Review of Recent Developments and Progress in Labour Market and Social Policy in Israel

SLOW PROGRESS TOWARDS A MORE INCLUSIVE SOCIETY

OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

In September 2010, Israel became a member of the OECD. As part of the accession process to the OECD the Employment, Labour and Social Affairs Committee (ELSAC) reviewed Israel's labour market and social policies. This report which was published in 2010 under the title *OECD Reviews of Labour Market and Social Policies: Israel*, identified two overriding concerns: *i)* the need to tackle poverty and inequality; and *ii)* the importance of increasing labour force participation under fair employment conditions. Israel's poverty rate is higher than that of any OECD country, reflecting profound divisions in Israeli society. On the one hand, the general Jewish population has poverty and employment rates which, while leaving room for improvement, are nonetheless comparable with the OECD average. On the other hand, Arabs and Haredim (ultra-Orthodox Jews) have poor educational and employment outcomes, and often live in poverty.

In its 2010 report, the OECD identified a series of policy challenges in the following areas: *i)* labour law enforcement; *ii)* the promotion of fair employment opportunities for minorities in the public and private sectors; *iii)* infrastructure in peripheral areas; *iv)* improving the functioning of the welfare-to-work programme; *v)* rebalancing transfers to families to make work pay; and *iv)* stamping out illegal practices for temporary foreign workers. In each of these areas, the report sets out specific recommendations to tackle these challenges.

When Israel joined the OECD in 2010, it was agreed that ELSAC would discuss Israel's progress with implementing the policy recommendations set out in the 2010 labour market and social policies review within two years of Israel's accession to the Organisation. The Israeli authorities submitted their report on these issues to ELSAC in September 2012: *Progress Report on the Implementation of the OECD Recommendations: Labour Market and Social Policies* (State of Israel and MOITAL, 2012).

This report presents the OECD's assessment of recent developments in Israel in the area of labour market and social policy. To prepare the report, a Secretariat team visited Israel in September 2012 and engaged in wide-ranging discussions with ministers, members of parliament, senior officials, experts, social partners and civil society. The report focuses on recent trends in poverty and employment outcomes and policy development to improve employment opportunities, especially for the Arab and Haredi communities. But the policy debate and recent labour market and social policy development in Israel were also affected by the wave of Israeli "middle-class" protests that took place in August-September 2011 against the lack of social justice and the high cost of living (especially for housing).

Over the past two years, the Israeli government has rolled out many new initiatives to deal with poverty and social exclusion among the Arab and Haredi populations. There have been important employment gains among Arab women, and in particular the Haredi. It is unrealistic to expect that deeply entrenched inequalities in Israel can be overcome in only two years time, especially as they require a sustained effort across a broad range of policy areas. However, the scale of the Israeli policy responses to date appears small relative to the enormity of the task at hand, and further progress will depend on continued and expanded investment in effective anti-poverty measures.

The report was prepared by Willem Adema, Jonathan Chaloff and Ann Vourc'h assisted by Lucy Hulett and Agnès Puymoyen, under the supervision of John P. Martin. It benefited from comments by Peter Jarrett, Philip Hemmings and Stefano Scarpetta. The report was prepared in August/October 2012 and discussed by ELSAC on 26 October 2012.

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Acronyms and abbreviations

AEDA	Authority for Economic Development of the Arab Sector
ALPM	Active Labour Market Policy
BOI	Bank of Israel
CBS	Israeli Central Bureau of Statistics
ECEC	Early childhood education and care
EEOC	Equal Employment Opportunity Commission
EITC	Earned Income Tax Credit
GDP	Gross Domestic Product
GEMS	Growth and Effectiveness Measures for Schools
IDF	Israeli Defence Force
ILA	Israeli Land Administration
ILO	International Labour Office
IOM	International Organization for Migration
JDC	American Jewish Joint Distribution Committee in Israel
LFS	Labour force survey
LMSP	Labour market and social policies
METR	Marginal Effective Tax Rate
MOITAL	Ministry of Industry, Trade and Labour
MOLSA	Ministry of Social Affairs
NGO	Non-governmental Organisation
NII	National Insurance Institute
NIS	New Israeli Shekel
PES	Public Employment Service
PIBA	Population Immigration and Border Authority
PPP	Purchasing Power Parity
REA	Regulation and Enforcement Administration
TEVET	Incubator for the development of labour market and social programmes for minority groups
TWA	Temporary Work Agency
WAC	Workers Advice Centre

Summary of main findings

There is now a widespread grasp within both the political class and leading interest groups in Israel of the need to tackle too-high poverty and social exclusion among the Arab and Haredi populations, and there is also fairly widespread agreement that fostering more and better-paid job opportunities for Israeli's in general, and these two groups in particular is the best route out of poverty. Over the past two years, the Israeli government has rolled out many new initiatives to deal with this major challenge – initiatives which are described in great detail in its progress report to the Committee. There have been important employment gains among Arab women, and in particular the Haredim (Chapter 1). However, tackling the causes of such entrenched and wide inequalities in Israel is not easy, will take more than two years to address and will require a sustained effort across a broad range of policy areas. Overall, however, it seems fair to conclude that the scale of the Israeli labour market and social policy responses to date is too small relative to the enormity of the task at hand.

Labour law, its enforcement, collective bargaining and employment services

Over the 2010-12 period labour law has been reformed to better protect the rights of contract workers, notably by making the end user (the "buyer" of services) responsible for their enforcement. Moreover, two recently concluded collective agreements for public and private sector workers also should help raising employment conditions (including minimum wage payments) of contract workers to a standard closer to that of regular employees. However, it is unclear if and when these agreements will be implemented fully.

Enforcement means have improved as the inspectorate can now issue administrative sanctions and the number of inspectors has gone up. As they are most vulnerable to infringements of minimum employment conditions, inspections should mostly be targeted at sectors with many low-income workers, including many Arabs, Haredim, Palestinians and foreign workers. Thus far, enforcement of labour law for foreign workers and Palestinians remains particularly patchy, and the ambiguous employment status of asylum seekers should also be clarified to improve compliance and enforcement. The effectiveness of inspections would further increase if it involved co-operation with NGOs which work to improve conditions of vulnerable workers. They should also be invited to participate in the various

advisory committees on labour issues set up by the Ministry of Industry, Trade and Labour (MOITAL).

Despite the fact that active labour market policies (ALMPs) have become a high policy priority for the Israeli government, resources for financing them remain very low in international comparison. As a consequence, caseloads-to-staff ratios in the public employment service (PES) remain very high by international standards: and case-workers can offer vocational training opportunities to only a small number of jobseekers. The government proposal to the extend the pilot "welfare-to-work" initiative across the country was not approved by the Knesset (parliament) and the programme was abolished in 2010 contrary to the OECD recommendation which was to improve its design and implementation significantly. There are some small-scale employment schemes for minority groups which have been contracted out to NGOs, but there is no overall national strategy of employment support for jobseekers. The Israeli authorities should clarify the roles of the PES and private agencies prior to introducing such a national strategy. The latter will require substantial investment, also in vocational training and education. Regular evaluation of ALMPs should also be introduced to enhance their effectiveness.

Social policy

Recent developments have seen some strengthening of the tax/benefit system to help address poverty issues, in particular:

- The earned income tax credit (EITC) has been extended across the country, as recommended by the OECD in 2010, but payments are still too low and should be increased to encourage higher take-up rates and reduce in-work poverty.
- Coverage of pension saving among low-income workers has increased. Israeli authorities are encouraged to introduce pending reforms to ensure that low-income workers can make full use of existing tax credits. Efforts to equalise pensionable ages for men and women should be renewed.
- Increased investment in care and education for very young children is very welcome, but to ensure service delivery of good quality, MOITAL supervisory capacity has to be strengthened.

In 2009, the government reformed the disability programme with the aim to stimulate employment among disability pensioners. Unfortunately, reform has so far not been successful. The new system of disability benefits and services is difficult to understand and sometimes not trusted. An effective

re-employment strategy for individuals with disability should involve employers as partners and focus first on new clients of the benefit system.

In housing policy, subsidies for home purchase have been revived somewhat in the form of a scheme targeting specific communities, but also a general programme encouraging property developers to offer low-cost rentals has been launched. In general, the public housing support system should be simplified and made more transparent so as to serve all low-income households. For example, the eligibility criteria for social housing should be uniform across households, and the rule granting favourable treatment to those with many siblings should be abolished (for more detail, see OECD, 2011a).

Advancing minority groups

Over the past five years investment in education included a welcome focus on the Arab sector, and this should remain until schooling infrastructure including class-size is similar across the country. However, little progress was made in ensuring that full core curriculum (e.g. in English and mathematics) apply to all children in Israel, including Haredi children. Public funding of schools which do not fully adhere to these standards should be phased out.

The Israeli authorities have also initiated public (infrastructural) investment in the periphery and/or areas with large Arab communities. These are welcome steps and should be deepened. So far, progress with the application of minimum employment quota for disadvantaged population groups in the public sector has been insufficient: for example Arabs make up 7.8% of the public workforce compared with a 10% target. The authorities should also introduce reporting requirements on workforce composition in firms of a sufficiently large size to the Equal Employment Opportunities Commission (EEOC).

The authorities are developing a strategy towards settling land claims and regularising planning and housing for the Bedouin in the Negev and have started to introduce measures to promote economic development of the area. Nevertheless, for humanitarian reasons there remains an urgent need for the connection of Bedouin settlements with water, sewage, electricity and transport systems. New and innovative education initiatives are welcome, but further investment is needed to generate a virtuous circle.

Foreign and cross-border workers

Over the past few years, the number of foreign workers in Israel has declined, but that was not related to the reductions in quotas – which have been repeatedly put off by the government – or with greater enforcement efforts, which have unfolded as planned. Indeed, the reduction mainly reflects

increased litigation on behalf of foreign workers, and the transition to bilateral agreements for recruitment. These agreements (between Israel and the worker's country of origin) reduce rent-taking in the migrant worker system, but so far only a few countries have concluded bilateral agreements, as some others are under negotiation. The Israeli authorities should pursue new agreements more vigorously and extend their scope to include the care sector.

Although implementation is slow, welcome steps have been taken to increase the number of Palestinian cross-border workers rather than workers from abroad: quotas for foreign workers should be further reduced and those for Palestinian workers increased. Enforcement of labour law – especially regarding wages and hours – has been poor, and there is evidence that Palestinian workers have not received full wages in the past. A government plan to transfer salaries to the workers through the Population Immigration and Border Authority (PIBA) should be carried out.

Policy coherence

There are many links between the various policy areas under review here, and the coherent execution of various policy measures is essential to an effective pursuit of anti-poverty policy in Israel. Poverty and inequality are rooted both in non-employment and poor working conditions for a large group of workers, and the presence of a large group of foreign workers in the agriculture, care and construction sectors further weakens the labour market position of Israeli and Palestinian low-income workers. A sharp reduction of quotas for foreign workers would be a straightforward and effective way of raising participation among Israeli's. For example, a sharp reduction in the 26 000 Thai workers in agriculture could help many Arab women – who are currently not in the labour force – into work and if minimum employment conditions were effectively enforced, this would help reduce poverty. Perhaps the new employment centres in the in Arab communities could play a role here, while existing vocational training programmes and employment subsidies in construction could also be used in this regard. Demand for temporary labour would in general be better met by Palestinian cross-border workers, who represent fewer negative externalities than foreign workers.

An effective and coherent labour market and social policy strategy for Israel should include: *i)* investment in education, vocational training, and regional development; *ii)* promoting employment of minority groups; *iii)* further improving enforcement of minimum working conditions and pay; *iv)* strengthening in-work benefits; *v)* reducing quotas for foreign workers; and *vi)* developing a national employment strategy. Investment in such a comprehensive strategy will require an additional public spending effort but the potential gains in terms of improved growth prospects and social cohesion are large.

A summary of progress with labour market and social policy recommendations for Israel as made in the 2010 review

Specific labour market and social policy recommendations for Israel as in 2010	Assessment of progress to date September 2012
Invest in regulatory capacity and effectively enforce labour laws, including minimum wage legislation and employment conditions for Israeli and non-Israeli workers, this would require increased resources for the labour inspectors and the labour courts.	Labour law has been reformed to enhance enforcement especially for contract workers. New inspectors have been hired. Enforcement capacity is not yet on par with the ILO benchmark for industrialised countries, but planned hires for 2012-13 would get it closer to this threshold.
Invest more in the capacity of employment and training services, and the expansion of effective active labour market policies. Requirements for the extension of the Wisconsin Programme include: a clear allocation in roles for public and private employment services; competition within markets; and a profiling system which allows differentiating fee payments to providers in line with client needs.	Public spending on ALMPs remains low. The government proposal to extend "Wisconsin" nationally was rejected by the Knesset and the programme was abolished in 2010. There is no national employment supports strategy and the roles of public and private employment service providers are not clearly defined.
Ensure that sufficient employment and childcare supports are made available to those whose income support is conditional on availability to participate in employment-oriented programmes.	Investment in day-care for under 3s will expand from 2012 onwards. Free early childhood education will cover all 3-5 year-olds from 2012/13 onwards.
Extend the earned income tax credit across the county with additional child supplements and increased payments to childcare users to increase returns to low-income employment for working families. Simultaneously, increase benefits (through additional child supplements) for those on work-tested income-support benefits. Reduce child payments for families able to work, but who do not do so.	The EITC has been extended across the country, but payments are still low and should be increased to encourage higher take-up rates and reduce in-work poverty. Further cuts in child benefits are not desirable.
Address barriers to work for minority population groups by greater investment in education, for example, to equalise teacher-to-child ratios across schools in Israel, and ensure that the curriculum has the same minimal vocational education standards (e.g. English and mathematics) for all children in Israel.	A focus in investment in education in the Arab sector has helped to reduce the gap in class-sizes; and is scheduled to continue. Little progress was made in ensuring that the full core curriculum applies to all children in Israel, including Haredi children.
Invest more in public infrastructure (roads/transport) and childcare in the periphery, and/or areas with large Arab populations.	The Israeli authorities have put in place specific plans for development of areas with large Arab communities, including the Bedouin in the Negev, but plans fall short of overall needs.

A summary of progress with labour market and social policy recommendations for Israel as made in the 2010 review *(cont.)*

Specific labour market and social policy recommendations for Israel as in 2010	Assessment of progress to date September 2012
Ensure that at least minimum employment quota for disadvantaged population groups (particularly Arabs and Ethiopians) are met in the vast majority of different public employment branches. Use public procurement contracts to ensure that employment conditions adhere to basic standards and that fair employment of minorities is a condition for receipt of public funds.	Progress has been insufficient, e.g. Arabs make up 7.6% of the public workforce compared with a 10% target. Public procurement contracts are now linked to minimum working conditions in some areas, but are not used to promote fair employment opportunities for minorities.
Introduce reporting requirements on workforce composition in firms of a sufficiently large size, with the Equal Employment Opportunities Commission (EEOC) assessing employment outcomes and suggesting appropriate targets, where needed.	Requirements have not been introduced: five companies engage in voluntary reporting to the EEOC.
Urgently introduce practical steps towards the connection of Bedouin settlements with electricity, sewage, and transport systems, and continue with efforts to improve their education, including vocational training.	The authorities are developing a strategy towards a comprehensive settlement with the Bedouin and have initiated an economic development plan. But there remains an urgent need for the connection of all Bedouin settlements basic utilities.
Monitor carefully reform of the quasi-mandatory private pension scheme and actively impose penalties on non-compliant employers.	Coverage of pension saving among low-income workers has increased.
Abolish favourable fiscal treatment of what is now mandatory pension saving, reduce tax credits towards voluntary private pension saving, and use the funds to introduce a non-wastable pension credit for low-income workers.	Israeli authorities are encouraged to introduce pending reforms to ensure that low-income workers can make full use of existing tax credits.
Ensure that policies are more pro-active in preventing disability take-up and ensure that existing disability policy has a greater focus on the use of existing work capacity of disabled clients.	Reform was introduced in 2009 but has been unsuccessful.
Rigorously enforce internal labour markets test and other relevant criteria before allowing employers to recruit workers from overseas. Reject authorisation of employers who violate minimum employment conditions for foreign workers and/or who refuse to hire available Israeli workers at minimum wage level.	No labour market test, although enforcement has improved
Favour employment of cross-border workers over foreign workers as far as possible.	Quotas were reduced by about 5% for foreign workers in agriculture and increased by about 35% for Palestinian workers
Promote bilateral agreements on labour recruitment to reduce rent-taking by intermediary agencies.	Four agreements have been negotiated and are starting to be implemented
Add a mechanism for granting foreign workers permanent stay, as in all OECD countries, either through change of status from temporary to permanent or based on labour market criteria.	No mechanism has been created.

Chapter 1

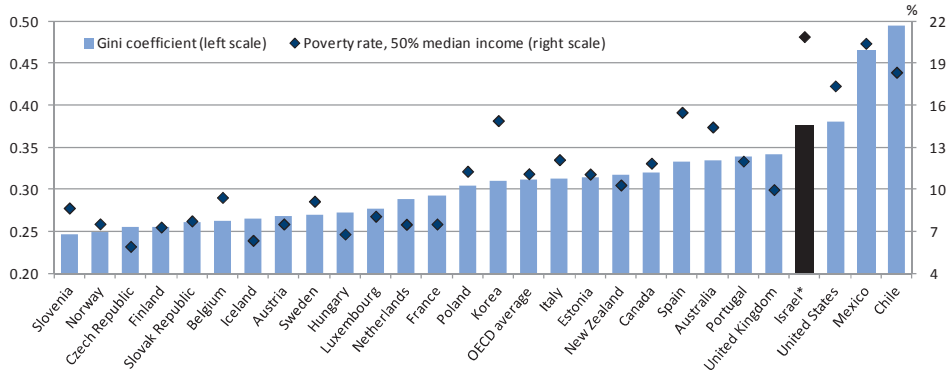
Key labour market and social policy developments

Income inequality and poverty measured in relative income terms in Israel have remained high in recent years. Income dispersion, as measured by the Gini coefficient, is among the widest in the OECD area, with only Chile, Mexico and the Unites States having greater income inequalities (Figure 1.1). Poverty in Israel is more widespread than in any of the 34 OECD countries. In 2010, more than one in five Israelis (almost 21%) lived in households with income less than half of the national median: this is almost twice the OECD average. The poverty rate has increased by 1 percentage point since 2008, but is below the previous peak in the mid-2000s (Table A.1). The incidence of poverty among the mainstream Jewish population is comparable with the OECD average and poverty rates are highest among Arab and Haredi minority groups (Table A.1). More than half of the Arab and Haredi populations live in poverty which is largely explained by the low employment rates of Haredi men (45%) and Arab women (27%) as well as the greater prevalence of large families among the population groups.

Israel's economy has performed well given the global economic climate of recent years (Figure 1.2, Panel A). Real GDP growth dropped in 2009, but by far less than in many other OECD countries and then picked up rapidly; in 2011 it reached 4.8%. However, quarterly data have showed a slowing pace of growth for some time, with the 2012 outcome likely to be only a little over 3%. Projections (including from the OECD) generally predict growth will begin to pick up, albeit slowly, in the coming quarters. From a socio-economic perspective, Israel's relatively robust aggregate economic performance is combined with faster population growth than elsewhere in the OECD but has nevertheless led to a somewhat improved position in terms of average GDP per capita over the past decade (Figure 1.2, Panel B). But, there is substantial room for catch-up relative to the leading OECD economies.

Figure 1.1. Israel continues to have a high poverty rate and a wide income distribution

Income inequality (Gini coefficients) and relative poverty, 2009/10



* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

For an analysis of the geographic coverage of labour force statistics and income distribution and poverty data for 2009, see OECD (2011b).

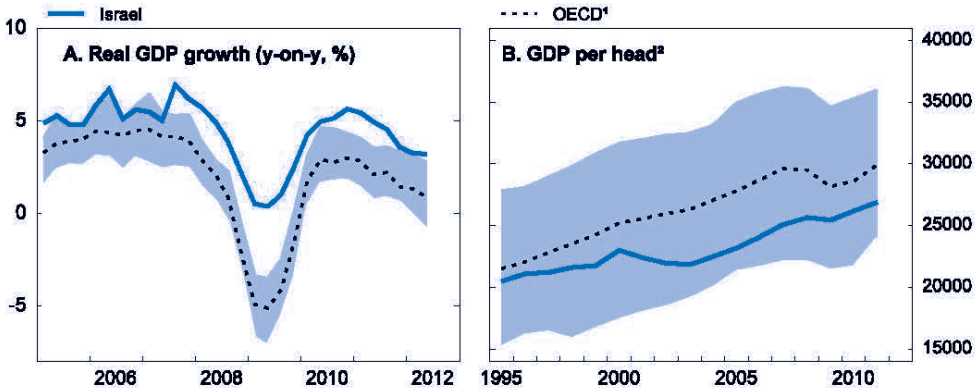
Preliminary data for 2009/10. Countries are ranked in increasing order of the Gini coefficient of Income inequality. The income concept used is that of disposable income in cash adjusted for household size with an elasticity of 0.5.

Source: OECD Database on Income Distribution and Poverty, www.oecd.org/els/socialpoliciesanddata/incomedistributionandpovertydatafiguresmethodsandconcepts.htm and Israeli Central Bureau of Statistics.

Accordingly, Israel's labour market has been faring relatively well in recent years. Following the 2009 drop in GDP growth associated with plunging exports, unemployment rose in 2009 but started to fall again from the first quarter of 2010, reaching 6.8% at the end of 2011, one of the lowest unemployment rates in 30 years. Due to renewed weakness in the global economy, the fall in unemployment came to a halt in the first half of 2012. Participation and employment rates have been on a steady rise since the previous OECD review, mainly due to increased participation among older workers and prime-age women. Apart from these trends, the transition to a new monthly labour force survey led to a significant one-off increase in participation and employment rates, bringing Israel close to the OECD average (Box 1.1 and Table A.2).

Figure 1.2. Israel's macroeconomic performance has been good in recent years

Real GDP growth and GDP per capita



1. Simple average of available OECD countries. The shaded area is the OECD range of 25th to 75th percentile.

2. USD, 2005 constant prices and constant PPPs.

Source: OECD Economic Outlook, No. 92 (2012), http://dx.doi.org/10.1787/data-00646-en and OECD Annual National Accounts, www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en.

Apart from 2009, expanding labour demand and legislated increases in the minimum wage have prompted some rise in nominal wages, but this has been partly eroded by strong increases in consumer prices (BOI, 2012a), and held back by increased labour supply. Over the past two years, higher participation of Arab women, Haredim, as well as higher quotas for Palestinians have helped meet strong demand for low-skilled labour in construction, accommodation services and trade. Since 2008, employment rates increased among Arab women (by almost 3 percentage points to 26.8% in 2011), and Haredi men and women (by about 5 percentage points to 45% and 61% in 2011, respectively – see Chapter 3). These are important employment gains in a short time, and they have contributed to a narrowing of the gap in employment rates compared with OECD countries. Nevertheless, employment rates for workers who have not completed upper secondary education remain well below the OECD average (Table 1.1).

Box 1.1. The new monthly labour force survey

As of January 2012, the Central Bureau of Statistics (CBS) made a transition from a quarterly labour force survey to a monthly survey. In addition to using more advanced sampling methods, a number of changes in the methodology were made, notably the inclusion of the military labour force and a greater number of localities in the periphery, i.e. localities that are not close to the Tel Aviv district – Israel's economic and business centre – and not easily accessible. When possible, this report will make use of the new monthly LFS data. To allow for some analysis over time, the series have been chained over the past using chaining coefficients provided by CBS.

Compared with the quarterly LFS, the monthly LFS provides a significantly higher unemployment rate. During the fourth quarter of 2011, when both surveys were conducted in parallel, the unemployment rate was 6.7% in the monthly survey compared with 5.4% according to its quarterly counterpart. In part, this can be explained by better representation of peripheral areas, where unemployment is higher. Participation and employment rates are also significantly higher, by 5.5 and 4.3 percentage points respectively, mostly due to youth and the inclusion of the military labour force. The jump in participation and employment rates are similar in scale for youth (15-24), but for prime-age and older workers participation rate rises more than employment, leading to an increase in the unemployment rate for these two groups. Another striking change is the large jump in the unemployment rate for Israeli Arabs, which more than doubles from 6% in 2011 Q4 in the quarterly survey to 13% at the same date in the new monthly survey.

Table 1.1. Employment rates of the workers with low educational attainment remain well below OECD average

Persons aged 25-64, percentages

		Less than upper secondary	Upper Secondary	Tertiary	Total
2007	Israel	43	69	83	70
	OECD	58	76	85	74
2010	Israel	45	70	82	71
	OECD	55	74	83	72

Source: OECD (2011c), Education at a Glance 2011, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2011-en.

Non-Israeli workers continue to play a significant role in total employment – about 12% of the business sector, mostly in care and agriculture – although the number of legal foreign workers employed has been declining, especially in construction. There is strong evidence that foreign workers displace Israeli workers, and the drop in foreign workers in construction was associated with a sharp rise in entries – especially of Arabs

– into employment. Foreign workers have also been replaced by Palestinian cross-border workers, who have risen to more than 30 000, mostly in construction. The number of asylum seekers, whose employment is largely tolerated, has increased sharply since 2009 to almost 60 000.

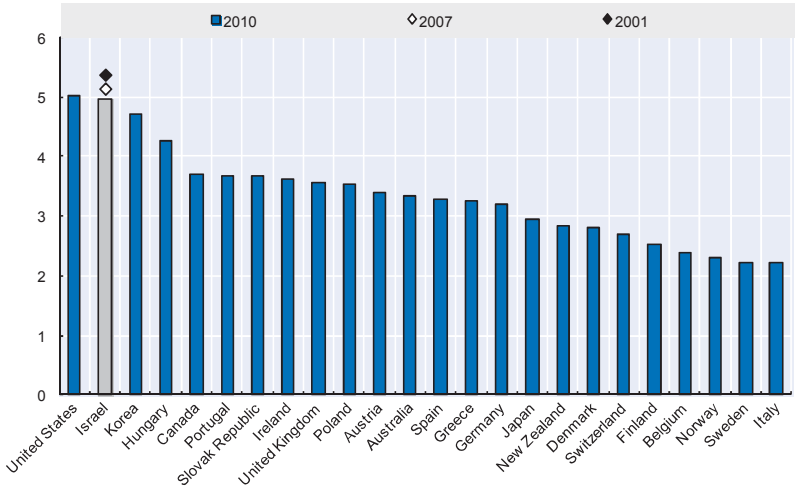
The Israeli labour market remains characterised by a high share of non-standard forms of work. Since 2000, due to increased regulation, employment through temporary work agencies (TWAs) has progressively diminished (OECD, 2010). This trend is continuing, and in 2010 TWA workers represented only slightly more than 1% of total employment compared with about 5% at the end of the 1990s (Nadiv, 2004). Although impossible to measure, it is likely that this reduction in TWA employment leaked to subcontracting. In 2011, about 5% of employees were working in the security and cleaning sector, which is almost entirely subcontracted. Other sectors that frequently involve sub-contracting include the IT-sector, transportation, catering, medical care and teaching.[1]

Wage inequality is a key driver of income inequality (Figure 1.1) and remains very high in Israel, the second highest in the OECD after the United States (Figure 1.3). In 2010, the 10% of the best paid workers were earning five times as much as the worst paid, and this ratio has decreased only very slightly since the last OECD review. In part, this high degree of earnings disparity reflects the high incidence of low pay in Israel, associated with high non-standard employment. More than one in five workers earned less than two-thirds of the median wage in 2010, and there has been no decline on this count since the 2010 OECD review. This may seem surprising as the minimum wage in Israel is high compared with a number of other OECD countries (OECD, 2010). However, while there has been some improvement over the recent period, the minimum wage remains poorly enforced, with more than 12% of employees being paid less than the hourly minimum wage in 2010 (see Table A.3). Non-compliance with the minimum wage is particularly high among part-time workers (16% against 11% for full-time workers).

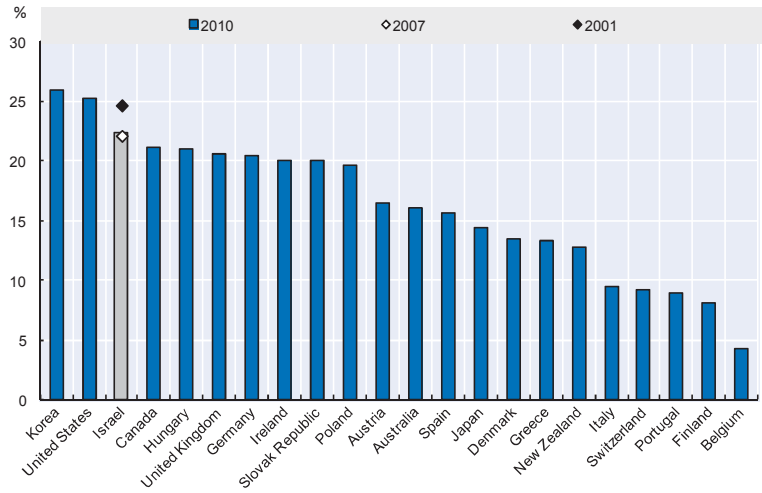
The high incidence of low-paid work contributes to in-work poverty, particularly among families with children (Stier, 2011). Among the households with a head of working age, with at least one adult in work and without children, the incidence of poverty edged up from 4.2% in 2000 to 5.5% in 2010. By contrast, among working families with children the incidence of in-work poverty more than doubled in ten years to 18.2% in 2010. Dual-earner couples with children often make enough to avoid poverty, but both sole-parent families and one-earner couples face increased poverty risks (Table 1.2), particularly if they have large numbers of children (NII, 2011).

Figure 1.3. Israel has a large wage dispersion and many low income workers

A. Ratio of wages in the 90th percentile to wages in the 10th percentile for full-time employees



B. Low-pay incidence



Note: Low-pay incidence is defined as the share of full-time workers with earnings less than two-thirds of gross median earnings of all full-time workers.

Source: OECD Database on Earnings Distribution, www.oecd.org/els/socialpoliciesanddata/incomedistributionandpovertydatafiguresmethodsandconcepts.htm.

Table 1.2. In-work poverty is increasing in Israel, especially among households with children

Poverty rates among households with a working-age head

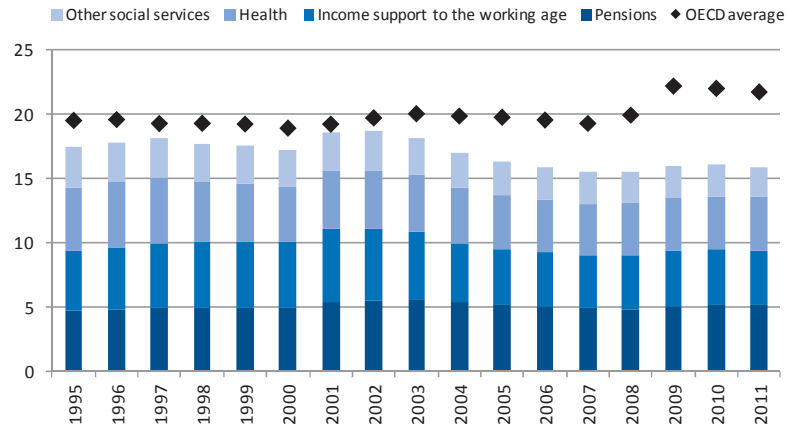
Type of household	After taxes and transfers (disposable income)			
	2000	2005	2008	2010
In work, no children	4.2%	5.1%	5.2%	5.5%
In work, with children	8.3%	16.2%	16.0%	18.2%
of which				
sole parents	*7.0%*	*29.4%*	*29.6%*	*30.2%*
one-earner couples	*19.2%*	*35.4%*	*37.5%*	*44.1%*
dual earner couples	*1.4%*	*3.8%*	*3.6%*	*4.0%*
Not in work	19.5%	77.3%	76.2%	76.0%
Total	14.0%	20.7%	19.2%	20.3%

Note: Relative poverty rates calculated on basis of the poverty threshold of 50% of median income, while accounting for household size by means of an equivalence scale elasticity of 0.5.

Source: Data provided by the Israeli Central Bureau of Statistics for the *OECD Database on Income Distribution and Poverty,* www.oecd.org/els/socialpoliciesanddata/incomedistributionandpovertydatafiguresmethodsandconcepts.htm.

Figure 1.4. Public social spending in Israel has grown with GDP recently but is well below the OECD average

Public social expenditure in Israel by broad social policy area[1] in percentage of GDP, 2000-11



1. Income support to the working-age population refers to spending on the following SOCX categories: incapacity benefits, family cash benefits, unemployment and other social policy areas categories.

Source: OECD (2012), *Social Expenditure (SOCX)* via www.oecd.org/els/social/expenditure. For detail on the underlying methodology regarding estimates for recent years, and the detailed social expenditure programme data, see Adema, W., P. Fron and M. Ladaique (2011), "Is the European Welfare State Really More Expensive? Indicators on Social Spending, 1980-2012 and a Manual to the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Paper No. 124,* http://dx.doi.org/ 10.1787/5kg2d2d4pbf0-en.

Increases in market income poverty, changes in the tax system, and particularly cuts in child benefit and income support in 2003/04 contributed to increased poverty among families over the 2000-05 period (Table 1.2). These cuts provided stronger financial incentives to work to the growing number of parents with weak labour force attachment (often Haredim with larger families), but they also led to a significant decline in public social spending (Figure 1.4 and Box 1.2) and weakened the redistributive power of the tax/benefit system (Table A.1).[2]

In recent years, social welfare spending has expanded in line with GDP growth, and has fluctuated since the mid-2000s around 15 to 16% of GDP. This is about 6 percentage points below the OECD average, even though the stage of the business cycle distorts the comparison somewhat.[3] Overall, public pensions (including to former public servants) constitute the largest spending area at 5% of GDP, with income support to the working-age population (see figure note) and public expenditure on health amounting to 4.2% of GDP each. Spending on other social services amounted to 2.3% of GDP in 2011.

Box 1.2. Fiscal policy issues

The fiscal situation has an important bearing on the scope and depth of feasible welfare reform. Fiscal policy in Israel is attempting to reduce the burden of public debt but also to allow for increases in the real value of public spending while maintaining a business-friendly tax environment. Gross public debt is currently around 75% of GDP (see below figure, Panel A). With the deterioration of fiscal balances elsewhere, Israel now ranks more favourably in this regard. Nevertheless, as in many other countries, the debt burden is undesirably high, not least because the cost of servicing it is relatively heavy (currently about 5% of GDP). Given this, the authorities are correctly endeavouring to keep indebtedness on a downward path. At the same time, policy makers have rightly recognised that, following past savings, there is little room for massive cuts in civilian public spending. This category of spending in Israel has long been relatively low, especially following cuts in benefit spending in 2003/04 (see figure, Panel B). Also, there has been recognition that reforms and policy initiatives in some instances require additional public resources. To accommodate these considerations a spending rule has operated since 2011 that is primarily based on average output growth over the previous decade and the public-debt ratio. In the coming years the rule will probably allow real growth in public spending of between 3 and 3.5% per year; previously such annual spending increases were capped at 1.7%.

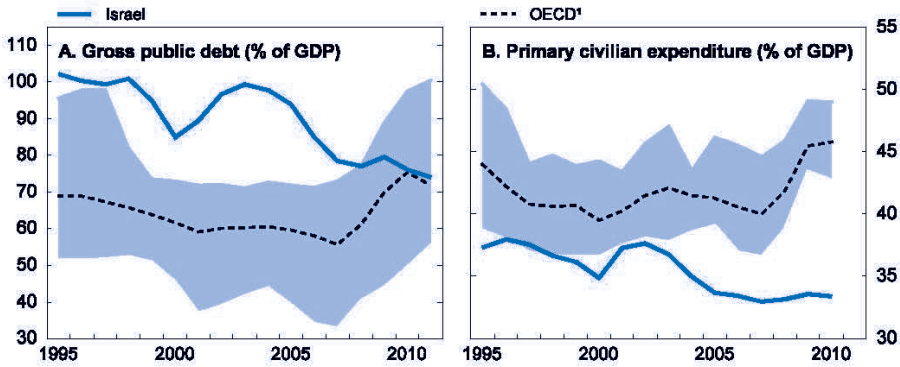
However, remaining on-track with this fiscal strategy has become increasingly challenging. Notably, in 2012 the government was aiming for a central-government deficit of 2% of GDP, but the outturn is likely to be around 4%. In part this is because of weaker-than-expected revenues, but also because remaining within the spending limit is proving difficult. These challenges, plus issues raised by the social protests, have led to some easing of goals in debt reduction (embodied in the government's deficit goals) and a number of tax measures. Notably,

VAT has been increased while some excise and purchase taxes are being cut, and planned reductions in income-tax rates have been shelved and followed by increases in some categories (including corporate tax and top-end personal income tax). Also, savings are being sought on the spending side. However, so far, resolving the upcoming deficit challenges by capping growth in public spending below that allowed by the spending rule does not appear to be under consideration.

Given the fiscal situation, expanding public spending on existing welfare schemes or funding new ones must largely rely on redistributing budgetary allocations The mechanics of the spending rule mean that substantial change in total public spending as a share of GDP in the coming years is unlikely (OECD, 2011a). However, debt reduction, if successful, will release funds for spending in other areas via lower debt-servicing costs, albeit only incrementally over time. For the near term, and as recommended by the Trajtenberg Commission, savings in defence spending (in 2011, just under 7% of GDP; BOI, 2012a), should be sought to free up resources for civilian spending. Revenue measures to reach deficit targets and, for example, to fund welfare spending via the tax system (such as the earned income tax credit, EITC) should focus on pruning exemptions, environmental taxation and perhaps a further increase in VAT (OECD, 2011a).

Public debt and public civilian spending have fallen in Israel

Gross public debt and public spending as a percentage of GDP per capita



1. Simple average of available OECD countries. The shaded area is the OECD range of 25th to 75th percentile.

Source: OECD (2012), *OECD Economic Outlook*, No. 92, http://dx.doi.org/ 10.1787/data-00646-en, and OECD Annual National Accounts.

Social protest in Summer 2011

Israel experienced unexpected social protests in August/September 2011 (sometimes referred to as "the tent protests" or "occupy Tel Aviv"). These protests were not driven by Arab and Haredi minority groups who are most likely to be in poverty, but by young mainstream Israeli's, who, if non-poor,

perceive a real risk of becoming poor. Anti-poverty policy should not just be aimed at Arab and Haredi communities who face particularly high poverty risks, but also address the issues facing mainstream Israeli's who are poor or who are at risk of becoming poor. Different factors contributed to the protests, including: price increases, especially for housing; inequality, both in terms of a very few people making extraordinary income gains when most people do not, and the non-participation of certain population groups in public (military) service. Also, there was a sense of disengagement and distrust towards the non-transparent wheeling and dealing within the public decision-making system (Trajtenberg Commission, 2012). The protester demands included greater access to social services, and increased payments rates for poor benefit recipients.

The protest led to the government setting up the Trajtenberg Commission. It reported its findings in late 2011, making a wide range of recommendations including on the integration of Haredi men and Arab women in the labour market, reform in the provision of public services, and increased openness and participatory democracy (Trajtenberg Commission, 2012). From 2012 onwards for the next five years, the Commission recommended significant ramping up of public investment in education and public services (including transport and employment services). It also recommended cuts in customs duties and excise taxes on oil products. The Commission focused on developing recommendations that would respect budgetary constraints and proposed that about half of the financing come from within the State budget, including cuts in the defence budget, while the other half should be found in cancellation of planned tax cuts, the introduction of greater progressivity in the tax system and higher taxes on capital (Trajtenberg Commission, 2012).

Chapter 2

Labour market policy

The *OECD Reviews of Labour Market and Social Policies: Israel* (2010) highlighted various shortcomings in its labour market policy, including around labour law enforcement, collective bargaining, employment supports and labour market programmes, and in-work benefits.

Labour law reform and enforcement

Labour law enforcement was identified as being slack in the labour market and social policy review, with particularly detrimental consequences on the weakest groups of workers. As seen in the previous chapter, there is evidence of a small improvement in the enforcement of the minimum wage between 2007 and 2010. This is an area where the Israeli authorities have also recently taken significant steps. After five years of negotiations in the Knesset (parliament), a new labour law was passed in December 2011 with effect from June 2012, to strengthen the position of vulnerable workers such as contract workers and low-paid employees. In addition, the number of labour inspector is planned to be increased in 2012 and 2013.

Legislative changes

Two major changes differentiate the new law from the previous version. The first gives the labour inspectorate the power to issue administrative sanctions and fines in response to infringements with respect to working conditions, mostly regarding wages and working time. Previously, a worker had to file a complaint with the labour courts or the Regulation and Enforcement Administration (REA). This process was bureaucratic and slow, and the reform allows much faster action. The level of administrative fines increases with the severity of the infringement, and can be considerably higher than fines imposed in criminal proceedings.[4] In the field of occupational safety and health, however, no steps were taken to strengthen enforcement. As infringements on both types of laws are likely to take place in the same workplaces, a more closely integrated enforcement of labour law and health and safety legislation could increase the effectiveness of enforcement.[5]

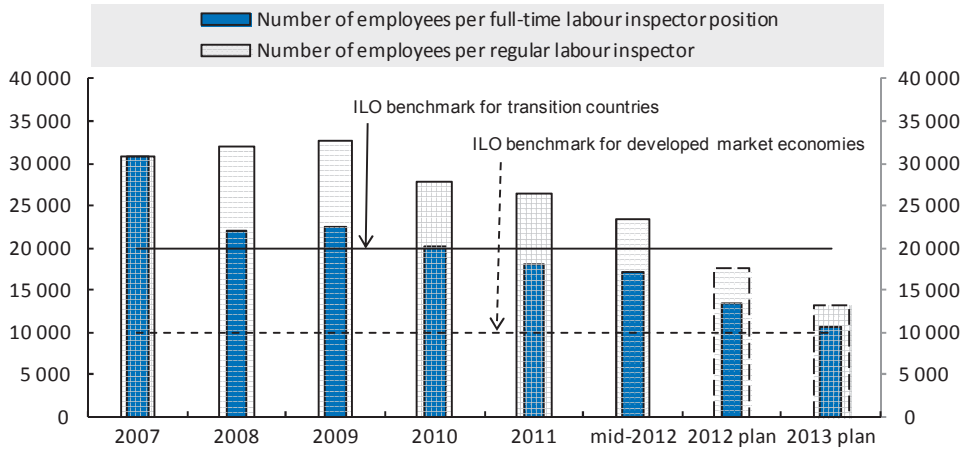
The second legislative change places the onus for enforcing the rights of contract workers in the security, cleaning and catering sectors on the end user, i.e. the organisation ordering services from contractors, but without creating a direct employer-employee relationship. The law states that: *i)* end users have to take pro-active measures to ensure that they would become aware of infringements of the labour law by their contractors; and *ii)* once informed of infringements, they have to take steps to enforce contract-worker rights.[6] Until the mid-2000s, case law tended to establish a direct employer/employee relationship between the end user and the contract worker in case of labour law violation with the unintended consequence of refraining those ordering the services from looking into the working conditions of contract workers. Since the mid-2000s, however, case law increasingly held the end user responsible for enforcing labour rights of contract workers, without establishing such a direct employer-employee relationship.[7] The new amendments constitute a further important step in that direction.

Apart from these two main changes, a number of legislative changes aim at reducing the exploitation of contracting workers. In particular, the very act of contracting out by a contractor lacking a license has been made a criminal offence. In addition, employers now have the obligation to inform an employee of his/her terms of employment and, in case of a labour law violation, the burden of proof is shifted from the employee to the employer.

Enforcement

Obviously, the overall effect of labour legislation, including these reforms, depends on enforcement. OECD (2010) considered that significant under-staffing in the labour inspectorate seriously limited enforcement activity. Since then, however, the number of labour inspector positions in the REA has increased significantly. Israel is rather unique in having two types of labour inspector positions: labour inspectors with regular contracts, and students working half-time on three-year contracts who are trained as labour inspectors (they are paid at the rate reserved to students in the public administration, i.e. less than the regular inspectors). Since 2008, the number of both types of inspectors has been increasing.[8] And following the recommendations of the Trajtenberg Commission and an agreement between the Histadrut labour federation and the Ministry of Finance, the government announced a further increase in 2012 and 2013 (from 102 regular inspector positions at the beginning of 2012 to 222 in 2013). As a result of these steps, the ratio of employees per full-time equivalent labour inspector has been falling significantly (Figure 2.1). In mid-2012 the ratio remained above the ILO benchmark for transition countries, but if plans are fully implemented, it should get closer to the benchmark for developed economies in 2013.

Figure 2.1. The number of labour inspectors is increasing significantly in Israel



Note: The number of employees is assumed to remain at its mid-2012 level for the 2012 and 2013 projections.

Source: Regulation and Enforcement Authority.

The wage structure may be an obstacle to the establishment of a stable and qualified labour inspectorate and hamper its effectiveness. In 2011 on average, permanent labour inspectors received about 1.2 times the average wage.[9] This is relatively low given the nature of the work of inspectors, who bear the responsibility of sanctioning employers, and the wages paid to inspectors elsewhere in public service (e.g. tax inspectors, inspectors with the National Insurance Institute – NII). Hence, labour law inspectors may well move to other offices once given the opportunity.

There has been limited progress in involving Arab workers and NGOs in the advancement of employment conditions for low-paid workers (among which are many Arabs, see next chapter):

- There has been no improvement in the proportion of Arab workers in the REA staff. There are currently nine full-time inspectors with regular civil servant contracts and two student inspectors from the Arab community compared with seven regular inspectors and eleven students in mid-2009, at the time of the OECD review. Given the large increase in REA staff that occurred during this period, Arabs inspectors are even more under-represented now than they were in 2009.[10] The REA is currently co-operating with the NGO Kav Mashve (the

Employers' Coalition for Equality for Arab University Graduates) to try to recruit more Arab staff.

- As in 2008, the REA made use of volunteers in the Arab sector for information campaigns aimed at Arab workers in 2011. However, cooperation with NGOs that work to improve employment conditions of Arab workers has not been significantly developed and could be pursued with greater intensity.

Collective agreements and social dialogue

After three days of a general strike in February 2012, two collective agreements that should also improve working conditions of contract workers were signed between Histadrut and the Ministry of Finance for the public sector and Histadrut and the employers' organisation for the private sector.

The public sector agreement: *i)* raises the minimum wage of contract workers in the cleaning and security sectors to NIS 4 500 per month, when the national minimum wage is NIS 4 300 since October 2012; and *ii)* improves their non-wage benefits, notably access to training and subsidised meals, some pay bonuses, and pension contributions. In addition, some contract workers will be integrated as public employees, notably hospital contract workers.

The private-sector agreement goes further in terms of bridging the gap between contract and regular workers, as it equalises their working conditions in all sectors. It also puts a limit of nine months on the period that contract workers can work in the cleaning sector or if they work in "core" occupation. After that, the worker will be considered as a regular employee.[11]

Detailed agreements have not yet followed these collective agreements which were setting broad principles. In the public sector, some disagreements remain between the two parties. Implementation of the private-sector agreement was made conditional on the issuing of an extension order by the MOITAL, but some employers – including some belonging to organisations that signed up to the original agreement – are raising objections to its implementation. This is particularly the case in the banking and high-tech sectors.

The LMSP review recommended making more room in social dialogue for NGOs representing the most disadvantaged groups of workers, who are usually not part of the constituency of traditional trade-unions. There seems to have been little progress in that area. The advisory committee for the reform of labour law did not include NGOs, and neither did the negotiations on contract workers in the public sector, which, following the corporatist tradition, were only tri-partite. An advisory committee has been recently

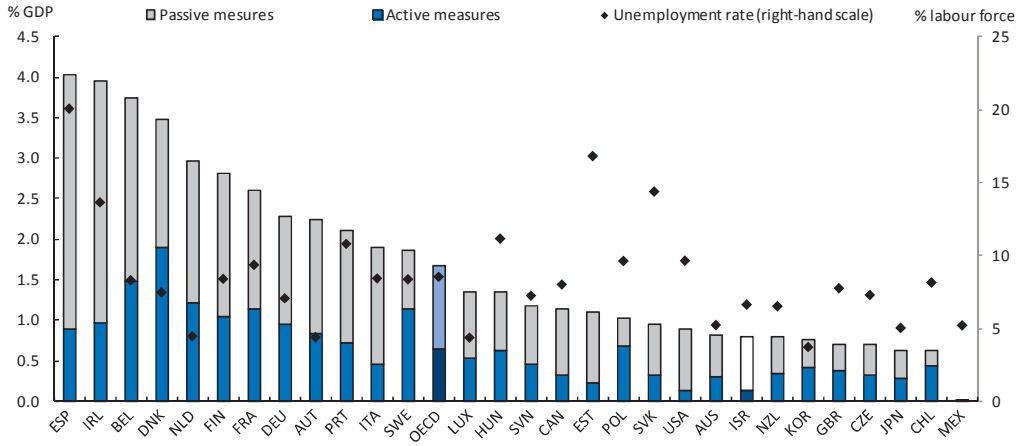
formed to work on the reform of the law on working time, but, for example, NGOs representing women – particularly concerned by these issues have not been invited. NGOs that represent the weakest groups of workers should be more systematically involved in the process of designing labour reform, which may also facilitate their implementation.

Support for the unemployed

Public spending on labour market policies remains low in Israel at 0.9% of GDP in 2010 compared 1.7% on average across the OECD, and some other countries with similar unemployment rates (Figure 2.2). Public spending on active labour market measures is particularly low at 0.15% of GDP compared with 0.66% across the OECD.

Figure 2.2. Public expenditure on active and passive labour market programmes, 2010

Expenditure in per of GDP



Note: OECD unweighted average for countries shown. Bank of Israel data on ALMP according to the OECD-Eurostat definition are higher than those published in the *OECD-Eurostat Database on Labour Market Programmes*. The different data items are being reviewed and discussed with the Israeli authorities. This may lead to revisions in future.

Source: OECD/Eurostat Database on Labour Market Programmes, http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP.

Unemployment benefits

OECD (2010) showed that the eligibility criteria in the unemployment insurance system are rather strict and there has been no structural change since then. The temporary easing of the eligibility criteria when the unemployment rate reached 7.5%, implemented to cushion some of the effects of the global

financial crisis, was activated in June 2009 until February 2010. In addition, a temporary extension of the maximum period of entitlement was in force from December 2009 to the end of 2010. Together with the increase in the unemployment rate, this led to an increase in the share of unemployed covered by benefits from 24% in 2007 to 31.5% in 2009, and after a slight decrease in 2010, the share was back at that level in 2011. Nevertheless, this is low in international comparison: on average across the OECD about 45% of the unemployed were receiving unemployment benefits in 2010 (*OECD/Eurostat Database on Labour Market Programmes*).

Active labour market policy

Public spending on active labour market programmes (ALMP) in Israel is particularly low by international standards, the second lowest in the OECD after Mexico. Even though ALMPs are an avowed public policy priority (State of Israel and MOITAL, 2012, p. 9), public spending has remained constant at less than 0.2% of GDP since 2008.

The public employment service (PES) has a very limited set of tools to promote the reintegration of jobseekers on the labour market. In fact, one of its main roles is to perform the employability test, which helps to determine eligibility for income support paid by the NII. Apart from that, the unemployed person can in principle receive some vocational assessment and guidance or psychological-occupational counselling, be directed to soft-skills workshops, or receive some vocational training. Yet, resources are very limited in all fields, and a very small minority of the unemployed get access to these aids:

- Israeli caseloads continue to be too high to provide effective employment support to jobseeker. The caseload-to-staff ratio is very high, at 456 in 2011. In other OECD countries, it is much lower: below 50 in Australia, Finland, Ireland, Germany and Luxembourg in the second half of the 2000s and around 110 in Japan in 2007 [*Source*: MOITAL for Israel; OECD, 2012a for Australia; and Duell et al. (2010) for the other countries].
- Although the number of courses available to jobseekers has increased, few have access to vocational training. Spending on vocational training was cut drastically in the first half of the 2000s and has not recovered since: it amounted to 0.08% of GDP in 2011. In 2011, 2% of the unemployed received vocational training either under a traditional vocational training programme (1.7%) or under the voucher scheme (0.3%). Only 0.8% of the jobseekers received psychological/occupational counselling in that same year.

In fact, the Israeli PES resembles an "old style" PES, carrying out the employability test as well as vacancy matching, rather than directly providing services to the groups that face difficulties in finding employment. Up to now, no comprehensive strategy has been developed to reform the PES. Instead, to serve the least favoured groups, pilot programmes are developed outside the PES. This was the case regarding the pilot "Lights to Employment" (or "Wisconsin") welfare-to-work programme contracted out to commercial private providers, as with small-scale pilot programmes developed by TEVET, an incubator for the development of labour market and social programmes for minority groups. TEVET is a partnership between various public bodies [including the Ministry of Social Affairs (MOLSA), MOITAL, the PES, and the NII] and the American Jewish Joint Distribution Committee (JDC) often called "the Joint", which actually designs the programmes. The rationale put forward for this set-up is that TEVET is able to move faster than a public agency, and that the PES lacks the necessary community links to set up programmes targeting specific groups such as Arabs, Haredim and immigrants. More recently, the government initiated a network of 21 Employment Centres for the Arab community according to a model develop by TEVET (Box 2.1); the first of a possible network of employment centres for the Haredim is being established in Jerusalem.

The plethora of players and different (small-scale) initiatives raises a fundamental issue: there is no active national programme of employment supports for job-seekers, whether on welfare or not. OECD (2010) extensively discussed the pilot "Wisconsin" welfare-to-work programme. The original pilot introduced in 2005 tended to focus on getting people off welfare rather than into work. There were reforms in 2007, and OECD (2010) highlighted remaining design flaws and put forward recommendations for remedying them. Nevertheless, the programme was not further developed, and in Spring 2010 the Knesset blocked the national extension of the programme and the pilots ceased to exist. Opposition to the programme came from different quarters, including Haredi and immigrant leaders objecting to the introduction of a work-test to members of their community, while others disliked the use of private providers.

The recent appointment of a senior official in charge of employment policy development and regulation within MOITAL may lead – if co-operation with the Ministry of Finance is successful – to the emergence of a clearer view on the development of a national employment supports strategy and the role of the PES therein. At present, small-scale employment services dedicated to minority groups, are contracted out. If Arabs and Haredim are to be at the centre of the employment strategy, the PES should be more closely involved in getting these clients into jobs.

Box 2.1. New employment centres for the Arab community

As part of the multi-year plan for economic and social development in the Arab community (see Chapter 3), 21 employment centres are to be developed over the next five years: eight for the Bedouins in the South, four for the Bedouins in the North, and nine for other Arab groups in the North and Centre of the country. Seven centres have been already opened – three in the Negev, two of which have been working for 2-3 years, two in the Centre and two in the North of the country. One reason for having special centres for the Arab population outside the PES network is the general mistrust of the Arab population vis-à-vis Israeli public agencies. Some NGOs are already active in the sector, such as for example the Workers Advice Centre (WAC-Maan), which tries to organise unrepresented Arab workers into a trade union and also works at placing Arab workers into jobs (mainly in the construction sector for men and agriculture for women), sometimes in cooperation with the local PES.

According to the Authority for Economic Development of the Arab Sector (AEDA), the main aim of these centres is to reach out to inactive persons, especially women, and help place them into private sector jobs. There is no single model for the organisation of these centres, but compared with the PES, they are meant to rely strongly on community organisations and/or links. Apart from general public awareness campaigns, home visits will be used to reach as many clients as possible. The centres have been allocated a budget of NIS 200 million (about USD 40 million) over five years, financed 80% by the state and 20% by the UK Rothschild Foundation. The JDC is designing the centres and supervising their operations. Management of centres varies across localities: one centre in the Negev is managed by a community centre; the municipality is heavily involved in Tira; another centre is directly managed by the JDC.

A person coming to the centre would first meet a case-manager, who will assess the profile of the person (centres would usually have about eight staff members). The case manager can then propose three types of training courses to the person according to her/his needs: Hebrew, vocational training, and/or soft skills. The centres have specific funding for that, but use can also be made of the existing programmes (vouchers, employment subsidies). Centres can also provide support with transportation and childcare, which often constitute major obstacles to taking jobs.

Apart from case management and training, the centres aim to develop links with employers to create local job opportunities. For example, the employment centre in Hura helped with establishing a call centre and trained the 50 women who now work there. Indeed, the main challenge these employment centres will face is to propose sufficient vacancies to job-seekers, either in or close to the community or in existing business centres (with considerable additional cost in terms of transportation and/or childcare).

Of course, if the PES were to remain the main employment service provider it would have to change to support clients more effectively. First, all relevant PES staff would need to be trained case managers (which is currently not the case) and there would have to be more of them. Second, case managers would also need more and better tools to carry out their job, especially vocational training. Third, there would have to be a more rigorous and standardised evaluation of the effectiveness of labour market

programmes.[12] These changes would require a paradigm shift and change in culture and it remains to be seen whether new management and a new board comprising representatives of the government, the trade unions and employers can make that change happen. At the other end of reform possibilities stands the Australian example of fully outsourcing employment services to private providers (for-profit companies and NGOs), which would then require developing a public unit in charge of contract design (including measurement of performances) and enforcement (OECD, 2012). Whichever path is chosen it will require a significant public investment.

Support to low-wage workers: the earned income tax credit (EITC)

Like similar schemes in other OECD countries, the Israeli EITC programme aims to support employment and its returns for workers at the bottom end of the earnings distribution. Started in September 2008 in four regions, the Israeli EITC has been expanded to all mothers with children to age two and single fathers in 2010, and since 2011 is accessible in principle to all workers over the age of 23 with children under the age of 19 and all workers aged 55 and above. However, public spending on the Israeli EITC is very low at 0.02% of GDP in 2011, compared with 0.4% of GDP in the United States in 2009 and 0.5% in the United Kingdom in 2009-10. Therefore, the level of financial support provided through the Israeli EITC is also low. This is especially true at low wage levels: at 30% of the average wage (i.e. about 75% of the minimum wage in 2010), the Israeli EITC provided a support more than three times lower in proportion of the average wage than provided in either the United Kingdom or the United States (Table 2.1). In 2012, the benefit amount was raised by 50% for mothers and single fathers. Nevertheless, the payment rate is generally considered to be too low to provide strong employment incentives (BOI, 2012a).

Table 2.1. Financial support through the EITC in Israel is low compared to similar schemes in the United Kingdom and the United States, 2010

Earned income tax credit for one-earner households with two children as a percentage of the average wage

Earnings level	EITC Israel	Working Tax Credit United Kingdom	EITC United States
30	2.5	9.0	9.1
40	3.1	5.1	8.0
50	1.8	1.2	7.9
60	0.0	0.0	7.9

Source: OECD Tax-Benefit Models.

Take-up rates for the EITC scheme have increased from 39% in the 2009 fiscal year, to an estimated 52% in 2011. By comparison, take-up of the working tax credit in the United Kingdom was estimated at 61% in 2009/10. Low initial take-up might be partly explained by the fact that, although Arabs represent a large share of the eligible population, the initial letter sent by the tax authorities to potential recipients was primarily in Hebrew only with a summary statement in various languages including Arabic. The fact that the EITC has only recently been extended across the country and its low level of financial support may also contribute to the low take-up rate. Thus, increasing payment rates of the EITC would be welcome: it would make the programme more effective in reducing in-work poverty among a greater number of workers.

Chapter 3

Policies towards minority groups

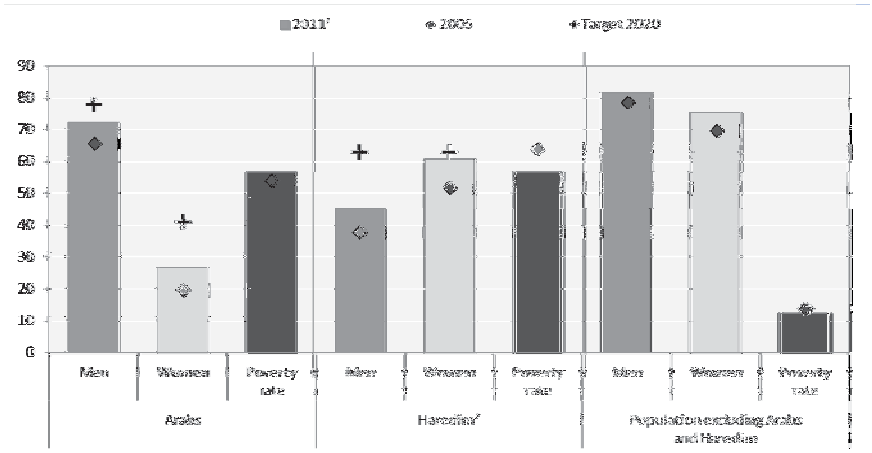
Israel is a divided society, as socio-economic outcomes among minority groups differ substantially from the mainstream Jewish population. For the latter group, family size often concern two or three children and both parents in couple families are often in work, contributing to relatively low poverty rates for this population group (Figure 3.1). By contrast, Arab and particularly Haredi families (frequently with seven to eight children) are much larger and employment rates for Arab women and Haredi men are considerably lower, as are their earnings. Low educational attainment among Arabs and Haredim contributes to low average wages for Arab and Haredi men: they are around 70% of earnings of workers from the mainstream population and drops to the 55-60% range for Arab and Haredi women (Table A.4). Because Arab and Haredi families are frequently jobless or one-earner families in low-paid employment, poverty rates among Arabs and Haredim are about five times as high as for the mainstream population. Figure 1.3 also shows that there have been recent increases in employment among both Arabs and Haredi. However, while increased employment rates among Haredi translated into reduced poverty (from 64% in 2005 to 57% in 2011), the decline in average wages amongst Arab men (Table A.4) prevented a reduction of poverty among Arabs.

Education is a key predictor of the probability of an Arab woman being in work: the employment rate among women aged 35-54 with an academic degree is 79% (often as a teacher, and only rarely in the private commercial sector), while it is only 11% among women with less than 12 years of education (Ben-David and Regev, 2012 on basis of CBS data). However, education is not the sole factor in the labour market choices of Arab women (Yashiv and Kasir, 2012): culture, traditional views on the role of women, a relatively large number of children, rural rather than urban residency and lack of access to affordable transport and childcare all contribute to low labour force participation. And hence solutions require a package of different measures (see below).

There have been significant employment gains among the Haredim. Since 2005, the employment rate among male Haredim increased from 38 to 45% and for female Haredim increased from 52 to 61% (Table A.4), although both Haredi men and women are more likely to work part-time than the general population.[13] Despite these gains, employment rates among Haredim are still well below the public targets (Figure 3.1) and employment rates among Haredim in the United Kingdom or the United States, and, indeed, those of Haredim in Israel in the past: in 1979 employment rates among Haredim aged 35-54 were close to 90% (Ben-David and Regev, 2012).

Figure 3.1. Israel is a divided society

Employment and poverty rates by population group, 2000-20 (target)



1. The employment rates for 2011 are the average of the first three quarters. The poverty rates refer to 2010.

2. There is a difficulty in identifying the Haredim in income surveys. Here they are identified as families in which the last educational institution attended by a member of the family was a post-secondary yeshiva. This definition may create a bias regarding people who tend to participate less in the workforce.

Source: Bank of Israel, *Annual Report 2011* and previous issues.

Although it is difficult to gauge their representativeness, there are laudable efforts within the Haredi community to promote labour-market integration, and help Haredi families to provide for themselves. The Kemach foundation funds higher education and vocational training for Haredi students (mainly through private contributions) and employment counselling, and about 5 500 graduates passed through their programmes

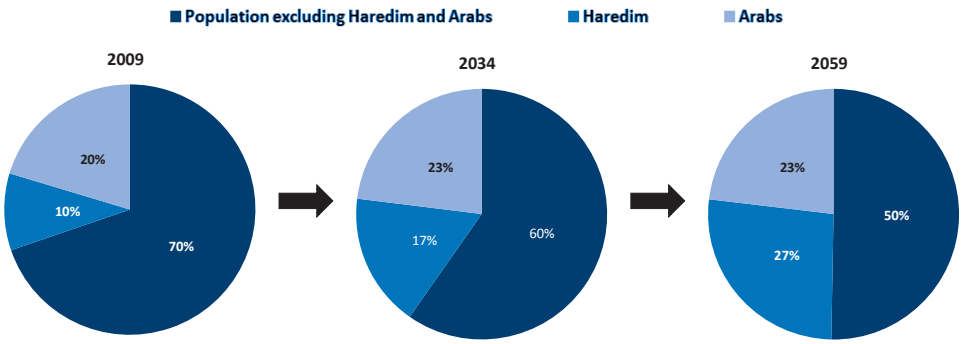
between 2008 and late 2010 (The Kemach Foundation, 2012). At issue is that within the mindset of the Haredi community, gains in education and employment have to be made preferably without significant exposure to the rest of secular Israeli society. This applies to schooling, vocational training and tracks in employment participation alike. The challenge is thus to match labour demand with the constraints around Haredi labour supply.

Social divisions go deeper than differences in incomes and employment. Cultural influences and mistrust between communities arising from the Arab-Israeli conflict also play a role. Arabs and Haredi generally live in separate communities, and their children go to different schools. Arabs and Haredim are generally not conscripted into the Israeli Defence Force (IDF), which causes resentment among the majority of the population. The government is currently considering the future of military service exemptions for religious Jewish study.[14]

Tackling the causes of deeply embedded and wide-ranging inequalities in Israel is a major task, and will take much longer than the two years which have lapsed since the pre-accession review to address it. But the need to tackle the deep socio-economic divide is exacerbated by demographic trends that will change the face of Israeli society dramatically. Over the next five decades the Haredi population will almost triple and together with the Arab minority constitute half the Israeli population (Figure 3.2).

Figure 3.2. In Israel, the Haredi population share is projected to almost triple over the next 50 years

Long-range population projection for Israel, all ages, medium variant, 2009-59



Source: CBS (2012), "Long-Range Population Projections for Israel: 2009-2059", Central Bureau of Statistics, Demography and Census Department, Israel.

It is difficult to imagine a society with about half the population not fully participating in society and living in poverty. Community leaders have a responsibility in changing attitudes towards participation in non-religious education and socio-economic participation more generally, while policy makers have to press ahead with introducing and enforcing policies that foster labour market and societal participation. Many of the educated migrants who came into Israel in the early 1990s will start to retire, which will increase the demand for skills; Israeli society simply cannot afford to let an increasing number of children grow up without good knowledge of English, science and mathematics.

Education for minority groups

The Israeli education system is a rather complex one (see Blass, 2011; and OECD, 2009 for a discussion). In terms of primary and secondary education, it has five different education streams: three for the Hebrew speaking community (state schools, state-religious schools, and schools for Haredim); one for the Arab-speaking community; and one for the Druze community. Private non-religious schooling exists but plays a minor role.

Haredi education

Since the early 1950s the Haredi education system has had a considerable degree of independence with funding by the Ministry of Education being dependent on the degree to which schools adhere to the national curriculum (financial support by the Ministry of Religious affairs is not conditioned in a similar way). On the whole, almost 60% of primary school students in the Haredi system are (at least officially) being taught the full national curriculum, while the remainder are being taught either 55% or 75% of the curriculum.

Secondary education for girls provides for an education that is broadly equivalent to the core curriculum. But the schools do not administer the standard "Bagrut" matriculation exam (which together with a psychometric exam forms the basis of university admission), but a special "Szold" exam (developed with the Ministry of Education). However, the vast majority of Haredi boys attend schools that focus solely on religious studies: only 20% of the Haredi teenagers attend schools that teach parts of the national curriculum (State of Israel and MOITAL, 2012) Haredi leaders argue that their education system should be given more credit as a vehicle for learning, a common argument being that the intensive study of religious texts trains mental capacities that compensate for the absence or only light coverage of secular subjects. However, because of insufficient participation among male Haredi students it is impossible to test the hypothesis using for example

PISA scores, and in order to get a better view of the needs and abilities of Haredi students, their skill levels need testing in a (inter-)national context.

State of Israel and MOITAL (2012) suggests that there is an increase in the number of schools that offer matriculation subjects (at least partially) to Haredi students. However, it does not suggest that there is a sea-change in attitudes towards study of secular subjects. In general, young male Haredim do not acquire the skills in English, science or maths that would help them to participate successfully in the labour market, but nevertheless, the religious schools continue to receive state funding albeit at a reduced rate. Demographic projections suggest the proportion of Haredim among young children and teenagers will increase from 9% in 2009 to 38% in 2059 (Table A.5). Israeli society cannot afford to leave such a large group of youngsters behind in economic participation. Community leaders need to prepare their youngsters for future working life, and policy should stop subsidising schools that do not adhere to the national curriculum fully, as in other OECD countries.

Arab education

Education issues also affect the Arab minority group as years of under-investment in education for Arabs have contributed to poor educational and employment outcomes more generally. However, education policy makers are trying to reform the system. In particular, policy efforts in recent years focus on different issues, including:

- *Investing in school infrastructure.* Over the five-year period 2007-11, about NIS 400 million a year (about USD 80 million per year) was invested in new class rooms in the Arab sector. This is about 40% of the overall education budget for new class rooms, whereas Arabs constitute about a quarter of all primary and secondary-school students. There is thus some catch-up in investment, but these efforts need to continue, as the average class size in the Arab sector (29.3 children per class) is still above that in Jewish schools (26.7 children per class).

- *Improvement of the Arab curriculum.* In the Arab community there is a distinction between the language often spoken at home and the written formal language used at school. One of the major areas of new investment concerns strengthening Arab language literacy through the development of a pre-school curriculum. Policy makers argue that improving knowledge of formal Arab from an early age will also strengthen the ability to learn other languages from grade 3 (when 8-year-olds first learn Hebrew) and grade 4 (English). The curriculum envisages one hour of conversation in Hebrew per week, but given the high

average class-size that may generate little effect. Where necessary, classes could be split to enhance conversational language skills in Hebrew and English.

The effect of reforms on student performance is not unequivocal yet. A comparison of PISA 2009 results with earlier data suggests a decline in the performance of the maths and science scores of Arab students (OECD, 2011a). By contrast, more recent data of the Ministry of Education (the Growth and Effectiveness Measures for Schools, GEMS) suggest an improvement in these areas.

In any case, for reform to be successful, it has to be sustained in the long-term. A continued focus on investment in Arab schools and teacher training through smaller class sizes and a better quality of interaction between teachers and pupils should help reduce student performance gaps.

Vocational education

Another area where more investment is needed is vocational education which, given the current needs on the Israeli labour market, could play a particularly important role for both Arabs and Haredim. Dedicated vocational tracks in the Israeli school system were abolished in the 1970s, and the remaining technical and vocational elements in high-school education were further reduced in scale between 2003 and 2007 and spending on vocational training is low (see previous chapter and OECD, 2012b).

Investment in post high school vocational training is also needed, and there are some new initiatives. For example, a five-year programme of training in nursing has been set up for Arab women (State of Israel and MOITAL, 2012). This programme is well targeted given the high demand for nurses, but of very limited scale (50 students per year) compared with the labour market needs and the number of Arabs girls graduating from high school each year. Similarly, investment in vocational training courses for young Haredim would enhance their chances on the labour market.

Enhancing the economic prospects of minorities

International experience shows that work is the best way of lifting families out of poverty, but access to affordable transport and childcare (see below), discriminatory practices, structural differences in education systems, inadequate in-work benefits and gaps in enforcement of minimum employment conditions all play a role in explaining the persistence of disparities in living standards and employment opportunities. Nevertheless, in some areas there are signs of change, but overall new public investment is small relative to needs:

- Israel has had a general problem of failing to enforce its labour laws, including minimum employment conditions. The previous chapter showed that this issue is being addressed to some extent, and, potentially, this could have a large effect on many Arab and Haredi workers. For example, NII (2012) suggests that enforcing the minimum wage is the most effective way of reducing poverty in the current set-up. Also, better enforcement of minimum employment conditions in the care and agricultural sectors (Chapter 5) is arguably one of the most effective ways of increasing employment among Arab women.

- In Israel as in other OECD countries, raising child allowances is a direct way of reducing poverty among families with children. However, increasing such income support without employment conditions has proven to have disincentive effects on employment participation. Instead, policy should focus on helping families to provide for themselves. In that context, rather than increasing the universal child allowance, additional childcare supports (Chapter 4) and a more generous EITC may be more effective. In fact, about 80% of the payments were made to Arabs, Haredim or immigrants (BOI, 2012a). In general, EITC payments and child supplements to those receiving work-tested income benefits should be raised (while avoiding spikes in the METR schedule around the area where national insurance contributions are phased in).

- The Authority for Economic Development in the Arab, Druze and Circassian Sector (AEDA) supervises and co-ordinates different intra-ministerial efforts towards the development of the Arab sector, and it deals with a budget of around NIS 2 billion (0.2% of GDP). Its first main initiative was a development plan for 13 Arab municipalities (covering about a quarter of the Arab population) worth NIS 800 million over five years. There are also plans for the Druze (NIS 480 million, the Bedouin in the North NIS 400 million, and the Bedouin in the Negev (Box 3.1). Following the recommendations of the Trajtenberg Commission in 2012 another NIS 730 million over the 2012-16 period was allocated towards extension of the employment centres and childcare supports in the Arab sector but also, for example vocational and technical training. In general, is important to realise that some of these monies have been spent, other monies committed, but other funds have yet be to be allocated; for more detail on the plans (see State of Israel and MOITAL, 2012).

- Key aspects of the plans involve infrastructural investment, employment and childcare supports and the development of industrial zones. It is hard to assess the effect of these plans to date. In particular,

it is unclear whether authorities have been successful in attracting private employers to industrial zones and creating new employment. In the absence of success, investment in transport infrastructural projects connecting the periphery with industrial centres becomes even more critical. For all intents and purposes the Arab population lives outside the main economic areas, and for travel to either Haifa or Tel Aviv areas (public) transport is vital. It is important that the proposed Routes of Israel programme (budgeted for NIS 25 billion) not be cut and that projected transport lines that do not go through urban Arab centres (but around them) are easily accessible.

- Public initiatives to overcome discriminatory practices have had limited success. For example, there are job quotas for Arabs in the public sector, with targets of 10% of employment and 30% of new hires. In 2012, 7.8% of public employees were Arab, and only 12.8% of new hires. One reason frequently cited for this shortfall is that despite financial incentives to move to Jerusalem, many Arab workers prefer to reside in their region of origin, often in the periphery.

- Some progress has been made with the use of public procurement contracts to ensure that employment conditions adhere to minimum standards in the security and cleaning areas (and soon catering as well): in 2011 the coverage of employment conditions (e.g. it includes pension-related payments) were widened while conditions for applicants to be successful have been tightened. Inspections will commence soon. Israeli authorities, however, will not use the public procurement process to enhance fair employment opportunities for minorities, on the grounds that this would ultimately undermine the economic efficiency and the effectiveness of the procurement process (State of Israel and MOITAL, 2012). That may be true in theory, but not doing so may be taken as a lack of commitment to the targets.

- OECD (2010) suggested introducing reporting requirements for sufficiently large companies, and where needed giving the Employment and Equal Opportunities Commission (EEOC) a role in target setting (the EEOC also has to enforce equality laws in the public sector, see above). However, no reporting requirements were introduced. Instead, the EEOC is authorised to request companies to report workforce composition and there is a voluntary process which attracted just five employers to create an "equality implementation plan". The EEOC is involved in a range of voluntary processes, but it has less than ten staffers: its resources need to be strengthened for it to play a more effective role in practice regarding both public and private employers.

Box 3.1. The Bedouin in the Negev

There are over 190 000 Bedouin living in the Negev desert area. About two-thirds of them live in "recognised" cities and other localities (that increasingly have access to infrastructure, electricity and water and sewage services), while one-third lives in "unrecognised" centres and villages that are generally without access to water, electricity and sewage facilities. In June 2011 the Israeli Supreme court ruled that the State must provide services in case of specific need but that the legal status of a settlement can affect access to such services. In practice this means that, investment in transport infrastructure passes by unrecognised villages while some basic (medical) services can be provided (State of Israel and MOITAL, 2012). Notwithstanding the lack of services, "culture and the collective" keeps the inhabitants where they are. The socio-economic outcomes of the Bedouin in the Negev are generally poor. This is related to a lack of economic opportunities; low educational attainment, particularly among women; a difficult transition into modern society (including issues around polygamy, early marriage and high fertility rates); and an ongoing land dispute between Bedouin and the government.

On the basis of reports by the Goldberg Commission (see OECD, 2010) and a group of officials (the Prawer report) and the subsequent consultation period with the Bedouin, the responsible Minister Begin is scheduled to present new proposals to cabinet towards a settlement with the Bedouin in the Negev. The new plan is to be implemented within a tight time-frame of five years. This sense of urgency may be related to a shift in policy focus from merely addressing the issue of the Bedouin in the South towards developing the Negev more generally (e.g. the Israeli Defence Force is planning to develop facilities in the area). The key principles of the Goldberg Commission and the Prawer report are that the settlement has to be comprehensive and simultaneously address different issues, including:

- **Settling land claims and regularising planning and housing for the Bedouin in the Negev** on the basis of the following principles: provide significant amounts of land to the Bedouin; act in consultation and co-operation with residents – with enforcement as a last resort – allowing for different urban, sub-urban and rural types of settlements; limit the need to re-locate people and/or relocate as closely as possible to existing locations; and ensure localities have sufficient population density for the efficient provision of services.

During the 1970s the Israeli government invited Bedouin to come forward with claims on the land and prior to 24 October 1979 (the cut-off point). About 3 300 claims were filed. The new proposals involve that every land ownership claim by a claimant who holds land will receive 50% of the claim, as opposed to the 20% previously offered. Land ownership claims made by claimants who do not hold land, will be offered financial compensation, or land elsewhere: a family that chooses to move to a recognised centre will be offered developed land and an additional NIS 100 000 (about USD 25 000) to cover costs. The authorities believe these proposals my help settle most claims without enforcement. It is not easy to comprehensively gauge Bedouin opinion, but there are suggestions there is some willingness to compromise. And with fertility rates leading to a doubling of the Bedouin population every 12 years, it is getting more and more complicated to settle as the inheritance has to be divided over an increasing number of people.

Box 3.1. The Bedouin in the Negev *(cont.)*

- **Economic development:** The Israeli government has introduced a five-year economic programme targeted at the Bedouin in the Negev. It is worth NIS 1.2 billion (or about USD 300 million for 2012-16, mainly invested in infrastructure (NIS 455 million), and employment (NIS 360 million – development of industrial zones, the establishment of employment centres and vocational training) with smaller allocations towards public security (NIS 215 million); community projects and health and social services (NIS 96 million); and education facilities (NIS 94 million in addition to allocations from the general education budget).

Education remains a key issue. In contrast to 20 years ago, most if not all Bedouin children now attend primary school. Within the Bedouin community, there is increasing demand for education, also among young women and the high school matriculation rate for young women jumped up from 12% in 2000 to 20% in 2010 – for young men the matriculation rate remained at 12% (Meyers-JDC-Brookdale, 2012). However, for practical reasons through flow to secondary and university education often remains problematic for many students (the qualifying psychometric test is often a big hurdle and relevant training for this exam is costly). At present there are very few graduates among the Bedouin population: for example, in a community of about 70 000 adults there are five who hold a masters in Mathematics, and six in Chemistry or Physics. Greater access to High schools is needed, and some laudable initiatives are being undertaken. The AHED ("commitment") School for Science and Excellence is an innovative initiative to enlarge the education base – organised by academics on a voluntary basis – with funding from the Ministry of Education and the Jewish Federation of New York. On the basis of an entrance exam, the school accepts 90 to 100 top students per year. Attending the school is not that easy in practice as it often involves considerable travel (culture implies that students should live at home): the longest school bus distance is 60 km and the school buses cannot reach unrecognised villages (it requires another car to ferry students from there to the bus route).

Chapter 4

Recent developments in pensions, disability, early childhood education and housing policy

This chapter looks at efforts to help the disabled to get back to work and improve the coverage of pension saving among low-income workers that have been undertaken since the 2010 OECD review. It also considers some social policy measures that were taken in response to the social protests and the ensuing Trajtenberg Commission, in particular in the area of day-care and early childhood education and, to a lesser extent, housing support.

Helping people with disabilities into employment

During the 2000s, the number of disability pensioners grew by about 4% to 5% per annum and in 2011 there were more than 210 000 recipients (NII, 2011). There were also 67 000 people receiving a work injury benefit. Together these two groups account for about 5.5% of the working-age population (15-64). Figure A.1 shows that since the early 2000s public spending on disability cash benefits (also including payments to disabled civil servants and work injury benefits) generally outpaced GDP growth, and is now almost 2% of GDP. By contrast, spending on relevant services (including home help, residential care and vocational rehabilitation) remained fairly constant at around 1% of GDP. In 2011, public spending on incapacity-related benefits was 2.9% of GDP in Israel compared with an OECD average of 2.1% in 2009.[15]

In 2011, about 12% of the recipients of disability pensions were in employment, up from 9% in 2004 (NII, 2012). A much broader concept of disability, as used in the social survey by the Israeli CBS (State of Israel and MOITAL,2012), suggests there were about 785 000 people with disabilities (about three times as many as the number of people receiving a disability pension and a work injury allowance). The group of disabled, as measured by the social survey, includes many with small impairments, and the employment rate among this broad group is 46%, compared with around

10% among recipients of disability benefit and 74% of the working-age population more generally.

In order to help clients back into the labour market (and reduce overall benefit receipt), the Laron Committee was established which led to the introduction of reform in 2009. Most notably: there is a new categorisation of disability benefit recipients by degree of incapacity and the introduction of an Incentive to work benefit, including a guarantee that clients can go back to full-time disability pension receipt in case they stop working and/or if earnings are reduced within a three-year period (if people stop working after the three years, they will be re-examined to assess their eligibility for receipt of disability pension).

Since 31 July 2009, the disability programme started to group clients in categories A (severely disabled) and B (all others) in line with the degree of disability, but past entitlements also play a role (though that will diminish with time).[16] In 2011, there were 214 749 recipients of a general disability pension, of whom 70% were category A recipients (NII, 2011).

A second step in the disability assessment concerns the reduced capacity to earn, with thresholds at 60, 65, 74 and 100%. Most clients who are assessed to have no earnings capacity are category A clients, but not all, and earnings capacity is generally highest among category B clients (NII, 2011).

State of Israel and MOITAL (2012) indicates that the uptake of the Incentive to Work benefit has been disappointing, with only 3 490 clients in 2011 (those who received a disability pension in July 2009 and had earnings were not transferred automatically to the new benefit arrangement). The effect of the reform has not yet been properly evaluated, but there are different factors that may constitute barriers to its success,[17] including:

- Clients often do not understand the workings of the Incentive to Work benefit programme. The system is complicated and hard to understand, even for professional caseworkers.
- Financial incentives are strongest for those with highest earnings (also in view of the loss of some add-on benefit income): many, often older, benefit claimants have relatively low educational attainment and thus limited earnings potential.
- There is a lack of trust in the system, clients are fearful that despite the intentions and statements the system will not allow them to go back to full-time benefit receipt within three years.
- The reform only addressed the financial incentives to work for the disabled but did nothing to support the demand for disabled

workers (e.g. through a system of financial incentives for employers to hire such workers).

In terms of re-employment, a focus on new claimants may be most effective. More fundamentally, the system should start considering employers as partners in the search for better outcomes for the disabled. The intended new support centres for employers with disabled workers (State of Israel and MOITAL, 2012) hopefully are a first step in that direction.

In 2011, public spending on rehabilitation services (of which almost half concern (pre-vocational training) amounted to NIS 1.5 billion, but the support system is fragmented and includes different public agencies: MOITAL, the Ministry of Health, MOLSA and the NII. The Laron Commission could not agree on how to best streamline the system and therefore limited reform to the introduction of one-stop shops which serve as referral points for the different services.[18] This may help, but for the co-ordinated development and discharge of policy and services, it would be better if the overall system was streamlined by function, with services geared towards employment in one place, and medically oriented services in another.

Combating pensioner poverty

Israel's public pension system is not overly expensive. Public spending on old-age cash benefits was about 5.2% of GDP in 2011, while the OECD average was 8.3% of GDP in 2009. This is largely related to the Israeli population being relative young[19] and benefit payments being relatively low. However, access to income supplements is limited and covers only a quarter of all old-age and survivor benefit recipients (NII, 2011). Coverage of the private pension system compares well with other OECD countries (OECD, 2012c), but the system has yet to mature. As a result, poverty among the elderly remains high in OECD comparison at 20.8% in 2010.

Reducing pensioner poverty can be achieved by increasing payments as well as extending the coverage of pension saving. Increasing payments rates could be partially financed by increasing the retirement age, which makes sense in view of rising life expectancy. For women, life expectancy at birth has increased from 77 years in 1985 to 83.6 years in 2010; for men, life expectancy increased from 73.5 to 79.7 years. Women aged 65 can on average expect to live another 21 years compared with 19 years for men. However, men's retirement age is 67 whereas it is 62 for women (but scheduled to be increased to 64 over the 2017-20 period). Israel is one of ten OECD countries where pensionable ages differ for men and women. Apart from Poland, Switzerland and Turkey, reforms in the other countries are projected to equalise pensionable ages across the genders by 2040

(OECD, 2011d). In line with the recommendation in OECD (2010) the Minister of Finance introduced proposals to the Knesset to increase the female retirement age further, but the proposal failed in the face of overwhelming opposition. However, in view of the higher female life expectancy, the pertinent gender equity concerns, and the opportunity this would provide to improve delivery of support for the elderly where it is needed most, efforts have to be renewed to equalise pensionable ages for men and women (OECD, 2012d).

In 2008, tripartite agreement led to the introduction of mandatory pension saving for all workers and a significant increase in pension coverage. Ministry of Finance data suggest that over the period 2008-10, 727 000 new savers joined pension funds and that in 2010, 75.9% of the working-age population was covered. With another 180 000 new savers in 2011, coverage has increased to about 80%. Contributors to mandatory pension schemes may choose to invest their pension savings with a "new pension fund", a provident fund ort a life insurance policy with savings component (for more detail on private pensions in Israel, see OECD, 2009; 2011a; 2011d; and 2011e)

The overall contribution rate for pension saving is being increased to a final rate of 17.5% from 2014 onwards. That rate will comprise a 6% employer contribution and an 11.5% employee contribution. Within the employee contribution, 5.5 percentage points represents a pension contribution only, while the remainder goes to a severance payment system in which employees can access the funds if made redundant or when leaving work voluntarily. At 17.5%, the overall contribution rate is high, and implies a net replacement rate of just over 110% at half average earnings.[20] However, the severance payment option is frequently exercised, especially among low-income workers. Accounting for this feature, the net replacement rate is around 90% for low-income workers earning half the average wage (OECD, 2011a).

The 2010 LMSP review suggested abolishing the tax credit for what is now mandatory saving and turning it into a non-wastable pension credit for low-income pensioners (many low-income workers exhaust their tax liability with other tax credits, and do use the tax credit on pensions saving). This has not been done. However, the Ministry of Finance is reviewing the scheme, so that tax credits can be accumulated over the years and can be offset against tax liabilities at different points in time and/or claimed on retirement. A proposal on tax credit reform is scheduled for 2012.[21] The Ministry of Finance is also considering introducing a default portfolio for mandatory pension savings, so as to adjust the portfolio risk over time (with the age of pension savers) and safeguard savings for retirement.

Strengthening care and education during the early years

The provision of affordable early childhood education and care (ECEC) serves different but inter-related (public) social policy purposes: increasing female labour supply (and tax revenue), enhancing child development, promoting gender equality and reducing family and child poverty risks (OECD, 2011f). To ensure that parents can stay in work when they have young children, policy in some OECD countries provides parents with a continuum (as children grow up) of supports towards the reconciliation of work and family commitments. The Israeli system has important gaps in this regard (Figure 4.1). Policy provides for paid maternity leave of 14 weeks at maximum, but there is no additional statutory parental leave which can be shared by fathers and mothers.[22] Public policy provides income-tested fee support and support for the construction of day-care centres for infants up to, and including, 2-year-olds. However, coverage of these licensed day-care centres is limited to around 19% of children in this age group (about 9% of Arab children and 14% of Haredi children participate in day-care) while an estimated 120 000 children in this age group were in private non-formal non-parental day-care.[23]

In 2011, public spending on licensed childcare (including fee support) amounted to NIS 955 million with another NIS 268 million on day-care programmes by municipalities. Following the Trajtenberg report, the licensed day-care system will be extended over five years by an additional:

- NIS 445 million for fee support for the new childcare places;
- NIS 430 million for training of staff; and
- NIS 1 billion for the construction of new centres.

In 2011, NIS 200 million was allocated[24] which will lead to about 65 new day-care centres with on average 75-90 places (or three classes), and once the budget is allocated, it generally takes three years for the relevant centre to become operational. In all, in the next five to seven years another 25-30 000 new places will be created in the licensed day-care system. One of the criteria in the process of allocating new centres in a region is the present existence of childcare centres, and therefore many of the new centres will be built in Arab areas (where most of the clients will also get the highest rate of fee support).

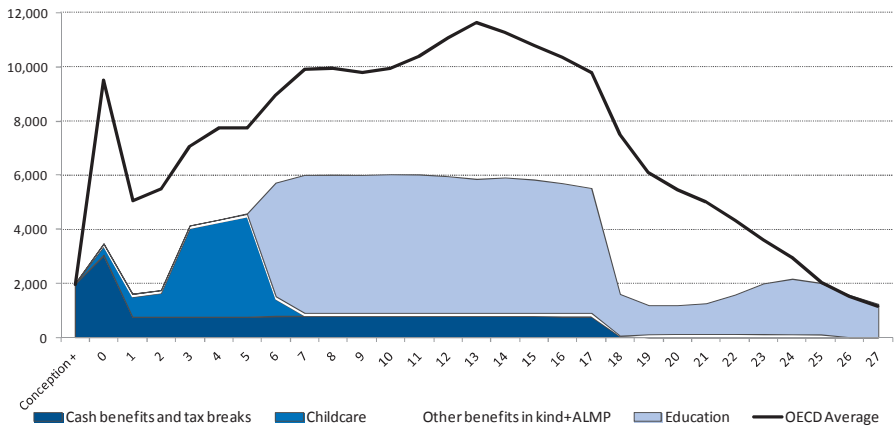
Licensed formal day-care centres are either run by municipalities, NGOs (women's organisations) or private bodies. In principle, funding and fee support is tied to the centre's adherence to health and safety standards set by the Ministry of Health and MOITAL guidelines on centre practices such as

staff-to-student ratios. In practice, supervision (carried out by regional MOITAL staff and municipalities) could be improved.

Public support towards ECEC for 3-5 year-olds in facilities supervised by the Ministry of Education reached many more families with enrolment rates at 81%[25] in 2011, 4 percentage points above the OECD average (compulsory schooling starts at six). Enrolment rates are bound to go up further as after the Trajtenberg report, free early education will be extended to all 3- and 4-year-olds (up to 2012, only 35% of 3- and 4-year-olds received free ECEC). This policy will be implemented from September 2012 onwards, and it is expected that by early 2013, existing capacity bottlenecks in the ECEC system will have disappeared.

Figure 4.1. In Israel, support for families is weakest when children are very young

Average social expenditure by intervention in Israel, in PPP per child and age in 2009 (USD)



Source: Preliminary data: OECD Secretariat calculation based on *OECD Social Expenditure Database* and *OECD Education Database.*

Childcare is an important cost item to young working families with children, and in the absence of access to affordable good-quality childcare, parents, usually mothers, may decide to reduce working hours or withdraw from the labour force altogether. Especially for sole parents and their children, the provision of affordable good-quality childcare is critical. Net childcare costs for parents with two children (ages two and three) in couple families with family earnings at 150% of average earnings and who have access to licensed care and early education fee support, amount to about 16% of family income in 2010 (similar to the 2008 OECD average), and for

a sole parent on average earnings this is close to 25% (well above the OECD average in 2008, OECD, 2011f).

Support with housing costs[26]

The Israeli housing market has a number of specific characteristics. More than 90% of the land in Israel is publicly controlled and managed by the Israeli Land Administration (ILA), and this means that most homeowners are technically leaseholders. Arab households own most of the land that is not publicly controlled, and as properties are passed on across generations many of these families do not face rental or mortgage costs, or benefit from relevant tax relief. On the whole, the tenure structure in Israel is not unlike that in many Anglophone countries: about 70% of dwellings are occupied by "home owners", 22% are in private rental and only 6% in public rentals (Andrews et al., 2011). Access to public housing for the general population depends on different criteria including a means test, the number of children, and unusually, the number of siblings, which favours those from very large families, often belonging to the Haredi population group.

In most OECD countries, house prices started to fall with the onset of the global financial crisis in 2007-08. This does not occur in Israel where the social protest in 2011 was also fuelled by real house price increases of 10% per annum over the 2007-09 period (BOI, 2011b; and OECD, 2011a), spurred by low interest rates and favourable tax treatment of home ownership (also through generous exemptions on capital gains). About half of the central government's spending on housing support (NIS 2.2 billion in 2009) goes to recent (Jewish) immigrants either in terms of rental assistance or mortgage support. Housing policy in Israel favours home ownership vis-à-vis rent support, and is only weakly targeted on low-income households.

In response, the Trajtenberg Commission suggested to significantly increase the supply of apartments (of different sizes) to reduce house prices, pro-actively support construction of long-term rentals, increase rental assistance, developing policies to support housing in the Arab sector, and generally improve planning, zoning, and infrastructural strategies (Trajtenberg Commission, 2012). The government has begun a scheme under which land is released for property development, with tender conditions being such that 20 to 40% of the apartments constructed are for the long-term rental market. Also, the ILA will continue with reserving some of its leaseholds for development at a set price so as to sell houses at 50% of the market value, and provide low-cost housing for home buyers (OECD, 2011a).

Chapter 5

Foreign and cross-border workers and asylum seekers

Israel's large temporary labour migration scheme continues to remain significant: it provides for about 12% of the labour force (BOI, 2012a), working especially in long-term home care, in agriculture and, to a lesser extent, in construction. This comprises legal temporary migrants and Palestinian cross-border workers, overstaying tourists, and increasingly, asylum seekers (Figure 5.1). The labour migration management system has in the past suffered from egregious rent-taking, including by Israeli recruiters and employers, poor supervision of employment conditions and wages for foreign workers, and inadequate safeguards to favour employment of local workers.

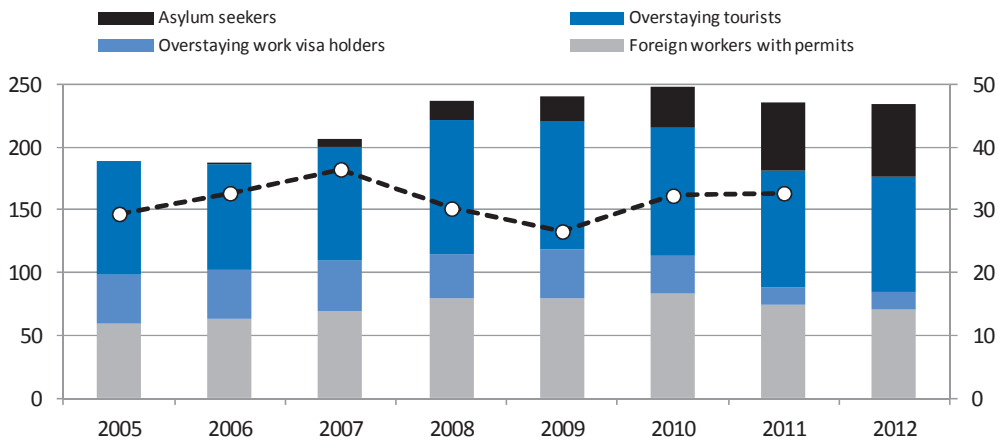
In part, the demand for foreign workers in Israel has been driven by the illegal rents taken on their employment – paid to recruiters abroad and passed to Israeli brokers and, at times, employers. Even after the imposition of legal limits on these fees in 2006, fees continued to increase. These fees ranged from, on average, more than USD 7 000 for Filipinas and Sri Lankans, 9 000 for Thai workers to 31 000 for Chinese (Raijman and Kushnirovich, 2012).

Specific steps have been taken to reduce fees by changing the recruitment system. In order to reduce the incentive for fees, the Israeli government reformed the employment system in 2009 to require agencies to place their care workers or lose the right to recruit additional foreign workers. The "binding system" (described in the 2010 review), which linked workers to their employers, has been loosened. Workers may change employers with advance notice, although multiple job changes will lead to review of the permit. While there is no quota in the care sector, entries are authorised based on the stock of employed workers, and allocations among agencies are based on the employment levels maintained by the agency and the number of disabled clients. Some of these changes were also intended to

protect the wage-bargaining power of foreign workers, but with little apparent effect: real wages paid to foreign workers in the care sector did not increase from 2008 to 2010.

Figure 5.1. There is a growing number of asylum seekers on the Israeli labour market

Stock of non-Israeli residents, by category, and inflow of foreign workers, 2005-12, thousands



Note: All overstaying tourists and workers are assumed to be in the labour market. 2012 figures are for June 2012. Legal foreign workers in agriculture are based on quota rather than actual number in Israel.

Source: Bank of Israel Annual Reports 2007, 2008; Population, Border and Immigration Authority.

The number of asylum seekers who arrived across the border from Egypt rose by 30 000 in 2010 and 2011 to more than 57 000 in mid-2012, representing a major policy concern and, to some extent, eclipsing public debate over foreign worker programmes. Most are Eritreans (63%) and Sudanese (26%) in a "tolerated status" (OECD, 2010), with limited access to the asylum system. To deter new arrivals, the government is making a significant investment in: a Sinai border fence; the construction of a detention centre; and, voluntary return programmes for asylum seekers. Nonetheless, those currently in Israel continue to be in an ambiguous situation relative to the labour market, with employment illegal but tolerated (i.e., employers are not liable to prosecution, and regular employment law applies).[27] Different forms of restrictions are imposed according to nationality, date of arrival, and renewal decisions. Most seek work in informal employment, are employed through temporary employment agencies or in the hotel industry.[28] Enforcement of labour law for this group is very difficult, although NGOs are active in this area and the inspectorate

has received depositions, by departing South Sudanese former asylum seekers, on missing wages.

Bilateral agreements are slowly changing recruitment processes

The introduction of bilateral recruitment programmes for construction and agriculture is proceeding very slowly, and facing numerous legal challenges, including from recruitment firms, as they represent a means for reducing the large illegal fees taken in the system. The first agreements were reached in 2011 with Thailand, for the recruitment of agricultural workers, with the International Organization for Migration (IOM) in Thailand as a local partner. The agreement contains an exclusivity clause stating that Israel will recruit agricultural workers only through programmes with the IOM[29]; at present, this is limited to Thailand only. As the programme faced implementation obstacles, workers began to arrive only in June 2012, and the sector was 1 200 workers short of its quota. Reported fees paid by migrants appear to have been reduced in this programme, to about USD 1 000, which is within the Israeli legal limit. Other developments include:

- A pilot programme with Sri Lanka for seasonal agricultural workers, also begun in 2011, brought about 300 workers to Israel for a six-month period. The first phase concluded with a relatively high overstay rate (about 10%, compared with less than 2% for Thai workers), and a number of civil suits by workers against the government, which were largely rejected; the second phase required employers to share in transportation costs and saw less uptake (only 70 workers).
- Recruitment in the construction sector is now also limited to bilateral agreements. The first agreement, with Bulgaria, faced implementation delays in the selection of candidates, and only 100 workers had entered by September 2012, with an addition 500 expected before the end of the year. Additional agreements are under negotiation with two other countries.
- Discussions on bilateral agreements for the recruitment of care workers have started with several countries, but no agreements have been signed yet.

Absent from the agreements to date is any consideration of the link between migration and development. As noted in the 2010 review, there is potential for training and capacity building, especially in the agricultural sector where Thai workers are employed in high-productivity and technologically advanced agricultural firms, and often return to agricultural

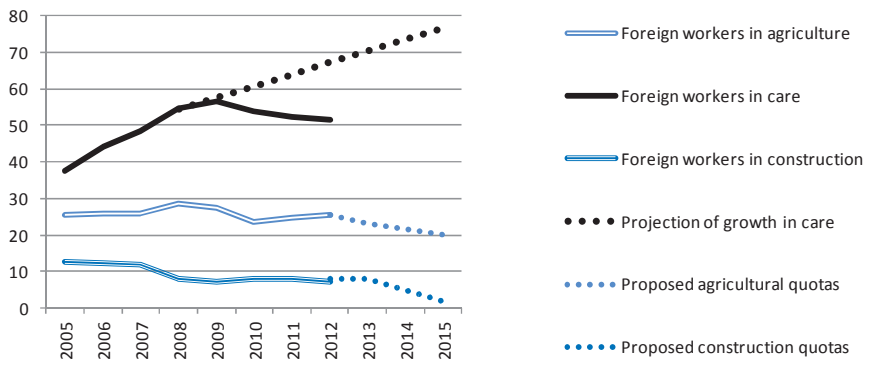
regions of Thailand. The Israeli ODA service, Mashav, has not responded to this opportunity for synergy, even as Israel itself actively recruits migrant labour.

Quotas are not being reduced

Policy consensus in Israel continues to consider the admission of foreign workers harmful to the employment prospects of low-skilled Israeli workers, especially Arabs (BOI, 2012a; and OECD, 2011g). The reduction in foreign construction workers has been associated with a strong increase in entries of Israeli workers into the construction sector (Figure 5.2) – 30 000 in 2010-11 alone (Natan, 2011). NGOs have mediated attempts to bring available workers, including Arab women and asylum seekers, into the agricultural sector, but have faced difficulties competing with Thai workers earning real wages below the minimum.

Figure 5.2. The number of legal foreign workers in Israel is declining, especially in the care sector

Quotas and actual employment levels of foreign workers, thousands, by sector, 2005-11



Source: Population, Border and Immigration Authority and Eckstein, Z. (2007), "Report by the Inter-Ministerial Committee for the Formulation of Labour Migration Policy", Bank of Israel and Ministry of Industry, Trade and Labour, Jerusalem (in Hebrew), 20 September 2007.

Government decisions to reduce quotas have repeatedly been postponed. In the construction sector, a decision in 2006 aimed to eliminate the quota entirely by 2010. This was postponed by successive decisions in 2009 and 2010, which extended the deadline until 2011, when it was again postponed until 2015. Similarly, in agriculture, a planned quota reduction from 26 000 to 24 000 was delayed. A more significant brake on recruitment of foreign

workers has been the requirement, from 2012, that recruitment in agriculture and construction can occur only in the framework of bilateral agreements. In construction, delays in arranging recruitment through bilateral agreements led to inflows falling below the quota, as agreements have only now begun to be implemented. A similar underutilisation of the agricultural quota occurred in 2012 due to delays in the implementation of the bilateral agreement.

Within the agricultural sector, employers have insisted on the need for continued recourse to foreign agricultural workers. For some regions, such as the Arava, the potential Israeli labour force is distant; still, only about 3 000 foreign workers are employed in isolated areas. Most are employed in areas where they could potentially be replaced by the local workforce or Palestinian cross-border workers, although foreign agricultural workers are competitive as they live on-site and work after hours without additional pay.

In the care sector, the number of foreign care workers has ceased to increase – contrary to forecasts by Eckstein (2007), as incentives for importing workers have weakened and demand has dropped. The implementation of a new fee structure for care worker agencies in 2010, along with the requirement that 97% of their workers be employed before allowing them to admit additional workers, has led to fewer requests (Natan, 2011).

Mechanisms to favour employment of Israelis are undeveloped

The 2010 review noted the absence of a labour market test – used in almost all OECD countries as a means of protecting the local labour market. Labour market tests, however, generally target local unemployed and job-seekers. In Israel the challenge is rather increasing participation, and a traditional individual labour market test through the PES or advertising would not be appropriate. One possible solution could be to offer jobs in lots to brokers, and only authorise quotas if these are not filled. This solution would be an incentive for initiatives to increase participation, as brokers would find new workers; it would also institutionalise existing activity by NGOs to mediate employment, and provide an area for initiatives for new employment centres in the Arab sector. The clear risk in this solution, however, is that mediation would occur through exploitative "gangmasters". Transparent wage payments and proper enforcement would reduce the risk of gangmaster abuse, but would increase the complexity of regulation in a sector where official oversight has traditionally been spotty.

In the absence of labour market tests, there are three main mechanisms in the Israeli system to encourage employers to favour local workers: numerical quotas, a levy on employment of foreign workers – the highest

among OECD countries, at 10-15% of salary for agricultural and construction workers – and subsidies for training and employing Israeli workers. The first are established without empirical basis and have remained high even as successive governments and economic analyses have found them unjustified. The second mechanism, levies, has been unsuccessful, as real wages paid to foreign workers remain well below those paid to Israelis, and the third mechanism, subsidies, has been implemented only intermittently and with limited success.

Levies and quotas are imposed together on the construction and agricultural sectors. But, there is no need to impose both quota and levies. The logic of quotas presumes that labour needs cannot be met locally – an assertion contradicted by most analyses – rather than the presumption that local labour would be available at a higher wage level. The Ministry of Agriculture found that the levies did not favour hiring locally (Shlomi and Zuk Bar, 2011). It has also, however, been in favour of high quota levels being maintained.

Separate subsidies for employment of Israelis in sectors where foreign workers are employed have been tried (OECD, 2011g), although uptake has been limited. For care workers, additional hours of benefit are provided, but uptake has been limited. The Israeli care work labour force currently comprises many older immigrants from the former Soviet Union, and care manpower companies prefer not to work with these workers, whose wage expectations are higher. In the agricultural sector, a programme offering NIS 1 000 per person and per month for new workers who come into the sector for at least three months employment out of six months was started in 2010. The subsidy, however, is granted to the employer, rather than the worker. During its first two years this programme attracted only 177 workers, although the shortage of agricultural workers in 2012 led to increased use.

In the construction sector, a programme to train Israeli workers and subsidise their employment was largely suspended in 2012, despite a budget of NIS 50 million, as agreements between the Ministry of Finance and construction organisations for on-the-job training were developed. Despite plans for 1 000 trainees, financing delays led to the involvement of only 100; one final course was funded and began in late 2012.

Mixed evidence of increased enforcement, but more civil suits and better informed workers

Overall in the sector, there is mixed evidence of increased enforcement. The Population Immigration and Border Authority (PIBA) levied fines of

NIS 18.5 million in 2011, of which about two-thirds were for cases of illegal employment. This trend slackened somewhat in the first half of 2012. For the first time, in 2011, Israeli employers were charged with taking illegal fees from workers. Also, the labour inspectorate division at the MOITAL responsible for enforcing labour law for foreign workers is small.[30]

The creation in 2009 of an Ombudsman for foreign workers, to receive and respond to reports of abuse in the sector, was a positive sign, although the Ombudsman works alone and may not proceed independently with civil claims unless authorised by the Ministry of Justice, which may choose to first exhaust all other procedures – criminal and administrative. The care work sector remains specifically excluded from the Ombudsman's purview, except for incidents of severe abuse. However, there also appears to be a greater risk for employers of facing civil suits for violation of employment law, as NGOs and private law firms are increasingly active in this domain. One example is the first strike by 300 Thai agricultural workers at a farm in 2011, organised by an NGO and vindicated by later labour inspections.

Favouring Palestinian workers over other foreign workers

In light of the pernicious effects of the foreign-worker programme, the 2010 OECD review recommended that temporary labour needs which cannot be met within Israel could be more effectively met by Palestinian workers. The quotas for Palestinian workers have been increased but the actual number receiving permits and working in Israel has only recently started to rise after implementation delays (Figure 5.3). These workers are not a completely stable source of labour as they are subject to general border closures. The Ministry of Defence branch responsible for issuing permits has stated the importance it assigns to ensuring income opportunities for Palestinians and reduced the age threshold to 26 for cross-border workers, who must be married. Previously the age threshold varied according to sector. Border crossing procedures have also been eased for workers, and the number of workers holding permits to stay in Israel during the workweek has increased.

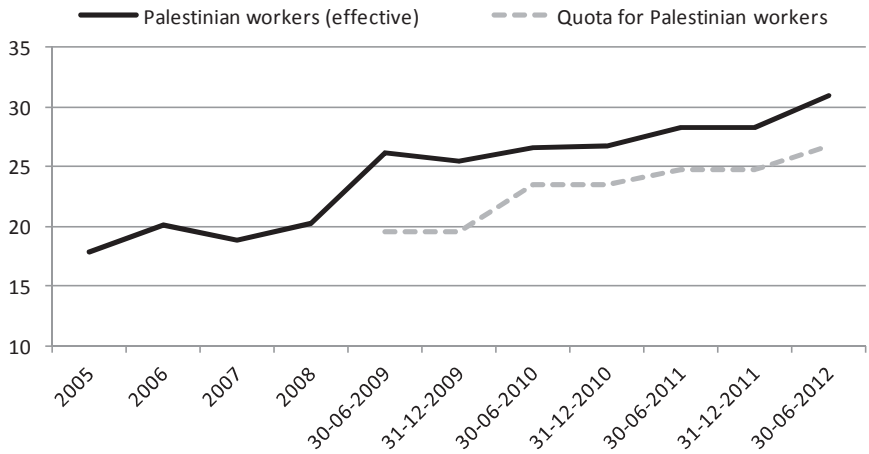
The increase in quotas for Palestinians, however, has not immediately translated into an increase in employment, as implementation of the decisions has taken time, and only 80% of the additional 2011 quota was filled (BOI, 2011a). According to PIBA, quotas were fully used in 2012. In addition, demand is higher than availability: in 2012 construction employers requested an additional 21 000 workers, when the available quota was only 5 000.

There is also evidence that Palestinian workers have not received full wages in the past. According to a report by Eckstein (2011), almost 75% of Israeli employers of Palestinians declared monthly wages equivalent to 17 days at the minimum wage – the minimum to maintain permit validity.

The workers themselves report less. One positive proposed reform is to require Israeli employers to transfer wages through PIBA and ensuring that actual border-crossing days correspond to daily wages paid.

Figure 5.3. The number of Palestinian cross-border workers is increasing

Quota and effective number of Palestinian cross-border workers in Israel, 2005-12, thousands



Source: Population, Border and Immigration Authority.

The system for managing skilled migration remains undeveloped

Israel, alone among OECD countries, does not have an open-ended permit regime for skilled workers to allow them to stay and settle in Israel. No steps have been taken to address this shortcoming, identified in the 2010 review. Israel has a provision for "foreign experts", subject to a qualifying salary of twice the national average (about USD 52 000 annually in 2011) or other criteria; stay is, however, limited to five years. The number of "experts" has risen sharply, from 1 680 at the end of 2010 to 2 720 in mid-2012. This may reflect the lower quotas in other sectors, including the elimination of the industry quota, and spurious applications for skilled construction workers. The increase may also reflect the increasing internationalisation of the Israeli economy, with mergers and acquisitions and franchise operations requiring temporary mobility of staff, or the growth in sectors such as energy where technical personnel are difficult to find in Israel. The system is not user-friendly: information is provided only in Hebrew, criteria are not published, waiting time is from 45-90 days, and

constraints are placed on experts (no family members in Israel; no more than two foreign employees in non-managerial positions per firm per year). Spouses are not granted labour market access. The number of doctors and engineers has been increasing, and with the upcoming retirement of a large cohort of skilled professionals from the post-Soviet migration of the 1990s, for which replacements are not available, pressure will likely increase. Growth in international study enrolment also leads to knock-on effects on demand for skilled-work permits as students graduate and are offered employment. As the number of applications increases, the system will be further challenged, and more pressure to modernise the process is likely. Finally, as some skilled workers will remain with their employers, there will be more pressure to extend work permits beyond the five-year limit.

Notes

1. In health care, sub-contracting is extensive and covers paramedical and medical staff. Hospitals often have established special "research" funds that hire and pay staff. Sub-contracting in teaching used to concern supplemental teaching only, but it has now extended to core functions such as teaching maths and English.

2. Table A.1 shows that for individuals aged 25-50 (among which many parents) the tax/benefit system reduced poverty by around 40% in 2000 but by only 20% in 2010. Table A.1 also shows that the tax/benefit system was as effective in reducing poverty among the elderly in 2010 as it was in 2000.

3. In 2007/08 on average across the OECD the public social spending-to-GDP ratio was around 20%, but with the crisis social spending increased while GDP growth slowed down in many OECD countries. Both features contribute to an increase in spending-to-GDP ratios used to make international comparisons.

4. For example, violation of the minimum wage law carries a fine of NIS 35 000 per month per employee, instead of NIS 5 000 per month per employee in criminal proceedings. Similarly, the fine that can be imposed for failure to pay overtime is NIS 20 000 instead of NIS 14 000 in criminal proceedings.

5. It is planned to increase the number of occupational health and safety inspectors with 35 by the end of 2013.

6. Employers will be able to resort to authorised wage inspectors (a newly created profession) certified by the MOITAL, who can conduct periodic inspections to verify workers' working conditions.

7. At the same time, in the public sector, administrative audit procedures were introduced to ensure that contract workers rights were respected.

8. New positions of labour inspectors with regular contracts were added when the responsibility for enforcing foreign workers rights was transferred to the REA in 2010, and a few more in 2011, as well as student part-time positions, following an agreement between the MOITAL and the Ministry of Finance.

9. *Source*: MOITAL and CBS for the average wage. A student inspector is paid about 65% of the average hourly wage.

10. In 2011, Arab workers constituted around 13% of the employed population, while Arab labour inspectors made up only 5% of the full-time equivalent REA staff in mid-2012.

11. Nothing in the agreement prevents the end user from terminating the contract just before the nine-month limit and hiring another contract worker, but it is not clear what the labour courts might decide were such a case to be brought before them. Also, replacing workers every nine months might be too costly in some cases (e.g. tellers in banks).

12. For example, Porat (2011) provides some evaluation of the voucher scheme, but without the use of control groups which limits greatly the utility of the results.

13. In 2008, 35% of employed Haredi men were working part-time compared with 16% for the general population; 56% of the Haredi women worked part-time compared with 37% of the general population, see Tamir (2010) as cited by the Kemach Foundation (2012).

14. Since independence, Israeli yeshiva (schools for religious Jewish study) students have been able to defer mandatory military service if they are in full-time study and not employed. This was originally regulated by quota (400 students in 1948) but since 1977 deferment practically continues until Haredi receive an age- or family-based exemption. In February 2012, the Israeli High Court of Justice ruled (again) that continuous deferment is unfair and unconstitutional and that on expiration of the relevant "Tal Law" on 1 August 2012, the Knesset had to introduce a new law specifying the grounds for exemption and/or participation of the Haredim in military or civil service (in 2012, there were 15 000 posts for civil service, most of which went to religious women: less than 1 800 Arabs were doing national civil service). The Knesset has not been able to agree on a new law yet, so technically the Israeli Defence Force should now be drafting the Haredim: in practice, however, it is waiting for further instructions from the government.

15. Israel does not have a public sick-pay programme, but depending on the coverage of collective agreements, and their stipulations, continued (partial) wage payments may be made for 90 days.

16. Category A clients (the severely disabled) are those who are either: assessed (by a medical officer appointed by the NII) as medically disabled for 70% (weighted on a list of impediments); or, those who are assessed to be medically disabled for 40% in terms of psychotic disorders or mental retardation; or, who were entitled to a disability pension for at least 60 out of 80 months prior to 31 July 2009. All other clients are category B clients. The system also includes a relatively small group of "disabled housewives" with different eligibility criteria than those applying to wage earners: for more detail see the National Insurance Institute website, www.btl.gov.il.

17. Policies to promote employment among disabled through quota have also been unsuccessful, employers generally prefer to pay the relevant fines rather than hire disabled workers.

18. Within the Ministry of Justice there is an equality unit (with about 30 staffers) that promotes the rights of the disabled. Most of the work concerns legislation and regulations, awareness campaigns but also accessibility to buildings, shelters, and services. The unit focused on public transportation in the past and now 60-70% of buses are accessible: the current focus is on improving accessibility of existing buildings.

19. In 2009, 44% of the Israeli population was under the age of 25; with 48% only Mexico and Turkey had larger population shares of young people (*Source: OECD Population Database*).

20. Calculations of replacement rates are based assumptions as in *OECD Pensions at a Glance* (OECD, 2011d); results could be very different if wages and interest rates do not evolve as assumed.

21. The Ministry of Finance has changed tax relief on payment of pension benefits (with a view to encouraging monthly payments rather than taking lump sums (over and above minimum monthly income requirements). If taken as a monthly payment, non-taxable pension income has increased to about NIS 5 000 (in combination with other credits, overall tax-free income can be around NIS 10 000).

22. Israel has a paternity allowance for a working father who replaces his spouse during part of her maternity leave in order to care for the child, www.btl.gov.il.

23. In general, Israeli children have long childcare days, and they often attend for up to nine hours per day (from 7am to 4pm; and on Friday from 7am to 1pm). This is much longer than, for example, in Sweden where attendance is six hours per day.

24. Another NIS 225 million has been allocated for 2012 and 2013 each; the remaining 350 million will be allocated in 2014 and 2015.

25. In addition, there are also 3- and 4-year-olds in settings supervised by MOITAL and MOLSA: these settings will be brought under the aegis of the Ministry of Education.

26. This sub-chapter draws heavily on OECD (2011a) which includes a comprehensive analysis of housing policy in Israel.

27. The government announced it would enforce the employment ban in mid-2010, but later announced the suspension would remain in effect until the construction of a detention centre.

28. These workers are not covered by the labour force survey, nor are they captured separately in administrative employment statistics.

29. The agreement states that "the government of Israel will allow entry of foreign workers for manual labour in the agricultural sector exclusively from countries which have implemented an IOM supervised recruitment system according to the relevant Israeli government decisions".

30. There is some debate about the exact numbers: official figures of REA suggest there were seven standard positions in 2011 and eleven such positions in early 2012 (State of Israel and MOITAL, 2012). However, Natan (2011) suggests that by the end of 2011 there were only five inspectors compared with the intended 16.

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Annex A

Background data to the review

Table A.1. Poverty rates before and after taxes and transfers by age of individuals, Israel, 2000-10

Age of individuals	2000			2005			2008			2010		
	Taxes and transfers			*Taxes and transfers*			*Taxes and transfers*			*Taxes and transfers*		
	Pre (A)	Post (B)	(A-B)/A *100	Pre (A)	Post (B)	(A-B)/A *100	Pre (A)	Post (B)	(A-B)/A *100	Pre (A)	Post (B)	(A-B)/A *100
0-17	29.60%	17.20%	*41.9*	34.50%	28.60%	*17.1*	32.90%	26.60%	*19.2*	34.00%	28.50%	*16.2*
18-25	21.80%	15.90%	*27.1*	25.50%	20.50%	*19.6*	24.70%	18.70%	*24.2*	24.90%	20.30%	*18.5*
26-40	20.50%	13.00%	*36.6*	22.50%	17.70%	*21.3*	21.50%	16.80%	*22.2*	21.50%	17.70%	*17.7*
41-50	17.00%	9.40%	*44.7*	20.90%	15.80%	*24.4*	20.50%	14.90%	*27.4*	22.00%	16.70%	*24.1*
51-65	22.90%	12.10%	*47.2*	21.60%	13.00%	*39.8*	19.70%	11.90%	*39.7*	19.20%	11.90%	*38*
66-75	50.30%	21.40%	*57.5*	46.60%	22.60%	*51.5*	44.00%	21.10%	*52.1*	44.10%	20.10%	*54.4*
Above 75	51.80%	23.10%	*55.4*	52.80%	24.60%	*53.4*	52.30%	23.40%	*55.4*	51.00%	21.70%	*57.5*
Total	26.30%	15.10%	*42.6*	29.00%	21.30%	*26.6*	27.70%	19.90%	*28*	28.00%	20.90%	*25.4*

Note: Relative poverty rates calculated on basis of the poverty threshold of 50% of median income, while accounting for household size by means of an equivalence scale elasticity of 0.5

Source: Data provided by the Israeli Central Bureau of Statistics for the *OECD Database on Income Distribution and Poverty.*

Table A.2. Labour force status of the Israeli population

Labour force participation, employment-to-population-ratio and unemployment rates

	Both genders				Men				Women			
	2000	2008	2011	2012 Q1	2000	2008	2011	2012 Q2	2000	2008	2011	2012 Q2
	Labour force/Population											
15-24	56.5	52.7	50.1	48.7	59.8	55.6	51.8	50.3	53.6	50.1	48.4	0.0
25-54	78.0	80.0	80.8	81.6	86.8	86.7	86.5	86.2	69.7	73.6	75.2	77.1
55-64	50.5	61.7	64.5	66.1	62.5	70.2	72.5	75.9	39.3	53.6	56.9	56.8
15-64	69.0	70.4	70.7	71.1	76.4	76.1	75.6	75.6	61.9	64.8	66.0	66.6
OECD average	..	70.7	70.6	70.6	..	80.3	79.4	79.4	..	61.3	61.8	61.9
	Employed/Population											
15-24	46.9	46.0	44.3	42.5	49.6	48.9	47.5	44.0	44.5	43.4	42.9	0.0
25-54	71.3	74.8	75.8	76.4	79.6	81.2	81.0	81.1	63.4	68.7	70.7	71.8
55-64	46.5	58.2	61.0	63.2	56.7	66.1	68.3	72.4	36.9	50.7	54.1	54.3
15-64	61.8	65.0	65.8	66.0	68.5	70.5	70.6	70.6	55.4	59.8	61.5	61.4
OECD average	..	66.4	64.9	64.9	..	75.5	73.1	73.0	..	57.5	56.8	56.9
	Unemployed/Labour force											
15-24	17.0	12.7	11.6	12.8	17.2	12.0	11.9	12.7	16.9	13.4	11.4	13.0
25-54	9.2	6.6	6.3	6.4	8.9	6.5	6.5	5.9	9.5	6.7	6.0	6.9
55-64	8.8	5.8	5.4	4.5	10.3	5.9	5.9	4.6	6.4	5.7	4.9	4.2
15-64	10.9	7.7	7.1	7.2	10.9	7.5	7.3	6.7	11.0	7.9	6.8	7.8
OECD average	..	6.1	8.1	8.1	..	6.0	8.1	8.0	..	6.2	8.1	8.2

Note: Data before 2012 are adjusted to take in account the change in the labour force survey from a quarterly to a monthly survey and change in the survey coverage. Estimations are calculated using specific chaining coefficients by age group.

Source: OECD Labour Force Statistics, www.oecd.org/std/labourstatistics/ for OECD countries and Israel Central Bureau of Statistics, www.cbs.gov.il/engindex.htm.

Table A.3. Non-compliance with the minimum wage, Israel

Share of employees earning less than the minimum wage, percentage

	2007	2008	2009	2010
Full-time	12.9	12.6	11.6	10.8
Part-time	16.7	16.6	15.0	15.9
Total	14.1	13.8	12.7	12.4

Source: Eliav, T., M. Endeweld, D. Gottlieb and I. Kachanovski (2009), "Trends in Minimum Wage Law Compliance: The Case of Israel", *National Insurance Institute of Israel Research Paper*, No. 99 and National Insurance Institute updates.

Table A.4. Employment rate, average wage income, age group 25-64, and poverty rate by population group, Israel

Population group		2000	2005	2008	2011[1]
Arabs	Employment rate – men	67.2	65.8	72.1	72.2
	Employment rate – women	25.1	19.6	24.1	26.8
	Average wage income (NIS) – Men	6 538	6 623	6 523	6 060
	Average wage income (NIS) – Women	4 461	4 978	4 623	4 977
	Poverty rate – total population	44.3	54.2	50.7	56.7
Haredim[2]	Employment rate – men	39.3	37.7	39.3	45.1
	Employment rate – women	45.3	51.9	56.7	61
	Average wage income (NIS) – Men	7 400	7 116	8 147	6 632
	Average wage income (NIS) – Women	5 069	4 879	5 249	5 167
	Poverty rate – total population	50.8	64.1	61	56.7
Population excluding Arabs and Haredim	Employment rate – men	79.2	78.7	81.6	81.4
	Employment rate – women	66.6	69.8	73.5	75.4
	Average wage income (NIS) – Men	11 706	11 286	11 855	11 145
	Average wage income (NIS) – Women	6 933	6 823	7 218	7 146
	Poverty rate – total population	11.3	13.9	12.5	12.7

1. The employment rates for 2011 are the average of the first three quarters. The poverty rates refer to 2010. The average wage incomes per month are based on a survey carried out between July 2010 and June 2011

2. There is a difficulty in identifying the Haredim in income surveys. Here they are identified as families in which the last educational institution attended by a member of the family was a post-secondary yeshiva.

Source: Bank of Israel, *Annual Report 2011* and previous years, www.bankisrael.gov.il/.

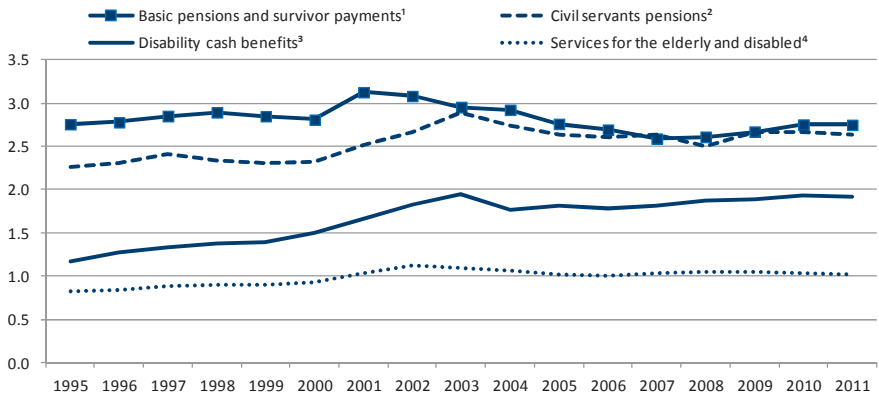
Table A.5. Long-range population projection for Israel by population groups, medium variant, 2009-59

		2009	2034	2059
All ages	**Total (thousands)**	7 552	10 981	15 608
	of which proportion that are:			
	Population excl. Haredim and Arabs	70%	60%	50%
	Haredim	10%	17%	27%
	Arabs	20%	23%	23%
Age 0-19	**Total (thousands)**	2 705	3 753	5 258
	of which proportion that are:			
	Population excl. Haredim and Arabs	56%	48%	40%
	Haredim	16%	27%	38%
	Arabs	27%	25%	21%
Age 20-64	**Total (thousands)**	4 106	5 665	7 726
	of which proportion that are:			
	Population excl. Haredim and Arabs	75%	62%	50%
	Haredim	7%	14%	24%
	Arabs	18%	24%	25%
Age 65+	**Total (thousands)**	742	1 563	2 623
	of which proportion that are:			
	Population excl. Haredim and Arabs	90%	81%	70%
	Haredim	2%	5%	10%
	Arabs	8%	14%	20%

Source: CBS (2012), "Long-Range Population Projections for Israel: 2009-2059", Central Bureau of Statistics, Demography and Census Department, Jerusalem.

Figure A.1. In contrast to spending on old-age pensions and services for the elderly and disabled, public spending on disability cash benefits has outpaced GDP growth in recent years in Israel

Public expenditure on cash transfers and services for the elderly and disabled, percentage of GDP, 2000-11



1. Includes spending on rent assistance for the elderly

2. Includes disability and survivor payment to former civil servants and their dependants.

3. Includes disability benefits (NII), assistance to the disabled (benefits for special purposes and tax returns), Work Injury allowances (NII) and Hostile actions injury allowance (NII)/ There was a one-off spike in spending on work injury allowances in 2003.

4. Includes residential care for elderly and disabled in institutions, housing provision, home-help services for the disabled, long-term care and spending on rehabilitation services.

Source: Israeli Central Bureau of Statistics.

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SLOW PROGRESS TOWARDS A MORE INCLUSIVE SOCIETY

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