

## West Bank and Gaza

# Public Expenditure Review of the Palestinian Authority

## Policy Priorities Amid a Spiraling Fiscal Crisis



*Photo by Mustafa Abu Shamla, 2021*

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## Acronyms and Abbreviations

AGD	Assistant General-Directors
AWPB	Annual Work Plans and Budgets
BA	Bachelor of Arts
BC	Business Continuity
BoD	Board of Directors
BOOST	BOOST government expenditure database
BSc	Bachelor of Science
CERD	Center for Educational Research and Development
CPI	Consumer Price Inflation
CS	Civil Service
DB	Defined-Benefit
DC	Defined-Contribution
DR	Disaster Recovery
EDSP	Education Development Sector Plan
EGRA	Early Grade Reading Assessment
EJHN	East Jerusalem Hospital Network
EMs	Emerging Markets
ESCS	Economic, Social, and Cultural Status
ESSP	Education Sector Strategic Plan
FCV	Fragility, Conflict, and Violence
GDP	Gross Domestic Product
GER	Gross Enrollment Ratio
GFS	Government Finance Statistics
GHI	Government Health Insurance
GOI	Government of Israel
GPIC	General Pensions and Insurance Corporation
HCP	Human Capital Project
HR	Human Resources
IBAN	International Bank Account Number
ICT	Information and Communication Technologies
ID	Identity Document
IEC	Israeli Electricity Company
IHME	Institute for Health Metrics and Evaluation
ILO	International Labor Organization
ILSAs	International Large-Scale Assessments
IT	Information Technology
JFA	Joint Financing Arrangement
JOD	Jordanian Dinar
KG	Kindergarten
KPMG	Klynveld Peat Marwick Goerdeler
LaNA	Literacy and Numeracy Assessment
LAYS	Learning-Adjusted Years of Schooling

LGUs	Local Government Units
LLCs	Limited Liability Companies
LMIC	Lower-Middle Income Country
M&E	Monitoring and Evaluation
MA	Master of Arts
MENA	Middle East and North Africa
MFMod	Macroeconomic and Fiscal Model
MIS	Management Information System
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOHE	Ministry of Higher Education
MoLG	Ministry of Local Government
MOUs	Memorandums of Understanding
MSc	Master of Science
NCD	Non-Communicable Disease
NDC	Nationally Determined Contribution
NER	Net Enrolment Rate
NGOs	Non-Governmental Organizations
NIS	New Israeli Shekel
NLSA	National Learning Standardized Assessment
OECD	Organization for Economic Cooperation and Development
OMR	Outside Medical Referrals
OOP	Out-of-Pocket
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PECS	Palestinian Expenditure and Consumption Survey
PEGASE	Palestinian-European, Socio-Economic Management and Assistance Mechanism
PER	Public Expenditure Review
PFM	Public Financial Management
PFR	Public Finance Review
PHC	Primary Healthcare Centers
PISA	Program for International Student Assessment
PMA	Palestine Monetary Authority
PMMS	Palestinian Medical Military Services
PMOH	Palestinian Ministry of Health
PPA	Palestinian Pension Authority
ppts	percentage points
PRDP	Palestinian Reform and Development Plan
PROST	Pension Reform Options Simulation Toolkit
Q4	Fourth Quarter
QA	Quality Assurance
SAACB	State Audit and Administrative Control Bureau

SDG	Sustainable Development Goal
SERATAC	Supporting an Education Reform Agenda for Improved Teaching, Assessment and Career Pathways
SIAD	Social Insurance Administrative Diagnostic
SOPs	Standard Operating Procedures
SPU	Services Purchasing Unit
TFR	Total Fertility Rate
TIMSS	Trends in Mathematics and Science Study
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UN	United Nations
UNESCO UIS	United Nations Educational, Scientific and Cultural Organization Institute for Statistics
UNICEF	United Nations International Children's Emergency Fund
UNRWA	United Nations Relief and Works Agency
UPL	Unified Pension Law
US\$	United States Dollar
USD	United States Dollar
V-Dem	Varieties of Democracy
VAR	Vector Auto Regression
VAT	Value-Added Tax
VRS	Voluntary Retirement Scheme
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization
WHO-PEN	World Health Organization - Package of Essential Noncommunicable
y/y	Year-on-Year

# EXECUTIVE SUMMARY<sup>1</sup>

## *1. The ongoing conflict in the Middle East, centered in Gaza, has turned the pre-existing economic and fiscal fragility of the West Bank and Gaza into a full-blown crisis*

**Just like every other socio-economic dimension, also the fiscal situation in West Bank and Gaza is shaped by its fragility, conflict and violence (FCV) context.** It is difficult to overstate the impact that the Israeli occupation imposes on the economy of the West Bank and Gaza. Along with the recurrent violence, the most important obstacles to Palestinian growth and private-sector development<sup>2</sup> continue to be the Israeli restrictions on movement, economic activity, and access to resources in the West Bank,<sup>3</sup> and the near-total blockade of Gaza since 2007. As such, these factors fundamentally undermine the macroeconomic foundations needed to achieve fiscal sustainability. These constraints are amplified by Israel's control of the Palestinian borders and of vast swathes of its territory (Area C),<sup>4</sup> which greatly limit the Palestinian ability to collect taxes and conduct an independent and sound fiscal policy. These limitations, in addition to the internal political divide between the West Bank and Gaza, cause the Palestinian Authority (PA) to face a situation of permanent fiscal emergency. Fiscal revenues are structurally unable to cover the large public expenditures needed to maintain the economy and the society afloat. Hence the PA has to rely on foreign aid in order to bridge the financing gap.

**The devastating impact of the ongoing conflict has transformed the fragile Palestinian economic situation into a full-blown economic crisis.** In Gaza, the mounting death toll, extensive damage to physical assets, and severe disruption of public services and economic activity have caused an unprecedented crisis. According to the Rapid Damage and Needs Assessment produced by the World Bank, EU and UN,<sup>5</sup> damage to Gaza's capital stock as a result of the conflict is estimated at US\$29.9 billion, nearly twice the pre-conflict real GDP of the West Bank and Gaza combined. The West Bank has experienced severe knock-on effects due to new restrictions imposed by Israel as well as greater deductions from revenues Israel collects on behalf of the PA, the so-called clearance revenues. The conflict pushed the Palestinian economy to its deepest decline in over a generation with the economy contracting by 27 percent in 2024: -83 percent in Gaza and -17 percent in the West Bank. This contraction aggravates the ailments of an economy that was already growing slowly and that witnessed high unemployment even before the current conflict, especially in Gaza due to the near-total blockade since 2007. In 2024, unemployment may have soared to

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<sup>1</sup> Data used for the analysis was collected prior to the eruption of the ongoing conflict in the Middle East, so much of the PER effectively provides a benchmark for the pre-conflict state of public expenditures against which the post-conflict state can eventually be measured.

<sup>2</sup> Laursen and Nasser Eddin, 2017. *Prospects for growth and jobs in the Palestinian economy: a general equilibrium analysis*. Washington, D.C.: The World Bank Group. <http://documents.worldbank.org/curated/en/952571511351839375/Prospects-for-growth-and-jobs-in-the-Palestinian-economy-a-general-equilibrium-analysis>

<sup>3</sup> According to the Government of Israel, these restrictions are for the purpose of enhancing the security of Israel and Israeli citizens.

<sup>4</sup> Area C constitutes about 61 percent of the West Bank territory. It is defined by the 1995 Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip as "areas of the West Bank outside Areas A and B, which, except for the issues that will be negotiated in the permanent status negotiations, will be gradually transferred to Palestinian jurisdiction in accordance with this Agreement". According to the Interim Agreement, the gradual transfer should have been completed by 1997. However, it has not been implemented as envisaged in the Interim Agreement and in the meantime, access to this area for most kinds of economic activity has been severely limited.

<sup>5</sup> Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025. <https://thedocs.worldbank.org/en/doc/133c3304e29086819c1119fe8e85366b-0280012025/original/Gaza-RDNA-final-med.pdf>

as high as 80 percent in Gaza, while in the West Bank it rose to 33.5 percent<sup>6</sup> (from 13 percent in the third quarter of 2023), its highest level on record.<sup>7</sup>

**The conflict is also fueling a fiscal crisis, reversing the reduction in the PA's fiscal deficit registered in recent years and exacerbating the challenges of declining foreign aid.** Between 2006 and 2022, the PA narrowed its total fiscal deficit (before international aid and after Israeli deductions from clearance revenues) from 27 percent of GDP to about 3.7 percent. However, the conflict's severe negative impact on the PA's finances widened the deficit to 6 percent of GDP in 2023 and to 15 percent in 2024. Financing this deficit is particularly challenging in the context of declining external budget support and extremely limited sources of domestic financing. Donor fatigue and competing priorities in the region caused aid to drop from a peak of 27 percent of GDP in 2008 to 2 percent in 2023, with negative repercussions on growth. Aid increased to 6 percent of GDP in 2024, but it is not guaranteed that this level will be maintained in the coming years. Ensuring adequate and predictable budget support remains indispensable to the reform agenda and fiscal sustainability, especially given the huge fiscal resources needed to cope with the ongoing conflict and its aftermath.

*2. Already before the conflict, the PA's fiscal position was fragile as it increasingly relied on domestic public debt and arrears to finance the large public spending as revenues did not rise sufficiently to offset the decline in foreign aid*

**Over the years, the PA managed to increase overall public revenues to levels above the standards of FCV economies, but revenues have been severely hit since October 2023.** Public revenues (net of grants) reached 27 percent of GDP in 2023, with a positive trend, which underscores the PA's commitment to revenue mobilization. Clearance revenues accounted for roughly 60 percent of total fiscal revenues. The transfer of clearance revenues has been subject to Israeli political decisions, with significant deductions made in defiance of the Paris Protocol. Initially, these deductions mainly covered unpaid utility bills to Israeli suppliers and medical referrals to Israeli hospitals. A sharp increase in deductions since last October, ostensibly to account for the PA's spending in Gaza which remained unchanged following October 2023, coupled with a decline in domestic revenue generation as a result of the economic contraction, has created a burgeoning fiscal crisis.

**Public expenditure in the West Bank and Gaza is relatively high by the Middle East and North Africa (MENA) region and Low- and Middle-Income Countries (LMIC) standards and is also extremely rigid, limiting the PA's ability to adapt its spending under challenging conditions.** Over the last decade, public expenditures exceeded 30 percent of GDP as the PA has long relied on spending to drive economic activity. But high expenditure levels have proven unable to offset the impact of the Government of Israel (GOI)-imposed restrictions and have not translated into strong and sustained growth. Regional comparisons suggest that other countries have been able to generate larger gains in average income with much lower levels of public spending. Recurrent spending, namely the wage bill, dominates public expenditures, whereas capital investment accounted for an average of about 2 percent of GDP in recent years, far below the levels of peer countries, with negative implications for long term growth. The PA's fiscal flexibility is very limited. At close to 80 percent, the share of rigid expenditures in total spending in the West Bank and

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<sup>6</sup> Performance of the Palestinian Economy in 2024. PCBS, May 2025. <https://www.pcbs.gov.ps/Downloads/book2723.pdf>

<sup>7</sup> That started in 1994.

Gaza is higher than the average for any comparator group. Expenditure rigidity has restricted the PA's ability to adapt fiscal spending under challenging conditions.

**With rapidly declining foreign aid, the PA increasingly relied on domestic sources to bridge its financing needs by accumulating public debt and arrears.** The PA's public debt reached 85.7 percent of GDP by end-2024. At 55.0 percent of GDP, arrears represent the largest share of the Palestinian debt. The total stock of arrears to the private sector stood at an estimated US\$ 1.5 billion (9 percent of GDP) at end-2024, mostly owed to pharmaceutical companies, private and non-governmental organization (NGO) hospitals, and contractors. In addition to the private sector, the PA has also accumulated arrears to the public pension fund, which are estimated at around US\$ 3 billion (22 percent of GDP) for the civil-service schemes, though no data are available on the security schemes. Finally, arrears to public employees are estimated at US\$ 1.47 billion (10.7 percent of GDP). The excessive accumulation of arrears is alarming as it could stifle economic growth by draining the private sector's working capital, deterring investors, and reducing spending by public employees.

### *3. Stopping the ongoing hostilities in Gaza, strengthening the fiscal cooperation with the GOI while working to permanently resolve the Israeli-Palestinian conflict are key fiscal priorities across sectors*

**Against this fragile background, the Public Expenditure Review (PER) examines some of the key spending areas in West Bank and Gaza, identifying specific and cross-cutting recommendations.** The PER includes an overview of the PA's public spending, with a focus on the civil-service payroll, an analysis of the public pension system, as well as the education and health sectors, two major spending areas. Together, these account for 67.3 percent of total government spending, and 84.1 percent of non-discretionary spending. Data used for the analysis was collected prior to the eruption of the conflict, so much of the PER effectively provides a benchmark for the pre-conflict state of public expenditures against which the post-conflict state can eventually be measured. While each chapter offers specific findings and recommendations, several key cross-cutting challenges emerge from the analysis.

**The first cross-cutting priority is the urgent need to stop the hostilities in Gaza and fund its reconstruction.** Besides the immense loss of lives and structures, ending the violence is crucial to allow Gaza's society and economy to resume some basic functioning including also rebuilding its public sector system. The enormous social, humanitarian, and public investment needs arising from the conflict will have large spillover effects on all sectors of the Palestinian economy, not only in Gaza. Once the violence stops, efforts should focus on rebuilding Gaza's physical and institutional infrastructure, remediating the learning losses and direct and indirect effects on public health caused by the conflict, and sustaining the PA's core functions in a context of depressed economic activity. Given the heavily constrained ability of the PA to raise revenue in light of the Israeli restrictions and withholding of clearance revenues, massive inflows of donor support will be necessary to rebuild Gaza. Deep reforms and improvements to the PA's public financial management systems will be crucial to engage effectively with the donor community and shore up the confidence of the development partners.

**While a permanent resolution of the conflict may take time, enhancing cooperation between the GOI and the PA is a crucial step to improve the PA's fiscal situation. The initial focus should be on resolving the ongoing clearance revenue impasse.** Given that clearance revenues are the PA's largest source of income, resuming these transfers should be a priority. Addressing the increasing deductions imposed by the GOI by establishing transparency and accountability criteria vis-à-vis the rules used by the GOI to apply deductions and withholding of revenues is key. Second, fully implementing the e-VAT clearance system

would reduce VAT leakages between the GOI and the PA. Third, transferring customs responsibilities to the PA and establishing Palestinian bonded warehouses would increase the PA's revenues and enable a more independent trade policy. Fourth, remitting all VAT on Israel-Gaza trade to the PA would enhance fiscal space and resume the arrangement in place prior to the near-total blockade which began in 2007. Fifth, renegotiating the fee charged by the GOI for handling Palestinian imports would increase fairness as the current fees far exceed cost-recovery. Finally, the parties should determine the exit fee collected at the Allenby Bridge collaboratively and share it according to the Paris Protocol.

**The third cross-cutting priority revolves around the ultimate governance structure in Gaza once the conflict ends, including the eventual role of the PA.** About one-third of the PA's budget is spent in Gaza even though the PA has not governed the Strip since 2006 and collects only about 3 percent of its revenues from the territory. The largest component of these expenditures is compensation for public employees in Gaza who still report to the PA, but the PA also pays pension benefits to retired employees in Gaza and makes social transfers to poor households. Finally, the PA covers the cost of Gaza's utility payments to Israeli suppliers, which are deducted from clearance revenues. This fiscal gap in Gaza is a major contributor to the PA's strained finances, and it must be resolved once the conflict has subsided.

**Efforts by the PA also remain key to push forward the reform agenda and improve the fiscal position.** Although central government revenues are relatively high by the standards of FCV countries, they still fall short of the PA's potential. Due to the political divide, revenue collection from Gaza was very low even prior to the conflict, as mentioned above. In the West Bank, reforms are needed to broaden the tax base to include high-earning professionals such as doctors, lawyers, and engineers. Administrative enforcement powers should be strengthened and accompanied by penalties for tax evasion. Additional efforts should be made to determine the appropriate framework for taxing small firms and Limited Liability Companies (LLCs) under the new Companies Law. Nontax revenues could also be significantly augmented by revising government fees and charges, most of which have not been adjusted in over two decades. Revenues collected by local governments also remain minimal, and large intergovernmental transfers contribute to the PA's deficit. Access to Area C is also crucial to increase the PA's revenue, but progress in this area hinges on a successful political dialogue. On the expenditure side, the following discussion covers some of the key spending areas to improve the fiscal position.

#### *4. Accounting for almost half of public expenditures, the public wage bill appears fiscally unsustainable and could be reformed through control and structural measures*

**The PA's wage bill has continued to grow in an environment where job generation by the private sector is constrained, but the wage bill has become fiscally unaffordable.** The difficulty of pursuing a conventional market-oriented development strategy in the West Bank and Gaza since the early part of the 2000s, after the second Intifada and the associated heightened Israeli restrictions on movement and access, led to a "second-best" reliance on public sector employment and wage bill expansion to boost aggregate demand. Between 2011-2018 (a period for which data are available for all countries), the PA's wage bill averaged 14 percent of GDP and 46 percent of central government spending, far above the averages of 11 and 30 percent, respectively, for the MENA region, as well as the averages of 8 and 29 percent, respectively, for countries affected by FCV. On average, the PA spends more on its wage bill both as a share of GDP and total spending than do regional comparator countries such as Jordan, Egypt, and Morocco. However, given the current fiscal crises, the PA has only been paying about 80-85 percent of the wages of public employees since November 2021, and this rate has fallen to 50-70 percent since the start of the conflict.

**The main driver of wage bill growth in the Palestinian context has been the increase in the salaries of public employees.** The latter was largely due to increases in allowances. On the other hand, growth in employment has been relatively low. Between 2011 and 2021, spending on the wage bill grew at an average annual rate of 2.3 percent, in nominal terms. Most of this surge came from spending on employee salaries, which increased at an average rate of 2 percent per annum, while the residual 0.3 percent annual increase is attributable to net additional employment/jobs created in the public sector. Notably, the ministries of health and education represent the largest share of wage bill spending and they have also seen the largest increases over time, mostly in the forms of allowances. The PA has gradually channeled an increasing portion of its salary increases over the years into allowances, using them as a supplement to base pay instead of as a reward for specific jobs or work performance. Specifically, two types of allowances, ‘job’ and ‘other’, have been used to channel most of the compensation increases that have taken place over the years often because of salary bargaining.

**The West Bank has been responsible for a larger share of wage bill growth compared to Gaza.** Between 2011 and 2021, wage bill spending in the West Bank increased by 87 percent, whereas it declined in Gaza by 27 percent, in nominal terms. Trends in public employment are similar. Between 2011 and 2021, public employment in the West Bank increased by 32 percent, reaching 116,458 employees. During the same period, PA employment in Gaza declined by 40 percent and reached 39,156 employees due to natural attrition and PA policy to minimize hiring in the Strip.

**Public sector salaries in the West Bank are misaligned with private sector benchmarks, creating negative externalities.** Wage premium analysis conducted using data from the 2021 Labor Force Survey shows that public sector employees in the West Bank receiving an income at the 10th income percentile<sup>8</sup> level earn 99 percent more than their private sector peers and that this gap cannot be explained by differences in characteristics such as education and experience. Further, above the 20th income percentile, the effect is opposite whereby the public sector is likely under-paying its employees, creating incentives for job seekers to prefer private sector jobs, thereby potentially depriving the public sector of much needed skills. The story in Gaza is different as, on average, the public sector pays more than the private sector across almost all levels of income, except the senior most levels where the private sector pays more.

**Continued growth in the PA’s wage bill over the years has not been reflected in improved government effectiveness.** In fact, between 2010 and 2020, the West Bank and Gaza’s performance on the Worldwide Governance Indicators<sup>9</sup> deteriorated overall. On the “government effectiveness” sub-indicator, which captures “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies,” the West Bank and Gaza’s score fell from 43 out of 100 in 2010 to just 29 in 2020. By comparison, in 2020 the average score for the MENA region was 42, and the average for LMICs worldwide was 36. Further, survey data show that appointments in the Palestinian public sector are often based on personal or political connections rather than merit. In 2021, the Varieties of Democracy (V-Dem) research project<sup>10</sup> found that the public sectors in the West Bank and Gaza scored poorly (1.6 and 0.8 out of 4, respectively) on the question “To what extent are appointment decisions in the state administration based on personal and political connections, as opposed to skills and

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<sup>8</sup> A value where 10 percent of the population earns at or below that amount.

<sup>9</sup> <https://info.worldbank.org/governance/wgi/Home/Reports>

<sup>10</sup> <https://www.v-dem.net/vdemds.html>

merit?”. The question covered all major appointment decisions (i.e., recruitment, promotion, and dismissal), and the results indicate that most appointments are not based on merit.

### *Recommendations to reform the PA’s wage bill*

**In the short-term, the PA, like other governments, can make use of a variety of strategies to monitor wage and employment trends.** They may opt to freeze wages or link wage growth to a standard percentage decided annually by a pay commission to rein in spending on the wage bill. Governments can also use hiring freezes or attrition targets. World Bank simulations show that reforms that address *both* employment and wage growth can result in better outcomes as they can deliver significant fiscal savings for the PA. These reforms would include : (i) freezing wages for two years and then indexing them to a standard rate of increase such as 1.5 percent, (ii) reducing spending on “job allowances” and “other allowances” by 20 percent over several years, and (iii) putting in place an attrition target such as two employees out for every one that enters (based on an assumption that 3,000 employees exit annually for every 1,500 that enter). Such measures would be able to reduce the wage bill by 16 percent, in nominal terms, to NIS 7 billion by 2026. A Voluntary Retirement Scheme (VRS) is an option considered by the authorities, but it may not deliver the level of savings needed to stabilize wage bill spending as simulations by the World Bank show that the VRS will only result in modest savings initially as the PA will be able to realize the reduction in its wage bill due to the exit of the voluntary retirement employees. However, thereafter, the wage bill will continue to grow as it has in the past.

**Medium-to-long term structural reforms are country-specific and allow governments to improve overall wage bill management and government performance.** For example, modern civil services around the world typically fold the majority of allowances into base pay in order to improve horizontal equity (equal pay for equal work), while keeping certain special allowance categories in place to reward high performance. Another best practice includes aligning public sector pay with private sector wages to promote salary competitiveness in the labor market. Governments have also undertaken reforms in their pay and grading structure to limit pay fragmentation and improve salary and career management. Last but not least, governments may also choose to link human resource and compensation planning to the medium-term budget to improve overall fiscal sustainability of the wage bill.

### *5. An important contributor to the public debt, the pension system could be improved through parametric adjustments and reforms to define contributions and benefits*

**In 2022, spending on the public pension system was equal to 3.5 percent of GDP or 13 percent of the PA’s budget.** Relative to GDP, spending on the pension system increased by 17 percent between 2013 and 2022. The system has gone through rounds of parametric and systemic reforms, but its financial sustainability remains uncertain. The Palestinian Pension Authority (PPA) faces a high risk of default, and it may be unable to implement the deep reforms necessary to stabilize the system. Consequently, pension reform should be integrated into a broader agenda for reforming public expenditures.

**The PA’s public sector pension system is in transition from a fragmented to a unified scheme.** The new, unified scheme (introduced in 2006), despite notable improvements, continues to confront major issues, notably a dramatic worsening of the dependency ratio in the long run, which will require policy adjustments. In addition, the main Defined Benefit (DB) component remains costly due to a combination of a generous formula (2 percent for each year of service), relatively low age of retirement (60), and early retirement privileges. The Defined Contribution (DC) component has never properly been implemented

as the individual DC accounts held at the PPA are notional (i.e., there is no real money) and accrue no interest.

**The schemes' financing mechanism is complex, lacks transparency and needs to be consistent with the Unified Pension Law.** The MOF Treasury is required to cover the costs of pensions under the old schemes (I, III, and IV), and additionally, to pay contributions for all public sector employees that are part of the new Scheme (II). Both contributions are of the same magnitude, financially. However, the Treasury is *de facto* only financing the current pension payouts. The stock of contribution arrears is allegedly at over 15 percent of GDP (subject to reconciliation between the PPA and MOF), and on a growing trend.

#### *Recommendations to reform the public pension system*

**Reforming the pension system could involve four parallel tracks with the first being a series of parametric adjustments to alleviate the costs of future pensions.** This could include: a) gradually raising the retirement age to 63, for women and men, by three months annually over a 12-year period, to keep pace with the increasing life expectancy, b) restricting early retirement to 5 years under the retirement age (initially 55) no matter what total service has been accumulated, c) gradually reducing the accrual rate of pension benefits from the current 2 percent down to 1.75 percent, d) reducing the minimum service from 15 to 10 years to enhance access to pensions, while the span of the pensionable wage at retirement could expand to cover at least 5 years of wages, and e) reforming the benefit indexation policy, combining wage growth and inflation.

**The second track would involve systemic changes to split the DB benefit package into two.** The DB scheme could be made partially non-contributory, by splitting it into two components: (i) one that is linked to regular contributions, while (ii) another component would be a non-contributory basic pension, building on the precedent of the personal allowance (NIS 300) paid to all that have the right to the contributory component. Such an approach would allow for a more transparent budgeting process, better link to the wage bill policy, and would give more flexibility to the government in responding to various policy challenges.

**Transforming the DC benefit into an early-separation (indemnity) payment would be a third reform track.** The DC component *de facto* operates now as an end-of-service indemnity scheme with a lump sum benefit linked to earnings. It is recommended to convert it into such *de jure*, so it becomes an unemployment and early separation insurance. Removing the matching 3 percent contribution of the government to that scheme – and possibly making the employee contributions to such scheme voluntary – is also an option.

**The final track would be financial restructuring for rationalizing the institutional and financial responsibilities of the PPA and the MOF towards the pension system to improve its transparency.** If the MOF financially guarantees all future pension payments, it could legally assume the full financial responsibility for all current and future pension obligations by financing any deficit of the consolidated system, without differentiating between schemes. In exchange, all the DB contribution arrears that the MOF has accumulated so far, along with interest and penalties, would be annulled. Among other things, this would result in a reduction of the current explicit public debt.

*6. The ongoing conflict has nearly destroyed the entire health sector in Gaza, exacerbating the challenges that the system was facing prior to the eruption of the conflict, both in the West Bank and in Gaza*

**The conflict has nearly completely destroyed the health system in Gaza, which exacerbates the pre-existing challenges in the overall Palestinian health system mostly caused by the context.**<sup>11</sup> Extensive attacks have devastated Gaza's health system, and almost 90 percent of health facilities have been damaged or destroyed. The health sector has been struggling to manage a massive surge in conflict-related injuries, the consequences resulting from the disruption of essential maternal and child health services and non-communicable disease (NCD) treatment, and an unprecedented increase in infectious diseases. According to the Interim Rapid Damage and Needs Assessment (IRDNA) produced by the World Bank, EU and UN,<sup>12</sup> short-term recovery and reconstruction needs for the health sector are at US\$4.3 billion, the highest of any sector. Even before the ongoing conflict, the Palestinian health system faced significant challenges partly due to spatial and political fragmentation that has created structural barriers to equitable service provision. Movement restrictions, including an unpredictable Israeli permit system, negatively impact access to essential health services. Between 2019 and 2021, only 65 percent of patient permit applications from Gaza and 84 percent of applications from the West Bank were approved on time, with delays resulting to increased mortality and morbidity. Shortages of medical equipment and essential medicines, particularly in Gaza, represent a chronic constraint on effective service delivery. The near-total blockade has severely delayed the entry of medicines to Gaza, as well as the procurement and maintenance of medical equipment. Limited flows of medical equipment and resources between the West Bank and Gaza exacerbated local shortages.

**Life expectancy in the West Bank and Gaza remains lower than in peer countries and has fluctuated due to the impact of violence.** With a relatively young, rapidly growing population, the West Bank and Gaza is still at the early stages of the demographic transition, and effective economic and social policies will be vital to achieve a demographic dividend. Average life expectancy at birth is close to the regional average and above the average for lower-middle-income countries, but it is well below the average for Israel.

**Despite improvements in health outcomes before the conflict, the high and rising burden of noncommunicable diseases (NCDs) is straining the health system.** Before the conflict, NCDs accounted for 72 percent of the disease burden, and in 2019 eight of the twelve main drivers of morbidity were NCDs. Poor treatment indicators demonstrate the need to strengthen primary care focusing on diagnostics, address frequent stockouts of essential medicines, increase treatment adherence by expanding access to community-level primary healthcare facilities, and enhance follow-up care through family medicine.

**Most NCDs are referred to private and NGO hospitals due to insufficient hospital capacity, and reimbursement imposes a major financial burden on the Ministry of Health (MOH).** NCDs often require sustained treatment and continuous access to preventive, curative, and palliative care. Since 2015, almost 90,000 cases per year have been referred from public health facilities to private or Non-Governmental Organizations (NGO)-run hospitals. These outside medical referrals (OMR) result in average annual

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<sup>11</sup> The health sector chapter assesses public health expenditures and the health system prior to October 2023, based on quantitative and qualitative data collected between June 2022 and January 2023. A standalone companion piece to be published in the coming months.

<sup>12</sup> Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025. <https://thedocs.worldbank.org/en/doc/133c3304e29086819c1119fe8e85366b-0280012025/original/Gaza-RDNA-final-med.pdf>

financial expenditures of about US\$ 250 million (1.3 percent of GDP), equivalent to one-third of total MOH spending. Moreover, as of June 2025, the MOH owes US\$ 623 million (4.5 percent of GDP) in cumulative arrears to hospitals for OMRs.

**The health sector's human resources are insufficient.** In 2021, there were 1.4 physicians, 1.76 nurses, and 0.21 midwives per 1000 population, with slightly higher levels in Gaza than in the West Bank. The rate of physicians per capita is low relative to regional comparator countries. The limited supply and inequitable distribution of specialists pose substantial challenges for timely access to specialized health services.

**The budget-formulation process suffers from serious deficiencies, and governorates and health facilities play a limited role in budget execution.** The MOF's funding for the health system comes from general public revenue, including taxes and donor support, and from government health insurance (GHI) contributions. GHI contributions are collected by the MOH but are transferred and pooled with other revenues at the MOF level, in the absence of an autonomous health insurance agency. These funding arrangements prevent the scheme from effectively distributing risk or manage providers and beneficiaries. In 2020, total health spending per capita reached US\$332, almost double the average for peer countries, with out-of-pocket (OOP) expenditures constituting the majority of health spending. High OOP expenditures indicate that health insurance offers limited financial risk protection.

**The wage bill, costly referrals to hospitals outside the public sector, and high unit costs for pharmaceuticals limit the resources available for investments and operational support.** In 2021, health spending by the PA reached 13 percent of total public spending. Wages and salaries and OMR represented 42 percent and 34 percent of public health spending, respectively. The purchase of goods and services (including medicines) made up 20 percent of public health spending, while infrastructure investment accounted for less than 1 percent. Since 2013, the combined share of expenditures allocated to salaries and OMR has fluctuated between 70-86 percent of total public health spending and is currently at 75 percent, leaving little space to invest in strengthening service delivery at public health facilities.

**Despite high levels of insurance coverage, 12.3 percent of the population incurred catastrophic health spending in 2017, and insurance coverage is not associated with reduced OOP.** A full 1.5 percent of the population incurred impoverishing health spending in 2017, further underscoring the weak financial protection offered by health insurance. Copayments, persistent shortages of medicines in public health facilities, and a heavy reliance on hospital services are key drivers of OOP spending. Shortages of medicines in public facilities often force patients to purchase medicines from private pharmacies, especially essential NCD drugs, leading to high OOP payments and in some cases catastrophic spending.

**The health-insurance fund does not act as the purchaser of services, and the only services actively purchased by the MOH level are those referred to private and NGO hospitals.** The MOH purchases OMR services from referral-receiving hospitals based on memorandums of understanding that specify a mix of fee-for-service and case-based payments. A declining but still significant share of these referrals are to Israeli hospitals, and payments to these hospitals are deducted directly from the PA's clearance revenues with no price transparency, which further weakens the health-financing system.

**Inequitable financial risk protection, inefficient purchasing arrangements, and shrinking fiscal space pose critical financial challenges to the Palestinian health sector.** The Palestinian health-financing system is locked in a vicious cycle of elevated unit costs, mounting arrears, chronic medicine stockouts, and weak

public investment. Due to substantial payment delays and the accumulation of arrears to pharmaceutical wholesalers, unit costs remain high, and few pharmaceutical wholesalers remain active in the market, which further increases prices while undermining MOH bargaining power. The limited availability of pharmaceuticals in public facilities increases the frequency of referrals to non-MOH hospitals, which further inflates OMR-related expenditures and arrears. The unit costs of pharmaceuticals remain substantially elevated due to the limited use of reference pricing, the use of Israeli prices, high entry and exit requirements, and a restrictive customs regime. The absence of an explicitly defined benefits package weakens cost controls and further contributes to the unsustainability of pharmaceutical costs and other health spending.

### *Recommendations to reform the health system*

**Once a durable ceasefire in Gaza is implemented, several reform actions could increase the fiscal sustainability of the Palestinian health system.** In Gaza, as part of the reconstruction efforts, the initial focus should be on rebuilding the system to ensure implementation of priority recovery interventions. As the PA has little to no capacity to increase the fiscal space for health spending, at least in the medium term, focusing on scaling up priority services in an equitable and efficient manner is essential. The following four-step prioritized plan should be implemented as soon as a durable ceasefire has been established.

**The first step should be to strengthen MOH purchasing arrangements by defining an essential benefits package, reference prices, and contracting rules.** Due to the PA's fiscal constraints and the unsustainable nature of OMR expenditures, the health-financing system must redefine its purchasing arrangements. The MOH is the sole public purchaser of health services, and it should continue strengthening the capacity of the SPU by explicitly defining a benefits package and prioritizing the services covered within it.

**The second step involves expanding equitable insurance coverage.** Increasing coverage is essential given high levels of OOP expenditures and the fact that over one-third of the population is not covered by GHI. To expand equitable insurance coverage the PA should either strengthen the current GHI arrangements to ensure the delivery of the essential benefits package and a prioritized list of OMR services; use general tax revenue to finance the essential benefits package and use GHI contributions exclusively to finance priority OMR services; or use tax revenue to finance both the essential benefits package and priority OMR services. Whichever option is chosen, policymakers will need to mobilize sufficient resources, focus on controlling prices, and define a prioritized essential benefits package focusing on cost-effective, equitable services, as described above.

**The third step should focus on creating additional fiscal space by raising and reallocating revenue, especially for covering the poor and vulnerable to reduce OOP, and proactively manage arrears.** Rationalizing benefits and strengthening purchasing arrangements could ease pressure on the PA's health budget. In the West Bank and Gaza, relatively few households are able to contribute, and even if insurance premiums were tripled, they would barely reach one-third of public health expenditures. As a result, general tax revenue will continue to play a major role in financial risk protection. In addition to efficiency gains, the PA can establish or increase taxes on unhealthy foods, tobacco, and alcohol; reallocate budgetary funds to ensure the MOH has adequate resources to finance the essential benefits package; and develop a comprehensive investment plan for the health sector and mobilize resources from external partners to reduce the incidence of OMR. A targeted fiscal space assessment can provide additional revenue sources for the health sector.

**The fourth step involves improving the legal and institutional framework for the health sector.** To achieve this, the PA will need to continually refine and enhance the organizational structures and operational processes that underpin the health sector. Building purchasing capacity and integrated information systems will be a necessary first step. GHI can be enhanced by creating arrangements for a purchaser/provider split, establishing an autonomous insurance agency, and introducing key beneficiary, provider, and claims-management functions.

***7. The FCV context, under-payment of teachers' salaries and unequal access to early childhood education are some of the factors that stifle the educational outcomes, despite the PA's prioritization of education spending***

**The FCV situation has a pervasive impact on the entire education system in the West Bank and Gaza.** As a result of the conflict, the education system in Gaza has completely collapsed, with 100 percent of students out of school, since last October, and damages estimated so far at US\$ 341 million (2 percent of GDP). Casualties among students and teachers continue to rise, emphasizing the profound human impact of the crisis. In the West Bank the construction of new schools has been highly politicized and is severely restricted by the GOI. This leads to limited access, particularly of pre-primary education, in more remote areas. Mobility restrictions also lead to delays and increased transportation costs for both teachers and students and sometimes result in an interrupted calendar.

**Fiscal constraints along with other macro-economic challenges have been putting further strains on the education system.** Due to the highly constrained fiscal space in the West Bank and Gaza, civil servants – including teachers – have been earning partial wages since late 2021. While the PA is committed to back-paying full salaries, this is taking a toll on teacher morale. In addition, unpaid debts and overdue payments have been a longstanding issue in the education sector in the West Bank and Gaza and they are worsening over time. In 2018 the total arrears in the education sector came to just over NIS 6 million; over the next five years they increased by 14 times reaching over NIS 89 million in 2022 (0.14 percent of GDP).

**The decade prior to the ongoing conflict showed sustained improvements in access to education in both the West Bank and Gaza.** Between 2012 and 2021 the number of children enrolled in both basic and secondary education increased by 20 percent, reaching a Gross Enrolment Rate (GER) of 98.6 in basic and 81.8 percent in secondary education, surpassing the Ministry of Education's (MOE) own targets on access. The sector has, however, seen slower gains in other education levels. Pre-primary education has recently become a focus of the MOE, but the GER of 56.3 percent (across both KG1 – the year when children turn four, and KG2 – the year when they turn five) in 2021 is lagging behind the MOE's target of 70 percent.

**The level of public education spending in the West Bank and Gaza is in line with international best practice, but it may still fall short of what is needed in the sector.** As a share of GDP, public education spending in the West Bank and Gaza has been steady at 5 percent over the last decade, in line with the international best practice of between 4 and 6 percent. In the MENA region, the average share of education expenditure has been slightly below 4 percent, while the world average has been fractionally above 4 percent. Similarly, expenditure on education as a share of total government spending is 16 percent, also reflecting that the PA is prioritizing the sector through financing. Despite the PA's commitment to the education sector, there remains a shortage of financing in the sector and development partners can play a significant role in filling it.

**While results in international tests show learning gaps for Palestinian students, the gap could be accounted for by West Bank and Gaza's difficult economic and political situation.** After more than a decade-long absence, West Bank and Gaza has started to participate in International Large-Scale Assessments (ILSAs) which provide internationally comparable data on student learning outcomes – a significant achievement for the sector. The results of the 2022 Program for International Student Assessment (PISA) suggest that 80 percent of 15-year-old Palestinian students are below basic proficiency in mathematics (the corresponding shares for reading and for science is 77 percent and 71 percent respectively). These results are echoed in other standardized tests, including also the 2022 National Large-Scale Assessment (NLSA). Yet, when accounting for the West Bank and Gaza's economic and political situation, Palestinian students fare better than expected. The West Bank and Gaza has one of the lowest levels of GDP per capita of all PISA 2022 participants and has been afflicted by ongoing waves of FCV. Despite these circumstances, Palestinian students achieve learning outcomes that are above what would be expected given their GDP per capita (i.e., above the trend line). One potential factor explaining West Bank and Gaza's better-than-expected learning outcomes is the relatively well-educated and well-remunerated teaching force.

**It is difficult to make short-run efficiency gains in the sector as most education expenditure in the West Bank and Gaza, like in most countries, goes towards education staff salaries.** While increasing teachers' workloads may not be feasible as teachers in the West Bank and Gaza work more hours per week and per year than their counterparts in other MENA countries, teacher retirement and turnover provide an opportunity for efficiency gains in the sector, particularly since the student-teacher ratio is low in both the West Bank and in Gaza.

**Access to early childhood education is unequal, with direct implications on school-readiness and the academic trajectories that students follow.** While pre-primary enrolment has grown in recent years to around 56 percent in 2021-2022, the vast majority of Kindergarten (KG) facilities are run by private providers, making the OOP expense to households prohibitively expensive for many children from the poorest households. This enrolment structure is likely to widen the school-readiness gap along socio-economic lines for the first years of basic education. Inequities in education can also be observed in older students based on the results from PISA 2022. Test scores in mathematics, reading, and science show that there is a positive association between economic status of households and the educational achievements of students who are 15 years of age. Also concerning equity in education, girls outperform boys in basic and secondary education. The 2022 NLSA results show that girls score higher in mathematics, "science and life", and in Arabic in both grade 5 and grade 8. These results are echoed in the 2014 Early Grade Reading Assessment (EGRA), when boys' reading comprehension in grade 4 was shown to be particularly low.

**Over the past three years, about 90 percent of the PA's spending has been directed to the West Bank where 68 percent of the children who attend public schools live.** On average the MOE spends over three times less to send a child to school in Gaza than it spends to send a child to school in the West Bank. This is not a reflection of the true unit cost per child in the respective territories, but rather indicates that – aside from the large role that the UN plays in Gaza with almost half of all children attending UNRWA schools (compared to the 6 percent of children that attend UNRWA schools in the West Bank) – additional funding from the *de facto* authority is coming into the Gaza education system that is unaccounted for by the MOE.

**The sector suffers from a number of issues in terms of financial planning.** The education sector uses annual budgets, which tend to prioritize short-term needs at the expense of pursuing a long-term vision based on strategic goals. A lack of medium-term planning makes it difficult to secure financing for multi-year programs and projects. The budget cycle is not aligned with the academic cycle. As a result, the budget is often depleted before the large expenditures associated with the start of the school year have been executed. Donor contributions are unpredictable and erratic. There is no consistency in the scale of contributions made to the education sector, either between years or between donors. As the sector relies on donor funding, and rigid operational expenditures account for a large share of its budget, volatile contributions greatly complicate planning and budgeting.

*Recommendations to reform the education system*

**A first area to reform spending on education is to address the under-payment of teachers’ salaries.** The under-payment of teachers has often led to prolonged strikes that significantly disrupt education service delivery. Hence, payments to civil servants, including teachers, should be prioritized as this will promote stability in the education system and prevent school closures. Contributions from development partners are particularly necessary to achieve this at a time when fiscal space is so heavily constrained. Also, in terms of human resource management, teacher policy should be enhanced to include effective teacher professional development and sound performance management.

**To improve access, more resources are needed in pre-primary education.** A potential source of the needed resources could be increasing class sizes in secondary education via natural attrition of teachers. Investing in education policies and programs for children from lower socio-economic families is also a priority.

**Further, it would be important to improve the equity of spending.** This would involve spending more on pre-primary education where access is most unequal while returns are high. Targeted policies and programs are also needed to improve learning for boys, including by increasing boys’ enrolment in secondary education.

**Finally, reforms are needed to improve financial planning in the sector.** A multi-year approach for financial planning should be adopted to improve budgeting. Budget processes should be reliant on lessons learned from previous years experiences and should reflect the strategic priorities of the sector. Donor coordination should be strengthened to optimize the resources they provide, promote coherence, and avoid duplication. A strategy to clear arrears should be developed by the MOE.

*Summary of main PER recommendations which the PA can implement*

Proposed reforms	Fiscal impact	Timeline
<b>Wage bill</b>		
1. Tie all hiring, wage, and promotion decisions to workforce needs, budgetary resources, and merit	Fiscal savings	Short term
2. Scale back spending on allowances and tighten eligibility criteria	Fiscal savings	Short term
3. Conduct a functional review to identify areas of over- and under-staffing	Fiscally neutral	Short term

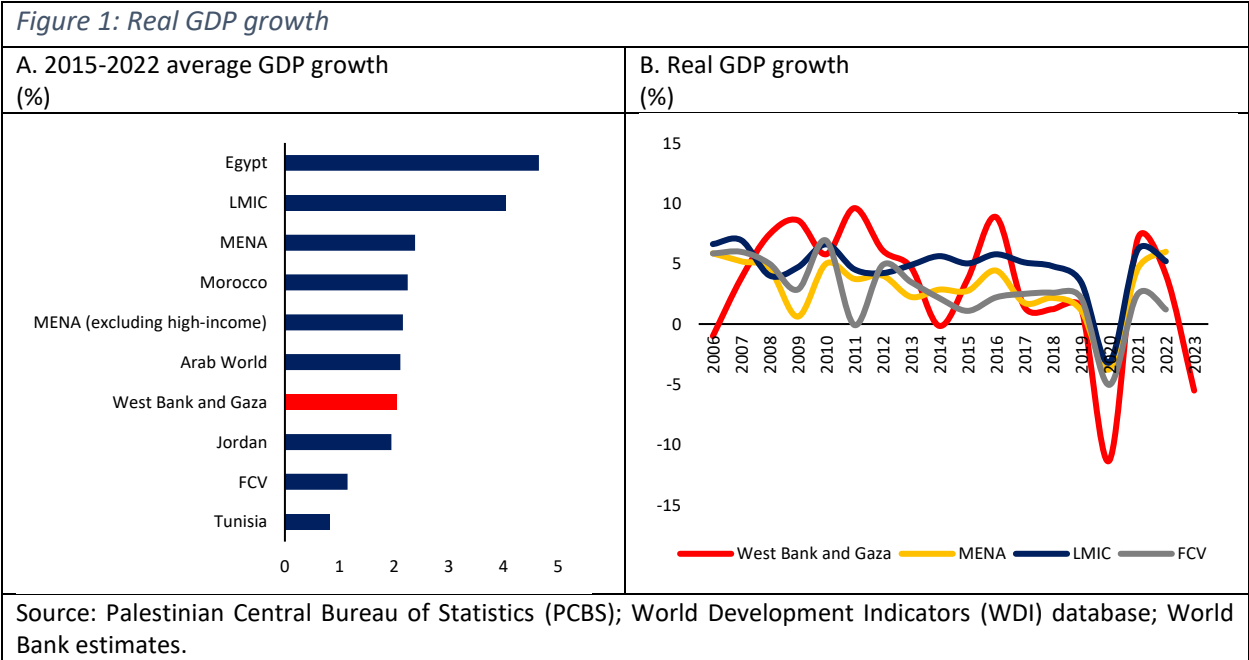
4. Develop formal procedures for salary planning and workforce management in the public sector	Fiscally neutral	Medium to long-term
5. Revise the salary structure in line with relevant benchmarks	Fiscal savings resulting from revising salaries of employees at the low end of the pay scale while additional cost may result from revising the salary structure of higher paid employees	Medium to long term
<b>Public pension system</b>		
1. Parametric reforms to gradually raise the retirement age to 63, restrict early retirement to 5 years under the retirement age, gradually reduce the accrual rate to 1.75 percent, reduce the minimum service to 10 years, and reform the benefit indexation policy combining wage growth and inflation	Fiscal savings	Short to medium-term
2. split the DB benefit package into two components: one that is linked to regular contributions, and another non-contributory basic pension	Fiscal savings	Short to medium term
3. Transform the DC benefit into an early-separation (indemnity) payment	Fiscal savings	Short to medium term
4. financial restructuring for rationalizing the institutional and financial responsibilities of the PPA and the MOF towards the pension system to improve its transparency	Fiscally neutral unless the MOF's debt to the PPA is nulled	Medium to long-term
<b>Health system</b>		
1. Strengthen MOH purchasing arrangements by defining a cost-effective essential benefits package, reference prices, and contracting rules, improving MOH negotiating power and strengthening institutional capacity	Fiscal savings	Short to medium term
2. Expand equitable insurance coverage	Fiscally neutral	Medium to long term
3. Create additional fiscal space by raising and reallocating revenue, especially for covering the poor and vulnerable to reduce OOP, and proactively managing arrears	Fiscally neutral	Medium term
4. Improve the legal and institution framework for the health sector	Fiscal savings	Medium to long term
<b>Education system</b>		
1. Address the under-payment of teachers' salaries	Additional cost	Short term
2. Improve access to education through allocating more resources in pre-primary education	Fiscally neutral if the additional cost is mobilized by increasing class sizes in secondary education via the natural attrition of teachers	Long term

3. Improve the equity of spending through higher expenditure on pre-primary education targeting children from poorer households and implement targeted policies and programs to improve learning for boys	Additional cost	Medium term
4. Improve financial planning and adopt a multi-year approach	Fiscally neutral	Medium term

# CHAPTER 1 RECENT MACROECONOMIC AND FISCAL TRENDS

## Macroeconomic Performance

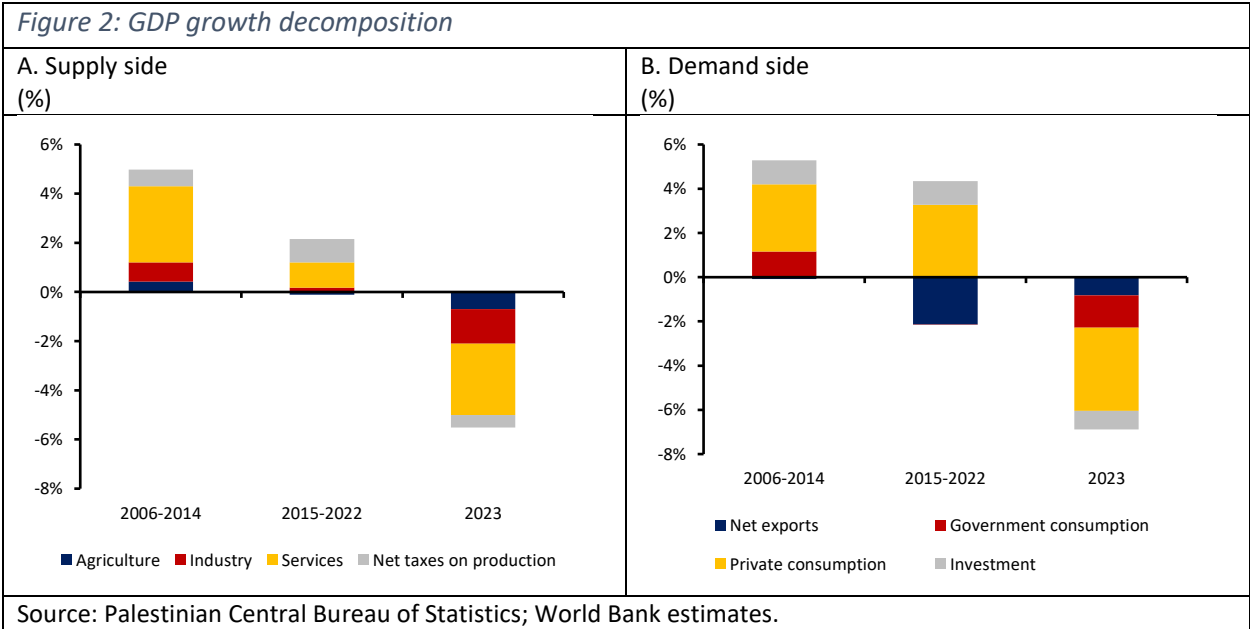
The Palestinian economy grew at an average annual rate of 2.0 percent between 2015 and 2022, below most of its compararors. Gross Domestic Product (GDP) growth was well below both the 4.0 percent average for lower-middle-income countries (LMICs) and the 2.4 percent average for the Middle East and North Africa (MENA) region and was very close to Jordan’s (Figure 1A). Economic potential has been principally curtailed by the restrictions which, according to the Government of Israel (GOI) Israel, are in place for security reasons. These restrictions impose severe constraints on the movement and access of people and goods, which discourage investment and suppress growth. Volatile and declining levels of external aid, the impact of the COVID-19 pandemic, persistently weak private capital inflows, incomplete reform efforts by the Palestinian Authority (PA), and the internal divide between the West Bank and Gaza further hinder economic growth (Figure 1B).



Since the eruption of the Middle East conflict, centered in Gaza, in October 2023, the Palestinian economy has experienced one of the largest shocks in recent economic history. In Gaza, the mounting death toll, extensive damage to physical assets, and severe disruption of public services and economic activity have caused an unprecedented crisis. According to the IRDNA, damage to Gaza’s capital stock as a result of the conflict is estimated at US\$29.9 billion, nearly twice the pre-conflict real GDP of the West Bank and Gaza combined. In Gaza, economic activity has been in a virtual standstill since the eruption of the conflict, with GDP plummeting by 83 percent in 2024. The West Bank has experienced severe knock-on effects from the conflict due to newly imposed restrictions by Israel hampering movement within cities and limiting access to the Israeli labor market. The GOI has also begun withholding a larger share of the revenue it collects on behalf of the PA, pushing it into a fiscal crisis. As a result, the West Bank’s economy contracted by 17 percent in 2024. The overall Palestinian economy is estimated to have contracted by 27 percent in 2024. The contraction already surpassed all previous downturns in the Palestinian territories

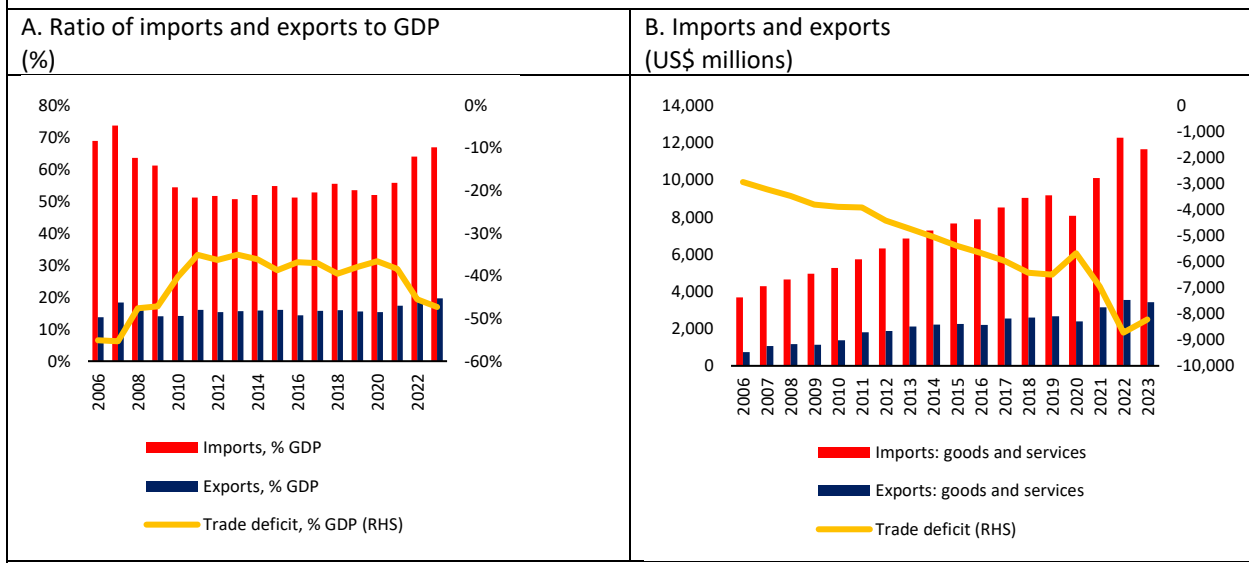
over the last two decades, including the Second Intifada in 2000, the 2006 internal divide, the 2014 Gaza war, and even the effects of COVID-19.

**Growth has sharply decelerated across all economic sectors.** The services sector drove growth in previous years, but its contribution fell from 3.1 percentage points (ppts) of GDP during 2006-2014 to 1.0 ppts during 2015-2022. Meanwhile, the contributions of agriculture and industry to growth broadly stagnated between 2015 and 2022. The ongoing conflict has inflicted a massive shock on all economic sectors, with services, industry, and agriculture all contributing negatively to growth in 2023 (Figure 2A).



**Net exports have been negative since 2015, and imports rose by 12.2 ppts of GDP between 2015 and 2023.** Persistently low and stagnant export levels, due to trade restrictions in the West Bank and the near-total blockade of Gaza, have exacerbated the trade deficit, which surged from 38.7 percent of GDP in 2015 to 47.3 percent in 2023 (Figure 3A). Private consumption also weighed on growth in 2023, falling by 3.9 percent year-on-year (y/y), as Palestinian workers lost their jobs in Israel and PA employees struggled to make ends meet with partial salaries amid a spiraling fiscal crisis (Figure 2B).

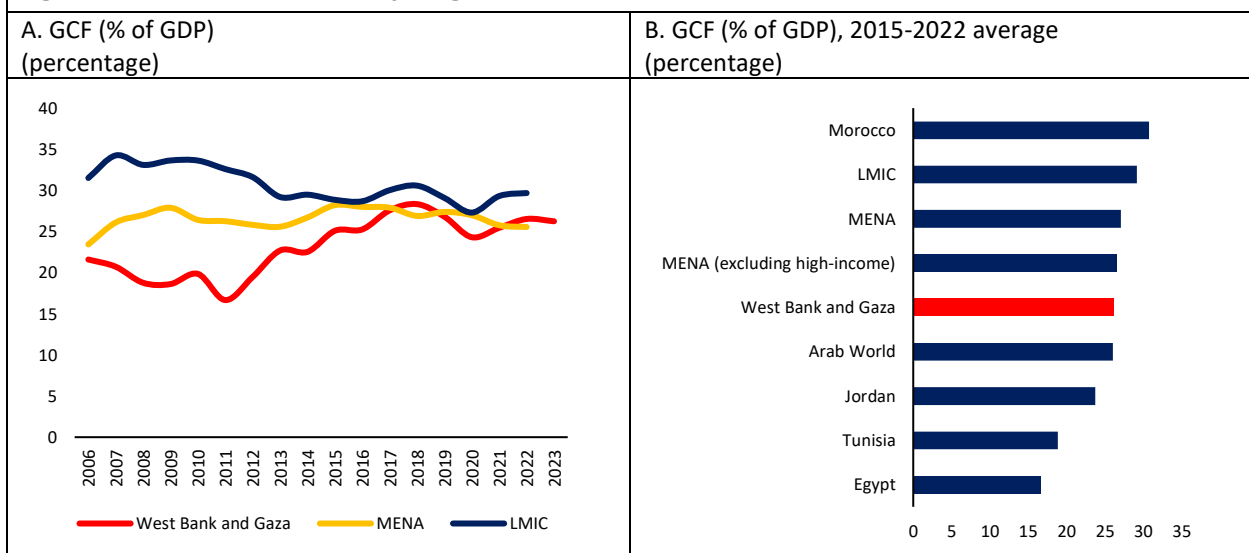
Figure 3: Imports, exports and trade deficit, 2015-2023

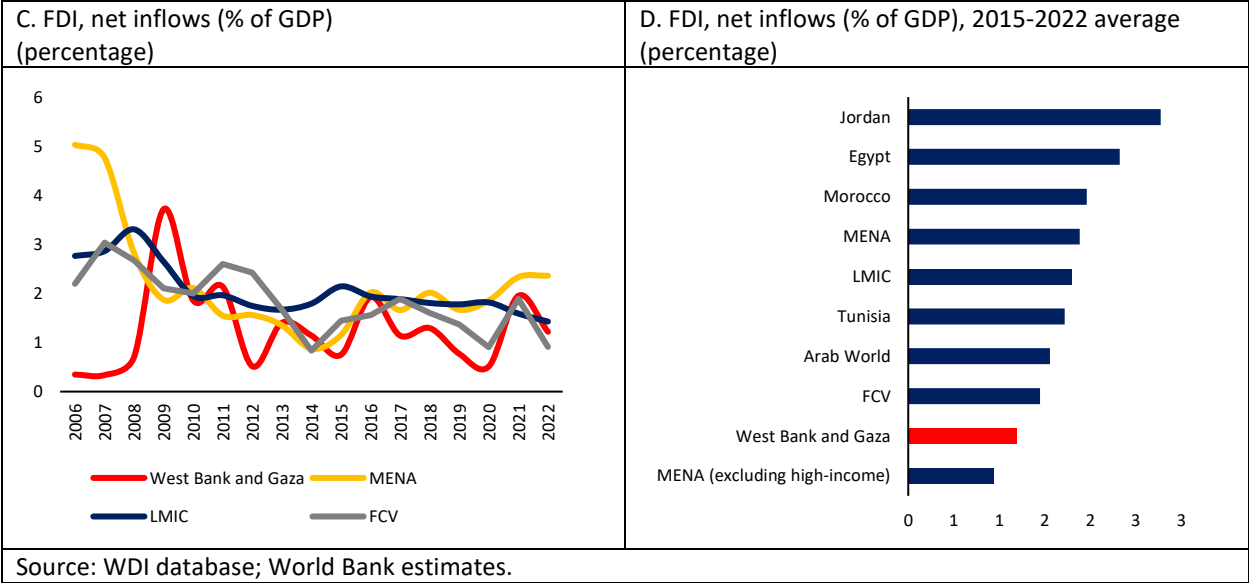


Source: Palestinian Central Bureau of Statistics; World Bank estimates.

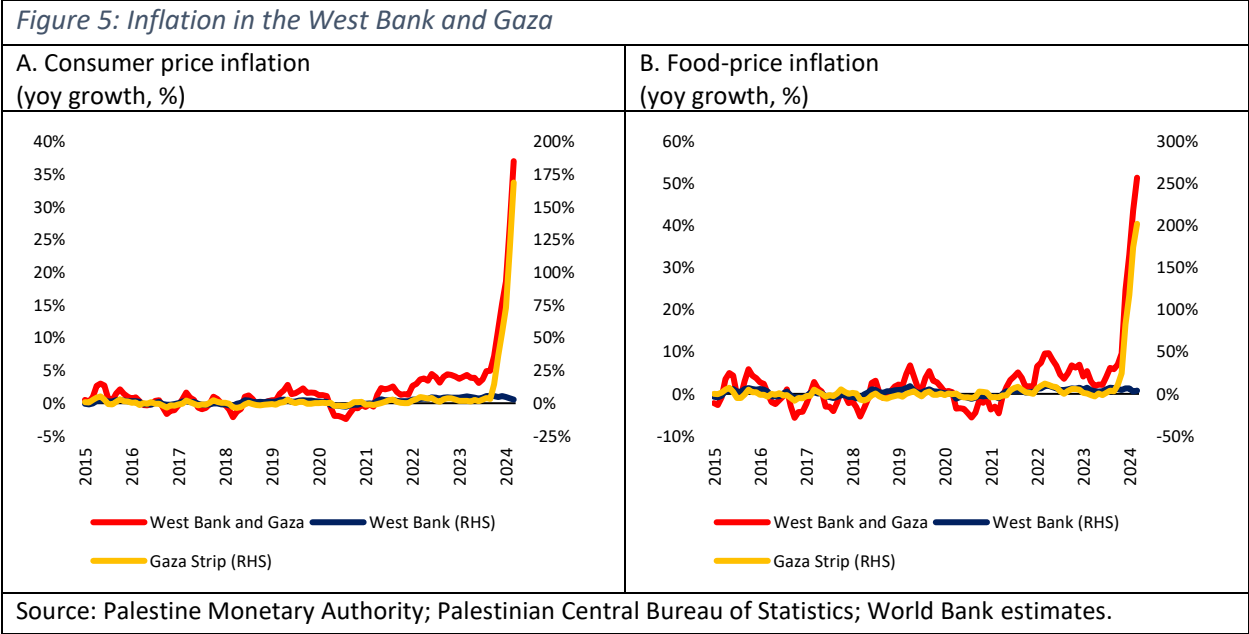
**Investment levels have been persistently low.** Gross investment rose from an average of 20.1 percent of GDP during 2006-2014 to about 26.2 percent during 2015-2023 but remains relatively low compared to regional and income-group comparators (Figure 4A and Figure 4B). Moreover, most investment has been channeled into non-tradable sectors offering low productivity, employment, and returns. Likewise, net foreign direct investment, which averaged just 1.2 percent of GDP between 2015 and 2023, is very low compared to peer countries (Figure 4C and Figure 4D). Movement and access restrictions, successive conflicts, and a weak business environment have inhibited private investment both in the West Bank and Gaza.

Figure 4: Gross investment and foreign direct investment



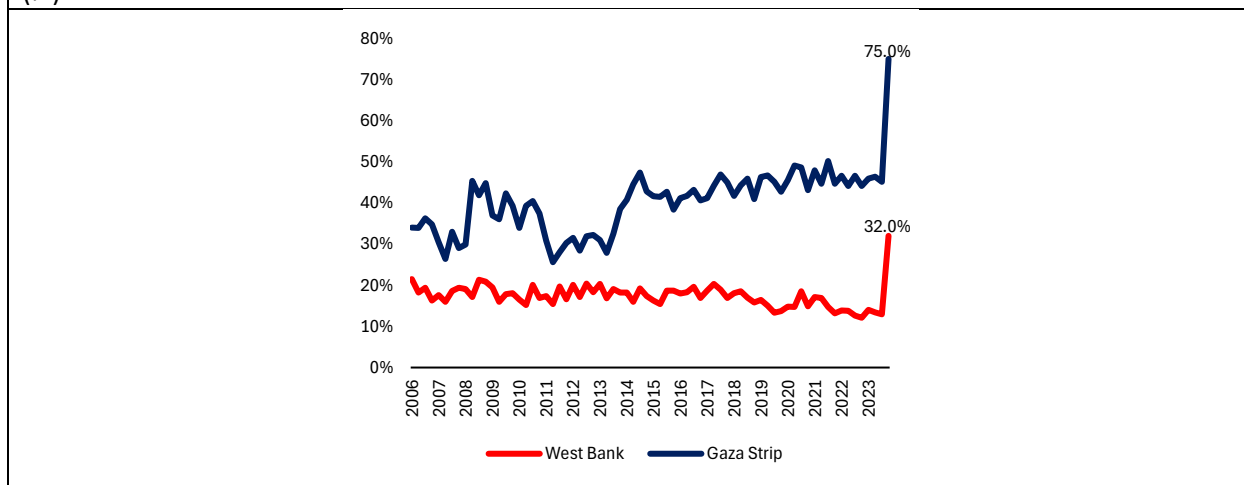


**Consumer price inflation (CPI) was relatively stable over 2015-2022 but has risen sharply since October 2023, due largely to supply disruptions stemming from the conflict.** Between 2015 and 2022, CPI averaged 0.89 percent. Because the new Israeli shekel (NIS) is the main currency in circulation in the West Bank and Gaza, stable consumer prices were due primarily to low inflation in Israel. After the start of the conflict, however, CPI in the West Bank and Gaza sharply diverged from Israeli inflationary trends, especially in Gaza. The monthly CPI in Gaza soared to an average of 77 percent from October 2023 to March 2024 amid extreme shocks to the local supply chain (Figure 5A), with food prices in Gaza climbing by an average of 102 percent over the period (Figure 5B). Meanwhile, the GOI cut off fuel supplies into Gaza, contributing to a 226 percent increase in transportation prices. As a result, hundreds of thousands of households face shortages of food and essential goods. By contrast, the CPI in the West Bank increased modestly, rising by an average of 4.5 percent from October 2023 to March 2024.



**The ongoing conflict and the economic contraction in the West Bank have had a severe impact on an already weak labor market.** Even before the start of the current conflict, the near-total blockade of Gaza had severely constrained the local labor market. Unemployment in Gaza stood at 45.1 percent in Q3 2023, with youth unemployment at 59.5 percent. Based on a recent report by the Palestinian Central Bureau of Statistics (PCBS),<sup>13</sup> unemployment in Gaza may have soared to as high as 75 percent in Q4 2023 (Figure 6), and an estimated over 201,000 jobs were lost by the end of January 2024.<sup>14</sup> Meanwhile, 148,000 workers from the West Bank who were previously employed in Israel and the settlements have lost their jobs since the onset of the conflict, and only about 24,000 were still working in the Israeli economy in Q4 2023. Given that the average daily salary of these workers is more than twice the West Bank average, these job losses have had a deeply negative impact on demand. In addition, 144,000 jobs were lost within the West Bank due to escalating violence and its negative repercussions on supply chains, production capacity, and the movement of workers. As a result, the unemployment rate in the West Bank rose from 12.9 percent in Q3 2023 to 32 percent in Q4 2023, its highest level on record. In total, the conflict has reduced labor income in the Palestinian economy by an estimated US\$21.7 million per day. When income losses among public employees receiving partial salary payments are included, as well as reduced income among workers still employed in the private sector, lost labor income rises to US\$25.5 million per day.<sup>15</sup>

*Figure 6: Quarterly unemployment rates in the West Bank and Gaza*  
(%)



Source: Palestine Monetary Authority; Palestinian Central Bureau of Statistics; World Bank.

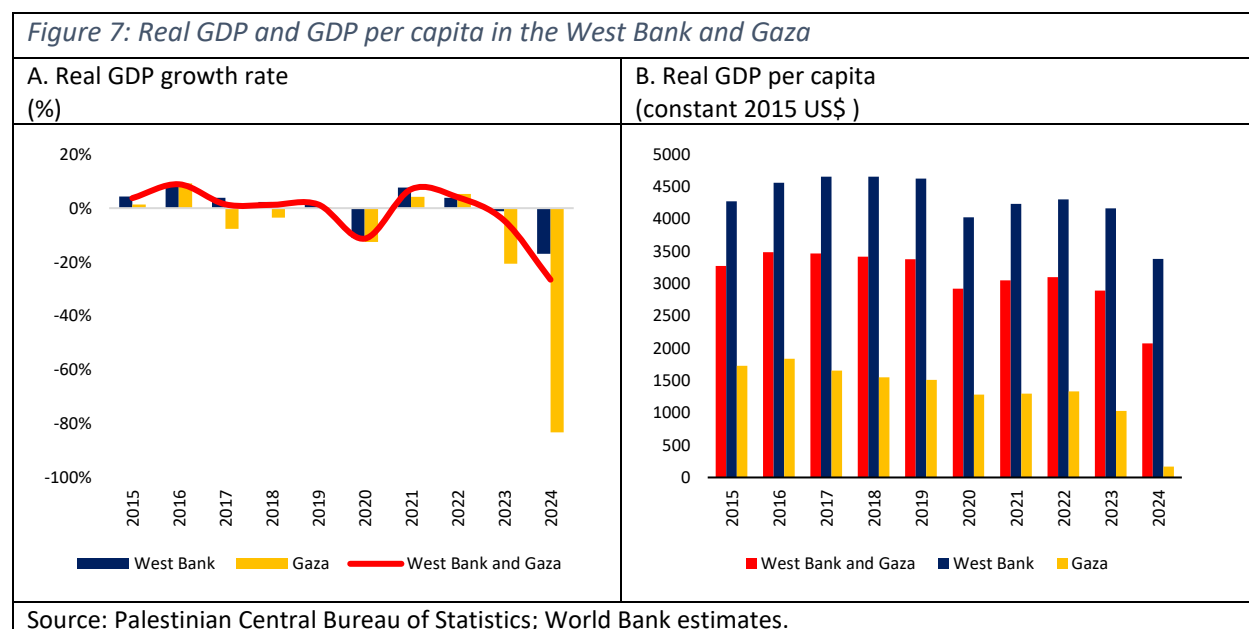
**The economies of the West Bank and Gaza continue to diverge.** Growth has been stronger in the West Bank and very volatile in Gaza due to recurrent hostilities and the ongoing near-total blockade (Figure 7A). Real GDP per capita in Gaza has fallen by 90 percent between 2015 and 2024, from US\$1,728 to US\$168. Consequently, while GDP per capita in the West Bank was only 147 percent higher than in Gaza in 2015, this gap widened to 1914 percent in 2024 (Figure 7B). Poverty rates have followed a similar trend. Even before the start of the current conflict, poverty levels in Gaza had risen steadily, from 39 percent in 2011 to 64 percent in 2023, representing more than 1.4 million people living below the national poverty line.

<sup>13</sup> [https://www.pcbs.gov.ps/portals/pcbs/PressRelease/Press\\_En\\_InterWorkDay2024E.pdf](https://www.pcbs.gov.ps/portals/pcbs/PressRelease/Press_En_InterWorkDay2024E.pdf)

<sup>14</sup> [https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms\\_918919.pdf](https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_918919.pdf)

<sup>15</sup> Ibid.

By contrast, poverty rates in the West Bank decreased steadily over the same period, from 18 percent in 2011 to 14 percent in 2017 and 12 percent in 2023. The most recent estimate of the combined poverty rate for both territories is 32.8 percent, but given the devastation of the past several months, almost the entire population of Gaza is now living in monetary and multidimensional poverty.



*Table 1: Key Macroeconomic Indicators, 2015-2024*

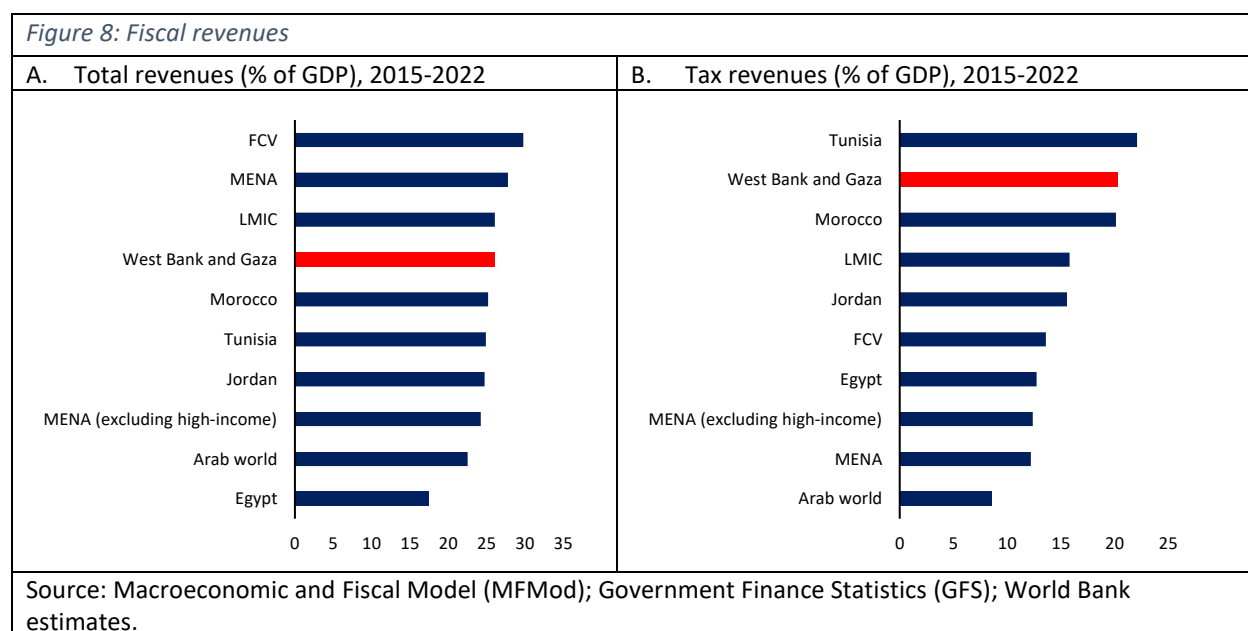
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Real economy, annual percent change, unless indicated otherwise</b>										
Real GDP	3.7	8.9	1.4	1.2	1.4	-11.3	7.0	4.1	-4.6	-26.6
Nominal GDP	-0.1	10.3	4.7	0.9	5.3	-9.3	16.6	5.8	-6.9	-23.2
GDP per Capita (US\$, nominal)	-2.4	7.8	2.4	-1.6	2.7	-11.6	13.8	3.3	-9.1	-25.0
<b>Real GDP growth, at constant market prices</b>										
Private Consumption	3.5	9.9	-1.1	1.1	4.1	-13.1	7.5	17.7	-4.6	-32.5
Government Consumption	6.4	2.6	-13.7	7.3	-3.5	0.3	10.3	-9.3	-5.5	-25.0
Gross Fixed Investment	14.3	10.9	6.9	2.5	-2.6	-20.9	13.7	12.2	-3.4	-30.7
Exports, Goods and Services	-3.2	-1.6	13.9	2.5	2.0	-11.2	17.3	5.9	-6.0	-11.1
Imports, Goods and Services	10.3	2.0	1.3	4.5	1.4	-14.2	14.8	19.7	-3.7	-31.1
<b>Real GDP growth, at constant factor prices</b>										
Agriculture	-4.0	10.4	-6.0	1.6	0.9	-9.1	-0.7	-5.6	-11.0	-21.0
Industry	-5.0	13.7	11.6	2.2	-0.5	-19.4	4.5	3.5	-14.6	-32.2
Services	4.9	7.8	-2.2	1.8	2.0	-10.0	7.5	1.6	-4.8	-25.7
<b>Unemployment Rate (%)</b>										
Unemployment Rate (%)	23.0	23.9	25.7	26.2	25.3	25.9	26.4	24.4	31.0	51.0
<b>CPI (year-average)</b>										
CPI (year-average)	1.4	-0.2	0.2	-0.2	1.6	-0.7	1.2	3.7	5.9	53.7
<b>General Government Balance</b>										
General Government Balance	-4.7	-2.2	-2.7	-2.4	-7.4	-7.5	-5.8	-1.8	-3.8	-9.5
<b>Current Account Balance</b>										
Current Account Balance	-13.9	-13.9	-13.2	-13.2	-10.4	-12.3	-9.8	-10.6	-16.2	-21.6
<b>Memorandum items:</b>										
Nominal GDP (US\$ million)	13,972	15,405	16,128	16,277	17,134	15,532	18,109	19,166	17,848	13,711

Source: PCBS, Palestine Monetary Authority (PMA), Ministry of Finance (MOF), World Bank staff estimates.  
 Note: the unemployment rate for 2023 is an estimate.

## Fiscal Developments, 2015-2023

### Revenue

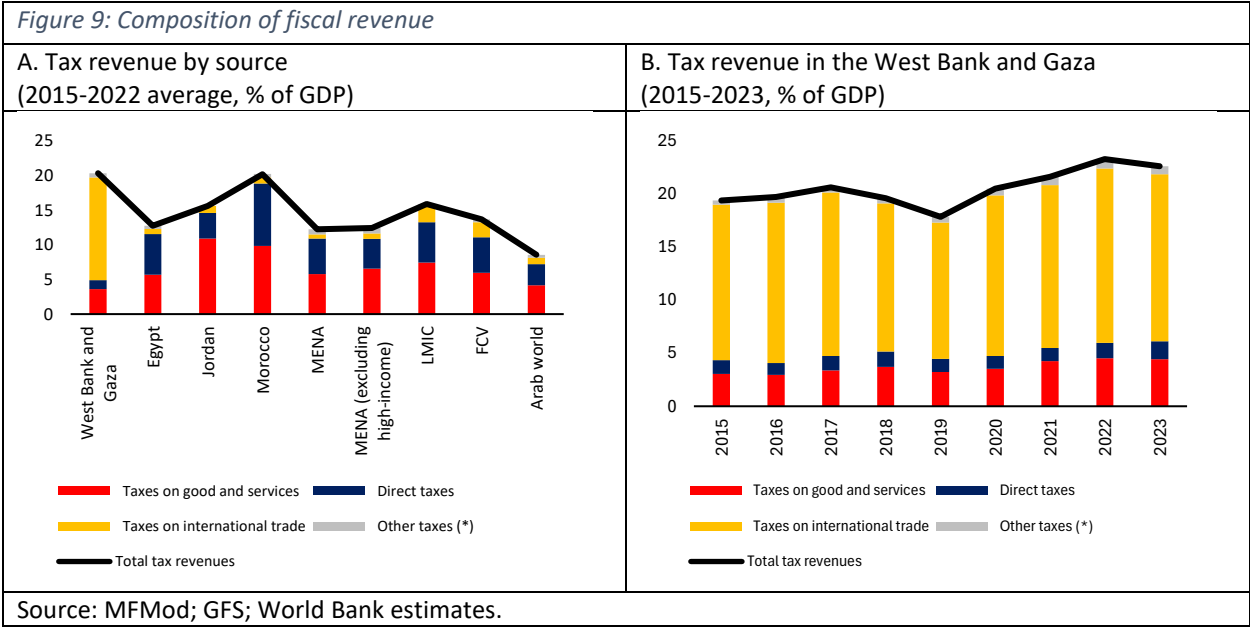
**Despite longstanding restrictions on economic activity and unresolved issues involving the transfer of clearance revenues, revenue collection in the West Bank and Gaza is broadly in line with the levels of its income group and regional peers.** Between 2015 and 2022, total revenue (before grants) averaged 26.1 percent of GDP, very close to the LMIC average and just slightly below the MENA average (Figure 8A). Tax revenue alone averaged 20.3 percent of GDP between 2015-2022, surpassing both the LMIC and MENA averages (Figure 8B). Despite the negative impact of the conflict on revenue generation in the fourth quarter (Q4), total public revenue (before grants) reached 27 percent of GDP in 2023, relatively high by the standards of economies facing fragility, conflict, and violence (FCV). This positive trend underscores the PA’s commitment to revenue mobilization, which has been a major objective of the Ministry of Finance (MOF) for several years.



**Clearance revenue accounts for the largest share of fiscal revenue and is highly vulnerable both to external shocks and Israeli political decisions.** Clearance revenue mainly consists of value-added tax (VAT) and import duties collected by the GOI and remitted to the PA.<sup>16</sup> Between 2015 and 2022, clearance revenue accounted for roughly 60 percent of total fiscal revenue and rose from 14.6 percent of GDP in 2015 to 16.4 percent of GDP in 2022, far above the average level of trade taxes in comparator countries (Figure 9A and Figure 9B). Rising imports, especially from Israel, bolstered VAT collection and drove the increase in clearance revenue. However, its reliance on clearance revenue has made the PA’s fiscal stance highly vulnerable to external shocks. The transfer of clearance revenue is also subject to Israeli political

<sup>16</sup> This arrangement was instituted by the Paris Protocol given that the PA does not have any presence on the border crossings. According to the Protocol, Israel should remit these revenues to the PA monthly, after deducting a 3 percent handling fee.

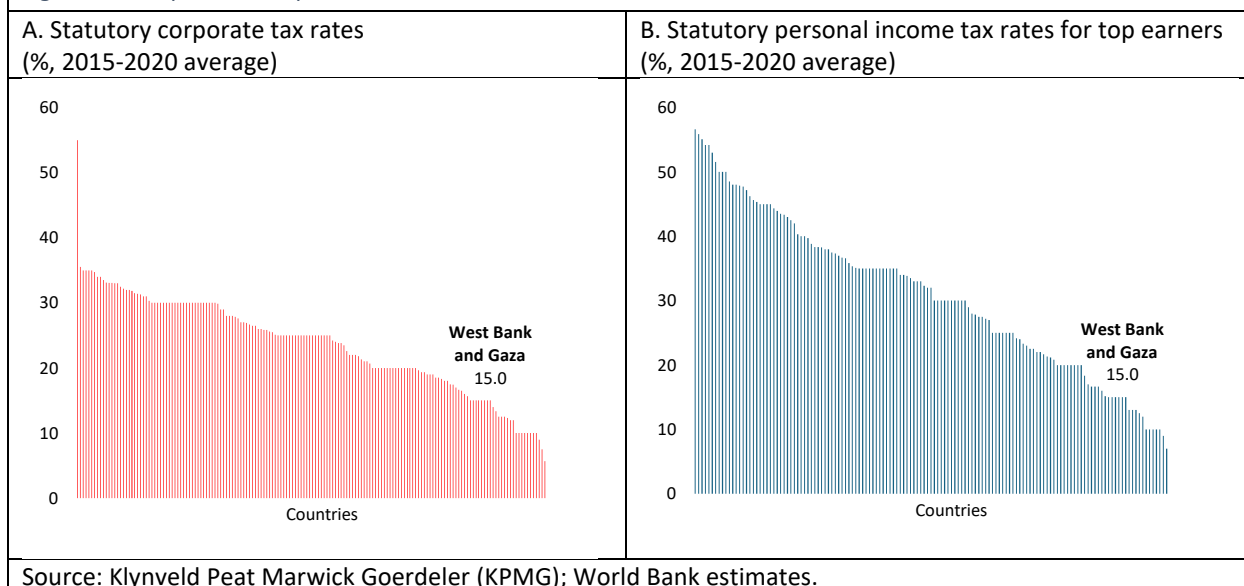
decisions, with significant deductions made in defiance of the Paris Protocol. Initially, these deductions covered unpaid utility bills to Israeli suppliers and medical referrals to Israeli hospitals, averaging NIS 150 million per month. Since 2019, the GOI has also made deductions to offset payments by the PA to Palestinian prisoners in Israeli prisons, ex-prisoners, and families of those deceased due to violence.<sup>17</sup> These deductions typically amount to NIS 51 million per month. Since October 2023, the GOI has also begun deducting NIS 275 million per month to account for the PA's (unchanged) spending in Gaza. In 2023, these deductions totaled almost NIS 4 billion, or 6.3 percent of GDP. The decline in clearance revenue received by the PA in 2023 has created a burgeoning fiscal crisis.



**Domestic revenue increased from 4.3 percent of GDP in 2015 to 6.0 percent in 2022, but its share in the total revenue and in GDP is relatively low.** Revenue from direct taxes amounts to just 1.3 percent of GDP, below the MENA average of 5.1 percent and the LMIC average of 5.8 percent. Tax rates in the West Bank and Gaza are relatively low. The corporate tax rate averaged 15 percent from 2015 to 2020, well below the global average of 22.6 percent (Figure 10A). Meanwhile, the personal income tax rate for top earners also averaged 15 percent, far below the global average of 28.5 percent (Figure 10B). Israeli restrictions on economic activity by Palestinians in Area C of the West Bank and minimal transfers of tax revenue from Gaza since the internal political divide in 2006 further reduce overall tax revenue.

<sup>17</sup> The GOI passed the “Palestinian Prisoners Law” in 2018 which mandates withholding from clearance revenues an amount equivalent to the GOI’s estimate of PA payments to families of Palestinians imprisoned or killed for alleged offences under Israeli law.

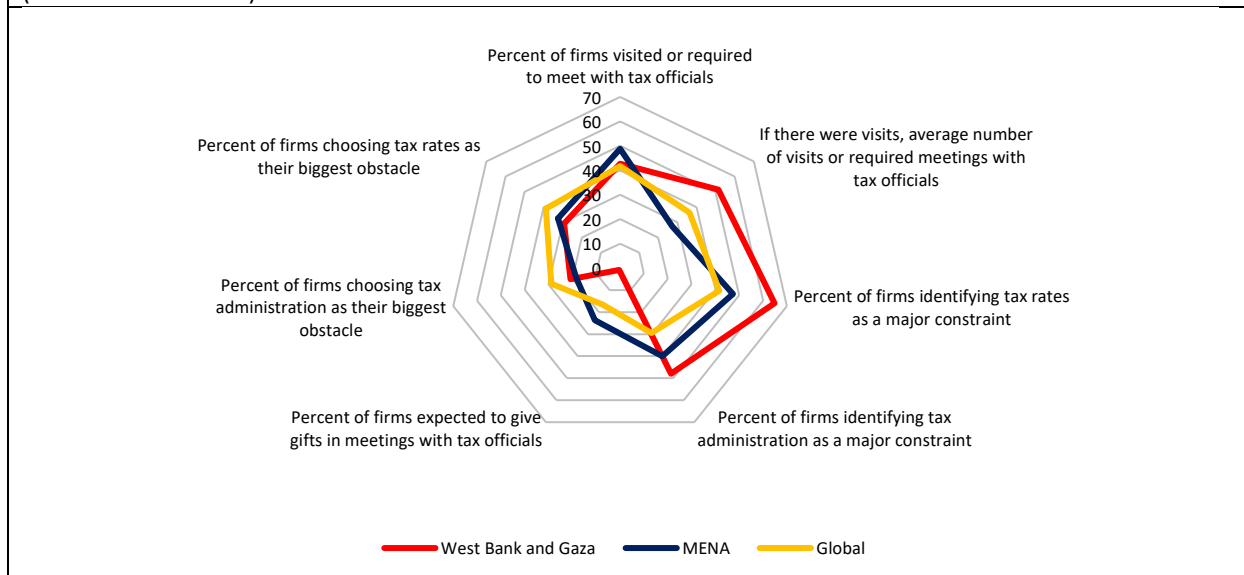
Figure 10: Corporate and personal income tax rates



Source: Klynveld Peat Marwick Goerdeler (KPMG); World Bank estimates.

**Firms in the West Bank and Gaza view tax administration as a significant obstacle to doing business.** In the World Bank’s 2023 Enterprise Survey, 30 percent of firms identified tax administration as a constraint on their operations, above the averages for the MENA region and firms worldwide (Figure 11). As noted above, tax rates in the West Bank and Gaza are low by international standards, yet 43.4 percent of firms reported tax rates as a major constraint, likely due to the extremely challenging economic context. A large share of respondents also cited the frequency of meetings with tax officials and the perceived necessity of gift-giving during these interactions are important constraints, far above the MENA and global averages, suggesting considerable scope for improvement in tax administration.

Figure 11: Selected indicators of private-sector perception of tax administration (normalized to 0-100)



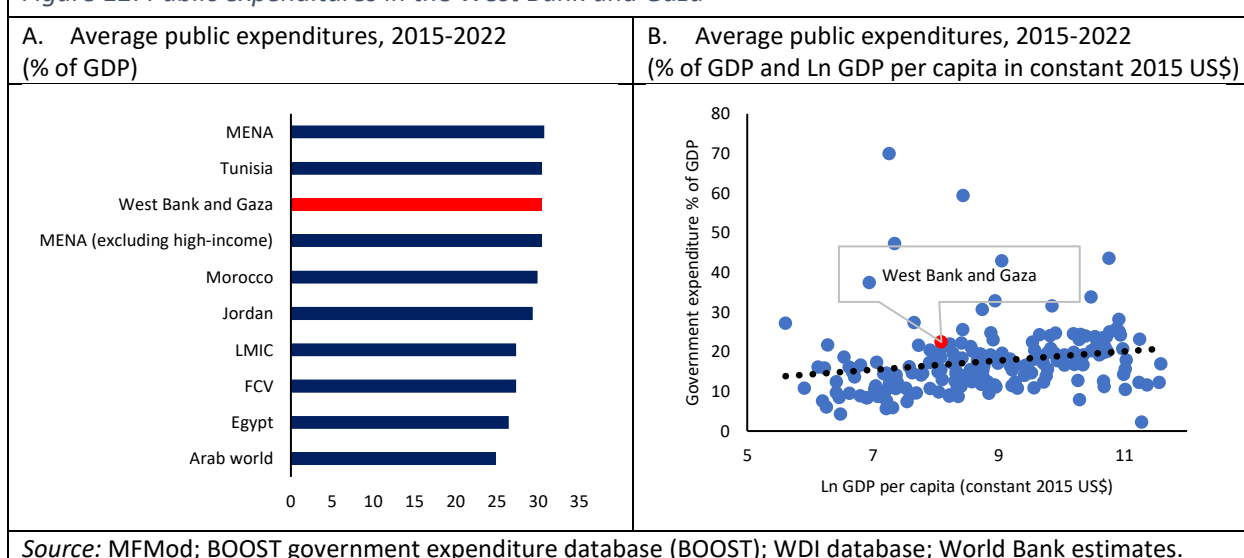
Source: Enterprise Survey; World Bank estimates.

Note: The data for the West Bank and Gaza is from 2023, while data from other countries varies by year, with Angola from 2010, Tunisia from 2020, and Ukraine from 2019, among others, representing the most recent available information.

## Expenditures

**Public spending in the West Bank and Gaza is relatively high by MENA and LMIC standards.** From 2015 to 2022, expenditures averaged 30.4 percent of GDP, above the average for LMICs (27.3 percent), as well as average expenditures in Morocco (29.9 percent), Jordan (29.4 percent), and Egypt (26.4 percent) (Figure 12). The PA has long relied on public spending to drive economic activity, but high expenditure levels have proven unable to offset the impact of GOI-imposed restrictions and have not translated into strong and sustained growth. Regional comparisons suggest that other countries have been able to generate larger gains in average income with much lower levels of public spending, further underscoring the role of the Israeli restrictions in restraining economic growth.

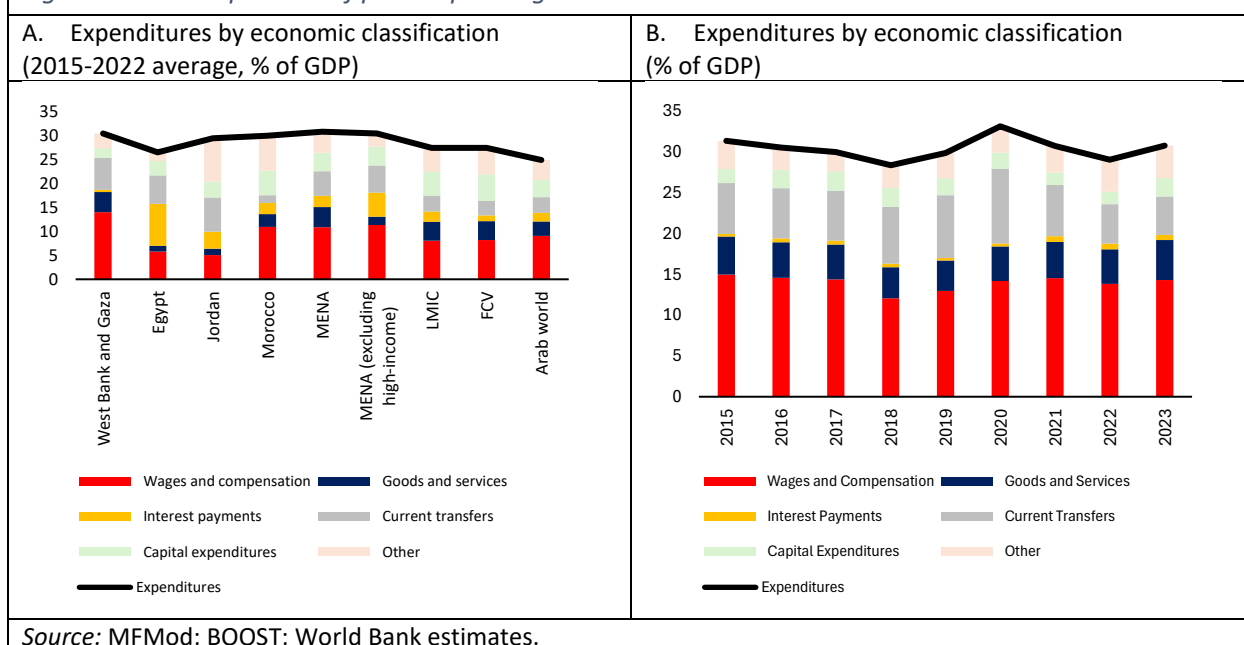
Figure 12: Public expenditures in the West Bank and Gaza



Source: MFMod; BOOST government expenditure database (BOOST); WDI database; World Bank estimates.

**Recurrent spending dominates public expenditures, with more than half going to wages and compensation.** During 2015-2023, capital investment accounted for an average of about 2 percent of GDP, far below the levels of peer countries. At 14 percent of GDP, the PA's wage bill was among the highest in the region over the period (Figure 13A). The large size of the wage bill reflects unsustainable hiring and compensation policies in the civil service and security sectors. However, while the wage bill is high on a commitment-basis, it is significantly lower on a cash basis, as the PA has only been paying about 80-85 percent of the wages of public employees since November 2021, and this rate has fallen to 50-70 percent since the start of the conflict. Between 2015 and 2023, total public spending as a share of GDP remained relatively stable, though transfers have fallen substantially since 2021, as the PA has reduced support to poor households due to fiscal constraints (Figure 13B).

Figure 13: Decomposition of public spending



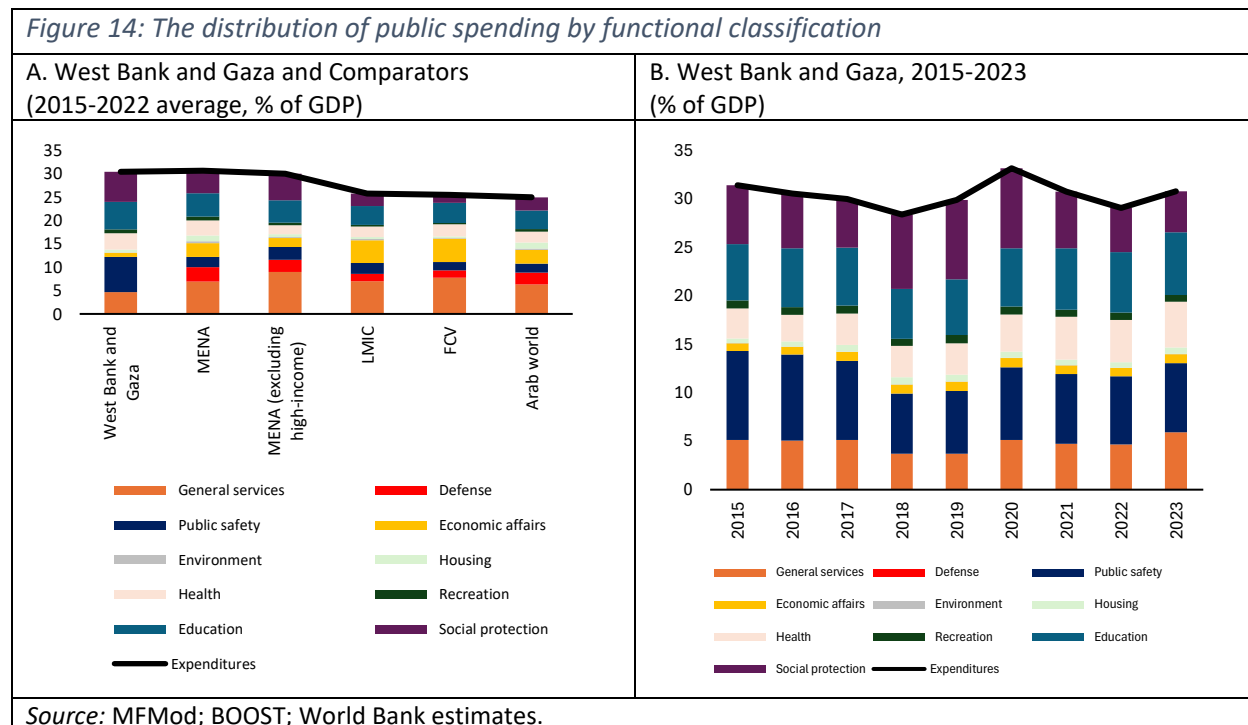
**About one-third of the PA’s budget is spent in Gaza even though the PA has not governed Gaza since 2006 and collects very little revenue from the territory.** Gaza accounts for just 3 percent of the PA’s total fiscal revenue but 29 percent of its total spending. The largest component of these expenditures is compensation for public employees in Gaza who still report to the PA, most of whom work in the health and education sectors. The PA also pays pension benefits to retired employees in Gaza and makes social transfers to poor households. Indeed, Gaza accounts for about two-thirds of the PA’s payments to poor household through the National Cash Transfer Program. Finally, the PA covers the cost of utility payments to Israeli suppliers, which are deducted from clearance revenues. The West Bank’s share of fiscal spending is much higher at 71 percent, as its population is larger than Gaza’s and the PA is responsible for providing a full range of public services in the territory.

Table 2: The allocation of the PA budget between the West Bank and Gaza (%)

	West Bank	Gaza
<b>Total public spending</b>	<b>71.1</b>	<b>28.9</b>
Wages and salaries	75.4	24.6
Gov. social contributions	75.4	24.6
Use of goods and services	81.3	18.7
Transfers	39.1	60.9
Fuel subsidy	100.0	0.0
Minor capital	100.0	0.0
Interest	100.0	0.0
Net lending	30.0	70.0

Source: PA MOF and World Bank estimates.

**Between 2015 and 2023, the PA allocated the largest share of expenditures to public safety through the Ministry of Interior, which is primarily responsible for these expenditures.** Spending on public safety<sup>18</sup> averaged 7.6 percent of GDP between 2015 and 2023, much higher than the MENA average of 2.2 percent. Given the constraints facing the Palestinian private sector, the public security sector plays an unusually important role in absorbing new labor-market entrants, which could explain its large share. The second largest share of expenditures went to social protection at 6.4 percent, well above the MENA average of 4.9 percent. These expenditures reflect the large social needs of the West Bank and especially Gaza, where poverty levels are high and rising. The health and education sectors accounted for 3.5 and 5.9 percent of public spending, respectively, broadly in line with the MENA averages of 3.2 and 5 percent (Figure 14).

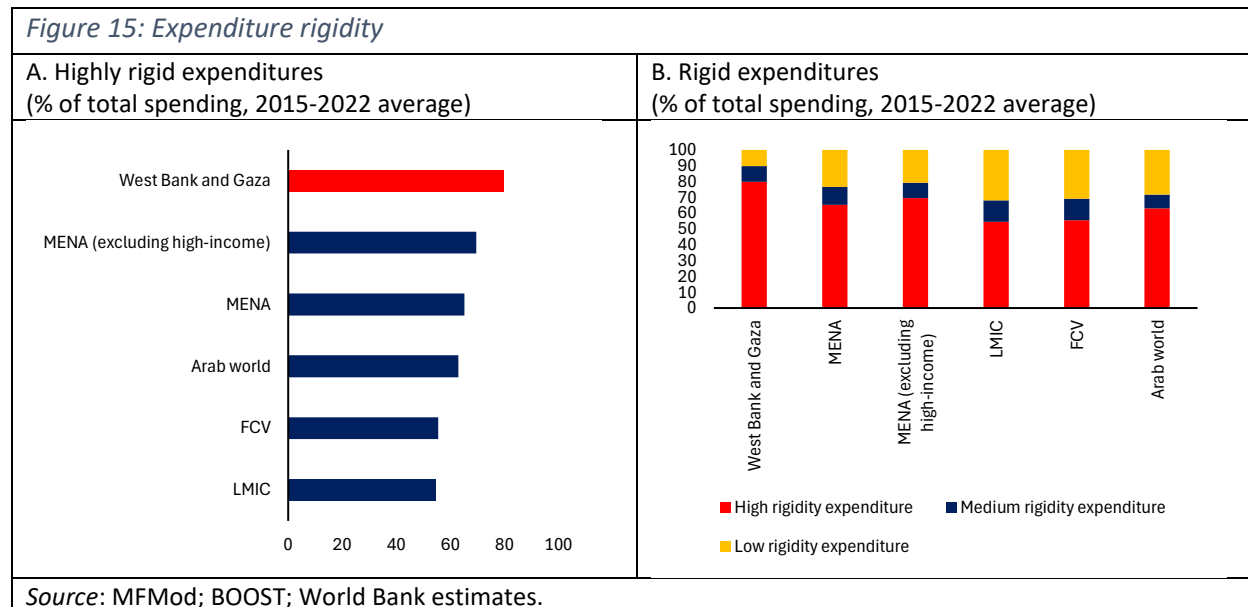


**The PA’s fiscal flexibility is very limited.** The share of rigid expenditures in total spending in the West Bank and Gaza is higher than the average for any comparator group. Rigid expenditures are defined as expenditure items that are difficult to reduce for political-economic or structural reasons, such as the public-sector wage bill, social contributions, transfers, and interest payments.<sup>19</sup> From 2015 to 2022, an average of 79.8 percent of expenditures were classified as highly rigid, well above the averages for the MENA region, LMICs, and FCV countries (Figure 15). Expenditure rigidity restricts the PA’s ability to adapt fiscal spending under challenging conditions. The wage bill is largely responsible for the large share of rigid expenditures, as the PA remains a critical source of employment given the constraints on private sector activity. The PA is also subject to external factors that influence the level or share of certain expenditure types, especially in Gaza. As a result, the PA has resorted to cutting more discretionary components of

<sup>18</sup> Public safety includes Ministry of Interior and National Security, Judiciary and justice, Administrative Court and the Supreme Judicial, Judge’s office, Supreme Council for Public Procurement Policies, and The Supreme Constitutional Court.

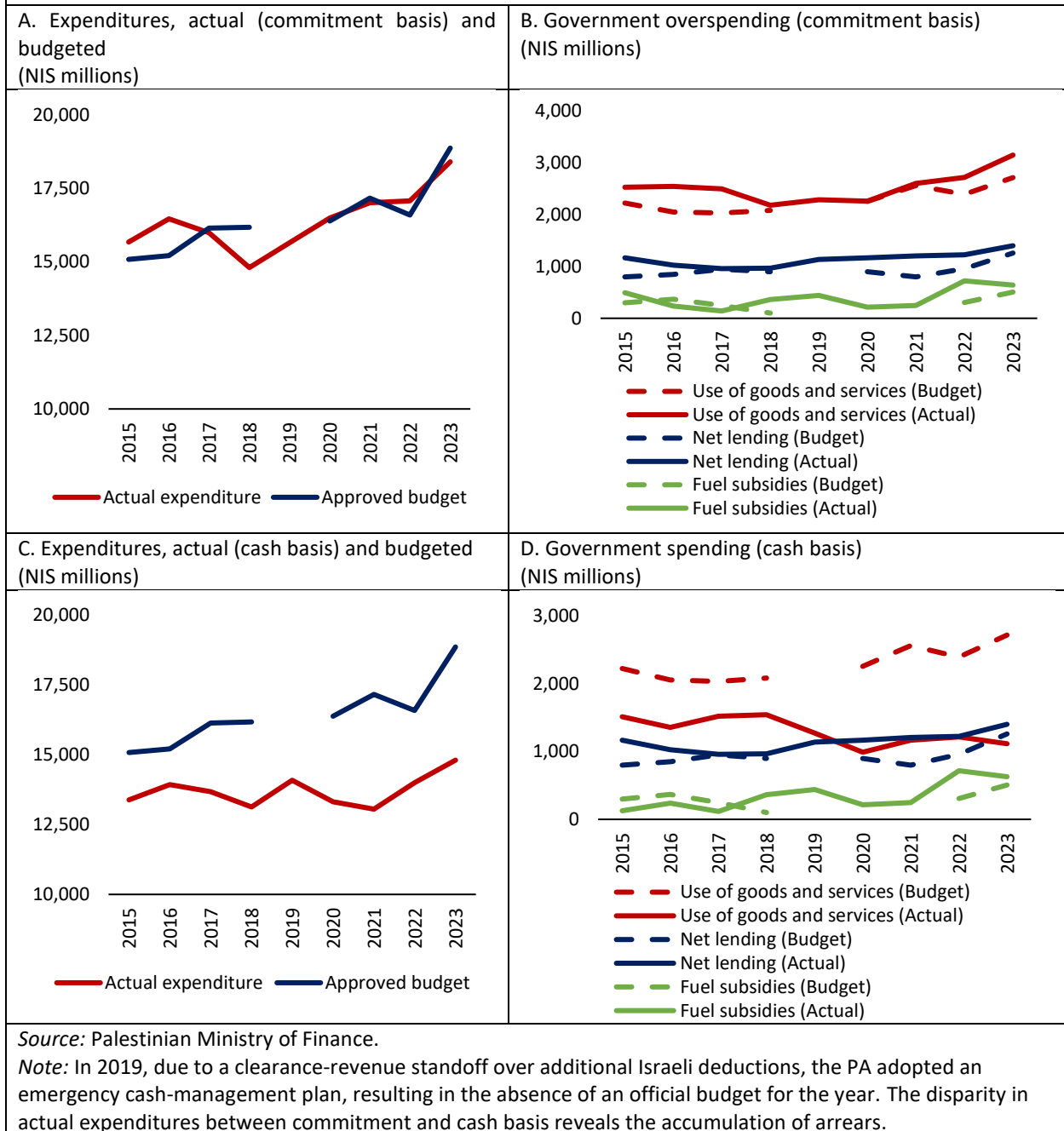
<sup>19</sup> Highly rigid expenditures include the public wage bill, spending on employment contracts, spending on basic services, interest payments, social protections, pensions, non-pension social benefits, and transfers to subnational governments. Medium-rigidity expenditures include capital expenditures on health and education, purchases of goods and services in health and education, and subsidies. Less rigid expenditures include other capital investments and purchases of goods and services.

spending, such as public investment. As noted above, the investment budget has fallen to just 2 percent of GDP in recent years, with deeply negative implications for long-term growth.



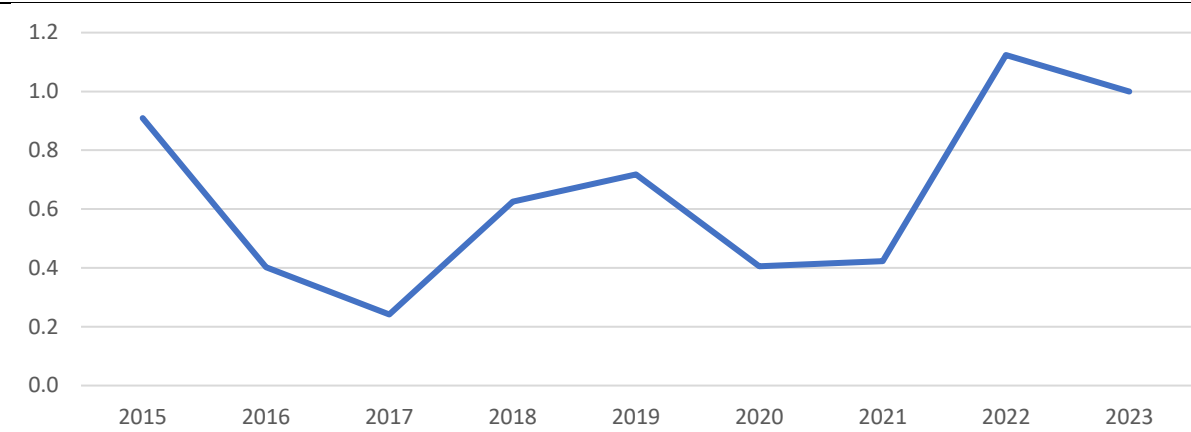
**Prior to 2020, budget execution fluctuated significantly, but in recent years the PA has consistently adhered to the budget, with only minor variances of 1-3 percent.** On a commitment basis, the PA overspent the approved budget in 2015 and 2016, then underspent it by 8 percent in 2018 (Figure 16A). Overspending was driven by purchases of goods and services, which exceeded the budget by 14 percent in 2015 and 24 percent in 2016 due to a sharp increase in outside medical referrals. Moreover, net lending has consistently surpassed budget estimates since 2015, with an average yearly excess of 25 percent placing a significant strain on the public budget. In 2022 and 2023, the PA maintained overall budget adherence, but overspending persisted on purchases of goods and services, as well as fuel subsidies (Figure 16B). However, on a cash basis, the PA’s actual expenditures consistently fall below the budget, owing to the increased use of arrears (Figure 16C). While net lending and fuel subsidies mirror the trends observed in the commitment basis, actual spending on goods and services consistently remains under budget (Figure 16D).

Figure 16: Adherence to the approved budget



**Recurrent spending on regressive subsidies has put upward pressure on the budget.** The PA spent an average of 0.6 percent of GDP subsidizing fuel each year between 2015 and 2023. These subsidies are contrary to the PA’s climate agenda, and they crowd out social spending in key areas such as education and social transfers. In 2021, the MOF provided US\$ 77 million fuel subsidies. In 2022, as global oil prices soared, the cost of the fuel subsidy rose by 191 percent y/y, and it remained high at US\$ 172 million (1 percent of GDP) in 2023 (Figure 17). Subsidy reform could free up scarce resources to invest in critical development priorities (Box 1).

Figure 17: Fiscal spending on fuel subsidies (% of GDP)

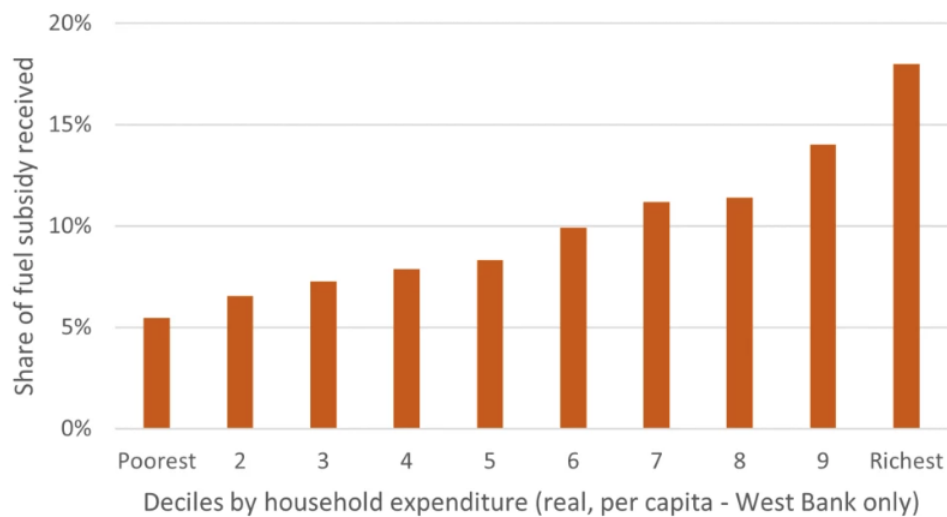


Source: World Bank staff calculations based on MOF data

Box 1: Reforming fiscal subsidies in the West Bank and Gaza

Subsidies keep retail fuel prices in the West Bank and Gaza below the market price. Almost 100 percent of fossil fuels are imported, mainly from Israel. Taxes on fuel products are passed along to Palestinian consumers and represent an average of two-thirds of the pump price. Fuel subsidies are the least progressive of all public transfers in the West Bank and Gaza, because richer households tend to consume more fuel and therefore receive a larger share of the subsidy benefits. In the West Bank, the richest 10 percent of the population receives almost four times the value of the fuel subsidies going to the poorest 10 percent (Figure 18). While fuel subsidies do help reduce poverty, their regressivity makes them very inefficient. By contrast, electricity subsidies are progressive, albeit less so than cash transfers or spending on education and other social services.

Figure 18: Absolute incidence of fuel subsidies in the West Bank—the perfect example of regressive subsidies



Reducing the fuel subsidy by 50 percent would have a substantial fiscal impact, and the savings could be redirected into important priorities, including social spending and climate action. The average annual amount spent on fuel subsidies over the last decade is NIS 410 million. Freeing just NIS 205 million could finance 40 percent of the National Cash Transfer Program, providing support to over 46,000 Palestinian households currently living in deep poverty, or cover 50 percent of the estimated annual capital investment necessary to address climate-related challenges in the water, energy, agricultural, urban development, and human capital sectors. However, any reduction of fuel subsidies would need to be carefully managed and implemented through a phased approach, with compensatory mechanisms to shield poor households from negative welfare effects.

**Net lending is another spending area that has placed pressure on the PA finances in recent years.** Net lending, in the Palestinian context, refers to the amounts Israel deducts from clearance revenues to offset bills owed by Palestinian local government units and utility companies to the Israeli suppliers of electricity, water, and sewage services.<sup>20</sup> Net lending averaged 2 percent of GDP between 2015 and 2023 and despite multiple efforts by the PA, the issue continues to worsen. Net lending involves several actors, both on the Israeli and Palestinian side – each with own incentives, practices, and behaviour - contributing to the complexity of the phenomenon (Box 2).

**Box 2: Understanding the net lending phenomenon in the Palestinian territories and recommendations for reform**

Currently, 92 municipalities and 188 village councils operate as utility providers in the West Bank and Gaza. These local governments frequently fail to cover the cost of utility services purchased from Israeli suppliers due to limited own-source revenue capacity, high technical losses in their local utility networks, weak metering and billing practices, and/or inadequate transfers from the PA to supply utilities at subsidized rates to poor households and refugee camps.

Electricity payments account for the largest share of deductions and reached NIS 1.1 billion in 2023, followed by water payments at NIS 393 million, and sewage payments at NIS 109 million. Electricity bills are mainly owed to the Israeli Electricity Company (IEC), and outstanding payments owed to IEC are either deducted from the PA clearance receipts or are accumulated as debt, which is subject to an interest rate.<sup>21</sup> Palestinian electricity distributors cannot cross-check billed quantities since IEC delivers electricity to the West Bank through 220 connection points, corresponding to 220 monthly bills. Like electricity services, the water distribution is affected by uneven contractual terms with Israeli suppliers. 80 percent of the water consumed in the Palestinian territories is imported from Israel via the Mekorot company. Mekorot issues two aggregate invoices each month, one for the West Bank and one for Gaza. In addition to the cost of water, Mekorot charges a monthly fee of NIS 850,000, ostensibly to cover the salaries of Israeli Civil Administration staff working in the water sector. The PA has no means to cross-check the accuracy and consistency of the volumes billed by Mekorot, because water is delivered to the West Bank and Gaza through several entry points that are not equipped with meters.

In addition to disrupting financial relations between the PA and the Israeli authorities due to a dispute over the lack of transparency with respect to billed services and intercepted funds, net lending has negatively affected the domestic intergovernmental fiscal relations. The MOF collects property tax and transportation fees on behalf of municipalities and should then remit to the Local Government Units

<sup>20</sup> The uncovered cost of medical referrals to Israeli hospitals is also deducted by Israel from clearance revenues but recorded by the Palestinian MOF under goods and services.

<sup>21</sup> This rate is applied to all delinquent payers and is not specifically applied to Palestinian debt. The rate depends on the market interest rate and the debt period and it has mostly ranged between 10-11 percent, according to the PA.

(LGUs) their share, on a monthly basis. As a result of the net lending issue, the MOF has started intercepting the LGUs' revenues. Lack of undisputed, comprehensive data on the financial position of each LGU, i.e., gross vs. net amount owed by MOF, combined with the irregular, unpredictable disbursement of LGU shares in the property tax and transportation fees, have further complicated the monitoring of net lending.

Addressing the net lending issue would help improve transparency, stability, and fairness in the fiscal relations between the PA, local governments, the GOI, and utility providers. It would also improve incentives and promote fiscal discipline and rules-based financial management at all governance levels, easing the burden on the PA's already fragile public finances.

One of the **first priorities** should be **getting the numbers right**. In fact, getting a clear, undisputed picture of each party's financial claims is a complex task for many reasons including the use of different accounting rules by the different stakeholders, the absence of a regular, periodic reconciliation of accounts across the board, and the lack of cooperation and diligence on the Israeli side due to untransparent billing methods and receipts intercept practices. So far, the duty of account reconciliation has been carried out by the Net Lending unit currently operating within the Ministry of Local Government (MoLG) administration, and which has faced difficulties due to the lack of cooperation. However, a better approach could be to assign the reconciliation task to an independent body such as the State Audit and Administrative Control Bureau (SAACB) to be assisted by a private accounting firm. The reconciliation process must be completed within the shortest time frame feasible, and the reconciliation of accounts must be based on clear rules that should be agreed in prior and made known to all parties to avoid potential misunderstanding or disagreement. Donor involvement to encourage the Israeli side to be involved in this exercise is critical for its success.

After the reconciliation of the accounts, the **second priority** should be **the clearance of the accounts**. Once the net financial position of each LGU is established showing either a claim on, or a debt owed to the PA, a decision must be made by the highest national authorities (i.e., the Council of Ministers) on how to deal with the clearance of all accounts. If the PA has a net claim on an LGU it could either forgive all claims (setting accounts to zero), or freeze the net lending balance, and reschedule any LGU debt over a reasonable period, commensurate with its financial capacity, on a case-by-case basis. Forgiving claims could become a regressive policy, in case richer LGUs are the ones with larger outstanding bills. Getting this right might need some analysis as policies should be geared towards efficacy, efficiency and equity, while taking into account competing policies and the state of public finance of the PA.

The **third priority** should be about **adopting new rules**. New rules and practices should be developed and applied as soon as possible to close the net lending chapter and put in place proper safeguards to avoid its reoccurrence. At the MOF, the General Accounts Department should assign a separate account for each LGU within the government accounting system. The account could be structured into sub-accounts to reflect the different categories of financial transactions, including a) The amount accruing (owed) to the LGU, b) The amount effectively disbursed to the LGU and, c) Any intercept (deduction) made by the MOF to offset payables owed by the LGU. Best practice should involve reporting all transactions on a gross basis so that cost and efficiency could be properly estimated. Proper billing and accounting procedures must also be adopted by LGUs to enable those that are active in the distribution of electricity and/or water to keep records of their claims on the PA. Hence, LGUs must issue invoices and claim requests on time, for submission to the concerned agencies (with copy to the ministry of finance) together with clear supporting documents. Invoices and claims on the PA must be posted to

the PA account in the LGU accounting system; such account could be structured into sub-accounts (one for each type of claim).

The **fourth priority** should be **improving LGU financial discipline**. To ensure that LGUs do fulfil, on time, their financial obligations towards the Israeli suppliers, they should adopt sound commercial and good governance rules in the management of the electricity and water distribution. This can be achieved through the optimalization of revenues (improved collection rate of consumers' bills) and the monitoring of costs (reduced technical and non-technical loss of electricity). This requires investing in the rehabilitation of the infrastructure (to minimize technical loss) and the billing-collection system (use of pre-paid meters). LGUs, however, currently lack the financial means to bear the cost of such investment effort. Hence, the segregation of utilities transactions accounts would be an essential alternative in the meantime. LGUs would post all the transactions to a general account, associated with a dedicated ring-fenced bank account to ensure that that use of receipts is restricted to the payment of utility purchase and other related expenses. The use of such modality can be instrumental in improving financial discipline and compliance, provided that strict rules are attached to its utilization to ensure that the account is not used to cross-subsidize other municipal services, and that unspent monies are carried over to the following fiscal years.

The **fifth priority** should be **reforming the LGUs' financing system**. Lack of adequate revenue assignment has so far undermined the capacity of LGUs to effectively assume their spending responsibilities and meet their financial obligations. There is therefore a need for revising the current LGU revenue assignment arrangements in regard to the own-source revenues structure, and the fiscal transfers system. To increase own-source revenue, the MOF could gradually assign full responsibility for the assessment and collection of the property tax to the municipalities. This was done on a pilot basis a few years ago and the delegation arrangement has led to substantial increase of collected tax receipts. This could also be done digitally with the MOF providing a central platform that each municipality must use. That way, not much capacity building (and hiring) is needed on the LGU side, and the MOF can track revenue collection.

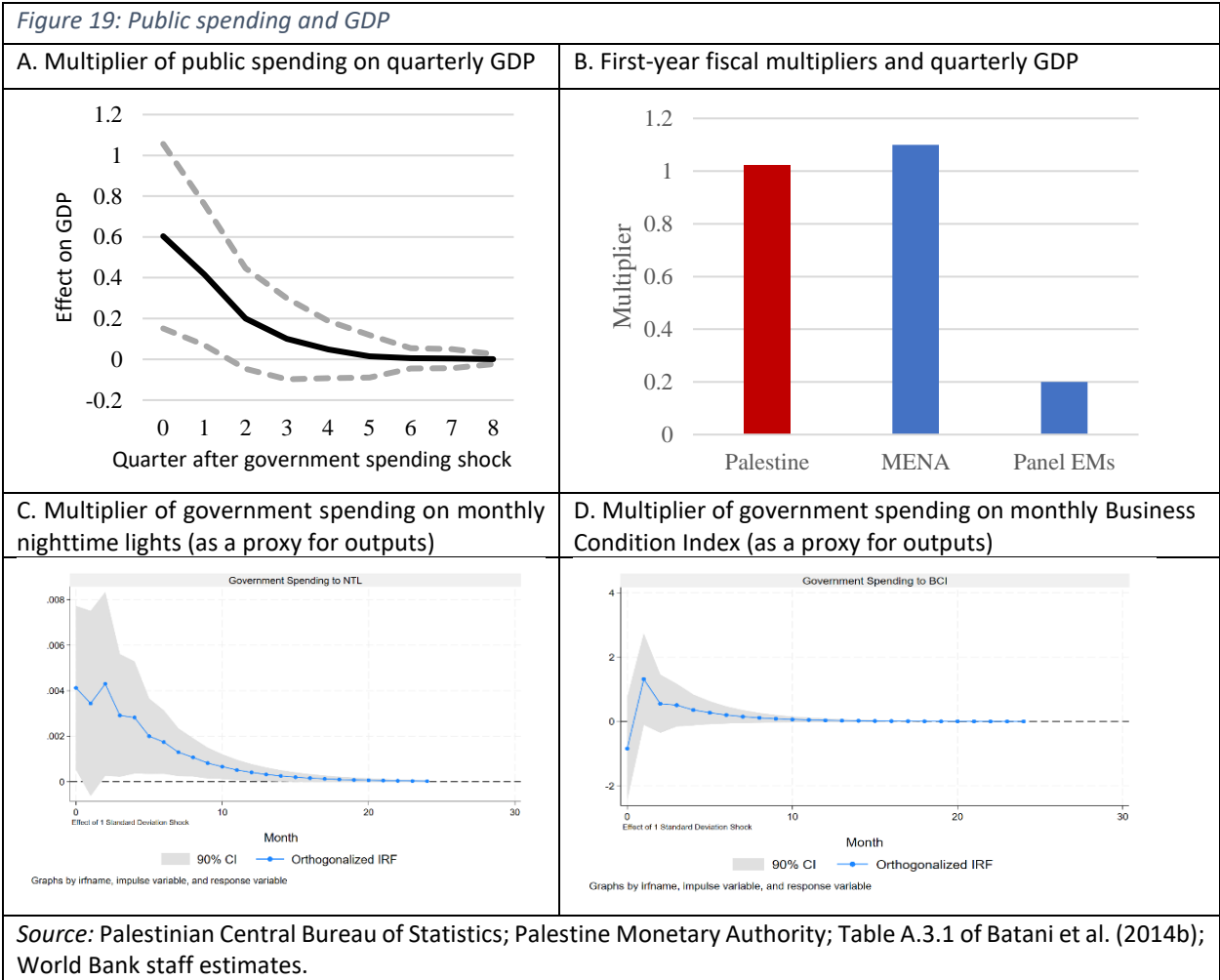
The **sixth priority** should be **instituting a genuine intergovernmental fiscal transfer system**. Such system, if well designed and adequately funded, is highly instrumental in tackling the net lending issue, by securing a stream of regular and buoyant financial resources to LGUs. In principle, the size of the fiscal transfers should be commensurate with the level of the vertical funding gap (the vertical gap is the difference between the cost of providing assigned service delivery responsibilities and the potential of LGU own-source revenues). However, in the absence of comprehensive, and reliable data, it is not easy to correctly measure such gap. Accordingly, a pragmatic approach could be adopted, building on the current arrangements of the transportation fees sharing scheme, to arrive gradually at a sizable annual volume of funds, stable and predictable. Ultimately, the funding of the fiscal transfers system should be aligned with the practices followed in many countries, that is, to commit a certain percentage of the total central government's domestic revenues, often lagged one year to add predictability to the flow of funds. However, given the PA's fiscal crises, donor contributions to this system would be crucial to enable it to achieve its objective.

Source: Adapted from "Net Lending: Issues and Recommendations for Reform", World Bank (forthcoming).<sup>22</sup>

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<sup>22</sup> The report is still being finalized and is not publicly available yet.

**Public spending has a positive short-term impact on GDP in the West Bank and Gaza.** Fiscal multipliers measure the effect of changes in public spending on short-term output. A bivariate vector autoregression (VAR) analysis using seasonally adjusted quarterly GDP and expenditure data from Q1 2015 to Q3 2023 suggests that public spending has a positive and statistically significant short-term effect on GDP.<sup>23</sup> For every additional US\$ 1 in public spending, there is an estimated incremental gain of US\$ 0.6 in GDP during the contemporaneous quarter and US\$ 0.4 in the subsequent quarter (Figure 19A). On an annual basis, this implies a first-year fiscal multiplier of about 1, meaning one additional dollar of public spending generates one additional dollar of output over the year. A comparative analysis indicates that the West Bank and Gaza’s fiscal multiplier is close to the MENA average and above the level of other emerging markets (EMs)<sup>24</sup> (Figure 19B). These findings are supported by a separate VAR analysis that uses nighttime illumination data as a proxy for aggregate economic activity (Figure 19C) and suggests that the positive effects of public spending last for about 15 months. However, the response of other economic indicators, such as the business conditions index, suggest that a positive fiscal spending shock generates a positive yet statistically insignificant increase in output (Figure 19D).



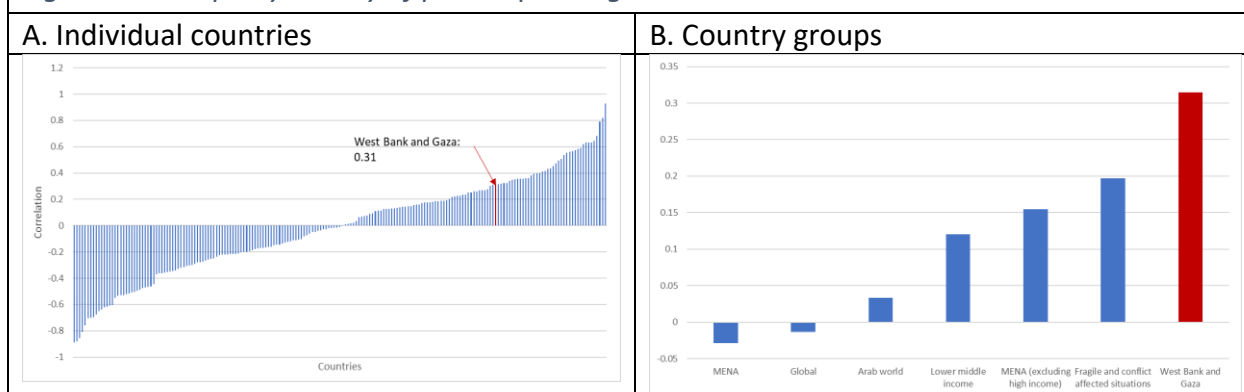
<sup>23</sup> A VAR with a deterministic linear trend is estimated. To identify government spending shocks, we follow Blanchard and Perotti (2002) and assume that GDP has no contemporaneous effect on government spending.

<sup>24</sup> Batani et al., 2014b.

*Note:* (a) In Figure 1A, the solid line displays the estimated effect, and dashed lines display the 90 percent bootstrapped confidence interval. (b) In Figure 1B, Panel EMs represent 17 emerging markets specified by Ilzetzki (2011). (c) Figure 1C displays the effect of a one standard deviation shock in logged government spending on logged nighttime lights, with a sample period from January 2015 to October 2023. The solid lines display the estimated effects, while shaded areas denote the 90 percent bootstrapped confidence intervals. (d) Figure 1D displays the estimated effect of a one standard deviation shock in logged government spending on future business conditions in the Palestinian territories, with a sample period from January 2015 to September 2023.

**The PA’s spending patterns are significantly procyclical, and adopting a countercyclical fiscal policy could help accelerate and stabilize GDP growth.**<sup>25</sup> Public spending has been positively correlated with GDP growth since 2015, and its procyclicality is high by the standards of FCV countries and LMICs (Figure 20). Procyclicality has been exacerbated by repeated standoffs over clearance revenue, which resulted in monthslong delays in the transfer of these revenues.<sup>26</sup> Because clearance revenues represent the PA’s main source of income, these delays automatically translate into a strong reduction in West Bank and Gaza’s government revenue, negatively affecting spending and ultimately growth given the large fiscal multipliers.

*Figure 20: The procyclicality of public spending across countries*



*Source:* World Bank staff estimates based on data from the Palestine Monetary Authority

*Note:* This figure plots the contemporaneous correlation coefficients between the cyclical component of public expenditures and the cyclical component of GDP for the West Bank and Gaza and comparison countries. In panel A, each bar represents a country; in panel B, each bar represents the average for a country group. Cyclical components are extracted via the Hodrick-Prescott filter, and correlation coefficients are calculated for the West Bank and Gaza. The correlations for other countries are derived from Public Finance Review (PFR) data-visualization tools.

## Deficit financing and the public debt

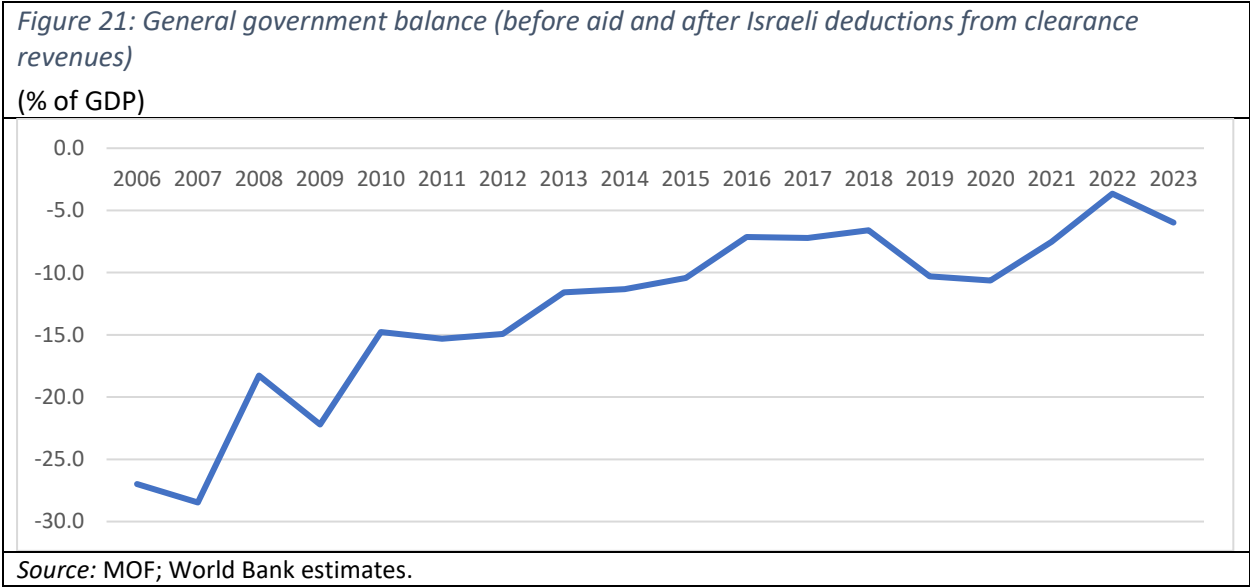
### Deficit

**The PA has achieved an impressive degree of fiscal consolidation over the years, but the ongoing conflict has reversed some of these gains.** Between 2006 and 2022, the PA narrowed its total fiscal deficit (before international aid and after Israeli deductions from clearance revenues) from 27 percent of GDP to about 3.7 percent. However, the conflict’s severe negative impact on the PA’s finances widened the deficit to 6

<sup>25</sup> Fiscal policy is countercyclical when public expenditures increase during recessions and decline during expansions, which helps mitigate downturns and stabilize the business cycle.

<sup>26</sup> The most recent standoffs over clearance revenues took place in March-August 2019, May-November 2020 and October 2023.

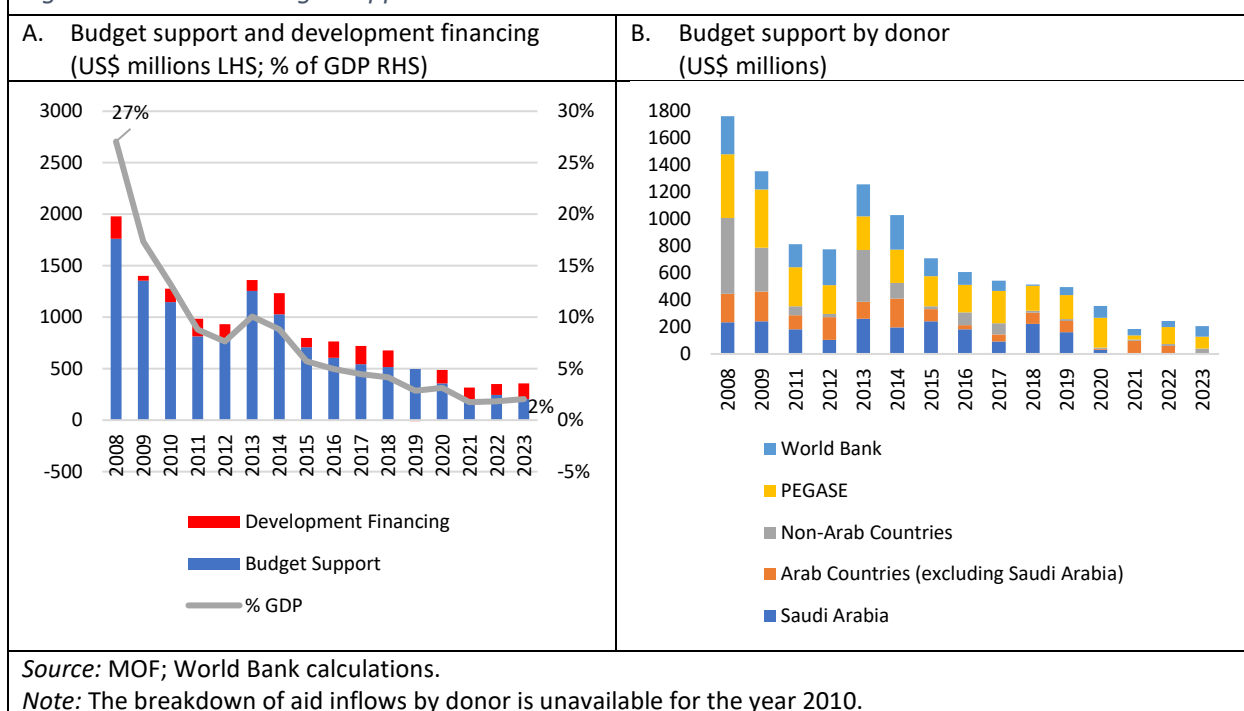
percent of GDP in 2023, as a sharp economic contraction suppressed tax revenue while the GOI unilaterally increased deductions from clearance revenues in late 2023 (Figure 21). Most of the deficit emanates from Gaza, where the PA collects very little fiscal revenue, while the West Bank is close to a fiscal balance. The structural gap in the PA’s finances caused by the wide gap between revenues and expenditures in Gaza cannot be addressed in the short term, as it would require the cessation of hostilities, meaningful progress on resolving the internal political divide, and the easing of the near-total blockade on Gaza.



**Financing**

**Aid has decreased significantly in recent years.** Due to donor fatigue and competing priorities in the region, aid dropped from a peak of US\$ 2 billion in 2008 to US\$ 357 million in 2023 or from 27 percent of GDP to 2 percent, with contributions from all donors falling substantially (Figure 22). Aid from the European Union via Palestinian-European, Socio-Economic Management and Assistance Mechanism (PEGASE) and from the World Bank and its multi donor trust funds has declined over time but has remained present in all years. Bilateral aid both from Arab and non-Arab donors has been extremely irregular, especially in recent years. The reduction in donor aid has had a negative impact on growth, and ensuring adequate and predictable budget support remains indispensable to the success of the reform agenda.

Figure 22: External budget support



**Aid has been insufficient to cover the PA’s overall financing needs, pushing it to resort to domestic sources of financing.** These include debt from the domestic banking sector and arrears to private suppliers and to the public pension fund. The PA has also started paying partial salaries to public employees since December 2021, and the payment share has declined from 80 percent to 50-70 percent since the start of the conflict.

Table 2: Key Fiscal Indicators, 2015-2024

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Key Fiscal Indicators, Percent of GDP, unless indicated otherwise</b>										
<b>Total Revenues and Grants</b>	26.7	28.4	27.2	25.9	22.4	25.7	25.0	27.2	26.2	28.7
Tax Revenues	19.2	19.5	20.4	19.1	17.5	20.1	21.0	23.0	21.8	20.3
Taxes on Goods and Services	3.0	2.9	3.3	3.7	3.2	3.5	4.22	4.5	4.3	4.3
Direct Revenues	1.3	1.1	1.4	1.5	1.2	1.2	1.3	1.5	1.7	2.1
Taxes on International Trade	14.6	15.1	15.4	13.9	12.8	15.1	15.3	16.4	15.3	13.5
Other Taxes	0.2	0.3	0.2	0.0	0.2	0.3	0.2	0.6	0.5	0.4
Non-Tax Revenues	1.8	3.9	2.4	2.7	2.1	2.4	2.2	2.4	2.4	2.5
Grants	5.7	5.0	4.5	4.2	2.8	3.1	1.7	1.8	2.0	5.9
Tax Refunds (-)	0.2	0.2	0.2	0.4	0.3	0.3	0.6	0.2	0.2	0.3
<b>Total Expenditures</b>	31.4	30.6	30.0	28.4	29.9	33.2	30.7	29.1	30.1	38.2
Current Expenditures	26.2	25.6	25.3	23.3	24.7	28.0	26.0	23.6	24.1	31.0
Wages and Compensation	15.0	14.6	14.4	12.1	13.0	14.2	14.6	13.8	14.0	18.3
Goods and Services	4.7	4.3	4.3	3.8	3.7	4.2	4.4	4.2	4.8	5.5
Interest Payments	0.3	0.5	0.5	0.4	0.3	0.4	0.7	0.7	0.6	1.0
Current Transfers	6.2	6.2	6.1	7.0	7.7	9.2	6.3	4.8	4.6	6.2
Capital Expenditures	1.7	2.3	2.4	2.3	2.1	2.0	1.5	1.6	2.2	1.9
Other Expenditures	3.5	2.7	2.3	2.8	3.1	3.2	3.3	3.9	3.8	5.3
<b>Overall Balance</b>	-4.7	-2.2	-2.7	-2.4	-7.4	-7.5	-5.8	-1.8	-3.8	-9.5

<b>Primary Balance</b>	-4.4	-1.7	-2.3	-2.0	-7.1	-7.1	-5.1	-1.1	-3.2	-8.5
<b>Financing Requirement</b>	4.7	2.2	2.7	2.4	7.4	7.5	5.8	1.8	3.8	9.5
Government Financing	1.2	-0.8	0.5	1.0	4.7	3.6	0.5	-0.6	1.3	
External Financing (Net)	-0.1	-0.2	0.0	-0.1	1.1	0.7	0.0	-0.1	0.1	0.0
Domestic Financing (Net)	-0.3	-2.6	-2.5	-1.1	1.2	0.0	-1.3	-2.5	0.1	5.4
Financing Gap	5.1	4.9	5.2	3.6	5.1	6.8	7.1	4.5	3.6	4.1
<b>General Government Debt<sup>27</sup></b>	37.5	35.4	35.8	34.4	39.2	55.1	56.0	53.1	59.0	85.7
External Debt	7.7	6.8	6.5	6.3	7.1	8.5	7.3	6.8	7.4	9.6
Domestic Debt	29.8	28.6	29.3	28.0	32.1	46.5	48.7	46.3	51.6	76.0
Borrowing from Domestic Banks	10.5	9.3	9.3	8.2	9.2	15.0	14.0	11.7	13.8	21.0
Stock of Arrears	19.3	19.2	20.0	19.8	22.9	31.6	34.8	34.6	37.8	55.0
Of which: toward the pension fund	16.0	16.6	16.6	15.0	15.5	19.1	18.2	17.1	16.8	21.7
<b>Memorandum items:</b>										
Clearance Revenue Deductions	3.0	2.6	2.1	2.5	3.7	2.8	3.1	3.6	2.9	6.0
Overall Balance Before Grants and After CR Deductions	-10.4	-7.1	-7.2	-6.6	-10.3	-10.6	-7.5	-3.7	-5.8	-15.4

Source: PCBS, PMA, MOF, World Bank staff estimates

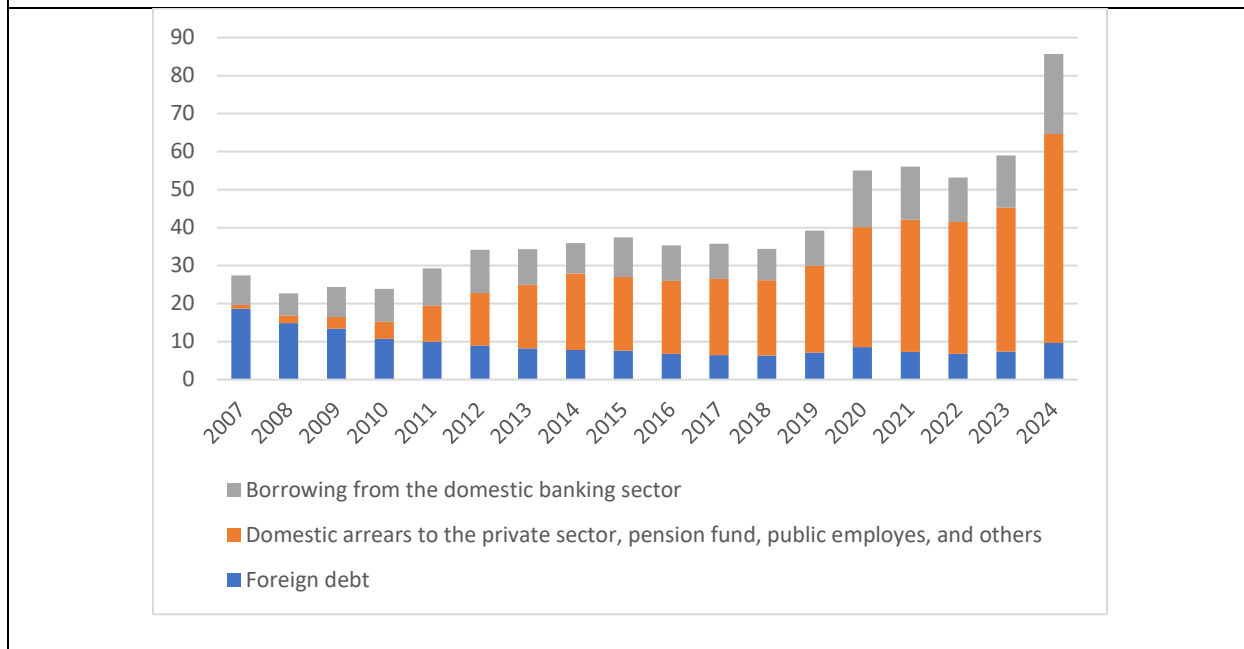
Note: The clearance revenue deductions presented as a memorandum item include deductions made by Israel to account for utility bills recorded in the table under “other expenditures”, the cost of health referrals recorded under “G&S” and deductions for prisoners and martyrs’ payments and Gaza spending recorded as a negative revenue item deducted from “taxes on international trade”

## Public Debt

**Large fiscal gaps increase reliance on domestic sources of financing and add to the public debt.** The PA’s public debt amounts to US\$ 11.8 billion or 85.7 percent of GDP in 2024. The debt stock consists of foreign debt (9.6 percent of GDP), borrowing from the domestic banking sector (21.0 percent), and domestic arrears to the private sector, pension fund, public employees, and others (55.0 percent) (Figure 23). The foreign debt was accumulated in the early years of the PA and has been relatively stable. The stock of debt owed to the domestic banking sector, however, has fluctuated over the years, and although the PA had succeeded in reducing it in recent years, the conflict has pushed it back to over its pandemic-era peak of US\$ 2.5 billion and it reached US\$ 2.88 billion by end-2024. Arrears have been another major source of financing for the PA. The total stock of arrears to the private sector stood at an estimated US\$ 1.5 billion at end-2024, mostly owed to pharmaceutical companies, hospitals, and contractors. In addition to the private sector, the PA has also accumulated arrears to the public pension fund, which are estimated at around US\$ 3 billion for the civil-service schemes, though no data are available on the security schemes. Finally, arrears to public employees are estimated at US\$ 1.47 billion. The excessive accumulation of arrears could stifle economic growth by draining the private sector’s working capital, deterring investors, and reducing spending by public employees.

<sup>27</sup> The PA’s debt figures include foreign debt, domestic debt, and arrears.

Figure 23: Public debt, 2007-2024  
(% of GDP)



Source: PMA, MOF, World Bank staff estimates

### Key Issues and policy ingredients for a successful deficit reduction

**Fiscal sustainability requires a strong macroeconomic foundation, which the PA's reform efforts are necessary but not sufficient to establish, and additional actions by the GOI remain crucial to enable the Palestinian economy to reach its potential.** Reforms by the PA could significantly reduce the size of the fiscal deficit, and additional measures to improve the business environment could accelerate private-sector growth. However, previous World Bank analytical work<sup>28</sup> has shown that GOI restrictions on movement and economic activity in the West Bank and the near-total blockade of Gaza remain the most important obstacles to growth and private-sector development. Until these challenges are addressed, the Palestinian economy will continue to operate below its potential.

**Urgent reforms are necessary to bolster the PA's fiscal position and lay the groundwork for more robust growth once a lasting political resolution has been achieved.** The unreliable funding of essential public services and the high level of payment arrears to the private sector and public employees are hindering economic development and constricting liquidity. Efforts to enhance the equity, effectiveness, and efficiency of public spending must address the wage bill, the generous public pension system, and the allocation of transfers to ensure they reach the poorest and most vulnerable households. Improving the management of referrals is a critical priority in the health sector. Reforms to reduce net lending are also urgent, as the current system results in substantial unplanned subsidies to local governments. The following chapters provide a detailed analysis and specific recommendations in some of these areas.

<sup>28</sup> Laursen and Nasser Eddin, 2017. *Prospects for growth and jobs in the Palestinian economy: a general equilibrium analysis*. Washington, D.C.: The World Bank Group. <http://documents.worldbank.org/curated/en/952571511351839375/Prospects-for-growth-and-jobs-in-the-Palestinian-economy-a-general-equilibrium-analysis>

**On the revenue side, while the PA has made significant strides in mobilization, there is room for further improvement.** Although central government revenues are relatively high by the standards of FCV countries, they still fall short of the PA's potential. Due to the political divide, revenue collection from Gaza was very low even prior to the conflict. In the West Bank, reforms are needed to broaden the tax base to include high-earning professionals such as doctors, lawyers, and engineers. Administrative enforcement powers should be strengthened and accompanied by penalties for tax evasion. Human resource skills at the ministry of finance also need to be strengthened including for competitive data analysis and auditing, amongst others. Additional efforts should be made to determine the appropriate framework for taxing small firms and Limited Liability Companies (LLCs) under the new Companies Law. Nontax revenues could also be significantly augmented by revising government fees and charges, most of which have not been adjusted in over two decades. Revenues collected by local governments also remain minimal, and large intergovernmental transfers contribute to the PA's deficit. Access to Area C is also crucial to increase the PA's revenue, but progress in this area hinges on a successful political dialogue.

**Further reducing the recurrent fiscal deficit is crucial to create fiscal space to increase public investment and settle arrears.** While reducing the overall deficit level may constrain short-term growth, trimming the recurrent deficit would enable greater public investment and could stimulating long-term growth. Public investment should be increased to about 5-6 percent of the budget over the medium term to begin tackling the infrastructure gap, improving the quality of life for Palestinian citizens, and fostering private-sector growth. These objectives are increasingly urgent given the vast development needs in Gaza as a result of the conflict. Deficit reduction should ideally be augmented by increased donor support, which would create fiscal space both for public investment and arrears clearance.

**Increased donor support is crucial to the success of the PA's reform agenda, but inflows have reached a two-decade low.** Reform efforts in revenue and expenditure management should proceed gradually to avoid adverse social or economic consequences. Drastic cuts in public spending could negatively impact economic activity due to large fiscal multipliers. Moreover, the fiscal consolidation effort is vulnerable to external shocks, as economic growth and the fiscal balances are highly sensitive to the political context and cooperation with Israel. Adequate and predictable budget support is essential to facilitate fiscal consolidation and mitigate political and economic uncertainties. Increasing external budget support would help the PA navigate its fiscal crisis and sustain service provision in the near term, while in the medium-term donor support should be redirected towards development projects that bolster economic growth. Additional public financial management reforms and governance measures could attract additional donor resources.

**The GOI's cooperation is also necessary to improve the PA's fiscal situation.** The 1995 interim agreement states that the Israeli civil administration is expected to collect revenues from Israeli businesses operating in Area C and remit them to the PA.<sup>29</sup> While these funds are collected by the GOI, they have yet to be remitted. The GOI must also work with the PA to implement institutional measures to sustainably reduce fiscal leakages from clearance revenues, which is vital to reinforce the PA's finances. The following recommendations could advance these objectives while yielding other mutually beneficial outcomes:

**A. Resolve the current dispute over clearance revenues by establishing transparency and accountability regarding the GOI deductions.** In October 2023, the GOI began imposing additional

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<sup>29</sup> See Annex III, Appendix I, Article 8, Paragraph 2(a), 2(b) and Article 18, Paragraph (4) of the Interim Agreement on the West Bank and the Gaza Strip, Washington, D.C., September 28, 1995 (the Interim Agreement) accessed here: <https://www.gov.il/en/Departments/General/the-israeli-palestinian-interim-agreement-annex-iii>

deductions from clearance revenues to account for the PA's unchanged spending in Gaza. While an agreement was reached in early 2024 to place the additional Gaza-related deductions in a Norwegian escrow account, enabling the PA to accept the remaining clearance revenues, the additional deductions have resulted in a deep fiscal crisis. While such deductions are clearly barred by the Paris Protocol, they continue to undermine the PA's revenue position. The GOI reports exchanging information with the PA on the monthly deductions from clearance revenues to cover utility costs, but the PA claims it has had difficulty reconciling Israeli deductions with actual local government purchases from Israeli suppliers due to the lack of detail provided by the GOI. These discrepancies have widened over the years, creating the need for a mechanism that would reconcile local government data on service consumption with billing by Israeli providers and enable independent verification on an ongoing basis. Aside from the disputed deductions, Israel only provides an abbreviated breakdown of clearance revenues by source, giving the PA a very limited understanding of a major revenue line item and the associated risks. The ex-post nature of the deductions further reduces predictability. Urgent efforts should be conducted to resolve the current dispute as soon as possible as the PA will not be able to survive much longer without larger clearance revenue transfers. Going forward, an agreement should be reached to ensure that transfers of clearance revenues are more regular and predictable and are not politically driven.

**B. Fully implement the e-VAT clearance system.** The Palestinian and Israeli authorities both face fiscal leakages from bilateral trade, but the relative size of the issue is more significant for the PA, since around two-thirds of its trade is with Israel, while the share of Israeli exports to the Palestinian territories is far smaller. The Paris Protocol allows the parties to implement an “interconnected computer system for tax rebates to dealers and for VAT clearance between the two sides,”<sup>30</sup> and in 2022 they launched a pilot e-VAT system under which traders on both sides can voluntarily issue digital transaction receipts. The challenge now is to bring all traders and transactions into the system. The PA has made encouraging progress in updating digital systems and enrolling traders. However, the GOI has yet to legally mandate that traders use the system, and progress on this point is urgent. The ultimate goal should be to fully link the interfaces of both authorities, enabling them to reduce VAT leakage by exchanging real-time information on all purchases being made.<sup>31</sup>

**C. Transfer customs responsibilities to the PA and establish Palestinian bonded warehouses.** Meetings between the previous Palestinian and Israeli Ministers of Finance produced a draft memorandum of understanding on the transfer of customs responsibility from the GOI to the PA. However, several contentious issues remain, including the type of goods that would be under the purview of the PA—specifically high-value goods such as cigarettes, tobacco, and alcohol—as well as the scope of the transfer of responsibilities and the number and location of the customs transfer points to be established, as this would affect transportation costs. On the PA side, assessments of the existing legal framework and customs capacity have shown that, despite recent improvements, additional efforts are needed to successfully implement the transfer of responsibilities. The current Israeli Cabinet has yet to agree on carrying out discussion with Palestinian counterparts on these issues.

**D. Remit all VAT on Israel-Gaza trade to the PA.** PA tax officials ceased operating in Gaza after the *de facto* authority came to power in 2007. Since then, the PA has rarely received information on purchases of Israeli imports by businesses in Gaza, making it impossible to collect VAT from most of those imports. As the GOI controls and approves the entry of all Israeli goods into Gaza via the sole commercial crossing

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<sup>30</sup> See article VI paragraph 9 of the protocol on economic relations.

<sup>31</sup> According to the GOI, the Israeli and Palestinian tax authorities signed a memorandum of understanding in August 2023 to settle the dispute over VAT payments since 2016.

at Karem Abu Salem, Israeli officials should be in a position to levy and transfer to the PA all VAT revenue collected from bilateral trade with Gaza. It is encouraged that discussion regarding this issue is resumed after the cessation of hostilities.

**E. Renegotiate the fee charged by the GOI for handling Palestinian imports.** In 1995, the parties agreed that the GOI would deduct 3 percent of the import taxes and VAT revenue it collects on Palestinian trade to cover its administrative costs.<sup>32</sup> Based on the size of Palestinian trade in 1995, the fee was considered acceptable to both parties. However, Palestinian imports have significantly increased over the last 30 years, and while the GOI's administrative costs have also increased, the current fees significantly exceed cost-recovery levels. Reducing the handling fee would result in additional revenues being remitted to the PA.

**F. Exempt the PA's fuel imports from taxes.** Under the Paris Protocol, fuel imported by the PA should meet specific standards that are not met by fuel produced by regional countries. As a result, the PA purchases most of its fuel from Israeli companies, on which it pays all applicable taxes. These taxes are then remitted to the PA after 45 days as part of the clearance process, minus the handling fee. In previous meetings between the parties, the handling fee on fuel was reduced from 3 percent to 1.5 percent. While this is a positive step, the resulting savings are limited to about US\$ 1.7 million per month. Enabling the PA to purchase fuel without the embedded taxes would help it maintain financial liquidity. The PA should also consider eliminating the subsidy on retail fuel prices, as discussed above.

**G. Collaboratively determine the exit fee collected at the Allenby Bridge and allocate the resulting revenue according to the shares specified in the Paris Protocol.** Under the protocol, revenue from exit fees shall be shared between the PA and the GOI on a 46/54 basis for the first 750,000 passengers and on a 62/38 basis for each passenger thereafter. Over the years, the GOI has raised the exit fee multiple times without consulting with the PA and has also not been transferring to the PA its share according to the formula set by the Paris Protocol. The GOI should remit to the PA its full share of previously collected funds according to this formula, and future transfers should be made on a regular basis.

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<sup>32</sup> Paragraph 4 of the supplement to the Protocol on Economic relations, Annex V of the Interim Agreement.

## CHAPTER 2 OVERVIEW OF THE PUBLIC-SECTOR WAGE BILL

**Despite efforts to curb spending, the PA’s public-sector wage bill has steadily increased.** Between 2011 and 2023, aggregate spending on the wage bill in nominal terms rose by 31 percent, from NIS 6.4 billion to NIS 8.4 billion. Nonwage compensation, including social-assistance transfers and pensions paid by the MOF,<sup>33</sup> adds another NIS 4 billion to the PA’s public-sector wage bill. Taken together, wage and nonwage compensation represent about 66 percent of total spending and 83 percent of revenue.

**The growing wage bill, coupled with pandemic-related emergency spending and the economic contraction driven by the conflict, has eroded recent gains in fiscal discipline.** Between 2011 and 2018/19, the PA successfully reduced the size of the wage bill relative to GDP, revenue, and total spending. The wage bill declined from 16 percent of GDP to 11 percent, from 59 percent of revenue to 44 percent, and from 48 percent of total spending to 37 percent over the period. These trends were driven by lower wage payments to public employees in Gaza employees and the implementation of the voluntary retirement scheme (VRS). However, the negative economic impact of COVID-19 in 2020 drove the renewed growth of the wage bill in 2021, and its share in the PA’s total budget has increased significantly. By the end of the year, the wage bill had grown to 13 percent of GDP, 54 percent of revenue, and 44 percent of total spending. The economic shock caused by the conflict kept the wage bill steady at 13 percent of GDP. This situation is likely to worsen over the next few years as the government slowly clears its arrears to public employees in the West Bank, who have been paid just 50-80 percent of their owed wages since November 2021.

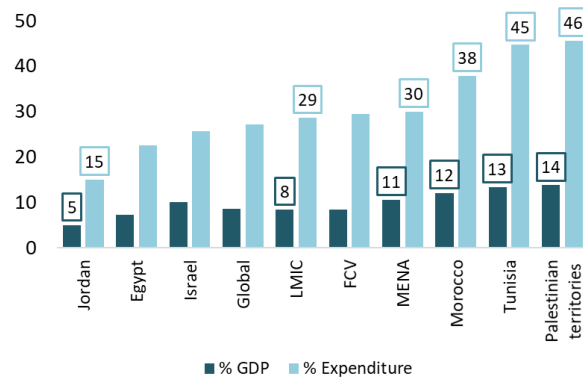
**Overall spending on the wage bill is unsustainable.** The recent increase in the PA’s wage bill has not been driven by local inflation or by economic growth. Between 2011 and 2021, annual inflation in the West Bank and Gaza hovered around 1 percent, but the nominal growth of the wage bill averaged 2 percent, with considerable fluctuations. Trends in the wage bill are even more out of step with GDP. In 2020, real GDP declined by 11 percent, while wage-bill spending rose by 4 percent. In 2021, the economy rebounded and real GDP growth reached 7 percent, but wage-bill spending increased by 13 percent. Amid the PA’s worsening fiscal position, the absence of a sustainable policy framework is increasing the budgetary pressure imposed by the wage bill.

**The PA spends more on its wage bill than do its regional comparators.** Although there is no ideal size for the wage bill, which varies based on the size and functions of each government, international comparisons can serve as a useful point of reference. The PA’s wage bill is larger than those of all comparator countries. Between 2011-2018 (a period for which data are available for all countries), the PA’s wage bill averaged 14 percent of GDP and 46 percent of central government spending, far above the averages of 11 and 30 percent, respectively, for the Middle East and North Africa (MENA) region, as well as the averages of 8 and 29 percent, respectively, for countries affected by fragility, conflict, and violence (FCV). On average, the PA spends more on its wage bill both as a share of GDP and total spending than do regional comparator countries such as Jordan, Egypt, and Morocco (Figure 24).

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<sup>33</sup> Nonwage compensation includes social transfers (payments made to prisoners, ex-prisoners, and the families of those deceased as a result of violence) and pension payments from the MOF (excluding those made by the Pension Authority).

Figure 24: Wage bill spending in comparator economies



Source and Notes: Ministry of Finance, Worldwide Bureaucracy Indicators. Expenditure figures used are a mix of central or general government, depending on data availability

**The analysis presented in the following sections is based on human-resource and payroll data for 2011-2021.** These are the most recent years for which comprehensive figures are available for gross spending on basic salaries for permanent and contract employees, as well as wage and nonwage compensation. All data are from the MOF, and the analysis includes PA employees both in the West Bank and Gaza.

## Key drivers of wage-bill growth

### *Spending across territories*

**Spending on the Gaza wage bill has declined over time, while spending on the West Bank wage bill has increased significantly.** In 2021, the latest year for which data are available by territory, the West Bank accounted for 75 percent of the PA’s total wage bill. This share has increased over time, as the West Bank wage bill grew by 87 percent between 2011-2021. Meanwhile, the Gaza wage bill declined by 27 percent, with a sharp drop in 2017-2018, when Gaza salaries were reduced to 70 percent on a commitment basis and a VRS was rolled out. These trends indicate that managing the wage bill in the West Bank poses the most critical challenge. Even as the PA continues its efforts to address the issue of “ghost workers” in Gaza, it should devote equal if not more attention to spending patterns in the West Bank.

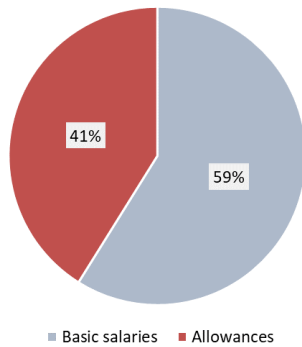
### *Spending on basic salaries versus allowances*

**Allowances supplement basic pay in the West Bank and Gaza, with “job allowances” and “other allowances” representing a combined 34 percent of the wage bill.** Between 2011 and 2021, these and other allowances accounted for 41 percent of the PA’s wage bill (Figure 25). Moreover, allowance spending grew by 56 percent, while spending on basic salaries rose by just 23 percent. This is inconsistent with global best practices, according to which base pay should be the main form of compensation and allowances should be limited to a narrow range of special job requirements or performance incentives. “Job allowances” and “other allowances” account for 79 percent of total allowance spending in the West Bank and Gaza, followed by managerial, transportation, and social allowances. In 2021, “job allowances” and “other allowances” represented 34 percent of the total wage bill. These high spending levels indicate that allowances are being used to supplement basic pay and that the PA is using these two allowance categories to channel most of the compensation increases that have been made in recent years, often as a result of salary bargaining (Figure 26).

**Almost all types of PA employees receive almost all types of allowances, indicating that allowances are not linked to professional roles and responsibilities.** Further analysis is required to evaluate the eligibility criteria that are used to award specific allowances under Civil Service Law no. 4 (1998) or as established by the Council of Ministers. Such analysis should aim to verify whether the use of allowances is consistent with their original intentions and to what degree allowance spending could be further rationalized.

Figure 25: Wage bill spending by category

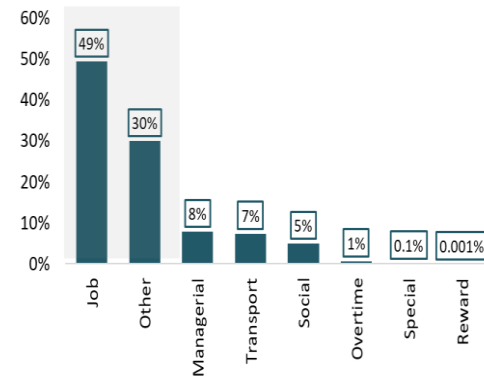
2011-2021 average



Source and Notes: Ministry of Finance

Figure 26: Share of allowance spending by type

2021



Source and Notes: Ministry of Finance

Table 3: Distribution of allowance recipients by employment type

	Permanent workers	Monthly workers	Daily workers	Reward workers	Emergency workers
Basic salary	•	•	•	•	•
Social allowance	•	•	•	•	•
Job allowance	•	•	•	•	•
Overtime allowance	•	•	•	•	
Transport allowance	•	•	•	•	•
Managerial allowance	•	•	•	•	•
Other allowance	•	•	•	•	•
Special allowance	•			•	
Reward	•	•	•	•	

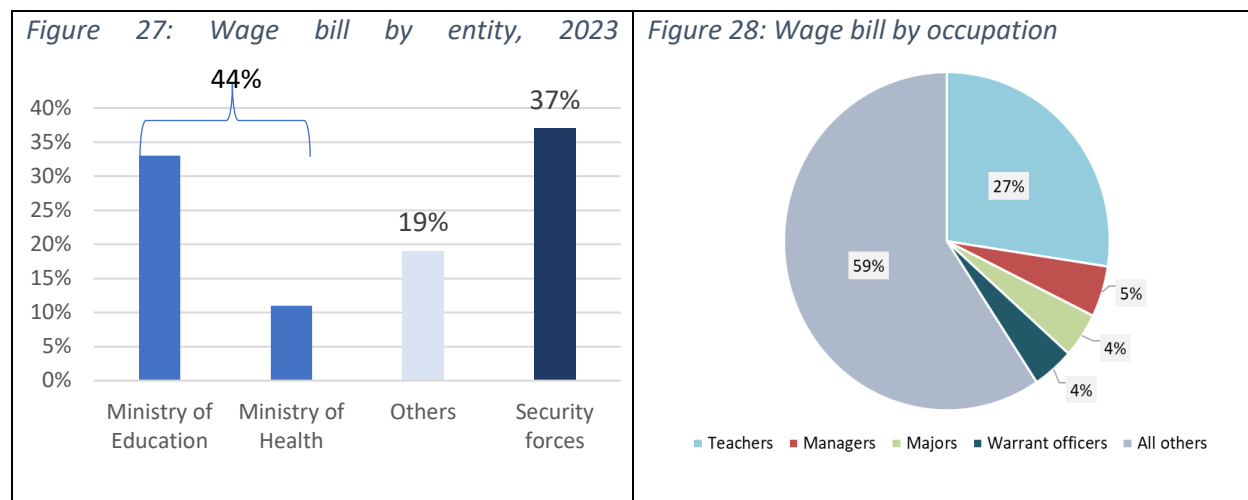
Source: Staff compilation based on Ministry of Finance data

Note: • represents employees receiving respective allowance type

### Spending by public-sector entities

**The ministries of health and education represent the largest share of the wage bill and have also seen the largest wage increases over time.** In 2023, the Ministry of Education (MOE) accounted for 33 percent of the PA's wage bill, while the Ministry of Health (MOH) accounted for 11 percent. Together, the health and education sectors represented 44 percent of the wage bill, followed by the security sector at 37 percent (Figure 27). The primacy of health and education spending is broadly consistent with global benchmarks, as providing these services typically entails the largest personnel costs in the public sector. However, the wage bill for the education and health sectors has surged over the last decade, rising by 7 percent per year in the MOE and by 6 percent per year in the MOH. By contrast, the security-sector wage

bill grew at an average annual rate of only 0.5 percent. Moreover, allowances have driven the increase in education and health spending over the last decade, growing by 77 percent in the MOH and by 157 percent in the MOE.



Source: Ministry of Finance

### Spending across occupations

**Job titles in the Palestinian public sector need to be updated and potentially streamlined to reflect international best practices.** The PA has not yet fully updated its job-classification system for the public sector to clarify professional competencies and employment grades. As a result, the jobs listed in the public payroll sometimes overlap, are missing, or are redundant. For example, the job titles for contract workers are sometimes coded as “not specified.” In addition, many job titles have had no associated wage spending over the last decade, indicating that they are likely obsolete and should be dropped from the list. These inactive titles include “head of the land authority,” “special assistant to the minister,” “washing unit official,” “invention tester,” “controller,” and “youth affairs officer.” In total, more than 600 job titles are listed in the PA’s payroll system, which is quite large for a public sector. For example, the British government’s payroll system includes only about 400 unique job titles.

**Four positions account for over 40 percent of the PA’s public-sector wage bill.** Of the 600+ job titles in the payroll system, 20 are responsible for 74 percent of the wage bill, and just four positions account for 41 percent (Figure 28). These positions include teachers (27 percent of the wage bill), managers (5 percent), and security-sector majors and warrant officers (4 percent each). Over the last decade, these same four positions have consistently accounted for the largest shares of the wage bill.<sup>34</sup> Allowances, especially “job allowances” and “other allowances,” represent a large share of the total compensation for these positions. In 2021, job and other allowances represented 35 percent of total compensation for teachers, 40 percent for managers, 29 percent for majors, and 27 percent for warrant officers (Table 4).

<sup>34</sup> Other jobs in the top 20 include (in order) first lieutenant, captain, lieutenant, lieutenant colonel, sergeant major, staff warrant officer, colonel, specialist doctor, lance corporal, school manager, general doctor, registered nurse, muezzin, administrative employee, school secretary, and educational guide.

Allowances have grown to represent an especially large share of compensation for teachers. Between 2011 and 2021, spending on teachers' allowances increased by 135 percent, from NIS 0.4 to 0.9 billion.

Table 4 Wage spending by category for top four occupations, 2021

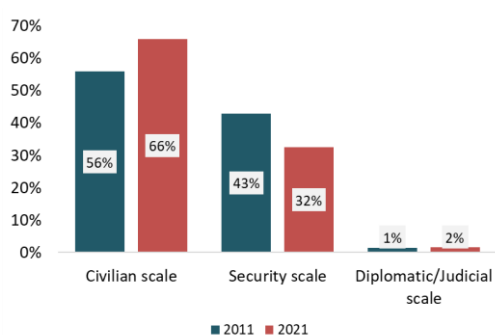
Teachers	Managers	Majors	Warrant officers				
Basic salaries	54%	Basic salaries	48%	Basic salaries	63%	Basic salaries	67%
Total allowances	46%	Total allowances	52%	Total allowances	37%	Total allowances	33%
Job allowance	26%	Job allowance	28%	Job allowance	19%	Other allowance	17%
Other allowance	9%	Other allowance	12%	Other allowance	10%	Job allowance	10%
Managerial allowance	5%	Transport allowance	6%	Managerial allowance	4%	Social allowance	6%
Transport allowance	5%	Managerial allowance	5%	Social allowance	3%		
Social allowance	1%	Social allowance	1%				

Source: Ministry of Finance

### Spending across grades

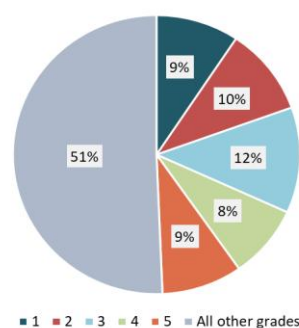
**Public-sector employees are grouped into four pay scales.** In 2003, a scale was established for judicial staff. This scale includes eleven grades, and salaries are increased by a standard nominal amount each year instead of a percentage. The increase depends on the employee's grade and the nature of their work, and they also receive a "representation allowance." The civil-service pay scale, established under the 2005 Amendment to the Civil Service Law no. 4 of 1998, covers the largest number of public-sector workers and is divided into five regular categories, one high-level category, and one special category. Employees on this pay scale receive an automatic wage increase of 1.25 percent per year. Another scale for diplomatic staff was established in 2007. This scale has seven grades, and each employee receives the same 1.25 percent automatic annual wage increase. However, diplomatic staff receive an additional "nature of work allowance" that can range from 43 percent of basic pay for an attaché to 85 percent of basic pay for ambassadors. This allowance is received regardless of whether staff serve abroad or in the West Bank and Gaza. A fourth scale established under the 2007 Security Forces Law covers security-sector staff. This scale includes 15 grades (ranks), and staff receive an automatic annual pay increase of 1.25 percent (Figure 29). See Annex II for a detailed list of all four pay and grading scales.

Figure 29: Wage bill by pay scale



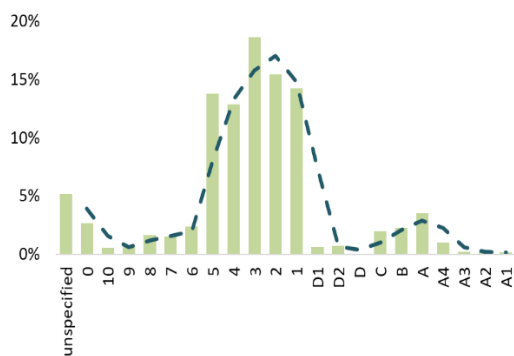
Source and Notes: Ministry of Finance

Figure 30: Wage bill by grade



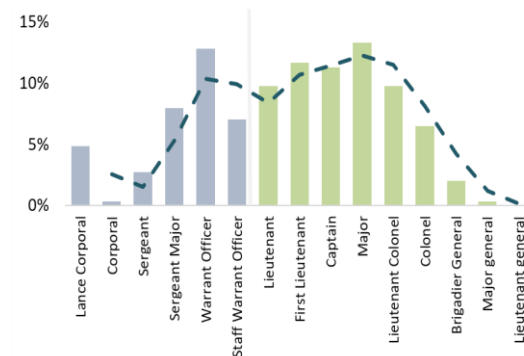
Source and Notes: Ministry of Finance

Figure 31: Wage bill within the civilian pay scale



Source and Notes: Ministry of Finance

Figure 32: Wage bill within the security pay scale



Source and Notes: Ministry of Finance

**The civil-service pay scale accounts for most of the PA’s wage bill, and its cost has increased significantly in recent years.** In 2021, 66 percent of the wage bill went to civil-service workers, 32 percent went to security-sector workers, and the remaining 2 percent went to staff on the diplomatic and judicial pay scales. In 2011, the equivalent figures were 56 percent for the civil-service pay scale, 43 percent for the security-sector pay scale, and 1 percent for the diplomatic and judicial pay scales (Figure 13).

**Five civil-service grades represent half of the PA’s wage bill.** In 2021, grades 1-5 of the civil-service pay scale accounted for 49 percent of the wage bill (Figure 30). These grades fall under categories 2, 3 and 4 of the 2005 amended pay scale and include jobs requiring specialist/technical skills (category 2), clerical/secretarial skills (category 3) or vocational skills (category 4). While further analysis would be needed to determine whether this level of spending is appropriate in the context of the Palestinian public sector, it is high by international standards. For example, governments around the world typically have a normal bell-curve distribution of spending on the civil-service payroll. However, the PA’s curve has a sharp slope in the middle, a steep drop towards the higher and lower ends, and a slight bulge in the middle of each tail (Figure 31). These features may reflect a mismatch in how grades are distributed and could indicate that some key employee groups are overrepresented while others are underrepresented. The security sector also shows a significant bulge around the grades of lieutenant to lieutenant-colonel rather than a normal bell-curve distribution (Figure 32).

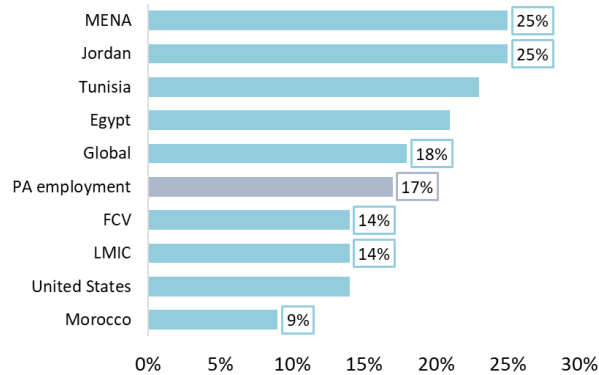
## Overview of employment

**The size of public employment in the PA has fluctuated significantly over the years, posing a challenge to reform efforts.** Total public employment has increased only slightly over the last decade, from 153,574 personnel in 2011 to 155,614 in 2021, which may indicate that the PA has been broadly successful in limiting net employment growth. However, an examination of annual trends shows that public employment has fluctuated significantly over the years. In 2014, for example, public employment rose by 7 percent, when the PA added 10,657 staff to its payroll. The 2017 VRS and subsequent efforts to manage the growth of the public sector were effective in managing public employment, which fell to a decade low of 141,409 in 2020. In 2021, the hiring of 4,700 temporary workers and 1,700 security-sector personnel boosted the size of the workforce. The PA also

formalized the contracts of some 2,400 teachers who had been hired on an interim basis but whose employment status was required by law to be made permanent after three years. Finally, the government reinstated some 4,500 workers in the health and education sectors who had been previously removed under the VRS.

**The PA’s public-sector workforce is not unusually large by the standards of comparator countries.** Over the last decade, public employment has averaged 17 percent of total employment in the West Bank and Gaza (Figure 33). This is on par with the global average of 18 percent during this period and lower than the 25 percent average for MENA, though it does exceed the average of 14 percent both for lower-middle income countries (LMICs) and for situations affected by fragility, conflict, and violence (FCV). International comparisons should be approached with caution, and as with the wage bill there is no “ideal” size for the public sector. However, these figures and the annual trends described above highlight the need to closely monitor employment growth and align it both with workforce needs and budgetary resources.

*Figure 33: Public employment as share of total employment, 2011-2021 average*



Source and Notes: Ministry of Finance, International Labor Organization (ILO) Stat

## Key drivers of employment growth

### *Employment across the territories*

**In recent years, public-sector employment in the PA has been focused in the West Bank.** The West Bank’s share in total public employment rose from 57 percent in 2011 to 72 percent in 2021. Over the last decade, the number of public employees in the West Bank increased by 32 percent, from 88,279 to 116,458. Meanwhile, public employment in Gaza fell by 40 percent, from 65,295 employees to 39,156.

**Public employment in the West Bank represents a larger share of the local labor market and has increased faster than overall labor-market growth.** According to latest available data, the PA employs 4 percent of the total West Bank population and 13 percent of the labor force. By contrast, the PA employs just 2 percent of the population of Gaza and 8 percent of the labor force. Over the last decade, public

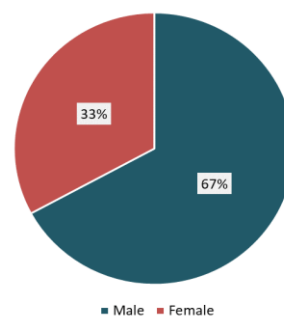
employment in the West Bank grew at an average annual rate of 3 percent, exceeding the population growth rate of 2 percent. By contrast, public employment in Gaza declined at an average annual rate of 4 percent, even though the total population and working-age population both grew at an annual rate of 3 percent during the period.<sup>35</sup> These figures indicate that growth trends in public employment cannot be explained by population growth or by shifts in the labor market.

### *Employment by gender and contract type*

**Most public employees are men, though the share of women has increased over time.** The latest available data indicate that 67 percent of public employees are men, though this share has fallen from 76 percent in 2011 (Figure 34). Over the past decade, the number of female public employees has increased by 39 percent, while the number of male employees has declined by 10 percent. In 2018, male employment decreased by 13 percent, while female employment fell by only 2 percent. This pattern likely reflects the age structure of the public-sector workforce, which includes a large share of men close to retirement age, as well as a dearth of employment opportunities for women outside the public sector. For these reasons, male employees were probably more likely to view the VRS as an appealing option.

**Permanent workers represent the largest share of public employment, but the employment of daily workers and the special category of “reward workers” has increased in recent years.** According to latest available data, permanent workers represented 89 percent of total PA employment, followed by daily workers, reward workers, monthly workers, and emergency workers (Figure 35). Data from the last decade show an upward trend in the employment of daily workers and reward workers (Figure 36). Between 2011 and 2021, the number of permanent workers declined by 2 percent (from 140,950 to 138,337), while the number of daily workers increased steadily (from 6,980 to 10,430). The employment of reward workers grew exponentially over the period, from 78 in 2017 to 3,264 in 2018. Interviews with officials from the Ministry of Finance indicate that reward workers are essentially the same as permanent workers, but their use increased after the VRS was introduced in 2017 to circumvent constraints on hiring permanent employees.

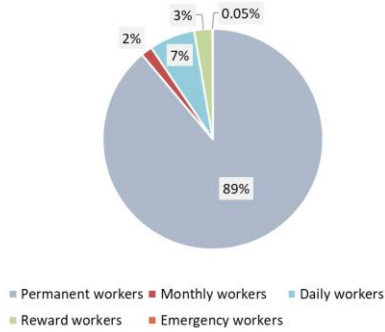
*Figure 34: Public employment by gender*



Source and Notes: Ministry of Finance

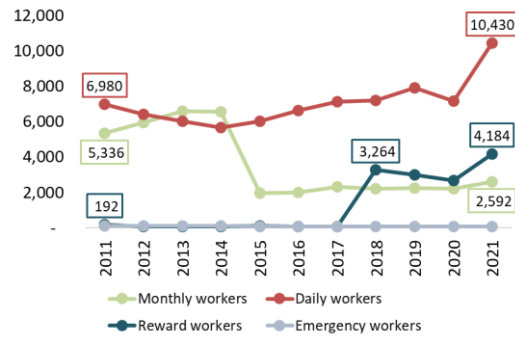
<sup>35</sup> This analysis does not include any form of public employment outside the PA. In addition, death and displacement caused by the ongoing conflict may have slightly altered some of the figures presented here, but updated data are not yet available.

Figure 35: Public employment by contract type



Source and Notes: Ministry of Finance

Figure 36: Changes in public employment by contract type\*

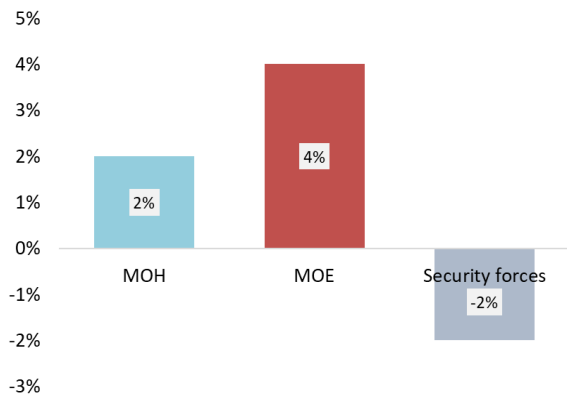


Source and Notes: Ministry of Finance, \*permanent workers not shown

**Employment by public-sector entities**

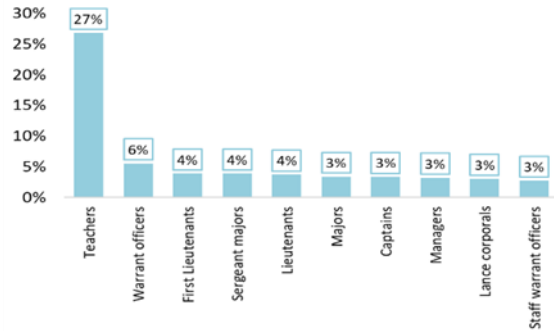
**Trends in entity-level employment mirror larger trends in the wage bill, although salary growth appears to have contributed more to the increase in the wage bill than has employment growth.** In 2021, the education and health sectors represented the largest share of public employment, with the MOE accounting for 29 percent the MOH for 10 percent, followed by the Ministry of Higher Education and the Ministry of Education and Scientific Research. Together, the health and education sectors were responsible for 44 percent of total employment, which was close to their share of the wage bill. These ministries also saw the largest increases in employment. Between 2011 and 2021, annual employment growth averaged 4 percent for the MOE and 2 percent for the MOH (Figure 37). By comparison, the civil-service wage bill rose much faster, increasing at an average rate of 7 percent per year in the MOE and 6 percent in the MOH. These patterns indicate that salary growth contributed more to the growth of the wage bill than did the hiring of new workers. This conclusion is reinforced by the fact that the security sector’s wage bill decreased by an average of 0.5 percent per year during this period while employment in the security sector fell by 2 percent per year.

Figure 37: Average annual change in public employment, 2011-2021



Source: Ministry of Finance

Figure 38: Employment by job title, 2021 (top 10)



Source: Ministry of Finance

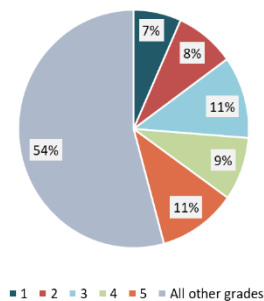
### Employment by occupation

**Four positions account for a plurality of the PA's workforce, and the employment and wage-bill numbers show broadly similar trends.** Much like the distribution of the wage bill, the top 20 positions account for three-quarters of public employment, and the top four positions account for 40 percent of employment. Over the years, teachers have consistently occupied the top spot (Figure 38). In 2021, teachers represented 27 percent of total employment, the same as their wage bill share. However, warrant officers represented 6 percent of employment but accounted for just 4 percent of the wage bill. By contrast, security-sector majors and civil-service managers were 3<sup>rd</sup> in terms of the wage bill but 6<sup>th</sup> and 8<sup>th</sup>, respectively, in terms of employment share. First lieutenants and sergeant majors were the 3<sup>rd</sup> and 4<sup>th</sup> largest spending categories, respectively, and accounted for 4 percent of employment. Overall, the top 20 positions have broadly similar employment shares, but their shares in the wage bill vary.

### Employment by grade

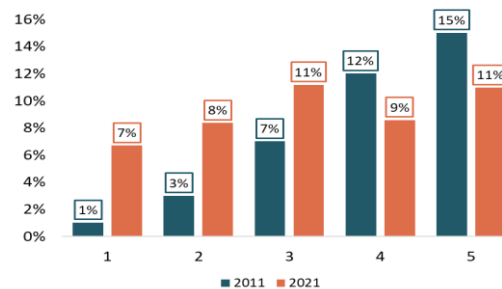
**The distribution of employment across grades follows a similar pattern to the wage bill, and further study may be necessary to assess its appropriateness to the functional needs of the PA.** In 2011, the civil service accounted for 57 percent of total employment, followed by the security sector at 42 percent and the judicial and diplomatic sectors at 1 percent. By 2021, the civil service had grown to 65 percent of total employment, while the security sector's share had fallen to 34 percent. The first five civilian grades (1-5) accounted for 46 percent of public employment in 2021 (Figure 39). Employment within these grades has changed significantly over the last decade, with employment in grades 1-3 increasing while employment in grades 4-5 declined (Figure 40). As with the wage-bill figures, further analysis would need to be undertaken to contextualize these figures and determine whether they represent an appropriate staffing level.

Figure 39: Public employment by grade



Source: Ministry of Finance

Figure 40: Change in public employment by select grades



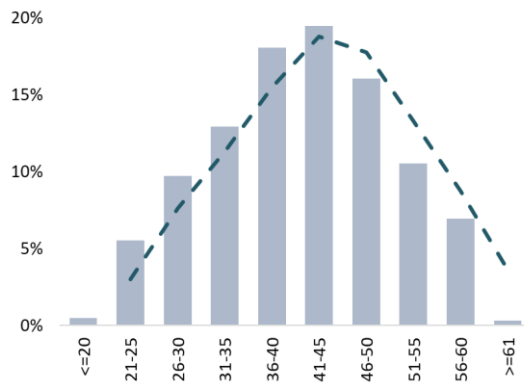
Source: Ministry of Finance

### Employment by age and years of service

**One-third of public employees have fewer than 10 years of service, an unusually large share for a modern public sector.** While the age distribution of public employees is a normal curve (Figure 41), consistent with the pattern observed in comparator countries, an exceptionally large share of public employees in the PA has fewer than 10 years of service (Figure 42). A full 32 percent of public employees have fewer than 10 years of service, and 69 percent have fewer than 20 years. Both figures are high by international standards. Multiple factors could explain this pattern, including high levels of recruitment in the last 10 years, generous pensions that create an incentive for early retirement, or a wide salary gap

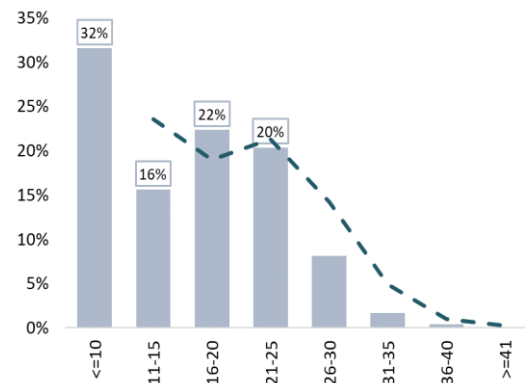
between high-level positions in the public and private sectors. The PA is also a relatively new institution, which may contribute to this trend, as some years of public-sector experience may not be defined as years of service with the PA. Whatever the reasons, the trend has significant implications for the public sector, as it represents a gap in the availability of seasoned staff with the requisite skills, knowledge, and experience to improve performance outcomes. It may also indicate over-staffing and over-spending at the junior levels, where public sector employment appears to be concentrated. Further analysis of staff composition could help address these questions.

Figure 41: Employment distribution by employee age



Source and Notes: Ministry of Finance

Figure 42: Employment distribution by years of service



Source and Notes: Ministry of Finance

## Overview of salaries

### Growth in average salaries

**Average salaries for public employees have grown significantly over the years, exceeding the growth rate of public employment.** During the last decade, the wage bill grew at an average annual rate of 2.3 percent. Most of this increase came from salaries, which rose at an average annual rate of 2 percent during the period, while public employment grew at an average annual rate of 0.3 percent. Average spending per public employee rose by 21 percent over the last decade, from NIS 41,550 to NIS 50,097. Allowances have accounted for much of this increase. Over the last decade, spending on basic salaries grew by an average of 2 percent per year, while spending on allowances grew by 5 percent per year.

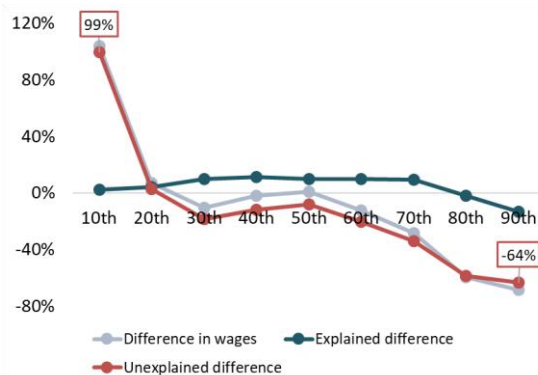
### Salaries in the public and private sectors

**On average, public employees in the West Bank earn less than their private-sector peers, except among low-income workers, where the average compensation offered by the public sector is about twice what the private sector pays.** A wage-premium analysis based on data from the 2021 Labor Force Survey shows that average public-sector compensation (basic salaries plus allowances) in the West Bank exceeds average private-sector compensation by 24 percent (NIS 15.7/hour versus NIS 12.7/hour). However, once characteristics such as education level, years of experience, occupation type, and location are taken into account, public employees actually make 1 percent less than their private-sector counterparts, on average. Moreover, the gap between the public and private sectors varies at different compensation

levels. For example, public employees in the bottom 20 percent of the income distribution earn significantly more than their private-sector peers, and this gap cannot be explained by education, experience, or other individual characteristics. However, public employees in the top 80 percent earn less than their private-sector peers, even when individual characteristics have been accounted for. This wage gap widens at the highest income levels, where private-sector workers receive a 64 percent wage premium over their public-sector counterparts (Figure 43).

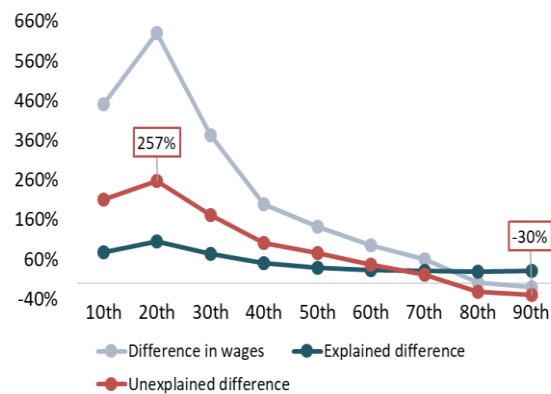
**Gaza’s public sector tends to pay more than the private sector, but the wage gap reverses at the highest income levels, where the private sector pays more.** Gaza’s public sector includes employees of the PA and the *de facto* authority. On an average hourly basis, public employees receive 318 percent more than private-sector workers (NIS 14.9/hour versus NIS 3.7/hour), and while this gap narrows significantly when individual characteristics such as education level, years of experience, occupation type, and location have been accounted for, it remains substantial. Among workers with the same characteristics, public employees receive 164 percent more than do their private-sector peers. The wage gap favors the public sector for workers in the bottom 80 percent of the income distribution, but in the top 20 percent the wage gap reverses, and private-sector workers earn significantly more than their public-sector counterparts (Figure 44).

Figure 43: Public-private wage gap in the West Bank, 2021



Source: PCBS Labor Force Survey  
Notes: Data include wage workers in both sectors

Figure 44: Public-private wage gap in Gaza, 2021



Source: PCBS Labor Force Survey  
Notes: Data include wage workers in both sectors

*Box 3: Entry level salary benchmarking for selected occupations in the public and private sectors in the West Bank*

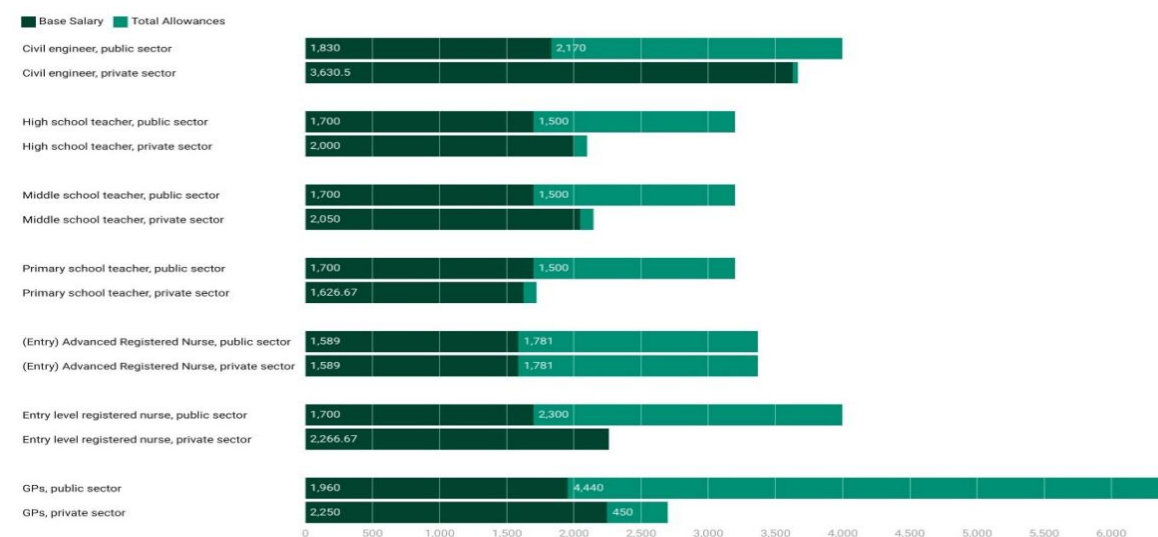
To complement the analysis presented above, which was based on data from the labor-force survey for the West Bank conducted by the Palestinian Central Bureau of Statistics (PCBS), the World Bank conducted two additional surveys at the employee and employer level. Also carried out in the West Bank, these surveys compared public- and private-sector compensation, at entry level, for selected occupations. The employer-level survey gathered information on salary scales and allowances for entry level employees in the private sector, while data for public employees was obtained directly from the Ministry of Finance. In the private sector, the survey was conducted with the voluntary participation of 216 employers across various sectors. These employers were selected using a combination of purposive

and snowball sampling methods, ensuring a diverse representation of businesses and organizations. Data collection involved structured interviews with representatives from each participating employer and officials from the Ministry of Finance. These interviews provided comprehensive insights into the salary packages and benefits offered in both sectors, enabling a detailed comparison and analysis.

The team supplemented the employer data with an employee survey that provided valuable insights into current practices and perceptions. Occupations surveyed included doctors, nurses, teachers, and engineers. These occupations were chosen due to the recent demands for salary increases from their respective public unions, which cited low wages compared to their private counterparts. Data collection began on October 29, 2023, and concluded on January 12, 2024.<sup>36</sup>

The survey revealed that 59 percent of public employees are dissatisfied with their compensation despite recent salary increases. The results also showed that among workers with fixed contracts the average entry level gross salary in the public sector is significantly higher than in the private sector across almost all surveyed occupations.<sup>37</sup> The only exception was advanced registered nurses, who earn the same amount in the public and private sectors. For most occupations, base salaries in the public sector are lower than in the private sector, with the exception of primary school teachers, whose base salaries are roughly the same in both sectors. Across occupations, allowances tend to push total compensation for public employees above the level of their private-sector peers.

Figure 45: Salaries of fixed-contract employees in the public and private sectors



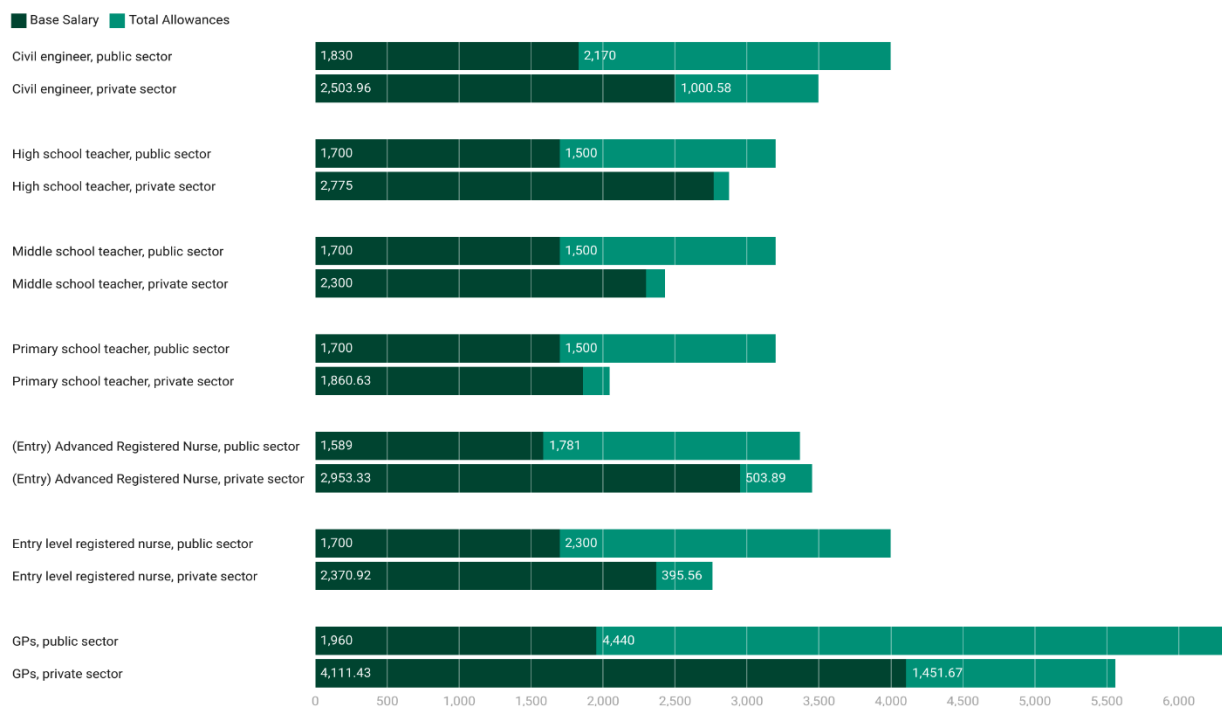
Similarly, total compensation for non-fixed-contract employees tends to be higher in the public sector than in the private sector. As with employees on fixed-term contracts, public employees on non-fixed

<sup>36</sup> The employer survey presents a snapshot of the private sector and its pay practices. While it is assumed that compensation packages cannot vary significantly amongst other private employers, the findings may not be generalized to the entire private sector.

<sup>37</sup> Total gross remuneration is calculated excluding customized allowances. Certain allowances, such as managerial, transport, overtime, social, and childcare, are tailored to individual circumstances, contingent upon factors such as marital status, distance of residence, and commuting arrangements. Those allowances are not included in the calculations. All salary and allowance figures displayed are in NIS. For those agencies where figures were provided in United States Dollar (USD) or Jordanian Dinar (JOD), they were converted to NIS using 1 USD to 3.57 NIS, and 1 JOD to 5.04 NIS.

contracts have lower base salaries across all occupations, but allowances push their total compensation above the level of their private-sector counterparts. The only exception is among advanced registered nurses, who earn slightly more in the private sector even after allowances have been accounted for.

Figure 46: Salaries of non-fixed-contract employees in the public and private sectors

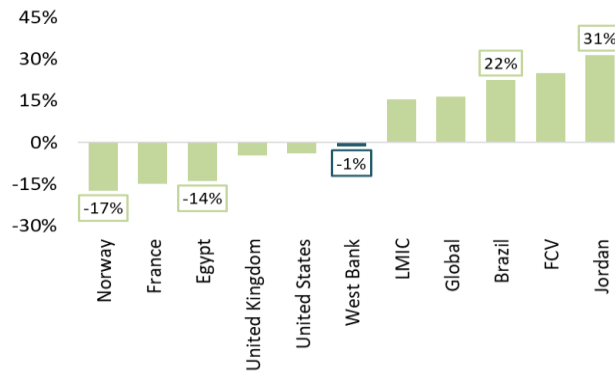


Across both sectors, respondents acknowledged the need for extra income to sustain their households, and 80 percent of respondents reported having no additional source of income. When asked about their ability to sustain household consumption, 44 percent of public employees and 67 percent of private-sector employees reported needing supplementary income sources or financial assistance. In addition, every public employee surveyed reported receiving partial salary payments or delayed payments versus just 10 percent of employees in the private sector. This discrepancy may help explain public employees' dissatisfaction with their salaries.

Source: World Bank

**The analysis presented above indicates that the public-sector salary structure is misaligned with the labor market, both in the West Bank and Gaza, which may create negative externalities.** Public sectors around the world typically pay their employees less than the private sector would for a worker with the same characteristics, as public employees tend to enjoy greater levels of job security and other benefits. For example, the average public employee in Egypt earns 14 percent less than a private-sector worker with the same characteristics. Similarly, public employees in the United States earn 4 percent less, on average, than do their private-sector counterparts (Figure 47).

Figure 47: Wage premiums in comparator economies

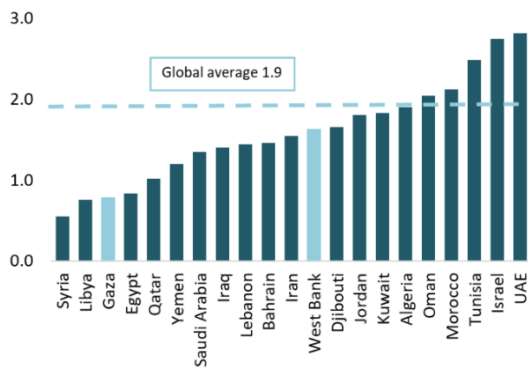


Source and Notes: Labor Force Survey 2021, Palestinian Central Bureau of Statistics, Worldwide Bureaucracy Indicators 2011-2018 (data from latest year available used for countries)

## Public-sector management practices and outcomes

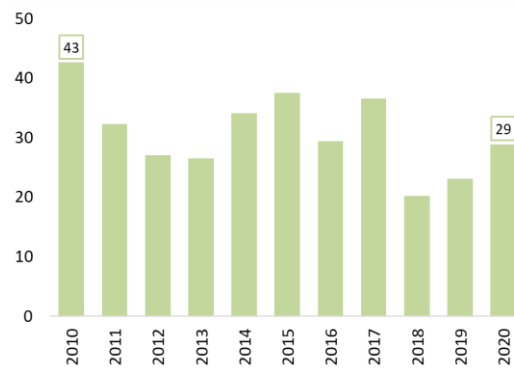
**Analyzing government performance can offer useful insights into public-sector wages and employment dynamics.** The public-sector workforce and the wage bill are often analyzed in terms of their fiscal affordability, but their appropriateness to the government’s needs and objectives is equally important. The following section evaluates the size of the PA’s public-sector workforce and wage bill relative to its performance, with reference to international indices and benchmarks. While various exogenous factors influence the performance of the public sector—especially in the West Bank and Gaza—international indicators can offer a useful point of comparison to guide policy decisions regarding how public employment and the wage bill are structured and managed.

Figure 48: Criteria for appointments in state administration, 2021



Source: Varieties of Democracy (V-Dem), 0 (low) to 4 (high), Score reflects both PA and *de facto* Authority

Figure 49: Government effectiveness in the West Bank and Gaza, 2021



Source: Worldwide Governance Indicators (WGI), 0 (low) to 100 (high), Score reflects both PA and *de facto* authority in Gaza

**Survey data show that appointments in the Palestinian public sector are often based on personal or political connections rather than merit.** In 2021, the Varieties of Democracy (V-Dem) research project<sup>38</sup> found that the public sectors in the West Bank and Gaza scored poorly (1.6 and 0.8 out of 4, respectively) on the question “To what extent are appointment decisions in the state administration based on personal and political connections, as opposed to skills and merit?”. The question covered all major appointment decisions (i.e., recruitment, promotion, and dismissal), and the results indicate that most appointments are not based on merit. Among MENA countries, Gaza scored close to the bottom on this question, while the score for the West Bank was closer to the middle of the distribution—better than Egypt and Iraq but worse than Jordan, Morocco, and Tunisia (Figure 48).

**Government effectiveness has declined over time both in the West Bank and Gaza.** Between 2010 and 2020, the West Bank and Gaza’s performance on the Worldwide Governance Indicators<sup>39</sup> deteriorated overall. On the “government effectiveness” sub-indicator, which captures “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies,” the West Bank and Gaza’s score fell from 43 out of 100 in 2010 to just 29 in 2020 (Figure 49). By comparison, in 2020 the average score for the MENA region was 42, and the average for LMICs worldwide was 36.

## Reform priorities

**The PA’s efforts to reform public employment and strengthen the management of the wage bill have had limited success.** Over the last decade, the PA has made a concerted attempt to control the growth of the wage bill and public employment. However, the progress achieved was later reversed. For example, the 2018/19 VRS succeeded in trimming employment numbers and limiting the growth of wage bill, but after its initial impact faded, the expansion of public employment and the wage bill resumed. The 2017 policy decision to withhold a share of wages from employees in Gaza was reversed in 2021, and the PA’s decision to pay 50-80 percent of salaries to its staff beginning in November 2021 only pushed personnel spending into the future, as it must ultimately clear these wage arrears.

**Given current fiscal constraints, the PA is considering options to cap wage-bill spending.** The PA has discussed the possibility of a second round of the VRS. This program would target civil-service employees over age 55 and security-sector employees over age 45, both with at least 15 years of service. An anticipated 60 percent of staff exiting the public sector through the VRS would come from the MOE or MOH. The proposed benefit package would be equal to 50-70 percent of an employee’s salary, and the MOF would be responsible for bearing the entire cost of the scheme and the resulting pensions. The program would help offset the existing debt owed by the MOF to the pension agency, which has already incurred significant arrears and is likely to default within the next few years.

**The PA is aware of the need for reform but faces a variety of fiscal and policy pressures.** For example, collective bargaining has resulted in significant salary and allowance hikes, and the PA continues to face pressure from labor groups, especially unions representing teachers and medical workers. Prior to the

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<sup>38</sup> <https://www.v-dem.net/vdemds.html>

<sup>39</sup> <https://info.worldbank.org/governance/wgi/Home/Reports>

ongoing conflict, Palestinian workers were able to access the Israeli labor market, where average wages are far higher. As a result, the government faced intense wage pressures and issues with employee retention. Macroeconomic constraints also hinder fiscal reform in the public sector. For example, donor assistance and grants, which were used to shore up expenditures in the past, have declined significantly in recent years, and the PA's ability to autonomously manage its own revenue is significantly constrained. These challenges have become even more severe due to the ongoing conflict. In this context, the wage bill as an expenditure line item has become further magnified, leaving the PA with little room to invest in infrastructure or promote economic diversification. Finally, the issue of furloughed workers in Gaza who are on the PA's payroll but unable to work continues to pose a challenge.

**The PA has a range of options for curtailing wage and employment growth.** Policymakers could freeze wages across the board or in selected sectors and grades, or they could fix wage growth to a standard percentage determined annually by a dedicated commission. Hiring freezes, either across the board or in selected sectors and grades, or attrition targets based on hiring and retirement rates, could curb the growth of public employment. As noted above, a renewed VRS program could encourage employees to exit, but this option requires careful design and management due to its effects on pension liabilities and its net impact on government spending, as well as its implications for the performance of the public sector.

**Medium-to-long-term structural reforms could enable the PA to improve overall wage-bill management and performance.** For example, governments around the world typically fold most allowances into base pay to improve the equity of compensation while keeping certain special allowances in place to reward high performance. Aligning public-sector pay with private-sector wages can promote competitiveness in the labor market. Additional reforms to the pay scale and grading structure can limit pay fragmentation and improve salary and career management. The PA could also link human-resource and compensation planning to the medium-term budget to improve the fiscal sustainability of the wage bill.

*Table 5: Wage bill reform toolkit*

<b>Short-term reforms to rein in spending and employment growth</b>	<b>Medium-to-long term reforms to improve wage bill and workforce management</b>
<ul style="list-style-type: none"> <li>Freeze nominal or real wage growth across the board or in particular sectors/grades</li> </ul>	<ul style="list-style-type: none"> <li>Fold the majority of allowances into base pay leaving only some special categories</li> </ul>
<ul style="list-style-type: none"> <li>Link wage growth to a standard measure</li> </ul>	<ul style="list-style-type: none"> <li>Bring public and private sector wages closer in line</li> </ul>
<ul style="list-style-type: none"> <li>Freeze hiring across the board or in particular sectors/grades</li> </ul>	<ul style="list-style-type: none"> <li>Revise the pay and grading structure</li> </ul>
<ul style="list-style-type: none"> <li>Set up attrition targets such as filling only 3 out of 5 positions that become vacant</li> </ul>	<ul style="list-style-type: none"> <li>Set up a pay commission to determine future wage increases</li> </ul>
<ul style="list-style-type: none"> <li>Conduct functional reviews in key sectors to identify redundancies and opportunities for cost savings</li> </ul>	<ul style="list-style-type: none"> <li>Eliminate automatic promotions by setting up a robust performance management framework</li> </ul>
<ul style="list-style-type: none"> <li>Eliminate ghost workers or large-scale vacancies in the public sector</li> </ul>	<ul style="list-style-type: none"> <li>Link compensation and workforce planning to medium-term budgeting</li> </ul>
<ul style="list-style-type: none"> <li>Introduce a Voluntary Retirement Scheme (VRS)</li> </ul>	

Source: World Bank staff compilation

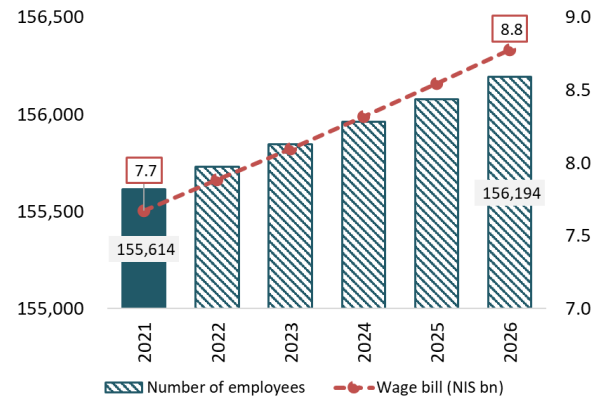
### Modelling the Fiscal Impact of Policy Reforms

If public-sector employment and wages increase in line with historical trends, by 2026 the PA’s wage bill will likely reach NIS 8.8 billion in nominal terms. Forecasts generated by the World Bank team indicate that the number of public employees will rise to 156,194, and the wage bill will grow to NIS 8.8 billion by 2026 if current policies remain in place and employment and wage growth remain consistent with previous averages (Figure 50).

### Reintroducing the VRS for the civil service and security sectors would not yield substantial savings for the PA or address the long-term growth of the wage bill.

Based on projections by the World Bank team, a renewed VRS based on the parameters described above would reduce the size of the public-sector workforce but is unlikely to generate significant fiscal savings. For example, if 50 percent of the target group in the civil service and security sectors accepts retirement under the proposed scheme, with pension payments equal to 70 percent of each retiring individual’s total annual compensation, the VRS would initially generate some modest savings, with a slightly larger reduction in spending in the security sector due to the lower age threshold. However, without measures to address the underlying drivers of wage growth, the wage bill would continue to grow broadly in line with its historical trajectory. The wage bill would reach NIS 8.4 billion by 2026 if the VRS were implemented in the civil-service sector (Figure 51), NIS 8.2 billion if it were implemented in the security sector (Figure 52), or NIS 7.8 billion if it were implemented in both sectors (Figure 53). Furthermore, the VRS could negatively impact the overall performance of the public sector. As described above, the PA’s employees have fewer average years of service than their counterparts in comparable public sectors. A VRS could drive the exit of relatively experienced employees, which could weaken the performance of the public sector. Finally, any early retirement scheme must be considered within the context of its pension liabilities. Given the fiscal burden posed by existing pension liabilities on both the MOF and the Palestinian Pension Authority (PPA), the long-term fiscal impact of the VRS would need to be carefully evaluated.

Figure 50: Wage bill and employment, baseline scenario



Source: World Bank staff calculations

Figure 51: Civil-service VRS

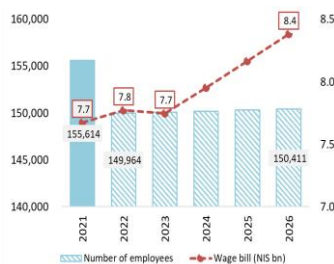


Figure 52: Security-sector VRS



Figure 53: Combined VRS



Source and Notes: World Bank staff calculations

**Wage controls and the reform of allowances could yield greater gains.** If the PA were to implement a wage freeze for two years and then index annual wage growth to 1.5 percent, it could limit the nominal

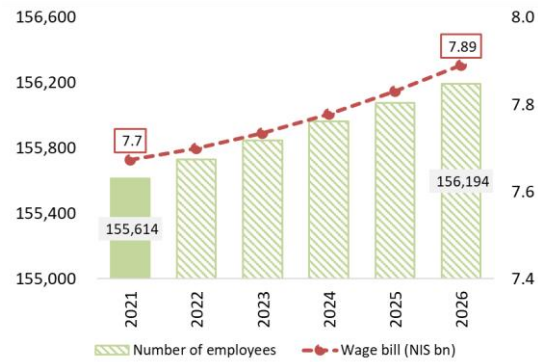
wage bill to NIS 8.1 billion by 2026 even if public employment continued to grow at historical rates (Figure 54). Gradually reducing spending on “job allowances” and “other allowances” by 20 percent over several years could keep the wage bill to just NIS 7.9 billion by 2026 (Figure 55). Similarly, a 10 percent reduction in compensation for grades 1-5 over the same period would result in a wage bill of NIS 7.9 billion by 2026 (Figure 56). Both scenarios assume that employment and wages would continue to grow at historical rates.

Figure 54: Projected impact of wage freeze and indexation



Source: World Bank staff calculations

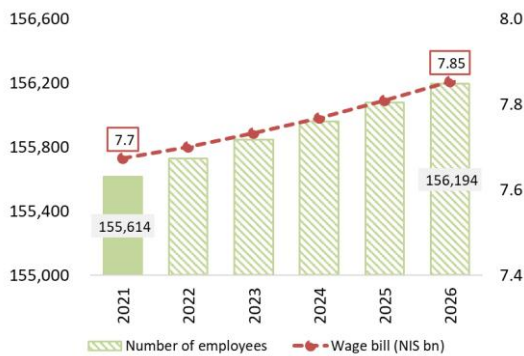
Figure 55: Projected impact of reduced allowances



Source: World Bank staff calculations

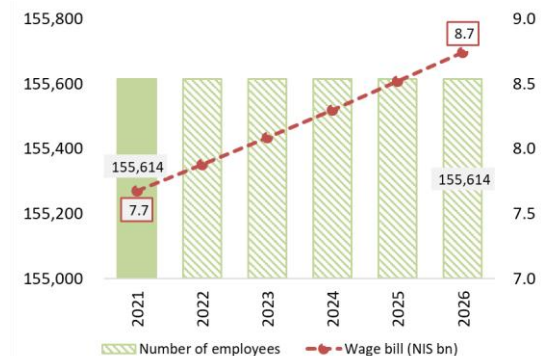
**Freezing net employment levels without addressing wage growth will not help curb the wage bill.** In this scenario, employment levels are frozen at 2021 levels for the next several years while wages continue to grow at their historical rate. By 2026, the wage bill would reach NIS 8.7 billion (Figure 57), very close to the NIS 8.8 billion in the baseline projection.

Figure 56: Projected impact of wage reduction for grades



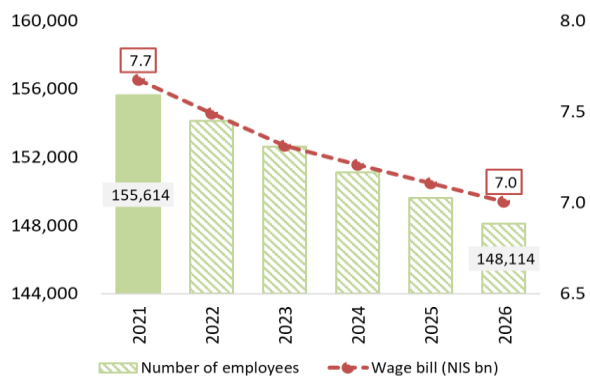
Source: World Bank staff calculations

Figure 57: Projected impact of employment freeze



Source: World Bank staff calculations

Figure 58: Projected impact of wage freeze and indexation, allowance reduction, and attrition targets



Source: World Bank staff calculations

**Reforms that address both employment and wage growth could help reduce the wage bill to NIS 7 billion by 2026 and generate substantial fiscal savings.** According to forecasts generated by the World Bank team, if the PA were to (i) freeze wages for two years and then index them to a standard rate of increase such as 1.5 percent, (ii) reduce spending on “job allowances” and “other allowances” by 20 percent over several years, and (iii) put in place an attrition target of two departures for every new entrant,<sup>40</sup> public employment would fall to 148,114 and the wage bill would reach NIS 7 billion by 2026 (Figure 58).

**The specifics of any reform program should reflect the policy priorities of the PA as well as its fiscal targets.** Policymakers considering wage-bill reforms often begin by identifying what level of savings is needed to make the wage bill fiscally sustainable and then design a reform agenda around that objective. Indeed, the international experience suggests that a government can typically generate 1-1.5 percent of GDP in savings by rationalizing the wage bill. While the reform options discussed above are consistent with this level of fiscal savings, the ultimate choice of policy tools will depend on what the PA considers to be politically and administratively feasible as well as fiscally necessary.

## Conclusions and recommendations

**Public employment and the wage bill have grown significantly over the years, fueled by rising salaries, increased spending on allowances, and the hiring of certain categories of employees.** The PA has made efforts to control the growth of public employment and the wage bill, but these measures have failed to address the drivers of that growth. As a result, gains in both areas have proven temporary.

**Implementing a renewed VRS in the absence of broader wage-bill reforms is unlikely to generate the desired impact.** Instead, the PA should focus on a targeted set of reforms that address the underlying causes of wage-bill and employment growth in the public sector. Based on the findings of this report, the PA could consider adopting the following measures:

<sup>40</sup> This element of the projection assumes that 3,000 employees would exit the public sector each year, while 1,500 new employees would enter.

### Short-term priorities (years 1 and 2)

- **Tie all hiring, wage, and promotion decisions to workforce needs, budgetary resources, and merit.** A short-term freeze on net employment levels, an attrition target, and/or a ceiling on wage-bill spending could establish a foundation for aligning future personnel policies with workforce needs and budgetary resources. Developing standard competency requirements for positions across the public sector could help ensure that hiring and promotion decisions are based on merit.
- **Scale back spending on allowances and tighten eligibility criteria.** Allowance spending under the PA has increased significantly and is inconsistent with international best practices. An audit of allowance spending at the employee level could inform efforts to tighten eligibility criteria and create a plan to gradually reduce allowance spending. Rationalizing allowances would help control the growth of the wage bill while also promoting compensation equity across employee groups. Reforming allowances would also help generate the fiscal space needed to engage in more concrete salary restructuring over the medium-term. Over time, the PA may also consider folding most allowances into base pay.
- **Conduct a functional review to identify areas of over- and under-staffing and create a plan to transition employees accordingly.** Public employment and the wage bill are concentrated in certain entities, grades, and occupations. A targeted functional review could assess whether these staffing levels are appropriate to the needs of the public sector and inform the PA's ongoing workforce-planning agenda. A functional review can help generate fiscal savings by identifying areas of excessive or redundant staffing, enabling policymakers to develop a plan to address them through attrition or the redeployment of existing staff.

### Short- and medium-term priorities (years 1 to 5)

- **Develop formal procedures for salary planning and workforce management in the public sector.** Ad hoc increases in salaries and employment are a core driver of the public-sector wage bill. The PA could address this challenge by adopting formal institutional bodies and procedures to regularize salary planning and workforce management, such as a salary commission to determine annual pay increases based on transparent criteria, a regulatory framework approved by the Council of Ministers that establishes rules for collective bargaining with employee groups, and annual workforce plans produced by public agencies and verified by the General Personnel Council and Ministry of Finance to ensure their consistency with functional needs and fiscal resources. Over time, the PA could transition from annual cycles to medium-term cycles for some of these institutional processes to further improve the predictability and sustainability of employment growth and wage-bill spending.
- **Revise the salary structure in line with relevant benchmarks.** The current salary structure was developed in 2005 and is in urgent need of revision. The PA should consider updating it based on conditions in the local labor market to ensure that salaries are equitable, progress appropriately across grade levels, and are competitive with the private sector. Revising the salary structure will also offer an opportunity to reform allowances in line with international best practices. While

salary restructuring typically entails upfront, over the long term it can greatly improve the sustainability of the wage bill.

- **Review the public-sector pension scheme to ensure that reforms to public employment and the wage bill create the desired impact.** The generous benefits and pay-as-you-go structure of the public pension scheme have driven the accumulation of arrears by the Public Pension Authority, which now faces a high risk of default. The pension scheme also has important implications for the wage bill and employment reforms described above, especially the prospect of a renewed VRS or other mechanisms that seeks to increase attrition through retirement. In the absence of reform, unsustainable wage spending may become unsustainable pension spending.

**In addition to addressing the issues described above, the PA must develop a plan for its furloughed employees in Gaza.** While this chapter has focused on the structural drivers of wage bill and employment growth in the public sector, the team recognizes the dynamic challenge of managing the public-sector workforce in Gaza during and after the ongoing conflict. However, as the situation is highly uncertain and rapidly evolving, further analysis will be necessary to devise an appropriate strategy for the PA's personnel in Gaza.

## CHAPTER 3 THE PALESTINIAN PENSION SYSTEM

### Overview of the pension system

**In 2022, spending on the public pension system<sup>41</sup> was equal to 3.5 percent of GDP or 13 percent of the PA's budget.** Relative to GDP, spending on the pension system increased by 17 percent between 2013 and 2022.<sup>42</sup> The system has gone through rounds of parametric and systemic reforms,<sup>43</sup> but its financial sustainability remains uncertain. As noted in the previous chapter, the PA faces a high risk of default, and it may be unable to implement the deep reforms necessary to stabilize the system. Consequently, pension reform should be integrated into a broader agenda for reforming public expenditures.

**The transition from a highly fragmented system to a unified pension scheme began in 2006 and concluded in 2021, when the last contributors to the legacy schemes retired.** Prior to 2006, the Palestinian Pensions Authority (PPA) operated three different schemes with different parameters. A scheme inherited from Egypt covered civil servants in Gaza (hereafter referred to as Scheme I), and a scheme inherited from Jordan covered civil servants in the West Bank (Scheme IV).<sup>44</sup> In 2004, a new scheme was created to provide pensions for security personnel ages 46 and above (Scheme III). In September 2006, all government employees, including security staff under the age of 46, became members of a new scheme (Scheme II) established under the Unified Pension Law (UPL), while older employees remained beneficiaries of their original pension schemes. The three legacy schemes (Schemes I, III, and IV) were defined-benefit (DB) systems, but Scheme II included both a reduced DB component and a new defined-contribution (DC) component, though the latter was never fully implemented.<sup>45</sup> Today, all participating employees are covered under Scheme II, while Schemes I, III, and IV continue to pay benefits to retirees and will do so until no eligible beneficiaries or survivors remain.<sup>46</sup>

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<sup>41</sup> Total benefit and administrative expenditures, including all schemes and benefits. Estimated at the total of NIS 2.3 billion, on the basis of data from PPA.

<sup>42</sup> The pension expenditures in 2013 were reported as NIS 1,089 million, or around 3% of GDP.

<sup>43</sup> The pension system is governed by the Palestinian Pension Law 7 of 2005 – incorporating previous retirement regulations or laws (Civil Retirement Law No 34 of 1959 and its' amendments, Insurance and Pensions Law No. 8 of 1964 and its' amendments, and Insurance and Pensions Law of the Palestinian Security Forces No. 16 of 2004 and its' amendments), and by the subsequent Presidential Decree 29/2018.

<sup>44</sup> The PA has been conducting efforts to integrate the two civil service schemes since 1998, which is why in 2000 the West Bank civil servants' scheme (Scheme IV) was closed off and new entrants were enrolled into the Gaza scheme (Scheme I).

<sup>45</sup> By design, DC schemes are fully funded and provide for self-financing of future pensions, reducing reliance on the public finances. However, the UPL did not provide explicit requirements regarding investment of pension assets or any particular form of income accounting in individual accounts, leaving significant ambiguity on how those contributions and accounts could be used.

<sup>46</sup> The pension system covers disability as well as old age, and it provides survivor benefits, but it is not a workplace insurance system and does not protect against the temporary loss of income due to illness, injury, or maternity. However, these situations may be covered by other public-sector employee compensation policies.

Table 6: Contributors and beneficiaries of the schemes managed by PPA

	Civil Service			Security Sector		Non-Gov Sector	Total
	New Scheme	Legacy Schemes		New Scheme	Legacy Scheme	New Scheme	
	II	I	IV	II	III	II	
<b>2021</b>							
<b>Insured</b>	82,069	84	-	52,479	24	13,049	147,705
<b>Pensioners</b>							
Old Age	3,536	10,821	18,452	18,057	5,271	267	56,404
Disability	1,277	286	-	25	-	31	1,619
Survivors	1,637	4,924	incl.	2,088	2,817	125	11,591
<b>2013</b>							
<b>Insured</b>	74,438	6,455	4,670	63,724	1,202	3,054	153,543
<b>Pensioners</b>							
Old Age	6	4,954	10,141	771	5,561	-	21,433
Disability	159	347		8	-	-	514
Survivors	1,777	6,951	4,863	2,976	3,264	4	19,835

Source: Authors' compilation based on data from PPA.

Note: Survivors are individual beneficiaries.

The Palestinian private sector has no state-mandated pension program, but the UPL allows non-governmental organizations (NGOs) to participate voluntarily in Scheme II. About 14,000 current employees and 500 retirees from 100 NGOs are covered under Scheme II. While an analysis of this aspect of Scheme II is outside the scope of the present report, its conclusions will likely have similar implications for NGOs covered under the program.

All four pension schemes are administered by the PPA, an independent public legal entity that reports directly to the President of the PA. The PPA was established in 2005 under Palestinian Pension Law 7 to succeed the General Pensions and Insurance Corporation (GPIC). A rapid administrative diagnostic<sup>47</sup> of the PPA (see Annex VII) indicates that it is a well-structured organization with sophisticated technical capabilities, though it suffers from several key weaknesses. For example, information on the beneficiaries of Schemes III and IV is limited, due in part to inadequate data-sharing between the PA and the PPA, which reduces the transparency of the budget process and weakens financial controls.

### Socioeconomic Impact and Policy Challenges

The pension system provides a reasonable rate of income replacement for those who retire under one of the four abovementioned schemes. A civil servant or NGO employee who retires today would receive a pension that represents, on average, about 60 percent of the average wage for those sectors, which is well above the minimum 40 percent recommended by the International Labor Organization (ILO) for a full-career worker. Pensions for security-sector personnel exceed the average wage in the security sector, likely reflecting significant pre-retirement wage hikes—perhaps associated with late-career promotions—and the main benefit is universally supplemented by a monthly “family and personal allowance.”<sup>48</sup> This is referred to below as a “personal allowance,” as the analysis only assesses the impact of the personal

<sup>47</sup> The World Bank team used the Social Insurance Administrative Diagnostic (SIAD) to assess various aspects of the PPA's governance, institutional, and operational setup.

<sup>48</sup> This benefit was inherited from the legacy Scheme I. The amount of the payment is set by the President, but its value has been fixed at the level of NIS 300 since 1995. The family top-up includes a NIS 60 per spouse and NIS 20 per child. This payment is assigned to all pensioners, regardless of the type or rate of the pension, and also regardless of other sources of income. For the survivors, that amount is split in accordance with the rules of inheriting the shares of the main pension.

benefit of NIS 300. This supplemental benefit is reflected in all the reported and projected pension benefit figures and is procedurally funded by the MOF.

*Table 7: Income standards of employees and Old Age pensioners in 2021, NIS*

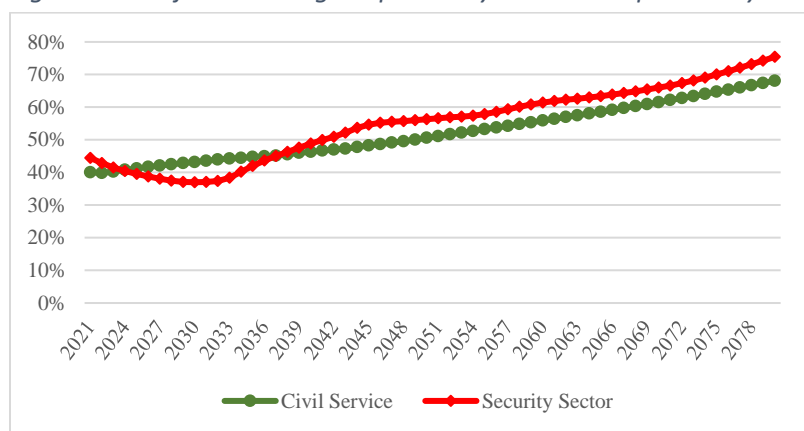
	Average contributory wage	Average of new old age pensions	Average of all old age pensions	Pension-to-wage ratios (all pensions)
Civil Service (II+I)*	3,850	2,413	2,453	64%
Security Sector (II+III)*	3,615	4,329	3,241	90%
Non-Gov Sector (II)	3,857	2,302	2,310	60%

Source: Authors' compilation based on data from PPA

Notes: \* - average for all schemes in the sector

**Scheme II is still transitioning to its demographic steady state, and system dependency is projected to worsen over the next few decades.** Demographic trends affect the entire pension system, not just Scheme II. Driven by projected improvements in life expectancy, the old-age dependency ratio (i.e., the number of old-age beneficiaries versus active contributors) in both the civil and security sectors is projected to increase from about 40 percent in 2021 to about 70 percent by 2080.<sup>49</sup> The dependency ratio for Scheme III is rising especially rapidly and is projected to increase from 40 percent in 2030 to 60 percent by 2045. However, changes in the overall dependency ratio are expected to be relatively moderate during the next 10 years, which creates an opportunity to implement much-needed reforms.

*Figure 59: Projected old-age dependency ratio in the pension system*



Source: Authors' calculations.

Notes: Civil Service - Schemes I, II (civil), and IV; Security Sector - Schemes II (security) and III.

**While significant public resources are dedicated to the pension system, its coverage is narrow by design.** The system covers just over 5 percent of the working-age population, about 10 percent of the employed

<sup>49</sup> The United Nations (UN) population projections, which we used in our analysis, suggest the expansion of life expectancy at the age of 60 from around 16 to 25 years for men and from around 20 to 27 for women. This will be approaching the average span of years of service in the public sector scheme. In other words, unless things change, the beneficiary on average would be receiving pension for the same period of time that she or he had worked prior to separation from service. With all other parameters, this is typically a clear indication that system will not be fiscally sustainable (with such a demographic transition, a contribution of around 20% of wage can no longer support a pension of over 60% of wage for the same periods of time on both ends).

population, and about 20 percent of the population over age 60. The projections presented in this analysis assume that the public sector’s employment share in the total labor force will remain fixed as the population undergoes demographic changes. The model does not anticipate that the pension system would be expanded to cover the private sector, and such an expansion would not be advisable unless the system is first made parametrically sustainable.

**The legacy schemes offered a relatively generous benefit, and the 2006 reform attempted to address that concern<sup>50</sup> while providing more flexible options for financing the public pension system.** The key parametric change was the reduction of the “pension accrual” factor<sup>51</sup> in the benefit calculation formula from 2.5 to 2 percent. The benefit reduction was offset by the launch of a new complementary DC component to be financed by a share of the contributions from the previous system. Notably, the reduction in DB contributions was larger than the reduction in DB benefits,<sup>52</sup> which negated any potential fiscal gain from the transition. Instead, the reform appears to have aimed to reduce dependency on budget subsidies in the long run by shrinking the DB component in the new scheme on both the contribution and benefit sides, but it did little to strengthen the fundamental sustainability of the DB scheme.

*Table 8: Parameters of Scheme II, 2023*

Contribution rate	DB: 9% Employer and 7% Employee DC: 3% Employer and 3% Employee
Retirement age	60 years
Required minimum service (vesting)	15 years
Basic replacement with minimum service	30%
Incremental replacement (accrual rate)	2%
Maximum replacement	80%
Number of Years for Wage base	3
Wage valorization	Not provided
Benefit indexation	Inflation*

Source: Authors’ compilation.

Notes: \* The law requires pensions to be indexed to inflation, subject to government approval. For our long-term assumptions about indexation, see Annex VI.

**While the legacy schemes will no longer produce new pensioners, their impact will persist in the benefit calculations of those that retire under the new scheme.** Newly retired pensioners under Scheme II have pensions composed of two parts: one is calculated under the new rules and is based on service rendered under the UPL post-2006 (Table 8), while the other is based on the individual’s service pre-2006 and is calculated under the rules of one of the legacy schemes (see Annex V). In addition, under an interim agreement with the MOF any employee who participated in the pre-reform system, even for only a year, then retired under the new system will remain a financial responsibility of the MOF pending the reconciliation of contributions and arrears.

**The UPL requires that pension benefits be indexed to consumer-price inflation at least once every three years, yet pensions have remained unadjusted since 2014.** As described in Chapter 1, the combination of

<sup>50</sup> See Annex V for history of the reforms as well as historic parameters of the legacy schemes.

<sup>51</sup> This parameter links pensionable wage to the calculated pension. It shows how each year of service adds to pension benefit. In the new scheme, each additional year worked adds 2% of the final pensionable wage to individual’s monthly pension level.

<sup>52</sup> Under schemes I and III before the reform, someone retiring with 25 years of service would be eligible for a pension with a replacement rate of 62.5%, while after reform the same service provided for a 50% replacement rate, which is a 20% reduction in the benefit due to the reform. At the same time, the contribution rate to the DB component was reduced from 22.5% to 16%, which is equivalent to a 29% reduction.

annual wage adjustments and promotion-related wage increases has driven the continuous growth of average public-sector wages. Pensions, however, have not been adjusted to reflect changes in purchasing power. Ultimately, policymakers will likely need to address the issue of pension indexation, especially if real wages rise significantly. Drawing on the international experience, the PA could consider using a hybrid approach that indexes pensions to a combination of wage growth and price inflation.<sup>53</sup>

**Retirement under the statutory retirement age remains very common.** Almost one-quarter of regular retirees from the civil service and 80 percent of retirees in the security sector are under the statutory retirement age of 60. A civil servant may be eligible for early retirement after completing 15 years of contributory service and reaching the age of 55. A full pension is granted if the separation is a decision of the employer (government), or if the employee earned 25 years of service at the age of 50 or 20 years of service at the age of 55 (in the civil sector). Otherwise, the benefit is reduced.<sup>54</sup> However, almost all individuals who retire early do so under an official decree that exempts them from paying such a penalty.

**Other separation conditions are also suboptimal from a policy perspective.** For example, an individual who has not accumulated the statutory minimum of 15 years of service to qualify for a pension may reclaim their contributions as a lump sum. If this same individual decides to rejoin the service later, or if they join an NGO that participates in the same pension system, they will have to begin accumulating years of service anew. This type of benefit fragmentation does not align with international best practices. Most pension programs globally keep all contributions and benefits until the contributor reaches retirement age, at which point benefits are disbursed based on eligibility criteria.<sup>55</sup>

**The system penalizes the small number of contributors who leave public employment with too few years of service to receive a retirement benefit, but an assistance benefit is made available to them.** Individuals who served for less than 15 years do not qualify for a regular pension,<sup>56</sup> but they may be eligible for a “basic pension” of NIS 700. This benefit is funded by the MOF and, in theory, is means-tested. This approach is not equitable, as the amount of the basic pension is the same for all former public employees regardless of their years of service or employment grade.

**Disability and survivorship account for a large share of pension benefits.** About one-third of all PPA beneficiaries receive either disability or survivorship benefits. While this share is not uncommon for the region, disability and survivorship impose high costs to the budget.<sup>57</sup> Most current survivors are beneficiaries of the legacy Schemes I, III, and IV and will not be integrated into Scheme II. Since the system’s rules cover a broad range of surviving dependents, and strong social and cultural norms prevent their adjustment, these pensions will continue to impose a significant financial and administrative burden on

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<sup>53</sup> Given the operational uncertainty with the current setup and assuming that the wage growth will slightly accelerate in the future, in our analysis, we assumed a more conventional mechanism of pension indexation of 50% inflation and 50% wages, to balance the social and fiscal considerations.

<sup>54</sup> The UPL provided for a 4% reduction for each year under the statutory retirement age, but that was subsequently changed, by a President’s decree in 2007, to a flat 5% reduction until the retirement age.

<sup>55</sup> However, there are provisions allowing such individuals to pay all such contributions back to PPA and to reestablish a service record that could produce regular benefits after rejoining the system.

<sup>56</sup> Those who have too few years of service when they reach retirement age may purchase the equivalent of up to six years of service to earn the right to a regular pension.

<sup>57</sup> A wide range of individuals may receive benefits from the survivorship program, including: (i) the widow or widows of a participant; (ii) children and brothers younger than 21 who were dependent on the participant at the time of death; (iii) any children and brothers between the ages of 22 and 25 years old who were dependent on the participant at the time of death and who are continuing their university or higher education; (iv) any children and brothers who were dependent on the participant at the time of death and are incapable of earning a living due to health issues; (v) any daughters and sisters who are unmarried, widowed, or divorced; (vi) parents of the participant; and (vii) husband of the participant if, at the time of her death, he was medically unfit to support himself.

the system. Receiving survivor benefits may also disincentivize participation in productive employment, particularly among young people and women. This issue is a priority for future policy deliberations.

### *System Finances*

**The financing arrangements for the various pension schemes and benefit are not transparent.** The PPA’s financing mechanism involves multiple schemes in different territories, funded from multiple sources in different currencies, with some components operating only on accrual basis. The complexity of the financing mechanism presents a serious analytical challenge while also increasing the costs of pension administration (Table 9).

**The 2006 reform agenda called for the PA to assume most of the transition cost of the reform, but that approach proved infeasible.** Transition costs arise when an old scheme closes and all contributions are channeled into a new scheme, typically with a different design, which leaves the old scheme without a stable source of financing. For example, when the government introduced a DC component into the new pension schemes, a 6 percent contribution that had previously funded the DB component of the legacy schemes was redirected to finance it. However, the DB component of the legacy schemes still needed funding, and the absence of that funding created a transition cost. Following the 2006 reforms, both the DB and DC components of the new scheme were largely seen as self-financed and pre-funded, while the legacy DB schemes (except Scheme I) became the financial responsibility of the government.

*Table 9: Pension finances, 2021, NIS millions*

NIS	Civil Service			Security Sector		Non-Gov Sector
	New Scheme	Legacy Schemes		New Scheme	Legacy Scheme	New Scheme
	II	I	IV	II	III	II
<b>MOFI Acrued Contributions</b>						
DB	633.0	-		358.0	-	-
DC	237.3	-		134.2	-	-
<b>PPA Actual Revenues</b>						
ER and EE contributions	-					65.9
Transfers from MOF	40.0			712.5	412.2	-
Other revenues	13.5					-
Investment income	33.3					
<b>Expenditures</b>						
Regular Pensions	620.8		507.6	712.5	412.2	incl
All Supplements						-
DC payouts						-
Admin expenditures	13.6					

Source: Authors’ compilation based on data from the PPA.

Notes: In 2021, PPA claims that financing of the civil service pensions was largely conducted at the expense of PPA’s reserves.

**In a context of tight fiscal constraints, the pension system compels the PA to cover two different types of expenditures.** The PA is legally required to finance: (i) current pensions that were not adequately funded in the past (Schemes I, III, and IV) and (ii) future pension liabilities created by the current system (Scheme II). Almost 70 percent of all current pension payouts are a direct or indirect legal responsibility of the MOF, compounding the MOF’s equally large statutory contribution obligations to Scheme II (Table 9). In practice, the PA is only able to cover the cost of current pension payouts, and its large and growing contribution arrears call for deep reforms to pension-financing policies. Contribution arrears now stand at about NIS 11

billion, of which about NIS 3.7 billion is accrued contributions to the DC component of Scheme IV.<sup>58</sup> In the near term, restructuring may be necessary to enable the PA to clear its stock of arrears.

*Table 10: Funding responsibilities for different pension benefits*

Pension Benefit	Funding Responsibility
Scheme I	PPA
Scheme II civil service and NGOs	PPA
Scheme II security sector	MOF (*)
Scheme II (those with any pre-2006 service in Schemes III or IV)	MOF (*)
Scheme III	MOF
Scheme IV	MOF
Family and Personal Allowance,	MOF/PPA(**)

Source: Authors' compilation on the basis of information from PPA.

Notes: (\*) – pending reconciliation of contribution arrears between PPA and MOF

(\*) – personal allowance of NIS 300 is funded by the MOF, while the family top-ups (NIS60 per spouse and NIS20 per child) are funded by the PPA

**While the PPA applies financial sanctions for the nonpayment of contributions, this approach does not appear to be an effective way to deal with a systemic issue.** A quarter of the total stock of arrears constitutes interest and penalties. Since the PA is ultimately responsible for paying all pensions, such penalties do not serve any practical purpose.

**The PA's arrears to the DB scheme could have been largely avoided had a different transition mechanism been chosen at the time of the reform.** The collected contributions could have been earmarked to finance current pensions *across all schemes*, effectively using the surplus contributions from Scheme II to gradually clear all past liabilities. This approach would also have secured the PA's full compliance with its contributory mandate.

**The PPA effectively operates a non-contributory, zero-interest scheme that is both unique in the world and suboptimal from a social perspective, as it both reduces DB-component benefits for pensioners and increases risks to the public finances.** The PPA currently maintains close to 137,000 individual DC accounts across different sectors with a total value of close to NIS 3.7 billion on an accrual basis. This amount includes only contributions and not the interest that would normally have accrued on those contributions over the past 15 years. While contributions are deducted from employee pay, they are not transferred by the MOF to the PPA to fund the individual DC accounts, and consequently no interest accrues on those accounts, and their real value diminishes over time. Meanwhile, on a cash basis, contributions largely finance the general budget. Upon retirement, the PPA simply pays each employee the total accrued amount of their contributions as a lump sum or in installments,<sup>59</sup> then bills that amount to the MOF.

**Because the real value of DC-component contributions declines over time, employees that receive lump-sum payments would likely have been better off had they deposited their contributions in a savings account at a commercial bank.** Moreover, the reduction in DB-component benefits is not offset by a compensatory regular payout from the DC scheme, which creates political pressure to undo the reforms to the DB program and increase DB benefits through direct budgetary financing. When the lump-sum DC

<sup>58</sup> According to the PPA.

<sup>59</sup> In principle, the Law provides for a choice of a form of payment – regular or one-off – but only one-off lump sum payments are most common.

funds have been spent, the pensioner is left with a lower DB benefit and faces an increased risk of poverty, posing an additional challenge for the PA. Finally, the focus on the lump sum may create a perverse incentive to leave public employment early, with adverse effects the public sector.

**While the DB and DC components of Scheme II accumulate almost no new assets, the PPA still administers about NIS 1 billion in financial reserves.** One-quarter of this amount is linked with pension liabilities from the legacy schemes (Table 11), and the rest likely reflects the NGO sector’s participation in DC accounts and DB reserves. These funds are professionally managed, and given the pension system’s highly unstable financing arrangements, this stock of assets helps cover shortfalls in transfers from the PA, allowing for the consistent payment of benefits (see Annex VII).<sup>60</sup> However, these reserves will not be sufficient to cover the pension program’s long-term financing gap.

*Table 11: Portfolio structure of the PPA’s reserves, US\$*

Investment Type	Overseas Investments		Local Investments	
	Scheme I	Scheme II	Scheme I	Scheme II
Deposits	0	-	6,568,350	16,567,500
Current Accounts	2,170,372	-	2,989,793	16,179,824
Bonds	19,437,423	-	0	0
Shares	19,197,793	-	21,076,278	161,330,605
Alternative Investments	892,682	-	0	0
Real Estate	0	-	17,165,071	42,781,112
Loans to Beneficiaries	0	-	0	31,742,317
<b>Total</b>	<b>41,698,271</b>	<b>-</b>	<b>47,799,491</b>	<b>268,601,358</b>

Source: PPA

**There are several issues pertaining to the policy and operations of the PPA’s financial reserves management:**

- The PPA will approach its financing breakeven point when, *on an accrual basis*, the expenditures for which it is financially responsible (i.e., all of the Scheme I and part of the Scheme II pensions) roughly equal the accrued DB contributions of Scheme II. In principle, the PPA has been running accrual surpluses and accrued assets in the new scheme since 2006, but in practice its revenues are mainly transfers from the MOF designed to match its annual pension-expenditure needs. Consequently, the PPA’s financial assets remain vulnerable to the discretionary funding policies of the PA. If MOF transfers fail to cover the payments required by the legacy schemes, the shortfall would have an immediate and dramatic impact on the PPA’s reserves, which are sufficient to cover just half of its annual expenditure needs. This situation may already have materialized in 2021, when the MOF reportedly failed to transfer a significant portion of its pension obligations, and the PPA used its reserves to cover the shortfall. To safeguard the PPA’s asset-management responsibilities, a clear policy must be developed defining the circumstances under which those assets may be used to finance current benefits. This policy should specifically protect assets in individual DC accounts, which are currently limited to participating NGO employees.
- It is unclear to what extent assets under different schemes are separated. For example, there is no explicit guidance on whether the PPA could use the assets accumulated by participating NGO employees to cover a deficit in the civil-service or security-sector schemes. According to international best practices, the records and finances of NGOs should not be mixed with the finances of the public

<sup>60</sup> A detailed assessment of investment management practices is outside of scope of this review.

sector, underscoring the importance of maintaining operational separation between assets within the pension system.

## Fiscal Simulations: status quo and parametric reforms

**The following fiscal analysis was conducted using Pension Reform Options Simulation Toolkit (PROST), as a tool of long-term pension modeling.**<sup>61</sup> Separate projections were prepared for: (i) the civil-service component of Schemes I and II, both of which are financed by the PPA, (ii) Scheme IV, which is financed by the MOF, and (iii) the security-sector component of Schemes II and III. Revenues were projected on an accrual basis. The simulations were conducted prior to the start of the ongoing conflict, and thus its impact it has had on the economy and the population was not considered.

**The projections indicate that, over the long term, DB pension expenditures for the civil-service programs will rise by almost 1 percent of GDP.** This expenditure trend primarily reflects the anticipated increase in life expectancies mentioned above, which will make financing the current pension scheme increasingly costly over time (see Figure 60.A and Table 4 Annex VI).<sup>62</sup> Except for the personal allowance, which is funded by the MOF, the projections do not distinguish between funding sources.<sup>63</sup> The indicated revenues accrue and remain stable as a share of GDP. Based on these parameters, the DB system's deficit may exceed 1.5 percent of GDP for the civil service and 1 percent of GDP for the security sector in the long run (Figure 61).

**Under an alternative scenario in which the size of the civil service remains stable over the next three years and then grows at a rate equal to 80 percent of the population growth rate, pension spending would be about 0.5 of GDP lower in the long run.** Under these assumptions spending would remain relatively stable over the projected period (Figure 60.B). However, revenue would be lower too, and thus the change in the deficit is insignificant in the long run.

**On an accrual basis, if all contributions were duly paid, the total financial assets attributable to the civil-service pension program would cover its liabilities for about three years before being fully depleted.** If the accrued value of the PA's overdue DB contributions and penalties (assessed at NIS 11 billion, minus the accrued value of the DC accounts of NIS 3.7 billion) were transferred to the PPA, its reserves would cover its liabilities until about 2040. These figures indicate highlight the system's intrinsic fiscal unsustainability.

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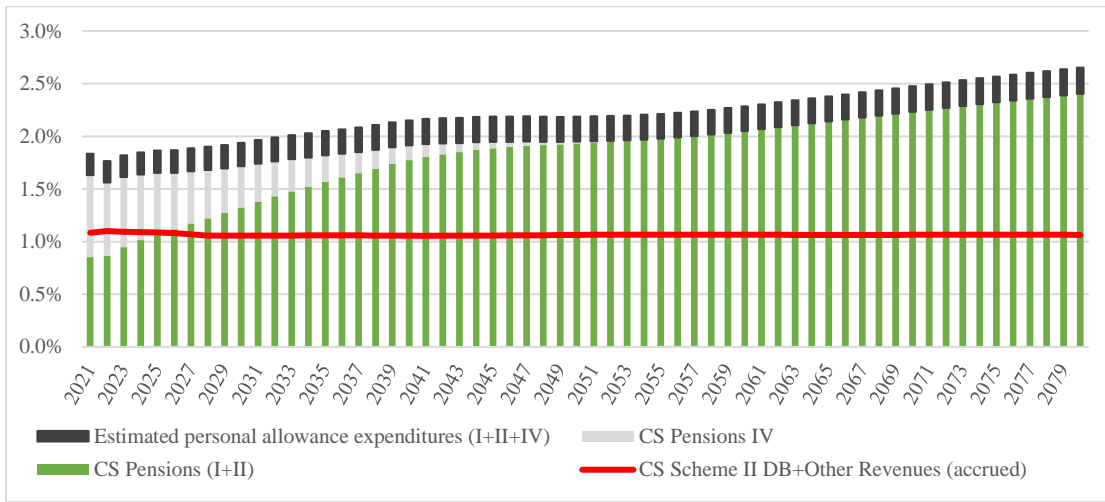
<sup>61</sup> See Annex VI for brief description of the PROST model and the assumptions used here.

<sup>62</sup> Medium and long-run pension projections (except personal allowances) are indexed to a composite of prices and wages (see Annex VI) that maintains their purchasing power. Indexation adds about 0.4 percent of GDP to nominal costs in the long run.

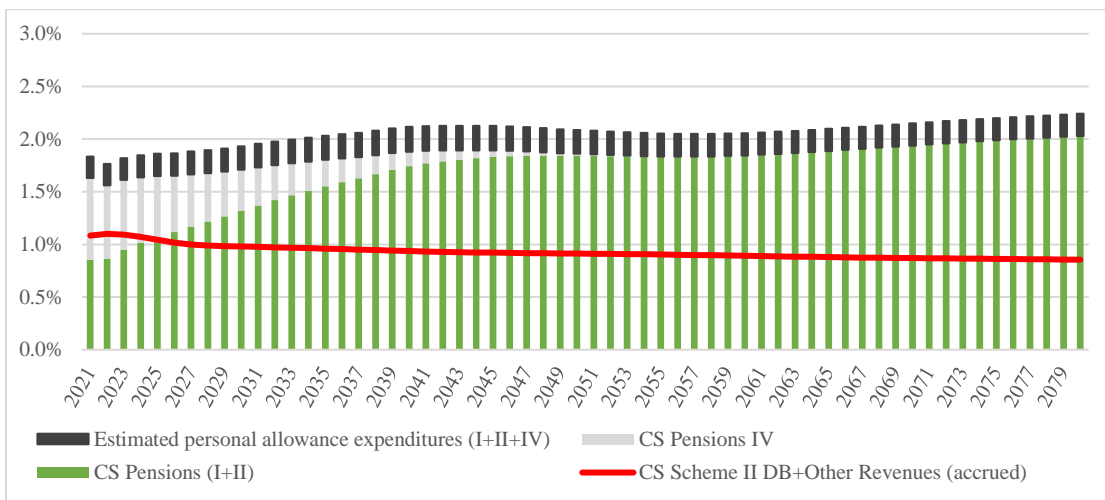
<sup>63</sup> A portion of the Scheme II liabilities derive from service rendered under Schemes III and IV and are the responsibility of the MOF.

Figure 60: Projected consolidated DB expenditures and accrued revenues of civil-service programs, % of GDP

A. Baseline Assumptions



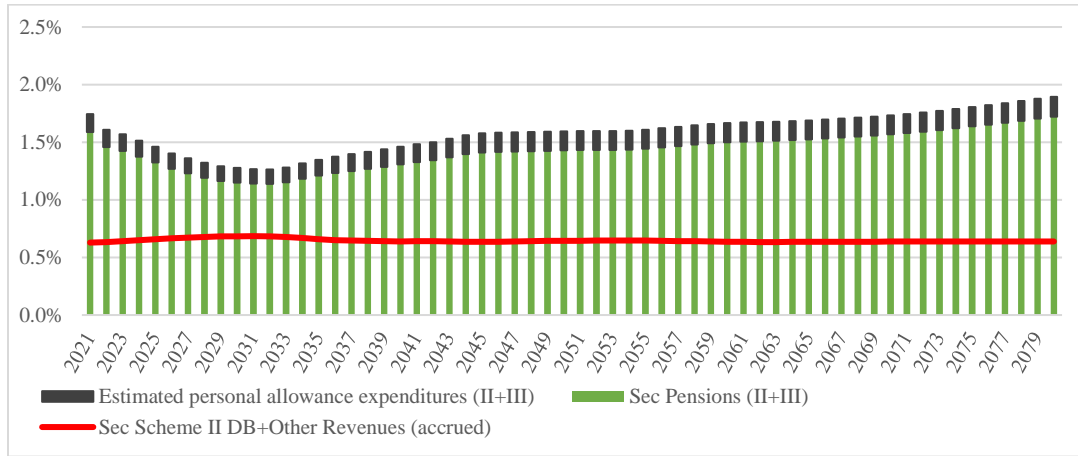
B. Civil-service program revenues and expenditures under alternative assumptions



Source: Authors' calculations

Notes: Revenues of DB component only (16%)

Figure 61: Projected consolidated DB expenditure and accrued revenues for security-sector programs, %GDP

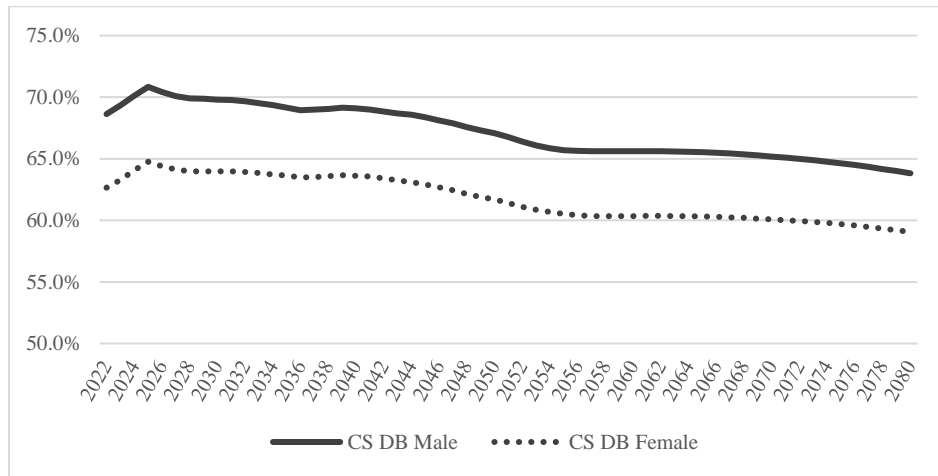


Source: Authors' calculations

Notes: Revenues of DB component only (16%)

The evolution of pension benefits relative to average wage rates is a key social consideration. The simulations show that pension benefits, both for the civil service and the security sector, may gradually lose about 5 percent of their value relative to average wage in the medium-to-long run. The decline is largely due to the fact that service earned prior to 2006, which received a 2.5 percent annual accrual rate under the old rules, is gradually being replaced with the service earned under the new accrual rate of 2.0 percent.<sup>64</sup>

Figure 62: Benefits for new old-age pensioners in the civil-service program as a % of the average civil-service wage



Source: Authors' calculations

<sup>64</sup> In fact, the base year of 2021 marked around a half-way of that transition, so the average baseline accrual rate was estimated at around 2.25.

**The simulations indicate that parametric reforms may help reduce the long-term deficit and sustain the standards of living of the pensioners.** A set of (moderate) parametric changes to the civil-service pension plan were considered to illustrate their impact. The following changes are assumed to take effect in 2025:

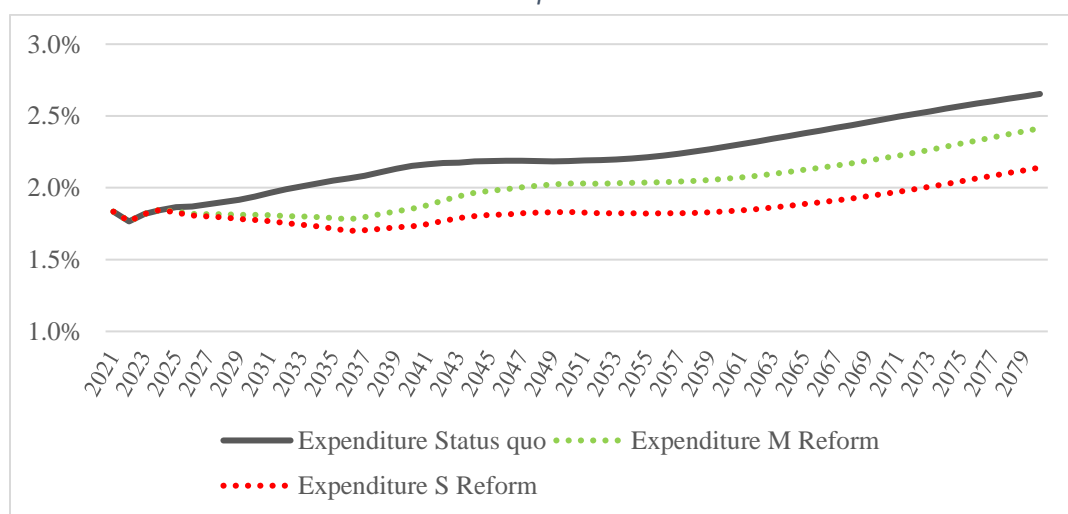
- To keep pace with rising average life expectancy, the statutory retirement age is raised from 60 to 63 via three-month increments each year for 12 years;
- Early retirement is restricted to five years below the full retirement age with no exceptions and no penalties;
- The minimum number of years of service is reduced from 15 to 10, with the base benefit correspondingly reduced to 20 percent; and
- Pension benefits are based on the average of the last five years of the individual’s wages, adjusted for inflation, not solely the final year.

**These modest parametric changes marginally reduce the costs of the pension system and help stabilize benefit levels in the long run.** Although expenditures continue to rise, they remain about 0.3 percent of GDP below the baseline projection (Figure 63.A and Annex VI). As individuals retire later in life and with more years of service, average pensions remain stable in relative terms and with higher benefits than in the baseline scenario. However, the contribution rate required to keep the system balanced in the long run remains very high at about 28.5 percent of the payroll, versus 30 percent in the baseline scenario (Tables 4 and 5 Annex VI).

**A more ambitious reform package would have a greater fiscal impact but would still fail to close the financing gap.** In addition to the reforms described above, this scenario assumes: (i) a further increase in the statutory retirement age to 65<sup>65</sup> and (ii) a gradual reduction in the pension formula’s accrual rate from 2 percent to 1.75 percent. These measures would help contain pension expenditures at about 2 percent of GDP in the long run (Figure 5.A), but at the cost of lower benefits. Under this scenario, the value of benefits relative to wages would decline according to a very similar trajectory as in the baseline (Figure 63.B).

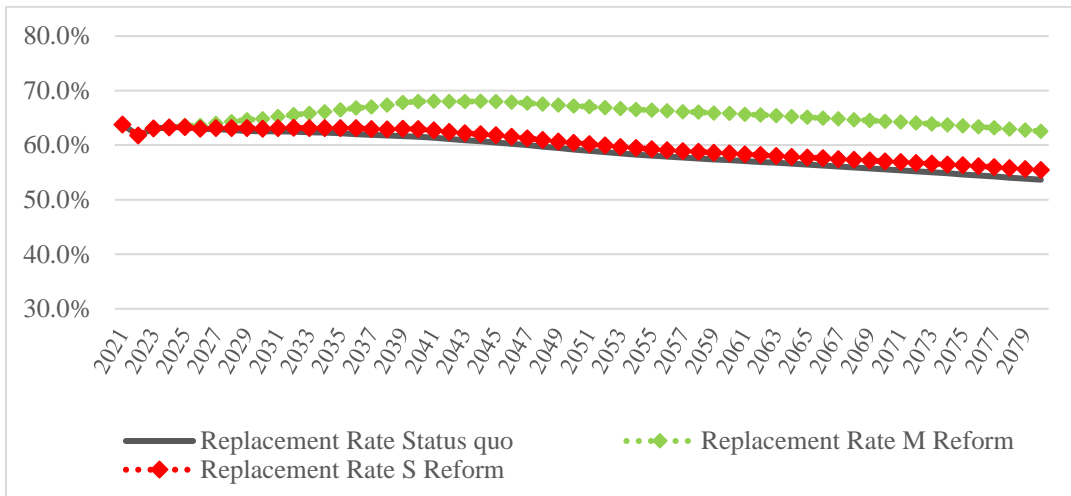
*Figure 63: Consolidated CS DB pension expenditures and replacement rates, under status quo and reforms (Moderate and Significant Reform Scenarios)*

*A. Pension expenditures as %GDP*



<sup>65</sup> Significant increases in the statutory retirement age need to be carefully calibrated against the risks of expansion of the disability and survivorship benefits.

B. Replacement rates as %Wages



Source: Authors' calculations

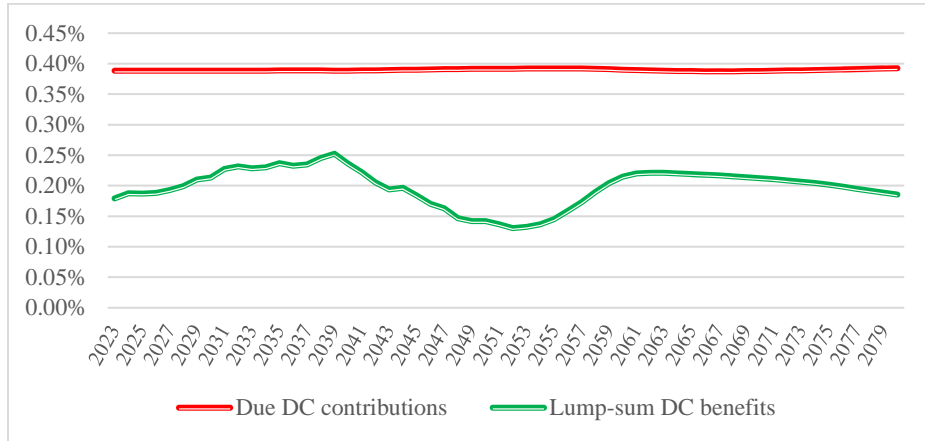
Notes: Expenditures include schemes I+II(CS)+IV (DB component only) as well as personal allowance

**Closing the financing gap completely would be difficult to achieve through parametric adjustments alone, and other solutions should be explored.** Covering the pension system's combined financing gap of over 2 percent of GDP would require drastic increases in contribution rates<sup>66</sup> and/or dramatic reductions in benefits. However, the authorities do not need to achieve financial self-sufficiency for the pension system as long as all non-contributory financing is treated as a matter of public-sector compensation policy. At present, the overall compensation package for public employees, including pensions and other benefits, is funded largely through the general budget. Nevertheless, improving the transparency and flexibility of the system remain urgent priorities and are addressed in the recommendations below.

**The DC component was intended to provide an additional layer of income security, but it has not lived up to the expectations established by the 2005 reform.** The DC component operates on an accrual basis, offers zero nominal interest, and pays out only the face value of the total contributions in a lump sum. The current system is favorable from the perspective of the MOF, as its transfers to the PPA cover only half the DC payouts, while employer and employee contributions cover the other half. This means that the DC component would remain largely balanced even if it were funded only by the 3 percent employee contribution. However, this advantage comes at the expense of contributors, whose funds remain in zero-interest virtual accounts for years or decades.

<sup>66</sup> For example, the contribution rate would need to be gradually raised to about 30% for the civil service (Annex VI) and about 40% for the security sector to completely eliminate the DB scheme's deficit.

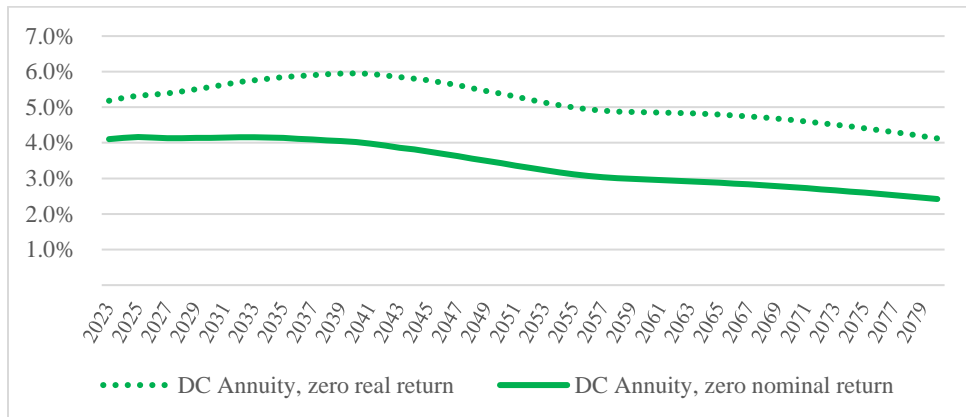
Figure 64: Projected DC contributions and benefit expenditures: SC scheme, % GDP



Source: Authors' calculations

**DC balances could also be annuitized to produce payments for life.** This scenario assumes either zero nominal interest, in line with the current situation, or zero real interest, with nominal interest accruing after 2022. Under these conditions, the DC scheme would be able to provide an additional benefit equal to 4-5 percent of average wages. After rising briefly in the medium term,<sup>67</sup> this benefit would decline due to suboptimal investment performance and increasing life expectancy (Figure 65).

Figure 65: Indicative supplementary replacement rates of DC annuity in CS scheme, % of average wage



Source: Authors' calculations

Notes: Assumed lifetime annuitization

**The policy effectiveness of the DC component remains questionable.** The component's practical implementation is not in line with either its original design or the contributory requirements defined by law. The benefit does not provide for an increment to the regular pension, and beneficiaries do not take full advantage of the funds that the law mandates be set aside for retirement.

<sup>67</sup> The scheme is still young (covering only half of the average career), and so individual accounts will continue expanding in size

## Conclusions and recommendations

**Recent public-sector pension reforms have not achieved their objectives, and further policy adjustments will be needed to make the system sustainable.** The reforms should proceed in three areas in parallel: (i) financial restructuring, (ii) parametric adjustments, and (iii) systemic changes, including revisions to the DC benefit. Additional measures to strengthen the institutional and operational capacity of the PPA are outlined in Annex VII. Further analysis will be necessary to design a detailed reform agenda, and the objectives and results of future reforms should be evaluated primarily in the context of overall public-sector compensation policy.

**I. Financial restructuring entails improving the transparency of the pension system by rationalizing the respective institutional and financial responsibilities of the PPA and the MOF.** The projections above indicate that pension expenditures will always exceed pension contributions, even with the proposed parametric reforms. If the PA implicitly guarantees all pension payments, regardless of the PPA's circumstances, the MOF should legally assume full financial responsibility for all current and future pension obligations by promptly transferring all due contributions and by financing any deficit in the system without differentiating between schemes. In exchange, all DB contribution arrears that the MOF has accumulated so far, along with interest and penalties, would be annulled and voided as part of an agreement on the DC component (see below). These measures would reduce the public debt.<sup>68</sup> The MOF would also avoid paying both for the legacy pension benefits and the new pension benefits, as described above, easing the system's overall fiscal burden. The PPA would cease to keep different books for different schemes, instead bringing all current and future beneficiaries under a unified scheme. The PPA should also be freed from the legal responsibility to self-finance Schemes I and II. A separate policy decision and implementing guidelines would be required to ensure the proper management of the remaining assets associated with the civil-service component of Schemes I and II. For example, they could be treated as a buffer against future revenue shortfalls.

**II. Parametric adjustments could improve the financial sustainability of the system and alleviate the cost of future pension liabilities.** The policy simulations presented above suggest that adopting the following parametric reforms would significantly enhance the pension system:

- To keep pace with trends in life expectancy, the statutory retirement age could be gradually raised to 63 via three-month increases implemented over a 12-year period.
- To limit the costs of early retirement and reinforce the system's core objective of providing retirement benefits rather insuring against the short-term loss of income, early retirement should be restricted to five years below the full retirement age (currently 55), regardless of accumulated years of service. The early-retirement threshold would represent a "minimum retirement age," and retirement below that age would be allowed only in cases of disability. Benefits should be reduced for early retirees, at least until they reach the statutory retirement age. The reduction should be either age-specific or at a flat rate. Alternatively, if the DB benefit is split into contributory and non-contributory components (see below), only the contributory component should be made available to individuals under the statutory retirement age and with no reduction in benefits, while the non-contributory component (financed by the MOF) would be triggered only by reaching the statutory retirement age. This rule should apply whether the individual separated voluntary or involuntarily from the public service. A

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<sup>68</sup> Even if the contribution arrears that the MOF has accumulated so far would be annulled and voided, the fiscal burden of the future pension payments would not disappear. Pension liabilities would remain implicit, and their stock would have to be diligently monitored through mechanisms of regular actuarial valuations of the scheme.

separate insurance benefit could be introduced to cover the temporary loss of income of a working-age individual. This benefit would be funded by additional employee contributions (see below).

*Table 12: Proposed new age-related eligibility rules for civil-service retirement benefits*

<b>Age of separation or retirement</b>	<b>Eligibility to benefit</b>
Under 55	DC payout (optional) <sup>(*)</sup>
55 and under 60	DB (contributory), DC payout
60+	DB (contributory), DB (non-contributory), DC payout

Source: Authors' design

Notes: (\*) For example, as a severance benefit and an early separation insurance

- Correspondingly, no DB contributions should be repaid to employees who have not accumulated the minimum years of service or have not reached the minimum retirement age the point of separation. Individuals that separate from the public service before the minimum retirement age would have to wait until they reach that age before claiming benefits, and if in the interim they obtained new employment in the public sector or a qualifying NGO they would resume contributing to the pension system and accruing years of service. The possibility of transforming the DC component into a form of early-separation insurance could be explored. However, only in cases of disability or death would pension benefits be paid to individuals below the minimum retirement age (or their survivors).
- To allow more civil-service and security-sector personnel to access their regular DB pensions and to eliminate one-off contribution repayments, the minimum years of service (“vesting”) could be reduced from 15 to 10, with a corresponding reduction in the minimum base benefit to 20 percent or lower. This reform would reduce costs while strengthening social outcomes. Instead of paying out lump sums to employees with 10-14 years of service, the PPA will pay pension benefits of around NIS 700 or higher for life, eliminating the need for the MOF-funded lifelong “basic pension” assistance of NIS 700. In place of the double compensation of a lump sum and a regular basic pension for life, such individuals will receive only a regular pension.
- Benefit indexation should carefully balance fiscal and social factors by considering both wage growth and inflation.<sup>69</sup> Ad hoc benefit increases should be replaced by a rules-based approach that defines both the rate and timing of periodic adjustments.
- Gradually reducing the accrual rate for pension benefits could further narrow the financing gap. For example, the accrual rate for the minimum basic pension could be reduced from 2 percent to about 1.75 percent. Potential changes to the accrual rate should be carefully examined in a subsequent analysis.
- Basing the pension amount on the average of the last five years of wages, adjusted for inflation, would discourage questionable late-career promotions.
- Eligibility for the family and personal allowance of NIS 300 could be linked to the main pension amount so that it is not added to the total amount above a certain benefit level. Alternatively, the age threshold for the allowance could be increased by five years or more, so that it becomes a seniority

<sup>69</sup> In the proposed context of the two components (contributory and non-contributory) of the DB benefit, an option could be to have the contributory component wage indexed, while the non-contributory component could be inflation indexed. This gives a lot of flexibility in achieving various objectives of the benefit indexation policy.

top-up to the pension. Both options would result in cost savings, though the systemic reforms described below may make them unnecessary.

**III. Systemic changes could focus on rationalizing the benefit package.** The most feasible parametric reform options are unlikely to make the system financially sustainable. If the system remains contributory, it will always operate with a deficit and will be subsidized by the MOF. However, the DB scheme could be improved by splitting it into two components: a contributory component that reflects the employee's earnings and a non-contributory base pension, carefully calibrated and periodically adjusted, that builds on the NIS 300 personal allowance currently payable to all retirees. This approach would increase budgetary transparency, explicitly link pensions to overall compensation policy, and give policymakers more flexibility to respond to challenges. For example, while the contributory component would be linked to earnings and its adjustments ideally would not be subject to the PA's discretion, the value of the base benefit could be set periodically as part of the annual budget and wage-bill approval process.<sup>70</sup> Similarly, eligibility for the contributory and non-contributory components could be defined in different terms (e.g., in different ages). For instance, an individual may gain access to the contributory component at the point of early retirement, while access to the non-contributory component would be legally restricted to the statutory retirement age. Calibrating the exact division of benefits into the contributory and non-contributory components would require additional simulations to ensure fiscal neutrality. The preliminary analysis of the long-term expenditure gap (Figures 60 and 61) suggests that the flat non-contributory component could represent up to half of the current benefit, or around NIS 1200 for the civil service. If a non-contributory base pension is introduced, it should be restricted to retiring public employees, and its value could be scaled according to age and/or length of service, as both features have international precedents and serve important policy objectives.

**IV. Reforms to the DC benefit could be either modest or comprehensive.** The DC component effectively acts as an end-of-service indemnity scheme with a lump sum benefit. If the authorities decide to keep this arrangement, they could consider replacing the PA's 3 percent mandatory contribution with a voluntary employee contribution, which would alleviate its fiscal cost. The DC component could also be transformed into an end-of-service indemnity scheme or a form of early-separation insurance. The employee's 3 percent contribution would pre-fund the costs associated with an unexpected separation from service before the retirement age due to reasons other than death or disability. This could be a DC or a DB benefit. Depending on the funding mechanism, unpaid benefits could be transferred to the employee upon retirement (Table 12).

However, to maximize its contribution to retirement security the DC component could be comprehensively reformed on the following basis:

- If the DC component is to be retained, with actual financial contributions in the future, all past accrued liabilities could be converted into formal recognition bonds.<sup>71</sup> The PPA would bill the PA each time an employee retires in a more structurally and financially organized variation on the current process. Such bonds would earn notional interest at a rate agreed on by the MOF. This approach would confirm the MOF's responsibility for clearing the estimated NIS 4 billion in arrears to that scheme, and it would add those arrears to the PA's formal public debt stock. Under this scenario, the PA could minimize costs by not paying out the DC component as a lump sum to those who apply for early retirement and instead use the DC savings (even if notional) to finance the standard early-retirement benefit.

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<sup>70</sup> Indeed, different indexation policies could apply to contributory (insurance) and non-contributory (income guarantee) components of the DB benefit package.

<sup>71</sup> A special financial instrument, typically non-tradable, to recognize the accrued pension rights – both historic and incremental future rights – and keep explicit record of the future pension liabilities.

- If DC contributions, as a matter of policy, materialize in the future, the associated financial assets should be segregated from the DB assets and could also be subject to different investment management.
- If there is no political will or fiscal space to make financial contributions to the DC accounts, or if the authorities aim to move away from accounts with explicit financial balances and arrears that add to the explicit public debt stock, the DC component could be converted to a notional DC scheme under which the explicit public debt arising from the pension scheme would be erased, and all liabilities would become notional but would be explicitly recorded in the individual accounts. No pre-funding would be required. This component could be merged with the contributory DB component and both could be converted into a notional DC plan.
- Under either of the above arrangements, payouts from DC or Nationally Determined Contribution (NDC) accounts could be redefined as pensions and reorganized as regular payments, smoothing the distribution of retirement income over time. Given its sophisticated electronic recordkeeping systems, this should not impose a significant additional administrative burden. The conversion could be implemented through the PPA's existing mechanism by allowing the lump-sum DC payout to be used to purchase additional service in the DB component, leading to a higher DB benefit for life.

**To strengthen budget planning and actuarial projections, the PPA could build its in-house analytical capacity to conduct microsimulations.** More nuanced and granular analysis will be necessary to determine the specifics of the reform agenda.

**Any major reforms to the pension system should be accompanied by a strong communications campaign.** An administrative assessment of the PPA (see Annex VII) reveals important weaknesses in its capacity for public outreach. Surveys of public employees designed to gauge their perceptions of the PPA could inform an outreach strategy. The PPA could also establish a hotline to address reform-related inquiries by civil-service and security-sector personnel.

**Finally, expanding the coverage of the existing pension system to workers outside the public sector should not be a priority for the PPA until the fiscal sustainability of the scheme has been assured.** Broadening the system's coverage or aiming to expand the PPA's revenue base would only compound the fiscal burden of unsustainable pension liabilities and exacerbate the PA's financial challenges. The policy dialogue on coverage expansion should take place within the broader context of the PA's social-security law.

## CHAPTER 4 THE PALESTINIAN HEALTH SYSTEM

### Overview of the health system

**This chapter assesses public health expenditures and conditions in the health sector prior to the start of the ongoing conflict in October 2023.** Since the conflict began, the health system in Gaza has been dismantled by Israeli attacks, with 90 percent of health facilities damaged or destroyed. Meanwhile, the health sector is struggling to manage a massive surge in conflict-related injuries, the consequences resulting from the disruption of essential maternal and child health services and non-communicable disease (NCD) treatment, and an unprecedented increase in infectious diseases. This analysis is based on quantitative and qualitative data collected between June 2022 and January 2023.<sup>72</sup>

**In addition to damage and disruption caused by the ongoing conflict, the Palestinian health system faces spatial and political fragmentation, which creates structural barriers to equitable service provision.** While there is a single Palestinian MOH and a centralized de jure governance system, the political context has fractured the institutional structure of the health sector. Most of the 3.2 million Palestinians in the West Bank and East Jerusalem live in 165 noncontinuous enclaves (areas A and B), and checkpoints hinder their access to health services, especially for patients who need to leave the West Bank for referral services. A complex permit regime and the continued expansion of settlements in Area C further constrain the movement of patients. Another 2 million Palestinians live in Gaza, which has been under a near-total blockade and effectively cut off from the West Bank since 2007. The internal political divide between the West Bank and Gaza further complicated the coordinated delivery of essential health services. According to the World Health Organization (WHO), Israel has a responsibility to protect Palestinian civilians, which includes ensuring timely access to essential health services.<sup>73</sup> The ongoing restrictions and successive rounds of violence, especially since October 2023, are the main constraints on timely access to quality health services, which is a basic human right.<sup>74</sup> Between 2019 and 2021, 563 attacks affected 151 health facilities and injured 463 healthcare workers.<sup>75</sup>

**Life expectancy in the West Bank and Gaza remains lower than in peer countries and has fluctuated due to the impact of violence.** With a relatively young, rapidly growing population, the West Bank and Gaza is still at the early stages of the demographic transition, and effective economic and social policies will be vital to achieve a demographic dividend. The total fertility rate (TFR) has recently declined but remains high both in the West Bank and Gaza. Estimated life expectancy at birth was 74.3 years in 2022, with a slightly higher rate in the West Bank (74.6 years) than in Gaza (73.7 years). Average life expectancy is also slightly higher among women (75.4 years) than among men (73.3 years). Average life expectancy at birth is close to the regional average and above the average for LMICs, but it is well below the average for Israel, which is 83 years. Dips in life expectancy in 2001 and 2014 reflected the impact of rising violence, while the COVID-19 pandemic caused a drop in life expectancy in 2021.

**Despite improvements in health outcomes, the high and rising burden of noncommunicable diseases (NCDs) is straining the health system.** The Palestinian health system has undergone a rapid

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<sup>72</sup> The longer version of this chapter, published as a standalone piece, incorporates health financing data through end-2024 where feasible.

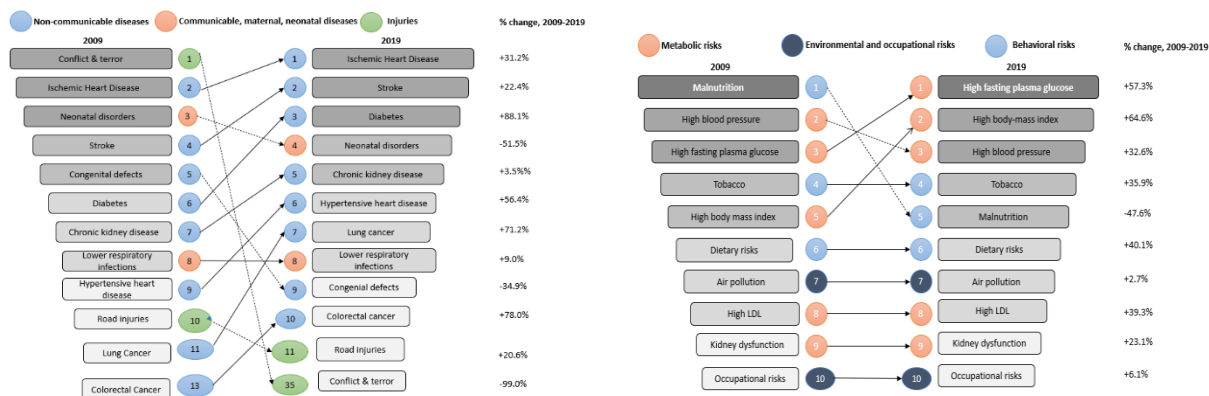
<sup>73</sup> 76<sup>th</sup> World Health Assembly, provisional agenda item 18. "Health conditions in the occupied Palestinian territory, including east Jerusalem, and in the occupied Syrian Golan: Report by the Director-General." 17 May 2023. [https://apps.who.int/gb/ebwha/pdf\\_files/WHA76/A76\\_15-en.pdf](https://apps.who.int/gb/ebwha/pdf_files/WHA76/A76_15-en.pdf)

<sup>74</sup> *ibid*

<sup>75</sup> World Health Organization, Regional Office for the Eastern Mediterranean, 2023. Right to health, 2019 to 2021. Licence: CC BY-NC-SA 3.0 IGO.

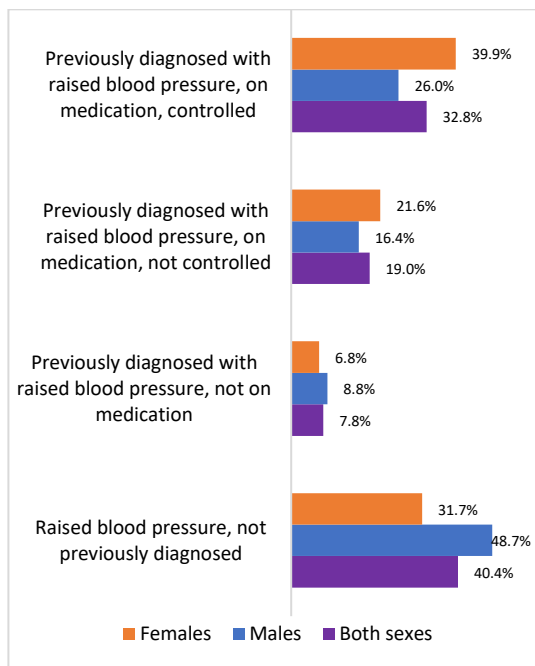
epidemiological transition, and NCDs now account for 72 percent of the disease burden. In 2019, eight of the 12 main drivers of morbidity were NCDs, including cardiovascular conditions, chronic kidney disease, lung cancer, and colorectal cancer. Similarly, the incidence of key risk factors such as high fasting plasma glucose, high body-mass index, and high blood pressure have all increased by more than 30 percent between 2009 and 2019 (Figure 66). Poor treatment indicators for hypertension and diabetes (Figure 67 and Figure 68) demonstrate the need to strengthen primary care, address frequent stockouts of essential medicines, increase treatment adherence by expanding access to community-level primary healthcare centers (PHC) facilities, and enhance follow-up care through family medicine.

Figure 66: Changes in the distribution of the burden of disease in West Bank and Gaza (left) and risk factors (right), 2009-2019



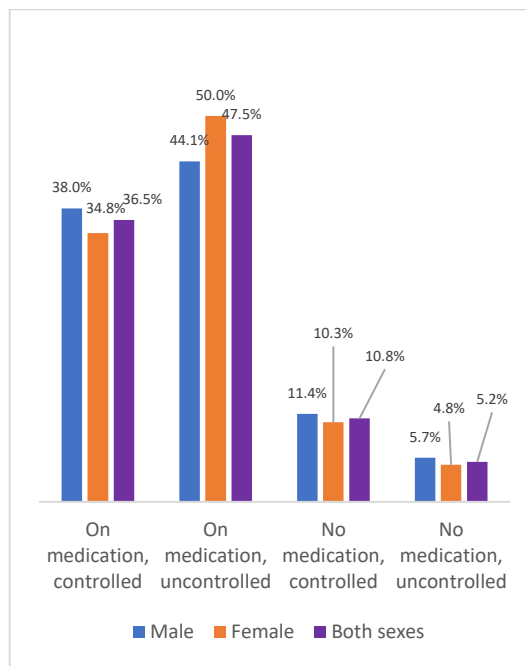
Source: Institute For Health Metrics and Evaluation (IHME)

Figure 67: Blood-pressure control among adults ages 18-69 by sex, 2022



Source: STEP, 2022

Figure 68: Blood-sugar control among adults ages 40-69 by sex, 2022



## Service delivery context

**The fragmented and overly curative focus of the Palestinian health system faces constraints in delivering quality services.** There are 765 public primary healthcare centers (PHC) and 89 hospitals across Gaza and the West Bank, which are organized in a pyramidal structure. Utilization rates are relatively high, and the system is transitioning toward family health. However, high bed occupancy rates at tertiary hospitals, which also provide a narrow range of services due to lack of specialists or medical equipment, adversely impact care for cancer, cardiovascular conditions, and kidney disease. Four other types of healthcare providers operate: The United Nations Relief and Works Agency (UNRWA), which provides services to registered Palestinian refugees; the Palestinian Medical Military Services (PMMS); nongovernmental nonprofit hospitals such as those in the East Jerusalem Hospital Network (EJHN); and private for-profit hospitals. Routine barriers to care in the West Bank demonstrate the need to scale up mobile and flexible service-delivery points. Without the full implementation of a family-health approach or an institutionalized referral system from the primary to secondary and tertiary levels, patients can go directly to hospitals for outpatient curative services, and there is no proactive follow-up to provide preventive services or ensure treatment adherence. The effective management and control of chronic diseases require a more comprehensive and continuous approach to service provision by trained healthcare providers, which has been partly implemented through the rollout of the WHO-PEN package of essential NCD interventions at the PHC level.

**Due to insufficient hospital capacity, most NCDs are referred to nongovernmental hospitals, and reimbursement impose a major financial burden for the MOH.** NCDs require sustained treatment and continuous access to preventive, curative, and palliative care. Since 2015, almost 90,000 cases per year (23 percent from Gaza and 73 percent from the West Bank) have been referred from public health facilities to private or NGO-run hospitals in the EJHN,<sup>76</sup> the West Bank, Gaza, or Israel. These outside medical referrals (OMR) result in average annual financial expenditures of about NIS 850 million (almost US\$ 250 million), equivalent to one-third of total MOH spending or roughly 1.3 percent of GDP (2022). Moreover, the MOH owes US\$ 345 million in cumulative arrears to hospitals. Between 2020 and 2022, the top three conditions for OMR were cancer, cardiovascular conditions, and urological conditions, which represented a combined 60 percent of all referral expenditures. The MOH, through its Services Purchasing Unit (SPU), oversees the medical and financial aspects of the referral process with the involvement of public hospitals and regional coordination entities.<sup>77</sup> Once the SPU has approved a referral, the patient applies for a permit through the coordination bodies. When the permit has been issued, which may be after the appointment date, the patient travels through checkpoints to access care and then returns home. Movement restrictions, including an unpredictable Israeli permit system, negatively impact access to essential health services. According to the WHO data, between 2019 and 2021 only 65 percent of patient permit applications from Gaza and 84 percent of applications from the West Bank were approved on time. However, the timely approval of referrals from Gaza began rising in November 2022 and reached 80 percent, while the timely approval of referrals from the West Bank fell to 75 percent.<sup>78</sup> Timely-approval rates for companions were even lower at 46 and 78 percent, respectively.<sup>79</sup> Timeliness is essential to

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<sup>76</sup> Hospitals in the EJHN include Augusta Victoria Hospital, Makassed Hospital, Saint John Eye Hospital, Palestinian Red Crescent Society Hospital, Princess Basma Center for Children with Diabetes, and Saint Joseph's Hospital. While other hospitals in east Jerusalem also receive referrals, EJHN hospitals receive almost the totality of referrals.

<sup>77</sup> These include the Regional Referral Committees in the northern, central, and southern parts of the West Bank and in Gaza.

<sup>78</sup> World Health Organization, office for occupied Palestinian Territory, 2023. Monthly Health Access Report: Barriers for patients in the occupied Palestinian territory: July 2023" [https://www.emro.who.int/images/stories/July\\_2023\\_Monthly\\_2.pdf?ua=1](https://www.emro.who.int/images/stories/July_2023_Monthly_2.pdf?ua=1)

<sup>79</sup> World Health Organization, Regional Office for the Eastern Mediterranean, 2023. Right to health, 2019 to 2021. Licence: CC BY-NC-SA 3.0 IGO.

access high-quality care, and these delays and denials pose a substantial health risk, particularly for cancer patients. Since October 2023, referrals have been suspended in Gaza and disrupted in West Bank, posing a substantial public health burden.

**Shortages of medical equipment and essential medicines, particularly in Gaza, impose a chronic constraint on effective service delivery.** In 2022, 40 percent of medicines in Gaza were stocked out, including 60 percent at the primary level. Moreover, 57 percent of medications essential for maternal care and 37 percent of medications essential for chemotherapy were stocked out. About US\$ 24 million per year is needed to close the medicine stock gap in Gaza. Beyond financing, the near-total blockade has severely delayed the entry of medicines to Gaza, as well as the procurement and maintenance of medical equipment, including equipment used to diagnose and treat cancer patients such as interventional radiology and ultrasonography devices and oxygen-generating stations.<sup>80</sup> Limited flows of medical equipment and resources between the West Bank and Gaza exacerbate local shortages.

**The health sector's human resources are insufficient.** In 2021, there were 1.4 physicians, 1.76 nurses, and 0.21 midwives per 1000 population, with slightly higher levels in Gaza than in the West Bank. The rate of physicians per capita is low relative to comparator countries in MENA but above the LMIC and FCV averages. The limited supply and inequitable distribution of specialists, particularly for cardiovascular and oncological conditions, pose substantial challenges for timely access to specialized health services.

## Financing flows in the Palestinian health system

**The budget-formulation process suffers from deficiencies, and governorates and health facilities play a limited role in budget execution.** The MOF's funding for the health system comes from general public revenue, including taxes and donor support, and from government health insurance (GHI) contributions. GHI contributions are collected in a health-insurance fund at the MOH but are transferred and pooled with other revenues at the MOF level. These funding arrangements prevent the scheme from effectively distributing risk or manage providers and beneficiaries. In addition to GHI contributions, households with insurance contribute through copayments, while households without insurance pay the full cost of services rendered at public facilities. These user fees are retained at the MOF level. Meanwhile, the MOH receives transfers that reflect line items to be executed. MOH funds do not flow to public PHC facilities or hospitals, which lack financial autonomy. Instead, the MOH pays for salaries, equipment, and medicines used by public facilities both in the West Bank and Gaza. As a result, MOH is not only the provider and purchaser of health services but also the public health sector's sole cost center. Budget formulation and execution are centralized, and none of the governorates or health facilities are cost centers.

**In Gaza, a separate MOH mirrors the PA MOH, but there is little communication between the two institutions.**<sup>81</sup> The Gaza MOF generates revenue through general taxation, GHI contributions, and international donor support. GHI contributions and out-of-pocket (OOP) payments are pooled at the central level and transferred to the MOH, which pays providers according to a line-items budget process. No health funds are transferred directly between Ramallah and Gaza except for salary payments for MOH staff in Gaza who were working prior to 2007, as well as transfers and payments for patients that are treated outside of Gaza. In addition, UNRWA and other donors offer (mostly off-budget) financial

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<sup>80</sup> Palestinian Center for Human Rights, 2023. Medical Equipment and Medicine in Gaza Strip: Perpetual Shortage and Serious Repercussions.

<sup>81</sup> The assessment of the Gazan health financing system reflects the context prior to the beginning of the conflict and might therefore be outdated at the time of publication.

assistance by directly delivering health services or providing medical equipment and supplies (Figure 69 and Figure 70).

Figure 69: Financing flows in the West Bank

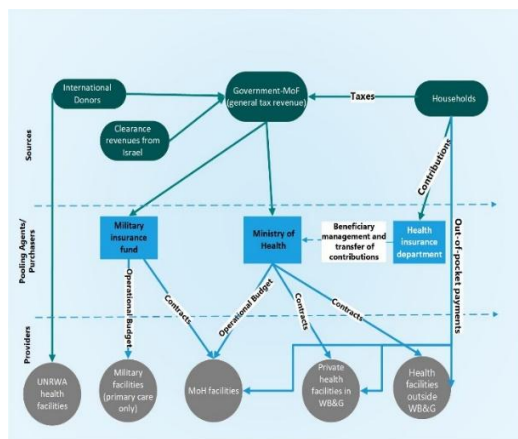
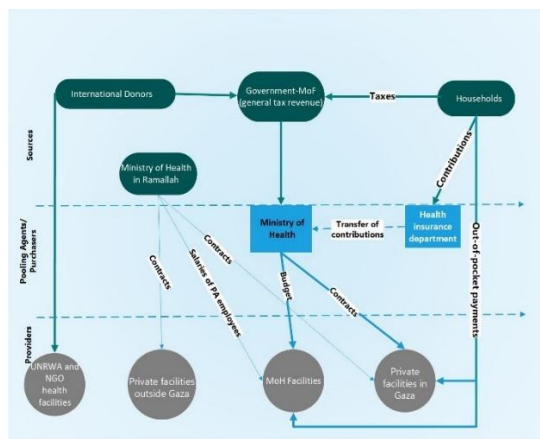


Figure 70: Financing flows in Gaza

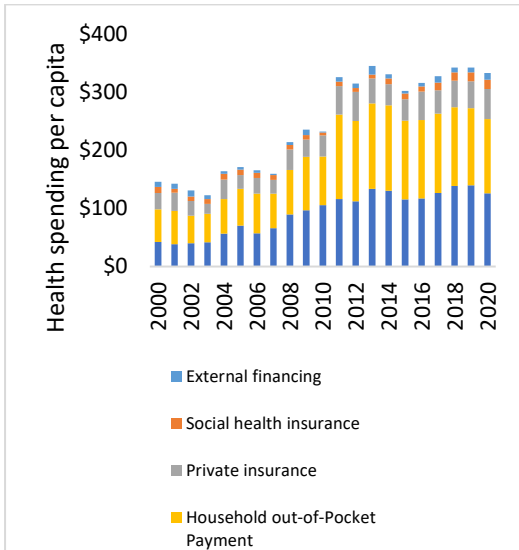


Source: Palestinian Ministry of Health (PMOH)

In 2020, total health spending per capita reached US\$ 332, almost double the average for peer countries, with OOP expenditures constituting the majority of health spending. In 2020, health spending totaled US\$ 1.6 billion, equivalent to 10.3 percent of GDP.<sup>82</sup> Per capita health spending has increased over the last decade, from US\$ 235 in 2009 to US\$ 332 in 2020, indicating that the growth of health spending is outpacing population growth. In 2020, OOP spending remained the largest financing source for the Palestinian health system at US\$ 128 per capita, followed by public spending (US\$ 126), voluntary insurance (US\$ 52), GHI (US\$ 16), and external financing (US\$ 12) (Figure 71). High levels of OOP indicate that health insurance offers only limited financial risk protection. Health expenditures are higher per capita than other LMICs and regional comparators such as Tunisia, Morocco, and Egypt, but on par with neighboring Jordan, which also has a high OOP per capita (Figure 72).

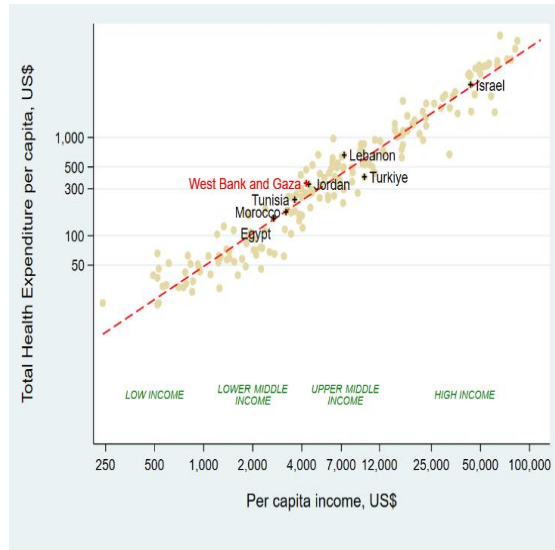
<sup>82</sup> Here and through the chapter, benchmarking figures with regards to GDP per capita and government health spending should be interpreted cautiously given the constrained level of both due to the political and security situation.

Figure 71: Evolution of per capita spending in West Bank and Gaza, 2000-2020



Source: World Bank World Development Indicators; PCBS

Figure 72: Per capita current health spending in West Bank and Gaza and comparator countries, 2020



## Public health spending

**An elevated wage bill, costly referrals to hospitals outside the public sector, and high unit costs for pharmaceuticals limit the resources available for investments and operational support.** In 2021, health spending by the PA reached NIS 2.14 billion, or about US\$ 600 million (US\$ 126 per capita), representing 13 percent of total public spending. Wages and salaries and OMR represented 42 percent and 34 percent of public health spending, respectively. The purchase of goods and services (including medicines) made up 20 percent of public health spending, and while infrastructure investment accounted for less than 1 percent. Since 2013, the combined share of expenditures allocated to salaries and OMR has fluctuated between 70-86 percent of total public health spending and is currently at 75 percent, leaving little space to invest in strengthening service delivery at public health facilities (Figure 73 and Figure 74).

Figure 73: Evolution of breakdown of government health spending in West Bank and Gaza, 2013-2021

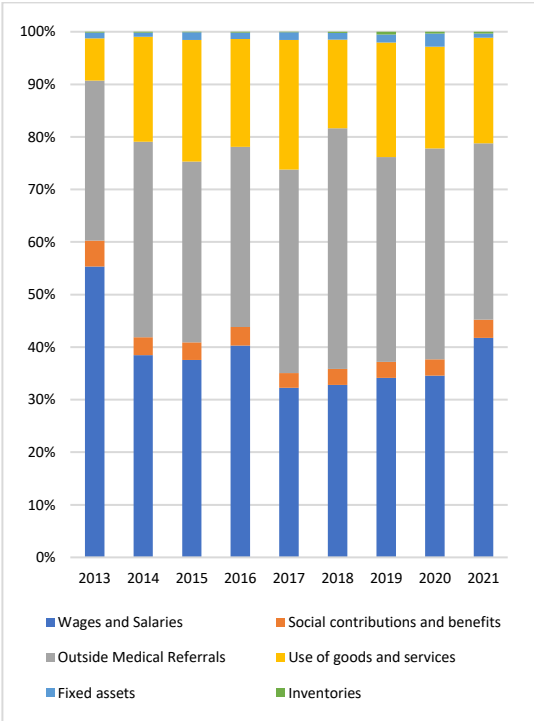
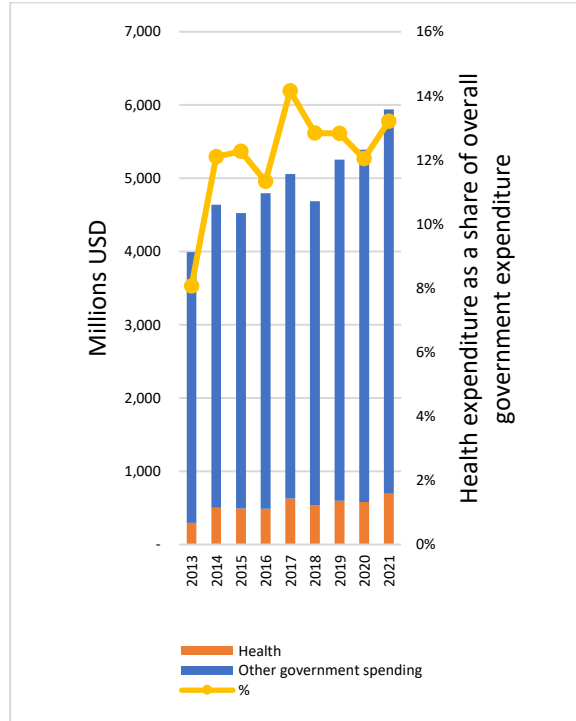


Figure 74: Government spending on health as a share of general government expenditure, 2013-2021



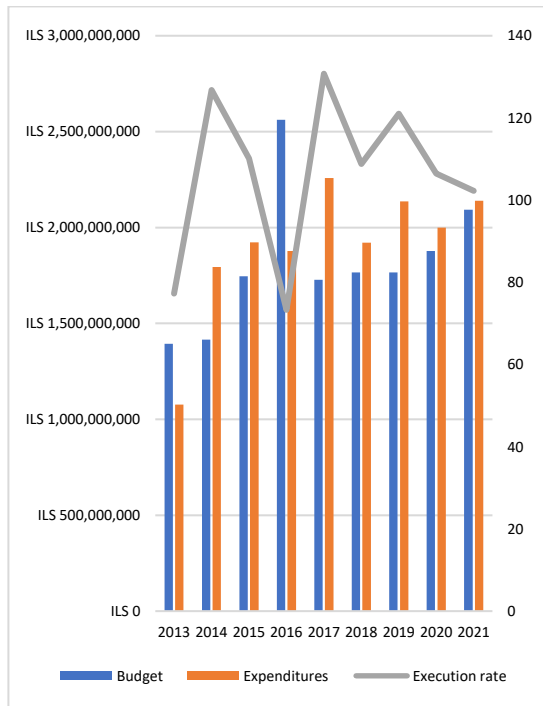
Source: PMOH and MOF

**Public financial management issues affect each of the budget lines.** Except in 2013 and 2016, the overall budget execution rate has consistently exceeded 100 percent, peaking at 131 percent in 2017 (Figure 74). Execution rates vary widely by expenditure type. For example, the execution rates for wages and salaries as well as OMR surpassed 100 percent in 2021, while the rate for goods and services (mainly medicines) was just 84 percent, and the rate for investments in fixed assets was only 53 percent despite the very low investment budget (Figure 75). Spending on medicines is the third-largest budget item, but underfunding and low execution rates result in chronic shortages of important medications. According to a recent World Bank report,<sup>83</sup> public spending on medicines in 2022 was about US\$100 million, or 16 percent of the annual MOH budget. Due to Israeli import restrictions and the limited use of reference pricing, medicine purchases are very costly: the MOH pays 210 percent more than UNRWA, 206 percent more than the United Nations International Children's Emergency Fund (UNICEF), and 330 percent more than the Jordanian government for the same medicines.<sup>84</sup> Wages and salaries for the health workforce rose by 6 percent per year from 2011 to 2021 and now amount to 11 percent of the PA's wage bill. Rising wages were not driven by additional recruitment but by the increased use of allowances to retain existing health workers, especially during the COVID-pandemic. As with the analysis in the rest of this section, the figures on the wage bill must be updated to account for the current context, as healthcare workers have received just 50-64 percent of their salaries since October 2023 due to the economic shock of the conflict and reduced clearance revenues.

<sup>83</sup> World Bank, 2023 (forthcoming) "Improving Efficiency in Public Procurement and Supply Chain Management of Medicines"

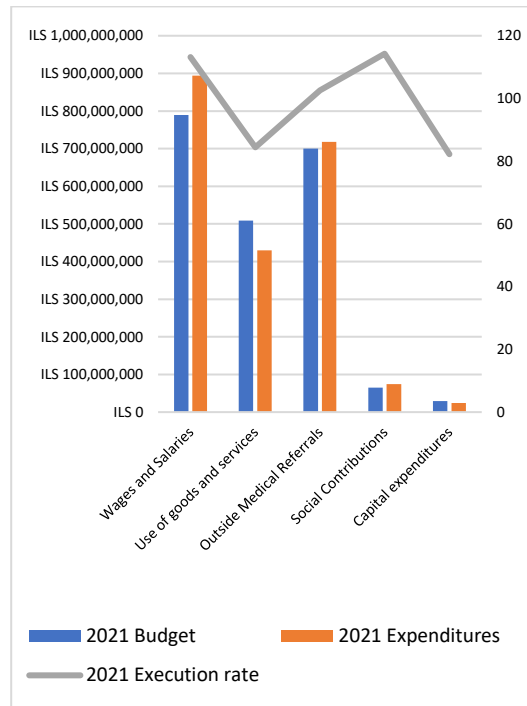
<sup>84</sup> Ibid.

Figure 75: The public health budget, expenditures, and execution rates, 2013-2021



Source: PMOH and MOF

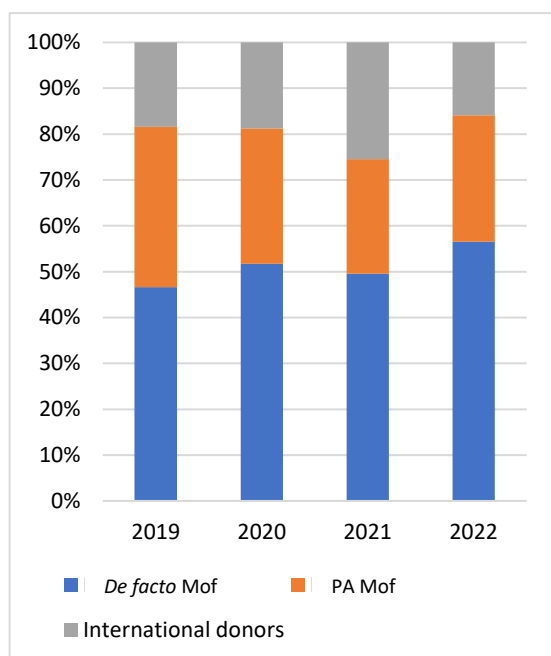
Figure 76: The public health budget, expenditures, and execution rates by economic classification, 2013-2021



**Prior to the ongoing conflict, high arrears already threatened the financial sustainability of the health system, and this situation has worsened since October 2023.** In the fourth quarter of 2023, economic activity in Gaza and the West Bank contracted by 81.3 percent and 18.8 percent, respectively, demonstrating the impossibility of mobilizing more domestic public health funding in the short-to-medium term. Meanwhile, the conflict is massively increasing health needs due to the direct impact of injuries and the indirect effects of foregone care. The health sector accounts for over half of the PA’s total private arrears, which presents important fiscal risks and constraints. Since 2019, the total accumulated arrears for medicines and private referrals amount to US\$ 575 million, of which US\$ 345 million were accrued for OMR and US\$ 200 million for the procurement of medicines. Cumulative health arrears are almost equal to annual public health spending, further underscoring the challenges involved in increasing health spending in the current fiscal context.

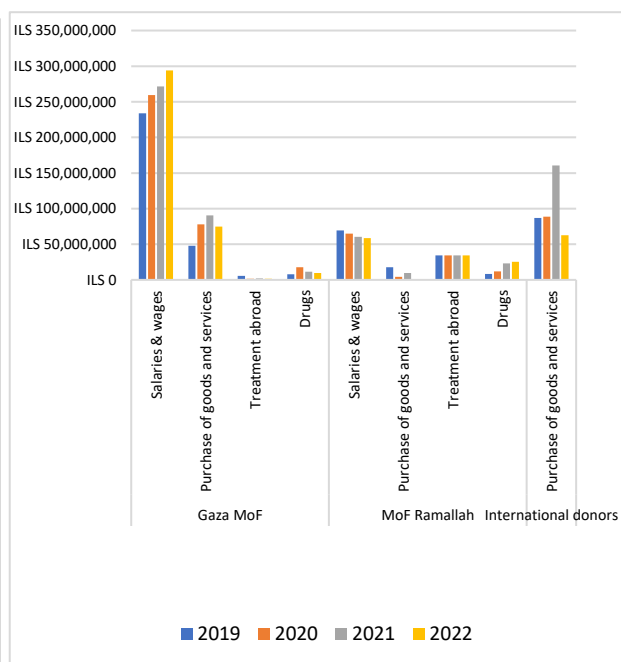
**About 55 percent of health spending in Gaza is financed by the *de facto* authority MOF, with the rest split between the PA MOF and international donors.** The *de facto* authority MOF spent about US\$ 120 million on public health in 2022, most of which was devoted to salaries or to the procurement of goods, services, and medicines. A rising wage bill has driven an increase in *de facto* authority MOF health spending over the last four years. Donor support has varied over time, weakening the financial sustainability of the health system. Low levels of spending on medicines and equipment result in severe shortages, leading to high rates of OMR from Gaza and significant disruptions in service delivery.

Figure 77: Distribution of public health spending in Gaza, 2019-2022



Source: Gaza Ministry of Health

Figure 78: Public health spending in Gaza by financing source and expenditure type, 2019-2022



### Pooling arrangements and out-of-pocket expenditures

The four main health insurance schemes are GHI, UNRWA insurance, private voluntary health insurance, and Israeli health insurance. 78 percent of Palestinians have access to at least one of the insurance schemes, and a substantial share of the population is covered under at least two schemes (Table 13 Error! Reference source not found.). For example, those under the UNRWA scheme obtain GHI coverage to access OMR services as needed. The rest of this section examines the GHI scheme, which is the largest scheme and entails a complex set of arrangements.

Table 13: Snapshot of health insurance schemes in West Bank and Gaza

Insurance scheme	Population coverage	Eligibility criteria	Summary of coverage, copayments, and benefits
<b>Government Health Insurance (GHI)</b>	60% (53% West Bank; 75% Gaza)	Mandatory for public-sector workers, voluntary for others; includes both contributory and free schemes	Covers services at public PHC facilities, hospitals, and pharmacies; covers of referrals to non-MOH facilities based on authorization; copayments for each service are based on a price list
<b>UNRWA</b>	40% (28% West Bank; 76% Gaza)	Households who have registered as refugees in West Bank and Gaza; 70 percent of the population in	Fully covers all primary, secondary, and tertiary services at UNRWA PHC facilities and referrals to

		Gaza and 28 percent in the West Bank	selected MOH facilities with no copayments
<b>Private voluntary health insurance</b>	2.4% (3.1% West Bank; 0.5% Gaza)	Mandatory for employees of the private sector or NGOs; voluntary for others	Depends on the specific scheme, but mainly covers services at public and private PHC facilities, hospitals, and pharmacies
<b>Israeli health insurance</b>	4% (5.3% West Bank; 0.02% Gaza)	Palestinians working inside the Green Line; Jerusalem residents	Depends on the specific scheme
<b>Percentage covered in any insurance scheme</b>	78% (72% West Bank; 96% Gaza)		

Source: PCBS (2017), stakeholder interviews, and a document review

**GHI covers about 60 percent of the population, with fragmented enrollment conditions.**<sup>85</sup> GHI was introduced with the ratification of Law 113 in 2004, which stipulates mandatory health insurance for government employees and free health insurance for all children under age three. Since 2004, eligibility has gradually expanded, and the entire population is now eligible to enroll on a voluntary basis, with contributions deducted automatically from the payrolls of salaried workers or paid at the time of registration for non-salaried workers. The roles and functions of different departments overlap, and none focus on key aspects of performance management such as care, utilization, or provider quality except the auditing unit of the SPU.

**Contribution rates are low and capped, resulting in regressive targeting and insufficient revenue.** In 2022, health-insurance contributions totaled about NIS 242 million, equal to just 11 percent of public health spending and 5 percent of total health spending. Each population category has different contribution requirements, and many categories are exempt. However, these exemptions are granted at the group level and do not reflect socioeconomic status or ability to pay, which results in regressive targeting. Premium levels are relatively low, with monthly ceilings of NIS 75 (US\$ 21) covering an entire household. This approach is also regressive: the contribution ceilings essentially protect wealthier households from contributing more, and as a result contributions represent a larger percentage of total consumption among poorer households. Due to low premiums and uneven collection, GHI contributions amount to only 5 percent of the health system’s budget. Mobilizing additional resources through the GHI will be difficult, as 62 percent of the population works outside of the formal sector and enrolls on a voluntary basis. With high unemployment levels, a large share of the population would not be able to contribute through payroll deductions.

**Contributions are pooled at the level of MOF, and the GHI directorate does not perform either a pooling or purchasing function, making it impossible to determine the precise breakdown of health-insurance expenditures.** GHI is managed by the Directorate-General for Health Insurance Administration at the MOH. The directorate includes about 60 employees in four departments, most of whom work for the SPU, which manages the purchasing of OMR services. Although GHI is managed by the MOH, collected

<sup>85</sup> The results presented in this chapter are a summary of an in-depth health insurance assessment completed in January – March 2023 that included: i) an analysis of existing documentations of the health insurance system; ii) interviews with MOH staff as well as private service providers and other stakeholders; and iii) data extraction from the MOH information systems.

premiums are retained by the MOF. On the expenditure side, in the absence of an autonomous purchaser, nongovernmental hospitals receive aggregated claim payments from the general MOH budget on a monthly basis. As a result, there is no way to track GHI revenues or expenditures by beneficiary or to identify transfers across ministries to finance the coverage of targeted population groups. Instead, GHI is more of a mechanism to raise revenue for the MOF than a means of pooling risk at the population level.

**In principle, there is a single benefits package and a medicines list with associated prices, but in practice inadequate updates have led to open entitlements for beneficiaries.** The national benefits package was last revised in 2007, and since then services have been added without any clear inclusion criteria. Insured and uninsured patients have access to the same services, with different copayment rates and user fees at public and private facilities depending on whether the beneficiary is a GHI member or not. Certain diseases are exempt from copayment for GHI patients, including communicable diseases such as HIV and tuberculosis, as well as cancers and mental health conditions. Interventions in these cases are free at public hospitals and at private and NGO hospitals that receive OMR.<sup>86</sup> Copayment rates and user fees are not based on the patient's ability to pay or on the cost-effectiveness of the intervention, and they are not routinely updated. Public PHC facilities and public hospitals have separate price lists, and OMR-receiving hospitals have individual price lists based on memorandums of understanding (MOUs) signed with the SPU.

**Information systems are fragmented, and limited data are available on the GHI scheme.** Since 2021, the GHI Management Information System (MIS) has recorded data on registration, contributions, and household characteristics of beneficiaries. However, the system focuses only on contribution collection and enrolment, and no information system records data on service utilization or expenditures per beneficiary. The GHI MIS is not linked with the electronic medical records system (Avicenna), or the government's accounting system (BISAN), which makes it difficult to manage transactions. The only platform that enables claim management is the eReferrals system, which includes information on patients referred to private hospitals for OMR and records detailed data on each OMR transaction. There is no claims-management system for other GHI transactions at public PHC facilities, public hospitals, or pharmacies, as these are not cost centers and do not manage funds.

**As a result, GHI functions less like an insurance scheme and more like the public administrator of a tax-based financing system.** Despite its express purpose, GHI possesses almost none of the key elements of a health-insurance scheme, which include: (i) legally autonomous benefit management; (ii) the definition and collection of premiums based on actuarial principles and ability to pay; (iii) the definition of an explicit benefits package; (iv) a clear division between purchaser and provider; (v) contracting both public and private providers; (vi) output-based provider payments; and (vii) an information system that enables proactive beneficiary, provider, and claims management, as well as evidence-based decision-making. While the sophistication of these functions varies across insurance systems, they are all but absent from GHI in the West Bank and Gaza.

**Despite high levels of insurance coverage, 12.3 percent of the population incurred catastrophic health spending in 2017, and insurance coverage is not associated with reduced OOP.** A full 1.5 percent of the population incurred impoverishing health spending in 2017,<sup>87</sup> further underscoring the weak financial protection offered by health insurance. Copayments, persistent shortages of medicines in public health

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<sup>86</sup> Diseases exempt from copayment include rabies, tetanus, cholera, malaria, HIV/AIDS, food poisoning, tuberculosis, diphtheria, flaccid paralysis, child paralysis, H1N1, chronic mental illness, dog bite, leprosy, sexually transmitted diseases, cancer, organ transplant, kidney failure, rheumatism, thalassemia and sickle cell anemia, hemophilia, therapeutic milk, and congenital metabolic diseases.

<sup>87</sup> At the relative poverty line of 60% of median daily per capita consumption

facilities, and a heavy reliance on hospital services are key drivers of OOP spending. Shortages of medicines in public facilities often force patients to purchase medicines from private pharmacies, especially essential NCD drugs, leading to high OOP payments and in some cases catastrophic spending.

Figure 79: Disaggregation of OOP and concentration curves of OOP spending and catastrophic health expenditure

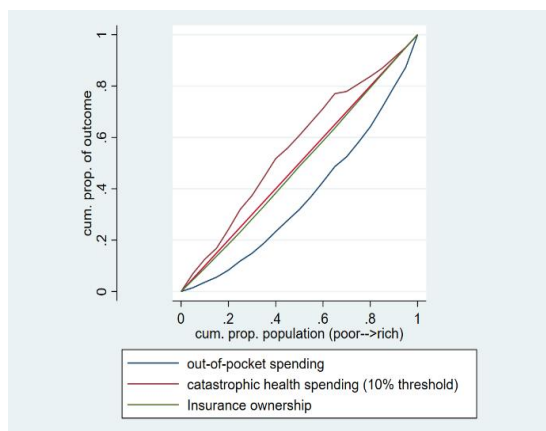
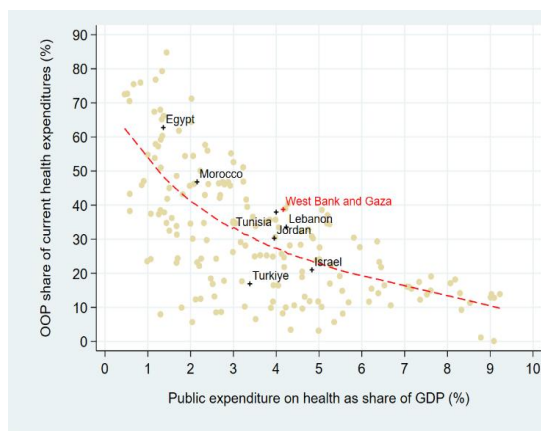


Figure 80: OOP versus public expenditure on health in West Bank and Gaza and comparators



Source: Palestinian Expenditure and Consumption Survey (PECS) & WDI

### Purchasing arrangements

**As health facilities lack financial autonomy, the Palestinian MOH finances the public health care system through passive purchasing.** GHI resources are not kept separate from general public revenues, and the MOH receives a fixed budget from the MOF. Public health facilities only receive funds through line-item budgets, which limits their ability to leverage strategic provider payment methods to rationalize the quantity or quality of services.

**The health-insurance fund does not act as the purchaser of services, and the only services actively purchased by the MOH level are those referred to private and NGO hospitals.** The MOH purchases OMR services through the SPU, which signs MOUs with referral-receiving hospitals specifying a mix of fee-for-service and case-based payments. A declining but still significant proportion of these referrals are to Israeli hospitals, and payments to these hospitals are deducted directly from the PA's clearance revenues with no price transparency, which further weakens the health-financing system. For patients with GHI, the SPU processes invoices to be paid by the MOF to the referral-receiving hospitals.<sup>88</sup> The process includes paper-based records as well as the eReferrals system. MOH hospitals send referral applications to the SPU, and the SPU coordinates with referral-receiving hospitals and referral committees. Reimbursements for referrals to hospitals in the EJHN, the West Bank, and Gaza are processed through the BISAN system.

**Weaknesses in MOUs and the inadequate capacity of public facilities to provide specialized services are driving a continued increase in OMR costs.** OMR services are based on MOUs signed with individual referral-receiving private hospitals in East Jerusalem, the West Bank, and Gaza. Pricing arrangements are relatively complex, as most are set by procedure and not by case. For example, there are over 100 payment categories for ophthalmology services, and they do not consider either the clinical complexity of patients with comorbidities and complications or the quality of services delivered at hospitals. The MOUs

<sup>88</sup> Almost all OMR patients are covered under GHI, or enroll prior to requiring OMR services, indicating that all OMR costs are covered by the MOH except OOP spending related to non-medical expenses or pharmaceuticals purchased by private pharmacies.

do not fix budgets for the medical services provided by the referral-receiving hospital, and there are no stipulations on volume.<sup>89</sup> The total volume and costs of OMR have been increasing since 2013, but expenditure growth slowed in 2022 despite an increase in volumes, highlighting the impact of ongoing efforts to negotiate and standardize prices (Figure 81 and Figure 82).

Figure 81: Trends in OMR volumes

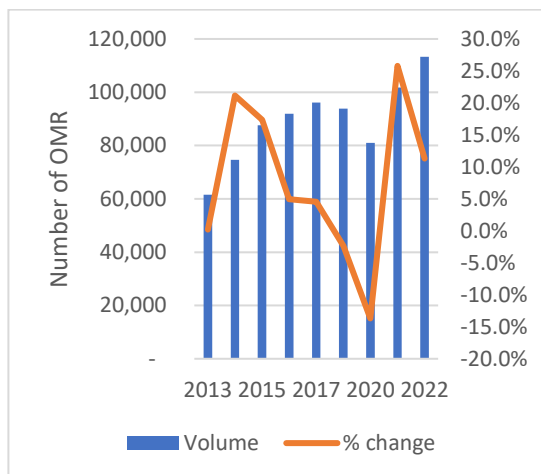
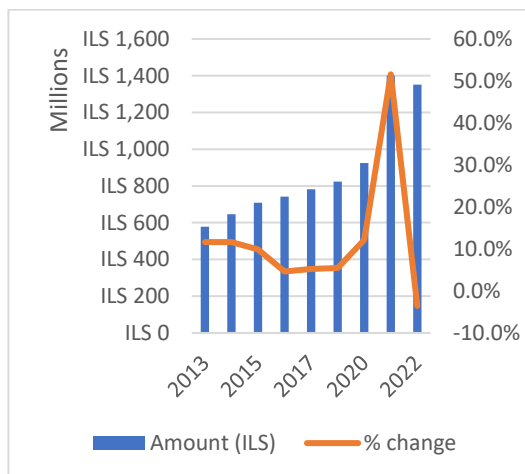


Figure 82: Trends in OMR expenditures



Source: eReferrals database

**As a result, large variations in unit cost for OMR across disease categories and referral hospitals make OMR spending highly unpredictable.** Cancer continues to account for the largest share of OMR (37 percent), followed by cardiovascular conditions (15 percent) and urological diseases (8 percent). Most OMR to Israel are referrals for the treatment of cancer and cardiovascular conditions. Efforts to negotiate unit costs drove a decline in OMR expenditures between 2021 to 2022, particularly for cardiovascular, maternal, neonatal, and child health conditions (Figure 83). Nevertheless, unit costs at one referral-receiving hospital may be 10 to 20 times the costs at another (Figure 84). While case complexity may account for some of this variation, it also reflects a lack of price standardization and contract enforcement by the SPU.

<sup>89</sup> Duran et al, 2021. Towards Effective Chronic Case Management: Improving the Efficiency of Outside Medical Referrals in West Bank and Gaza. World Bank. <https://openknowledge.worldbank.org/entities/publication/41c3beb2-16c4-5d5e-a52e-dfa30f3dc9ef>

Figure 83: Trends in OMR unit cost by condition

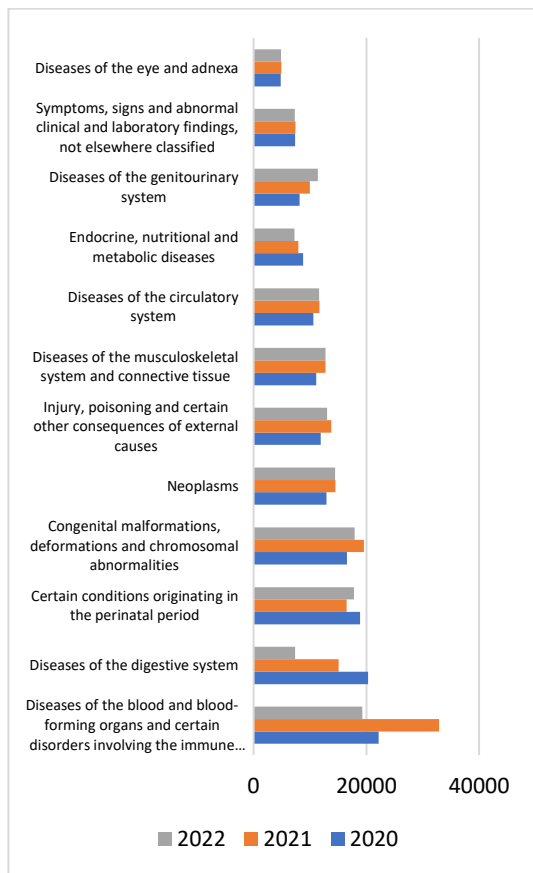
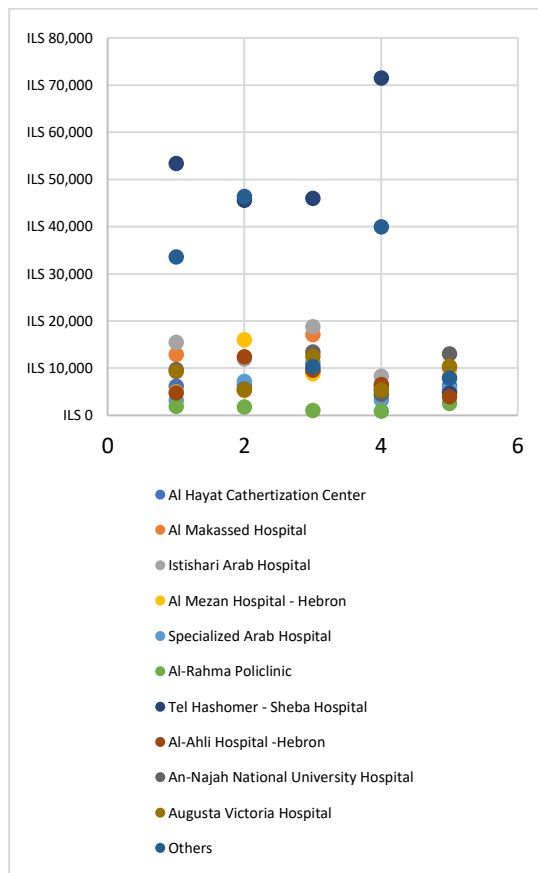


Figure 84: Variation in unit costs across referral-receiving hospitals for key diseases



Source: eReferrals data.

Note: \*\* 1- Neoplasms 2- Diseases of the blood and blood-forming organs and certain disorders involving the immune mechanism 3- Diseases of the circulatory system 4- Diseases of the digestive system 5- Diseases of the genitourinary system

## Conclusions and recommendations

**The recommendations presented in this section can only be implemented following a durable ceasefire.**

As indicated at the beginning of the chapter, this analysis was conducted prior to the start of the conflict in October 2023, and recommendations were discussed with the PA MOH and other PA stakeholders during that period. Even as the short-term implementation of these recommendations remains contingent upon the implementation of a complete ceasefire and a transition towards a recovery and reconstruction phase, they remain pertinent for health financing reform, based on the following principles: a) increased pooling of funds sufficient to deliver an essential benefits package; b) financially sustainable and efficient purchasing mechanisms; and c) sustainable delivery of essential services in an equitable manner. This analysis also acknowledges the fact that it is conducted within a context of ongoing restrictions and violence, which continue to remain as the main binding constraint for reaching universal health coverage: this chapter therefore seeks to provide recommendations that can still be implemented within this context.

**The most critical financial challenges facing the Palestinian health sector are inequitable financial risk protection, unsustainable health spending driven by inefficient purchasing arrangements, and shrinking fiscal space.** The Palestinian health-financing system is locked in a vicious cycle of elevated unit costs, mounting arrears, chronic medicine stockouts, and weak public investment. Due to substantial payment delays and the accumulation of arrears to pharmaceutical wholesalers, unit costs remain high, and few pharmaceutical wholesalers remain active in the market, which further increases prices while undermining MOH bargaining power. The limited availability of pharmaceuticals in public facilities increases the frequency of referrals to non-MOH hospitals, which further inflates OMR-related expenditures and arrears. The unit costs of pharmaceuticals remain substantially elevated due to the limited use of reference pricing, the use of Israeli prices, high entry and exit requirements, and a restrictive customs regime. The absence of an explicitly defined benefits package weakens cost controls and further contributes to the unsustainability of pharmaceutical costs and other health spending. In the absence of progressive reforms, this vicious cycle will continue to result in unsustainable and inequitable service delivery. As the PA has little to no capacity to increase the fiscal space for health spending, at least in the medium term, fostering inclusive and effective service delivery is vital. The following four-step prioritized plan should be implemented as soon as a durable ceasefire has been established.

**Step 1: Strengthen MOH purchasing arrangements by defining an essential benefits package, reference prices, and contracting rules.** Due to the PA's fiscal constraints and the unsustainable nature of OMR expenditures, the health-financing system must redefine its purchasing arrangements. The MOH is the sole public purchaser of health services, and it should continue strengthening the capacity of the SPU by explicitly defining a benefits package and prioritizing the services covered within it. Currently, almost all OMRs are covered with no regard for patient needs or cost-effectiveness, resulting in high expenditures and arrears. The benefits package and copayment structure should be comprehensively updated according to current levels of service utilization, the public sector's ability to deliver services, the population's ability to pay, and the unit costs of services. The benefits package should also define clinical protocols and treatment pathways for each service to reinforce financial sustainability and adherence. Once the essential benefits package has been established, additional packages can be defined and offered. The SPU needs the capacity to fully manage OMR by determining where patients with specific conditions would be referred to, and it must transition away from the existing patchwork of inconsistent MOUs to a standardized system of contracts with improved accountability and auditing mechanisms.

**Step 2: Expand equitable insurance coverage.** Increasing coverage is essential given high levels of OOP expenditures and the fact that over one-third of the population is not covered by GHI. Moreover, GHI lacks many features of a standard health-insurance scheme and has more in common with tax-based public financing systems that use public funds to protect against health risks rather than earmarked insurance contributions. To expand equitable insurance coverage, the PA should either: (i) strengthen the current GHI arrangements to ensure the delivery of the essential benefits package and a prioritized list of OMR services; (ii) use general tax revenue to finance the essential benefits package and use GHI contributions exclusively to finance priority OMR services; or (iii) use tax revenue to finance both the essential benefits package and priority OMR services. Whichever option is chosen, policymakers will need to mobilize sufficient resources, focus on controlling price, and define an essential benefits package as described above. If the PA opts to scale up an insurance-based approach, poor and vulnerable households should be exempted from premium payments, and the social registry operated by the Ministry of Social Development could be used to determine exemptions on a household-by-household basis. Contributions should be linked to ability to pay, with a range of premiums to be determined based on salaries for formal workers or declared revenue for non-salaried workers using actuarial methods, and poor and vulnerable households should be covered automatically. The PA's health-insurance mechanisms should refocus on ensuring access to essential health services without financial hardship rather than generating revenue for

the health system. Beneficiary-management functions also need to be strengthened, and the authorities should develop a plan for reaching universal coverage.

**Step 3: Create additional fiscal space by raising and reallocating revenue, especially for covering the poor and vulnerable to reduce OOP, and proactively managing arrears.** Rationalizing benefits and strengthening purchasing arrangements could ease pressure on the PA's health budget. Even in upper-middle and high-income countries with longstanding public health insurance schemes, tax revenue typically subsidizes about one-third of healthcare costs, which indicates that relying solely on contributions is not a feasible way to finance a health system. In the West Bank and Gaza, relatively few households are able to contribute, and even if insurance premiums were tripled, they would barely reach one-third of public health expenditures. As a result, general tax revenue will continue to play a major role in financial risk protection. In addition to efficiency gains, the PA has three options for expanding the fiscal space for health spending: (i) establish or increase taxes on unhealthy foods, tobacco, and alcohol; (ii) reallocate budgetary funds to ensure the MOH has adequate resources to finance the essential benefits package and other services for poor and vulnerable households; and (iii) develop a comprehensive investment plan for the health sector and mobilize resources from external partners to reduce the incidence of OMR, particularly to Israeli hospitals, and increase the share of conditions managed at the PHC level.<sup>90</sup> In addition, price negotiations between the MOH and referral-receiving hospitals and pharmaceutical providers should focus on managing arrears to reduce fiscal pressure going forward. The MOH should leverage its role as an integrated purchaser to negotiate bulk-purchase rates and establish a feasible plan for clearing arrears.

**Step 4: Improve the legal and institution framework for the health sector.** To achieve its objectives for public health in a context of tight resource constraints and other challenges, the PA will need to continually refine and enhance the organizational structures and operational processes that underpin the health sector. Building purchasing capacity and integrated information systems will be a necessary first step. GHI can be enhanced by creating arrangements for a purchaser/provider split, establishing an autonomous insurance agency, and introducing key beneficiary, provider, and claims-management functions.

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<sup>90</sup> An in-depth assessment of access and financing issues associated with referrals to Israeli hospitals is conducted by the authors in *World Bank. Racing Against Time: World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099638209132320721/IDU0e8b2e87e098b004a7a09dcb07634eb9548f4>

# CHAPTER 5 THE PALESTINIAN EDUCATION SYSTEM

## Overview of the Education Sector

**The analysis presented in this chapter is based on 2012-2022 data from the MOF and MOE, and like the other chapters of this PER, it does not account for the impact of the conflict that began in October 2023.**

This chapter examines the adequacy, efficiency, and equity of public spending on pre-tertiary<sup>91</sup> education in the West Bank and Gaza. The analysis is informed by domestic and international education standards, the results of the annual General Secondary Education Certification Examination (Tawjihi) and the biennial National Learning Standardized Assessment (NLSA), and the goals set forth in the PA's Education Sector Strategic Plan (ESSP). As a revised ESSP is currently being developed but has not yet been completed, this chapter relies on the 2017-2022 ESSP. The results of the Program for International Student Assessment (PISA) 2022 examination allow for international comparisons, as do the Trends in Mathematics and Science Study (TIMSS) 2011, which is less current but offers a larger pool of participating countries.<sup>92</sup>

**The Palestinian pre-tertiary education sector includes two years of pre-primary education (KG1 and KG2), grades 1-12, technical and vocational education and training (TVET), and adult education.** While pre-primary education is not mandatory, a 2017 law aimed to make the second year of pre-primary (KG2) universal. Grades 1-9 are considered basic education and are sometimes split into lower basic (grades 1-4) and upper basic (grades 5-9). All years of basic education are compulsory. At the secondary level, students have the option to continue on the academic track (grades 10-12), pursue TVET or other alternative forms of education, or enter the labor market. Adult education programs provide up to two years of informal education to individuals between the ages of 15 and 40 and may award the equivalent of a grade 9 certificate.

**Unlike most education systems, the Palestinian education sector is divided into three geographically separated territories: the West Bank, Gaza, and East Jerusalem.** 760,688 Palestinian students in the West Bank, 597,722 students in Gaza, and 45,426 students in East Jerusalem attend pre-tertiary education (Table 14). Of these, 23.4 percent are enrolled in public schools,<sup>93</sup> 74.4 percent in private schools, and 2.1 percent in UNRWA schools. An additional 40,573 Palestinian students attend schools run by the Municipality of Jerusalem, and 2,734 are enrolled in contractor schools; these groups are not included in this PER, as they fall under the authority of the GOI. While the chapter examines the role of private and UNRWA schools in the Palestinian education sector, the expenditure analysis only tracks funding from the PA, which is limited to public schools. Unless otherwise specified, East Jerusalem is treated as part of the West Bank, which is standard for statistical breakdowns between the West Bank and Gaza.

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<sup>91</sup> Pre-tertiary education in the West Bank and Gaza includes pre-primary, basic, and secondary education, as well as TVET and adult education.

<sup>92</sup> Results for TIMSS 2023 have not been released in time to be included in this PER.

<sup>93</sup> In East Jerusalem, public schools are referred to as Waqf schools. They operate in the same way that public schools in the West Bank and Gaza do but may receive financial support from the Kingdom of Jordan. There are some (public) Waqf schools in the West Bank that have oversight from the Ministry of Religious Affairs in addition to oversight from the MOE.

Table 14: Summary Statistics for the Education Sector in the West Bank and Gaza, 2021-2022

		Number of Schools	Number of Students	Percent of Students	Number of Classrooms/Sections
West Bank	Public	1,878	602,389	79.2%	22,455
	Private	395	112,328	14.8%	5,077
	UNRWA	96	45,971	6.0%	1,336
Gaza	Public	429	289,409	48.4%	7,383
	Private	66	19,146	3.2%	880
	UNRWA	278	289,167	48.4%	7,048

Note: Statistics on the West Bank include schools in East Jerusalem.

Source: MOE Annual Statistical Book

**The MOE is the official entity responsible for the Palestinian pre-tertiary education sector, but its authority varies across territories.** In the West Bank, the MOE has full authority over public and private schools and works in close collaboration with UNRWA (Table 15). In Gaza, the MOE shares responsibilities for operating public schools with the *de facto* authority, though data on the specifics of this arrangement are limited. Gaza's Assistant Deputy Minister of Education and corresponding focal points at the various technical departments cooperate with MOE counterparts in the West Bank, but they also have separate areas of responsibility. Some public-school teachers in Gaza receive salaries from the MOE, while others, especially those who took positions after 2007, are paid by the *de facto* authority. The MOE has no information on the expenditures of the *de facto* authority or international donors operating in Gaza.<sup>94</sup>

Table 15: Responsibilities of the MOE in Schools in the West Bank and Gaza

Responsibilities of the Palestinian MOE	Public Schools		Private Schools		UNRWA Schools	
	West Bank	Gaza	West Bank	Gaza	West Bank	Gaza
Set Curriculum	✓	✓	✓	✓	✓	✓
Administer the NLSAs	✓	✓	✓		✓	✓
Administer the Tawjihi	✓	✓	✓	✓	NA	NA
Pay Teachers and School Staff Salaries	✓	Shared with <i>de facto</i> authority				
Collect Students' Fees	✓					
Construct and Maintain School Buildings	✓	✓				

<sup>94</sup> This PER analyzes the spending of the PA on the education sector in Gaza and acknowledges where there is likely additional, unknown funding coming into the system.

<b>Provide School Registration and/or Licensing</b>	NA	✓	✓
<b>Conduct Academic Supervision</b>	✓		

*Note: This table excludes schools in Jerusalem. See Table 18 and Table 20 for more information on schools that are located in Jerusalem.*

*Source: Based on interviews with the MOE.*

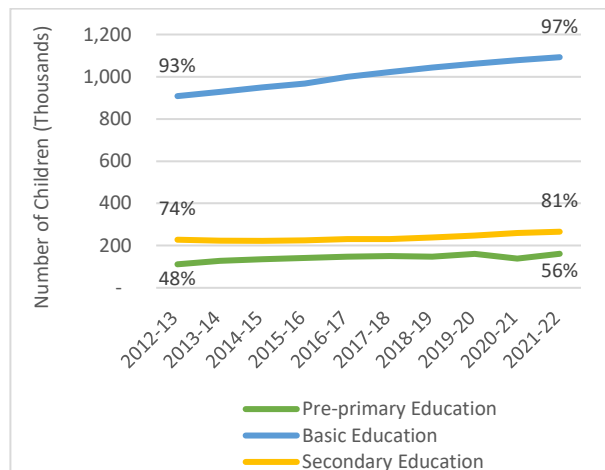
**The ESSP (2017-2022) sets out a set of goals for the Palestinian education sector, which include targets under the Fourth Sustainable Development Goal (SDG 4) and the national priorities specified in the National Policy Agenda 2017-2022.** The ESSP identifies three general objectives for the education system in the West Bank and Gaza: (i) ensuring safe, inclusive, and equitable access to quality education at all levels of the system; (ii) developing a student-centered teaching and learning environment; and (iii) enhancing accountability and promoting results-based leadership, governance, and management.

**The West Bank and Gaza is classified as a conflict-affected situation, and this has a direct impact on the education system.** The effects of the conflict are multifaceted and have profound implications for students, teachers, and institutions. A non-exhaustive list of these effects includes the following. First, educational infrastructure, particularly the construction of new schools, is a highly politicized issue and is severely restricted in the West Bank. This results in limited access to education, particularly at the pre-primary level, in more remote areas. Second, the GOI imposes severe movement restrictions both on people and goods in the West Bank, and Gaza has been subject to a near-total blockade since 2007, exacerbating the political and economic fragmentation of the territories. Mobility restrictions also lead to delays and increased transportation costs for teachers and students, which sometimes interrupt the school calendar. Third, customs collection and the withholding of tax revenue directly affect GDP and public revenue, which constrains spending in the education sector. Finally, the ongoing restrictions and the conflict have significant negative implications for the mental health both of teachers and students, undermining learning.

### **Education Access**

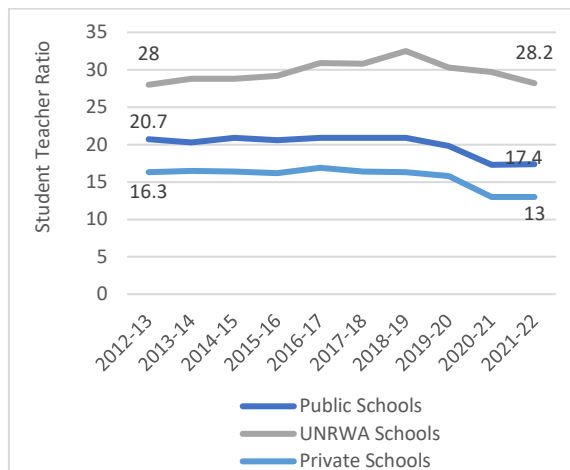
**Despite the immense challenges facing the education sector in the West Bank and Gaza, indicators of education access have improved over the past decade, and universal basic education has been achieved.** Between 2012 and 2021, the number of children enrolled both in basic and secondary education increased by 20 percent, and the gross enrollment rate (GER) reached 98.6 for basic education and 81.8 percent for secondary education (Figure 85), surpassing the MOE’s targets. However, gains at other levels have been slower. Pre-primary education has recently become a focus of the MOE, but in 2021 the GER for KG1 and KG2 was 56.3 percent, well below the MOE’s target of 70 percent. Despite rising enrollment rates, the ratio of students to teachers has declined over the past decade both in public and private schools (Figure 86). However, high birth rates are expected to further increase the number of children entering the school system in the medium term, which will increase pressure on educational facilities and resources.

Figure 85: GERs by Education Level



Source: Authors' calculations using population data from PCBS and data on enrolment from the MOE's Annual Statistical Books 2012-2013 – 2021-2022.

Figure 86: Student-Teacher Ratios by School Type



Source: Authors' calculations based on the MOE's Annual Statistical Books 2012-2013 – 2021-2022.

### Education Quality

**Palestinian students are regularly evaluated in national assessments, and their participation in international standardized tests enables cross-country comparisons of education quality and student performance.** In 2022, Palestinian students participated in the PISA, which in itself is an important milestone, as countries self-select for the assessment, and the West Bank and Gaza had one of the lowest levels of GDP per capita among participating countries. Prior to the 2022 PISA, the most recent international standardized test that the West Bank and Gaza participated in was the 2011 TIMSS. In 2023, the TIMSS was administered in both both the West Bank and Gaza, and in the same year the literacy and Numeracy Assessment (LaNA) was administered in the West Bank only. The results of both 2023 assessments had not yet been released at the time that the data analysis for this PER was done. The NLSA is administered every other year to a sample of students from grades 5-9 in different types of school in all three territories and covers a range of subjects. Students sit for the high-stakes Tawjihi.<sup>95</sup>

**Average student learning outcomes in West Bank and Gaza are below the international average.** According to the 2022 PISA results, 80 percent of 15-year-old students in the West Bank and Gaza did not meet Level 2 proficiency standards in mathematics Table 16, indicating that they could not interpret a simple situation represented mathematically without direct instruction. In addition, 77 percent failed to meet proficiency standards for reading, while 71 percent did not meet the standards for science. Table 16 shows that the mean scores in the West Bank and Gaza are below both the international and MENA mean scores. Almost no students in the West Bank and Gaza were top performers (passing Level 5 or 6 in the PISA test) in mathematics, reading, or science. The results of the 2011 TIMSS were aligned with the PISA results: more than half of grade 8 students failed to meet the low international benchmark for mathematics, while 41 percent did not reach the benchmark for science. The 2022 NLSA found that less than one-third of grade 9 students met the national minimum proficiency benchmark in mathematics and

<sup>95</sup> Further details on domestic and international student assessments are provided in Annex VIII.

in “science and life.” Students fared better in Arabic, with just over half achieving a passing mark. Results for grade 5 were similar across all subjects.

Table 16: Mean Scores in PISA 2022

	West Bank and Gaza	International Average	MENA Average <sup>96</sup>
<b>Mathematics</b>	366	472	388
<b>Reading</b>	349	476	375
<b>Science</b>	369	485	394

Source: Organization for Economic Cooperation and Development ([OECD](#)) (2023).

### Equality Indicators

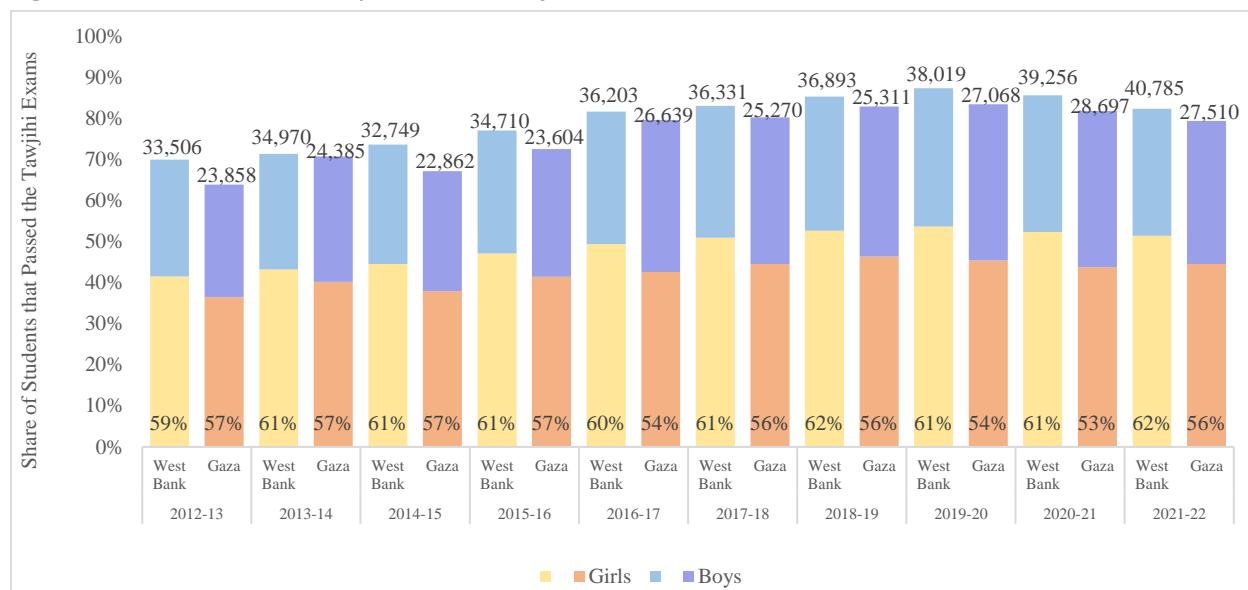
**Unequal access to early education has important implications for school readiness and future academic success.** Pre-primary enrolment has grown steadily in recent years,<sup>97</sup> reaching about 60 percent in KG1 and 75 percent in KG2 in 2021-22. However, 99 percent of KG1 and 91 percent of KG2 facilities are run by private providers, making early education prohibitively expensive for many children from poorer households. Unequal enrollment in early education likely widens the school-readiness gap between socioeconomic groups.

**Girls outperform boys in basic and secondary education.** The 2022 NLSA found that girls scored higher in mathematics, “science and life,” and Arabic in grade 5 and grade 9. These results are consistent with those of the 2014 early grade reading assessment (EGRA), which found that boys’ reading comprehension in grade 4 was particularly low. The results of the 2022 PISA indicated that 15-year-old girls outperformed their male counterparts in mathematics, reading, and science, while in the TIMSS 2011 girls outperformed boys in mathematics and science in grade 8. Moreover, more girls than boys have passed the Tawjihi examinations both in the West Bank and Gaza every year for the past decade. During 2011-2022, 62 percent of students in the West Bank and 56 percent in Gaza who passed the Tawjihi were female (Figure 87). This pattern partly reflects the higher participation rate of girls in secondary education, as there are 1.24 girls enrolled for every boy, but girls also outperform boys in basic education, where enrollment rates are close to gender parity.

<sup>96</sup> Jordan, Morocco, Qatar, Saudi Arabia, UAE, and West Bank and Gaza are the PISA participants from MENA.

<sup>97</sup> These figures refer to the 2017 and 2019 pre-primary adjusted net enrollment rate (Human Capital Index, 2020).

Figure 87: More Girls than Boys Pass the Tawjihi Examinations in the West Bank and Gaza



Note: Percentages indicate the share of students that passed the Tawjihi that are female.

Source: Authors' calculations based on data provided by Center for Educational Research and Development (CERD).

Finally, differences in educational achievement are evident across school types, with students in UNRWA schools outperforming their counterparts in public and private schools. On the 2022 NLSA, in all tests but one (grade 5 Arabic), students in UNRWA schools scored higher than those in public and private schools (Table 17). Moreover, students in private schools consistently outperformed those in public schools both on the 2022 NLSA and PISA 2022. This is broadly consistent with TIMSS 2011, where public school students achieved the lowest scores.

Table 17: Results in NLSA 2022, PISA 2022, and TIMSS 2011 by School Type

	NLSA 2022						PISA Math 2022	TIMSS Math 2011
	Grade 5 Math	Grade 5 Science	Grade 5 Arabic	Grade 9 Math	Grade 9 Science	Grade 9 Arabic		
<b>Public Schools</b>	33.77	35.32	45.61	23.36	29.16	44.30	362	427
<b>UNRWA Schools</b>	47.43	52.48	56.32	42.29	47.03	63.81	NA <sup>98</sup>	444
<b>Private Schools</b>	39.83	45.27	58.70	33.27	36.20	50.09	429	491

<sup>98</sup> As PISA is an assessment of 15-year-old students, UNRWA schools were excluded from the assessment as the final year of school in UNRWA schools is grade 9, when most students are 14-years of age.

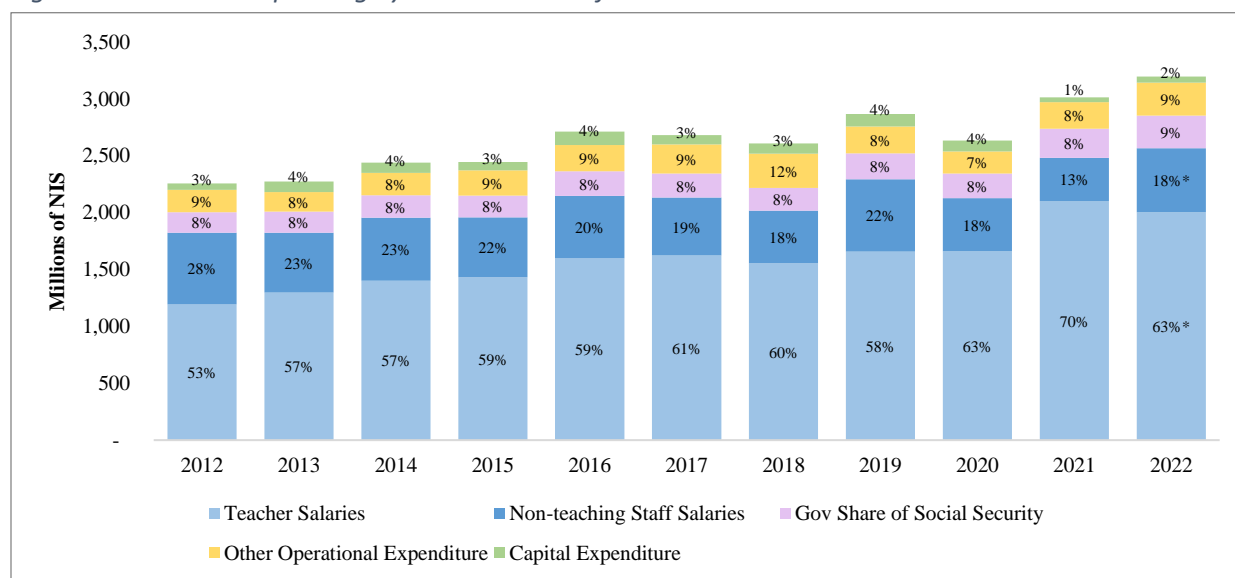
Note: PISA and TIMSS results shown in the table are mathematics mean scores. Results in other subjects are similar and the rankings by type of school remain the same.

Source: Data provided by the MOE, OECD, 2023. [PISA 2022 Results: Factsheet: Palestinian Authority](#).

## Education Spending

**Public spending on education in the West Bank and Gaza is relatively high and dominated by salaries, with the basic and secondary education levels accounting for the largest share of spending.** Public education spending rose from NIS 2.3 billion in 2012 to NIS 3.1 billion in 2021. In 2022, over 90 percent of total spending was devoted to operational expenditures, with over 80 percent going to salaries. While a large share of salary spending is common among education sectors worldwide, the dominance of operational expenditures leaves little space for investment. Over the past five years, teachers have accounted for an average of 78 percent of salary spending, with the remaining 22 percent going to school administrators and other non-teaching staff (Figure 88). The share of education in total government spending has fluctuated over time but has consistently exceeded both the MENA regional average and the world average. Almost 50 percent of education spending is devoted to basic education, 40 percent goes to secondary education and the remaining 10 percent is split between pre-primary education, TVET, informal adult education, and the governance and management of the sector.

Figure 88: Education Spending by Economic Classification



Note: The breakdown of salaries between teacher and non-teaching staff salaries in 2022 is based on a projection from the years prior.

Source: Authors' calculations based on MOF data.

**Over the past three years, about 90 percent of the PA's education budget has been directed to the West Bank, home to 68 percent of all children who attend public schools.** This uneven distribution between the West Bank and Gaza likely reflects substantial education spending by the *de facto* authority in Gaza, though data constraints prevent a thorough analysis of those expenditures. An estimated 13,000 public school teachers work in Gaza, representing about 25 percent of all public-school teachers in the West Bank and Gaza, but some are not on the MOE payroll, and the exact number of teachers is unknown. Similarly,

funding for construction, the sector's second largest expenditure item, also comes from sources other than the PA.

**Direct donor contributions to the MOE amounted to NIS 74 million in 2022, representing almost one-quarter of the development budget and over 80 percent of development spending.** However, donor contributions fluctuate from year to year, which complicates sector-level planning and budgeting, resulting in frequent financing gaps. Donor contributions peaked at NIS 133.9 million in 2018 and have since declined by 44.6 percent. Over the past decade, about 30 donors have provided support to the MOE, though the pool of donors has changed repeatedly. Currently, the largest source of donor funding comes from the Joint Financing Arrangement (JFA), a pooled fund backed by a group of European countries that provides budget support to the MOE for the implementation of the ESSP.<sup>99</sup> The World Bank has also been an active donor in the education sector, providing project-based financing that is executed through the MOE. Other bilateral donors such as Belgium, Japan, and the United States, various UN agencies, and the Islamic Development Bank also provide financing for education projects, but these funds are usually not executed through the MOE. Large donor contributions to UNRWA schools are not included in the MOE budget. In addition, funding received by the *de facto* authority in Gaza or other education organizations, as well as donations made directly to schools, are not accounted for by the MOE.

**Since the various sources of financing are still falling short of what the education sector needs to keep running and develop further, the government is becoming more reliant on arrears, raising concerns about their credibility among contractors.** In 2022 arrears came to a total of NIS 98.2 million, representing 3 percent of education spending. Arrears were under NIS 6 million in 2017, reaching NIS 40 million in 2021 and NIS 89 million in 2022 – 14 times what they were five years prior. The huge increase year on year is partly because arrears are not cleared by the end of each financial year and are brought forward into the next. There is currently no government strategy to address the clearance of these arrears.

## Analyzing the Performance of Education Expenditures

### *The Adequacy of Spending*

**Public education spending in the West Bank and Gaza relative to GDP is in line with international standards and high compared with the average for MENA and for the world, but may still be falling short of what is needed in the sector.** Over the past decade, education spending has remained stable at about 5 percent of GDP, consistent with international best practices.<sup>100</sup> In the MENA region, education spending averages just under 4 percent of GDP, while the world average is slightly above 4 percent. The PA's relatively high level of education spending is due in part to demographics: over 40 percent of the population in the West Bank and Gaza is under the age of 15, far above both the MENA average (31 percent) and the world average (25 percent).<sup>101</sup> As noted above, these figures do not include expenditures by the *de facto* authority in Gaza or funding from UNRWA, and thus actual spending on the education sector is higher

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<sup>99</sup> The JFA was designed as a technical platform for dialogue on key education issues and to provide a predictable and reliable source of financing, although year to year the financing coming through the JFA has varied considerably. It currently includes the following European countries: Finland, Germany, Ireland, and Norway.

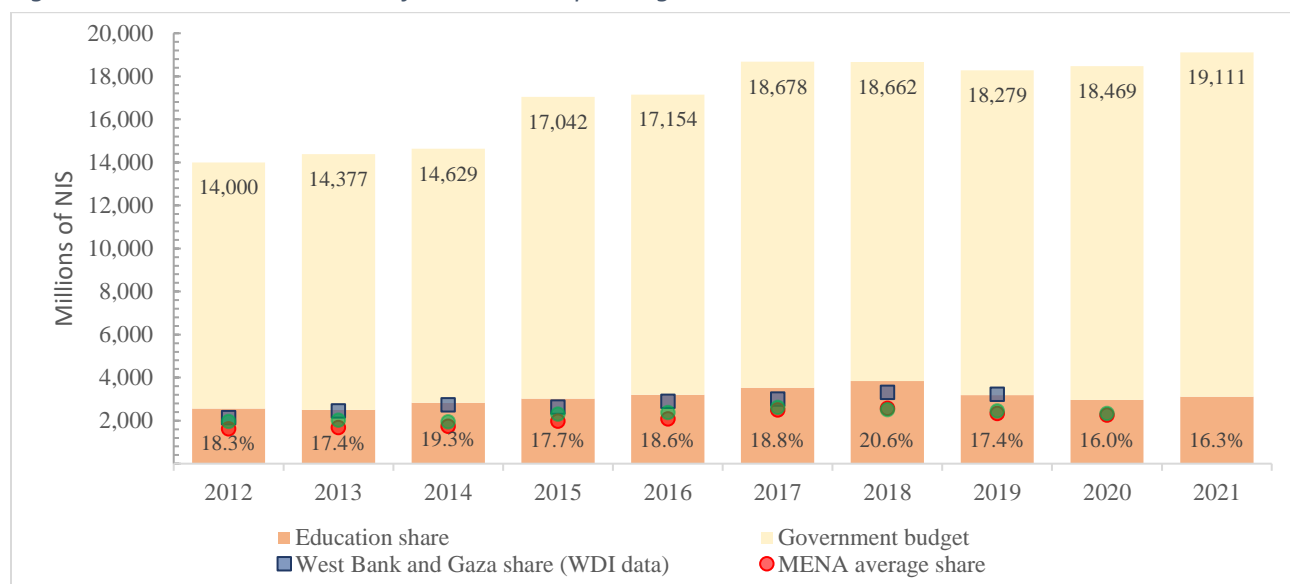
<sup>100</sup> The Third International Conference on Financing for Development, held in Addis Ababa in July 2015, called for education spending to equal 4-6 percent of GDP.

<sup>101</sup> [World Bank WDI](#).

than reported here. Nevertheless, teachers have not been paid their full salaries since late 2021, and rising arrears indicate that more financing is needed.

**Education expenditures are also large relative to total public spending, further underscoring the PA's prioritization of the sector.** The education sector accounts for 16 percent of total spending (Figure 89), within the recommended range of 15-20 percent.<sup>102</sup> Even though non-PA financing sources are excluded, public spending on education is still high by international standards. Over the past decade, the share of education spending in total spending consistently exceeded the MENA average of about 12 percent and the world average of about 14 percent. While some MENA countries spend substantially larger shares of their budgets on education, such as Tunisia (23 percent) and Morocco (24 percent),<sup>103</sup> since 2012 education spending in the West Bank and Gaza has typically been above the MENA median of 14-17 percent. Despite the PA's demonstrated commitment to education, increased donor support will be necessary to cover the sector's financing gap.

Figure 89: Education as a Share of Total Public Spending



Source: Authors' calculations based on data provided by the MOE and World Bank WDIs.

## Expenditure Efficiency

### Education Spending and Outcomes

**Palestinian students outperform their counterparts in countries with similar levels of GDP per capita on international standardized tests, but measures of proficiency across subjects suggest the quality of education is low, particularly relative to education spending.** The 2022 PISA provides the most up-to-date assessment of education quality in the West Bank and Gaza in international context. Due to self-selection, however, the 81 countries participating in PISA are relatively wealthy, and their students tend to perform

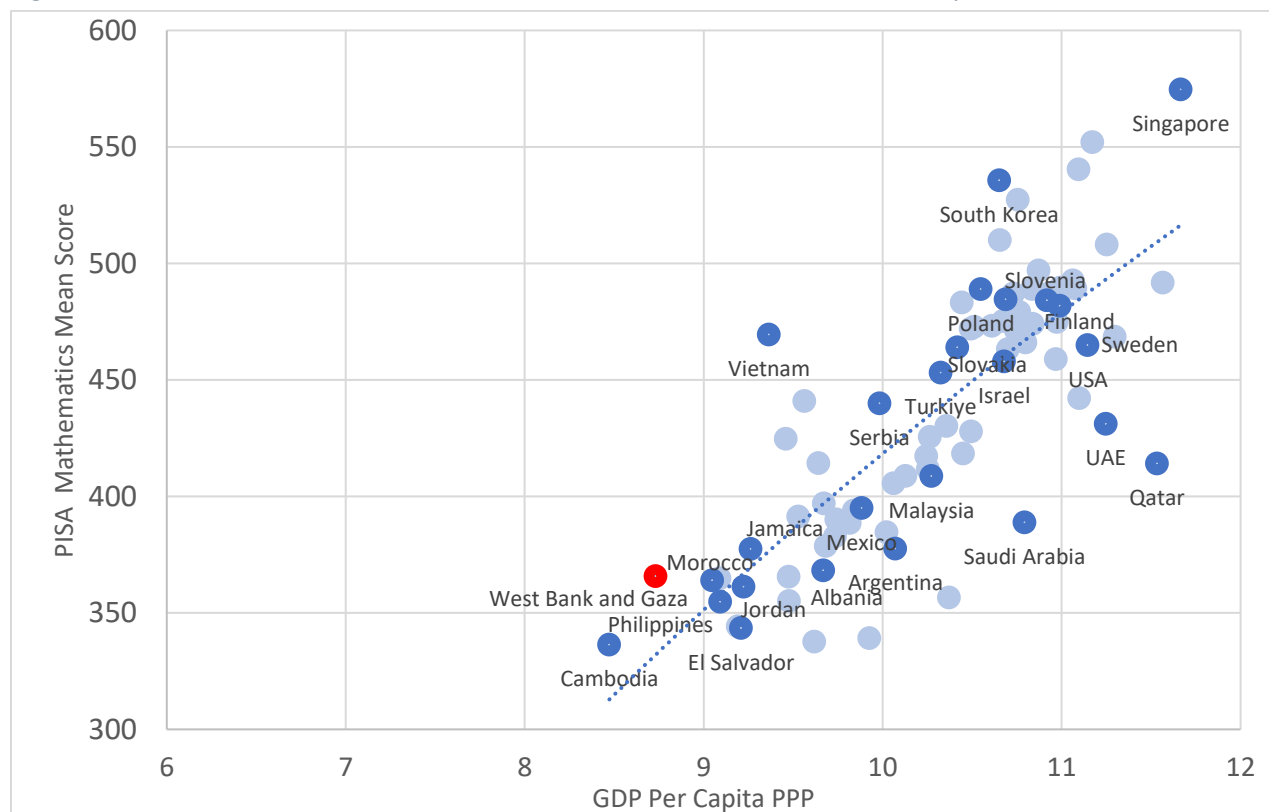
<sup>102</sup> As per the Third International Conference on Financing for Development in Addis Ababa, July 2015.

<sup>103</sup> [World Bank WDI](#).

well.<sup>104</sup> For that reason, the Learning Adjusted Years of Schooling (LAYS) index, which has a far larger pool of countries, is also considered in the analysis, with details provided in (see ANNEX VIII).

**Considering the West Bank and Gaza’s dire economic and security situation, Palestinian students perform relatively well.** The West Bank and Gaza has one of the lowest levels of GDP per capita among 2022 PISA participants, and even prior to the current conflict it was heavily affected by fragility and violence. Despite these circumstances, Palestinian students achieve learning outcomes that exceed what GDP per capita would predict (Figure 91). The average mathematics score of 366 in the 2022 PISA was slightly above the scores of two other MENA countries with comparable levels of GDP per capita, Jordan (361) and Morocco (365). However, 80 percent of 15-year-old Palestinian students scored below Level 2 proficiency in mathematics, highlighting an important area for improvement.

Figure 90: Association between PISA Mathematics Mean Scores and GDP Per Capita



Note: Education as a share of GDP is taken as the average from 2012-2022 in cases where at least five years of data are available and the log of GDP per capita is used.

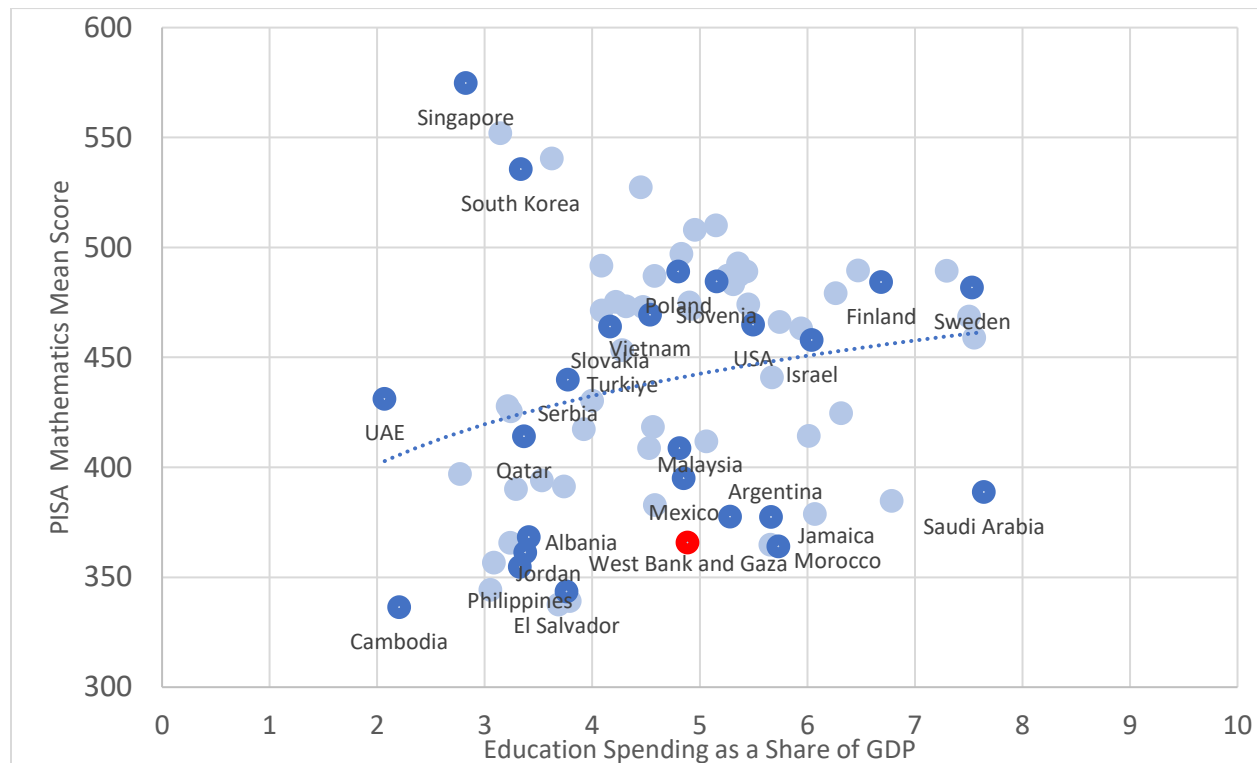
Source: Authors’ calculations based on PISA 2022 results and United Nations Educational, Scientific and Cultural Organization Institute for Statistics (UNESCO UIS) (2020).

**In terms of education spending as a share of GDP, students in the West Bank and Gaza underperformed on the PISA 2022.** 53 percent of participating countries had lower levels of education spending relative to GDP, but the West Bank and Gaza had the lowest average score for mathematics (Figure 90). Similar patterns were observed for reading and science scores. The West Bank and Gaza’s performance on the

<sup>104</sup> Of the countries that participated in the 2022 PISA, 46 percent were OECD countries, and no country in Sub-Saharan Africa took part in the assessment.

LAYS index, which includes less-wealthy countries, is commensurate with its level of education spending. Education spending in the West Bank and Gaza equals 4.9 percent of GDP, above the global average of 4.4 percent, and its average LAYS score of 8.5 exceeds the global average of 7.9.

Figure 91: Association between PISA Mathematics Mean Scores and Public Expenditure on Education



Source: Authors' calculations based on PISA 2022 results and UNESCO UIS (2020).

### Allocative Efficiency

**While the education sector receives a relatively large share of the PA's budget, pre-primary and TVET programs have missed their ESSP 2017-2022 targets.** Basic and secondary education account for about 90 percent of all education spending each year, and targets for both levels have been achieved or surpassed (Table 18). The successes observed in education levels that receive a large majority of funding suggest that education resources are relatively well-allocated overall. However, indicators for pre-primary education—identified as a priority by the MOE in 2017—and TVET have both fallen short of their strategic policy targets, indicating that more financing may be required at these levels.

Table 18: ESSP 2017-2022 Targets and Achievements by Education Level

Program	Indicator	2014 (baseline)	2015	2019 (Target)	Achievement (2019)	Achievement (2021)
<b>Pre-primary</b>	GER	55.1%	57.3%	70%	62.3%	56.3%
<b>Basic Education</b>	Adjusted NER	94.2%	94.6%	97.6%	98.9%	98.6%
<b>Secondary Education</b>	Adjusted NER	68.1%	66.8%	69.5%	77.4%	81.8%
<b>TVET</b>	GER	2.2%	2.1%	5%	4.5%	4.8%

ESSP target achieved
ESSP target not achieved

Note: Adjusted NER refers to the share of all children attending school who are within the bounds of the youngest and oldest age for that level of schooling. For example, in basic education, the number of children who are enrolled in grades 1-9 is presented as a share of all children between the ages of six and 15 years old in the population, regardless of what age they are at each specific grade.

Source: ESSP (2017-2022) and annual Monitoring and Evaluation (M&E) reports from 2019-2020 and 2021-2022.

**As the marginal cost of pre-primary education continues to decrease, reallocating resources across education levels could generate efficiency gains.** In 2021, the cost per student for public secondary education was NIS 4,615, well below the cost of NIS 7,487 for public pre-primary education and NIS 2,377 for basic education (Table 19). The PA identified pre-primary education as a priority in 2017, and between 2017 and 2022 the marginal cost halved as high start-up costs gave way to economies of scale. The falling marginal cost of pre-primary education creates opportunities to efficiently reallocate resources from the secondary to the pre-primary level, in line with global evidence that investments in early childhood education are among the most effective developmental interventions. High-quality pre-primary education programs have been linked to lifelong improvements in academic performance, higher graduation rates, and increased earning potential. These benefits generate cost savings by reducing the need for remedial education and social welfare programs over the long term. As pre-primary education has only recently become a priority for the MOE, the initial cost of universalizing KG2 is likely to be high, but the marginal cost of serving additional students should fall steadily over time.

Table 19: Annual Public Spending per Student in Public School by Education Level

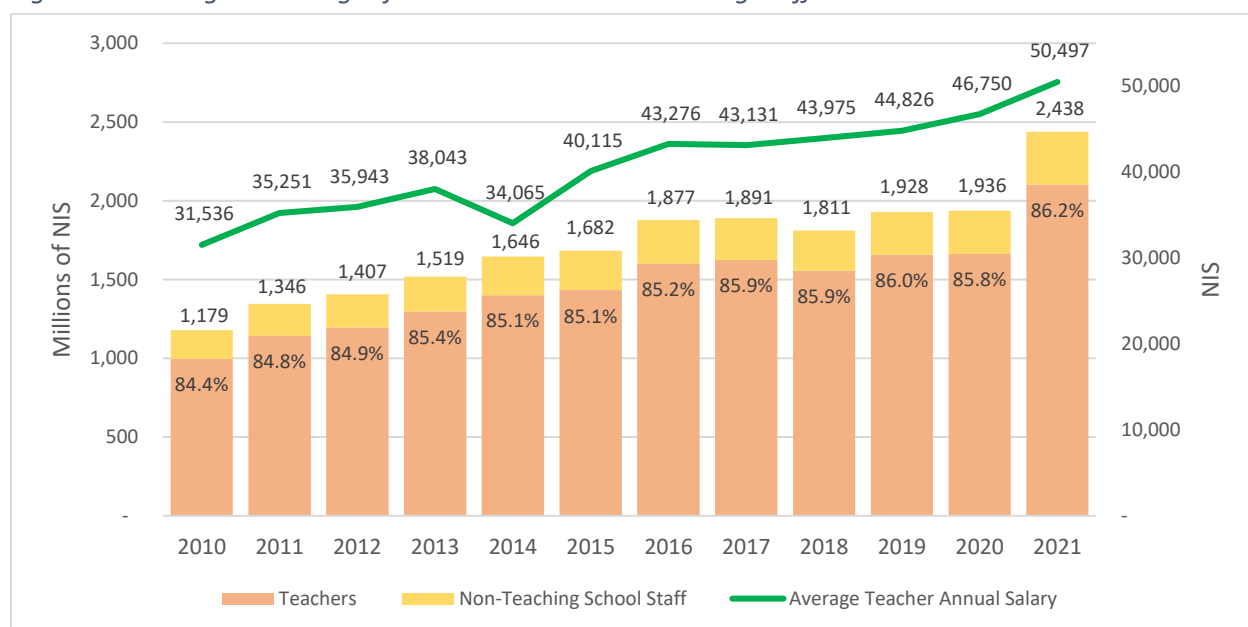
	2015	2016	2017	2018	2019	2020	2021
<b>Pre-primary Education</b>	-	-	15,330	9,534	6,270	5,029	7,487
<b>Basic Education</b>	2,155	2,380	2,300	2,196	2,161	2,093	2,377
<b>Secondary Education</b>	4,557	5,034	4,982	4,618	4,451	4,448	4,615

Source: MOE expenditure data and MOE's Annual Statistical Books 2012-2013 – 2021-2022.

## Teacher Salaries and Utilization

The West Bank and Gaza’s better-than-expected learning outcomes (when accounting for the dire economic and security situation) are likely driven in part by its relatively well-educated and well-remunerated teaching force. 82 percent of Palestinian teachers have a bachelor’s degree (BA or BSc), 10 percent have a master’s degree (MA or MSc), and the remaining 7 percent have high school diplomas or lower qualifications. The distribution is similar in the West Bank and Gaza. The average teacher salary is about NIS 50,000 (US\$ 13,200) per year (Figure 92), far below OECD levels but more than twice the minimum wage in the West Bank and Gaza. Average salaries for teachers have increased since 2010, and allowances have risen even faster. However, many teachers are owed back-pay for the months in which they received partial salaries to help the PA cope with its budget shortfall.

Figure 92: Average Real Wages for Teachers and Non-Teaching Staff



Source: MOF wage bill data.

**The large share of personnel costs in total spending makes efficiency gains difficult to achieve in the near term.** As noted above, personnel spending is relatively high but still broadly consistent with the levels of comparator countries. Moreover, teachers in the West Bank and Gaza already work more hours per week and per year than their MENA counterparts, leaving little scope to increase teaching hours. Efforts to improve pedagogical quality should focus instead on ensuring that teachers are well prepared, adequately monitored and supported, and sufficiently motivated.

**The student-teacher ratio is low both in the West Bank and in Gaza, and retirement and turnover among teachers offer opportunities to generate efficiency gains.** Over the past decade, the number of teachers in public schools has grown proportionally with the number of students, but the cost of salaries and allowances has more than doubled in real terms. In 2021, the average student-teacher ratio was 15.7 in the West Bank and 22.2 in Gaza (Table 20). While moderate student-teacher ratios are consistent with a positive learning environment, these levels are difficult to justify in a context of tight fiscal constraints.

Moreover, the MOE aims to increase the size of the teaching workforce by a further 3 percent,<sup>105</sup> further lowering the student-teacher ratio in the coming years. While this effort has been suspended due to MOF-imposed restrictions on the growth of the wage bill, further analysis is necessary to determine how attrition would affect the student-teacher ratio at the basic and secondary levels across localities.

Table 20: Average Pupil-Teacher Ratios for Grades 1-12

		Total	Public	UNRWA (basic education only)	Private
2012-2013	West Bank	19.9	20.1	25.0	16.5
	Gaza	24.6	22.4	28.8	15.6
2021-2022	West Bank	15.5	15.7	23.6	12.9
	Gaza	24.5	22.2	29.1	13.4

Source: MOE's Annual Statistical Books 2012-2013 – 2021-2022.

**Non-teaching staff account for over 20 percent of all positions in the education sector.** The total cost of teacher compensation, including both salary and allowances, rose from NIS 996 million in 2010 to NIS 2.103 billion in 2021. Another NIS 336 million was spent on non-teaching staff in 2021, bringing the education sector's total wage bill to NIS 2.4 billion. The roles of non-teaching education staff should be rationalized, and efficiency gains could be achieved by recalibrating the shares of teaching and non-teaching staff, easing pressure on the wage bill.

### The Equity of Spending

**Over the past three years, about 90 percent of the PA's education spending has been directed to the West Bank, where 68 percent of the children who attend public schools live.** On average, the MOE spends over three times more per student in the West Bank than in Gaza. This is not a reflection of the true unit cost per child in the respective territories, but rather indicates that additional funding from the *de facto* authority is coming into the Gaza education system that is unaccounted for by the MoE. NLSA scores over the past decade indicate that students in Gaza outperform those in the West Bank in all subjects and in all grades (Table 21), yet the share of students that pass the Tawjihi examinations is higher in the West Bank (82 percent) than in Gaza (79 percent). In addition, the share that achieves a university pass is higher in the West Bank (63 percent) than in Gaza (55 percent).

Table 21: NLSA Average Performance for Grade 5 and Grade 9 in Gaza than West Bank, 2022

		Mathematics	Science and Life	Arabic Language
Grade 5	West Bank	32.8	35.6	48.3
	Gaza	45.1	47.5	52.6
Grade 9	West Bank	23.4	29.2	44.9
	Gaza	37.3	41.8	57.8

Source: NLSA data provided by CERD.

<sup>105</sup> This goal was expressed in interviews with MOE staff.

**The PA does not keep records of how education expenditures are allocated between governorates in the West Bank and Gaza, which prevents a thorough analysis of distributional equity.** Substantial variations in Tawjihi results across governorates (Figure 93 and Figure 94) suggest that redistributing resources could yield efficiency gains. However, the financial system is highly centralized, and granular data on the distribution of financing across localities are not currently available.

Figure 93: Tawjihi Pass Rates by Governorate

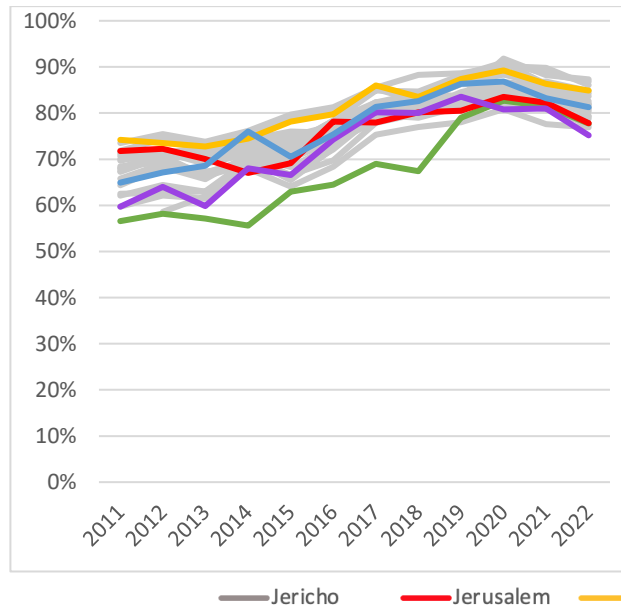
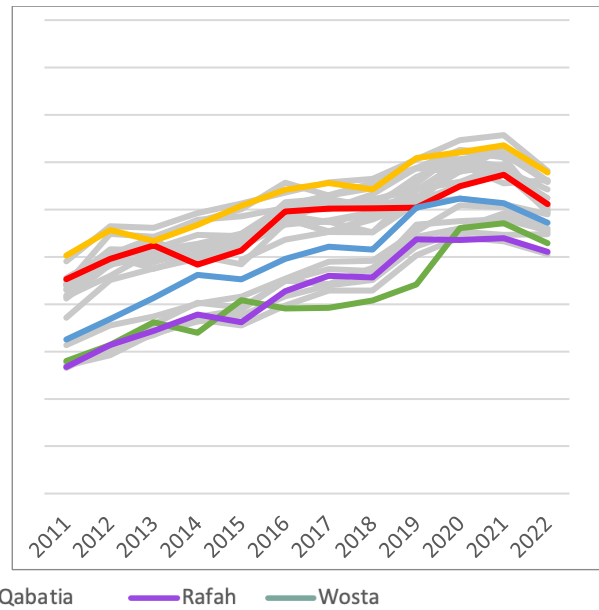


Figure 94: University Acceptance Rates by Governorate



Source: Author's calculations based on MOE data.

**Students from households with higher socioeconomic status tend to have more educational opportunities and higher achievement levels.** The 2022 PISA includes an index of students' economic, social, and cultural status (ESCS). In the West Bank and Gaza, the average score for students in the top quarter of the ESCS index was 50 points higher in mathematics, reading, and science than the average score for students in the bottom quarter (Table 22). The OECD average difference in PISA scores between the top and bottom quarters of ESCS is almost double in mathematics. At the pre-primary level, which is dominated by the private sector, access rates are lowest among children from poor and vulnerable households, even though these children often need early education the most.

Table 22: 2022 PISA Scores and Socioeconomic Status

	PISA Mathematics Mean Score	PISA Reading Mean Score	PISA Science Mean Score
Bottom quarter of ESCS	343	330	346
Second quarter of ESCS	360	346	364
Third Quarter of ESCS	368	349	371
Top quarter of ESCS	393	375	397
<b>Difference Between Top and Bottom</b>	<b>50</b>	<b>45</b>	<b>50</b>

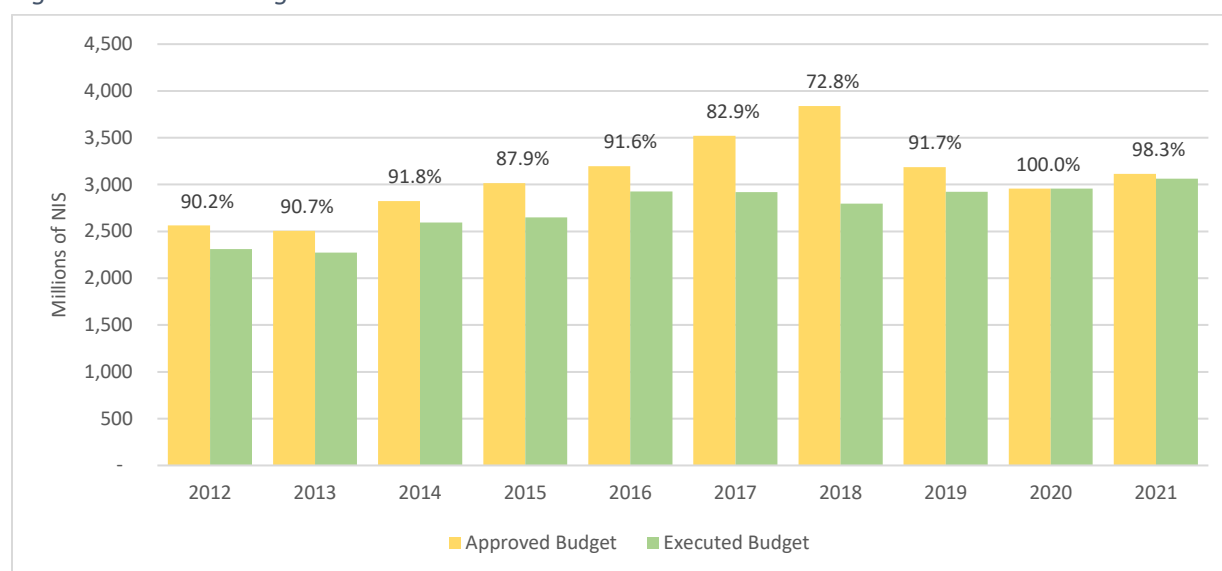
Source: [PISA 2022 Results: Factsheet: Palestinian Authority](#).

## Public Financial Management in Education

**As noted above, expenditure data for the education sector lack granularity and precision, which prevents an analysis of the distribution of spending across levels and governorates.** Salaries are not always recorded accurately, and a teacher working at one education level may have their salary recorded under another level. As salaries make up a large share of education spending, these distortions significantly obscure the distribution of spending. More comprehensive and disaggregated data will be necessary to assess the potential efficiency gains from redistributing resources between education levels or governorates.

**The underspending of the approved budget likely reflects weak budget practices rather than idle funds.** For eight of the last 10 years, execution rates for the education budget ranged from 72.8 to 91.7 percent, but in 2020 and 2021—as the shock of the pandemic depleted public resources—execution rates reached 100.0 percent and 98.3 percent, respectively (Figure 95). Low execution rates are a result of the budget being overestimated at the beginning of the financial year, as well as mid-year budget cuts. The execution rates for operational and development spending are both erratic. The execution rate for development spending is especially low, and while the rate for operational spending is higher, in some years expenditures have exceeded budgeted levels. The development budget is relatively small but has more idle funds, with execution rates ranging from 28 to 57 percent between 2012 and 2021.

Figure 95: Annual Budget Execution Rates



Note: The share of the approved budget that was executed for each year is indicated in the figure.

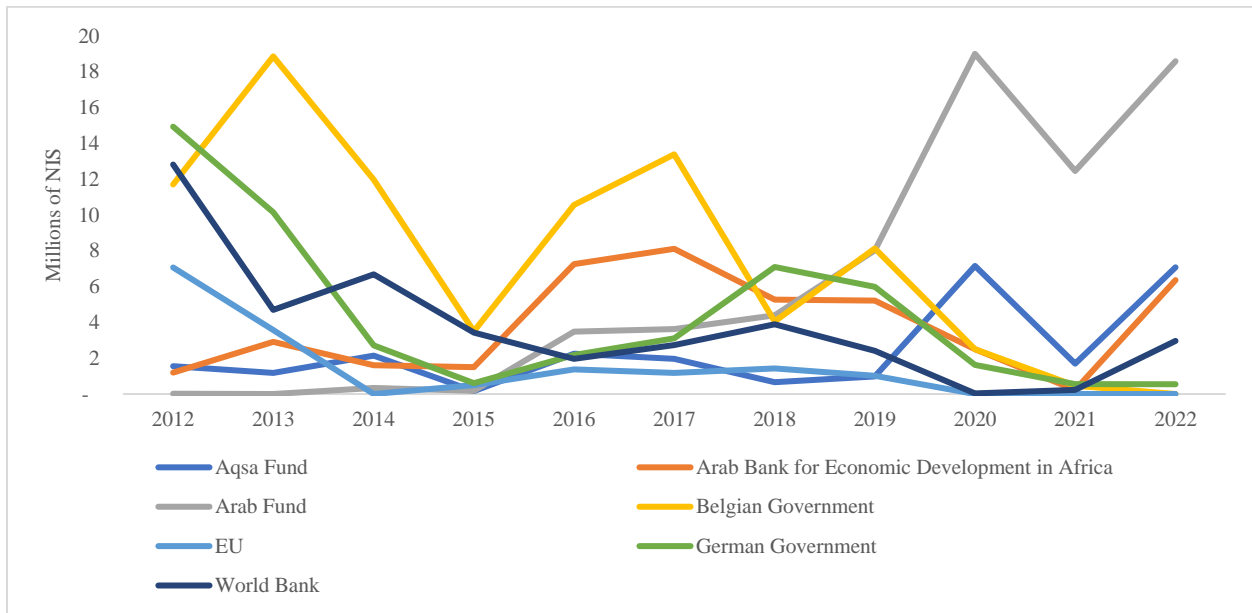
Source: MOE budget and expenditure data.

**A lack of medium-term planning makes it difficult to secure financing for multi-year programs and projects.** The education sector uses annual budgets, which tend to prioritize short-term needs at the expense of pursuing a long-term vision based on strategic goals. Capital-intensive projects like building new schools or upgrading infrastructure are more difficult to fund through annual budgets, as they usually require multi-year commitments. The budget for multi-year projects is recorded in the first year, and the remaining total is recorded in each subsequent year, making annual budgets misleading. MOE staff are aware of these issues, yet the same practices are repeated each year.

**The budget cycle is not aligned with the academic cycle.** The PA's financial year runs from January to December, but the school year runs from August to June. As a result, the budget is often depleted before the large expenditures associated with the start of the school year have been executed. The lack of synchronicity between budget disbursements and school expenses creates cash-flow issues that hinder the timely payment of essential expenditures such as utility bills, textbook purchases, and even staff salaries. As with annual budgeting, the issue of synchronicity is widely acknowledged but remains unaddressed.

**Donor contributions are unpredictable and erratic.** There is no consistency in the scale of contributions made to the education sector, either between years or between donors. As the sector relies on donor funding, and rigid operational expenditures account for a large share of its budget, volatile contributions greatly complicate planning and budgeting (Figure 96). Although many contributions from multilateral and bilateral development partners are channeled through the MOE, they are not always well-utilized and or properly accounted for, which exacerbates the unpredictability of donor support.

Figure 96: Selected Annual Donor Contributions to the MOE



Source: Authors' calculations based on data provided by the MOF.

## Recommendations

**The PA has numerous opportunities for improving education spending in the West Bank and Gaza.** While the recommendations presented below (Table 23) reflect the state of the education sector before the current conflict, they have been updated wherever possible based on the latest information. The recommendations are organized according to the four core themes of this chapter: adequacy, efficiency, equity, and sound financial management. Recommendations in yellow are particularly relevant in the context of the ongoing conflict, and an explanation of the importance of each is provided below.

Table 23: Constraints on effective spending and recommendations

Theme	Binding Constraint	Recommendation	Fiscal Impact	Timeline
<b>Adequacy of Spending</b>	By international standards, education spending is high at about 5 percent of GDP or 16 percent of total government spending, and teacher salaries are relatively generous. However, the partial payment of teacher salaries has repeatedly led to strikes that have disrupted education service delivery. <i>The PA should prioritize civil servants, including teachers, to ensure salary payments are made on time and in full. Continued payments will promote stability in the education system and prevent school closures. Contributions from development partners are particularly necessary at a time when fiscal space is so tightly constrained.</i>	Ensure that education financing is prioritized and made available in a timely manner so that teacher salaries are paid on schedule. The source of this financing could be the PA budget, along with properly aligned and utilized donor contributions.	Additional cost	Short term
<b>Measurement of Education Performance</b>	Learning assessments partially overlap, and they cannot always be used to track learning over time. <i>Revising the design and structure of the NLSA can allow the MOE to focus on key subjects and grade levels, enabling a detailed assessment of the impact of extended school absences on learning.</i>	Design and structure the NLSA to complement the timing, grade levels, and subjects being evaluated in international standardized tests.	Fiscal savings (after initial cost of redesign)	Short term
<b>Allocative Efficiency</b>	The ESSP's targets for basic and secondary education access have been achieved, but not those for KG or TVET.	More resources are needed in pre-primary education and could be mobilized by increasing class sizes in secondary education via the natural attrition of teachers.	Fiscally neutral	Long term
<b>Internal Efficiency</b>	National and international assessments indicate that a large share of students are not meeting minimum proficiency levels across various subjects.	Repetition rates in basic and secondary education could be allowed to approach the 5 percent cap established by the MOE. This may help reduce heterogeneity in learning levels within classrooms, promoting better learning and higher Tawjihi pass rates. <sup>106</sup>	Fiscal savings (in the long term)	Long term

<sup>106</sup> Notwithstanding changes to the repetition rate, remedial education might be critical to ensure that children are reaching minimum proficiency at their grade level. This would be an additional fiscal cost.

<b>Human Resource Management</b>	Teacher salaries are dependent on education level and years of experience only, and promotion is independent of performance. Teachers are well educated and work long hours.	Personnel policies should be enhanced to include the professional development of teachers and sound performance management.	Additional fiscal cost	Medium term
	<i>Professional development should include training on how to adapt to the new environment and integrate psychosocial support into instructional time.</i>			
	The MOE aims to grow the teacher workforce by 3 percent each year, which is fiscally unsustainable.	The MOE should assess the potential impact of teacher attrition on the student-teacher ratio at the basic and secondary levels across localities. A marginal increase in the student-teacher ratio would ease pressure on the wage bill.	Fiscal savings (after initial cost of research)	Long term
	About one-fifth of education staff are not teachers, and the associated personnel costs inflate the wage bill.	Decreasing the number of non-teaching staff could further alleviate fiscal pressure.	Fiscal savings	Medium term
<b>Equity of Spending</b>	Girls consistently outperform boys in all grades, in all subjects, and in all localities.	Targeted policies and programs are needed to improve learning for boys, including by increasing boys' enrolment in secondary education.	Additional fiscal cost	Medium term
	Household socioeconomic status is positively associated with educational achievement.	Invest in education policies and programs targeting children from households with lower socioeconomic status.	Additional fiscal cost	Medium term
	<i>The ongoing conflict has profoundly altered the socioeconomic status of a huge number of households, and the MOE must ensure that students continue attending school and receive specialized assistance that addresses the impact of the crisis, including psycho-social support.</i>			
<b>Strengthening Financial Planning</b>	There are inaccuracies in the way that education expenditures are disaggregated by program, and little is known about the breakdown of spending at the governorate level.	Systemically improve education expenditure data to expand coverage and support better analysis and planning. Measures to improve data collection at the governorate level are necessary to better understand the needs of district offices and target resources accordingly.	Fiscally neutral	Medium term

Budgeting is done on an annual basis, hindering multi-year project planning.	The budget should incorporate medium-term expenditure plans.	Fiscally neutral	Short term
<i>Medium-term planning can facilitate the rebuilding, stabilization, and development of the educations sector following the conflict.</i>			
The start of the fiscal year does not align with the start of the school year, and the budget is often depleted before a school year has begun.	Budget planning and strategic planning should be aligned in the annual calendar.	Fiscally neutral	Medium term
Budget processes are suboptimal, and the MOE does not utilize the budget as a tool to achieve strategic goals.	Budget processes should reflect strategic priorities and be informed by lessons learned in previous years.	Fiscally neutral	Short term
Teachers' salaries are sometimes mis-recorded, leading to distortions in expenditure data at the program level.	Salaries should be recorded with accuracy under the correct programs where teachers are working.	Fiscally neutral	Short term
Donor contributions are erratic and unpredictable. There is limited coordination between development partners, and budgeting is not done efficiently. Pledged contributions are not always expended by the end of the fiscal year and do not roll over.	Donor coordination should be improved to optimize resources, promote coherence, and avoid duplication. Also, the full contributions that are made each year should be spent before the end of the fiscal year.	Fiscal savings	Short term
<i>Maximizing contributions and ensuring their effectiveness is especially vital during a crisis, as fiscal space is especially constrained and there are additional demands on the sector.</i>			
The MOE has compounding arrears that are becoming unsustainably high.	A strategy to clear arrears should be developed.	Fiscally neutral	Medium term

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## ANNEXES

### Annex I. List of public sector entities

<b>Core Civil Service (39)</b>	<b>Core Civil Service (Cont.)</b>
Court of Judges	Prime Minister's Office
Deputy Prime Minister's Office	Public Prosecution
General Secretariat for the Council of Ministers	Palestinian Legislative Council
General Staff Office	Prime Minister's Office
Ministry Of Agriculture	Public Prosecution
Ministry of Awqaf and Religious Affairs	Supreme Constitutional Court
Ministry of Communications and Information Technology	Supreme Council for Public Procurement Policies
Ministry of Culture	Supreme Judicial Council
Ministry of Education	<b>Local Civil Administration (18)</b>
Ministry of Education and Higher Education	
Ministry of Finance	Bethlehem Governorate
Ministry of Foreign Affairs and Expatriate Affairs	Central Gaza Governorate
Ministry of Health	Gaza Governorate
Ministry of Higher Education and Scientific Research	Hebron Governorate
Ministry of Information	Jenin Governorate
Ministry of Interior	Jericho Governorate
Ministry of Interior Affairs	Jerusalem Governorate
Ministry of Jerusalem Affairs	Khan Yunis Province
Ministry of Justice	Nablus
Ministry of Labor	North Gaza Governorate
Ministry of Local Government	Northern provinces
Ministry of National Economy	Provinces
Ministry of Planning and Administrative Development	Qalqilya Governorate
Ministry of Public Works and Housing	Rafah Governorate
Ministry of Social Development	Ramallah and Al-Bireh Governorate
Ministry of State for Entrepreneurship and Empowerment	Salfit Governorate
Ministry of Tourism and Antiquities	Tubas Province
Ministry of Transportation	Tulkarm Governorate
Ministry of Women's Affairs	
Office of Fatwa and Legislation	
Office of Financial and Administrative Oversight	
Office of the President	
Palestinian Central Bureau of Statistics	
Palestinian Legislative Council	

<b>Other Public Sector Agencies (36)</b>	<b>Other Public Sector Agencies (Cont.)</b>
Civil Organizations Affairs Authority	Supreme Council for Youth and Sports
Cooperative Action Authority	The General Authority for Crossing and Borders
Dar Al-Hayat for Press, Printing and Publishing	Young Muslim Women
Department of National and International Relations	<b>Security Sector (9)</b>
Department of Refugee Affairs	
Environmental Quality Authority	General Intelligence
Foundation for the Care of the Families of Martyrs and the Wounded	Insurance and Pensions Authority
General Authority for Industrial Cities	Internal Security
General Civil Affairs Authority	Martyrs and Captives
Independence Bank for Development and Investment	National Security
Institutions of the Palestine Liberation Organization	Palestinian National Security Forces
Land and Water Settlement Authority	Prisoners and Martyrs
Land authority	Reserve and Retirement
MTF / Commission for Prisoners and Ex-Prisoners Affairs	Security Forces
National Committee for Education, Culture and Science	
National Committee for Summer Camps	
National Political Guidance Commission	
Negotiations Affairs Department	
Palestinian Agricultural Credit Corporation	
Palestinian Agricultural Risk and Insurance Fund	
Palestinian Dar Al Ifta	
Palestinian Energy and Natural Resources Authority	
Palestinian Investment Promotion Authority	
Palestinian Judicial Institute	
Palestinian National Council	
Palestinian National Fund	
Palestinian National School of Administration	
Palestinian News and Information Agency - Wafa	
Palestinian Radio and Television Corporation	
Palestinian Retirement Authority	
Palestinian Water Authority	
Settlement and Wall Resistance Authority	
Standards and Metrology Institution	

## Annex II. Pay scales in the public sector

Civil Service Pay Scale (in NIS) - Established 2005, 101,313 employees in 2021																			
Category 3																			
Category 4										Category 1					Higher category				
Category 5					Category 2					Category 1					Higher category				
Step	10	9	8	7	6	5	4	3	2	1	D2	D1	C	B	A	A4	A3	A2	A1
0	1,250	1,330	1,410	1,490	1,570	1,700	1,830	1,960	2,090	2,220	2,340	2,460	2,470	2,720	2,970	3,220	3,470	3,720	4,020
1	1,266	1,347	1,428	1,509	1,590	1,721	1,853	1,985	2,116	2,248	2,369	2,491	2,501	2,754	3,007	3,260	3,513	3,767	4,070
2	1,281	1,363	1,445	1,527	1,610	1,743	1,876	2,009	2,143	2,276	2,399	2,522	2,532	2,788	3,045	3,301	3,557	3,814	4,121
3	1,297	1,381	1,464	1,547	1,630	1,765	1,899	2,034	2,169	2,304	2,429	2,553	2,564	2,823	3,083	3,342	3,602	3,861	4,173
4	1,314	1,398	1,482	1,566	1,650	1,787	1,923	2,060	2,196	2,333	2,459	2,585	2,596	2,859	3,121	3,384	3,647	3,910	4,225
5	1,330	1,415	1,500	1,585	1,671	1,809	1,947	2,086	2,224	2,362	2,490	2,618	2,628	2,894	3,160	3,426	3,692	3,958	4,278
6	1,347	1,433	1,519	1,605	1,691	1,832	1,972	2,112	2,252	2,392	2,521	2,650	2,661	2,930	3,200	3,469	3,739	4,008	4,331
7	1,364	1,451	1,538	1,625	1,713	1,854	1,996	2,138	2,280	2,422	2,553	2,683	2,694	2,967	3,240	3,513	3,785	4,058	4,385
8	1,381	1,469	1,557	1,646	1,734	1,878	2,021	2,165	2,308	2,452	2,585	2,717	2,728	3,004	3,280	3,556	3,833	4,109	4,440
9	1,398	1,487	1,577	1,666	1,756	1,901	2,046	2,192	2,337	2,483	2,617	2,751	2,762	3,042	3,321	3,601	3,880	4,160	4,496
10	1,415	1,506	1,597	1,687	1,778	1,925	2,072	2,219	2,366	2,514	2,650	2,785	2,797	3,080	3,363	3,646	3,929	4,212	4,552
11	1,433	1,525	1,616	1,708	1,800	1,949	2,098	2,247	2,396	2,545	2,683	2,820	2,832	3,118	3,405	3,691	3,978	4,265	4,609
12	1,451	1,544	1,637	1,730	1,822	1,973	2,124	2,275	2,426	2,577	2,716	2,855	2,867	3,157	3,447	3,738	4,028	4,318	4,666
13	1,469	1,563	1,657	1,751	1,845	1,998	2,151	2,304	2,456	2,609	2,750	2,891	2,903	3,197	3,491	3,784	4,078	4,372	4,725
14	1,487	1,583	1,678	1,773	1,868	2,023	2,178	2,332	2,487	2,642	2,785	2,927	2,939	3,237	3,534	3,832	4,129	4,427	4,784
15	1,506	1,602	1,699	1,795	1,892	2,048	2,205	2,361	2,518	2,675	2,819	2,964	2,976	3,277	3,578	3,880	4,181	4,482	4,843
16	1,525	1,622	1,720	1,818	1,915	2,074	2,232	2,391	2,550	2,708	2,855	3,001	3,013	3,318	3,623	3,928	4,233	4,538	4,904
17	1,544	1,643	1,742	1,840	1,939	2,100	2,260	2,421	2,581	2,742	2,890	3,038	3,051	3,360	3,668	3,977	4,286	4,595	4,965
18	1,563	1,663	1,763	1,863	1,963	2,126	2,289	2,451	2,614	2,776	2,926	3,076	3,089	3,402	3,714	4,027	4,340	4,652	5,027
19	1,583	1,684	1,785	1,887	1,988	2,153	2,317	2,482	2,646	2,811	2,963	3,115	3,128	3,444	3,761	4,077	4,394	4,710	5,090
20	1,603	1,705	1,808	1,910	2,013	2,179	2,346	2,513	2,679	2,846	3,000	3,154	3,167	3,487	3,808	4,128	4,449	4,769	5,154
21	1,623	1,726	1,830	1,934	2,038	2,207	2,375	2,544	2,713	2,882	3,037	3,193	3,206	3,531	3,855	4,180	4,504	4,829	5,218
22	1,643	1,748	1,853	1,958	2,063	2,234	2,405	2,576	2,747	2,918	3,075	3,233	3,246	3,575	3,903	4,232	4,561	4,889	5,283
23	1,663	1,770	1,876	1,983	2,089	2,262	2,435	2,608	2,781	2,954	3,114	3,274	3,287	3,620	3,952	4,285	4,618	4,950	5,350
24	1,684	1,792	1,900	2,008	2,115	2,290	2,466	2,641	2,816	2,991	3,153	3,314	3,328	3,665	4,002	4,338	4,675	5,012	5,416
25	1,705	1,814	1,924	2,033	2,142	2,319	2,496	2,674	2,851	3,028	3,192	3,356	3,370	3,711	4,052	4,393	4,734	5,075	5,484
26	1,727	1,837	1,948	2,058	2,169	2,348	2,528	2,707	2,887	3,066	3,232	3,398	3,412	3,757	4,102	4,448	4,793	5,138	5,553
27	1,748	1,860	1,972	2,084	2,196	2,377	2,559	2,741	2,923	3,105	3,273	3,440	3,454	3,804	4,154	4,503	4,853	5,202	5,622
28	1,770	1,883	1,997	2,110	2,223	2,407	2,591	2,775	2,959	3,143	3,313	3,483	3,498	3,852	4,206	4,559	4,913	5,267	5,692
29	1,792	1,907	2,022	2,136	2,251	2,437	2,624	2,810	2,996	3,183	3,355	3,527	3,541	3,900	4,258	4,616	4,975	5,333	5,763
30	1,815	1,931	2,047	2,163	2,279	2,468	2,656	2,845	3,034	3,223	3,397	3,571	3,586	3,948	4,311	4,674	5,037	5,400	5,836
31	1,837	1,955	2,072	2,190	2,308	2,499	2,690	2,881	3,072	3,263	3,439	3,616	3,630	3,998	4,365	4,733	5,100	5,467	5,908
32	1,860	1,979	2,098	2,217	2,336	2,530	2,723	2,917	3,110	3,304	3,482	3,661	3,676	4,048	4,420	4,792	5,164	5,536	5,982
33	1,883	2,004	2,125	2,245	2,366	2,561	2,757	2,953	3,149	3,345	3,526	3,707	3,722	4,098	4,475	4,852	5,228	5,605	6,057
34	1,907	2,029	2,151	2,273	2,395	2,593	2,792	2,990	3,188	3,387	3,570	3,753	3,768	4,150	4,531	4,912	5,294	5,675	6,133
35	1,931	2,054	2,178	2,302	2,425	2,626	2,827	3,028	3,228	3,429	3,614	3,800	3,815	4,201	4,588	4,974	5,360	5,746	6,209
36	1,955	2,080	2,205	2,330	2,455	2,659	2,862	3,065	3,269	3,472	3,660	3,847	3,863	4,254	4,645	5,036	5,427	5,818	6,287
37	1,979	2,106	2,233	2,359	2,486	2,692	2,898	3,104	3,310	3,515	3,705	3,895	3,911	4,307	4,703	5,099	5,495	5,891	6,366
38	2,004	2,132	2,261	2,389	2,517	2,726	2,934	3,142	3,351	3,559	3,752	3,944	3,960	4,361	4,762	5,163	5,563	5,964	6,445
39	2,029	2,159	2,289	2,419	2,549	2,760	2,971	3,182	3,393	3,604	3,799	3,993	4,010	4,415	4,821	5,227	5,633	6,039	6,526
40	2,054	2,186	2,318	2,449	2,580	2,794	3,008	3,222	3,435	3,649	3,846	4,043	4,060	4,471	4,882	5,292	5,703	6,114	6,607

Diplomatic Corps Pay Scale (in NIS) - Established in 2007, 325 employees in 2021																					
Step	Ambassador			Senior Adviser			Adviser			First Secretary			Second Secretary			Third Secretary			Attaché		
	Basic	Nature of work	Total	Basic	Nature of work	Total	Basic	Nature of work	Total	Basic	Nature of work	Total	Basic	Nature of work	Total	Basic	Nature of work	Total	Basic	Nature of work	Total
0	5,940	85	6,025	4,620	80	4,700	4,180	72	4,252	3,740	61	3,801	3,432	57	3,489	3,080	57	3,137	2,728	43	2,771
1	5,940	5,049	10,989	4,620	3,696	8,316	4,180	3,010	7,190	3,740	2,281	6,021	3,432	1,956	5,388	3,080	1,756	4,836	2,728	1,173	3,901
2	6,014	5,112	11,126	4,678	3,742	8,420	4,232	3,047	7,279	3,787	2,310	6,097	3,475	1,981	5,456	3,119	1,778	4,897	2,762	1,188	3,950
3	6,089	5,176	11,265	4,736	3,789	8,525	4,285	3,085	7,370	3,834	2,339	6,173	3,518	2,005	5,523	3,157	1,800	4,957	2,797	1,203	4,000
4	6,166	5,241	11,407	4,795	3,836	8,631	4,339	3,124	7,463	3,882	2,368	6,250	3,562	2,031	5,593	3,197	1,822	5,019	2,832	1,218	4,050
5	6,243	5,306	11,549	4,855	3,884	8,739	4,393	3,163	7,556	3,931	2,398	6,329	3,607	2,056	5,663	3,237	1,845	5,082	2,867	1,233	4,100
6	6,321	5,373	11,694	4,916	3,933	8,849	4,448	3,202	7,650	3,980	2,428	6,408	3,652	2,082	5,734	3,277	1,868	5,145	2,903	1,248	4,151
7	6,400	5,440	11,840	4,978	3,982	8,960	4,503	3,242	7,745	4,029	2,458	6,487	3,698	2,108	5,806	3,318	1,891	5,209	2,939	1,264	4,203
8	6,480	5,508	11,988	5,040	4,032	9,072	4,560	3,283	7,843	4,080	2,489	6,569	3,744	2,134	5,878	3,360	1,915	5,275	2,976	1,280	4,256
9	6,561	5,577	12,138	5,103	4,082	9,185	4,617	3,324	7,941	4,131	2,520	6,651	3,791	2,161	5,952	3,402	1,939	5,341	3,013	1,296	4,309
10	6,643	5,646	12,289	5,167	4,133	9,300	4,674	3,366	8,040	4,182	2,551	6,733	3,838	2,188	6,026	3,444	1,963	5,407	3,051	1,312	4,363
11	6,726	5,717	12,443	5,231	4,185	9,416	4,733	3,408	8,141	4,235	2,583	6,818	3,886	2,215	6,101	3,487	1,988	5,475	3,089	1,328	4,417
12	6,810	5,788	12,598	5,296	4,237	9,533	4,792	3,450	8,242	4,288	2,615	6,903	3,935	2,243	6,178	3,531	2,013	5,544	3,127	1,345	4,472
13	6,895	5,861	12,756	5,363	4,290	9,653	4,852	3,493	8,345	4,341	2,648	6,989	3,984	2,271	6,255	3,575	2,038	5,613	3,167	1,362	4,529
14	6,981	5,934	12,915	5,430	4,344	9,774	4,913	3,537	8,450	4,396	2,681	7,077	4,034	2,299	6,333	3,620	2,063	5,683	3,206	1,379	4,585
15	7,068	6,008	13,076	5,498	4,398	9,896	4,974	3,581	8,555	4,450	2,715	7,165	4,084	2,328	6,412	3,665	2,089	5,754	3,246	1,396	4,642
16	7,157	6,083	13,240	5,566	4,453	10,019	5,036	3,626	8,662	4,506	2,749	7,255	4,135	2,357	6,492	3,711	2,115	5,826	3,287	1,413	4,700
17	7,246	6,159	13,405	5,636	4,509	10,145	5,099	3,671	8,770	4,562	2,783	7,345	4,187	2,386	6,573	3,757	2,142	5,899	3,328	1,431	4,759
18	7,337	6,236	13,573	5,706	4,565	10,271	5,163	3,717	8,880	4,619	2,818	7,437	4,239	2,416	6,655	3,804	2,168	5,972	3,369	1,449	4,818
19	7,428	6,314	13,742	5,778	4,622	10,400	5,227	3,764	8,991	4,677	2,853	7,530	4,292	2,446	6,738	3,852	2,196	6,048	3,412	1,467	4,879
20	7,521	6,393	13,914	5,850	4,680	10,530	5,293	3,811	9,104	4,736	2,889	7,625	4,346	2,477	6,823	3,900	2,223	6,123	3,454	1,485	4,939
21	7,615	6,473	14,088	5,923	4,738	10,661	5,359	3,858	9,217	4,795	2,925	7,720	4,400	2,508	6,908	3,949	2,251	6,200	3,497	1,504	5,001
22	7,711	6,554	14,265	5,997	4,798	10,795	5,426	3,907	9,333	4,855	2,961	7,816	4,455	2,539	6,994	3,998	2,279	6,277	3,541	1,523	5,064
23	7,807	6,636	14,443	6,072	4,858	10,930	5,494	3,955	9,449	4,915	2,998	7,913	4,511	2,571	7,082	4,048	2,307	6,355	3,585	1,542	5,127
24	7,904	6,719	14,623	6,148	4,918	11,066	5,562	4,005	9,567	4,977	3,036	8,013	4,567	2,603	7,170	4,099	2,336	6,435	3,630	1,561	5,191
25	8,003	6,803	14,806	6,225	4,980	11,205	5,632	4,055	9,687	5,039	3,074	8,113	4,624	2,636	7,260	4,150	2,365	6,515	3,676	1,580	5,256
26	8,103	6,888	14,991	6,303	5,042	11,345	5,702	4,106	9,808	5,102	3,112	8,214	4,682	2,669	7,351	4,202	2,395	6,597	3,722	1,600	5,322
27	8,205	6,974	15,179	6,381	5,105	11,486	5,774	4,157	9,931	5,166	3,151	8,317	4,740	2,702	7,442	4,254	2,425	6,679	3,768	1,620	5,388
28	8,307	7,061	15,368	6,461	5,169	11,630	5,846	4,209	10,055	5,230	3,191	8,421	4,800	2,736	7,536	4,307	2,455	6,762	3,815	1,641	5,456
29	8,411	7,149	15,560	6,542	5,233	11,775	5,919	4,262	10,181	5,296	3,230	8,526	4,860	2,770	7,630	4,361	2,486	6,847	3,863	1,661	5,524
30	8,516	7,239	15,755	6,624	5,299	11,923	5,993	4,315	10,308	5,362	3,271	8,633	4,920	2,805	7,725	4,416	2,517	6,933	3,911	1,682	5,593
31	8,623	7,329	15,952	6,706	5,365	12,071	6,068	4,369	10,437	5,429	3,312	8,741	4,982	2,840	7,822	4,471	2,548	7,019	3,960	1,703	5,663
32	8,730	7,421	16,151	6,790	5,432	12,222	6,144	4,423	10,567	5,497	3,353	8,850	5,044	2,875	7,919	4,527	2,580	7,107	4,010	1,724	5,734
33	8,840	7,514	16,354	6,875	5,500	12,375	6,220	4,479	10,699	5,566	3,395	8,961	5,107	2,911	8,018	4,583	2,613	7,196	4,060	1,746	5,806
34	8,950	7,608	16,558	6,961	5,569	12,530	6,298	4,535	10,833	5,635	3,437	9,072	5,171	2,948	8,119	4,641	2,645	7,286	4,110	1,767	5,877
35	9,062	7,703	16,765	7,048	5,638	12,686	6,377	4,591	10,968	5,706	3,480	9,186	5,236	2,984	8,220	4,699	2,678	7,377	4,162	1,790	5,952
36	9,175	7,799	16,974	7,136	5,709	12,845	6,457	4,649	11,106	5,777	3,524	9,301	5,301	3,022	8,323	4,757	2,712	7,469	4,214	1,812	6,026
37	9,290	7,896	17,186	7,225	5,780	13,005	6,537	4,707	11,244	5,849	3,568	9,417	5,367	3,059	8,426	4,817	2,746	7,563	4,266	1,835	6,101
38	9,406	7,995	17,401	7,316	5,853	13,169	6,619	4,766	11,385	5,922	3,613	9,535	5,435	3,098	8,533	4,877	2,780	7,657	4,320	1,858	6,178
39	9,524	8,095	17,619	7,407	5,926	13,333	6,702	4,825	11,527	5,996	3,658	9,654	5,503	3,136	8,639	4,938	2,815	7,753	4,374	1,881	6,255
40	9,643	8,196	17,839	7,500	6,000	13,500	6,786	4,886	11,672	6,071	3,703	9,774	5,571	3,176	8,747	5,000	2,850	7,850	4,428	1,904	6,332
41	9,763	8,299	18,062	7,594	6,075	13,669	6,870	4,947	11,817	6,147	3,750	9,897	5,641	3,215	8,856	5,062	2,886	7,948	4,484	1,928	6,412

Judicial Staff Pay Scale (in NIS) - Established in 2003, 531 employees in 2021													
	Assistant Public Prosecutors	Prosecutors	Chief Prosecutors	Magistrates Court Judges	Judges of the First Instance	Presidents of the Court of First Instance	Judges of the Courts of Appeal	Presidents of the Courts of Appeal	Supreme Court Judges	Supreme Court Judges	Vice-Presidents of the Supreme Court	Vice-Presidents of the Supreme Court	President of the Supreme Court
Grade	11	10	9	8	7	6	5	4	3	3	2	2	1
Job code	1,040	1,021	1,038	1,017	1,022	1,023	1,024	1,037	1,019	1,025	1,041	1,036	1,008
Nature of work	0	1,125	1,260	1,260	1,440	1,440	1,710	2,070	2,070	2,070	2,070	2,070	2,250
Representation allowance	0	279	630	0	0	792	0	1,282	0	0	1,656	1,656	2,250
Annual increment	108	117	126	126	144	144	171	171	207	207	207	207	225
Step	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic
0	5,400	5,625	6,300	6,300	7,200	7,200	8,550	8,550	10,350	10,350	10,350	10,350	11,250
1	5,508	5,742	6,426	6,426	7,344	7,344	8,721	8,721	10,557	10,557	10,557	10,557	11,475
2	5,616	5,859	6,552	6,552	7,488	7,488	8,892	8,892	10,764	10,764	10,764	10,764	11,700
3	5,724	5,976	6,678	6,678	7,632	7,632	9,063	9,063	10,971	10,971	10,971	10,971	11,925
4	5,832	6,093	6,804	6,804	7,776	7,776	9,234	9,234	11,178	11,178	11,178	11,178	12,150
5	5,940	6,210	6,930	6,930	7,920	7,920	9,405	9,405	11,385	11,385	11,385	11,385	12,375
6	6,048	6,327	7,056	7,056	8,064	8,064	9,576	9,576	11,592	11,592	11,592	11,592	12,600
7	6,156	6,444	7,182	7,182	8,208	8,208	9,747	9,747	11,799	11,799	11,799	11,799	12,825
8	6,264	6,561	7,308	7,308	8,352	8,352	9,918	9,918	12,006	12,006	12,006	12,006	13,050
9	6,372	6,678	7,434	7,434	8,496	8,496	10,089	10,089	12,213	12,213	12,213	12,213	13,275
10	6,480	6,795	7,560	7,560	8,640	8,640	10,260	10,260	12,420	12,420	12,420	12,420	13,500
11	6,588	6,912	7,686	7,686	8,784	8,784	10,431	10,431	12,627	12,627	12,627	12,627	13,725
12	6,696	7,029	7,812	7,812	8,928	8,928	10,602	10,602	12,834	12,834	12,834	12,834	13,950
13	6,804	7,146	7,938	7,938	9,072	9,072	10,773	10,773	13,041	13,041	13,041	13,041	14,175
14	6,912	7,263	8,064	8,064	9,216	9,216	10,944	10,944	13,248	13,248	13,248	13,248	14,400
15	7,020	7,380	8,190	8,190	9,360	9,360	11,115	11,115	13,455	13,455	13,455	13,455	14,625
16	7,128	7,497	8,316	8,316	9,504	9,504	11,286	11,286	13,662	13,662	13,662	13,662	14,850
17	7,236	7,614	8,442	8,442	9,648	9,648	11,457	11,457	13,869	13,869	13,869	13,869	15,075
18	7,344	7,731	8,568	8,568	9,792	9,792	11,628	11,628	14,076	14,076	14,076	14,076	15,300
19	7,452	7,848	8,694	8,694	9,936	9,936	11,799	11,799	14,283	14,283	14,283	14,283	15,525
20	7,560	7,965	8,820	8,820	10,080	10,080	11,970	11,970	14,490	14,490	14,490	14,490	15,750
21	7,668	8,082	8,946	8,946	10,224	10,224	12,141	12,141	14,697	14,697	14,697	14,697	15,975
22	7,776	8,199	9,072	9,072	10,368	10,368	12,312	12,312	14,904	14,904	14,904	14,904	16,200
23	7,884	8,316	9,198	9,198	10,512	10,512	12,483	12,483	15,111	15,111	15,111	15,111	16,425
24	7,992	8,433	9,324	9,324	10,656	10,656	12,654	12,654	15,318	15,318	15,318	15,318	16,650
25	8,100	8,550	9,450	9,450	10,800	10,800	12,825	12,825	15,525	15,525	15,525	15,525	16,875
26	8,208	8,667	9,576	9,576	10,944	10,944	12,996	12,996	15,732	15,732	15,732	15,732	17,100
27	8,316	8,784	9,702	9,702	11,088	11,088	13,167	13,167	15,939	15,939	15,939	15,939	17,325
28	8,424	8,901	9,828	9,828	11,232	11,232	13,338	13,338	16,146	16,146	16,146	16,146	17,550
29	8,532	9,018	9,954	9,954	11,376	11,376	13,509	13,509	16,353	16,353	16,353	16,353	17,775
30	8,640	9,135	10,080	10,080	11,520	11,520	13,680	13,680	16,560	16,560	16,560	16,560	18,000
31	8,748	9,252	10,206	10,206	11,664	11,664	13,851	13,851	16,767	16,767	16,767	16,767	18,225
32	8,856	9,369	10,332	10,332	11,808	11,808	14,022	14,022	16,974	16,974	16,974	16,974	18,450
33	8,964	9,486	10,458	10,458	11,952	11,952	14,193	14,193	17,181	17,181	17,181	17,181	18,675
34	9,072	9,603	10,584	10,584	12,096	12,096	14,364	14,364	17,388	17,388	17,388	17,388	18,900
35	9,180	9,720	10,710	10,710	12,240	12,240	14,535	14,535	17,595	17,595	17,595	17,595	19,125
36	9,288	9,837	10,836	10,836	12,384	12,384	14,706	14,706	17,802	17,802	17,802	17,802	19,350
37	9,396	9,954	10,962	10,962	12,528	12,528	14,877	14,877	18,009	18,009	18,009	18,009	19,575
38	9,504	10,071	11,088	11,088	12,672	12,672	15,048	15,048	18,216	18,216	18,216	18,216	19,800
39	9,612	10,188	11,214	11,214	12,816	12,816	15,219	15,219	18,423	18,423	18,423	18,423	20,025
40	9,720	10,305	11,340	11,340	12,960	12,960	15,390	15,390	18,630	18,630	18,630	18,630	20,250

Security Sector Pay Scale (in NIS) - Established in 2007, 53,445 employees in 2021															
Step	Lance Corporal	Corporal	Sergeant	Sergeant Major	Warrant Officer	Staff Warrant Officer	Lieutenant	First Lieutenant	Captain	Major	Lieutenant Colonel	Colonel	Brigadier General	Major General	Lieutenant General
0	1,330	1,410	1,490	1,570	1,700	1,830	1,960	2,090	2,290	2,570	2,820	3,320	3,620	4,020	4,420
1	1,347	1,428	1,509	1,590	1,721	1,853	1,985	2,116	2,319	2,602	2,855	3,362	3,665	4,070	4,475
2	1,363	1,445	1,527	1,610	1,743	1,876	2,009	2,143	2,348	2,635	2,891	3,404	3,711	4,121	4,531
3	1,381	1,464	1,547	1,630	1,765	1,899	2,034	2,169	2,377	2,668	2,927	3,446	3,757	4,173	4,588
4	1,398	1,482	1,566	1,650	1,787	1,923	2,060	2,196	2,407	2,701	2,964	3,489	3,804	4,225	4,645
5	1,415	1,500	1,585	1,671	1,809	1,947	2,086	2,224	2,437	2,735	3,001	3,533	3,852	4,278	4,703
6	1,433	1,519	1,605	1,691	1,832	1,972	2,112	2,252	2,467	2,769	3,038	3,577	3,900	4,331	4,762
7	1,451	1,538	1,625	1,713	1,854	1,996	2,138	2,280	2,498	2,803	3,076	3,622	3,949	4,385	4,822
8	1,469	1,557	1,646	1,734	1,878	2,021	2,165	2,308	2,529	2,839	3,115	3,667	3,998	4,440	4,882
9	1,487	1,577	1,666	1,756	1,901	2,046	2,192	2,337	2,561	2,874	3,154	3,713	4,048	4,496	4,943
10	1,506	1,597	1,687	1,778	1,925	2,072	2,219	2,366	2,593	2,910	3,193	3,759	4,099	4,552	5,005
11	1,525	1,616	1,708	1,800	1,949	2,098	2,247	2,396	2,625	2,946	3,233	3,806	4,150	4,609	5,067
12	1,544	1,637	1,730	1,822	1,973	2,124	2,275	2,426	2,658	2,983	3,273	3,854	4,202	4,666	5,131
13	1,563	1,657	1,751	1,845	1,998	2,151	2,304	2,456	2,691	3,020	3,314	3,902	4,254	4,725	5,195
14	1,583	1,678	1,773	1,868	2,023	2,178	2,332	2,487	2,725	3,058	3,356	3,951	4,308	4,784	5,260
15	1,602	1,699	1,795	1,892	2,048	2,205	2,361	2,518	2,759	3,096	3,398	4,000	4,362	4,843	5,325
16	1,622	1,720	1,818	1,915	2,074	2,232	2,391	2,550	2,794	3,135	3,440	4,050	4,416	4,904	5,392
17	1,643	1,742	1,840	1,939	2,100	2,260	2,421	2,581	2,828	3,174	3,483	4,101	4,471	4,965	5,459
18	1,663	1,763	1,863	1,963	2,126	2,289	2,451	2,614	2,864	3,214	3,527	4,152	4,527	5,027	5,528
19	1,684	1,785	1,887	1,988	2,153	2,317	2,482	2,646	2,900	3,254	3,571	4,204	4,584	5,090	5,597
20	1,705	1,808	1,910	2,013	2,179	2,346	2,513	2,679	2,936	3,295	3,615	4,256	4,641	5,154	5,667
21	1,726	1,830	1,934	2,038	2,207	2,375	2,544	2,713	2,973	3,336	3,661	4,310	4,699	5,218	5,737
22	1,748	1,853	1,958	2,063	2,234	2,405	2,576	2,747	3,010	3,378	3,706	4,363	4,758	5,283	5,809
23	1,770	1,876	1,983	2,089	2,262	2,435	2,608	2,781	3,047	3,420	3,753	4,418	4,817	5,350	5,882
24	1,792	1,900	2,008	2,115	2,290	2,466	2,641	2,816	3,085	3,463	3,800	4,473	4,877	5,416	5,955
25	1,814	1,924	2,033	2,142	2,319	2,496	2,674	2,851	3,124	3,506	3,847	4,529	4,938	5,484	6,030
26	1,837	1,948	2,058	2,169	2,348	2,528	2,707	2,887	3,163	3,550	3,895	4,586	5,000	5,553	6,105
27	1,860	1,972	2,084	2,196	2,377	2,559	2,741	2,923	3,203	3,594	3,944	4,643	5,063	5,622	6,181
28	1,883	1,997	2,110	2,223	2,407	2,591	2,775	2,959	3,243	3,639	3,993	4,701	5,126	5,692	6,259
29	1,907	2,022	2,136	2,251	2,437	2,624	2,810	2,996	3,283	3,685	4,043	4,760	5,190	5,763	6,337
30	1,931	2,047	2,163	2,279	2,468	2,656	2,845	3,034	3,324	3,731	4,094	4,819	5,255	5,836	6,416
31	1,955	2,072	2,190	2,308	2,499	2,690	2,881	3,072	3,366	3,777	4,145	4,880	5,321	5,908	6,496
32	1,979	2,098	2,217	2,336	2,530	2,723	2,917	3,110	3,408	3,825	4,197	4,941	5,387	5,982	6,578
33	2,004	2,125	2,245	2,366	2,561	2,757	2,953	3,149	3,450	3,872	4,249	5,002	5,454	6,057	6,660
34	2,029	2,151	2,273	2,395	2,593	2,792	2,990	3,188	3,494	3,921	4,302	5,065	5,523	6,133	6,743
35	2,054	2,178	2,302	2,425	2,626	2,827	3,028	3,228	3,537	3,970	4,356	5,128	5,592	6,209	6,827
36	2,080	2,205	2,330	2,455	2,659	2,862	3,065	3,269	3,581	4,019	4,410	5,192	5,662	6,287	6,913
37	2,106	2,233	2,359	2,486	2,692	2,898	3,104	3,310	3,626	4,070	4,465	5,257	5,732	6,366	6,999
38	2,132	2,261	2,389	2,517	2,726	2,934	3,142	3,351	3,672	4,120	4,521	5,323	5,804	6,445	7,087
39	2,159	2,289	2,419	2,549	2,760	2,971	3,182	3,393	3,717	4,172	4,578	5,389	5,876	6,526	7,175
40	2,186	2,318	2,449	2,580	2,794	3,008	3,222	3,435	3,764	4,224	4,635	5,457	5,950	6,607	7,265
41	2,213	2,346	2,480	2,613	2,829	3,045	3,262	3,478	3,811	4,277	4,693	5,525	6,024	6,690	7,356
42	2,241	2,376	2,511	2,645	2,864	3,083	3,303	3,522	3,859	4,330	4,752	5,594	6,100	6,774	7,448
43	2,269	2,406	2,542	2,678	2,900	3,122	3,344	3,566	3,907	4,385	4,811	5,664	6,176	6,858	7,541
44	2,297	2,436	2,574	2,712	2,936	3,161	3,386	3,610	3,956	4,439	4,871	5,735	6,253	6,944	7,635
45	2,326	2,466	2,606	2,746	2,973	3,201	3,428	3,655	4,005	4,495	4,932	5,806	6,331	7,031	7,730

## Annex III. Wage premium tables

<b>Table 1: Oaxaca decomposition of the difference in mean wages between public and private sectors</b>						
	<b>West Bank</b>			<b>Gaza Strip</b>		
	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z
<b>Panel A. Decomposition of mean hourly wages</b>						
Average hourly wages in the public sector	15.729	0.161	0.000	14.889	0.219	0.000
Average hourly wages in the private sector	12.670	0.098	0.000	3.564	0.053	0.000
Difference in hourly wage	1.241	0.016	0.000	4.178	0.087	0.000
...due to differences in endowments (explained)	1.259	0.015	0.000	1.581	0.033	0.000
...due to differences in returns to those endowments (unexplained)	0.986	0.015	0.336	2.642	0.067	0.000
<b>Panel B. Explained portion of the wage gap</b>						
Education	1.176	0.010	0.000	1.206	0.017	0.000
Experience	1.094	0.011	0.000	1.213	0.028	0.000
Experience squared	0.970	0.006	0.000	0.902	0.015	0.000
Male	0.982	0.003	0.000	0.995	0.004	0.174
Married	1.033	0.005	0.000	1.007	0.004	0.109
Locality Type	0.995	0.002	0.001	0.999	0.001	0.497
Occupation	1.000	0.013	0.986	1.197	0.022	0.000
<b>Panel C. Unexplained portion of the wage gap</b>						
Education	1.249	0.181	0.125	1.076	0.148	0.594
Experience	1.049	0.083	0.551	1.909	0.255	0.000
Experience squared	1.104	0.048	0.025	0.706	0.053	0.000
Male	0.728	0.016	0.000	0.786	0.046	0.000
Married	0.957	0.020	0.039	1.042	0.049	0.388
Locality Type	0.950	0.014	0.001	0.950	0.035	0.164
Occupation	0.887	0.030	0.000	1.037	0.065	0.558
<b>Constant</b>	<b>1.164</b>	<b>0.175</b>	<b>0.311</b>	<b>2.260</b>	<b>0.389</b>	<b>0.000</b>
<b>Observations</b>	<b>7,769</b>			<b>3,177</b>		

**Source:** World Bank calculations using Palestinian Labor Force Surveys (PLFS) of the Palestinian Central Bureau of Statistics (PCBS).

**Note:** The dependent variable in the wage equations is the logarithm of hourly wage; and the independent variables are experience, experience squared, male, marital status, urban/camp area, a set of occupational dummies, and a sector dummy variable (that takes on the value 1 if the worker is employed in public sector, and 0 if employed in the private sector). The symbols \*, \*\*, \*\*\* represent statistical significance at the 10, 5, and 1 percent levels.

<b>Table 2. Decomposition of the public-private earnings gap at selected quantiles</b>																		
	<b>West Bank</b>									<b>Gaza Strip</b>								
	<b>Difference in hourly wage</b>			<b>Explained</b>			<b>Unexplained</b>			<b>Difference in hourly wage</b>			<b>Explained</b>			<b>Unexplained</b>		
	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z
<b>Mean</b>	<b>1.241</b>	<b>0.016</b>	<b>0.000</b>	<b>1.259</b>	<b>0.015</b>	<b>0.000</b>	<b>0.986</b>	<b>0.015</b>	<b>0.336</b>	<b>4.178</b>	<b>0.087</b>	<b>0.000</b>	<b>1.581</b>	<b>0.033</b>	<b>0.000</b>	<b>2.642</b>	<b>0.067</b>	<b>0.000</b>
10 <sup>th</sup>	2.038	0.035	0.000	1.022	0.008	0.006	1.994	0.037	0.000	5.514	0.212	0.000	1.777	0.063	0.000	3.102	0.141	0.000
20 <sup>th</sup>	1.070	0.017	0.000	1.041	0.012	0.000	1.028	0.020	0.147	7.300	0.305	0.000	2.043	0.082	0.000	3.573	0.183	0.000
30 <sup>th</sup>	0.896	0.015	0.000	1.099	0.015	0.000	0.816	0.016	0.000	4.724	0.150	0.000	1.745	0.054	0.000	2.708	0.111	0.000
40 <sup>th</sup>	0.979	0.015	0.183	1.113	0.014	0.000	0.880	0.016	0.000	2.994	0.070	0.000	1.497	0.033	0.000	2.000	0.061	0.000
50 <sup>th</sup>	1.007	0.014	0.598	1.097	0.014	0.000	0.918	0.015	0.000	2.422	0.050	0.000	1.381	0.027	0.000	1.755	0.047	0.000
60 <sup>th</sup>	0.875	0.012	0.000	1.100	0.015	0.000	0.796	0.014	0.000	1.943	0.040	0.000	1.333	0.026	0.000	1.457	0.039	0.000
70 <sup>th</sup>	0.716	0.010	0.000	1.091	0.018	0.000	0.656	0.013	0.000	1.589	0.035	0.000	1.310	0.028	0.000	1.213	0.035	0.000
80 <sup>th</sup>	0.403	0.007	0.000	0.981	0.024	0.436	0.410	0.012	0.000	1.012	0.029	0.681	1.294	0.038	0.000	0.782	0.031	0.000
90 <sup>th</sup>	0.315	0.007	0.000	0.866	0.025	0.000	0.363	0.013	0.000	0.905	0.033	0.006	1.302	0.045	0.000	0.695	0.033	0.000

**Source:** World Bank calculations using Palestinian Labor Force Surveys (PLFS) of the Palestinian Central Bureau of Statistics (PCBS).

**Note:** The dependent variable in the wage equations is the logarithm of hourly wage; and the independent variables are experience, experience squared, male, marital status, urban/camp area, a set of occupational dummies, and a sector dummy variable (that takes on the value 1 if the worker is employed in public sector, and 0 if employed in the private sector). The symbols \*, \*\*, \*\*\* represent statistical significance at the 10, 5, and 1 percent levels.

## Annex IV. Entry level salary benchmarking methodology

**Two surveys were conducted at the employee and employer levels, respectively, with a local survey firm.** The employer level survey was used to collect information on salary scales and allowances in the private sector and from the Ministry of Finance for public sector employees directly. The team complemented the data received from employers with a survey of employees, offering valuable insights into the current practices and perceptions. Data collection began on October 29th, 2023, and concluded on January 12th, 2024. The surveys followed international research ethics and confidentiality standards.

### ***Employer survey***

**The employer survey provided information on the structure of the salary components within each sector and type of institution for selected occupations.** These occupations included all key employees in the education, health, and engineering sectors. Data on salary components was collected for both fixed and non-fixed contractual employees separately. The questionnaire collected information on the base pay, as well as all allowances and benefits that comprise worker compensation which altogether represent gross. Net salaries represent the total take-home salaries for civil servants after tax, healthcare, and retirement deductions (See Table 1 for more information).

**Table 1: Terminology of Pay Composition**

Term	Explanation
Base Salary	Fixed compensation that employees receive for performing their job duties, excluding any additional benefits, bonuses, or allowances.
Health insurance	Comprehensive coverage for employees and their families at a nominal annual fee of NIS 900, covering treatment at public hospitals, with exceptions made for specialized cases requiring referral to private healthcare facilities.
Transport Allowance	Public sector workers receive a transport allowance, although eligibility and amounts vary based on individual commuting circumstances.
Social allowance	Married public sector workers receive a social allowance.
Annual leave	Public sector workers receive 20 days (about 3 weeks) of annual leave while coverage varies across private sector workers
Sick leave	Public sector workers receive up to 90 days (about 3 months) of sick leave a year while coverage varies across private sector workers
Total Gross Salary	Calculated with customized allowances, that can be different from one employee to another, such as managerial allowance, transport allowance, and social allowances.
Total Net Salary	Gross salary after income tax, healthcare, and retirement deductions.
Taxes	Employers are typically responsible for deducting income tax from their employees' salaries based on the applicable tax rates. These deductions are then submitted to the Palestinian tax authorities on behalf of their employees.

The total sample of private sector employers used in the analysis is presented below in Table 2. The sample of public institutions is excluded, as all information on the salaries and allowances for the public employees

was obtained from the Ministry of Finance. The private sector sample for the employer survey is 216 businesses.

**Table 2: Employer Survey Sample**

<b>Panel A: Sector of operation</b>	<b>Percent</b>
Education	47
Engineering	10
Healthcare	43
<b>Panel B: Location</b>	<b>Percent</b>
<b>Bethlehem</b>	13
Hebron	20
Jenin	7
Nablus	15
Qalqilya	1
Ramallah	36
Salfit	2
Tubas	3
Tulkarem	1

**While the survey collects data on the allowances and benefits received by employees across both sectors, the study was supplemented by a desk review to understand the nuances.** These include comprehensive health insurance coverage for employees and their families, transport allowances to employees, and annual and sick leave entitlements. In addition, married couples receive a social allowance, and employees with university-going children benefit from tax deductions to assist with tuition fees. Furthermore, teachers receive full compensation during scheduled breaks instead of designated annual leave days, ensuring their continued financial stability throughout the academic year. These are important to understand as the survey findings will explore the extent to which these *de jure* allowances are received by public sector employees.

**This curated dataset provides a useful, albeit limited view of the structure of employee salaries in the West Bank.** While the data collected from employers may not be sufficient for a comprehensive understanding of salaries, the data provided does paint a unique picture of the current compensation practices, allowances, and bonuses across sectors and institutions in the West Bank.

### ***Employee survey***

**A survey of employees across various sectors was conducted to complement the salary analysis, offering valuable insights into the perceptions of employees.** Data collection was carried out in-person. The questionnaire, designed by the Bureaucracy Lab of the World Bank has been implemented in multiple countries, was tailored to the context of the West Bank. 262 employees participated in the survey. Of the 262 employees surveyed, 38 percent work in the education sector, 37 percent in the health sector, and 25

percent in the engineering sector. Eighty-nine percent of all respondents have permanent contracts, while eleven percent have temporary contracts. Furthermore, of the 262 employees, 70 percent work in the private sector, while 30 percent work in the public sector. A detailed breakdown of respondent characteristics is shown in Table 3. These characteristics are important to discuss to better place the findings presented next.

**Table 3: Employee Survey Respondent Characteristics**

<b>Panel A: Contract Type</b>	<b>Percent</b>
Permanent	89
Temporary	11
<b>Panel B: Sector of operation</b>	<b>Percent</b>
Education	38
Engineering	25
Healthcare	37
<b>Panel C: Type of Employment</b>	<b>Percent</b>
Private	70
Public (governmental)	30

***Challenges during the data collection period***

**Sensitive nature of the topics under discussion and the timing of the survey due to conflict necessitated adjustments to the sampling plans.** Data collection was planned to be conducted among International NGOs, local NGOs, and relief organizations such as UNRWA<sup>107</sup>. However, due to conflict, we were unable to conduct any surveys with UNRWA. Additionally, discrepancies appeared in data consistency and facility statuses between employers and employees for International and local NGOs, as some facilities were identified as private by employees but labeled as NGOs by employers. We were unable to resolve these because of the conflict. Consequently, these organizations were excluded from the employer analysis.

<sup>107</sup> United Nations Relief and Works Agency for Palestine Refugees in the Near East

## Annex V. History of the PA's policy initiatives and pension reforms

The Unified Pension Law (UPL) was approved in 2005 and all government employees, including civil and security services who were less than 46 years of age in 2006, were enrolled into a new scheme (Scheme II). It was designed to have two components: a defined-benefit (DB) and a defined contribution (DC). The old schemes and their beneficiaries were grandfathered.

In 2008, the PA adopted the Palestinian Reform and Development Plan (PRDP) 2008-2011 in which the PA committed, among other things, to the preparation of a pension reform action plan covering administrative and parametric changes to drive the pension system on the path of fiscal sustainability.

In 2009, the MOF issued a decree requiring all civil servants to remain in each grade for a minimum of five years before being eligible for promotion and in the case of security services personnel, a minimum of four years. This would limit manipulations that could affect the pension rights. All pensions as of January 1, 2009, were calculated using the average of three **years of wages to determine the pensionable salary. As such artificial end-of-career salary increases, which had a negative effect on pension liabilities, were brought under control.**

In July 2010, the Council of Ministers approved an action plan aimed at reducing the heavy burden that the pension system imposes on the budget. The plan, however, only consisted of small measures that were likely to produce desirable effects in the short-term but were not enough to ensure long-term sustainability. The plan included a set of administrative reforms to strengthen the institutional capacity of the PPA in addition to a number of parametric changes aimed at improving the financial performance and fairness of the existing pension schemes.

Proposed parametric reforms covered by the plan included: i) increasing the mandatory retirement age from 60 to 62; ii) early retirement would only be allowed if pensions are reduced according to an actuarially fair coefficient; iii) lump sums for those who contributed to Scheme I for more than 28 years would be calculated using the same average salary as the one used to calculate regular pensions; iv) buying additional years of contributions would only apply with a limit of up to 3 years at the time of retirement for Schemes I, III, IV; v) new entrants to Scheme II would be allowed to purchase voluntary contributions of up to 5 years in advance within the first year of joining the system; vi) pensions would be indexed to the CPI published by the Palestinian Central Bureau of Statistics; and vii) the DC component of Scheme II would be modified to introduce notional accounts instead of funded accounts as currently stipulated by the law.

Progress made in the implementation of the above reform action plan was uneven. Most of the administrative reforms were implemented, leading to an overall improvement in the organizational aspects of the PPA. However, none of the parametric reforms were carried out.

In recent years, the most important changes to the pension rules were introduced by the Presidential Decree No. 29 of 2018 «Amending the Public Retirement Law No. 7 of 2005 and its Amendments». These changes were probably intended to harmonize the conditions of the old and new pension schemes, as employees began to retire, whose careers were partly under one of the old pension schemes, partly new scheme II. As the body of the retirees of the new scheme was growing, it also became clear that benefits

under the Scheme II were lower than under the legacy schemes, and this caused discontent. The changes instituted by the Decree, therefore, were as follows:

- Service in the old schemes was equated to the participation in the new scheme regarding the entitlement to a pension;
- Investment revenues of the PPA, base salary pension and all types of contributions were exempted from income tax;
- Frequency of conducting actuarial analytical studies to redefine contribution and benefit rates increased from three to five years;
- For years of service earned in the old schemes, it is allowed to use the accrual rate that was in these old schemes (i.e. 2.5%, not 2% as in the new scheme II);
- Maximum replacement rate for calculating the pension amount in the DB formula increased from 70% to 80%;
- Payment of the full amount accumulated on the personal account of the DC pillar was allowed when the employee retires for any reason, including due to early resignation (previously it was possible to receive such payment only upon reaching the mandatory retirement age);
- Choice of the payments type from the DC pillar was limited to the lump sum payment of the entire amount or a monthly payment an agreed schedule (previously there were also options for a monthly lifetime payment and a combination of a lump sum payment with a monthly payment);
- It was forbidden to combine two salaries to calculate a pension. For an employee who has two pensionable salaries, only the higher one is taken into the formula to calculate the pension;
- It was clarified that all pensions are calculated on the basis of the average salary for the last three years;
- The MOF Treasury was made to finance the financial obligations of pension under DB and DC schemes in the event that funds were unavailable to pay beneficiaries and their heirs for any reason.

Thus, the latest changes in the pension legislation rather increased the financial obligations of the public budget.

**Table 1: Consolidated parameters of pension schemes**

Indicators	Scheme I	Scheme II		Scheme III	Scheme IV
	Also known as 10% scheme, it covers Gaza employees plus West Bank employees hired since 2001	Also known as 7% scheme, it covers public sector and security services workers under age 45 in 2005. Other employees of local entities and public institutions participate in this scheme		Also known as Security Services Scheme	Also known as 2% scheme. It covers civil service West Bank employees hired before 2001
<b>SCHEMES DESIGN</b>	<b>Defined-Benefit</b>	<b>Defined Benefit</b>	<b>Defined-Contribution</b>	<b>Defined Benefit</b>	<b>Defined Benefit</b>
Contribution Rates from E & E: (as % of covered wage)	22.5%	16.0%	6.0%	22.5%	2.0%
From Employees	10.0%	7.0%	3.0%	10.0%	2.0%
From Employer (Gov.)	12.5%	9.0%	3.0%	12.5%	-
Retirement Age and/or qualifying conditions	60	60	60	60	60
Required Length of Service for Basic Rep. Rates	15	15	n.a.	15	15
Basic Replacement Rate	37.5%	30.0%	n.a.	37.5%	37.5%
Incremental Replacement Rate	2.5%	2.0%	n.a.	2.5%	2.5%
Maximum Replacement Rate	70%	80%	n.a.	70%	70%
Number of Last Years for Wage Base Calculation	3	3	n.a.	3	3
Lump-sum payments					
Returns of contributions	Yes	Yes	-	Yes	Yes
For those with more than 28 years of contribution	Yes	-	-	Yes	Yes
Insurance payments	Yes	-	-	Yes	Yes
Post-retirement Indexation	Adhoc (as wage growth)	Adhoc (as wage growth)	Adhoc (as wage growth)	Adhoc (as wage growth)	Adhoc (as wage growth)
Survivors Pensions (as % of Old Age Pensions)	100%	100%	100%	100%	100%

Source: Updated on the basis of World Bank, PER, 2016

## Annex VI. Pensions modeling methodology overview

### A1. Assumptions

#### 1.1 General framework

The financial projections were produced with the World Bank’s PROST (Pension Reform Options Simulation Toolkit) model. The analysis covered both the Scheme II (New Scheme) and Schemes I, III, and IV (Legacy (Old) Schemes). The civil and security sectors were modeled separately, with the consolidation of new and old schemes in each sector as follows:

	Civil		Security
Financial responsibility	PPA	MOF	MOF
Pension schemes	II (Civil) + I	IV	II (Security) + III

All contributors and new pensioners were modeled under the New Scheme, while participants in the old schemes were gradually being phased out of the total stock of pensioners. We did a detailed modeling of both the DB and DC components, including the family and personal allowance (NIS 300) as part of the total DB pension.

The simulation period runs from 2021 (the base year) to 2080 (the ending year) – approximately a lifetime of one generation (working age and retirement age), which is viewed as an adequate time span for pension system modeling. Information for the base year was kindly provided by the PPA. We present the key data and assumptions used in the modeling exercise as well as some projection results.

#### 1.2 Macroeconomic indicators

Table 1 below presents key economic indicators. Real GDP growth and inflation rate were provided by the World Bank macroeconomic team, while other indicators were simulated by the authors using PROST. In the medium to long run, the real GDP growth is assumed at 3% (is slightly higher than the population growth rate), and the inflation rate was set at 2%. Wage growth rates were calibrated based on our core assumption that public sector payroll as share in GDP remains stable (about 10.5% of the civil and security sectors combined).

**Table 1. Projected macroeconomic context**

	2021	2022	2023	2024	2025	2030	2040	2050	2060	2070	2080
<b>Macroeconomic Indicators</b>											
Nominal GDP, NIS bln	58.5	63.1	66.1	68.9	71.8	91.9	150.5	246.6	404.0	661.9	1,084.3
Real GDP Growth	7.1%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Inflation Rate	1.2%	3.7%	1.6%	1.2%	1.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Nominal Wage Bill, NIS bln</b>											
Civil Sector	3.8	4.1	4.3	4.5	4.7	6.0	9.8	16.1	26.3	43.1	70.5
Security Sector	2.3	2.5	2.7	2.8	3.0	3.9	6.0	9.9	16.1	26.4	43.2

Total	6.1	6.6	7	7.3	7.7	9.9	15.8	26	42.4	69.5	113.7
<b>Nominal Wage Bill as % of Nominal GDP</b>											
Civil Sector	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Security Sector	3.9%	4.0%	4.0%	4.1%	4.1%	4.3%	4.0%	4.0%	4.0%	4.0%	4.0%
Total	10.4%	10.5%	10.5%	10.6%	10.6%	10.8%	10.5%	10.5%	10.5%	10.5%	10.5%

Source: WB macro indicators and Authors' PROST Simulations

### 1.3 Demography

The UN World Population Prospects 2022 is the source of our demographic data and assumptions. Population projections for the Palestinian Territories are in line with the long-term international trends and demographic transition theory. The total fertility rate is assumed to decrease, while the mortality rates are also assumed to decline gradually over the whole period (Table 2).

**Table 2. Projected Life Expectancy and Total Fertility Rate (for the General Population)**

	2021	2022	2023	2024	2025	2030	2040	2050	2060	2070	2080
<b>Total Fertility Rate</b>	3.4	3.4	3.3	3.3	3.3	3.0	2.6	2.4	2.2	2.0	2.0
<b>Life Expectancy: Male</b>											
At Birth	70.8	71.5	72.2	73.0	73.9	74.7	76.4	78.2	80.0	81.8	83.3
At Age 60	16.1	16.6	17.2	17.8	18.4	18.9	20.0	21.2	22.5	23.9	25.1
At Age 65	12.7	13.1	13.6	14.1	14.7	15.1	16.0	17.1	18.3	19.6	20.7
<b>Life Expectancy: Female</b>											
At Birth	75.7	76.3	76.9	77.5	78.1	79.0	80.5	82.0	83.3	84.5	85.7
At Age 60	19.7	20.2	20.6	21.1	21.7	22.2	23.2	24.3	25.3	26.3	27.2
At Age 65	15.7	16.1	16.5	17.0	17.5	17.9	18.9	19.9	20.8	21.7	22.6

Source: UN World Population Prospects 2022 (Online Edition) and Authors' PROST Simulations

The decreasing fertility and increasing longevity are the two driving forces for population aging. Given the fact that both working age population (15-59) and the old age population (60+) are both increasing, the old-age dependency ratio is relatively constant for a few years, however, from around 2040 the old-age dependency ratio starts considerably increasing. By 2050, the old-age dependency ratio is projected to be more than 18% and will double again by 2080 (Table 3).

**Table 3. Summary of Population Projections (for the General Population)**

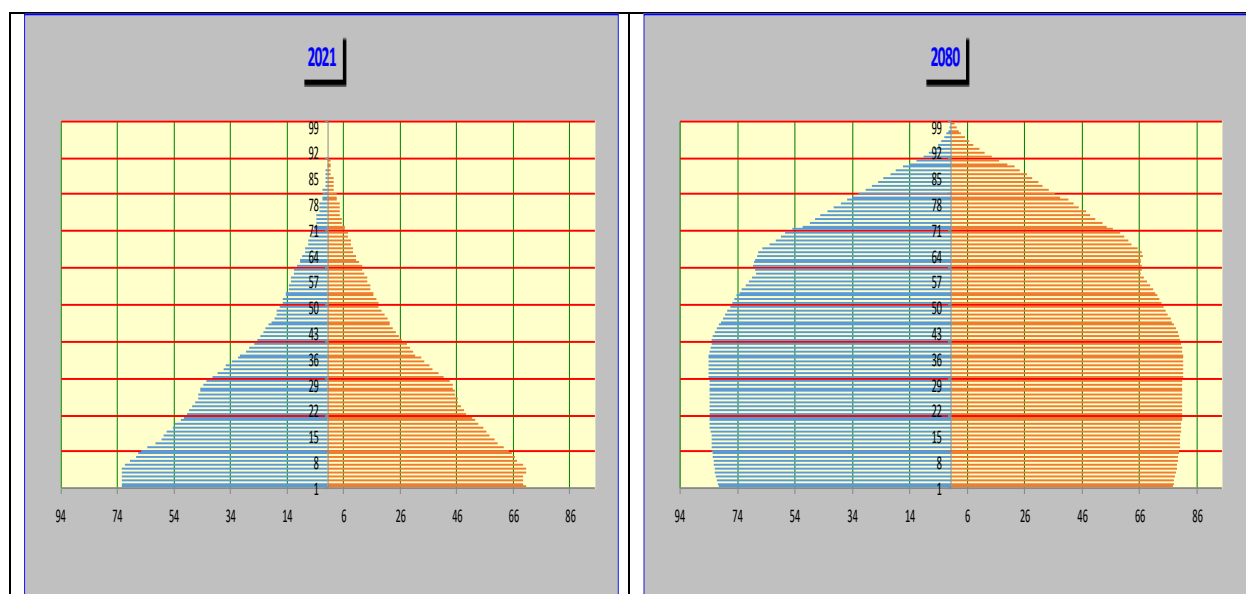
	2021	2022	2023	2024	2025	2030	2040	2050	2060	2070	2080
<b>Total Population, thousands persons</b>											
Total	5,130	5,253	5,378	5,505	5,634	6,301	7,684	9,051	10,307	11,420	12,332
Age 0 - 14	2,009	2,033	2,056	2,078	2,097	2,172	2,347	2,474	2,482	2,463	2,422
Age 15 - 59	2,844	2,930	3,019	3,109	3,205	3,709	4,691	5,563	6,295	6,839	7,112
Age 60 and over	277	289	302	317	332	420	646	1,014	1,530	2,118	2,799
<b>Age Structure of Population</b>											
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Age 0 - 14	39.2%	38.7%	38.2%	37.8%	37.2%	34.5%	30.5%	27.3%	24.1%	21.6%	19.6%
Age 15 - 59	55.4%	55.8%	56.1%	56.5%	56.9%	58.9%	61.0%	61.5%	61.1%	59.9%	57.7%
Age 60 and over	5.4%	5.5%	5.6%	5.8%	5.9%	6.7%	8.4%	11.2%	14.8%	18.5%	22.7%

Dependency Rates											
Age 0-14 / Age 15-60	70.6	69.4	68.1	66.8	65.4	58.5	50.0	44.5	39.4	36.0	34.1
60 + / Age 15-59	9.7	9.9	10.0	10.2	10.4	11.3	13.8	18.2	24.3	31.0	39.4
<b>Support Ratio:</b> Age 15-59 / 60 +	10.3	10.1	10.0	9.8	9.6	8.8	7.3	5.5	4.1	3.2	2.5

Source: UN World Population Prospects 2022 (Online Edition) and Authors' PROST Simulations

Population pyramids (Figure 1) illustrate the projected aging trend. Based on the above assumptions, the population is projected to grow from 5.1 million in 2020 to about 12.3 million by 2080.

**Figure 1. Projected Population Pyramids**



Source: UN World Population Prospects 2022 (Online Edition) and Authors' PROST Simulations

#### 1.4 Policy, parametric, and procedural assumptions

- The number of contributors in the legacy schemes (I, III, IV) was insignificant in 2021 and was ignored.
- The baseline scenario assumes that the existing parameters and rules of the pension scheme II remain unchanged throughout the forecast period.
- The number of employees in the public sector (they are also contributors to the II scheme) is growing at the same rate as the total population, so it remains stable in relative terms. Subsequent rounds of simulations will need to explore option where the size of the public sector remains stable in absolute terms or is expanding less rapidly.
- The structure of new contributors by gender and age remains unchanged throughout the projection period.
- Contribution revenues were projected on the accrual basis.

- Given the long run horizon of the projections, all DB pensions are indexed to 100% of inflation until 2030 and 50%/50% inflation/wages correspondingly, thereafter. For the same reason, we assumed that value of the personal allowance (currently, NIS 300 monthly) would be automatically indexed with inflation and be added uniformly to all the new pensions.
- We did not include calculations of the NIS 700 “basic pension” allowance as a compensation to those who did not earn rights for pension.
- As a prevailing practice, all employees separate from service by decree of the employer, hence no reduction in benefit due to early retirement simulated.
- Considering average service of 27 years at retirement and 15 years into the reform process from 2006, we assumed that in 2023, the average accrual factor (which combines careers from before and after reform) is 2.25, and it would gradually transition to 2.0 by the year 2036.
- Since the detailed age/gender data was not available for Scheme IV, we utilized and extrapolated the distributions of Scheme I to approximate the composition of Scheme IV.
- We estimated a NIS 300 million among the stock of the PPA pension reserves attributable to the Civil Service DB schemes. We did not attribute any reserves to the security DB scheme.
- For simplicity, all PPA administrative expenditures were attributed to and included under the CS scheme for calculation purposes.
- DC scheme calculations:
  - The distribution of accrued values in individual DC account balances by age and gender (Separately for civil service and for security) was provided by the PPA
  - All new contributions are subject to the full statutory rate of 3%+3%
  - Accounts earn zero interest (as per current policy)
  - Payout takes various forms. For the purpose of assessment of the income replacement capacity, we assumed full annuitization (i.e., payments for life).

1.5 Summary of financial projections

**Table 4. Summary of Projections: Civil Service Schemes I and II, DB only, Baseline**

I	D	2021	2022	2023	2025	2030	2035	2040	2050	2060	2070	2080
<b>PAYG Total Revenue</b>		635	697	723	780	973	1,247	1,595	2,632	4,298	7,005	11,605
Employer and Employee Contributions		607	654	685	744	952	1,220	1,561	2,575	4,205	6,853	11,354
Pensioner Contributions												
Government Contributions & Transfers												
Other Revenue		13	15	15	17	21	27	35	57	93	152	252
Investment Returns		15	28	24	20							
<b>PAYG Total Expenditure</b>		566	622	712	877	1,403	2,141	3,090	5,179	8,390	15,995	29,294
Pension Payments		551	606	695	859	1,378	2,107	3,044	5,104	8,268	15,784	28,931
Other Payments		3	3	3	4	7	11	15	26	41	79	145
Administrative Costs		12	13	13	14	18	24	30	50	81	132	219
<b>PAYG Current Balance</b>		69	75	12	(97)	(430)	(894)	(1,495)	(2,547)	(4,092)	(8,990)	(17,689)
PAYG Reserve (Explicit PAYG Debt)		369	444	456	316							
PAYG Implicit Debt		33,342.7	36,440.9	38,996.8	44,094.2	61,347.7	83,719.1	112,226.1	196,840.1	352,719.3	611,881.2	1,000,892.8
<b>Total PAYG Debt</b>		32,973.4	35,996.6	38,540.7	43,778.6	61,347.7	83,719.1	112,226.1	196,840.1	352,719.3	611,881.2	1,000,892.8
<b>As % of GDP</b>												
PAYG Total Revenue		1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
PAYG Total Expenditure		1.0%	1.0%	1.1%	1.2%	1.5%	1.8%	2.1%	2.1%	2.1%	2.4%	2.7%
PAYG Current Balance		.1%	.1%	.0%	(.1%)	(.5%)	(.8%)	(1.0%)	(1.0%)	(1.0%)	(1.4%)	(1.6%)
PAYG Reserve (Explicit PAYG Debt)		.6%	.7%	.7%	.4%							
Total PAYG Debt (Implicit & Explicit)		56.3%	57.0%	58.3%	61.0%	66.8%	71.2%	74.5%	79.8%	87.3%	92.4%	92.3%
<b>Contribution Rate from Employees and Employers</b>												
Average Collected		16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Required to Balance Fund from Base to Current Year		14.2%	14.6%	15.1%	16.3%	18.8%	21.1%	23.2%	26.1%	27.2%	28.5%	30.0%

**Table 5. Summary of Projections: Civil Service Schemes I and II, DB only, Moderate Reform**

I	D	2021	2022	2023	2025	2030	2035	2040	2050	2060	2070	2080
<b>PAYG Total Revenue</b>		635	697	723	780	965	1,202	1,498	2,513	4,061	6,609	10,850
Employer and Employee Contributions		607	654	685	744	944	1,176	1,465	2,458	3,973	6,466	10,615
Pensioner Contributions												
Government Contributions & Transfers												
Other Revenue		13	15	15	17	21	26	33	55	88	143	236
Investment Returns		15	28	24	20							
<b>PAYG Total Expenditure</b>		566	622	712	881	1,353	1,873	2,601	4,941	7,505	14,157	26,655
Pension Payments		551	606	695	862	1,328	1,841	2,560	4,869	7,392	13,963	26,318
Other Payments		3	3	3	4	7	9	13	24	37	70	132
Administrative Costs		12	13	13	14	18	23	28	47	77	125	205
<b>PAYG Current Balance</b>		69	75	12	(100)	(388)	(671)	(1,103)	(2,428)	(3,444)	(7,548)	(15,804)
PAYG Reserve (Explicit PAYG Debt)		369	444	456	311							
PAYG Implicit Debt		31,610.4	34,488.3	36,819.2	41,408.1	56,611.8	73,445.8	95,100.1	176,196.0	305,447.1	551,617.0	914,765.0
<b>Total PAYG Debt</b>		31,241.1	34,044.1	36,363.5	41,096.9	56,611.8	73,445.8	95,100.1	176,196.0	305,447.1	551,617.0	914,765.0
<b>As % of GDP</b>												
PAYG Total Revenue		1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
PAYG Total Expenditure		1.0%	1.0%	1.1%	1.2%	1.5%	1.6%	1.7%	2.0%	1.9%	2.1%	2.5%
PAYG Current Balance		.1%	.1%	.0%	(.1%)	(.4%)	(.6%)	(.7%)	(1.0%)	(.9%)	(1.1%)	(1.5%)
PAYG Reserve (Explicit PAYG Debt)		.6%	.7%	.7%	.4%							
Total PAYG Debt (Implicit & Explicit)		53.4%	53.9%	55.0%	57.2%	61.6%	62.4%	63.2%	71.4%	75.6%	83.3%	84.4%
<b>Contribution Rate from Employees and Employers</b>												
Average Collected		16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Required to Balance Fund from Base to Current Year		14.2%	14.6%	15.1%	16.3%	18.7%	20.5%	21.9%	24.7%	25.9%	27.1%	28.5%

Source: Authors' calculations

Notes: "PAYG" refers to the DB scheme. Schemes I and II (CS) only.

## A2. PROST Model Overview

PROST is a computer-based pension model developed to simulate the behavior of pension systems and assess their financial sustainability under various economic and demographic hypotheses during a lengthy period of time. This model may be adapted to a wide range of various pension systems in different countries; it also allows modeling various options of pension system reform.

The model consists of a Work Book to enter input data and five Output Modules. For input data, a user would enter a number of demographic and economic parameters and parameters of the pension system of a given country, as well as hypotheses on future changes. This information is recorded in the input data file that includes six Worksheets:

<i>General</i>	Economic variables (GDP and wage growth, inflation, interest rate), parameters of the pensions system that do not depend on age (pension fund balance and pension expenditures in the baseline year, retirement age, contribution rate, pension indexation rules, etc.) and some demographic variables.
<i>Population</i>	Population by age and sex in the baseline year, fertility and mortality rates and migration, disaggregated by age and sex.
<i>Labor force</i>	Labor force participation and unemployment rates disaggregated by age and sex as well as distribution of wages and pension by age and sex.
<i>Pensions</i>	Information on the number of contributors, pensioners, coverage ratios and share of retirees, average contributory period at retirement and income replacement rates for new pensioners, disaggregated by age and sex.
<i>Profile</i>	Information on typical individuals such as sex, contributory period, individual wage, life expectancy, etc.
<i>Reform</i>	Parameters required to simulate systemic reforms (any combination of legacy schemes of PAYG type, FF and NDC), including a strategy for switching to a new system, form of paying pension rights accrued in the old system, contribution rate, rules of annuitization and payments from FF and NDC, income replacement rates/formula for calculating new pensions in DB, indexation, etc.

The **general calculation scheme** can be presented in a most simplified form as shown below.

PROST tracks down sex and age cohorts over time and estimates the population projections that, together with labor market hypotheses, are used to predict the number of contributors and pensioners. In their turn, these predictions help calculate the flows of revenues and expenditures. Then the model calculates the balance of cash flows and implicit pension debt. Also, the model projects the equilibrium rate of contributions and admissible income replacement rates that ensure the balance of the pension fund in each year of the projection period. Finally, PROST calculates parameters with regard to individuals, i.e., how much contributions a given individual would pay to the system and what he/she would receive from

PAYG or from a multi-pillar system. This allows analyzing both intra- and intergenerational redistributive processes.

Based on the features of the pension system and available data, a user may select a method to calculate some variables. In particular, the number of contributors and pensioners may be calculated through using either a Margin Method or a Flows Method. The Margin Method first calculates the total number of contributors/pensioners (Margin) for each year, and then the inflow (new contributors and pensioners) is calculated as changes in the margin:

$$Inflow(a,t,g) = Margin(a,t,g) - Margin(a-1,t-1,g) + Outflow(a,t,g),$$

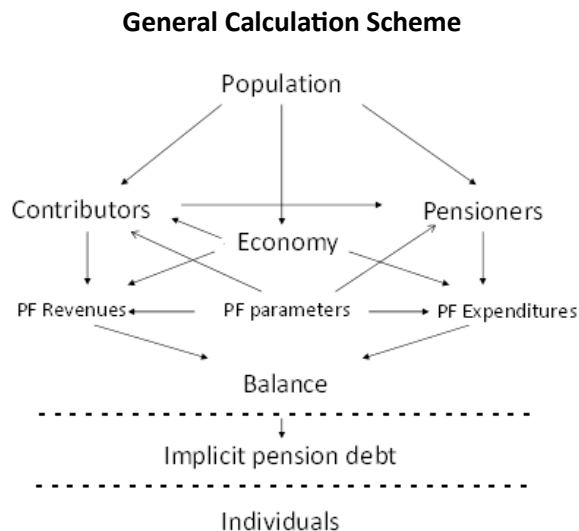
The Flows Method first calculates the inflow, and then the margin is calculated as the margin of the previous year in each age/sex group adjusted for net inflow (inflow – outflow):

$$Margin(a,t,g) = Margin(a-1,t-1,g) - Outflow(a,t,g) + Inflow(a,t,g),$$

where:  $a$  = age,  $t$  = year, and  $g$  = gender.

Since PROST tracks down the contributory period accrued by each sex and age cohort, the calculated number of new pensioners, regardless of what method was used, is then adjusted in a way so that the contributory period accrued by a cohort is equal to the total contributory period declared by the cohort for calculating pensions at retirement. After the number of new pensioners is adjusted, the margin of pensioners is recalculated using the Flows Method.

A user may also select the way of simulating pensions of new pensioners, i.e., either using the pension calculation formula or using the income replacement rates for each age and sex.



As mentioned earlier, the PROST outputs are grouped into five Output Modules. Each module contains a number of Excel Worksheets and a summary graph for key indicators:

*Demographic projections*

Projections of the population and demographic pyramid, longevity tables, changes in life expectancy, population dependency ratios, etc.

*Pension system demographics*

Projections of the labor force number and employment rate, the number of contributors and pensioners, demographic structure of the pension system, and system dependency rates.

*Finances of one-pillar PAYG*

Macroeconomic projections, projections of wage, pensions for all or new pensioners, pension system's revenues and expenditures, contribution rate and average income replacement rate needed for a balanced system, and implicit pension debt.

*Finances of a Multi-Pillar System*

Projections of pensions for all or new pensioners in each of the three pillars (PAYG, NDC and FF), PAYG and FF revenues and expenditures, implicit pension debt in PAYG, reform and reform outcomes (compare projections of the level of pensions and finances in the one-pillar PAYG scenarios and multi-pillar system scenarios).

*Individual Accounts*

Paid contributions and received pensions during the entire life and summary analytical indicators of participating in the system for six types of individuals specified in the input data file table, Section *Profile*, for PAYG (in the form set forth by law as well as in options with an adjusted contribution rate and adjusted level of pensions) and for a multi-pillar system (for those who switched to multi-pillar system and for those who stayed in PAYG DB).

## Annex VII. Administrative diagnostics of the PPA

This assessment was produced using the Social Insurance Administrative Diagnostic (SIAD), a tool developed by the World Bank. There are currently eight modules within the tool, covering the following areas of administration, that were used in the assessment:

- Internal Governance
- Investment and Management of Funds
- ICT Management and Data Policies
- Identification and Registration
- Contribution Collection
- Benefits Management
- Grievances – Appeals and Complaints
- Communications

It should be noted that in some instances it would only be possible to more fully flesh out the various topics and findings by undertaking deeper and more extensive analysis. This level of effort was outside the scope of this assessment.

### A1. Internal Governance

The Public Sector Pension Scheme in the Palestinian Territories (West Bank and Gaza) is administered by the Palestinian Pension Authority (PPA). The PPA is an independent public legal entity reporting directly to the President of Palestinian Authority. The PPA was established in 2005 under the Palestinian Pension Law 7 of 2005 (hereinafter ‘the Law’) and it took over responsibility for pensions system management from the General Pensions and Insurance Corporation (GPIC).

#### 1.1 Board of Directors

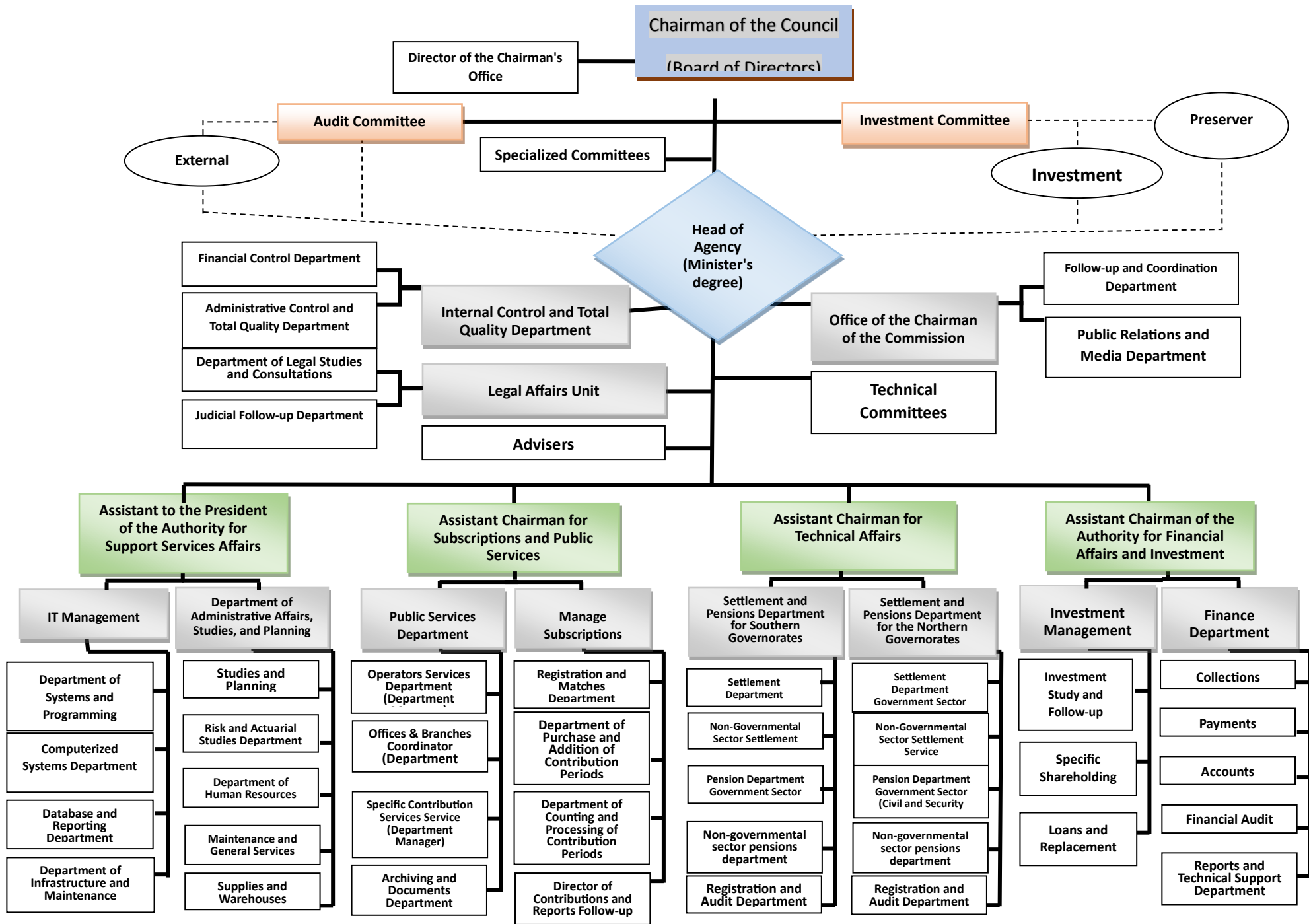
The PPA is governed by a Board of Directors (BoD) and a Head of Agency/General Director (Chief Executive Officer (CEO)). The BoD comprises of nine persons, three of whom are nominated by the Council of Ministers and the remaining six are nominated (one per institution) by PPA, General Personnel Office, Administrative Head of Police and Security Forces, Local Government/Municipalities, Association of Retirees, and Ministry of Finance. The nominations are submitted to the President who has the final authority to approve the Board. The President also appoints the Chairman and Deputy Chairman of the Board and decides on remuneration level for the Board. The Law prescribes the attributes that BoD members must have, and these act as guidance in their selection. Members of the BoD serve for four years, with one period of renewal permitted. The BoD nominates the General Director and submits the nomination to the President for final approval. The General Director is ex-officio a voting member of the BoD.

The BoD has a wide range of responsibilities, as prescribed in the Law (Articles 40 through 55, and Articles 61 through 81). These are typical of the strategic governance role of a Board. It is noted that a major responsibility of the BoD relates to the investment function – policy, asset classes, risk, audit etc. The BoD has also two permanent sub-Committees (Investment, Audit) and establishes other sub-Committees from time to time as required. The BoD also contracts in expertise for specialist tasks, such as developing the

PPA Strategic Plan, undertaking Actuarial Studies, and undertaking Investment Management. The PPA has a formal code of conduct that must be adhered to by BoD members, and it also requires disclosure of any conflict of interest by BoD members.

## 1.2 Organisational Structure

The General Director is supported by four Assistant General-Directors (AGD), and each AGD manages a group of Departments. The Organisation Chart below shows a very detailed and comprehensive organisational architecture.



### 1.3 Procedures Management

The PPA has a broad range of formal policies and procedures that guide its work. These cover budget formulation and management, investment management, responsibility delegation policy from Board to senior management, human resource policy, procurement and outsourcing, and operational risk management.

The PPA has a set of written Standard Operating Procedures (SOPs) that govern each key work function and business processes. These SOPs are routinely reviewed and updated, with the last update being undertaken in 2020. There is a formal process to encourage and review PPA staff suggestions to amend and improve the SOPs and business workflow procedures.

### 1.4 Budget and Finances

The PPA administration budget is approved annually by the BoD. The Law (Article 5) permits the PPA to be funded from a variety of sources: deduction from contributions collected, payments to PPA from other bodies contracted to pay PPA benefits, a (unspecified) proportion of investment returns, and other (unspecified) sources related to PPA (undefined) activities. No more than 2% of contributions payable can be deducted to fund the PPA administration budget. Any amount exceeding 2% requires Parliamentary approval. The amount allocated to PPA in 2021 was 0.778% of the contributions.

### 1.5 Audit – Internal and External

The PPA's BoD has a full-time Audit sub-Committee, whose responsibility is to oversee PPA's financial affairs, investment activities, external audit, and internal audit. This work also includes reviewing the internal and external controls of the Custodian (financial institution that holds PPA's funds in safe-keeping) and Investment Managers contracted by the PPA.

The PPA also has a permanent Internal Audit Unit, with 2 staff, and which reports directly to the General Director. This Unit produces an annual Audit Plan setting out the areas and time-frames for audit activities. However, such audits focus only on financial matters such as investments assets and operational finances. The Internal Audit Unit does not undertake auditing in relation to PPA's business processes, data management, or record-keeping activities. The Unit produces an annual Audit Report for PPA senior management.

The PPA is subject to an annual External Audit by a designated government agency. The External Audit covers most aspects of the PPA's business including - finances, investments, operations, business processes, and data and records-keeping. The PPA does not have a systematic follow-up process to address audit findings and recommendations or brief the BoD on actions taken post-audit. The results of the External Audit are not published or made available to the public.

### 1.6 Strategic Planning

The PPA undertakes Strategic Planning and last produced a Strategic Plan in 2022. This Plan identifies strategic priorities and goals. It encompasses human resources, financial management, workload volume predictions, and Information and Communication Technologies (ICT) alignment activities. An action plan to achieve those priority outcomes is also included. The Head of ICT is an active participant in the Strategic Planning process.

## 1.7 Quality Assurance

The PPA does not have a formal Quality Assurance (QA) system in place. Implementing a QA system would include establishing acceptable performance and service thresholds for each key function. Then, PPA would undertake systematic sampling of actual levels of performance/service, identify areas of under-performance or deficits in levels of service, identify reasons for such under-performance/ service level deficits, identify changes required to achieve QA standards, develop and implementing those changes, and monitor results.

## 1.8 Risk Management

The PPA does have a Risk Policy (overseen by the BoD), but it has a very narrow focus and concentrates on financial risk only, is not integrated within the PPA's Strategic Plan, and is updated only once every 5 years. However, comprehensive risk management encompasses all critical areas of the institution, including organisation, technology, service, human resources, finance, and physical assets. The PPA does not have a Risk sub-Committee (Board level), or a formal Risk Officer position, or a Risk Unit. Furthermore, the PPA does not keep a Risk Register – a prioritised list of major risks and the likelihood of them materialising.

## 1.9 Actuarial Review

The PPA periodically undertakes an Actuarial Review of the Pension System (Defined Benefit component). The Law originally prescribed that such a review be undertaken every two years, and 5 years. This was later amended by Presidential Decree 29/2018 (Article 6), which stated *“The Authority shall conduct every five years an actuarial advisory study to redetermine the percentage of contributions and benefits, taking into account the indicators of other regulations, in order to reach the financial balance.”*

The projected time-frame within an Actuarial Review is 50-100 years. The last Actuarial Review was undertaken (by the ILO) in 2017. The Actuarial Report is submitted to the President, Government, Parliament, and External Financial Auditor. The Report is not made public or published on-line.

## 1.10 Annual Reporting

The Law requires the PPA BoD to produce an Annual Report and to present this Report to the Prime Minister. It also prescribes the topics to be covered by that Report. The Law also requires that the Report sets out (ex-post) information about PPA's business activities, investments, service delivery, audits, financial performance, and human resources. This Report is made available to the BoD, PPA management and other institutional stakeholders. However, the Report is not published online, or made available to the public.

## 1.11 Human Resources Management

The PPA has a formal HR unit (Department of Human Resources) within the Directory of Administrative Affairs, Studies, and Planning. The Director of that Directory is a member of the PPA's senior management team and participates in the development of the PPA Strategic Plan. The PPA's staff are all public servants, and the Department of Human Resources participates in the staff recruitment, selection, and promotion processes. This Department also undertakes staff requirements forecasting.

PPA staff are recruited via multiple steps – open advertisement, interview, and examinations. Selected staff are then placed on probation – to confirm their suitability. There is a staff evaluation process, though

it is not linked to a financial reward programme. Technical and professional staff positions have formal written job descriptions.

There is a PPA Human Resources committee, and whilst it is not a sub-Committee of the BoD, it comprises of the three Assistant General-Directors, the Administration and Planning Director, and the Head of the Counsel. Its' duties include review and analysis of HR and administrative issues in PPA and deliver conclusions and recommendations to the General-Director.

## A2. Investment and Management of Funds

The PPA is legally tasked with managing the investment of contribution funds. The PPA's investment function is guided by the PPA's Investment Policy Statement and is under the management control of the Assistant General-Director for Financial Affairs and Investment. There is a specific Department comprised of three units (Investment Study and Follow-up, Specific Shareholding, Loans and Replacements) that administers the investment function. Investment decisions are under the final approval authority of the BoD sub-Committee for Investments. PPA has a written code of ethics that govern all staff involved in the investment function.

Investment execution and management (active/passive) of PPA's assets are contracted out to the Bank of Palestine. The PPA's investment assets are safeguarded by a Custodian (the National Bank) contracted by the PPA.

The PPA publishes quarterly reports on the financial situation of the investment portfolio. The last report was in final quarter of 2022. The information is provided in Excel spreadsheets only, as PPA does not use special software to help manage its' investment function.

## A3. ICT Management and Data Policies

The PPA has a strong culture of Information and Communication Technologies (ICT), a relatively mature ICT system, and a well-organised ICT administration system. There is a formal Head of ICT Management Division, and this person is a member of the PPA's senior management team. The ICT Department has ten staff who are professionally qualified ICT specialists. The PPA has a comprehensive set of written policies governing the work of the ICT Department and system. These policies cover the areas of ICT governance, ICT risk management, data governance and data management.

There is an ICT Help Desk to support business users, and a mechanism for users to provide feedback to (ICT Department) on their use of the software applications.

The ICT system has a client-server architecture and is deployed, via PPA's private VPN, to all (three) PPA branch offices. The PPA does not use cloud services. It does not have any preferred hardware brand or supplier and does not have a maintenance contract in place. The PPA has plans to significantly upgrade its' ICT system within the next three (3) years.

### 3.1 Software

Software development is undertaken both in-house and by outsourced contractors. At present there are three (3) such contracts being managed. The main software applications were developed in-house. The last comprehensive business requirements/gap analysis was undertaken in 2013. The PPA has a separate unit (Department of Systems Programming) responsible for software development and maintenance. This unit applies formal development analysis, standards, and methodologies to all software development tasks – ensuring reliability and consistency across all modules. However, the skill levels in this unit have been diminished (e.g. with retirements of skilled staff, and lack of new major applications developments).

There is a lack of documentation underpinning the current software applications. However, there is the original source code for its main software applications.

Most software is covered by up-to-date licenses, except for the Oracle applications.

The core business functions of client registration, contribution collection and accounting, individual insurance accounts management, benefits processing, benefits payments, and client case management are covered by the main software applications. In addition, there are a small number of support applications (e.g., OpenText - document management/archiving, Oracle Financials – accounting, workflow management).

The last significant upgrade to the core software applications was undertaken in 2017. The last significant upgrade to the operating system was undertaken in 2016. The last upgrade to the system hardware was undertaken in 2015. The PPA reports that a main challenge for it is the lack of experienced in-house technical staff, and the lack of training for ICT staff.

### 3.2 Data Centre

The PPA has its own on-premises Data Centre where the main hardware and software applications are housed. This Data Centre manages all the PPA's ICT services. This Data Centre is not benchmarked against international standards published by organisations such as the Uptime Institute, or Telecommunications Industry Association.

The PPA does not have a physical back-up Data Centre, or any virtual back-up facility (e.g., using cloud services).

### 3.3 Risk Management and Disaster Recovery

The PPA'S ICT Department has its own stand-alone written Risk Management Plan. This plan covers most critical ICT-centric issues including data destruction, technology, hardware, networks, software applications, systems security, human resources, internal accident (e.g., fire, accidental loss of data), and natural disaster event (fire, flood, lightening, earthquake).

However, the PPA does not have a written Business Continuity (BC) plan or an Emergency Response Team – that would cover how the PPA's core business functions could continue operating in the event of a catastrophic event impacting on the ICT system. The PPA does have a Disaster Recovery (DR) plan, and a DR plan is a key sub-set of a full BC plan.

The PPA undertakes systematic tests to ensure the DR plan is functioning. However, it is not understood how a DR Plan can be considered complete without a backup Data Centre functionality (either in the cloud or in a physical premises).

The systems administrator uses a formal process to restrict access to areas of the system (including use of applications and access to data), and to remove permissions from persons who leave the organisation or who change roles within the PPA.

The PPA has a formal policy (including security) to manage the use of mobile devices for PPA business. The PPA's ICT system access points (pcs/tablets/terminals/phones) are all covered by secure authentication procedures that involve the use of strong password and lock-out functionality. In addition, the PPA uses anti-malware and cyber-threat detection tools, and keeps these protections updated.

### 3.4 Data Governance and Management

The PPA does not have data privacy-specific guiding legislation at national level<sup>108</sup> that governs the matter of data privacy and data protection.

However, the PPA does have a Data Working Group/Committee that is focused on Data Governance and Management policies. These policies include data organisation standards, data formats and data entry standards, data storage/access/retrieval standards and procedures, data integrity, database management, data exchange (internal and external), and data reporting.

The PPA does not have a Chief Data Officer that is responsible for developing and managing data-specific policies – including data safeguarding, data manipulation, data storage, data sharing, data amendments.

The PPA's ICT systems development/upgrading/amendment plans are reviewed formally to ensure their conformance with PPA's Data Governance policy.

All PPA staff must sign a data non-disclosure/confidentiality agreement. However, there is no formal sanction system applicable to those who breach such agreements.

The PPA does not have a well-established system of automatic data exchange with other agencies (e.g., to verify civil status, etc.). It is understood that this is mainly due to the lack of digitalisation of such records in such institutions.

The PPA undertakes regular sampling of its' beneficiary data quality and integrity.

### 3.5 Reports, Business Intelligence, and Data Analytics

The PPA produces a range of reports that provide information on service, delivery, operational performance, and technical issues. These reports are generated in accordance with prescribed formats and content. Reports are made available to managers in Directories and in branch offices. The reports are produced on a daily and monthly basis, or by special request. There is no central dashboard from which managers can obtain critical information about the business and technical systems performance or detect service delivery issues.

The PPA uses its own software to generate reports from data analysis. These reports are generated directly from the live production databases only. The PPA does not have a Data Warehouse – from which it could generate reports without potentially affecting the live database. PPA does not use Business Intelligence software to, e.g., undertake deeper data analytics, or to detect trends.

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<sup>108</sup> For example: the EU General Data Protection Regulation.

#### A4. Identification and Registration

All insured members must be registered in the PPA by the employer. Registration with the PPA is separate (and not linked) to registration with any other institution (e.g., health insurance, tax authority) and there is no linkage (or registration data exchange) between registration with PPA and registration with other institutions (health insurance, tax authority etc.). Registration is undertaken electronically, although the original contract of employment must still be submitted to PPA in hard copy (paper) format.

All insured members are registered using their National Identity Document (ID)<sup>109</sup> as the primary registration key. However, for persons who work in the non-government sector, there can be more than one linked employer number. The PPA checks existing registrations in its database before it registers a new member. The primary data collected and recorded by PPA.

The PPA uses the National ID to identify and register contributors and beneficiaries in all Schemes. In cases where the subject has no National ID (e.g. foreigners) the PPA uses an alternative identification method (usually passport number etc.).

Notwithstanding the fact that most pensioners would be in possession of a National ID card, the PPA issues its' own card to pensioners. This card is used for identification purposes. It is a plastic card that contains a photo and basic information of the beneficiary, including National ID. It also contains a card number and Beneficiary Number that is generated by PPA. It has no magnetic band or any electronic chip onboard. It is issued from PPA through the Information Technology (IT) Department after the approval of the Pensions Department. It is not issued for survivors, but only for the primary beneficiaries.

#### A5. Contribution Collection

The process of calculating and paying contributions due is as follows:

1. Employer submits a declaration form (extract from payroll) to PPA for pre-approval – with details of each active employee, including their wages and the time worked.
2. The PPA uses the payroll information to calculate the contributions due to be paid in respect of each employee.
3. The PPA notifies the employer about the calculated contributions due to be paid.
4. The employer then remits the contributions to PPA – the Government sector uses a wire transfer, whilst non-Government employers use a bank cheque.

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<sup>109</sup> The PA's Ministry of Interior (national civil affairs registry) issues National ID numbers to persons at birth in the Palestinian Territories, and to other qualified persons if they were born abroad or were exiled by Israel. This ID is used by the PPA, the Tax Administration and by most other public institutions and service providers (e.g. medical insurance, social assistance). This ID is also supposed to be recognized by Israel in accordance with the Oslo Accords. The National ID card does not contain any electronic bio-metric data but does have a photo included. It also contains personal information about the cardholder, as well as date of issuance. The data on the card is written in both Arabic and Hebrew languages. The card also contains an ID number. The ID is just a simple sequential number, but it is a unique number and is adopted in almost all institutions as identification for residents. The number does not contain personal identification data within its' structure.

The contributions are paid into a single account that covers all Schemes, though the payment declaration form shows the amount due for each Scheme.

When the payment has been made the PPA checks that the paid amount balances with the amount notified to the employer by the PPA at the contribution calculation and approval stage.

The PPA does not have a control and compliance unit that is responsible for ensuring employers are complying with their contribution and reporting obligations. The PPA does not have field inspectors that visit employers' premises or inspect employers' books to ensure compliance with their social insurance obligations.

The PPA has the authority to impose sanctions on employers in cases of non-payment of contributions, late payment of contributions, or irregularities in registration of employees.

## A6. Benefits Management

The PPA manages the following categories of benefits:

- Old-Age (Retirement) – defined benefit
- Old-Age (Retirement) – defined contribution
- Old-Age (Retirement) – basic pension (means-tested)
- Disability Benefit
- Survivors Benefit
- Family Allowance/Child Allowance
- Funeral Grant
- Marriage Grant
- Loans to active contributors

### 6.1 Old Age – Defined Benefit

Employers notify the contributor that they should apply for their Old-Age/Retirement benefit. There is no facility to apply online (web service) for the benefit. Applicants must supply the following evidence to the PPA:

- National ID
- Employer workbook showing details of applicant's employment history
- International Bank Account Number (IBAN) number – for bank account that benefit will be paid into
- Marriage certificate – for applicants claiming additional Wife Allowance component
- Birth certificate(s) – for applicants claiming additional Child Allowance component

The PPA uses its internal electronic and paper-based records to assist in determining the contributor/member's application for benefit.

Applicants who were born after 1 September 1961, and who were, up to September 2006, enrolled in a Scheme that has been closed have their employment/insurance periods transferred to the new Unified Pension Scheme (Scheme II). These periods of insurance are added together to determine their total number of years insurance. However, the amount of pension is calculated separately for the periods they

were in each Scheme in accordance with the rules of those Schemes – and then combined to make up their pension amount payable.

## 6.2 Disability Benefit

This benefit, whilst it requires registration as a Contributor/Member, is not contingent on having a minimum number of insurance periods. Applicants are medically examined by a committee of medical professionals appointed by the Ministry of Health. Following this initial examination persons who are deemed medically eligible are then medically re-assessed every 24 months. The results of medical assessments are used solely by the PPA and are not shared with any other institution.

## 6.3 Survivors Benefit

Articles 32 through 36 of the Law prescribes a detailed and complex system of qualification for a survivors' benefit, and apportionment of such benefit amongst eligible family members. Continued entitlement conditions are also set out in these Articles. Further analysis of this benefit is outside of scope of this note.

## 6.4 Basic Pension

In addition to benefits payable under the social insurance Schemes, the PPA pays a basic pension to persons who were formerly members of a Scheme but who do not qualify under the rules of the Scheme (don't have enough contributions/insurance periods). This benefit is means-tested, and the PPA collects proof of means (from inspections undertaken by the Ministry of Social Security) to verify eligibility. This payment is funded by the Ministry of Finance and payment is administered through the PPA system.

## 6.5 Benefit Payments and Control

Beneficiaries are required to have a bank account, and to submit their IBAN number when making application for benefit. Payments are made monthly and are deposited directly into the beneficiary's bank account. There is no other payment method or payment channel used by PPA.

The PPA periodically (annually and sometimes more frequently) undertakes a 'proof of life' review of beneficiaries. This requires the beneficiary to personally attend a PPA office and show proof of ID. In addition, the Civil Registry periodically supplies – offline and in batch mode - the PPA data on registered deaths, in digital format. These data are used as a control measure – to identify persons who have died but where PPA have not been notified.

The PPA has a policy of prosecuting persons who fraudulently obtain benefits. However, PPA does not have a special control unit (internal or external) to ensure beneficiaries continued eligibility and to detect potential fraud.

From the fraud control perspective, it is unclear why the PPA Beneficiary Card is a necessary addition to the National ID Card, as it seems to duplicate all the data on the National ID card. Furthermore, the PPA Beneficiary Card has not been produced in the same secure environment or according to the same data management rules as the National ID card.

## A7. Grievances - Appeals and Complaints

The Law (Article 39) provides for the right of participants to appeal against decisions taken by the PPA. This right also includes the right to apply to the courts to seek a judge's decision. The PPA has a formal regulated system of grievance redress (appeals and complaints resolution). This system differentiates between appeals and complaints. The PPA has a senior manager (akin to a Chief Appeals Officer) who oversees the system.

Both appeals and complaints are handled at PPA's regional and central office levels. Whilst there is no specific form that must be used to submit an appeal or a grievance, appeals can be lodged through personal attendance at PPA office, by letter, or by telephone call. There is no online facility to submit an appeal, and appeals are not accepted if they are submitted by email.

Whilst the Law requires the PPA to act '*promptly*' to resolve appeals, there is no specific time-limit set for PPA to resolve appeals or complaints. In addition to using the appeals channel, persons are also entitled to directly ask the courts to investigate their appeal, though it is unclear (in the Law) if they must first engage with the PPA's appeal process.

Though appeals data are examined to identify potential improvements/adjustments to operations or service delivery, complaints data are not similarly analysed.

#### A8. Communications

The PPA has a special unit 'Public Relations and Media Department' whose responsibility is to develop and implement PPA communications plans. This Department reports directly to the PPA's General Director. The Head of the Department is a member of the PPA's senior management team. The PPA co-operates with other institutions (e.g., Tax Administration/ health insurance fund, trade unions, employers) to provide Scheme information to employees, and other relevant persons.

The PPA does not have a written communications strategy or plan. It does not undertake targeted public awareness campaigns – to explain pension-related issues to the employees and servicemen of the public sector, to inform them of changes to the pensions system, to remind employers and employees of their rights and obligations to the pension system. It does not have a formal internal communications plan either – to brief staff, keep staff updated on specific topics etc.

The PPA does have a written document that specifies customers rights, responsibilities, PPA's service standards, and information about how to make a complaint. It does not undertake client opinion surveys – to measure attitudes towards the PPA and the pensions system, to measure the public's understanding of the pensions system, to gain suggestions about improvements to the PPA's service etc. Furthermore, the PPA doesn't utilise outreach methods (focus groups, customer panels, customer liaison committees etc) to seek advice or gain input to its business strategy or seek policy implementation feedback.

The PPA does not operate a call-centre. While its website contains information brochures for employers and employees, it does not provide a Frequently Asked Questions section and is not linked to other governmental websites. The PPA uses social media and its website to disseminate information. However, the PPA does not collect data on how or through what medium/channel the public accesses information about the pensions system or about PPA's services. The website is lacking in interactivity with the clients,

as it does not enable members to view their contributions history, to submit benefit applications, or to submit appeals.

#### Summary of Observations and Recommendations

Overall, the PPA appears well structured. It has administration units with responsibilities for most functions expected of a public pension institution. Its' formal governance system reflects international best practice – in terms of having a representative Board, Board sub-Committees, General-Director (Chief Executive), and Assistant General-Directors. The roles and responsibilities of these formal positions are clear and well-articulated in the Law (2005). In addition, there are written job descriptions for each senior managerial position. The organisational architecture below these (most) senior management levels is quite logical and structured, with groupings at Directory, Department, and Unit levels.

The PPA is organisationally structured and positioned to implement the Law as it is written. Nonetheless, the reality is that some components of the Law (Defined Contribution, basic pension for all-population) are not fully operable in practice. Furthermore, the contribution collection function is seriously impaired – due to the lack of finances available to the Government, with consequential knock-on effects for availability of funds to the investment function.

The ICT function is well organised, and the system contains most of the functionality expected of a pensions ICT system. However, there are weaknesses with regard to web/e-services, data governance, and disaster recovery. Whilst the PPA does have a basic online presence, it lacks sufficient functionality. There is an opportunity to pivot the technology towards web-services and reduce reliance on physical attendance by clients at PPA offices and using legacy channels to obtain data.

There are also weaknesses in critical areas such as:

- Risk management (focus is too narrow)
- Audit (focus is too narrow)
- Data analysis and reporting tools (e.g., underdeveloped Business Intelligence)
- Quality assurance-management (function is too weak)
- Appeals (function is underdefined)
- Communications (focus is too narrow)

In respect to the above findings, the following summarizes our key recommendations:

#### *e-Services*

- Adopt an e-services digitalisation strategy.
- Re-develop the PPA website to encompass more (automated) functionality – including benefit claims submission, employer reporting, appeals submission, email acceptance, FAQs, etc.
- Re-design function and process workflows to facilitate automatic (and digitised) data reception and transmission.
- Develop interoperability functionality – to facilitate automatic data exchange with other public sector institutions and data sources.

### *ICT and Data Governance*

- Appoint a Chief Data Officer
- Develop and implement a data governance plan – which will include (a) an analysis of how each type of data is managed and safeguarded (against error, fraud, accident etc.), and (b) a definition of what the PPA's *master data* are.

### *Business Intelligence and Data Analytics*

- Deploy an offline data warehouse to enable business analytics and reports to be generated without using the live production database.
- Deploy Business Intelligence tools – to enable better and more accurate insight to: business systems efficiency, policy outcome/effectiveness, identify trends, highlight performance issues, better respond to requests for data etc.

### *Disaster Recovery and Back-up Capacity*

- Develop a full Business Continuity Plan
- Develop a physical back-up Data Centre and/or buy-in cloud back-up and storage facilities - as part of Disaster Recovery Planning.

### *Audit and Risk*

- Broaden the Audit Plan to include audit of business processes, data management, record-keeping, service delivery, disaster recovery etc.
- Mandate the Internal Audit Unit to undertake such expanded scope of auditing.
- Link Audit Plan to the Risk Plans.
- Develop a PPA Risk Strategy – with detailed Risk Plans for every PPA function and responsibility.
- Create a Risk Unit
- Appoint a Chief Risk Officer

### *Quality Management*

- Develop and implement a Quality Assurance (QA) system to enable performance measurement across all key areas of PPA administration. Such a QA system would include specifying acceptable performance and service thresholds for each key administration function and using those standards to benchmark actual performance and identify needed modifications to systems or practice.
- Integrate a QA Plan into the PPA Strategic Plan.

### *Appeals*

- Analyse complaints data. Examine ways in which Scheme information can be improved – to reduce possibility of appeals that are due to misunderstanding.
- Impose time-limits for PPA resolution of appeals and complaints, as part of service standards
- Develop case management system (as an MIS module) to register all appeals, track progress, and record results. Publish annual report on appeals system, using anonymised cases to highlight important cases and decisions. Include ratio of accepted/rejected cases – per Scheme.
- Benchmark the existing appeals system against best practice principles.

### *Communications*

- Review existing communications function – internal and external. Identify gaps and opportunities to strengthen and improve communications.
- Assess options of establishing a call-centre for clients.
- Develop comprehensive communications strategy – covering all areas of communications.
- Develop of system and process client opinion surveys – to measure client and public attitudes towards the PPA
- Develop communications training plan for PPA management and staff.

## Annex VIII: Education standardized assessments

Table 1 Administration of Standardized Assessments

	Type of Test	Subject	Grades	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
International	PISA	Math Reading Science	Age 15 (majority grade 10)												✓			✓			✓
	TIMSS	Math Science	8 (4+8 in future)	✓												✓				✓	
	EGRA	Reading	2				✓										✓				
	LaNA	Arabic Math	4													✓					
National	NLSA	Arabic	4+10 until 2016		✓		✓		✓		✓				✓		✓		✓		✓
	NLSA	Math			✓		✓		✓		✓				✓		✓		✓		✓
	NLSA	Science	5+9 since 2017		✓		✓		✓		✓				✓		✓		✓		✓
	NLSA	English	6								✓										
	NLSA	Digital Skills	10								✓										
	Tawjihi	Stream Dependent	12	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ Indicates assessment has taken place

✓ Indicates assessment is planned to take place in the future

Note:1) The Tawjihi examinations cover the subjects that students have selected as part of the academic stream. The academic stream options in the 2021-2022 school year were scientific, humanities, entrepreneurship and business, Sharia, and industry. 2) PISA assesses 15-year-old students, regardless of grade. In the West Bank and Gaza, the majority of 15-year-old students are in grade 10.

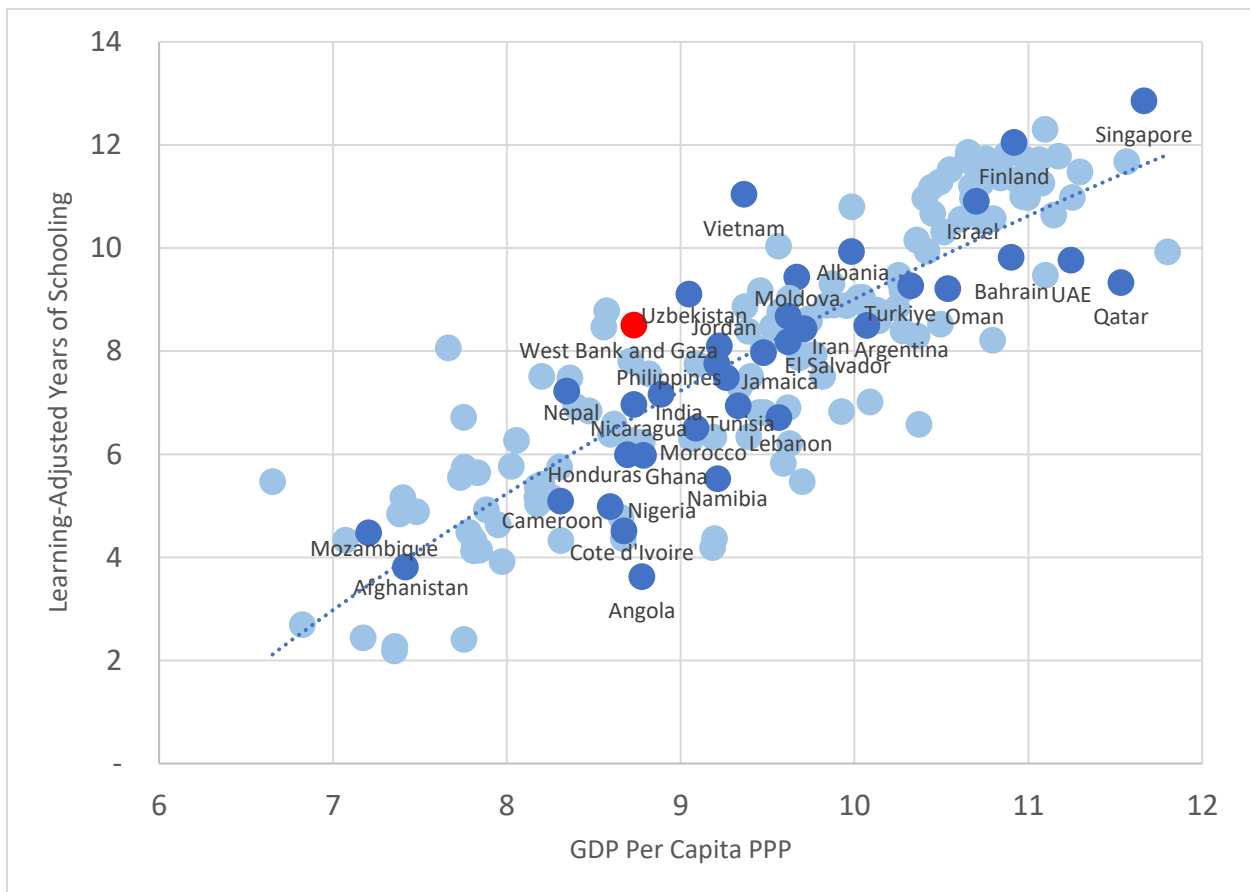
Source: Interviews with MOE and CERD.

**Results from 2011 student learning data in the Learning Adjusted Years of Schooling (LAYS) index<sup>110</sup> also show (along with results from PISA) that learning outcomes in the West Bank and Gaza are comparable**

<sup>110</sup> LAYS is a measure that combines quantity and quality of education into one metric, accounting for the fact that similar durations of schooling can yield different learning outcomes. To do so, the latest test scores from International Large-Scale Assessments (ILSAs) that countries participated in are used. In the case of the West Bank and Gaza, data from TIMSS 2011 is used. By using the LAYS index, the analysis includes a far larger pool of countries and – despite not being directly comparable in terms of the learning being tested – the ranking of students in the West Bank and Gaza appears not to have changed substantially over time, making it another useful measure of education quality.

with – and in some cases even better than – countries that have similar levels of GDP per capita. Furthermore, among MENA countries, the West Bank and Gaza achieves above average results and is outperformed by only a small number of countries, each with a GDP per capita that is significantly higher. *Figure* shows that the quality of education in the West Bank and Gaza (with a LAYS score of 8.5) is comparable to countries such as Argentina (LAYS score of 8.5), Jordan (8.1), Iran (8.4), and Moldova (8.5), despite the West Bank and Gaza having a lower GDP per capita. Palestinian students score higher than those in Morocco (LAYS score of 6.5), Tunisia (6.9), and Lebanon (6.7), all countries where GDP per capita is also higher. In the MENA region, only Bahrain (LAYS score 9.8), Oman (9.2), Qatar (9.3), and the UAE (9.8) outperform the West Bank and Gaza and each has a GDP per capita that is significantly higher. Comparing learning outcomes in countries with similar levels of GDP per capita also shows that the West Bank and Gaza is performing well as it has a higher score than Angola (LAYS score 3.6), Cote d’Ivoire (4.5), Honduras (6.3), India (7.2), Nigeria (5.0), and the Philippines (7.8).

Figure 1 Association between Educational Outcomes and GDP Per Capita



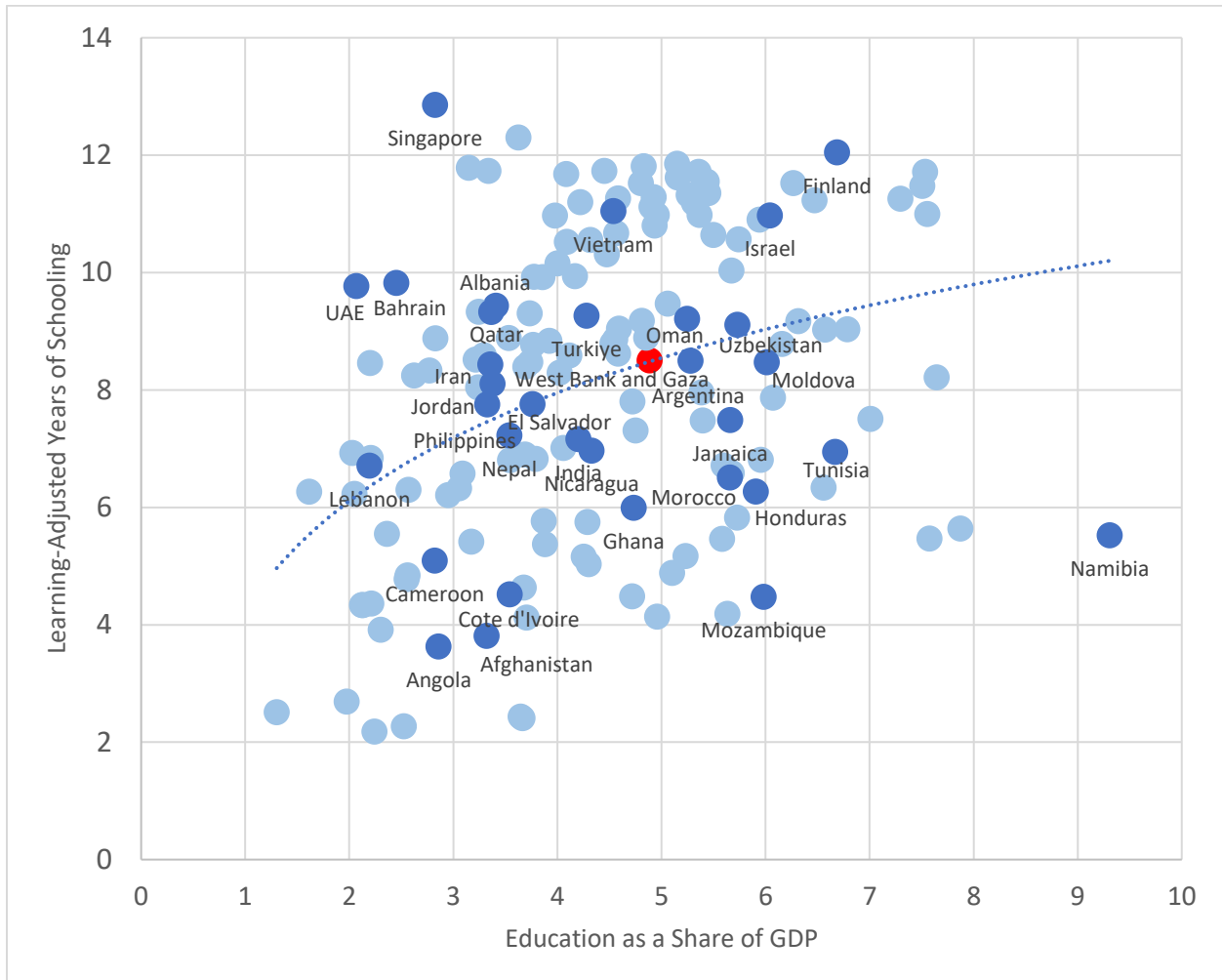
*Note:* Education as a share of GDP is taken as the average from 2012-2022 in cases where at least five years of data are available and the log of GDP per capita is used.

*Source:* Authors’ calculations based on World Bank Human Capital project (HCP) and UNESCO UIS (2020).

**The West Bank and Gaza’s performance in terms of LAYS score is commensurate to its expenditure on education as a share of GDP, although the correlation between country’s spending on education as a share of GDP and learning outcomes is weak. *Figure* shows that the West Bank and Gaza nevertheless**

falls on the trend line. Other countries that have similar shares of education spending and similar learning outcomes are Argentina, Jamaica, Oman, Türkiye, and Uzbekistan. Viet nam is an example of a country with a slightly lower share of education spending (4.5 percent), that has higher education quality (LAYS score 11), far higher than the West Bank and Gaza. In contrast, a country like Ghana that also has a similar share of education spending (4.7), performs far below the West Bank and Gaza (LAYS score 6.0). The distributions, trend and position of the West Bank and Gaza are similar when measuring education expenditure as a share of all government expenditure.

Figure 2 Association between Educational Outcomes and Expenditure on Education



Source: Authors' calculations based on the Human Capital project (HCP) and UNESCO UIS (2020).