

WAGE BILL AND EMPLOYMENT DIAGNOSTIC :
KEY DRIVERS AND POLICY
RECOMMENDATIONS

KEY DRIVERS AND POLICY RECOMMENDATIONS

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This diagnostic report was prepared by Izzah Akram Malik (Public Sector Specialist, Governance Global Practice) with support from Sami Miaari (Consultant). The report was produced under the supervision of Nur Nasser Eddin (Senior Economist, Macroeconomics, Trade and Investment Global Practice).

The report presents detailed analysis of the Palestinian Authority's (PA) wage bill spending and employment in the West Bank and Gaza. It identifies the key drivers of spending and employment growth over the last decade and maps outcomes in the form of government performance. The report concludes with reform recommendations to support the PA in its efforts to improve wage bill spending and employment in the Palestinian territories and to set them on a more sustainable path.

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Questions or comments about this report or the analysis contained within it may be directed to Nur Nasser Eddin at nnassereddin@worldbank.org and Izzah Akram Malik at imalik1@worldbank.org.

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EXECUTIVE SUMMARY

The Palestinian Authority's (PA) spending on the public sector wage bill has increased significantly over the years, despite reform efforts, and is higher than wage spending in all comparator countries. Over the last decade, aggregate spending on the wage bill has increased by 22 percent, in nominal terms, from NIS 6.4 billion in 2011 to NIS 7.8 billion in 2021. Between 2011-2018,¹ the PA's wage bill averaged 14 percent of GDP and 46 percent of central government expenditure. The equivalent figures for the Middle East and North Africa (MENA) region were 11 and 30 percent respectively.² Similarly, for countries affected by fragility, conflict and violence (FCV), the averages were 8 and 29 percent. On average, the PA spends more on its wage bill as a share of GDP and government expenditure than countries such as Jordan, Egypt, Morocco and Tunisia. Once spending on semi-wages (social transfers and pension payments by the MoF) are taken into account, the overall fiscal footprint of the public sector becomes even larger. For example, estimates provided by the MoF suggest that the PA will pay NIS 4 billion in semi-wages in 2022. Taken together, spending on the wage bill and semi-wages is projected to represent 66 percent of expenditure and 83 percent of revenue in 2022. In recent years, the PA has made several attempts to address its wage bill size, including introducing a Voluntary Retirement Scheme (VRS) in 2017 and holding back wages for public sector workers in the West Bank and Gaza. However, these reforms have been unable to stabilize or sustainably reduce wage bill spending levels.

Based on this report's findings, the main driver of wage bill growth for the PA has been the increase in salaries of public employees, through the channel of allowances, rather than growth in employment itself. Between 2011-2021, spending on the wage bill grew at an average annual rate of 2.3 percent in nominal terms. The majority 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. Further, between 2011 and 2021, 41 percent of the PA's wage bill was spent on employee allowances and two types of allowances, 'job' and 'other', represented more than one-third of the overall wage bill. Such high levels of spending indicate that allowances are being used to supplement basic salary, and that these two categories, in particular, are being used by the PA to channel most of the compensation increases that have taken place over the years. This has often happened as a result of salary bargaining by employee unions, rather than as a reward for specific jobs/skills or work performance.

Notably, the ministries of health and education represent the largest share of wage bill spending and they have also seen the largest salary increases over time, most of which have been in the form of allowances. The health and education sectors account for 48 percent of total wage bill spending by the PA followed by the security sector, which represents 32 percent. Between 2011-2021, wage bill spending increased at an average annual rate of 7 percent in the Ministry of Education (MoE) and 6 percent in the Ministry of Health (MoH). In contrast, the security sector wage bill grew at an average annual rate of only 0.5 percent. Most of the salary increase over the years in the civilian sector has come from allowances. For example, between 2011-2021, allowance spending increased by 77 percent in the MoH and 157 percent in the MoE.

In terms of territorial distribution, the West Bank has been responsible for a larger share of wage bill growth compared to Gaza. Spending on the Gaza wage bill has declined over time while spending

¹ For which data is available for all countries.

² The expenditure figures used are a mix of central or general government, depending on data availability.

on the West Bank wage bill has increased significantly, on a commitment basis. Between 2011-2021, 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 2011-2021, public employment in the West Bank increased by 32 percent, growing from 88,279 employees to 116,458. During the same period, PA employment in Gaza declined by 40 percent, decreasing from 65,295 employees to 39,156. Public employment in the West Bank also represents a larger share of the local labor market and has increased at rates higher than overall labor market growth rates. For example, between 2011-2021, public employment in the West Bank grew at an average annual rate of 3 percent whereas the population growth rate was only 2 percent during this time.

On average, the public sector in the West Bank pays its employees less than their private sector peers, except at the lowest levels of income where the public sector pays double the private sector. Wage premium analysis conducted using data from the 2021 Labor Force Survey shows that public sector employees in the West Bank who are receiving an income at the 10th income percentile earn 99 percent more in total compensation than their private sector peers. This gap cannot be explained by differences in characteristics such as education and experience. At these levels, the public sector is over-paying its staff and creating strong incentives for labor market entrants to queue for public sector jobs at the expense of the private sector. Further, above the 20th income percentile, the effect is opposite. Here, the public sector is likely under-paying its employees, creating incentives for job seekers to prefer the private sector, thereby potentially depriving the public sector of much needed skills. This effect is most pronounced at the 80th and 90th income percentile levels where the private sector in the West Bank has an “unexplained” wage premium in the range of 59-64 percent.

The overall size of public employment under the PA is not very large relative to comparator countries, although preliminary analysis indicates that there may be areas where there is over-staffing. Over the last decade, public employment as a share of total employment under the PA in the West Bank and Gaza has averaged 17 percent. This is on par with the global average during this period, but higher than the average in comparator economies of lower-middle income countries (LMIC) and FCV states where the equivalent figure is 14 percent for both. Preliminary analysis indicates that there may be sectors within the PA ranks that are overstaffed. For example, in 2021, of the 600+ unique jobs that exist in the PA’s public sector payroll, only four accounted for 41 percent of the total wage bill—teachers, managers, majors and warrant officers. Similarly, only five civilian grades (out of the various grades under each of the four different pay scales), represented 49 percent of all wage bill spending by the PA. At the sector level, latest available data from 2018 on pupil-teacher ratios shows that the average number of pupils per teacher in primary school in the Palestinian territories was 24:1. This was similar to the global average but worse than the average for LMICs (29:1) and countries affected by FCV (30:1). This indicates that, on average, these countries have a larger number of pupils per teacher in primary schools. Similarly, in the health sector, in 2021, the number of physicians per 1,000 population stood at 2.3 in the Palestinian territories compared to 0.85 in LMICs and 0.52 in FCV states. Although these figures reflect teachers and health staff working under the PA as well as non-PA entities, they represent a high-level picture that indicates that further scrutiny is warranted. Follow-up analysis could be undertaken looking at PA numbers only to assess whether these staffing shares are justified given the functional requirements of the government.

The PA has an unusually high number of employees with relatively less years of service, which has implications for workforce planning and wage bill reforms. In 2021, employees with less than 10 years of service represented 32 percent of total employment under the PA. Further, employees with less than 20 years of service represented 69 percent of total employment. There might be a number of

reasons that could explain this distortion —high recruitment in the last ten years relative to prior years, generous pensions that create an incentive for employees to take early retirement and exit the public sector before completing their full career, or higher salaries at the senior-most levels in the private sector relative to the public sector that serve as an incentive to exit public employment. The PA is also a relatively new institution, which may have contributed to this trend. For example, prior years of experience of employees may not be reflected in the current calculation of years of service within the PA public sector. Whatever the reason, this trend has significant implications as it represents a gap in the availability of seasoned public sector staff with requisite skills, knowledge and years of experience who can contribute to greater performance outcomes. In addition, it could also represent over-staffing and over-spending at the junior levels where public sector employment appears to be concentrated.

If the PA does not address the core drivers of wage spending, its wage bill is likely to become even more fiscally unaffordable. Simulations run by the World Bank team indicate that the wage bill will increase to NIS 8.8 billion by 2026 if current policies remain the same and employment and wages are allowed to grow based on 2016-2021 averages. The increase in the wage bill will represent a 14 percent change from the 2021 baseline of NIS 7.7 billion and will translate into a 2-percentage point increase in the wage bill's share in GDP based on 2021 GDP levels (15 percent projected versus 13 percent actual in 2021). Further, if the recently agreed allowance top-ups for doctors, health sector support staff, teachers and engineers are implemented, the forecasted wage bill will increase to NIS 9.2 billion by 2026, which would represent a 20 percent increase in the wage bill in nominal terms compared to the 2021 baseline. Although there is no “ideal” size of the wage bill or the public sector, governments typically adopt the lens of ‘fiscal affordability’ when it comes to wage bill spending and employment. In this regard, given that the PA has been forced to reduce wage payments in the past and the broader environment of limited revenue growth and increasing fiscal debt, the wage bill as the largest government expenditure item is likely to exert significant fiscal pressures and will need to be seriously addressed.

Government officials in the PA are cognizant of these challenges and are actively exploring policy options for wage bill reform. One reform option that has been under consideration by the PA is a VRS. However, as currently designed, the scheme should be considered with caution as it may not deliver the desired level of savings needed to lower wage bill spending levels. Based on simulations by the World Bank team, the PA's proposed VRS targeting employees aged 55 and above who have completed 15 years of service in the civilian sector and employees aged 45 and above who have completed 15 years of service in the security sector, is unlikely to generate significant fiscal savings.³ In fact, based on projected figures, after the one-time initial savings, the wage bill is likely to grow to NIS 7.8 billion by 2026, in nominal terms. This will represent an increase of 0.3 percentage points in the wage bill's share in GDP compared to 2021 GDP levels. Further, the VRS may also be mis-targeted and negatively impact performance given that public employment under the PA has a relatively smaller share of employees with significant years of service. A VRS that further reduces employee numbers in this cadre may therefore result in the loss of skilled employees and negatively affect government performance. Last but not least, the proposed VRS should take into account the likely impact on pension liabilities, which already represent a significant expenditure line item for the government.

World Bank simulations show that reforms that are based on a hybrid approach and that address both employment and wage growth can result in better outcomes as they can deliver significant

³ The simulation assumes that 50 percent of the target group in the civilian and security sectors, respectively, will take up retirement under the proposed scheme, and the VRS package offered to exiting employees will be equivalent to 70 percent of the retiring individual's annual salary.

fiscal savings for the PA. For example, if the PA were to (i) freeze wages for two years in 2022-2023 and then index them to a standard rate of increase such as 1.5 percent in 2024-2026, (ii) gradually reduce spending on ‘job’ and ‘other’ allowances by 20 percent, spread over 2022-2026, and (iii) put 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), it would be able to reduce the wage bill to NIS 7 billion by 2026. This will represent a 9 percent nominal reduction in the wage bill compared to the 2021 baseline and a 1.1 percent reduction in the wage bill’s share in GDP based on 2021 GDP levels.

Global experience indicates that governments that have successfully rightsized their wage bill have typically combined short-term controls to rein in spending with medium-to-long term structural reforms to improve overall wage bill management. In the short-term, governments can make use of a variety of strategies to monitor wage and employment trends and keep them in check. Governments may opt to freeze wages or link wage growth to a standard percentage decided annually by a pay commission as a way to rein in spending on the wage bill. Governments can also use hiring freezes or attrition targets, such as recruiting a lower number of employees into the public sector than the number of employees leaving due to natural attrition. Medium-to-long term structural reforms should be country-specific, and they 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 or specific/rare skills. 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.

The exact choice of reform can vary based on priorities identified by the PA as well as fiscal targets. Governments considering wage bill reform in the context of fiscal constraints typically begin by first identifying what level of savings are needed to balance their budget and bring the wage bill in line with fiscal affordability targets. In the case of the Palestinian territories, World Bank estimates suggest that between 2022-2026, the fiscal balance as a share of GDP will likely average -4 percent. Based on global reform experience, it is unlikely that the entire fiscal balance can be adjusted through wage bill reform alone. Experience suggests that governments can achieve around 1-1.5 percent of savings as a share of GDP by rationalizing their wage bill. The policy reform options discussed in this report provide an indication of how such a level of fiscal savings can be generated.

The PA is cognizant of the need for reform but faces a variety of fiscal and policy pressures. The Palestinian economy suffers from external restrictions that have severely limited economic activity over the years and held back the private sector. Under these conditions, the PA has de-facto become an employer of last resort. To add to the complexity, Palestinians can access the Israeli labor market where wages are more than twice as high as what is offered by the PA. As a result, the government has faced issues surrounding salary levels and employee retention. For instance, government officials have faced significant bargaining action from employee groups in the past that resulted in salary and allowance hikes. Further, macro-economic constraints serve as an impediment to fiscal reform in the public sector. Donor assistance and grants, which were used to shore up expenditure in the past, have declined significantly in recent years and the government’s ability to autonomously manage its own revenue is significantly constrained. Within this context, the wage bill as an expenditure line item has become

further magnified leaving the government little room for capital investment or economic diversification. Last but not least, the issue of furloughed workers in Gaza who are on the PA's payroll but unable to work continues to pose a challenge.

Based on this report's findings and global reform lessons, the PA may consider the following set of reform priorities to address wage bill and employment growth in its public sector:

Short-term priorities (years 1 and 2)

- Set attrition targets for net public employment and tie all hiring, wage and promotion decisions to workforce needs, budget availability and, equally importantly, to merit
- Scale back spending on allowances and tighten eligibility criteria to ensure fiscal affordability of the wage bill as well as pay equity across employee groups. This reform will also help generate the fiscal space needed to engage in more concrete salary restructuring reforms over the medium-term.
- Conduct targeted functional reviews to identify areas of over- and under-staffing and compensation spending, and create a staffing reform plan based on the review's results

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

- Develop formal procedures for salary planning and workforce management in the public sector, with strong coordination between central agencies and spending units
- Revise the public sector salary structure, bringing it in line with local labor market benchmarks and best practice principles, such as salary decompression, competitiveness, and equity
- Review the public sector pension scheme to ensure that wage bill and employment reforms create the desired expenditure impact

I. OVERVIEW OF WAGE BILL SPENDING

The Palestinian Authority (PA) spends more on its wage bill than comparators, and tends to rely on ad-hoc policy measures that have exacerbated rather than eased its fiscal pressures

The PA's public sector wage bill has increased over the years despite efforts to curb spending. Over the last decade, aggregate spending on the wage bill in nominal terms (see Box 1) has increased by 22 percent, from NIS 6.4 billion in 2011 to NIS 7.8 billion in 2021 (see Figure 1). Once spending on “semi-wages” (social assistance transfers and pensions paid by the MoF) are taken into consideration, the overall fiscal footprint of the public sector becomes even larger.⁴ For example, in August 2022 (the only month for which data is available), the PA spent an estimated NIS 0.34 billion on this line item. In annualized terms, this represents NIS 4 billion in spending on top of the PA's existing wage bill. Taken together, spending on the wage bill and semi-wages is projected to represent 66 percent of expenditure and 83 percent of revenue in 2022.

The overall increase in the wage bill was accompanied by frequent annual fluctuations that occurred due to short-term policy measures taken by the PA. For example, in 2012, 2014 and 2016, wage bill spending grew by 7 percent, 6 percent and 5 percent respectively. This was often a result of salary bargaining by employee groups, which led to an increase in allowances and other salary items. In 2017, the government made an effort to reduce its wage bill. This was primarily done by reducing payments to PA employees in Gaza to around 70 percent of owed wages and through the introduction of a voluntary retirement scheme (VRS). As a result, wage bill spending decreased by 3 percent in 2017 and by 16 percent in 2018 as the one-time benefits of the VRS were realized the following year. However, the wage bill grew once again in 2019 and 2020 (by 4 percent each) and, in 2021, it increased by 13 percent. The latter was partly because the PA agreed to reinstate full wage payments to its Gaza employees and also due to the re-instatement of some employees removed during the 2017 VRS.

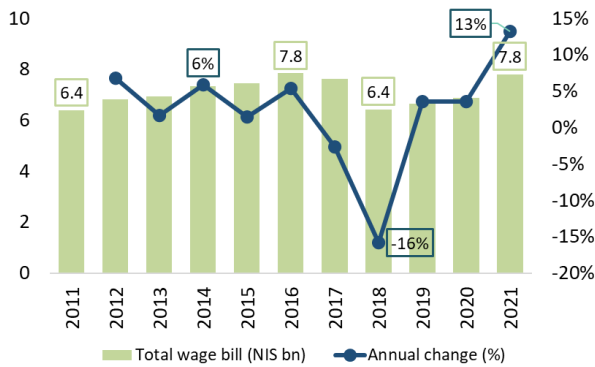
Recent increases in wage bill spending as well as covid-19 related economic contraction and revenue decline has eroded improvements made by the PA in containing the relative size of the wage bill in previous years. Between 2011 and 2018/19, the PA was able to reduce the share of the wage bill in its GDP, revenue and expenditure. For example, wage bill as a share of GDP decreased from 16 percent in 2011 to 11 percent in 2019. Wage bill as a share of total revenue and grants was reduced from 59 percent in 2011 to 44 percent in 2018. Similarly, the share of the wage bill in central government expenditure decreased from 48 to 37 percent between 2011 and 2019. This was mainly a result of lowered wage payments to Gaza employees and the VRS, as discussed above. However, with the negative economic impact of covid-19 in 2020 and the increase in wage bill spending in 2021, the share of the wage bill in the PA's budget has increased significantly. In 2021, wage bill spending as a share of GDP stood at 13 percent, as a share of revenue and grants 54 percent and as a share of expenditure 44 percent (see Figure 2). This situation is likely to worsen in 2022 and beyond as the government slowly clears arrears to public employees in the West Bank who have been paid 80 percent of owed wages since November 2021.

⁴ Semi-wages include social transfers (payments made to prisoners, ex-prisoners and the families of those deceased as a result of violence) and pension payments made by the MoF (not inclusive of payments made by the Pension Authority).

Box 1: A note on the data used and scope of public sector analyzed

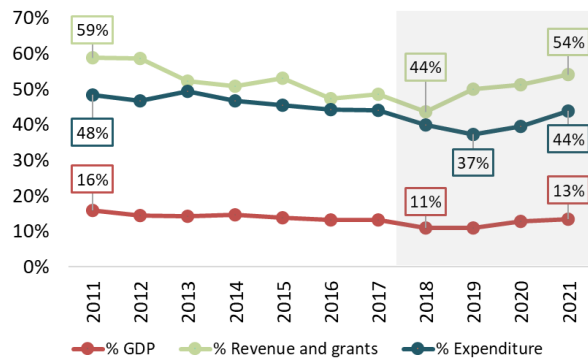
The analysis contained in this report is based on human resource and payroll data provided by the Ministry of Finance (MoF) covering the period 2011-2021. The data includes Palestinian Authority (PA) employees in both the West Bank and Gaza. Based on the data provided by the MoF, the public sector in the Palestinian territories includes the core civil service, local civil administration, security forces and other public sector agencies. A full list of entities included in the data and covered in the analysis are provided at the end as Annex 1. Note that wage bill spending figures include gross spending on basic salaries for permanent and contract employees and allowances and rewards. They do not include ‘semi-wages’ i.e., social assistance payments paid to retirees or other beneficiaries, nor do they include pension payments.

Figure 1: Annual wage bill spending, commitment basis



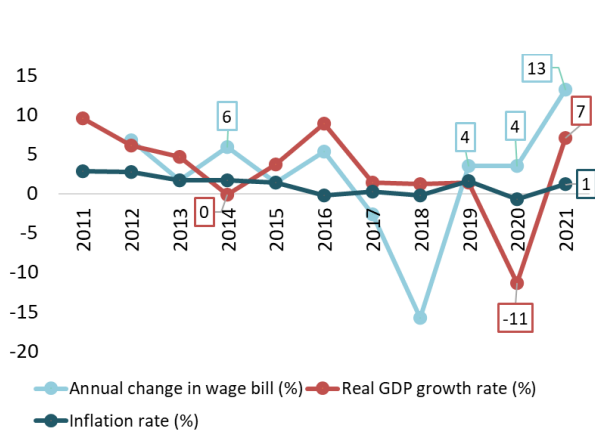
Source and Notes: Ministry of Finance

Figure 2: Share of wage bill spending in budget indicators



Source and Notes: Ministry of Finance

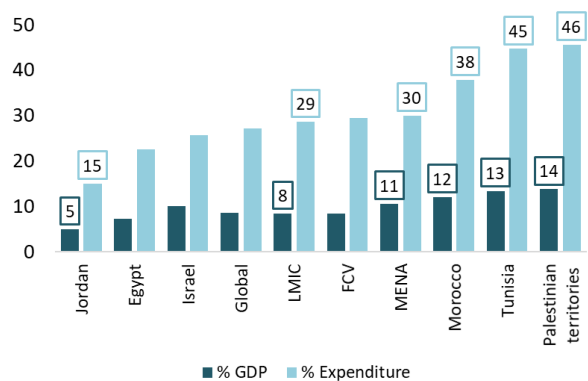
Figure 3: Wage bill growth versus economic benchmarks



Source and Notes: Ministry of Finance

Figure 4: Wage bill spending in comparator economies

2011-2018 average



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

Overall spending on the wage bill by the PA is out of step with indicators of fiscal affordability.

Wage bill growth can sometimes be explained by an increase in inflation in the local economy or economic growth and productivity that translates to higher salaries at the individual level. In the Palestinian territories, this is not the case. Between 2011-2021, inflation in the West Bank and Gaza hovered around 1 percent. In contrast, annual growth in the PA's wage bill during this same period averaged 2 percent, with considerable fluctuation as described above. GDP growth rates have been similarly out of step with wage bill spending patterns (see Figure 3). For instance, in 2020, real GDP declined by 11 percent, while wage bill spending grew by 4 percent. In 2021, while the economy somewhat rebounded and real GDP grew by 7 percent, wage bill spending increased by 13 percent. This is also a period during which the PA's fiscal balance as a percentage of GDP averaged -7 percent and debt as a percentage of GDP averaged 54 percent. Taken together, these figures depict the worsening fiscal position of the PA and the significant pressures posed by the wage bill in the absence of a sustainable policy framework.

The PA spends more on its wage bill than its regional comparators. Although there is no "ideal" size of the wage bill and spending rates can differ based on the size and function that a government may choose to adopt, international comparisons can serve as a useful point of reference when making policy decisions. In the case of the PA, analysis shows that its wage bill is larger than all other comparators. For instance, between 2011-2018 (for which data is available for all countries), the PA's wage bill averaged 14 percent of GDP and 46 percent of central government expenditure. The equivalent figures for the Middle East and North Africa (MENA) region were 11 and 30 percent respectively. Similarly, for countries affected by fragility, conflict and violence (FCV), the averages were 8 and 29 percent. On average, the PA spends more on its wage bill as a share of GDP and expenditure than countries such as Jordan, Egypt, Morocco and Tunisia (see Figure 4).

The following sections of the report delve deeper into wage bill spending by the PA over the last decade, identifying key drivers of growth and issues of concern for policy makers.

II. KEY DRIVERS OF WAGE BILL GROWTH

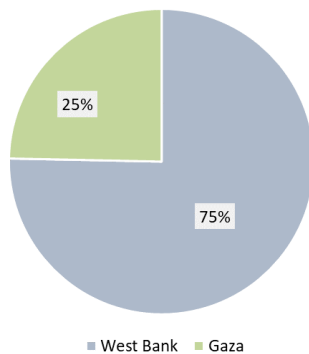
A. Spending across territories

While the PA rightly grapples with the issue of wage bill spending in Gaza, a core challenge requiring its urgent focus is spending in the West Bank

Spending on the Gaza wage bill has declined over time while spending on the West Bank wage bill has increased significantly. In 2021, wage bill spending in the West Bank represented 75 percent of the PA's total wage bill (see Figure 5). This share has increased over time with the West Bank wage bill increasing by 87 percent between 2011-2021 at an average annual growth rate of 7 percent. In contrast, the Gaza wage bill has declined by 27 percent over the same period with the most significant decline taking place in 2017-2018 as Gaza salaries were reduced to 70 percent, on a commitment basis, and as a VRS was rolled out (see Figure 6). These trends indicate that the core challenge lies with wage bill spending in the West Bank and that even as the PA continues its efforts to address the issue of Gaza employees who may be on the payroll but not working, it should devote equal if not more attention to spending patterns in the West Bank.

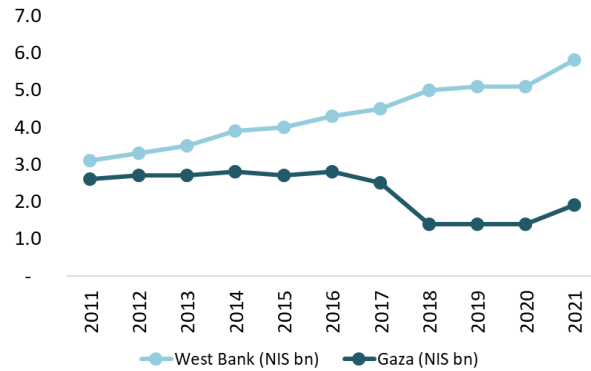
Figure 5: Share of wage bill spending by territory

2021



Source and Notes: Ministry of Finance

Figure 6: Wage bill spending over the years by territory



Source and Notes: Ministry of Finance

B. Spending on basic salaries versus allowances

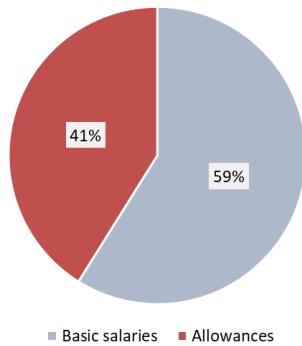
The PA has channeled the majority of its salary increases over the years into allowances, using them as a supplement to base pay instead of as a reward for specific jobs or work performance

Allowances act as a supplement to basic pay in the Palestinian territories, with ‘job’ and ‘other’ allowances alone representing 34 percent of total wage bill spending. Between 2011-2021, the PA spent on average 41 percent of its wage bill on allowances (see Figure 7). In addition, over the same period, allowance spending increased far more than basic salary spending—56 percent versus 23 percent, respectively. This is out of step with global best practice wherein the majority of civil service compensation is represented by base pay, with only a few allowance categories for special job requirements or to incentivize higher performance in key sectors. Further, in the Palestinian territories, within allowances, ‘job’ and ‘other’ allowances account for the vast majority of allowance spending—79 percent of total, followed by managerial, transport and social allowances (see Figure 8). In fact, in 2021, ‘job’ and ‘other’ allowances represented 34 percent of total wage bill spending across the board. Such high levels of spending indicate that allowances are being used to supplement basic pay, and that these two categories in particular are being used by the PA to channel most of the compensation increases that have taken place over the years (often as a result of salary bargaining).

Almost all types of employees receive almost all types of allowances, indicating that there is a disconnect between job content and allowances in the public sector. As stated above, best practice suggests that allowances form only a small portion of overall compensation spending and that they be awarded in special instances only for explicitly defined purposes. In the Palestinian territories, this isn’t the case as all five types of employees on the PA’s payroll receive almost all types of allowances (see Table 1). Further analysis would need to be carried out to better understand the eligibility criteria being used for awarding specific allowances under the Civil Service Law no. 4 (1998), or as later established by the Council of Ministers, with the aim to verify whether allowances are being paid in line with original intentions and to what degree there is room to further rationalize spending on them.

Figure 7: Wage bill spending by category

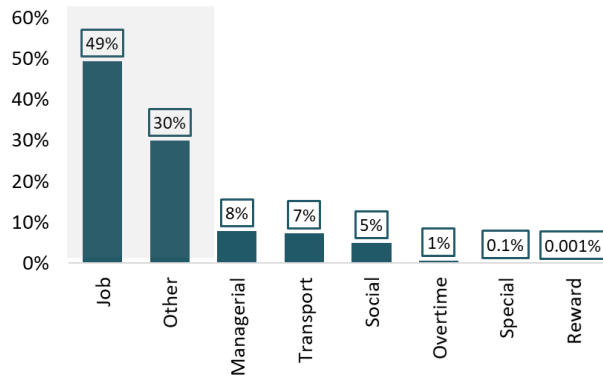
2011-2021 average



Source and Notes: Ministry of Finance

Figure 8: Share of allowance spending by type

2021



Source and Notes: Ministry of Finance

Table 1: Distribution of allowance recipients by employment type

2011-2021

	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 and Notes: Staff compilation based on Ministry of Finance data, • represents employees receiving respective allowance type

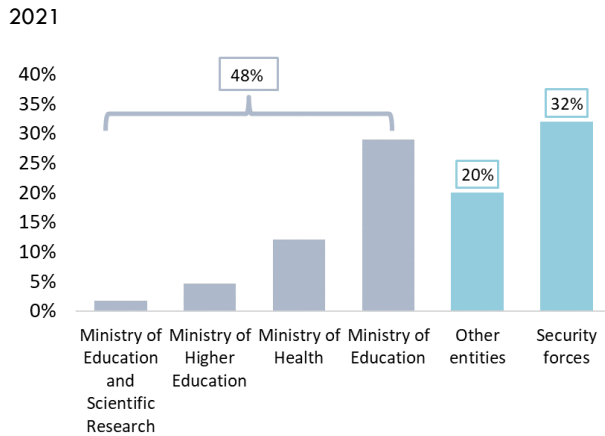
C. Spending by public sector entities

While the share of spending across different parts of the public sector generally aligns with benchmarks, the sharp increase in wage bill spending in civilian entities is cause for concern

The ministries of health and education represent the largest share of wage bill spending and they have also seen the largest wage increases over time. In 2021, the largest share of wage bill spending went towards the education sector, with the Ministry of Education (MoE) receiving 29 percent of the PA’s total wage bill, Ministry of Higher Education receiving 5 percent and Ministry of Education and Scientific Research receiving 2 percent. This was followed by the Ministry of Health (MoH), which received 12 percent. Together, health and education accounted for 48 percent of total wage bill spending by the PA followed by the security sector, which represented 32 percent (see Figure 9). This figure is broadly in-keeping with global benchmarks since the largest function any public sector performs around the world is the provision of health and education services. What is worth highlighting, however, is that wage bill spending in these ministries has increased by significant amounts. Between 2011-2021, wage bill spending increased at an average annual rate of 7 percent in the MoE and 6 percent in the MoH. In contrast, the security sector wage bill grew at an average annual rate of only 0.5 percent. This

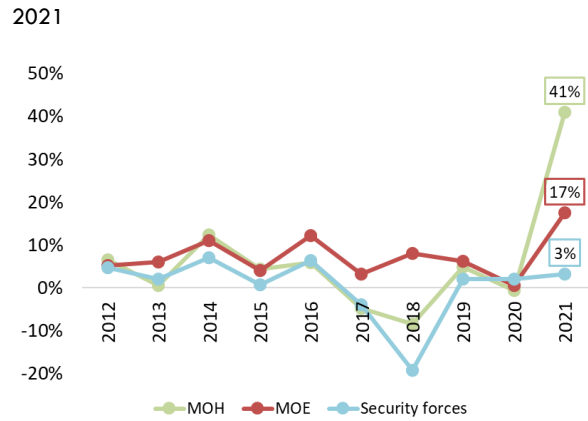
divergent trend is most prominent in 2021 when the MoE wage bill grew by 17 percent and the MoH wage bill by 41 percent (see Figure 10). Further, most of the increase over the years in the civilian sector has come from allowances. For example, between 2011-2021, allowance spending increased by 77 percent in the MoH and 157 percent in the MoE (see Figure 11).

Figure 9: Wage bill spending by entity



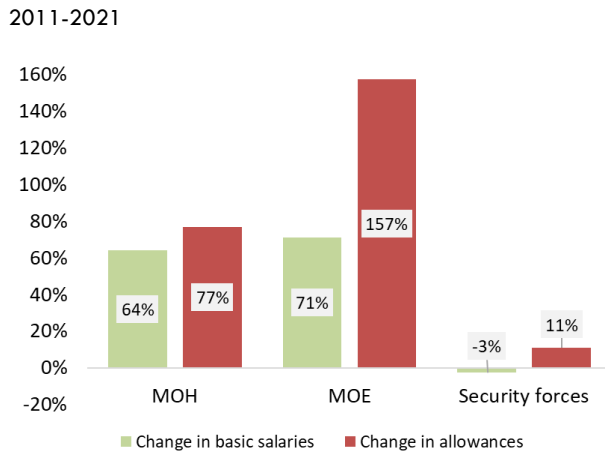
Source and Notes: Ministry of Finance

Figure 10: Annual change in wage bill spending by entity



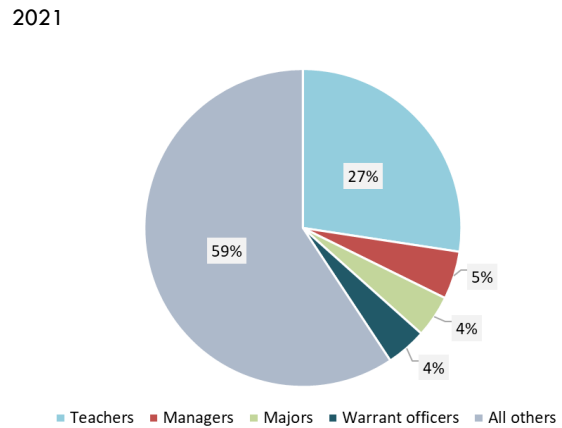
Source and Notes: Ministry of Finance, 2021 MoH increase reflects effects of covid on PA spending

Figure 11: Change in wage bill spending by category



Source and Notes: Ministry of Finance

Figure 12: Wage bill spending by job/occupation



Source and Notes: Ministry of Finance

D. Spending on jobs and occupations

Four job titles dominate the public sector, with teachers representing over a quarter of total wage bill spending by the PA

Job titles in the Palestinian public sector need to be updated and their number potentially reduced to align with modern best practices. The PA has not yet fully updated its job classification system for the public sector that can be linked to competencies and grades. As a result, the current list of jobs and occupations included in the payroll sometimes overlap, are missing or are redundant. For example,

contract workers are sometimes coded as ‘not specified’ under job title. In addition, there are a number of jobs for which no wage spending has occurred over the last decade, indicating that they likely need to be dropped from the PA’s job classification list. These include head of the land authority, special assistant to the minister, washing unit official, invention tester, well controller and youth affairs officer. Finally, there are some 600+ job titles included in the payroll, which is quite large for a public sector. The U.K. government, for example, has around 400 unique job titles in its classification list.

Four positions account for over 40 percent of total wage bill spending by the PA. Of the 600+ job titles/occupational categories that exist in the PA’s public sector payroll, only 20 account for 74 percent of total wage bill spending. Further, four positions account for 41 percent of the total wage bill. This includes teachers, which represented 27 percent of total wage bill spending in 2021, managers, who represented 5 percent of total spending, and majors and warrant officers (in the security sector) who represented 4 percent each (see Figure 12). This trend has remained constant across the entire 2011-2021 period with the same four positions accounting for the largest share of wage bill spending.⁵ Allowances, especially ‘job’ and ‘other’ allowances, represent a large share of the overall compensation for these positions. In 2021, job and other allowances represented 35 percent of total compensation spending on teachers, 40 percent compensation spending on managers, 29 percent spending on majors and 27 percent on warrant officers (see Table 2). Teachers, in particular, have received an increasing amount of compensation in the form of allowances. For example, between 2011-2021, allowance spending on teachers increased by 135 percent, from NIS 0.4 to 0.9 billion.

Table 2: Wage bill spending by category for top four jobs/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%
<i>Job allowance</i>	26%	<i>Job allowance</i>	28%	<i>Job allowance</i>	19%	<i>Other allowance</i>	17%
<i>Other allowance</i>	9%	<i>Other allowance</i>	12%	<i>Other allowance</i>	10%	<i>Job allowance</i>	10%
<i>Managerial allowance</i>	5%	<i>Transport allowance</i>	6%	<i>Managerial allowance</i>	4%	<i>Social allowance</i>	6%
<i>Transport allowance</i>	5%	<i>Managerial allowance</i>	5%	<i>Social allowance</i>	3%		
<i>Social allowance</i>	1%	<i>Social allowance</i>	1%				

Source and Notes: Ministry of Finance

E. Spending by grades

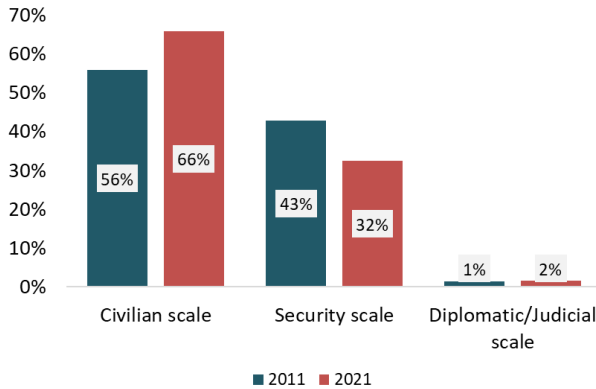
Out of the four pay and grading scales in the public sector, employees mapped to the civilian pay and grading scale represent the largest share of wage bill spending

Public sector employees can be mapped to one of four pay and grading scales depending on their occupational group. The primary scale, established under the 2005 Amendment to the Civil Service Law no. 4 of 1998, covers the majority of civil service staff. It includes grades that fall under five categories as well as a higher and a special category. Employees on this pay scale are awarded an

⁵ Other jobs in the top 20 list include (in order) first lieutenant, captain, lieutenant, lieutenant colonel, sergeant major, staff warrant officer, colonel, specialist doctor, lance corporal, school manager, general doctor, legal nurse, muezzin (for call to prayer), administrative employee, school secretary and educational guide.

automatic annual increment of 1.25 percent, represented by movement along each step of a particular grade. A second scale is for diplomatic staff, which was established in 2007. Employees under this scale can fall under one of seven grades and each employee is awarded a 1.25 percent annual increment, represented by movement along the various steps. Diplomatic staff also receive an additional allowance called the 'nature of work' allowance, which can range from 43 percent of basic pay for an attaché to 85 percent of basic pay for ambassadors. This is received whether staff serve abroad or in the Palestinian territories. The third type of scale, established in 2003, is for judicial staff. This scale includes eleven grades. Employees are awarded a standard amount as an annual increment (instead of a percentage) depending on their grade as well as an additional nature of work and representation allowance. The fourth and final type of pay scale covers security sector staff, which was established under the 2007 Security Forces Law. Employees can be mapped to one of 15 ranks/grades and receive an automatic annual increment of 1.25 percent as they move up the steps. (See Annex 2 for a copy of all four pay and grading scales.)

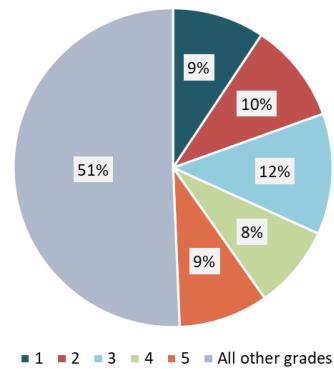
Figure 13: Wage bill spending by pay scale



Source and Notes: Ministry of Finance

Figure 14: Wage bill spending by grade

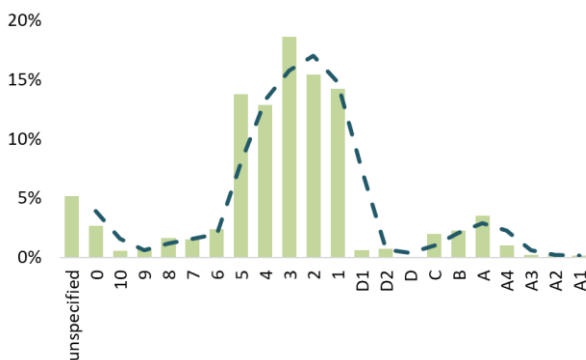
2021



Source and Notes: Ministry of Finance

Figure 15: Wage bill spending within the civilian pay scale

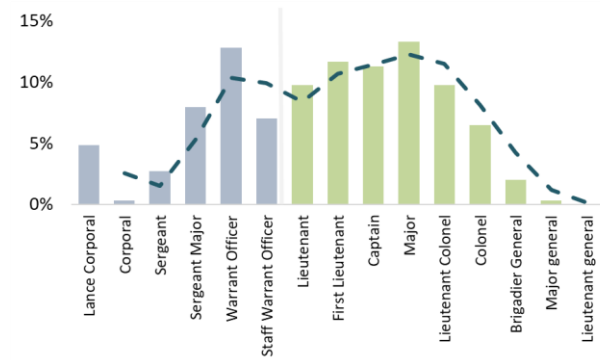
2021



Source and Notes: Ministry of Finance

Figure 16: Wage bill spending within the security pay scale

2021



Source and Notes: Ministry of Finance

The civilian pay scale represents the majority of wage bill spending by the PA and this trend has been on an upward trajectory over the years. For instance, in 2021, 66 percent of total wage bill spending went towards employees mapped to the civilian pay scale whereas 32 percent went to employees on the security sector pay scale and the remainder 2 percent to employees on either the diplomatic or judicial pay scale. In 2011, the equivalent figures were 56 percent for the civilian pay scale, 43 percent for the security pay scale and 1 percent for the diplomatic and judicial pay scale (see Figure 13).

Five civilian grades represent half of all wage bill spending by the PA. In 2021, grades 1-5 of the civilian pay scale accounted for 49 percent of all wage bill spending by the PA (see Figure 14). These grades fall under categories 2, 3 and 4 of the 2005 amended pay scale and represent jobs requiring specialist/technical skills (category 2), clerical/secretarial roles (category 3) or vocational functions (category 4). Further analysis would need to be carried out to place this high wage bill spending figure in context and to understand whether this represents over-spending or a legitimate area of spending by the government. However, from the standpoint of wage bill spending numbers alone, it appears to be significantly high. For example, when looking at spending by grade within the civilian sector, governments around the world typically have a normal bell-curve distribution of spending. In the case of the PA, the curve has a sharp slope in the middle with a steep drop-off towards the higher and lower ends and a slight bulge in the middle of each tail (see Figure 15). Such a shape may indicate that there is a mismatch in how grades are distributed and that there are some key employee groups that may be over-represented while others that may be under-represented. In the security sector, there is similarly not a normal bell-curve distribution, but rather a significant bulge around the grades of lieutenant to lieutenant-colonel (see Figure 16).

III. OVERVIEW OF EMPLOYMENT

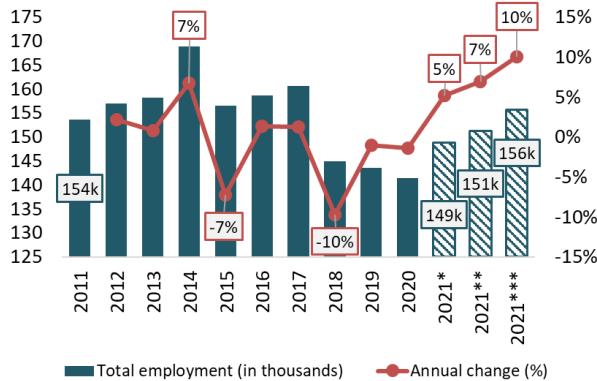
Public employment has increased over the years, often in conjunction with political priorities

The size of public employment under the PA has fluctuated significantly over the years, posing a challenge to reform efforts. At the aggregate level, public employment has increased only slightly over the last decade, from 153,574 in 2011 to 155,614 in 2021, which might indicate that the PA has been broadly successful in limiting net employment figures. However, an examination of annual trends shows that public employment has fluctuated significantly over the years, most notably increasing by 7 percent in 2014 when the PA added 10,657 employees to its payroll. The 2017 VRS and subsequent efforts to limit employment growth were able to reduce employment figures the next few years with employment reaching 141,409 in 2020—the lowest in a decade. In 2021, employment figures changed as shown in figure 17, primarily due to the hiring of 4,700 non-permanent workers. In addition, 1,700 security sector personnel were added to the payroll. The PA also had to formalize the contracts of some 2,400 teachers who were previously hired on interim contracts and who by-law had to be made permanent after three years. Lastly, the government had to re-instate some 4,500 workers in the health and education sectors who had been previously removed under the VRS (see Figure 17).

Public employment figures under the PA are not that large relative to comparator countries. Over the last decade, public employment as a share of total employment under the PA in the West Bank and Gaza has averaged 17 percent. This is on par with the global average during this same period (18 percent) and lower than the average in MENA (25 percent). However, the average share of public employment in total employment in the West Bank and Gaza is higher than the average in comparator

economies of lower-middle income countries (LMIC) and fragile and conflict affected states (FCV), where the equivalent figure is 14 percent for both (see Figure 18). Although international comparisons should be approached with some caution and, as with wage bill spending, there is no “ideal” size of the public sector, these figures in combination with the annual trends described above, highlight the need to pay close policy attention to employment and to align it with workforce needs and fiscal affordability targets in the public sector.

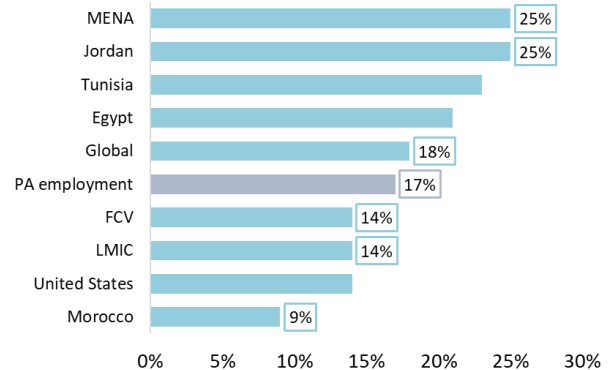
Figure 17: Annual employment in the public sector



Source and Notes: Ministry of Finance, * represents employment total due to hiring of non-permanent and permanent staff, ** represents total after formalization of teachers, *** represents total after addition of re-instated employees from 2017 VRS

Figure 18: Public employment as share of total employment

2011-2021 average



Source and Notes: Ministry of Finance, ILO Stat

The following sections will explore the drivers of public employment under the PA, identifying key trends and areas of policy concern.

IV. KEY DRIVERS OF EMPLOYMENT GROWTH

A. Employment across the territories

Public employment in the West Bank has increased over the years, over and above growth rates in the labor market

Trends in PA employment have shifted, with increasing employment taking place in the West Bank over Gaza. In 2021, the West Bank accounted for 75 percent of total public employment under the PA whereas the equivalent figure in 2011 was 57 percent (see Figure 19). Employee numbers have increased over time. For example, between 2011-2021, public employment in the West Bank increased by 32 percent, growing from 88,279 employees to 116,458. During the same period, PA employment in Gaza declined by 40 percent, decreasing from 65,295 employees to 39,156 (see Figure 20).

Public employment in the West Bank represents a larger share of the local labor market and has also increased at rates higher than labor market growth rates. In 2021, public employment in the West Bank represented 4 percent of the total West Bank population and 13 percent of the labor force.

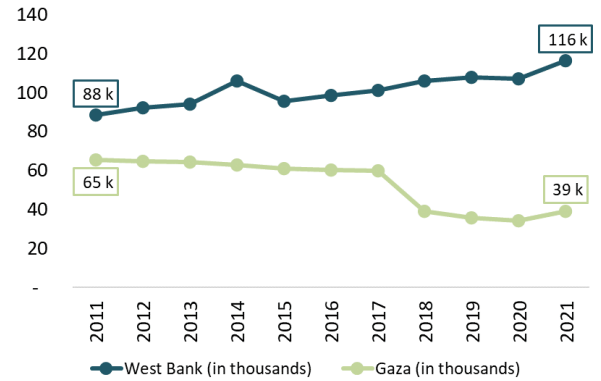
In contrast, the same year, PA employment in Gaza stood at 2 percent of the local population and 8 percent of the labor force (see Figure 21). Further, between 2011-2021, public employment in the West Bank grew at an average annual rate of 3 percent whereas the population growth rate in the West Bank was only 2 percent during this time (see Figure 22). In contrast, PA employment in Gaza declined at an average annual rate of 4 percent between 2011-2021, even though the population growth rate and working age population growth rate was 3 percent during the same period.⁶ These figures indicate that growth trends in public employment cannot be explained by expansionary or deflationary pressures generated by population growth or by shifts in the labor market.

Figure 19: Share in public employment by territory



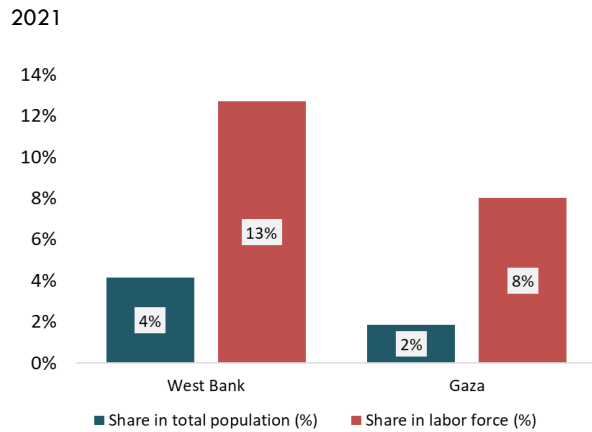
Source and Notes: Ministry of Finance

Figure 20: Public employment by territory over the years



Source and Notes: Ministry of Finance

Figure 21: Share of PA employment in the labor market



Source and Notes: Ministry of Finance and PCBS

Figure 22: Growth in PA employment and the labor market



Source and Notes: Ministry of Finance

⁶ Labor market figures in Gaza must be understood within the context of the presence of non-PA public employment, which is not considered in the present analysis.

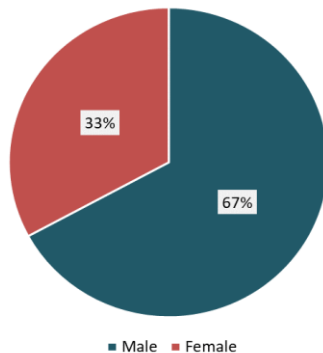
B. Employment by gender and contract type

Male employees and permanent employees continue to represent a majority of the public sector, with some shifts in trends in recent years

Men represent the majority of public sector employment under the PA, although trends have been shifting in favor of women over time. Data from 2021 shows that male employees account for 67 percent of total public employment under the PA in the West Bank and Gaza (see Figure 23). However, trends have been shifting as the equivalent figure was 76 percent in 2011. Over the past decade, female employees have increased in number by 39 percent, from 36,957 employees to 51,202. Particular years in which female employment increased by significant amounts include 2014, 2019 and more recently 2021 (see Figure 24). In comparison, male employment has declined by 10 percent over the same period, moving from 116,617 employees in 2011 to 104,412 in 2021. The most significant decline took place in 2018 when male employment decreased by 13 percent. In contrast, female employment declined by only 2 percent during this year, most likely due to fewer employment opportunities outside of the public sector for women, which may have contributed to limited numbers seeking voluntary retirement. Male employees likely found the VRS to be an appealing option and therefore volunteered for an early exit package in higher numbers.

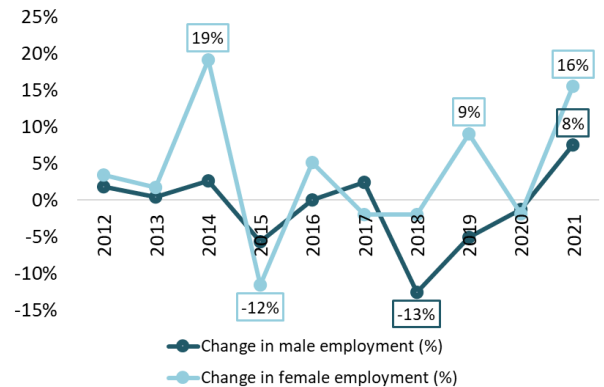
Figure 23: Public employment by gender

2021



Source and Notes: Ministry of Finance

Figure 24: Change in public employment by gender



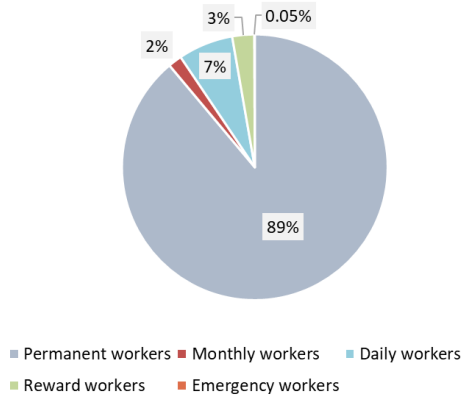
Source and Notes: Ministry of Finance

Permanent workers represent the largest share of employment under the PA, although there has been an uptick in the use of daily workers and the special category of ‘reward’ workers in recent years. In 2021, permanent employees represented 89 percent of total PA employment. This was followed by daily workers, reward workers, monthly workers and emergency workers respectively (see Figure 25). Permanent workers also represented the largest share of employees hired in 2021. For example, of the 14,205 employees hired by the PA, 9,062 were hired as permanent employees (4,179 in the West Bank and 4,883 in Gaza). At the same time, data from the last decade shows an upward trend in the use of daily workers and ‘reward’ workers. For example, between 2011-2021, the number of permanent workers declined by 2 percent (from 140,950 to 138,337) whereas the number of daily workers increased steadily (from 6,980 to 10,430). Further, the use of ‘reward’ workers exhibited an interesting trend wherein it jumped from 78 employees in 2017 to 3,264 employees in 2018 (see Figure

26). Interviews with Ministry of Finance officials have indicated that ‘reward’ workers are essentially the same as ‘permanent’ workers but that their use increased after 2017 (the same year as the VRS was introduced) to circumvent pressures to limit hiring permanent employees in cases where workforce needs demanded hiring a certain candidate.

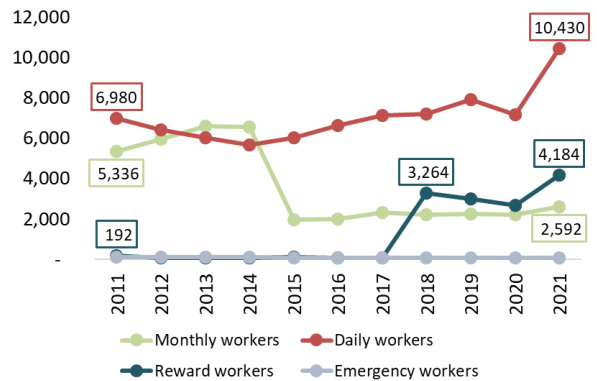
Figure 25: Public employment by contract type

2021



Source and Notes: Ministry of Finance

Figure 26: Change in public employment by contract type*



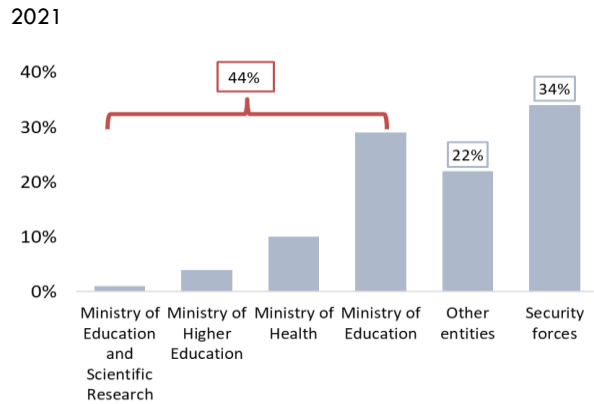
Source and Notes: Ministry of Finance, * permanent workers not shown

C. Employment by public sector entities

The civilian sector accounts for the largest share in employment growth, and salaries in the civilian sector appear to have contributed more to overall wage bill spending compared to employment

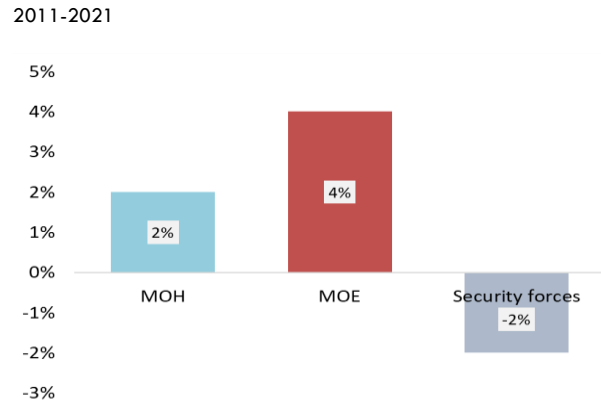
Trends in employment at the entity level mirror those of wage bill spending, although salary growth appears to have contributed more to the overall wage bill than employment growth. In 2021, the education and health sectors represented the largest share of public employment, with the Ministry of Education (MoE) accounting for 29 percent of employment and Ministry of Health (MoH) accounting for 10 percent, followed by the Ministry of Higher Education and the Ministry of Education and Scientific Research (see Figure 27). Together, the health and education sectors accounted for 44 percent of total employment, similar to their share in wage bill spending the same year, which was 48 percent. These ministries also saw the largest increases in employment. For example, between 2011-2021, employment in the MoE increased at an average annual rate of 4 percent and in the MoH by 2 percent (see Figure 28). In comparison, wage bill spending in civilian entities increased at annual rates higher than employment during this period (7 percent in the MoE and 6 percent in the MoH), indicating that salary growth contributed more to increases in wage bill spending rather than recruitment. This is reinforced by the fact that wage bill spending in the security sector decreased at an average annual rate of only 0.5 percent during this period even though employment declined at a rate of 2 percent (see Figure 28).

Figure 27: Public employment by entity



Source and Notes: Ministry of Finance

Figure 28: Average annual change in public employment



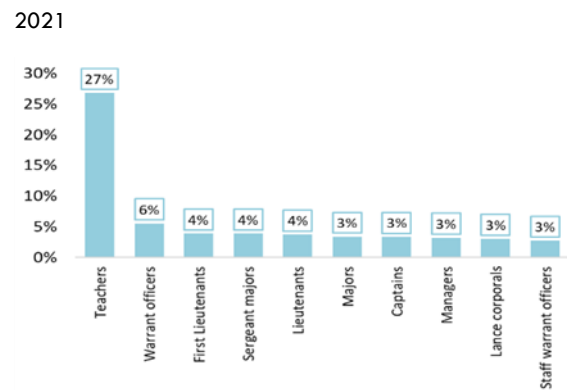
Source and Notes: Ministry of Finance

D. Employment by jobs and occupations

Teachers and a handful of other job titles dominate public employment, though further analysis would need to be undertaken to assess whether this represents over- or under-staffing

Four positions account for the majority of employment under the PA, though there is some variation between employment and wage bill spending numbers. In 2021, similar to wage bill spending, the top 20 positions accounted for three-quarters of total employment and the top four positions represented 40 percent. Over the years, teachers have been consistently in the top spot. For example, in 2021, they represented 27 percent of total employment, the same as their wage bill share. After this, the numbers shift. Warrant officers represented 6 percent of employment but accounted for 4 percent of wage bill spending in 2021. Majors and managers who were next in line when it comes to wage bill spending are instead in the 6th and 8th position when it comes to employment. In their place, first lieutenants and sergeant majors are in the 3rd and 4th place and represent 4 percent of employment respectively (see Figure 29). Overall, the top 20 positions are broadly similar, though their shares in employment versus wage bill spending are somewhat different.

Figure 29: Employment by jobs/occupations (top 10)



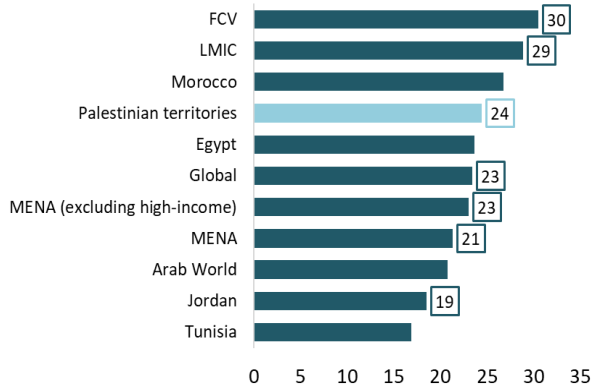
Source and Notes: Ministry of Finance

International comparisons indicate that the number of teachers in the Palestinian territories is broadly in line with global averages, though the figure is higher than in other lower-middle income and FCV countries. In 2018, the latest year for which data is available, the average number of pupils-per-teacher in primary schools in the Palestinian territories was 24:1. This was similar to the global average the same year (23:1) and worse than average ratios in the MENA region (21:1). However, the ratio was higher for lower-middle income countries (29:1) and countries affected by FCV (30:1),

indicating that, on average, these countries have a smaller number of teachers per pupil in primary schools (see Figure 30). Similarly, the same year, pupil-per-teacher ratios for the secondary level in the Palestinian territories was 17:1, in line with the global average. However, here too, average ratios for lower-middle income countries (22:1) and countries affected by FCV (19:1) were higher. In fact, even the average for the MENA region as a whole (19:1) was higher than the equivalent ratio for the Palestinian territories (see Figure 31). It is important to note that these figures reflect teachers employed by the PA as well as other entities (for example, the de-facto authority in Gaza and UN-funded schools in both territories). However, they represent a high-level picture that indicates that further scrutiny is warranted. Follow-up analysis could therefore look at PA-only numbers and assess them against the functional requirements of PA service delivery in the education sector.

Figure 30: Pupil-teacher ratios, primary level

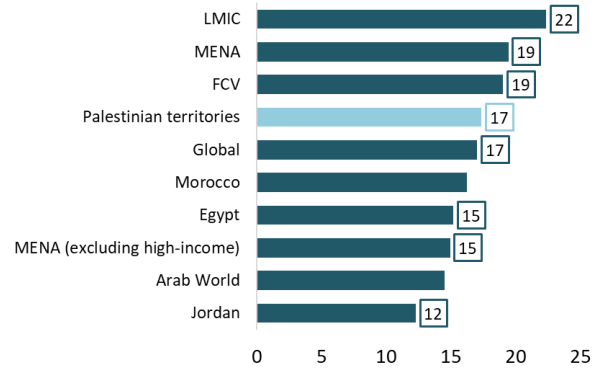
2018



Source and Notes: UNESCO Institute for Statistics

Figure 31: Pupil-teacher ratios, secondary level

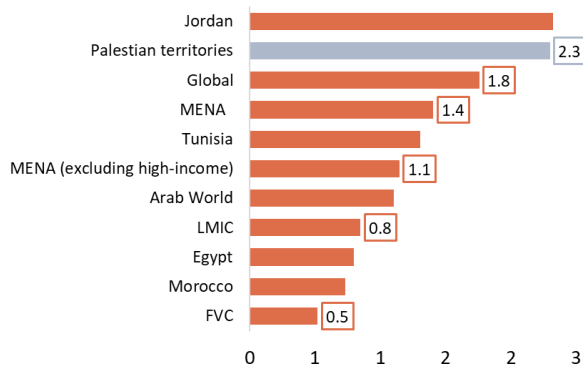
2018



Source and Notes: UNESCO Institute for Statistics

Figure 32: Physicians per 1,000 people

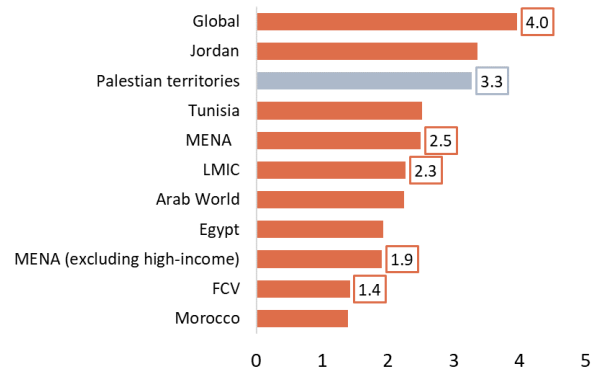
2017-2021



Source and Notes: Ministry of Health, WHO Stat

Figure 33: Nurses and midwives per 1,000 people

2017-2021



Source and Notes: Ministry of Health, WHO Stat

Similarly, health personnel ratios for physicians, nurses and midwives are higher than equivalent figures in the MENA region, the lower middle-income group and FCV countries. Based on PA health sector reporting, in 2021, the ratio of physicians to population across the Palestinian territories was

2.3:1000 (see Figure 32). This was higher than equivalent ratios in the MENA region (1.4:1000), the lower-middle income group (0.8:1000) and FCV countries (0.5:1000). In terms of the ratio of nurses and midwives to population, the figure for the Palestinian territories in 2021 was 3.3:1000 (see Figure 33). This too was higher than comparative figures in MENA (2.5:1000), lower-income countries (2.3:1000) and FCV settings (1.4:1000). These staffing ratios represent health sector personnel under both the PA and non-PA. Further analysis could be undertaken focusing on PA figures only to assess whether they align with service delivery requirements in the health sector by the PA. In addition, other areas, such as security, could also be further analyzed. (International benchmarking for the security sector was not included due to the lack of data availability.)

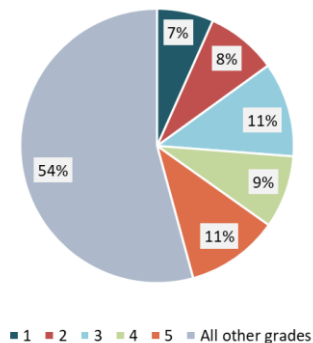
E. Employment by grades

Five civilian grades account for almost half of public employment under the PA

Employment distribution by grades follows a similar pattern to wage bill spending figures and may require further study vis-à-vis functional needs of the PA. In 2011, civilian employment accounted for 57 percent of total employment, followed by 42 percent for employees mapped to the security sector pay scale and the remaining 1 percent for employees mapped to the diplomatic and judicial scales. By 2021, the share of civilian employment had increased to 65 percent of total employment, while employment in the security sector had declined to 34 percent. Within grades, as with wage bill spending figures, five civilian grades (1-5) accounted for the majority of public employment in 2021—46 percent (see Figure 34). Employment within these grades has changed over the last decade, with employment in Grades 1-3 increasing significantly, while employment shares for Grades 4-5 have declined (see Figure 35). As noted in the wage bill spending section, further analysis would need to be undertaken to contextualize these figures and understand whether they represent over- or under-staffing within the PA’s ranks.

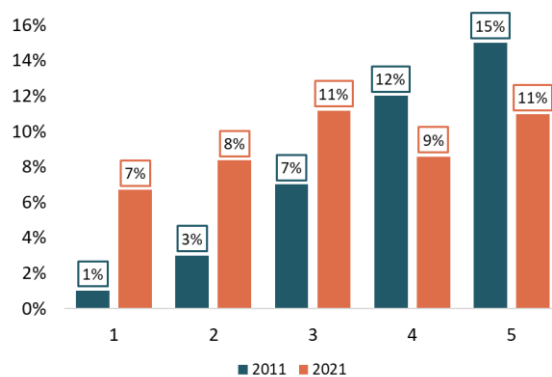
Figure 34: Public employment by grade

2021



Source and Notes: Ministry of Finance

Figure 35: Change in public employment by select grades



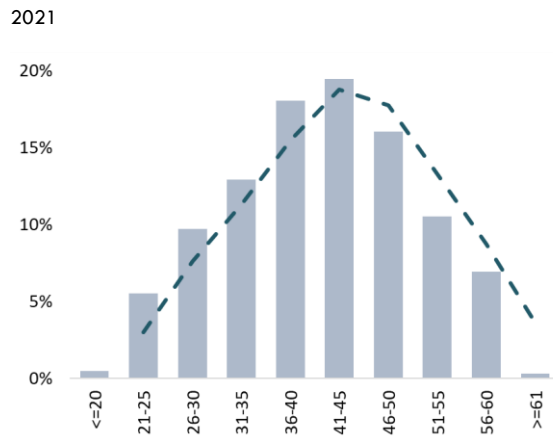
Source and Notes: Ministry of Finance

F. Employment by age and years of service

The Palestinian public sector includes a high number of employees with relatively less years of service

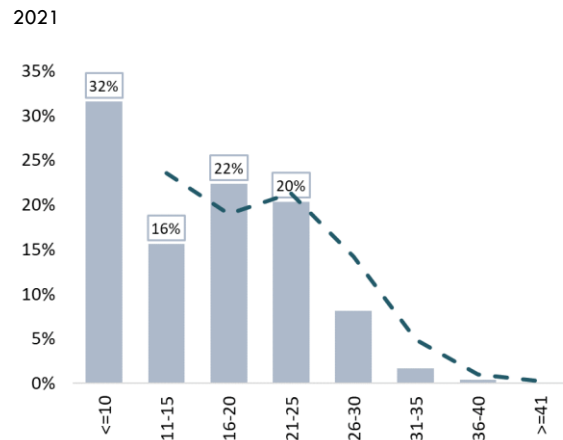
Employees with less than ten years of service represent a third of overall employment under the PA, which is out of line with what is typically observed in modern public sectors. An analysis of the age profiles of public sector employees shows a normal distribution curve, which is in line with what is typically found in public sectors around the world (see Figure 36). However, when looking at years of service, the curve becomes distorted with a large number of employees with less than ten years of service (see Figure 37). Overall, in 2021, employees in this category represented 32 percent of total employment under the PA. Further, employees with less than 20 years of service represented 69 percent of total employment, which is also quite high. There might be a number of reasons that might explain this distortion—high recruitment in the last ten years relative to prior years, generous pensions that create an incentive for employees to take early retirement and exit the public sector before completing their full career, or higher salaries at the senior-most levels in the private sector relative to the public sector that serve as an incentive to exit public employment. The PA is also a relatively new institution, which may have contributed to this trend. For example, prior years of experience of employees may not be reflected in the current calculation of years of service within the PA public sector itself. Whatever the reasons, the trend has significant implications for the public sector as it represents a gap in the availability of seasoned staff with requisite skills, knowledge and years of experience who can contribute to greater performance outcomes. In addition, it may also indicate over-staffing and over-spending at the junior levels where public sector employment appears to be concentrated. Further analysis of the composition of staff could help address these questions.

Figure 36: Employment distribution by employee age



Source and Notes: Ministry of Finance

Figure 37: Employment distribution by years of service



Source and Notes: Ministry of Finance

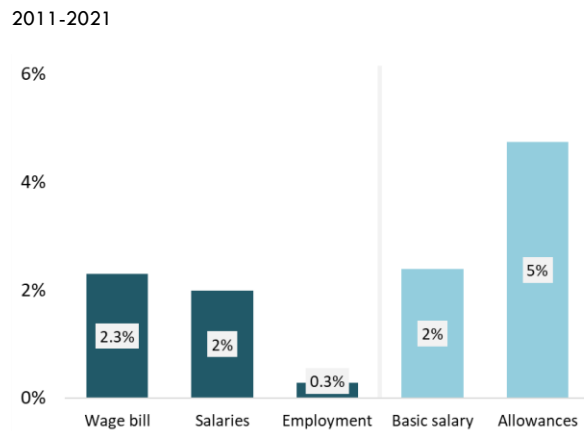
V. OVERVIEW OF SALARIES

A. Growth in average salaries

On average, salary growth in the public sector has contributed more to wage bill growth than has growth in employment

Average salaries for PA employees have grown significantly over the years, over and above growth rates in employment. Between 2011-2021, spending on the wage bill grew at an average annual rate of 2.3 percent. A majority of this annual increase came from spending on employee salaries, which increased at an average annual rate of 2 percent. In contrast, public employment under the PA grew at an average annual rate of 0.3 percent during this period. Average spending on employee compensation in the public sector has increased by 21 percent over the last decade, from NIS 41,550 to NIS 50,097 per person. Much of this increase has come about in the form of allowances. For example, between 2011-2021, spending on basic salaries increased at an annual average rate of 2 percent whereas spending on allowances grew an annual rate of 5 percent (see Figure 38).

Figure 38: Average annual change in wage spending



Source and Notes: Ministry of Finance

B. Salaries in the public versus private sector

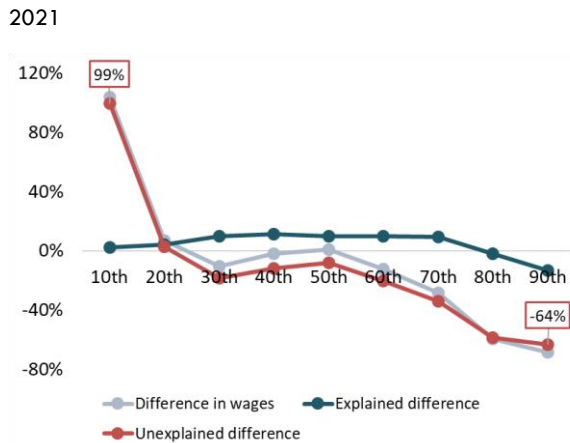
Public sector salaries in the West Bank are misaligned with private sector benchmarks, potentially creating negative externalities in the local labor market and in the PA's wage bill

On average, the public sector in the West Bank pays its employees less than their private sector peers, except at the lowest levels of income where the public sector pays double the private sector. Wage premium analysis conducted using data from the 2021 Labor Force Survey shows that public sector compensation (basic salary plus allowances) in the West Bank is 24 percent more than private sector compensation (NIS 15.7/hour versus NIS 12.7/hour on an average hourly basis). However, this average does not take into account differences in characteristics between public and private sector employees. Once characteristics such as education, years of experience, occupation and location are taken into account, the average shifts and analysis finds that the public sector actually pays its employees 1 percent less than the private sector for the exact same employee profile. Digging deeper into the wage gap across various income levels reveals further differentiation. For example, analysis finds that employees in the public sector earning at the 20th income percentile level and below earn more than their private sector peers and that this gap cannot be explained by differences in characteristics such as education and experience (see Figure 39). However, public sector employees earning more than the 20th income percentile level earn less than their private sector peers even though they may have the exact same profile. This “unexplained” wage gap widens as one moves up the

income distribution scale until the highest income levels are reached, where the private sector has an unexplained wage premium equivalent to 64 percent over and above the public sector.

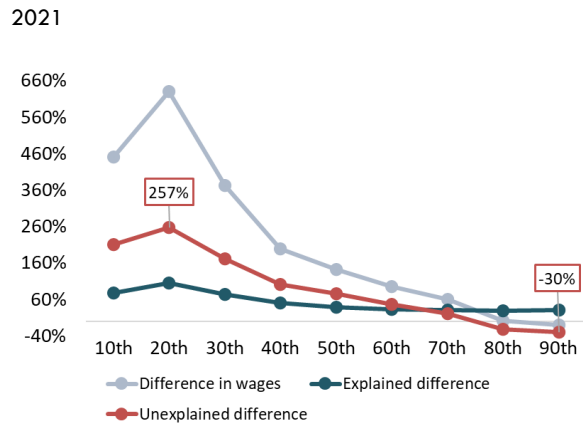
In Gaza, on average, the public sector pays more than the private sector across almost all levels of income, except the senior most levels where the private sector pays more. The public sector in Gaza includes employees working for the PA and the de-facto authority. On an average hourly basis, the public sector in Gaza pays its employees 318 percent more than the private sector (NIS 14.9/hour versus NIS 3.7/hour). Some of this gap can be explained by differences in employee characteristics, such as education, years of experience, occupation and location. However, even when comparing employees with the exact same profile, analysis finds that the public sector pays its employees 164 percent more than equivalent employees in the private sector. This “unexplained” wage gap in favor of public sector employees exists across almost all levels of income. For example, all public sector workers earning at the 80th income percentile level and below earn significantly more than their private sector peers. It is only at the 80th income percentile level and above that the private sector in Gaza pays more than the public sector for the exact same employee profile (see Figure 40).

Figure 39: Public-private wage gap in the West Bank



Source and Notes: Labor Force Survey, Palestinian Central Bureau of Statistics, data includes wage workers in both sectors

Figure 40: Public-private wage gap in Gaza

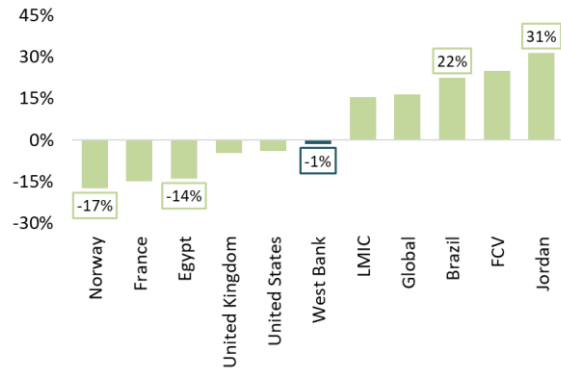


Source and Notes: Labor Force Survey, Palestinian Central Bureau of Statistics, data includes wage workers in both sectors

The above wage gap analysis indicates that the public sector salary structure in the West Bank is misaligned with the labor market, creating potential negative externalities for the PA. While the public sector in Gaza comprises both PA and non-PA employees, the public sector in the West Bank reflects the PA’s salary and employment structure. As such then, insights generated from the wage premium analysis in the West Bank carry important policy implications for the PA. Public sectors around the world typically pay their employees less than private sector benchmarks, factoring in the greater levels of job security and benefits offered by the public sector. For example, on average, public sector employees in Egypt earn 14 percent less than their private sector peers even though the two sets of employees may have the exact same characteristics. Similarly, the public sector in the United States pays its employees 4 percent less, on average, than private sector comparators (see Figure 41). With this in mind, the wage premium figure of -1.4% offered by the public sector in the West Bank appears to align with modern best practices. However, the differentiation of the wage premium across the various income percentile levels (as shown in Figure 39) is of concern. Public sector employees in the West Bank

earning an income at the 10th income percentile level earn 99 percent more than their private sector peers. At these levels, the public sector is over-paying its staff and creating strong incentives for labor market entrants to queue for public sector jobs at the expense of the private sector. Further, above the 20th income percentile, the effect is opposite. Here, the public sector is under-paying its employees, creating incentives for job seekers to prefer private sector jobs, thereby potentially depriving the public sector of much needed skills. This effect is most pronounced at the 80th and 90th income percentile levels where the private sector in the West Bank has an “unexplained” wage premium in the range of 59-64 percent (see Annex 3 at the end for the full statistical results of the wage gap analysis).

Figure 41: Wage premium in comparator economies



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

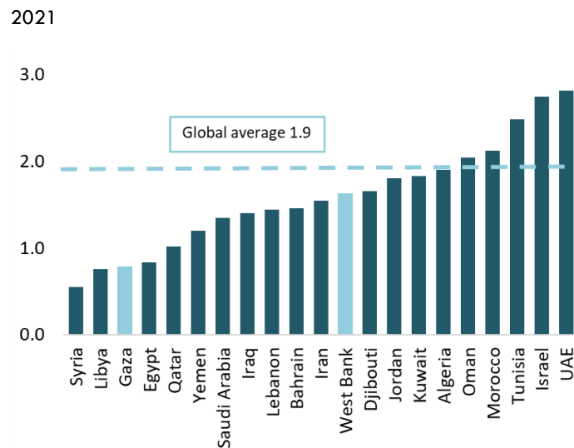
Further analysis would need to be carried out to better understand how these effects operate at the practical level. For example, the World Bank team is currently working with the MoF to conduct wage premium analysis for key occupational groups to better understand salary differentiation between public and private sectors for occupations such as doctors, teachers and engineers. Further analysis could look at whether salary levels in the public sector are aligned with principles of competitiveness, i.e., are salaries sufficient to attract and retain talent in the public sector, and equity, i.e., are public sector employees receiving equal pay for equal work.

VI. PUBLIC SECTOR MANAGEMENT PRACTICES AND OUTCOMES

Global indicator data shows that despite the high levels of employment and compensation spending in the public sector, government performance outcomes have been declining over the years

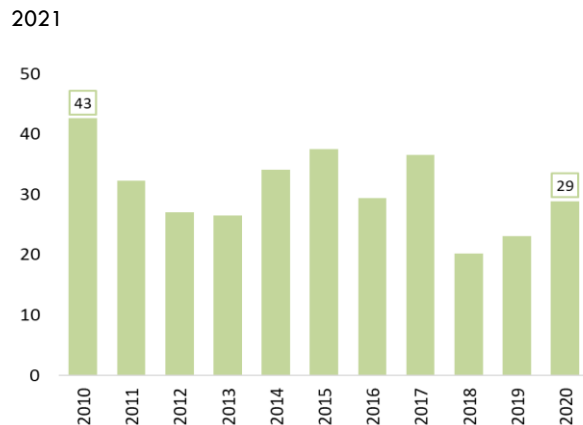
Analyzing government performance outcomes can offer useful policy insights regarding wage bill spending and employment in the public sector. Compensation spending and employment in the public sector is often analyzed within the context of fiscal affordability by governments. A second, equally important lens through which to analyze these figures is to assess whether employment and wages in the public sector have allowed the government to meet its functional objectives i.e., is the investment in personnel generating the necessary outcomes in the form of government performance. The present section will attempt to answer this question through the use of international indices and benchmarks. It must be noted that there are other exogenous factors influencing any government’s performance, a fact that is especially germane to the West Bank and Gaza. Nevertheless, global indicators can offer a useful point of comparison to guide policy discussions regarding how public employment and the wage bill are structured and managed.

Figure 42: Criteria for appointments in state administration



Source and Notes: V-Dem, 0 (low) to 4 (high), Score for Gaza reflects both PA and De-Facto Authority

Figure 43: Government effectiveness in West Bank and Gaza



Source and Notes: WGI, 0 (low) to 100 (high), Score for the West Bank and Gaza reflects both PA and De-Facto Authority in Gaza

Survey data shows that appointments in the Palestinian public sector can often be based on personal or political connections, rather than merit. In 2021, according to survey data from the Varieties of Democracy (V-Dem) research project,⁷ the public sectors in the West Bank and Gaza scored 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 covers appointments across the board i.e., recruitments, promotions and dismissals, and the results for the West Bank and Gaza indicate that most appointments are often de-linked from considerations of merit. Amongst countries in the Middle East and North Africa (MENA) region, Gaza scored towards the bottom while scores for the West Bank were in the middle—better than countries such as Egypt and Iraq but worse than others like Jordan, Morocco and Tunisia (see Figure 42).

Government effectiveness has declined over time in the Palestinian territories. Data from the Worldwide Governance Indicators⁸ shows that, between 2010-2020, government performance deteriorated in the West Bank and Gaza as a whole. For instance, 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 percentile ranking for the Palestinian territories declined from 43 out of 100 in 2010 to 29 in 2020 (see Figure 43). In contrast, the equivalent figure for the MENA region in 2020 was 42 and the average for countries in the lower-middle income group was 36.

⁷ See link: <https://www.v-dem.net/vdemds.html>

⁸ See link: <https://info.worldbank.org/governance/wgi/Home/Reports>

VII. REFORM PRIORITIES SET BY THE GOVERNMENT

The PA has recently established a national committee to study wage bill spending and employment in the public sector and to develop a reform plan

Reform efforts in the past addressing public employment and wage bill spending have been met with limited success. Over the last decade, the PA has made concerted efforts to address the issue of high wage bill spending and public employment figures. However, any progress that was made was either reversed or was temporary to begin with due to the choice of policy instrument. For example, the government's VRS in 2017 was temporarily successful in shedding employment numbers and limiting wage bill growth. However, after the initial effect, both employment and wage bill spending continued to grow. Further, the policy decision to hold back partial wages for employees in Gaza in 2017 was only temporary and was later reversed in 2021, and the PA's decision to pay 80 percent of salaries to its employees beginning in November 2021 only moved wage bill expenditure forward in time as the PA still has to clear arrears owed to personnel.

Given current fiscal constraints, the PA has re-dedicated itself to wage bill and public employment reform and established a national committee to create an action plan. In October 2021, the government formed a national committee comprising representatives from the Ministry of Finance, the General Personnel Council (GPC), the Pension Authority, the Ministry of Justice and the Security Forces Financial Administration to study salaries and employment in the public sector and submit reform options to the Council of Ministers. In addition, the government's reform agenda document titled 'Economic and Financial Recovery, Strengthening Resilience, and Restoring Trust' published in May 2022 stated the priority to engage in large-scale wage bill and civil service reforms in order to rationalize expenditure and improve government service delivery.

One potential policy option being considered by the government is a second round of VRS. Based on interviews with officials from the Ministry of Finance (MoF), the World Bank team understands that the government is considering the introduction of a second round of VRS in the public sector. The scheme is supposed to target civilian employees above the ages of 55 who have completed at least 15 years of service and security sector employees above the ages of 45 who have completed at least 15 years of service. It is anticipated that 60 percent of exiting staff would be from the ministries of education and health. The potential exit package being considered would be equivalent to 50-70 percent of an employee's salary with the assumption that the MoF would be responsible for bearing the entire cost of the scheme and the resulting pensions. (The latter being used to offset existing debt owed by the MoF to the pension agency, which has itself already incurred significant arrears and is likely to hit default in coming years.)

The PA recently passed Cabinet decisions to formalize workforce planning procedures with the aim to re-deploy excess staff and to set an employment attrition target. The first Cabinet decision requests each PA department to determine its HR needs and submit a workforce needs plan to the Cabinet by October of each year. The plan would need to identify skills that are in shortage and skills that are superfluous. Based on these submissions, the GPC will develop plans to re-skill and re-deploy surplus staff with the aim to reduce overall new hiring into the public sector and address issues surrounding over-staffing. Building on this, the Cabinet adopted a second decision setting an attrition target for net public employment specifying that yearly recruitments should not exceed 50 percent of retirement-related and other kinds of departures from the PA during the same year, until the fiscal stress eases.

The PA is cognizant of the need for reform but faces a variety of fiscal and policy pressures. For example, government officials have faced significant bargaining action from employee groups in the past that resulted in salary and allowance hikes. The Palestinian Authority continues to face further bargaining, especially from teacher unions and medical workers. This is exacerbated by the fact that employees can access the Israeli labor market where they can earn much higher wages compared to what they typically earn in the Palestinian territories. As a result, the government has faced issues surrounding salary levels and employee retention. Further, macro-economic constraints serve as an impediment to fiscal reform in the public sector. For example, donor assistance and grants, which were used to shore up expenditure in the past, have declined significantly in recent years and the government's ability to autonomously manage its own revenue is significantly constrained. Within this context, the wage bill as an expenditure line item has become further magnified leaving the government little room for capital investments or economic diversification opportunities. Last but not least, the issue of furloughed workers in Gaza who are on the PA's payroll but unable to work continues to pose a challenge.

VIII. GLOBAL EXAMPLES OF WAGE BILL AND EMPLOYMENT REFORM

Wage bill reform options typically combine short-term controls to rein in spending with medium-to-long term structural reforms to improve overall wage bill management

In the short-term, governments can make use of a variety of strategies to restrain wage and employment growth. Governments may freeze wages across the board or in selected sectors and grades, or link wage growth to a standard percentage decided annually by a pay commission as a way to rein in spending on the wage bill. Governments can also use hiring freezes, either across the board or in selected sectors and grades, or attrition targets, such as recruiting a lower number of employees into the public sector than the number of employees leaving due to normal attrition. Some countries have also introduced VRSs to encourage employees to exit. However, this option requires careful design and management with due consideration given to the effect of the VRS on pension liabilities and net impact on government expenditure, as well as the overall impact on government performance and productivity should the best and brightest employees take the package and leave the civil service (see Table 3 and Box 2).

Medium-to-long term structural reforms are country-specific and allow governments to improve overall wage bill management and government performance. In the medium-to-long term, the policy

options available to governments are much more extensive and dependent on the particular administrative structure and political economy context of a given country. At the same time, several global reform examples do exist that illustrate best practice. 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.

Table 3: Wage bill reform toolkit

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

Source and Notes: World Bank staff compilation

Box 2: Global examples of wage bill and employment reform

Short-term reforms

Wage freeze or indexation: Examples of countries where this has been done successfully include France, where base wages were frozen in 2010, the United Kingdom, where salaries were frozen for two years after the 2008 economic crisis, after which they were indexed to a 1 percent average annual growth rate, and Singapore, where wage growth has been indexed to productivity growth.

Hiring freeze or attrition targets: During the 1990s, the United States federal government introduced a partial freeze in employment and allowed the re-filling of only 2 out of every 5 positions that became vacant. Similarly, in France, the government’s employment reduction targets were achieved through the introduction of employment caps beginning in 2006 and the implementation of attrition targets that allowed the replacement of only 1 out of every 2 civil servants during the 2007–2012 period. In the United Kingdom as well, the government instituted a temporary recruitment freeze after the 2008 economic crisis.

Early retirement schemes: The government of Morocco introduced a VRS in its public sector in 2005. Consequently, the government was able to cut its wage bill from 11.8 percent of GDP in 2005 to 10.2 percent by 2010 and reduce expenditure on public sector salaries by 8.5 percent. At the same time, the government lost its most skilled employees as 53 percent of retirees belonged to scale 10, the most senior employees with decades of technical expertise and institutional knowledge.

Medium-to-long term reforms

Pay commissions and wage premium reduction: In 2008, Ireland established the Public Service Benchmarking Body (PSBB) to create a wage determination mechanism for the public sector. PSBB

systematically compares wage levels in the public sector to those in the private sector to ensure that wage dynamics in the public sector are consistent with macroeconomic and labor market conditions.

Folding allowances into base pay: The governments of New Zealand, Canada, Singapore and the United Kingdom have all taken initiatives to consolidate allowances to improve transparency and accountability in civil service compensation, and to reduce administrative costs. For example, the Canadian government estimated that processing of allowances consumed more than one-third of the total cost of delivering human resource services. The government of Singapore has adopted a ‘clean wage’ policy, in which many allowances and perks have been abolished and/or consolidated into base pay.

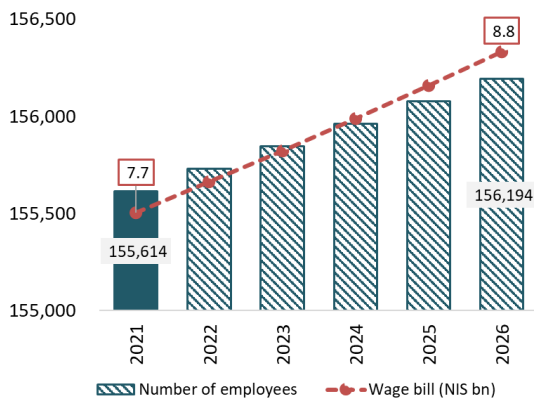
Source and Notes: World Bank staff compilation based on multiple sources

IX. MODELING THE FISCAL IMPACT OF POLICY REFORMS

In the absence of serious reforms, the PA’s wage bill will continue to grow, exerting further fiscal pressure on the government

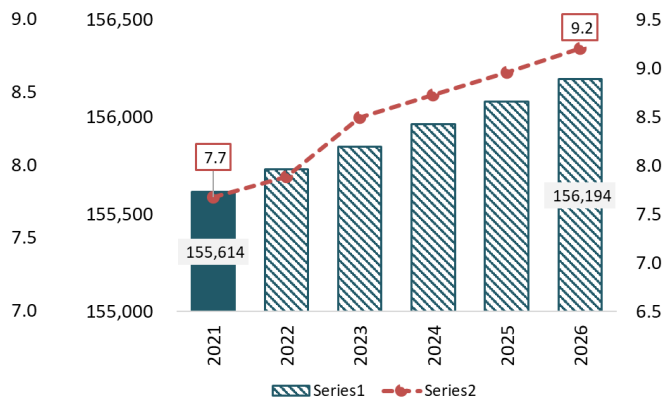
If employment and wages are allowed to increase based on historical averages, the PA’s wage bill will likely grow to NIS 8.8 billion by 2026, in nominal terms. Forecasts generated by the World Bank team indicate that public sector employment will increase to 156,194 employees and the wage bill to NIS 8.8 billion by 2026 if current policies remain the same and employment and wages are allowed to grow based on 2016-2021 averages (see Figure 44). The increase in the wage bill will represent a 14 percent change from the 2021 baseline of NIS 7.7 billion and will translate into a 2 percent increase in the wages bill’s share in GDP based on 2021 GDP levels (15 percent projected versus 13 percent actual in 2021).

Figure 44: Wage bill and employment in baseline scenario



Source and Notes: World Bank staff calculations

Figure 45: Projected impact of allowance top-ups



Source and Notes: World Bank staff calculations

Further, if recently agreed allowance top-ups are implemented, the PA’s wage bill will likely grow to NIS 9.2 billion by 2026. The PA has recently agreed to an allowance top-up for doctors, health sector support staff, teachers and engineers that may go into effect in 2023. Should these top-ups be implemented, the wage bill is forecasted to grow to NIS 9.2 billion by 2026 (see Figure 45). This will represent a 20 percent increase in the wage bill in nominal terms compared to the 2021 baseline of

NIS 7.7 billion and a 2.6 percent increase in the share of the wage bill in GDP based on 2021 GDP levels (15.8 percent projected versus 13 percent actual in 2021).

The PA's proposed VRS may be mis-targeted and is unlikely to deliver the desired level of savings needed to stabilize wage bill spending levels

Introducing the proposed VRS in the civilian and security sectors will not result in substantive savings for the PA nor would it address the long-term increase in the wage bill. Based on projections by the World Bank team, the PA's proposed VRS targeting employees aged 55 and above who have completed 15 years of service in the civilian sector and employees aged 45 and above who have completed 15 years of service in the security sector, is unlikely to generate significant fiscal savings despite the reduction in employee numbers (see Figures 46, 47 and 48). For example, assuming that 50 percent of the target group in the civilian and security sectors, respectively, would take up retirement under the proposed scheme, and the resulting payments would be equivalent to 70 percent of a retiring individual's total annual compensation, forecasts show that there would initially be modest savings as the PA realizes the reduction in its wage bill due to the exit of voluntary retirees (the reduction will be slightly larger in the security sector given the expanded age group). However, thereafter, the wage bill will continue to grow as it has in the past in the absence of reform measures that tackle the underlying drivers of its growth (as identified in earlier sections of this report). For example, based on projected figures, the wage bill is likely to grow to NIS 8.4 billion by 2026 if the civilian sector VRS is implemented, NIS 8.2 billion if the security sector scheme is implemented and NIS 7.8 billion if both schemes are implemented. This will represent an increase of 1.2 percent, 0.9 percent and 0.3 percent respectively in the wage bill's share in GDP based on 2021 GDP levels. Further, the VRS may also be mis-targeted and negatively impact performance in the public sector. For example, as indicated in an earlier section of this report, public employment under the PA has a relatively smaller share of employees with significant years of service. A VRS that further reduces employee numbers in this cadre may therefore result in the loss of skilled employees and negatively affect government performance. 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, the overall fiscal impact of the VRS should be considered before moving ahead with the scheme.

Figure 46: Civilian sector VRS



Figure 47: Security sector VRS

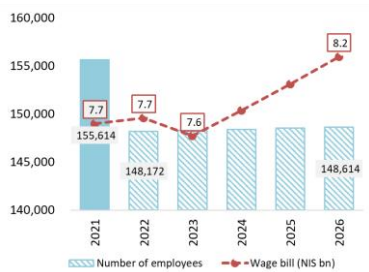
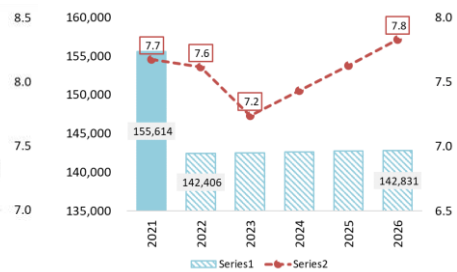


Figure 48: Combined VRS



Source and Notes: World Bank staff calculations

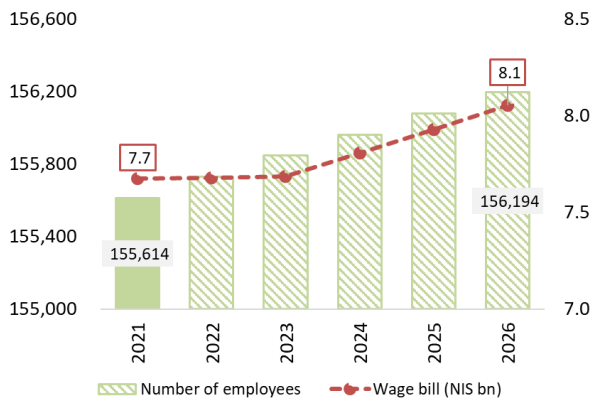
Reforms that address key drivers of wage growth can help limit wage bill spending compared to the baseline scenario as well as the proposed VRS

If the PA were to implement a wage freeze for two years followed by annual wage growth indexed to 1.5 percent, it could limit wage bill growth to NIS 8.1 billion by 2026, in nominal terms. In this scenario, public employment is assumed to grow at historical rates (2016-2021 average), while nominal wages are frozen for all employees in the first two years (2022-2023) and thereafter indexed to a standard 1.5

percent annual increase across the board. The resulting wage bill of NIS 8.1 billion in 2026 (see Figure 49) would represent an increase of only 5 percent from the equivalent 2021 wage bill figure of NIS 7.7 billion (compared to a 14 percent increase in the baseline scenario, which assumes no policy change). In terms of GDP, the increase in wage bill spending levels by 2026 will translate into a 0.7 percent increase in the share of the wage bill in GDP based on 2021 GDP levels (compared to an increase of 2 percent in the baseline scenario).

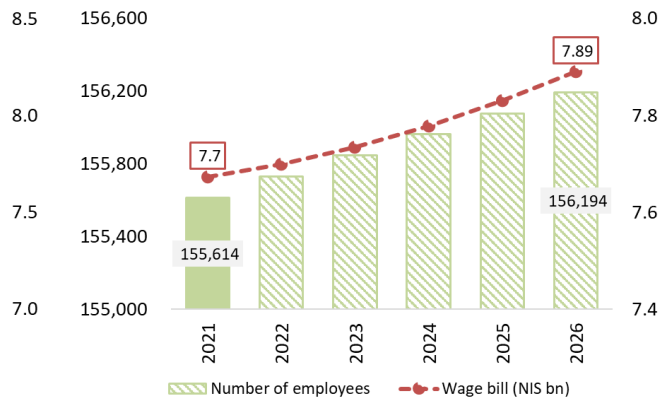
A gradual reduction in spending on ‘job’ and ‘other’ allowances by 20 percent spread over 2022-2026 will allow the PA to limit wage bill spending to NIS 7.9 billion by 2026. This scenario assumes that employment and wages will grow at historical rates. However, ‘job’ and ‘other’ allowances are gradually reduced by 20 percent over the period 2022-2026. The resulting wage bill of NIS 7.9 billion (see Figure 50) represents an increase of 3 percent compared to the 2021 wage bill. In addition, it represents an increase of only 0.4 percent in the wage bill as a share of GDP based on 2021 GDP levels (compared to a 0.7 percent increase in the scenario above and 2 percent increase in the baseline scenario).

Figure 49: Projected impact of wage freeze and indexation



Source and Notes: World Bank staff calculations

Figure 50: Projected impact of reduction in allowances



Source and Notes: World Bank staff calculations

Similarly, a reduction in compensation spending by 10 percent for grades 1-5 over the same period will result in a wage bill equivalent to NIS 7.9 billion by 2026. This scenario also assumes employment and wage growth at historical levels. However, here, wage spending for grades 1-5 is gradually reduced by 10 percent off the top over the period 2022-2026. The resulting wage bill in 2026 is projected to be similar to the scenario above though slightly less (NIS 7.85 billion in this scenario versus NIS 7.89 billion in the above) (see Figure 51). The resulting 2026 wage bill will represent an increase of 2 percent compared to the wage bill in 2021. In addition, as a share of GDP, the wage bill will grow by 0.3 percent by 2026 based on 2021 GDP levels.

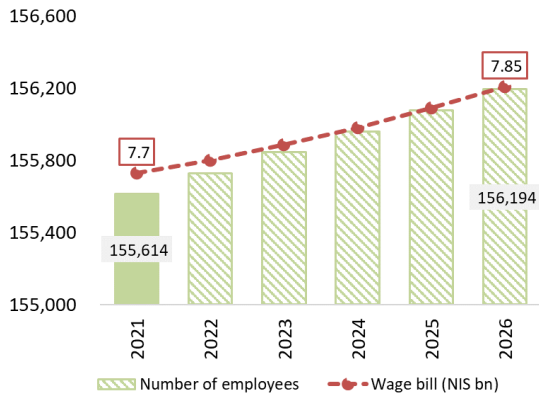
Reforms that address only employment growth will offer the PA limited savings compared to the baseline

Freezing net employment levels without addressing wage growth will not help limit wage bill spending levels by 2026. In this scenario, between 2022-2026, employment levels are frozen at 2021 levels while wages are allowed to grow based on the historical average. Results show that by 2026 the wage bill will grow to almost equivalent levels as in the baseline—NIS 8.7 billion versus NIS 8.8 billion respectively (see Figure 52). As in the baseline, this will represent a 14 percent increase

compared to the 2021 wage bill and a 1.8 percent increase in the wage bill's share in GDP based on 2021 GDP levels.

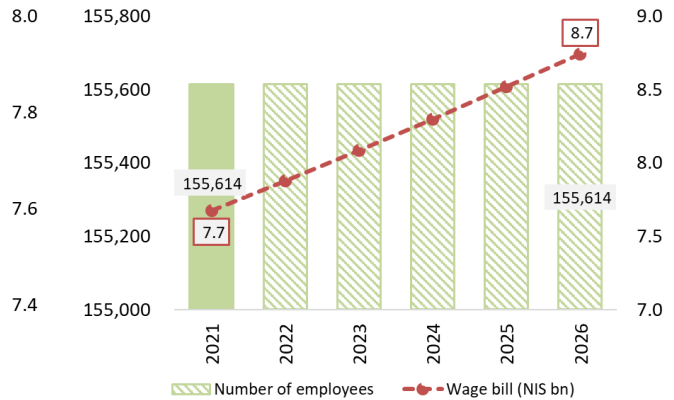
Reforms that reduce employment levels through the introduction of an attrition target will generate modest but insufficient savings compared to the baseline scenario. Assuming that, on average, 1,500 employees enter the public sector annually, if the PA were to put in place an attrition target under which for every 1,500 employees that enter, 3,000 must exit, it may be able to limit wage bill growth to 8.5 percent by 2026 compared to the 14 percent increase in the baseline. This will represent a 1 percent increase in the share of the wage bill in GDP in 2021 GDP levels, compared to 2 percent in the baseline (see Figure 53).

Figure 51: Projected impact of wage reduction for grades



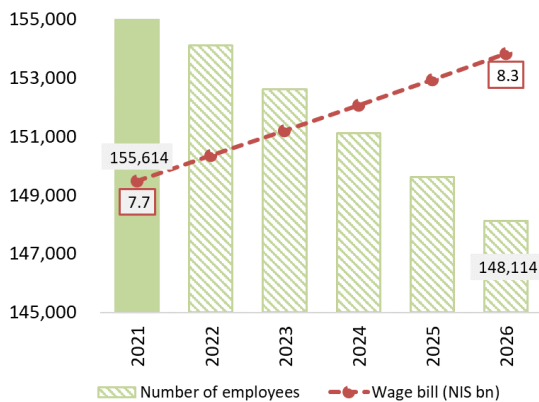
Source and Notes: World Bank staff calculations

Figure 52: Projected impact of employment freeze



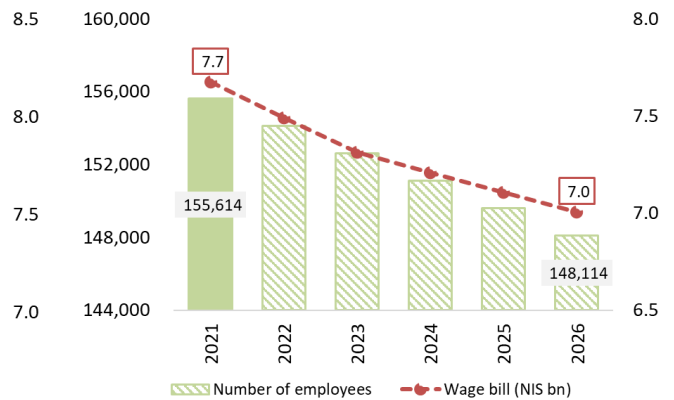
Source and Notes: World Bank staff calculations

Figure 53: Projected impact of attrition targets



Source and Notes: World Bank staff calculations

Figure 54: Projected impact of wage freeze and indexation, allowance reduction and attrition targets



Source and Notes: World Bank staff calculations

A combination of policy reforms that address both wage and employment growth can deliver significant fiscal savings to the PA

Reforms that address both employment and wage growth can help reduce the wage bill to NIS 7 billion by 2026 and generate substantive fiscal savings within the public sector. Forecasts

generated by the World Bank team indicate that a combination of reforms targeting both employment and wage growth in the public sector can deliver significant fiscal savings for the PA. For example, 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) gradually reduce spending on ‘job’ and ‘other’ allowances by 20 percent spread over the 2022-2026 period, and (iii) put 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), it would be able to reduce employment to 148,114 and the wage bill to NIS 7 billion by 2026 (see Figure 54). This will represent a 9 percent reduction in the wage bill compared to the 2021 baseline and a 1 percent decrease in the share of the wage bill in GDP based on 2021 GDP levels.

Table 4: Fiscal impact of forecasted reform scenarios

		Employment			Wage bill (NIS bn)			Fiscal savings/surplus as share of 2021 GDP
		2021	2026	Change (%)	2021	2026	Change (%)	
Baseline	B1: Employment and wages grow based on 2016-2021 average	155,614	156,194	0.4%	7.7	8.8	14.4%	1.9%
	B2: Allowance-tops are implemented	155,614	156,194	0.4%	7.7	9.2	19.9%	2.6%
Combination scenario	W1 + W2 + E2	155,614	148,114	-4.8%	7.7	7.0	-8.7%	-1.1%
Wage scenarios	W1: Freeze wages in years 1-2 and then index to 1.5% growth in years 3-5	155,614	156,194	0.4%	7.7	8.1	5.0%	0.7%
	W2: Reduce job and other allowances by 20% by 2026 for all employees	155,614	156,194	0.4%	7.7	7.9	2.8%	0.4%
	W3: Reduce wages for grade 1-5 employees by 10% by 2026	155,614	156,194	0.4%	7.7	7.9	2.4%	0.3%
Employment scenarios	E1: Freeze net employment until 2026	155,614	155,614	0.0%	7.7	8.7	14.0%	1.8%
	E2: For every 1,500 employees that enter, 3,000 leave until 2026	155,614	148,114	-4.8%	7.7	8.3	8.5%	1.1%
Proposed VRS	V1: 50% of those aged >=55 and with >=15 years of service in the civilian sector exit in year 1 with 70% annual salary package	155,614	150,411	-3.3%	7.7	8.4	9.2%	1.2%
	V2: 50% of those aged >=45 and with	155,614	148,614	-4.5%	7.7	8.2	6.8%	0.9%
	V3: V1 + V2	155,614	142,831	-8.2%	7.7	7.8	2.0%	0.3%

Source and Notes: World Bank staff calculations

The exact choice of reform can vary based on priorities identified by the PA as well as fiscal targets. Governments considering wage bill reform in the context of fiscal constraints typically begin by first identifying what level of savings are needed to balance their budget and bring the wage bill in line with fiscal affordability targets. In the case of the Palestinian territories, World Bank estimates suggest that between 2022-2026, the fiscal balance as a share of GDP will likely average -4 percent. Based on global reform experience, it is unlikely that the entire fiscal balance can be adjusted through wage bill reform alone. Experience suggests that governments can achieve around 1-1.5 percent of savings as a share of GDP by rationalizing their wage bill. The policy reform options discussed above provide an indication of how such a level of fiscal savings can be generated. However, the ultimate choice of policy tools and their combination will depend entirely on the PA based on what it considers to be politically and administratively feasible, as well as fiscally needed. For instance, additional wage or employment reforms could be implemented to increase the amount of fiscal savings over the medium-term or a different set of reforms could be implemented that could generate a similar level of savings (see Table 4 for a summary breakdown of the fiscal impact of each of the discussed reform scenarios). These examples are meant to be illustrative only and can be tweaked in their design parameters. The

key point to note is that a combination of reforms that address both wages and employment can be instrumental in maximizing fiscal savings.

The World Bank team will be working with officials from the PA to forecast additional scenarios based on identified reform priorities. As discussed above, the scenarios included in this report are for illustrative purposes only. The Bank team will work with the PA to cost out additional scenarios based on identified priorities and present results on their likely fiscal impact over the medium-term.

X. KEY MESSAGES AND RECOMMENDATIONS

The PA should consider targeted reforms that address the underlying drivers of public sector wage bill spending and employment in the Palestinian territories in order to make reforms impactful

Wage bill spending and employment have grown over the years due to a combination of drivers despite the PA's reform efforts. As the preceding sections of this report have shown, wage bill spending has increased significantly over the last decade. This has been fueled by growth in average salaries, and increased spending on allowances and certain categories of employees. Over the years, the PA has made some efforts at reform. However, reform actions have not addressed the root causes behind wage bill growth. In addition, employment has been allowed to increase further fueling spending on the wage bill.

High levels of wage spending and employment in the public sector have not translated into improved performance outcomes. The Palestinian public sector often lags its peers in government performance outcomes at the aggregate level. Further, management practices within the public sector, such as hiring and promotion decisions, leave a lot of room for improvement. These gaps in performance outcomes and management practices call into question the efficiency of public sector spending, most notably as it pertains to employee wages that collectively represent the largest share in government expenditure.

Global reform experience suggests that wage bill and public employment rightsizing is achievable over the medium term. Countries around the world have had to contend with wage bill and public employment challenges at various times and, while such reforms can be notoriously difficult to implement, there are several examples of successful reforms that have been undertaken in recent years. These examples can serve as a reform blueprint for the PA. In addition, simulations conducted by the World Bank team demonstrate that a combination of wage and employment policy reforms over the medium-term can generate significant fiscal savings for the government.

Any planned proposal to implement a VRS in the absence of broader wage bill reforms is unlikely to generate the desired impact. The forecasting analysis above showed that the PA's proposed VRS is unlikely to generate desired fiscal savings. In addition, as the analysis in the preceding sections of this report has shown, the majority of employees under the PA have less years of service and there are, in fact, gaps in employment at the senior levels. The proposed VRS may therefore also be mistargeted. An additional consideration for the VRS is that it may be too costly, and that the one-time savings likely to be generated would be entirely offset by the costs of administering the scheme and the pension payments that would need to be made. In the case of the latter, it is less relevant which government entity would make the pension payments as they ultimately represent an expenditure item for the government to bear, no matter which channel the expenditure is routed through. Last but not least, any

VRS, unless designed and implemented robustly, can generate a negative impact by adversely affecting government performance. This is because employees who are typically higher performing are the ones who are most likely to find employment opportunities outside the public sector and are therefore also more likely to volunteer to take the exit package.

The PA should instead 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 may consider adopting the following set of measures:

Short-term priorities (years 1 and 2)

- **Tie all hiring, wage and promotion decisions to workforce needs, budget availability and equally importantly to merit.** The PA could adopt a ceiling measure in the short-term, such as freezing net employment rates or setting an attrition target in place to rein in employment levels as well as setting a ceiling on wage bill spending. It could then use these ceiling targets to apply greater scrutiny to all appointment decisions that are made in the public sector. Hiring and promotion decisions should be based on workforce needs and budget availability (tracked centrally), and only candidates who have the necessary merit should be appointed to a position (based on pre-identified competency requirements).
- **Scale back spending on allowances and tighten eligibility criteria.** Allowance spending under the PA has increased significantly and is outside the norms of public sector best practice. The PA should therefore undertake an audit of allowance spending at the employee level and, based on the results, tighten eligibility criteria and create a plan to gradually reduce spending on allowances. This will help towards the fiscal affordability of the wage bill as well as pay equity across employee groups. In addition, allowance reform will help generate the fiscal space needed to engage in more concrete salary restructuring reforms in the medium-term. Over time, the PA may also consider folding the majority of allowances into base pay. (See discussion on medium-term priorities below.)
- **Conduct a functional review to identify areas of over- and under-staffing and create a plan to transition employees accordingly.** Analysis in the preceding sections of this report highlighted that wage bill spending and employment are concentrated in certain parts of the public sector, for example, in certain entities, grades, job titles and particular groups based on years of experience. The PA should therefore conduct targeted functional reviews to assess whether these staffing levels are appropriate based on the functional needs of the public sector. This work can complement the government's ongoing workforce planning reforms. Based on the joint results, the government can identify pockets of redundancy and develop a plan to tackle them appropriately. This may entail exiting staff whose jobs are no longer needed nor affordable or re-training and re-deploying staff from one part of government to another where they might help fill key gaps. The year 1 priority should be to conduct the reviews and develop a plan that is approved by the Council of Ministers. The following years can then be devoted to implementation.

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

- **Develop formal procedures for salary planning and workforce management in the public sector.** A core underlying driver of wage bill spending by the PA is the ad-hoc increases in

salary payments and employment. The PA must instead adopt formal institutional bodies and procedures to regularize salary planning and workforce management in the public sector. This can take the form of a salary commission to determine annual pay increases based on robust criteria; a regulatory framework approved by the Council of Ministers that establishes the “rules of the game” when it comes to salary bargaining by employee groups; and annual workforce planning procedures and institutional processes wherein public sector entities have to work with central authorities such as the General Personnel Council and Ministry of Finance to gain approval of appointment plans in order to ensure that they match workforce needs and fiscal affordability targets. Over time, the PA can transition from annual cycles to medium-term cycles for some of these institutional processes to further improve the predictability and sustainability of employment and wage bill spending.

- **Revise the salary structure, bringing it in line with benchmarks.** The current salary structure was developed in 2005 and is in critical need for revision. The PA should consider updating the structure based on benchmarks in the local labor market to ensure that salaries are decompressed across grade levels and appropriately competitive to attract talent. In addition, it should give equal weight to ensuring wage equity—equal pay for equal work across employee cadres. This will also be an opportunity to revise the allowance structure and bring it in line with modern best practices. It must be noted that salary restructuring typically creates upfront costs. However, over time, this reform can improve the sustainability of the wage bill spending.
- **Review the public sector pension scheme to ensure that wage bill and employment reforms create the desired impact.** As noted earlier, the Public Pension Authority has significant arrears and is facing likely default. A large reason for this is the fact that pensions in the Palestinian public sector are highly generous and the way in which the scheme is de-facto operated (pay-as-you-go) while de jure it should be funded is not good policy. Reforming the pension scheme is therefore critical. Even more so because it has bearing on wage bill and employment reforms as described above. For example, any attempts by the PA to exit staff based on considerations of over-staffing or to revise the public sector salary structure will have implications on pension liabilities. If pension reforms are not considered, the proposed reforms may merely move expenditure from one side of the ledger to the other.

In addition to the above, the PA will need to think critically and creatively about issues surrounding its employees in Gaza. This report has focused mainly on key drivers of wage bill and employment growth across the public sector and has provided related recommendations. However, the team acknowledges that the PA is rightly trying to grapple with issues surrounding furloughed employees in Gaza specifically. Further analysis would need to be carried out on this issue. The World Bank team stands ready to provide further support in this area as well as on all issues described in earlier sections of this report.

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ANNEXES

Annex I. List of public sector entities

Core Civil Service (39)	Core Civil Service (Cont.)
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	Local Civil Administration (18)
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	

Other Public Sector Agencies (36)	Other Public Sector Agencies (Cont.)
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	Security Sector (9)
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													
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

Wage Bill and Employment Diagnostic : Key Drivers and Policy Recommendations

Diplomatic Corps Pay Scale (in NIS) - Established in 2007, 325 employees in 2021																					
	Ambassador			Senior Adviser			Adviser			First Secretary			Second Secretary			Third Secretary			Attaché		
Step	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	1,710	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	4,668	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

Table 1: Oaxaca decomposition of the difference in mean wages between public and private sectors						
	West Bank			Gaza Strip		
	Coefficient	Std. Err.	P>z	Coefficient	Std. Err.	P>z
Panel A. Decomposition of mean hourly wages						
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
Panel B. Explained portion of the wage gap						
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
Panel C. Unexplained portion of the wage gap						
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
Constant	1.164	0.175	0.311	2.260	0.389	0.000
Observations	7,769			3,177		
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.						

Table 2. Decomposition of the public-private earnings gap at selected quantiles

	West Bank									Gaza Strip								
	Difference in hourly wage			Explained			Unexplained			Difference in hourly wage			Explained			Unexplained		
	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
Mean	1.241	0.016	0.000	1.259	0.015	0.000	0.986	0.015	0.336	4.178	0.087	0.000	1.581	0.033	0.000	2.642	0.067	0.000
10 th	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 th	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 th	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 th	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 th	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 th	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 th	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 th	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 th	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.