requirement to improve the Centers' "public relations" concerning their relevance to lecturers' work.

- **Conducting Professional Training for Lecturers in the Field of Teaching –** As per the Institutions' policy, lecturers in Israel are not mandated to undertake regular and comprehensive training in teaching and pedagogy as a prerequisite for their employment. Their training is contingent upon the resources made available by the Institutions and the specific requirements imposed by them regarding participation in professional training in the field. As said. the quality of teaching model has established Threshold Criteria for pedagogical training applicable to all lecturers in an institution, with additional provisions for two particular populations: new lecturers and those who have received low scores on the student questionnaire. The Threshold Criteria stipulate that new lecturers complete a minimum of 20 hours of training during their first year of employment, applicable to each new faculty member, inclusive of visiting faculty and junior faculty. Furthermore, the Institutions are obliged to ensure that all lecturers engage in at least eight hours of training on the topic of quality of teaching, once every three years. For lecturers persistently receiving low scores in the student questionnaire, the Threshold Criteria obligate the Institution to provide pedagogical training for them, including personal meetings, guidance, mentoring, dedicated workshops, class observations, and peer observations, etc. Moreover, the head of the respective academic unit (e.g. dean, head of school) is required to conduct an individual feedback meeting with these lecturers at least once a year.

The audit revealed that the professional development of lecturers in the field of academic teaching at the Institutions failed to meet the Threshold Criteria. The Centers' Survey data revealed that approximately one-quarter of Institutions lacked training programs for new lecturers, and among those that provided such training, only four reported compliance with the Threshold Criteria regarding the scope of the training. About 41% of lecturers responded in the Lecturers' Survey that they had not participated in any teaching-related training offered by their faculties between 2021 and 2023, and around one-third had not attended such training organized by the Center for the Advancement of Teaching. Concerning lecturers who consistently received low scores in the student questionnaire, approximately 80% of Center heads reported in the survey that at most half of this group had participated in professional or pedagogical training during 2022–2023. Under these conditions, the pedagogical knowledge of lecturers, as well as their exposure to advanced teaching methodologies and innovative tools, is insufficient, resulting in suboptimal quality of academic instruction.

- **Tools for Assessing the Quality of Lecturers' Teaching –** Assessing the quality of lecturers' teaching and taking measures to improve it, necessitates the utilization of reliable instruments that provide a comprehensive overview of their instructional practices. A threshold criterion in the quality of teaching model provides that all educational institutions should administer a student questionnaire – an anonymous satisfaction survey regarding the courses and lecturers. The Teaching Quality Assessment Committee observed in 2014 that utilizing student questionnaires as a tool – a singular tool – for assessing lecturers' teaching was problematic for a number of reasons: (a) The questionnaire gauges satisfaction but does not necessarily reflect the various components of teaching quality and the overall educational course activity; (b) It does not facilitate formative assessment, which would enable lecturers to learn and improve; (c) Lecturers mistrust student evaluations; (d) Even when student questionnaires reveal aspects of quality of teaching at the individual level, their validity for assessing quality of teaching at the institutional or supra-institutional level remains questionable.

The survey conducted by the Office of the State Comptroller among the Institution presidents disclosed that all the Institutions utilized the student questionnaire as the predominant tool for assessing quality of teaching compared to other evaluation methods[9]. However, the Institution presidents, heads of Centers, and lecturers responded in the surveys that the student questionnaire was the least effective tool in measuring the quality of teaching – approximately 43% of presidents, 33% of lecturers, and 19% of heads of Centers pointed out that the tool measures quality of teaching to a significant or very significant extent. The prevailing opinion among the majority of presidents is that an evaluation by a pedagogical expert constitutes the most appropriate method for assessing the quality of teaching, with 83% asserting that this approach effectively measures quality of teaching to a significant or very significant extent; however, only one president out of 23 (4%) reported its application in most courses. Concerns regarding the effectiveness of the student questionnaire as an instrument for assessing quality of teaching were echoed in discussions held by the audit team with student representatives at the various institutions. At the Technion – Israel Institute of Technology, student representatives pointed out (July 2022) that there was a prevalent sentiment among students that the institution did not leverage the results from student questionnaires to enhance quality of teaching, consequently resulting in low participation rates; students at Ruppin Academic College (November 2022) expressed the opinion that many students refrained from completing the questionnaire in the belief that it lacked influence, and contended that it was not an effective means of evaluating lecturers. The aforementioned underscores that the quality of teaching assessment tools employed by the Institutions fail to yield reliable and high-quality feedback regarding the quality of their teaching. Such feedback could inform the necessary actions for enhancing quality of teaching at both the individual and systemic levels. As long as such assessment tools are perceived as unreliable, garnering student cooperation for questionnaire participation becomes challenging, and lecturers face difficulties in deriving beneficial insights from the results concerning the quality of their teaching.

- **The Weight Assigned to the Quality of Lecturers' Teaching in Decisions Pertaining to Promotions –** As a rule, a recognized academic institution possesses the authority to establish the criteria for appointments, promotions, and the conferral of academic ranks to its lecturers. Nonetheless, the awarding of the title of professor, the highest academic rank, lies within the jurisdiction of the

9 The assessment of a lecturer by peers, a supervisor, or a pedagogical expert who observes the class; the evaluation of student knowledge or skills at the conclusion of the course as an indicator of the lecturer's effectiveness in imparting the requisite material; the dissemination of a survey to alumni; and a questionnaire formulated by the lecturer, specifically designed for his or her course, as opposed to a standardized questionnaire applicable to all courses within the institution.

Council for Higher Education, unless the candidate for promotion is employed by institutions that satisfy the qualifications mandated by the CHE for appointment as a professor (including the number of professors within the institution and in the specific field of study). In light of the requirements determined by the Council for Higher Education, universities are in practice empowered to confer professorship titles across all disciplines, while in the colleges, the conferment of the rank of professor typically necessitates a decision by the Council for Higher Education. The teaching quality model lays down that the quality of instruction provided by candidates for promotion must be taken into account in the decision-making process regarding their advancement.

Based on the responses of presidents and lecturers to the Presidents' Survey and the Lecturers' Survey, the audit found that greater weight was given to the research qualifications of the candidate for promotion than to their teaching competencies (approximately 53% of 17 presidents and 69% of 534 lecturers who responded to the questionnaire). This was so despite the primary mandate of colleges being academic teaching. Even in cases where the Council for Higher Education retains the authority to adjudicate the promotion of lecturers to the rank of professor, similar trends are observed. An analysis of 20 promotion files reviewed by the CHE revealed a predominant focus on the candidates' research activities; in nine cases, the teaching component was not discussed at all (45%). Even in cases where the information regarding candidates' evaluations from student questionnaires was incomplete or indicative of subpar teaching quality, the promotion was ultimately sanctioned. When the promotion of lecturers – a pivotal milestone in an academic career – is predominantly or wholly contingent upon achievements in research, it is likely to limit lecturers' willingness to allocate their time and energy to teaching, rather than to research. This is liable to compromise the quality of the teaching offered to students.

Reward and Incentive Mechanisms for Lecturers Under Their Terms of Employment at the Institutions – Institutions may offer compensation to lecturers to motivate improvements in the quality of teaching, in the form of financial compensation for outstanding effort[10], and in colleges compensation may be in the form of reduced teaching hours to give the lecturers more time for improving the quality of their teaching.

The audit disclosed a lack of effective utilization of available reward mechanisms by the Institutions, either because the rewards were bestowed to the majority of faculty, so that they failed to provide an incentive for outstanding effort (in approximately 87% of colleges and in all universities half of the lecturers, or more, received financial reward), or because the rewards could be received for excellence in research or other non-teaching related assignments at the Institution (nearly two-thirds of college presidents

10 In colleges, the financial reward is called an "excellence award" and in universities, a "criteria grant".

failed to acknowledge that quality of teaching was the primary criterion for awarding financial compensation). Moreover, the data revealed that colleges did not fully exploit the potential for reducing teaching hours so as to give lecturers more time to concentrate on their teaching (about one-third of college presidents reported complete non-utilization of this option). With regard to junior faculty and visiting faculty, no reward mechanisms had been established at all. These findings disclose a lack of sufficient incentives for lecturers to direct their time and energy towards enhancing the quality of teaching in preference to their other responsibilities.

The Academic Teaching of Doctoral Students – Institutions of higher education overseas, employing doctoral students as faculty members, encourage them to engage in academic teaching training leading to certification. Notable institutions in the United States, including Stanford University, the Massachusetts Institute of Technology (MIT), and the University of California at Berkeley, alongside the University of Cambridge in the United Kingdom, implement such practices. Through these initiatives, these institutions equip their graduates, who are poised to become future educators, with the essential knowledge and skills for effective teaching, while encouraging them to teach at the institution during their doctoral studies.

The audit found that in Israeli universities, while a proportion of doctoral students are employed as teaching faculty (up to 50% in the 2023–2024 academic year), five out of eight universities (approximately 60%) did not offer these students specialized training in academic teaching.

Assessing the Quality of Teaching in Study Programs at the Institutions – Ensuring an appropriate and high-quality academic level is one of the most significant challenges for the Institutions' management and for the Council for Higher Education, which serves as the regulatory body for higher education. In this context, the CHE periodically evaluates the quality of existing study programs, including the quality of instruction, through international quality assessment committees appointed for this purpose by the CHE. It was found that despite repeated recommendations from these international committees to examine and update pedagogical methods, a matter identified as a pervasive issue across institutions and academic disciplines, the Council for Higher Education had not made determinations concerning the essential necessity for systemic improvements and updates in teaching and learning, from 2020 to September 1, 2023. Furthermore, the CHE had not mapped out the challenges prevalent within the teaching domain, whether system-wide, institution-specific, or pertaining to particular fields of study. It had also failed to investigate the underlying causes of the difficulties highlighted by the international committees in the field of teaching and had not deliberated on potential strategies to enhance the quality of teaching and eliminate obstacles in this area.

The Absence of an Integrating Authority Within the Council for Higher Education Dedicated to the Topic of Quality of Teaching – As a rule, the appointment of an officer responsible for advancing a specific area within the regulatory framework enables the regular assessment of the current state and needs of that area, the identification of barriers, and the drawing of lessons at the systemic level. The same applies to the enhancement of the quality of academic teaching. Thus, for instance, in England, the regulatory body for higher education is divided into two distinct entities: one focusing on academic research and the other tasked with learning and teaching[11]. It was found that the Council for Higher Education had not designated an officer in charge of overseeing quality of teaching on a comprehensive level; an officer who would monitor the situation and needs within the domain, identify barriers, draw lessons and manage the required processes and actions, including the allocation of budgets commensurate with the significance of the matter from a long-term strategic viewpoint, while considering labor market dynamics and technological advancements. Consequently, there is a lack of systematic and holistic treatment of the teaching domain within the system of higher education.

The Programs of the Council for Higher Education for Fostering Innovation in Pedagogy and Incorporating 21st-century Skills in Teaching – Commendation is due with regard to the creation of the Digital Learning Forum, which functions as a platform for idea generation, peer learning, and problem-solving. The establishment and enhancement of infrastructures aimed at the promotion and strategic development of digital learning within institutions of higher education have facilitated the integration of remote learning during periods of crisis – the COVID-19 pandemic and the Swords of Iron War.

11 As part of its responsibilities, this entity performs quality assessments of institutions based on criteria related to teaching and learning; it follows the compliance of academic institutions in England with threshold criteria pertaining to teaching and learning; and publicizes rankings of institutions based on teaching excellence, which enables prospective students, employers, and other stakeholders to make informed decisions regarding educational institutions.

Key Recommendations

- It is recommended that the Planning and Budgeting Committee reexamine the calculation of the teaching component within the budgeting model, so that it accurately reflects the quality of teaching at all levels within the Institutions and the investments made by them in enhancing the quality of teaching, based on objective indicators. This examination should also involve an assessment of the integration of elements from the Open University's unique budgeting model, which includes incentives for course development and update, and encourages the integration of advanced learning technologies.

- It is recommended that the CHE-PBC evaluate the efficiency and effectiveness of the calls for proposals system aimed at enhancing the quality of teaching, particularly in light of the marginal budget allocated to this area in comparison to the Flexible Planning and Budgeting Committee Budget, and more broadly, among other things, the degree to which such a system incentivizes the Institutions to achieve excellence and innovation in teaching that leads to improvements in academic instruction and aligns with learner needs. It is recommended that the CHE-PBC explore strategies to actualize the budget designated within the framework of calls for proposals that are not currently being disbursed to the Institutions.

- It is recommended that the Council for Higher Education examine the relevance of the components of the quality of teaching model established in 2017, aimed at promoting and enhancing the quality of teaching and learning. This examination should particularly focus on the Threshold Criteria pertaining to Centers for the Advancement of Teaching, the training of lecturers in pedagogy, the emphasis on quality of teaching criteria in the promotion of lecturers, and the utilization of effective and reliable tools for gauging the teaching quality of lecturers. Additionally, it is recommended that the CHE revise the Threshold Criteria in accordance with the findings of this examination to incentivize the Institutions to enhance the quality of teaching. It is further recommended that the CHE establish objectives and a reporting, monitoring, and control protocol concerning compliance within the Institutions, as well as derive systemic insights regarding needs and barriers.

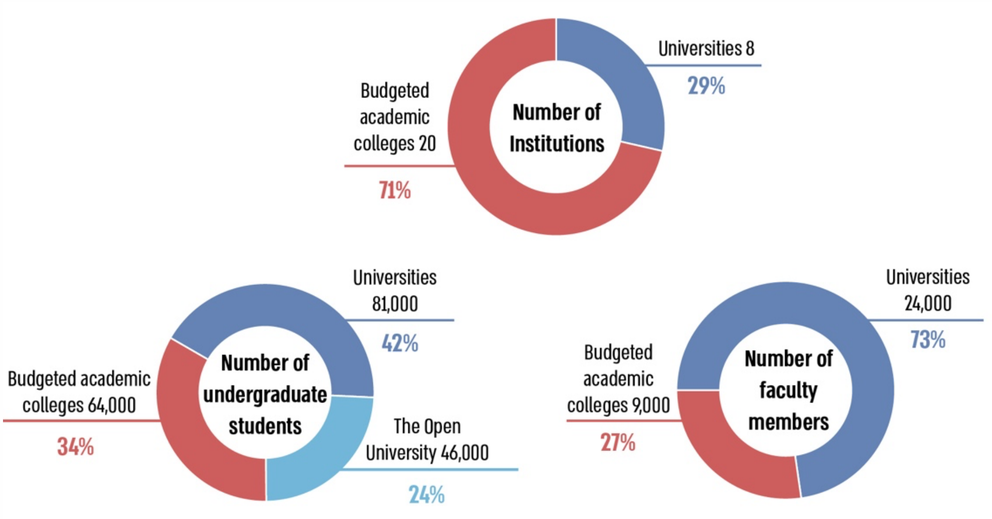
- It is advised that the presidents of the Institutions take measures to implement the Threshold Criteria delineated in the quality of teaching model. This includes an assessment of the infrastructure, resources, and staffing positions allocated to Centers for the Advancement of Teaching, to ensure that they are adequately equipped to fulfill their functions in accordance with the needs of the lecturers at the Institution, and that their activities will be embedded in all faculties and among all lecturers. Furthermore, it is recommended that these Centers map out the existing training framework at the Institution, its appropriateness for identified needs and the reasons for the partial participation of lecturers in pedagogical training. Based on the findings from this mapping, the Institutions should dedicate efforts and resources to enhance lecturers' motivation to engage in such training – offering rewards for participation, allowing lecturers to have a role in shaping training content to enhance its relevance, etc. – this, inter alia, by enlisting faculty deans and department heads in the promotion of lecturer teaching quality. Moreover, it is advisable that the Institutions' presidents, in collaboration with the Centers, adopt a diverse array of effective and reliable assessment tools to evaluate the quality of teaching by their lecturers, thereby creating a complete picture of teaching competencies at both individual and institutional levels. This would facilitate constructive assessment and foster trust among relevant stakeholders, thereby enhancing collaboration. It is also recommended that when considering the promotion of candidates within the institution, excellence in teaching should be examined, alongside research proficiency, and clear criteria for assessing the quality of teaching in this context should be defined.

- It is recommended that the Institutions incentivize lecturers to make an outstanding and substantial investment in teaching. This should be done to ensure that academic programs provide added value to students, including the acquisition of competencies necessary for integration into the 21st-century job market. This necessity is underscored by the survey findings, which show that inadequate remuneration presents a significant barrier to enhancing the teaching quality of lecturers. Effective measures to promote investment in quality of teaching involve rewarding and recognizing such investments in teaching, while decreasing teaching hours to give lecturers more time to concentrate their efforts in this area.

- It is advisable for universities to offer specialized training in academic teaching for doctoral candidates to enhance their knowledge and skills in the field, as is practiced at leading international institutions. Such training should be structured through inter-institutional collaboration to ensure recognition by all institutions within Israel. Moreover, it is recommended that the Institutions consider the incorporation of specialized training in academic teaching as a condition for the attainment of a doctoral degree.

- It is recommended that the Council for Higher Education direct organizational attention to the issue of quality of teaching and, akin to practices in England – consolidate this matter within a designated organizational entity. It is advised that such an entity assume responsibility for the integration of the teaching field, the formulation of action plans that specify tasks and systemic actions to advance predetermined goals, the establishment of contemporary indicators for evaluating the enhancement of teaching quality in the Institutions, and the collection of data from the Institutions regarding the difficulties and barriers they encounter in promoting the quality of teaching. Furthermore, it is recommended that the Council for Higher Education and the Planning and Budgeting Committee develop tools for supporting those Institutions facing difficulties in this regard.

Number of Institutions of Higher Education, Students and Faculty Members, by Type of Institution, 2022–2023

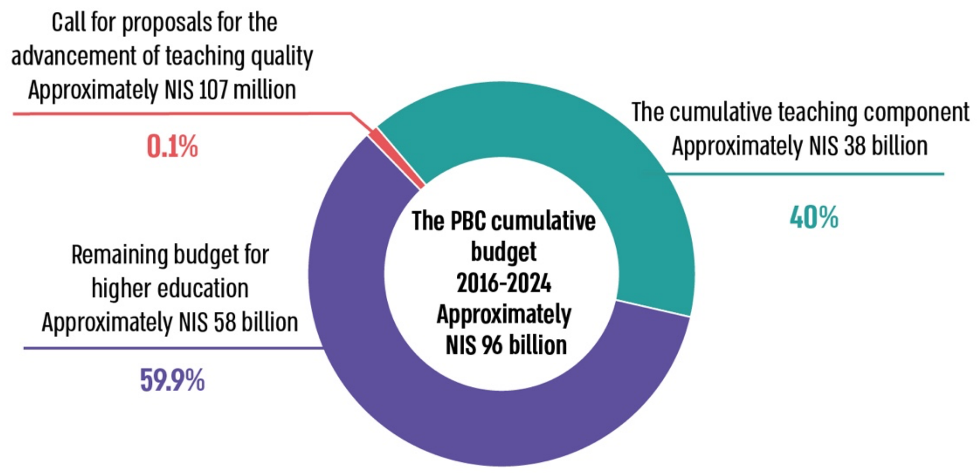


According to data from the Council for Higher Education and the Central Bureau of Statistics, processed by the Office of the State Comptroller.

* Institutions chart: Universities includes the Open University and does not include the Weizmann Institute.

Students chart: The Open University is presented separately since not all those registered for studies are studying for an academic degree, so the student numbers are not comparable to their numbers at other institutions.

The Percentage of the Budget Allocated to Promoting Teaching Quality within the Framework of Calls for Proposals, and to the Teaching Component, in the Years 2016–2024 out of the Total Budget for Said Years



According to data from the Planning and Budgeting Committee, processed by the Office of the State Comptroller.

Lecturers' Views Emerging from the Survey Conducted by the Office of the State Comptroller, Reflecting the Gaps Concerning Quality of Teaching

"Given the current teaching load at universities, the expectation to meet article quotas and research grants, and participate in various civic activities at the institution, it is not possible to devote adequate time to refreshing course content... Only reducing the teaching load will allow more time to be given to this, combined with a mechanism for a teaching mentor for struggling lecturers, and giving greater weight to teaching in promotions".

"Training must be created on a scale that will allow the implementation of new tools. This is a dramatic change that requires a process over time. An hour and a half of training here and an hour and a half there cannot bring about a widespread transformation".

"There is an objective difficulty in implementing innovative tools. It is not possible to make do with an hour and a half of training, but rather with a prolonged process of a training course with a team that assists in directly implementing the tools".

"We are assessed only by the number of articles we publish, and therefore... there is no chance that the quality of teaching will increase".

"There is no practical promotion process for those who teach but do not write articles. Academic promotion is determined solely by articles".

"Institutions have a built-in preference for employing research personnel who are not experts in teaching over employing experts in teaching who are not researchers".

Summary

High-quality and relevant academic instruction is critical for equipping future generations with the knowledge, skills, and tools necessary for integration into the 21st-century labor market. The audit revealed that across all levels of the system of higher education – the Council for Higher Education-the Planning and Budgeting Committee, the Institutions' management and faculty, at universities and colleges – insufficient structured and systematic organizational attention, time, and resources are being allocated, to promote and enhance the quality of teaching. Consequently, the teaching and learning processes remain suboptimal.

The audit revealed that the budgeting model employed by the Planning and Budgeting Committee, which encompasses both teaching and research components, and according to which approximately 70% of the total budget is allocated to the Institutions, does not link the quality of teaching to the Institution's budgeting – with the exception of the use of the student-to-faculty ratio index, whose effectiveness in accurately representing the quality of teaching remains questionable – unlike the research component in the model, which correlates research quality with funding allocation. Additionally, the budget dedicated to quality of teaching from 2016 to 2024 though the calls for proposals method was negligible in comparison to the Flexible Planning and Budgeting Committee Budget in the same years (0.5%, approximately NIS 107 million out of a cumulative total of approximately NIS 23 billion, from 2016 to 2024), failing to facilitate the implementation of policy or to highlight the significance of the quality of teaching in a comprehensive manner.

It was further found that essential components of the Threshold Criteria that were established by the Council for Higher Education as prerequisites for granting a budget within its quality of teaching model, (such as requirements for training lecturers in the pedagogical field, criteria for promoting lecturers, and the updating of curricula and syllabi), were not implemented by certain institutions or were implemented only in part. The Council for Higher Education failed to monitor adherence to the Threshold Criteria and did not possess an updated overview of the Institutions' activities in this regard. Even during critical junctures where the Council for Higher Education could have exerted influence over the institutions' practices (such as promoting lecturers to the rank of professor under its authority and evaluating quality through international committees) it did not utilize its involvement in processes to establish standards for advancing the quality of teaching.

In light of these observations, both the Council for Higher Education and the Institutions must change their approaches. They are required to direct the attention of the system of higher education towards academic teaching and to embrace opportunities for innovation in teaching, rather than view the enhancement of the quality of teaching as subordinate to the advancement of academic research. This realignment is particularly significant given the evolving roles of the system of higher education – from a model primarily focused on the

transmission of knowledge to students, to one that also aims to equip students with relevant skills and empower them for succeeding in an increasingly technology-driven world.

It is recommended that the aforementioned change in outlook be reflected at the level of the CHE-PBC, through the allocation of budgets designated to promote the matter, and in practice this change should manifest in the interfaces of the Council for Higher Education with the Institutions, including the appointment of an integrating factor for the matter within the Council, the establishment of updated and relevant standards in the field of quality of teaching, and the monitoring of their implementation. At the level of the Institutions, the change should be reflected in investments in Centers for the Advancement of Teaching; actions taken to provide a supportive environment in teaching for lecturers; the development of tailored and continuous professional development processes; the effective reward of lecturers for the investment required in altering their familiar teaching methods and updating curricula to ensure relevance to learners' needs; and placing excellence in teaching as a central component in considerations for promotion, alongside research, particularly in the colleges. It is also recommended that the Institutions' presidents collaborate with these Centers to adopt various effective and reliable tools for assessing the quality of teaching among lecturers, thereby creating a comprehensive overview of lecturers' teaching skills and enhancing the trust and cooperation of all relevant parties.