

About the Koret-Milken Institute Fellows Program

The Koret-Milken Institute Fellows Program accelerates Israel's economic growth through innovative, market-based solutions for long-term economic, social, and environmental issues. The program focuses on connecting government, philanthropic, and business resources that are vital to national growth and development.

Directed by the Milken Institute Israel Center, the Koret-Milken Institute Fellows Program awards annual fellowships to outstanding graduates of Israeli and international institutes of higher education. Fellows serve yearlong internships at the center of the nation's decision-making—the Knesset, government ministries, and other Israeli agencies—and aid policymakers by researching and developing solutions for various economic and social challenges.

In addition, fellows craft their own policy studies aimed at identifying barriers to economic and employment growth in Israel. The fellows' studies, carried out under the guidance of an experienced academic and professional staff, support legislators and regulators who shape the economic reality in Israel. The program offers the ultimate educational exercise, combining real-life work experience with applied research five days a week.

Throughout the year, fellows receive intensive training in economic policy, government processes, and research methods. They acquire tools for writing memorandums, presentations, and policy papers, and they develop management, marketing, and communication skills. The fellows participate in a weekly workshop, where they meet senior economic and government professionals, business leaders, and top academics from Israel and abroad. They also participate in an accredited MBA course that awards three graduate-level academic credits that are transferable to other universities in Israel. The course, which focuses on financial and economic innovations, is taught at the Hebrew University of Jerusalem's School of Business Administration by Professor Glenn Yago, Director of the Milken Institute Israel Center and Director of Capital Studies at the Milken Institute in California.

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve as advisers to government ministries while others work at private-sector companies or go on to advanced studies at leading universities in Israel, the United States, and Great Britain. Within the program's framework, more than 80 research papers have been published, catalyzing reforms, reducing barriers, bringing about economic growth, and improving the quality of life for Israeli citizens.

The Koret-Milken Institute Fellows Program is nonpolitical and nonpartisan. It is funded by the Koret Foundation, the Milken Institute, and other leading philanthropic organizations and individuals in the United States and Israel.

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Foreign Workers in Israel

Hagar Cohen

“And foreigners will build your walls...”
(Isaiah 60:12)

An additional 5,000 foreign workers in Israel would increase agricultural production exports by 20% and create an additional 3,000 jobs for Israelis. We recommend:

- Israel should sign bilateral agreements with the countries of origin of foreign workers and with the ILO to regulate the arrival of foreign workers in Israel. The current corporate system (*ta'agidim*) should be eliminated.
- A foreign worker should be allowed the flexibility to search for work in Israel.

Foreign Labor Trends in Israel

The arrival of large numbers of foreign workers in Israel is a relatively recent phenomenon, which began in the early 1990s. At that time, the security situation deteriorated and the government imposed a closure on the Gaza Strip, and thereafter on parts of Judea and Samaria, barring approximately 100,000 Palestinian laborers from entering the “Green Line.” With the massive immigration from the Former Soviet Union (FSU), Israel witnessed a building boom, and economic institutions such as the Contractors Association and the agriculture lobby pressured the government to open Israel’s gates to foreign workers.¹

Today, foreign workers are allowed to be employed in Israel in various sectors, such as agriculture, construction, the geriatric care industry, ethnic restaurants and as specialists of different kinds. At the same time, the official policy is to reduce the number of these foreign workers so that by the year 2010 only the agriculture and geriatric sectors will be permitted foreign workers.

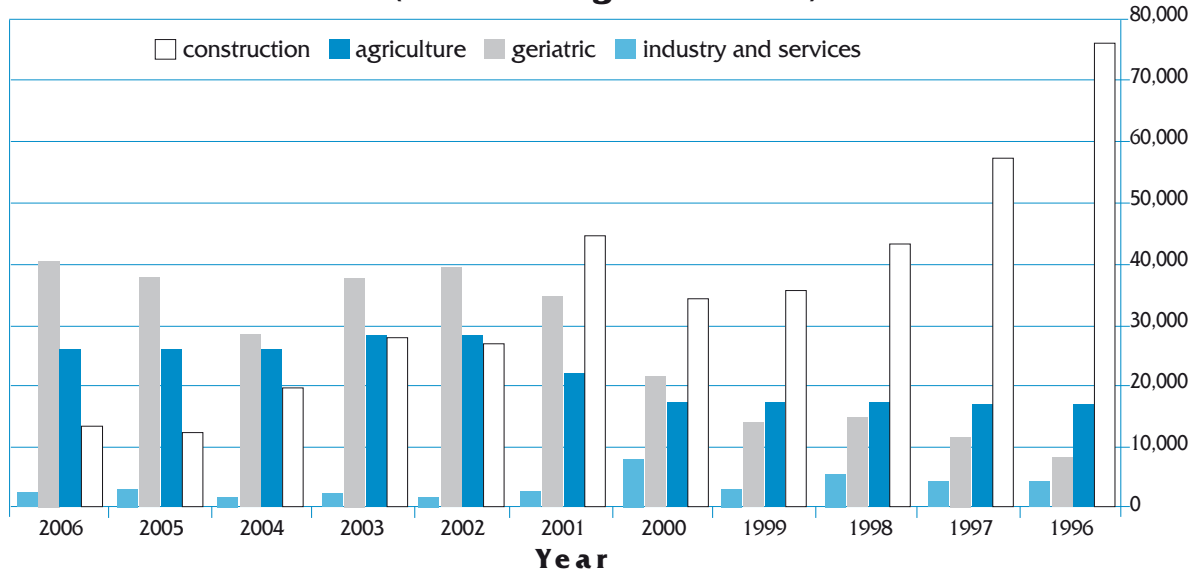
Until 2003, the state Employment Service was responsible for allocating foreign workers to Israeli employers, within quotas set by the government. In 2003, this authority was transferred to the Ministry of Industry, Trade and Employment’s Unit for Foreign Workers.

Table 1: Palestinian and Foreign Workers in Israel 1996-2005 (thousands)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Israelis	2,010	2,037	2,073	2,135	2,218	2,265	2,284	2,323	2,400	2,493
Palestinians	58	75	107	116	98	50	33	41	Na	21.4
Legal foreign workers	106	90	81	70	82	103	96	96	91.5	98
Illegal foreign workers	31	69	93	115	131	144	151	93	86	80
Total foreign workers	137	159	174	185	213	247	247	190	Na	178
Non-Israeli workers %	8.9%	10.3%	11.9%	12.3%	12.3%	11.6%	10.9%	9%	Na	8%

Source 1996-2003: Ministry of Finance, *The Inter-Office Report on Planning the Employment Method of Foreign Workers in Israel and Terms for Licensing the Employment of Foreign Workers* (Jerusalem: Ministry of Finance, August 2004), p. 14; source for 2004-5: CBS, *Statistical Abstract of Israel 2006* (Jerusalem: CBS, 2006), table 12.12 http://www1.cbs.gov.il/reader/shnaton/templ_shnaton.html?num_tab=st12_12x&CYear=2006 (June 25, 2007); CBS, "178,000 Foreign Workers in Israel at the End of 2005: 98,000 Who Entered with Work Permit, and 80,000 Who Entered as Tourist," Press Release (Jerusalem: CBS, July 30, 2006), http://www.cbs.gov.il/hodaot2006n/20_06_159b.doc (June 25, 2007).

Graph 1: Allocations of Permits by Sectors 1996-2005 (not including Palestinians)



Source 1996-2004: Ministry of Industry and Trade, Unit for Foreign Workers, *A Brief Summary for 2004* (Jerusalem: Ministry of Industry, Trade and Employment, 2005), (July 3, 2007); source for 2004-5: Ministry of Finance, *State Budget for 2007: Ministry of Industry, Trade and Employment* (Jerusalem: Ministry of Finance 2006), p. 115.

Foreign Workers in Agriculture

A shortage of workers in the agriculture sector was felt as early as the second half of the twentieth century, especially in seasonal agricultural products. Despite increased mechanization, Israel faced regular shortages of workers willing to

handle the harvest and fruit-picking.² Israeli governments continue trying to guarantee the continued existence of local agriculture, but the reduced number of Israelis working in this sector has posed a challenge to policymakers.³

Foreign Workers Save Agriculture

The mass importing of foreign workers more or less solved the labor shortage in agriculture; farmers found such workers an easy means of adapting to their economic needs and generally preferred them over Palestinians, even when they were available. As a result, the number of requests from farmers to employ foreign workers rose.

As noted, the Israeli agriculture sector relies on foreign workers especially during the fruit picking season. Much of the agricultural produce is destined for exports with strict time frames, and any shortage of manpower means that fruits and vegetables remain unpicked. Despite the clear importance of having enough working hands, the government threatens annually to reduce the number of foreign workers in agriculture, thus putting the farmers in a constant state of uncertainty, dependant on the existing composition of the government and Knesset. Because Israel lacks a consistent and firm national policy, the ability to plan and make decisions about new investments in agriculture is impaired.⁴

The following numbers demonstrate the problems faced by this sector:

1. Despite a demand for 40,000 foreign workers, in recent years the government has allocated only 26,000 foreign workers and Israelis have not moved in to fill the gap.⁵ Agriculture's portion of the GDP is about NIS 7 billion. Inputs in agriculture are NIS 12.7 billion. In other words, despite the problems with fruit-picking, the sector does substantial business and creates growth. Limiting the number of foreign workers limits the sector. An additional 5,000 workers would increase agricultural exports and income by 20% and add approximately 3,125 new jobs for Israelis in the sector.⁶
2. Approximately two-thirds of agricultural enterprises are small businesses with annual turnovers of NIS 4-5 million, with profits ranging from 10-20%.⁷ A report prepared by Amiram Cohen, former director general of the Finance Ministry, shows that the added value to the Israeli economy of employing foreign workers in Israel's periphery could be as high as NIS 770 million annually. A decision by the government to increase the number of foreign workers in agriculture would increase the value of agricultural production in the periphery by 35-40% within a few years, and also increase income to farmers in the periphery by approximately NIS 170 million annually. Every shekel paid to a Thai agriculture worker in the periphery would add NIS 1.75 to the economy because of increased employment in agricultural and marketing services.⁸

Foreign Workers in Construction

With the arrival of large numbers of new immigrants from the FSU at the

beginning of the 1990s, the construction industry experienced a boom; a shortage of available Palestinian workers, following upon the first Intifada, forced the government to respond favorably to ad-hoc requests by construction firms to employ foreign workers. The sector experienced fluctuations through the 1990s, and residential construction starts declined by 1993. The construction industry stagnated, and prices leveled off and began to decline in 1996.

Allocations in Construction

Permits to employ foreign workers are given only to contractors listed as members of the Israeli Contractors Association and only for certain aspects of construction. These allocations are made by the Employment Service after engineers have examined the scope of the proposed construction. Contractors are expected to provide signed contracts and building permits that list the financial scope and measurement in meters of the construction, a timetable and a permit to begin work.⁹ In 2001, the criteria for allocating permits were: 6.8 foreign workers for every 1000 meters in residential and institutional construction; 3.5 foreign workers for every 1000 meters in industry; and one foreign worker for every infrastructure project of \$250,000.¹⁰

Following an amendment to the Foreign Worker Law in May 2003, the authority to issue permits was transferred to the Foreign Worker Administration. Today, permits are allocated according to the corporate system (*ta'agidim*), which was inaugurated in May 2005; a unique means of employing foreign workers based on supervision by a corporation that employs the foreign worker and protects his rights. In 2005, 42 such for-profit corporations were given permits by the government to operate as manpower agencies for the employment of foreign workers in the construction industry.¹¹ Such corporations are required to be Sole Purpose Companies (SPC's) and they are forbidden to engage in any business other than employing foreign workers in construction.¹²

These corporations are required to make the following payments:

- A one-time licensing fee of NIS 10,000
- A fee of NIS 515 for every foreign worker the corporation hopes to employ
- An annual fee of NIS 11,165
- A monthly fee of NIS 700 towards the worker's pension and retirement fund. This deposit is transferred to the worker when he leaves Israel.¹³

This new corporate system guarantees proper employment conditions for foreign workers and creates effective competition for the given number of foreign workers in construction, such that the cost of employment is set by real demand and limited supply.¹⁴

Following the Corporate System

The corporations are the employers of the foreign workers and they have paid high sums in order to win the right to employ them. The contractor wishing to employ a foreign worker must pay a corporation an hourly rate of NIS 40-50 and commit to employing the worker for 211 hours per month,

including 25 overtime hours. In other words, a contractor wishing to employ a foreign worker must pay a corporation at least NIS 10,000 per month per worker, plus a deposit and personal guarantee of NIS 10,000 per worker.¹⁵ The worker himself receives an hourly wage of NIS 26.8, for a monthly wage of NIS 5,822.¹⁶ Since the institution of the corporate system, wages for workers have gone up 72%. This increase is expected to have led to a 5.7% rise in housing units whose construction began in 2006.¹⁷

Small Business

Small businesses in the agriculture, construction and geriatric sectors are permitted to employ foreign workers, but such firms find it difficult to actualize this permission. The last study to examine the issue found that permits for the employment of foreign workers in construction were given mostly to medium and large sized firms. At the end of 1996, 5,700 official contractors were listed in the Contractors Registry, of which 4,400 were listed as small: 3,700 were rated “1” and limited to jobs valued at NIS 1.8 million and 700 were given a rating of “2” and limited to jobs of up to NIS 3.4 million. 1,300 other contractors were rated as medium or large, and most of the permits in 1996 were given to them.

Over 70,000 permits were issued in 1996 to 1,293 construction firms:

- 25% of them went to the nine largest firms, each of which received over 1,000 employment permits.
- 37% of them were awarded to 110 large firms, each receiving hundreds of permits.
- The remaining 38% were divided up in small numbers to 1,100 small firms.

In other words, even in 1996 with a record number of foreign worker permits issued, there was discrimination in the system of allocation.

As the number of foreign employees dropped over the years, the discrimination between contractors has exacerbated.¹⁸ Small and medium sized businesses are unable to compete with the large firms because the latter are able to pay higher salaries. The small firms have difficulty getting commissioned for new jobs and are unable to win permits for more workers. With the new corporate system for employment and construction, hourly wages have jumped from \$5.5 to \$10, or approximately NIS 10,000 per month. While any registered contractor is eligible to receive permits for foreign workers, at this salary level only large contractors enjoy an economy of scale that allows them to pay such wages. Small contractors cannot absorb the high wage rate and will need to raise their own prices in order to do so, which will decrease their chances of receiving future jobs.¹⁹

Recommendations

Bilateral agreements. The State of Israel should sign bilateral agreements with the countries of origin of foreign workers in order to regulate the stay of the

workers and provide them with a safe environment for reaching Israel, seeking work, and returning home. We recommend that work permits be granted only to workers from countries with which Israel has signed such agreements. After the signing of such agreements, the corporate system will no longer be necessary. Wages will fall and will be set according to supply and demand in the marketplace.

Signing accords with the ILO. The corporate system's protection of the rights of workers leads to an increase in their wages. There is no reason why an external corporation should be doing this work simply because the state failed to do so. We recommend signing agreements with the International Labor Organization as well as the countries of origin in order to monitor the arrival of foreign workers in Israel, protect their rights and eliminate the need for a middleman taking commissions.

Employment of Israelis. An employer wishing to hire foreign workers should prove that he has been unable to hire Israeli workers before applying for a foreign worker. This should eliminate substantially the perception that foreigners are taking jobs away from Israelis.

Equalization of employment conditions. The employment conditions of foreigners and Israelis should be similar so that competition between them will be fair, as well as guaranteeing the protection of all employees in the economy.

Flexibility in finding work. Foreign workers should be free to search for work in Israel via private manpower agencies, the state Employment Service and services provided by foreign embassies (where such services exist). The ability to find work in various sectors allows for mobility and protection of foreign workers' rights. When foreign workers can find work in a legal organized process, they will no longer earn low "black market" salaries; thus the unfair competition against low-income Israelis will end.

Endnotes:

- 1 Adriana Camp and Rivka Raichman, *Foreign Workers in Israel*, Issue No. 13 (Tel Aviv: Adva Center, June 2003), p. 3-4, <http://www.adva.org/UserFiles/File/ovdim%20zarim%20kamp.pdf> (July 13, 2007).
- 2 Gilad Nathan, *Employment and Encouraging Employment in Agriculture* (Jerusalem: The Knesset Research and Information Center, January 2007), p. 2, <http://www.knesset.gov.il/mmm/doc.asp?doc=m01720&type=pdf> (July 13, 2007).
- 3 Ibid., p.3.
- 4 Yosta Bleir, General Secretary, Israel Agriculture Union, *Long-term Agreement to Occupy Foreign Workers in Agriculture Sector* (March 2007), <http://www.fgo.co.il/artc.php?i=1705> (June 25, 2007).
- 5 The Committee on Foreign Workers, Seventeenth Knesset, second session, *Protocol*, January 24, 2007, <http://www.knesset.gov.il/protocols/data/rtf/zarim/2007-01-24.rtf> (25 (March 25, 2007).
- 6 CBS, *Statistical Abstract of Israel 2006* (Jerusalem: CBS, 2006), table 19.14, http://www1.cbs.gov.il/shnaton57/st19_14.pdf (March 25, 2007).
- 7 Yosi Yishay, Chairman of Planning in Ministry of Agriculture, telephone interview with author, March 26, 2007.
- 8 *Haaretz*, January 14, 2007.
- 9 State Comptroller, *Annual Report* b53, p. 674.
- 10 Ibid., p. 679.
- 11 Ministry of Industry, Trade and Labor,

- <http://www.tamas.gov.il/NR/exeres/07D93AE4-68F8-4321-A132-2A2F48C46E8B.htm> (July 20, 2007).
- 12 Ministry of Industry, Trade and Labor, *Methods of Employing Foreign Workers in Construction via Manpower Contractors in 2007* (Jerusalem: Special Unit of Foreign Workers, Department of Payment, 2007), p. 5.
- 13 Ibid, p. 13.
- 14 Ibid, p. 32.
- 15 The author interviewed representatives of eight of the corporations (*ta'agidim*).
- 16 26.8 wage/hour x 186 hours plus 25 overtime hours at 125%.
- 17 CBS, *Monthly Statistical of Prices 2006* (Jerusalem: CBS, 2006), table 4.1, http://www.cbs.gov.il/price_new/c4_1_h.htm (June 25, 2007).
- 18 Shmoel Amir, "The Influence of Foreign Workers at the Construction Sector," in Robi Netanzon and Leah Ahdot, *The New Workers Book - Workers from Foreign Countries in Israel*, ed. Giyora Rozan (Tel Aviv: Hakibbutz Hameuchad, 1999), p. 129.
- 19 The Committee on Foreign Workers, The Sixteenth Knesset, third sess., *Protocol*, September 25, 2005, <http://www.knesset.gov.il/protocols/data/rtf/zarim/2005-09-20.rtf> (June 25, 2007).

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