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# Background Paper

## Round Table (6)



**The Decision to Raise the Minimum Wage:  
Opportunities for Implementation**

August 2022



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The Decision to Raise the Minimum Wage: Opportunities for Implementation

Palestine Economic Policy Research Institute (MAS)  
Round Table (6)  
August 2022

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## 1. Introduction and Objectives

The Palestinian Council of Ministers recently issued Resolution No. 4 of 2021, raising the minimum wage across all governorates in the State of Palestine from the start of 2022, to reach NIS 1,880 for a monthly wage (NIS 85 for daily wages and NIS 10.5 for hourly wages). This decision was the result of negotiations between the Palestinian government and representatives of workers and employers. This decision sparked a discussion about the timing of its approval, which came after the Corona pandemic had ravaged the Palestinian economy, given the extent of its impact on the performance of various economic sectors. To this should be added problems associated with implementing this decision in the Gaza Strip, as it suffers from stifling economic conditions caused by Palestinian divisions and the Israeli blockade of more than 15 years. Some also emphasize that despite this decision, the number of workers who receive less than the initial minimum wage (NIS 1,450 per month) has been - and still is - high, especially among women. This raises questions about the feasibility of raising the minimum wage even further, and the ability of the Palestinian government to enforce compliance.

This paper outlines the most important developments in the labor market in the West Bank and Gaza Strip on the eve of the Cabinet's decision to raise the minimum wage, given its importance to understanding opportunities for its implementation, and its anticipated impact on the Palestinian economy. The paper examines issues related to wages, unemployment, and inflation in the West Bank and Gaza Strip. Using the latest data issued by the Palestinian Central Bureau of Statistics (PCBS) for Q1 2022, the paper looks at the extent to which employers complied with the initial minimum wage (valid through 2021), as well as their commitment to the new minimum wage. The paper also examines the rationale for dialogue with associations and unions and the extent to which they observe best practices in representing workers and employers, in order to maximize the chances for adhering to this decision.

This discussion aims to help roundtable participants explore the extent to which the Palestinian private sector is able to comply voluntarily with the raised minimum wage, as stipulated by the Council. The paper also looks at measures that the Ministry of Labor can adopt to compel private sector establishments to implement this decision, in addition to examining its expected repercussions on employment rates. However, at the outset, the paper briefly reviews the theoretical framework for imposing a minimum wage policy, the determinants of its value, and its impact on levels of unemployment and poverty.

## 2. Theoretical Framework for Minimum Wage Policy

### 2.1 Motives for Implementing a Minimum Wage Policy

Most countries adopt a minimum wage policy to serve social goals: reducing poverty, bridging the wage gap, reducing the effects of inflation, and preventing the exploitation of workers. The International Labor Organization (ILO) defines minimum wage as "the minimum amount that must be paid to the vast majority of workers in a particular country, in exchange for an hour, a day or a month of work. This level is determined by looking at the basic needs of the worker and his family, according to prevailing economic and social conditions in that country". (ILO, 2008)<sup>(1)</sup> Many economists argue that a minimum wage policy ought to be applied when the mechanisms of a free labor market (based on supply and demand mechanisms) fail to raise wage levels, due to the presence of high rates of unemployment and the absence of fair representation of workers, reducing the power of employers in lowering wages. A minimum wage policy mostly serves marginalized groups, especially women and the less educated, as it works to secure their basic living needs.

### 2.2 Criteria for Estimating Minimum Wage

The value of the minimum wage varies from one country to another according to economic conditions, the characteristics of the labor market, and the nature of the political and economic systems in place. In this context, the ILO has set a number of guiding standards to help countries achieve the social goal of implementing a minimum wage policy. These criteria are:<sup>(2)</sup>

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(1) ILO. Global Wage Report 2008/09 Minimum Wages and Collective Bargaining, Towards Policy, 2008.

(2) Minimum Wage Fixing Convention (1970), No 131. [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100\\_INSTRUMENT\\_ID:312276:NO](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312276:NO).

1. The needs of workers and their families.
2. Average wages in the country.
3. The cost of living and its trends over time.
4. Social security benefits, if any.
5. The requirements of economic development: such as raising the level of productivity and the desire to reduce unemployment rates.

The ILO's recommendations for estimating minimum wages (No. 135 of 1970) emphasize the importance of adjusting the minimum wage level periodically or non-periodically according to changes that may occur, for example, in the cost of living, the levels of wages, and the face of emergencies or economic shocks.<sup>(3)</sup> Typically, raising the level of the minimum wage achieves the purpose of preserving its purchasing power in light of high levels of inflation, or to keep pace with the rise in average wage levels. Based on the criteria mentioned above, the ILO adopted a number of indicators for estimating the minimum wage. This includes the minimum wage living index, where the poverty line sets the value of the minimum wage and determines levels of poverty.<sup>(4)</sup>

The index also serves as an indicator of the ratio of the minimum wage to average/median income. As the paper discusses below, this considers the possible negative effects of applying the minimum wage policy, such that its value does not exceed a certain level of the value of the average (median) wage in the country. The value of this indicator varies from one country to another. For example, according to OECD data for 2019, it amounted to 22% in the USA, 45% in Canada, 50% in France, 44% in Germany, and 59% in Colombia.<sup>(5)</sup>

## 2.3 The Economic Effects of the Minimum Wage Policy

### Impact on the Level of Unemployment

Despite the relevance of adopting a minimum wage policy to the promotion of social justice, it can be accompanied by economic costs, the most important of which is raising the unemployment rate. Economic theory states that an increase in wages, especially for sectors with low productivity, may push employers to lay off workers or reduce the pace of operations to accommodate the impact of the increase in costs. However, empirical evidence shows that these economic repercussions - and the extent of their impact - are also dependent on several issues. The first relates to the value of the minimum wage in relation to the rate of wages in the labor market. The smaller this wage gap, the greater the likelihood of a negative impact on employment. In general, many economists believe that the unemployment rate will rise if the minimum wage is higher than the wage rate. However, other factors may limit this negative impact: the first relates to the ability of operators to raise the prices of products/services to absorb the increase in operating costs, and the second factor relates to enhancing productivity. A higher wage increases employee satisfaction, which may stimulate their productivity and compensate for a higher wage bill. Researchers also point to the so-called Keynesian effect of a minimum wage. The increase in workers' income improves their consumption capacity and thus raises the level of aggregate demand, thereby increasing employment levels. Variations in the relative weight of these factors across countries explain variations in the impact of the minimum wage policy on the unemployment rate. For example, some studies have documented a negative impact on the level of employment in France, Canada, and the U.K., while other studies on the U.S. and Brazil did not reach the same results (for more literature and related studies, see Falah, 2014).<sup>(6)</sup>

(3) Minimum Wage Fixing Recommendation (1970), No 135.  
[http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100\\_INSTRUMENT\\_ID:312473:NO](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312473:NO)

(4) The minimum living wage is defined as the amount that enables a worker to avoid the poverty line. It can be calculated based on the following equation: minimum living wage = (poverty line \* relative family size) / number of workers in the family. According to the OECD's scale, the relative weight of a family consisting of a couple and their children is measured, so that the first adult individual takes a weight of 1 against 0.7 for the second adult. The relative weight of children is 0.5. For more on the minimum living wage index, see: Anker, Richard. (2008). Living wages around the world: A new methodology and internationally comparable estimates. *International Labor Review*. 145. 309 - 338. 10.1111/j.1564-913X.2006.tb00037.x.

(5) <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

(6) fallah, Belal (2014) Evaluation of Employers' Compliance with the Minimum Wage Regulations in the West Bank. Palestine Economic Policy Research Institute (MAS).

## Impact on Inflation and Levels of Poverty

A number of studies indicate that the imposition of a minimum wage may exacerbate inflation, as a result of the increase in operating costs (the supply effect), and the rise in the level of consumption (the demand effect). In sum, the impact on inflation is directly proportional to the increase in the proportion of workers whose wages are expected to increase, and the increase in the wage rate that accompanies the application of the minimum wage. However, empirical studies indicate a limited positive impact on the level of inflation. For example, some studies on the American economy show that raising the minimum wage by 10% increases the rate of inflation by between 0.2% and 1.5%.<sup>(7)</sup>

As for the impact on the rate of poverty, this depends on the value of the minimum wage. The purchasing power of the poor - who benefit the most from the application of this policy - will improve as the value of the minimum wage increases. Conversely, the expected rise in the unemployment rate, which may occur as a result of implementing this policy, will increase the burden on those who lose their jobs. The overall impact depends on the relative weight of each of these factors. It is anticipated that the poverty rate will decrease in line with the fall in the number of workers who lose their jobs, coupled with a positive impact on purchasing power, which will increase.<sup>(8)</sup>

### 3. The Performance of the Palestinian Labor Market on the Eve of Raising the Minimum Wage

#### 3.1 The Unemployment Rate and the Labor Force Participation Rate

According to the Labor Force Survey issued by PCBS, in 2021 the number of participants in the labor force in Palestine reached about 1.41 million, representing 43.4% of all individuals aged 15+ years. The results of the survey indicated that there are disparities in the participation rate at the regional level. This reached 45.8% in the West Bank: 73.63% for males compared to 17.2% for females. It reached 39.4% in the Gaza Strip (61.2% for males compared to 17.3% for females). As for the number of workers, it reached about 1.04 million, 75% of whom work in the West Bank and the Israeli labor market. Palestinian workers who work in Israel constitute 14% of total employment in the West Bank and Gaza Strip (about 19% of total employment in the West Bank).

**Table 1: The Unemployment Rate by Gender in the West Bank and Gaza Strip (2019-21)**

Area	2019	2020	2021	2019	2020	2021	2019	2020	2021
	Overall			Male			Female		
West Bank and Gaza Strip	25.30%	25.90%	26.40%	21.30%	22.50%	22.40%	41.20%	40%	42.90%
West Bank	14.60%	15.70%	15.50%	12.10%	13.20%	12.40%	25.80%	27%	28.90%
Gaza Strip	45.10%	46.60%	46.90%	39.50%	42.10%	41.90%	63.70%	63.60%	65.00%

Data source: Labor Force Surveys (2019, 2020, and 2021) issued by PCBS.

With the end of the government's measures to confront the Corona pandemic at the beginning of 2021, the Palestinian economy began to recover and has come a long way in doing so. As documented in Table 1, the 2021 unemployment rate for the West Bank and Gaza Strip increased slightly compared to the period preceding the pandemic (in 2019). The exception here is for males in the West Bank, where the data shows an improvement in their performance. The unemployment rate has almost fallen back to its previous levels of 2019. The data documented in Table 2 shows a remarkable improvement compared to the pandemic period, but this percentage did not return to the level of 2019. Therefore, it can be concluded that at the time of the approval of the decision to raise the minimum wage, the Palestinian labor market had not fully recovered. However, the unemployment rate, and the rate of labor force participation on the eve of the approval, were close to what they were before the pandemic.

(7) Lemos, Sara (2004) "Minimum Wage Policy and Employment Effects: Evidence From Brazil." *Economia* 5: 219-266.

(8) Cunningham, Wendy V. "Minimum Wages and Social Policy: Lessons from Developing Countries." World Bank, 2007.

**Table 2: Labor Force Participation Rate by Gender in the West Bank and Gaza Strip (2019-21)**

Area	2019	2020	2021	2019	2020	2021	2019	2020	2021
	Overall			Male			Female		
West Bank and Gaza Strip	44.30%	40.90%	43.40%	69.90%	65.10%	68.90%	18.10%	16%	17.20%
West Bank	46.40%	44.40%	45.80%	74.40%	71.20%	73.60%	17.40%	17%	16.80%
Gaza Strip	40.90%	35.30%	39.40%	62.30%	55.20%	61.20%	19.20%	15.00%	17%

Data source: Labor Force Surveys (2019, 2020, and 2021) issued by PCBS.

### 3.2 Wage Levels

Labor force data from the 2021 survey shows a large disparity in wages between the West Bank (NIS 132) and the Gaza Strip (NIS 66.5). In a remarkable paradox, the average wage for males is higher than for females in the West Bank (NIS 128 compared to NIS 113), but it is lower in the Gaza Strip (NIS 66 for males compared to NIS 86 for females). The difference in wage differentials is due to the gender distribution of workers according to the type of employer. A greater percentage of female workers (one-quarter of working females) in the Gaza Strip work at UNRWA, which is the highest-paying employer compared to the others (see Table 1), while a greater percentage of males work in the private sector (the lowest-paying sector). In total, the private sector employs a quarter of all working females and half of all working males in the Gaza Strip. As for the West Bank, UNRWA employs only a small percentage of females, while the public and private sectors share equally in their absorption of employment. The private sector in the West Bank employs the majority of males, followed by the civil service (see Table 1).

**Table 3: Distribution of Wages in the West Bank and the Gaza Strip by Gender and Type of Employer (2021)**

Employer	Employment Rate				Average Wages (NIS)			
	West Bank		Gaza Strip		West Bank		Gaza Strip	
	Male	Female	Male	Female	Male	Female	Male	Female
Governmental sector	24.00%	44.30%	43.30%	42.10%	132.3	125.3	99	100.3
Local governance	3.00%	1.00%	2.00%	0.90%	105.5	92.1	65.5	70
UNRWA	0.70%	3.00%	3.60%	24.70%	133.9	140.7	115.9	121.3
Non-profit sector	0.60%	3.50%	1.40%	6.90%	134.2	89	46.9	48.2
Private sector	70.30%	45.00%	49.50%	24.70%	125.2	95.7	32.5	35.3
Total **	98.60%	96.80%	99.80%	99.20%				

Data source: Labor Force Surveys (2021) issued by PCBS.

\*\* The total is less than 100% because Table 3 does not document all employers, such as foreign organizations.

The average wage in the private sector in the West Bank is about NIS 120, compared to NIS 33 in the Gaza Strip (that is, one-quarter of the wage in the West Bank). In the governmental sector, the average wage is about NIS 130 in the West Bank, compared to NIS 100 in the Gaza Strip. Table 3 also documents the gender distribution of wages according to the type of employer. The daily wage gap was about NIS 30 in the West Bank in favor of males, compared to NIS 7 in the governmental sector. As for the corresponding gender gap in the Gaza Strip, it does not exceed a few shekels in favor of females, regardless of the type of employer. Based on the above analysis of wages and the unemployment rate, it can be concluded that despite the low unemployment rate for females in the West Bank compared to their counterparts in the Gaza Strip, they suffer from lower wages, largely because the largest percentage of them work in low-paid sectors. The same conclusion applies when comparing working males and females in the Gaza Strip, which is the opposite case to the West Bank. In other words, the adoption of a raised minimum wage serves above all the interests of female workers in the West Bank. If it is to be implemented in the Gaza Strip, the largest beneficiary group will be working males.

#### 4. Adoption and Enforcement of the 2012 Minimum Wage: Lessons Learned

On October 9, 2012, the Palestinian Council of Ministers approved the adoption of NIS 1,450 as the minimum monthly wage for all workers in the West Bank and Gaza Strip. The decision stipulated that the minimum wage for daily/seasonal workers is NIS 65 per day and that one hour of work for a daily worker is compensated at NIS 8.5. According to data from the 2012 labor force survey, this limit constitutes about 72.5% of the median monthly wage (NIS 2,000) and 92% of the median daily wage (NIS 65).

In the first year after establishing the minimum wage, the percentage of private sector workers in the West Bank who received less than the minimum wage was 32% (28% of male workers compared to 51% of female workers). The data also shows that this percentage was concentrated in the agricultural sector and that females who work for less than the minimum wage are concentrated in the garment industry, private education (especially nurseries and kindergartens), sales, and administration. As for the Gaza Strip, the minimum wage decision was not implemented due to political divisions (see Falah, 2014).

During previous years, between 2013 and 2021, the percentage of those who receive less than the minimum wage across all sectors decreased to 7% (three-quarters of them are female). This percentage rises when looking at the private sector (which includes profit-making enterprises), to reach 10%. However, when comparing males and females, one-third of female workers in the private sector earned less than the minimum wage at the end of 2013. The result does not differ much when examining the extent of compliance outside the central, and governmental sectors (private, civil, international, and local governance sectors). In the Gaza Strip, half of workers across all sectors receive less than the minimum wage, compared to more than 90% in the private sector. As noted above, the issue of low wages is more prevalent among males in the Gaza Strip. The percentage of those who earn less than the minimum wage is higher than that of females, due to the difference in the male share of employment in the private sector (see Table 4).

According to a study conducted by MAS (Falah, 2016), the decrease in the percentage of those receiving less than the minimum wage in the West Bank is mainly due to the rise in the level of wages resulting from the interaction of market mechanisms (supply and demand), and not in a systematic way, with the Ministry of Labor obliging employers to adhere to this policy. To demonstrate this, the study showed that the decrease in this percentage is traceable back to the years preceding the application of the minimum wage. This conclusion is also evidenced by the difference in the ratio between males and females, as the percentage of females is still higher than males, by about 24%, as of end 2021.

**Table 4: Percentage of Workers Who Receive Less Than the Initial Minimum Wage in 2021, by Region, Gender, and Type of Employer**

Type of Employer	West Bank	Gaza Strip	West Bank		Gaza Strip	
	Overall	Overall	Male	Female	Male	Female
All sectors	7%	50%	5%	15%	53%	33%
Governmental sector	0.30%	10%	0.1%	0.5%	9%	11%
Private sector	10.00%	91%	6%	30%	92%	80%
Non-profit sector	9%	79%	6%	26%	85%	49%

*Data source: Labor Force Surveys (2021) issued by PCBS*

In other words, the policies of the Ministry of Labor did not succeed in improving the extent of employers' compliance with the enforcement of the first minimum wage in 2013. According to a MAS study in 2016, this is due to several issues that we re-examine in this paper, in order to enlighten the Ministry of Labor with lessons learnt from the experience of adopting the initial minimum wage. These issues cover:

1. Weak representation of employers in economic sectors in which workers with low wages (below the minimum wage) are concentrated. The national committee on wages (responsible for reaching the initial agreement) included several parties representing the private sector: the Coordinating Council of the Private Sector, the Federation of Chambers of Commerce, Industry and Agriculture, the Contractors Union and the Association of Banks. However, this committee did not include direct representatives of employers in economic sectors in which workers are paid less than the minimum wage. Thus, this did not guarantee the binding agreement of those parties.

2. The role of trade unions (Palestine Labor Union, General Federation of Palestinian Trade Unions, and the General Federation of Independent Trade Unions). Labor unions are widely viewed as limited in their ability to represent their constituents. An upcoming study by MAS indicates that the percentage of workers affiliated with trade unions does not exceed 13% of the total number of workers in private sector establishments. Weak representation leads to the inability of these unions to use effective, collective means to pressure employers and the government toward achieving labor rights, especially strike action.
3. Weak inspection mechanisms and the scarcity of resources available to inspectors. This is evident in the severe shortage of inspection vehicles, as well as the failure of the Ministry of Labor to adopt an effective inspection strategy, dedicated to monitoring adherence to the minimum wage decision.
4. Weak judicial procedures due to the lack of specialized labor courts. This is in addition to the weakness of laws that might deter violators. The law requires the payment of a fine of JD 100 for one violation, without forcing the employer to comply, except through a lawsuit filed by the worker.

## 5. Justifications for Raising the Minimum Wage

Nine years have passed since the initial minimum wage was established, during which time much has happened in the West Bank labor market. This indicates that there is an opportunity to raise its value. In this section, we focus on two issues: the change in the rate of inflation and the rate at which wages increased. Concerning the former, the Council of Ministers' decision regarding an initial minimum wage was approved in line with the cost of living, as estimated by PCBS, with a bonus paid to all workers in Palestinian National Authority areas at the beginning of each year. Figure 1 shows the growth of inflation, measured by the Consumer Price Index (CPI) in the West Bank, at 2004 prices. The data shows that the CPI grew by about 10%, erasing about NIS 14 in purchasing power from the initial minimum wage. With the continuous increase in the rate of inflation since the beginning of 2022 after the Russian invasion of Ukraine, the purchasing power of wages declined even further (this is not illustrated in Figure 1 due to the absence of data).

As for the second issue (the rate of growth in wages), Figure 2 shows that average wages in the private sector in the West Bank increased from about NIS 88 in 2013 (since the beginning of the application of the first minimum wage) to about NIS 122 at the end of 2021 (that is, about 39% during this period). This growth reflects, at least in part, an increase in the productivity of the private sector. Perhaps, this can be considered a positive sign of the ability of the economy in the West Bank to bear the economic consequences of raising the minimum wage.

**Figure 1: Changes in Consumer Price Index in the West Bank (2005-21)**



Data source: PCBS

However, the rise in the rate of wages has not been accompanied by a similar rise in the wages of low-paid workers. Figure 2 shows that the growth rate of wages for workers who receive less than the minimum wage, most of whom, as we have shown above, are females, has maintained a consistent level during the corresponding period.

This observation may reflect two issues: the first is that surplus female labor has exacerbated high competition among women for a limited number of available jobs, preventing any rise in wages for low-paid jobs. In other words, the issue reflects employers' exploitation of females' need to work and to prevent their wages from

being completely erased. As for the second reason, it may reflect the impact of the low productivity of sectors in which low wages are concentrated. That is, these sectors do not feature a level of productivity that allows for higher wages, or they cannot afford the higher wage (or a part of it), in terms of the final price to the consumer.

**Figure 2: Change in Wages in the Private Sector in the West Bank (1999-2021)**



Data source: Labor Force Survey (1999-2021), issued by PCBS.

## 6. The Decision to Raise the Minimum Wage

The first article of Cabinet Resolution No. 4 of 2021, held on March 8, 2021, concerns raising the value of the minimum wage. It stipulates the adoption of a minimum wage across all regions in the State of Palestine, as follows:

1. The minimum monthly wage across all sectors is NIS 1,880 per month.
2. The minimum wage for daily workers, especially those working on an irregular, daily basis, in addition to seasonal workers, is NIS 85 per day.
3. The minimum wage for one hour of work for workers covered by the provisions of Paragraph 2 of this Article is NIS 10.5.

The second article states that “what is agreed upon in the tripartite committees formed according to the decision of the National Committee for Wages is considered part of this decision, after its approval by the Council of Ministers.” It was agreed to form a tripartite committee from the three concerned parties, to identify the weak economic activities, and those activities most affected by the Coronavirus crisis, in order to help the government lay the foundations and incentives to enable and support these sectors within their available capabilities. The Ministry of Labor also pledged to develop mechanisms to ensure the implementation of this Agreement and to strengthen the role of labor inspection in terms of the capabilities and powers granted according to the Labor Law. There is also a need to work on the establishment of judicial chambers to resolve labor disputes in accordance with the Law.

The Council of Ministers approved this decision after a consensus was reached by representatives of concerned parties on behalf of workers’ representatives: the General Federation of Palestinian Trade Unions, the Federation of Palestinian Workers, and the Federation of New Trade Unions. Employers were represented by the Federation of Chambers of Commerce, the Private Sector Coordinating Council, the Association of Banks, the General Federation of Industries, and the Federation of Contractors. The government was represented by the Minister of Labor and representatives from the Ministry of National Economy, the Ministry of Social Development, the Ministry of Women’s Affairs, and the Ministry of Finance.

Before documenting the statistics on the percentage of those who earn less than the new minimum wage, it should be noted that the new minimum wage is unlikely to be implemented in the Gaza Strip as long as Palestinian political division persists. Even with the removal of this obstacle, difficult economic conditions and the inadequacy of the first and second minimum levels, due to the continuation of the Israeli blockade (as detailed below), make the implementation of this policy a genuine economic burden (increasing the unemployment rate) that may exceed any plausible economic benefits. In general, it seems that the justifications for including the Gaza Strip in this decision reflect the importance of preserving the political unity of the West Bank and Gaza Strip.

Data from the labor force survey issued in Q1 and documented in Table 5 shows that the percentage of workers in the West Bank who receive wages below the new minimum amounted to 22% (34% for females compared to 18% for males). As for the private sector, it increased by about 6%.

As expected, the largest percentage of those who receive wages less than the minimum wage in the private sector are female. Their percentage rose from 30% prior to the introduction of the new minimum, to more than 50% after the approval of its implementation. This also applies to the non-governmental sector. It should be noted that some employees in the governmental sector in the West Bank (about 6%) still received wages below the minimum at EO Q1 2022.

**Table 5: Percentage of Workers Who Receive Less Than the Minimum Wage (Q1 2022)**

Type of employer	West Bank	Gaza Strip	West Bank		Gaza Strip	
	Overall	Overall	Male	Female	Male	Female
All sectors	22%	66%	18%	34%	69%	49%
Governmental sector	6.40%	30%	6%	7%	31%	26%
Private sector	28.50%	95%	22%	56%	95%	93%
Non-governmental sector	27%	87%	21%	53%	90%	64%

Data source: Labor Force Surveys (1999-2021), issued by PCBS.

The value of the new minimum wage is about 60% of the value of the average monthly wage for private sector workers in the West Bank (58% for males compared to 89% for females). The average wage for those earning below the new minimum wage in this sector is NIS 59 (NIS 64 for males compared to NIS 49 for females). It is worth noting that the difference between this rate and the new minimum is significant in terms of the possibility of applying the latter in reality, and the extent of its economic repercussions. The higher the difference, the lower the likelihood of voluntary compliance by employers. In this context, employers of male workers who receive less than the minimum wage should raise daily wages by NIS 21, while employers of female workers who receive less than the minimum wage should raise daily wages by NIS 36.

Table 6 documents the percentage of females who earn less than the minimum wage in private economic sectors across the West Bank. This includes food industries, retail, education, and health, which employ approximately 60% of the total number of female workers. The data indicate that, except for the health sector, the majority of female workers across these sectors receive less than the minimum wage, and their average wages are less than NIS 50. In other words, for private sector establishments that most employ females, wages were about 42% below the minimum level. In addition to these statistics, a 2020 study by the International Labour Organization showed that more than half of those working in administrative jobs in the private, professional services sector (health clinics, law firms, engineering offices, accounting, and auditing offices) earn less than the minimum wage.<sup>(9)</sup> Another ILO study established that the median wage in this sector is NIS 800 for kindergarten workers and NIS 1,050 for workers at private schools.<sup>(10)</sup> It should be noted that this level of wages is not limited to new employees only: approximately 30% of workers who have been working for their employers for more than 10 years continue to receive less than the minimum wage.

Table 7 documents the corresponding statistics for males in the most employable sectors (occupying nearly 70% of the total workforce in the private sector). The data shows a discrepancy in the percentage of those who earn less than the minimum wage, ranging from 16% in the buildings and construction sector to 33% in agriculture and the food/beverage services sector. As for this category of workers, average wages range between NIS 56 in the public sector and the beverages sector and NIS 73 in the buildings and construction sector.

(9) Abdel Karim, Nasr (2020). "An exploratory study on working conditions in administrative jobs in the private professional services sector (health clinics, law offices, engineering offices, accounting and auditing offices)". International Labor Organization.

(10) Madi, Amer (2019). "An exploratory study of work relations and conditions in the private education sector in Palestine." International Labor Organization.

**Table 6: Percentage of Females Who Receive Less Than the Minimum Wage and their Average Wages in the Main Components of the Private Sector in the West Bank**

Economic Activity	Percentage of Women Who Earn Less Than the Minimum Wage	Percentage of Total Employment in the Private Sector	Minimum Wage (NIS)
Food industries	81%	5%	48
Retail	72%	13%	49
Education	65%	27%	44
Health	33%	14%	50

Data source: Labor Force Surveys (2021), issued by PCBS.

**Table 7: Percentage of Males Who Receive Less Than the Minimum Wage and their Average Wages in the Main Components of the Private Sector in the West Bank**

Economic Activity	Percentage of Men Who Earn Less than the Minimum Wage	Percentage of Total Employment in the Private sector	Minimum Wage (NIS)
Agriculture	33%	3%	66
Food Industries	30%	6%	65
Furniture Industry	28%	5%	68
Building and Construction	16%	25%	73
Wholesale and Retail	32%	24%	61
Food and Beverage Services	33%	5%	56

Data source: Labor Force Surveys (2021), issued by PCBS.

## 7. Questions on the Decision to raise the Minimum Wage

It can be deduced from the statistics cited above that the issue of wages falling below the new minimum is concentrated in female employment, both quantitatively and qualitatively. Employers are required to raise wages for more than half of all female workers, which is much costlier than raising wages for male employees in the same category. In light of this data, questions emerge on the economic impact of the enforcement of the decision to raise the minimum wage. As indicated above, the answer depends largely on the relative weight of the impact of the increase in operating costs, versus the relative weight of the impact on productivity, and the ability of employers to raise the prices of services/products in order to absorb the increase in their wage bill. However, exploring this issue specifically requires a detailed study. We open the discussion to roundtable participants, to examine the anticipated impact of the decision.

Questions also arise on the chances of applying the new minimum, especially in light of large differences between the minimum and actual values of wages for those who receive less than the minimum, especially females. There is no doubt that the answer is related to several factors: the most important is the extent to which lessons have been learnt from the experience of applying the first minimum wage. It is clear from the details of the dialogue that led to the decision to raise the minimum wage, that the same approach was followed as when the initial minimum wage was first approved in 2012. It is clear from signatories to the agreement that this did not include representatives of employers in sectors with low wages, who are the most affected by it. Accordingly, it is not anticipated that they will voluntarily comply with this decision, especially since the gap, as we indicated above, between actual and minimum wages has doubled when compared to the old minimum. It is important to note that this category of employers did not originally commit to the first minimum wage.

Given the experience of applying the first minimum wage during previous years, as detailed above, it can be concluded that the prospects for enforcing the decision to raise the minimum wage are bleak. This is compounded by the absence of a strategic change in the methods through which the Ministry of Labor manages this issue, in terms of efforts expended on comprehensive inspection, and on tightening penalties for violators. Adherence will also be weak if workers' unions are not strengthened. This requires the democratic reform of these unions, a renewal of their legitimacy, and broader mobilization of the working classes by means of effective industrial action, similar to professional unions. This is especially relevant to the teachers' union in the governmental sector, as well as lawyers, doctors, and engineers.

**Questions for discussion:**

1. How good are the prospects for implementing a rise in minimum wages in the West Bank?
2. From your point of view, what are the economic consequences of applying the decision to raise minimum wages on the most affected economic sectors (in which the wage is less than the new limit of NIS 1,880 per month)?
3. What measures should the Ministry of Labor take in order to motivate the most-affected sectors to abide by the decision to raise the minimum wage?
4. What changes should the Ministry of Labor undertake in relation to the enforcement of the minimum wage?
5. What measures should private sector institutions take in order to represent the economic sectors most affected by the decision to raise the minimum wage?
6. What should trade unions do in order to play an active role in lobbying for the implementation of the minimum wage decision?