

PERSONNEL COST IN THE CENTRAL GOVERNMENT
AN ANALYTICAL REVIEW OF THE PAST DECADE

Rola Rizk Azour

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TABLE OF CONTENTS

1.	Introduction and overview	4
2.	Employment in the public sector	5
	A. Coverage of the study	5
	B. Grades and steps.....	5
	C. Distribution by gender and average age.....	6
3.	Evolution of salaries and wages and related benefits (2003-2012).....	6
	A. The weight of central government employees out of public spending.....	6
	B. Central government employees in percent of the economy.....	7
	C. International comparisons	9
4.	Detailed analysis of the composition of wages and salaries	10
	A. Three main categories of employees.....	11
	B. Indemnities provided to government employees.....	13
	C. Allowances provided to government employees.....	14
	D. Other allowances and indemnities.....	15
5.	Comparative analysis of the gap between the basic salary and the final take home pay	15
	A. Personnel working in civil administration:	16
	B. Military personnel.....	16
6.	Government policies behind the rise in personnel cost.....	17
	A. Frequent recruitments.....	17
	B. Adjustment in minimum wages, the new salary scale, transportation indemnity, and bonuses.....	18
	C. Retroactive payments.....	18
7.	Conclusion.....	19

TABLE OF FIGURES

Table 1. The average age of central government employees , December 2012	6
Table 2. Wages and salaries and related benefits in percent of total primary expenditures, 2003-2012	7
Table 3. Wages and salaries and related benefits in percent of total government expenditures, 2003-2012. 7	
Table 4. Wages, salaries, and related benefits in percent of GDP, 2003-2012.....	8
Table 5. Compensation of central government employees (i.e. the wage bill)	10
Table 6. Personnel cost in the three branches of the central government (2003-2012)	11
Table 7. Breakdown of the central government wage bill into basic salaries, indemnities, and allowances, 2012	12
Table 8. Civilian personnel – Take-home pay, Examples at three different grades.....	16
Table 9. Military personnel – Take-home pay, Examples at four different grades	17

1. Introduction and overview

An intense debate is taking place in Lebanon about the public sector's wages and salaries and the new wage scale, which was approved by the Cabinet of Prime Minister Mikati on 21 March 2013 after more than one month of strikes. Many questions remain unanswered about the size of the public sector, its weight over the budget, as well as the fairness of payments inside the public sector itself and, especially its three branches, namely the military, education, and civil servants.

Like many other countries in the region and even globally, wages and salaries in the central government in Lebanon constitute an important component of total government spending. There is no doubt that, in absolute terms, the cost of the central government personnel more than doubled over the period of time which is covered in this study, from 2003 to 2012. However, when measured as a percentage of GDP, the ratio remained almost constant at 7.1 percent because the Lebanese economy experienced a high rate of growth over the period 2007 till 2010, inclusive.

The average age of central government employees, excluding military personnel, is around 49 years; 22 percent of those central government employees are expected to retire in the next 5 years. Females are an important component of central government employees, making up 70 percent of central government civil servants, excluding the military and teachers.

The study mainly reviews the period of the last ten years, from 2003 till 2012. The objective is to highlight the financial dimension of the wage bill and to provide some international comparisons. Due to data limitations, the report focuses on the cost of employment in the central government, not the general government¹. In addition, this paper excludes the discussion about retirement salaries and pensions. This report also focuses on the policy decisions which led to the increase in the personnel cost. It also provides a mapping of indemnities and allowances of central government employees. In addition, it provides a number of examples about the monthly take-home pay of a public sector employee in a system which is very complex and opaque. More specifically, it tries to answer some specific questions such as: Is the basic salary of an employee indicative of his / her take-home pay? Is the promotion of an employee in the public sector linked to a performance matrix? Is it based on merit or are there automatic triggers?

It is estimated that the public sector employs around 28 percent of total wage earners² in Lebanon and 13.5 percent out of total employees. This could be considered to be high by international standards. In recent years, additional recruitment in the public sector, especially in the armed forces and the education personnel, took place in response to major security events or political pressures in the absence of human resources management and planning.

¹ The definition of central government is clarified in section 2.

² In accordance with 2011 estimates, personnel working in the central administration summed up to 15,554 employees. Those working in the armed forces amounted to 101,890 including customs, and public teachers were 27,327 excluding those holding contractual contracts. Personnel working in public institutions are estimated at 26,000. According to the World Bank report Good Jobs Needed, dated June 2012, total employed in Lebanon were 1,269,859 while total wage earners were 609,532.

2. Employment in the public sector

A. Coverage of the study

The paper covers the period of 2003 – 2012 and focuses on the salaries and wages of central government employees, together with their related fringe benefits. Throughout the report, and unless otherwise specified, salaries and wages as well as related benefits³ include:

- (a) Salaries and wages of all military⁴, civil and education personnel, such as full time and part-time employees, consultants, and advisors. Most of contractual employees are included as part of this item while daily wage earners⁵ are excluded.
- (b) Allowances⁶ and indemnities⁷,
- (c) Annual bonus,
- (d) Contributions to mutual funds⁸

For a better coverage and more accuracy, salaries of the Lebanese University and various councils such as the Council for Development and Reconstruction (CDR), the Displaced Fund were added under section 3.

Pension and retirement payments are not covered in this report; employees of municipalities and state owned enterprises are also not part of this study. In addition, allowances and indemnities of judges and Lebanese University professors were not mapped.

Due to data limitations, information about the number of employees was not available for the period under review. Fortunately, an estimate for 2011 is available and estimates central government employees at 142,371⁹. Military personnel summed up to 101,890 members¹⁰, whereas teachers in primary and secondary education numbered 27,327¹¹ and civilian personnel 15,554.¹²

B. Grades and steps

Civil servants working in the central government, excluding military personnel are classified in 5 grades, grade 1 being the highest level (the level of Director General) and grade 5 being the lowest. They have 22 steps under each grade. Civil servants move one step every two years, within the same grade. Movements up in the echelon to higher grades require an exam by the Civil Service Board.

Members of the education personnel all belong to grades 3 and 4 and have 52 steps under each grade; however, unlike other civil servants who start at step 1, teachers start at step 15. It is noteworthy that the majority of employees – or 67 percent - working in the civil administration are classified under grade 4.

³ This is called Article 13 in the current administrative classification of the Lebanese budget and is consistent with IMF classification, GFS 1987

⁴ Military personnel covers the army, internal security forces, general security forces, and state security forces

⁵ Daily wage earners are paid by the hour

⁶ Such as family, overtime, and transportation allowances

⁷ Indemnities including hospitalization, schools, sickness and maternity, marriage, birth, death, social spending, treatment in medical centers

⁸ Such as those of the employees' cooperative, members and employees of parliament, judges and judges of religious courts, and contributions to the Lebanese University

⁹ The number of employees is not yet available for 2012;

¹⁰ Including 2,400 customs employees

¹¹ Excluding teachers enrolled on a contractual basis

¹² Including employees working on a contractual basis and hourly wage earners

Military personnel have a different grading system which is relatively more opaque. They move one step every two years within the same grade. Two reasons could lead to their promotion to a higher grade, either the prerogative of their director or the employee's years of experience and seniority.

Table 1. The average age of central government employees¹³, December 2012

	Average age in years
Grade 1	44.39
Grade 2	51.87
Grade 3	45.77
Grade 4	49.72
Grade 5	53.34
Total	49.51

Source: Directorate General of Finance, IT Department

C. Distribution by gender and average age

Central government employees, excluding military personnel¹⁴, contractual employees, Lebanese University employees, and daily wage earners, are equally divided by gender. However, upon closer scrutiny, it becomes clear that females represent around 70 percent of civil servants, excluding primary and secondary school teachers, while males are dominant among education personnel at 64 percent.

The average age of central government employees, excluding military personnel, contractual employees, Lebanese University and various funds' employees, and daily wage earners, is around 49 years. It is noteworthy that 22 percent of employees will retire in the next 5 years.

Employees (excluding armed forces) in grade 5 have the highest average age, at 53.34 years, while the highest ranking employees, in grade 1, are the youngest with an average age of 44.39 years.

3. Evolution of salaries and wages and related benefits (2003-2012)

A. The weight of central government employees out of public spending

The evolution of the wages and salaries and related benefits of central government employees in the 2003-12 period¹⁵, including the Lebanese University and various funds (*collectively referred to as the wage bill*), was remarkable. In fact, in nominal terms this item more than doubled, rising from LL 2,241 billion in 2003 to LL 4,805 billion in 2012. Policy decisions had a direct impact on the wage bill since the largest increases occurred during the years 2009 and 2012 with the granting of the minimum wage increase and the cost of living. On average, the wage bill accounted, for around 35 percent of total primary spending in the 2003-12

¹³ Excluding armed forces, contractual and hourly wages earners

¹⁴ Little information is available at the Ministry of Finance about military personnel

¹⁵ Including salaries of the Lebanese University and various councils such as CDR and the Displaced Fund

period.¹⁶ However, in 2012, this share rose to 40 percent of total primary spending due to a number of reasons including the payment of the 2012 cost of living (table 2).

Table 2. Wages and salaries and related benefits in percent of total primary expenditures, 2003-2012

LL billion	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Total Primary Expenditures	5,718	6,519	6,669	7,322	7,647	9,652	11,080	10,829	11,566	12,001
1. Article 13: Salaries, wages, & related benefits	2,048	2,072	2,129	2,188	2,473	2,676	3,325	3,354	3,818	4,409
<i>% of Total primary Expenditures</i>	36%	32%	32%	30%	32%	28%	30%	31%	33%	37%
2. Salaries of some public institutions*	193	215	202	192	221	206	324	322	295	396
<i>% of Total primary Expenditures</i>	3%	3%	3%	3%	3%	2%	3%	3%	3%	3%
3. Total (1+2)	2,241	2,287	2,331	2,380	2,694	2,882	3,649	3,676	4,113	4,805
<i>In % of total primary spending</i>	39.2%	35.1%	35.0%	32.5%	35.2%	29.9%	32.9%	33.9%	35.6%	40.0%

Source: Public Finance Review, Ministry of Finance, Expenditure Section (2003-2012)

* Such as the Lebanese University and CDR

As a percentage of total government spending, wages and salaries and related benefits together with salaries of some public institutions¹⁷ averaged at 22 percent in the past ten years, one of the highest expenditure items together with retirement and end of service, debt service, and transfers to the loss-making electricity company, "Electricité du Liban". In 2012, this ratio increased to a little less than a quarter of total government spending (table 3).

Table 3. Wages and salaries and related benefits in percent of total government expenditures, 2003-2012

LL billion	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Total government expenditures	10,592	10,541	10,203	11,883	12,587	14,957	17,167	17,047	17,600	20,081
1. Article 13: Salaries, wages, & related benefits	2,048	2,072	2,129	2,188	2,473	2,676	3,325	3,354	3,818	4,409
<i>% of total Expenditures</i>	19%	20%	21%	18%	20%	18%	19%	20%	22%	22%
2. Salaries of some public institutions*	193	215	202	192	221	206	324	322	295	396
<i>% of Total Expenditures</i>	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%
3. Total (1+2)	2,241	2,287	2,331	2,380	2,694	2,882	3,649	3,676	4,113	4,805
<i>In % of total government spending</i>	21.2%	21.7%	22.8%	20.0%	21.4%	19.3%	21.3%	21.6%	23.4%	23.9%

Source: Public Finance Review, Ministry of Finance, Expenditure Section (2003-2012)

*Such as the Lebanese University and CDR

B. Central government employees in percent of the economy

While the ratio of the wage bill rose by more than two-folds over the period under consideration, it maintained a certain stability when measured as a percentage of the economy or GDP, averaging at 7.1 percent, implying that economic growth has permitted to keep this ratio stable. However, when growth started to slow down as in 2012, the ratio started rising and weighed heavier in percent of GDP - 7.6

¹⁶ Primary expenditures represent public spending excluding debt service.

¹⁷ Salaries of the Lebanese University and various councils such as CDR, the Displaced Fund

percent (table 4). In 2013, the ratio is expected to deteriorate further in the context of a slowing economy and the introduction of the new salary scale.

Table 4. Wages, salaries, and related benefits in percent of GDP, 2003-2012

(LL billion)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Gross Domestic Product (GDP)	29,771	32,328	32,330	33,451	37,624	44,748	52,235	55,965	58,851	62,963
1. Article 13: Salaries, wages, & related benefits	2,048	2,072	2,129	2,188	2,473	2,676	3,325	3,354	3,818	4,409
% of GDP	7%	6%	7%	7%	7%	6%	6%	6%	6%	7%
2. Transfers to public institutions to cover salaries	193	215	202	192	221	206	324	322	295	396
% of GDP	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%
3. Total (1+2)	2,241	2,287	2,331	2,380	2,694	2,882	3,649	3,676	4,113	4,805
In % of GDP	7.5%	7.1%	7.2%	7.1%	7.2%	6.4%	7.0%	6.6%	7.0%	7.6%

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

Source: International Monetary Fund (IMF), WEO, Gross Domestic Product (GDP) estimates for 2011 and 2012, October 2012

Source: National Accounts Committee, Economic Accounts Mission, revised GDP figures for 2003-20010

Box # 1: Cost of Living Adjustment and New Salary Scale

On February 19, 2013, civil servants and teachers started an open-ended strike to pressure the government to transfer the new salary scale to Parliament. On March 21, 2013, the Council of Ministers approved the proposal for the increase of the minimum wage, the provision of cost of living, and the amendment of the basic salaries based on the new scale in the public sector, as well as a list of revenue measures.

According to the draft law, the increase in public sector's salaries is twofold: (a) a raise for cost of living and (b) another raise relating to the new salary scale.

The **cost of living** adjustment, effective February 1, 2012, started to be paid since September 2012 before the Parliament approval, in accordance with a treasury advance amounting to LL 750 billion as per decree 8851 dated September 7, 2012. The monthly cost of this increase was estimated by the Directorate of Payment Orders at MoF to be LL 71 billion. During the period September-December 2012, the Ministry of Finance disbursed LL 632 billion to cover the cost of living increase along with the retroactive payments for the period February-August 2012.

The **new salary scale** component was approved by Council of Ministers. If ratified by Parliament, the monthly cost is estimated at LL 65 billion, as per the Directorate of Payment Orders at MoF.

Judges and education personnel at the Lebanese University were excluded from this draft Law as a number of exceptional laws were issued allowing these two categories to benefit from an increase in their salaries, namely Law 173 dated August 29, 2011 for judges, and Law 206 dated March 5, 2012 for Lebanese University professors.

The Council of Ministers' decision included a **number of reforms**:

- a. **Working hours** in the public administrations, public institutions, and municipalities are set to be 35 hours per week (from Monday to Friday), compared to current working hours which are 32 hours per week (from Monday to Saturday).
- b. **Overtime working hours** are reduced from 75 hours to a maximum of 36 hours per month.
- c. The sum of compensations, bonuses, or benefits should not exceed 40 percent of the total monthly salaries during a given year, noting that this was decreased from a current fraction equivalent to 75 percent.
- d. In order to be eligible for end of service compensation or retirement salary, the number of years of effective service are increased by 5.

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C. International comparisons

It is useful to compare government compensation of employees as a share of GDP with regional averages and with countries at similar levels of development. Worldwide, the share of total spending absorbed by compensation of employees ranges from one quarter of general government outlays (Europe, Asia, and the Pacific) to one third (Africa, Middle East and Central Asia).¹⁸

However, there are distinctive patterns across country groups. For example, general government compensation of employees as a share of GDP is highest in Europe (10 percent of GDP) and lowest in Asia and the Pacific (6.5 percent of GDP). The wage bill tends to be a higher ratio of GDP in high and middle income countries than in low income countries.¹⁹

Wages and salaries and related benefits²⁰ of central government represented around 7 percent of GDP and 35 percent of primary expenditures in the period under review. The first ratio compares to 7.3 percent of GDP in middle income countries, and is not particularly high by international standards. The ratio of 2012, at 7.6 percent of GDP, deserves special attention as it exceeded international comparables. This is a ratio which needs to be monitored in the near future as it reflects the recent policy decision to grant a cost of living increase to all public sector employees in 2012. It is also a ratio which is expected to rise further in 2013 in case the newly approved salary scale is ratified by Parliament²¹.

When taken as a share of total spending, government compensation of employees in Lebanon is particularly low at 22 percent on average over the past decade, compared to the average of middle income countries at 27.6 percent. However, the ratio rose to 24 percent in 2012 and is getting closer to international comparables.

¹⁸ "Evaluating Government Employment and Compensation", Benedict Clements, Sanjeev Gupta, Izabella Karpowicz, and Shamsuddin Tareq, Fiscal Affairs Department, IMF – September 2012 (Technical notes and manuals)

¹⁹ "Evaluating Government Employment and Compensation", Benedict Clements, Sanjeev Gupta, Izabella Karpowicz, and Shamsuddin Tareq, Fiscal Affairs Department, IMF – September 2012 (Technical notes and manuals)

²⁰ As specified in section 2(A)

²¹ Kindly refer to box 1

Table 5. Compensation of central government employees (i.e. the wage bill)

Country Groups	Sample Size	% of GDP	% of government expenditures	% of government revenues
Africa	41	6.5	30.4	29.5
Asia and Pacific	18	5.1	26.2	23.1
Europe	41	5.7	17.4	17.5
Western Hemisphere	24	8.2	31.0	29.6
Middle East and Central Asia	19	7.1	28.9	24.8
European Union	27	5.2	15.9	16.3
Low-Income Countries	39	5.2	28.6	27.9
Middle-Income Countries	68	7.3	27.6	26.0
High-Income Countries	36	6.1	20.4	18.6

Source: "Evaluating Government Employment and Compensation", Benedict Clements, Sanjeev Gupta, Izabella Karpowicz, and Shamsuddin Tareq, Fiscal Affairs Department, IMF – September 2012 (Technical notes and manuals)

4. Detailed analysis of the composition of wages and salaries

Aggregate information about personnel cost is readily available at the Ministry of Finance²². However, details about the fringe benefits are scattered and the salary scale is not uniform across different types of employment in the public sector. The following conclusions can be drawn:

- Different forms of employment exist in the public sector in general and in the central government in particular;
- Salary scales differ for the different types of employment;
- The basic salary of an employee is very clear; however, each branch has its own indemnities and allowances, over and above the basic salary. The family allowance is the only one provided across the board to all branches of central government employees.
- Employees have different legal rights and obligations;
- The grades and corresponding steps differ among different branches of the central government²³.
- The take home pay of an employee is much higher than his / her basic salary;
- Career paths are different under each branch, implying that the progression can be much faster in certain branches, such as the military and education, than in others, such as the general administration.

²² Monthly Public Finance Monitor; Yearly Public Finance Review; Salaries, wages, and related benefits, the article 13 monthly bulletin

²³ Civil servants, education personnel, and military forces

A. Three main categories of employees

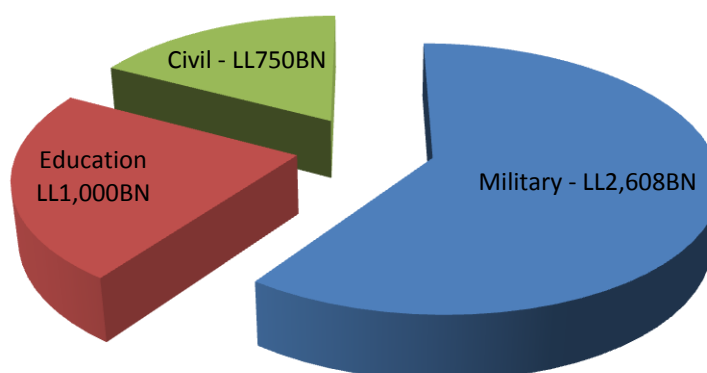
Salaries, wages and related benefits excluding transfers to the Lebanese University and the various funds are subdivided into 3 main categories: military personnel, education personnel, and other civil servants. The share of salaries and wages and related benefits of military personnel are the highest, absorbing 60 percent of the total in 2012, followed by the education personnel which took up 23 percent during the same year. The remaining share of 17 percent, is that of civil servants (table 6 and chart 1). On average, the wage bill of military personnel has increased by 140 percent over the past decade, by far exceeding the rise of the civil servants' wage bill during the same period of time (74 percent).

Table 6. Personnel cost in the three branches of the central government (2003-2012)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(LL billion)	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec	Jan- Dec
Military Personnel	1,077	986	1,100	1,191	1,386	1,523	2,033	1,926	2,452	2,608
Army	721	668	739	784	897	949	1,320	1,271	1,690	1,673
Internal Security Forces	278	241	276	316	392	472	574	521	609	719
General Security Forces	57	57	63	65	71	74	104	101	110	135
State Security Forces	21	20	22	25	26	28	35	32	42	81
Education Personnel	540	504	596	549	577	613	684	713	756	1,000
Civil Personnel, of which:	431	582	434	448	510	539	573	673	570	750
<i>Employees Cooperative (Eco 13-6-1)</i>	-	-	-	-	-	-	178	219	149	250
Customs Salaries	-	-	-	-	-	-	35	41	38	50
Total	2,048	2,072	2,129	2,188	2,473	2,675	3,325	3,353	3,817	4,408

Source: Public Finance Annual Review, Ministry of Finance, Expenditure Section (2003-2012)

Chart 1 - Subdivision of the central government wage bill by branches, 2012



The wage bill for each branch is composed of the following:

- Basic salaries
- Indemnities
- Allowances – mainly provided to military personnel
- Government transfers to the employees’ cooperative – only provided for civilian employees

In 2012 (table 7), the fringe benefits (which include indemnities, allowances, and the transfer to the employees’ cooperative) made up around one fourth of the wage bill.

Table 7. Breakdown of the central government wage bill into basic salaries, indemnities, and allowances, 2012

(LL billion)	Basic Salaries	Indemnities 6/	Allowances 7/	Transfer to Employees' Cooperative & Other 8/	Total
Military Personnel	1,937	77	591	4	2,608
· Army	1,229	47	395	2	1,673
· Internal Security Forces 1/	540	23	156	0	719
· General Security Forces 2/	105	3	25	1	135
· State Security Forces 3/	63	3	15	0	81
Education Personnel	937	62	0	1	1,000
Civilian Personnel 4/, of which:	385	66	8	292	750
· Employees Cooperative				250	250
Customs Salaries 5/					50
Total	3,259	205	599	297	4,408

Source: Salaries and Wages, Ministry of Finance, December 2012

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- 1/ Includes allowances and 1996-1998 retroactive payments made to Internal Security Forces from Guarantees account
- 2/Includes 1996-1998 retroactive payments made to General Security Forces from Guarantees account
- 3/ Includes allowances and 1996-1998 retroactive payments made to State Security Forces from Guarantees account
- 4/Includes salaries payments made to Ministry of Public Health from Guarantees account
- 5/Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashiers and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance. Field service indemnity in March 2011 paid to Customs officers were included as well
- 6/Includes payments for family, transportation, overtime as well as various indemnities
- 7/Includes payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances
- 8/ Other includes payments for bonuses, contributions to various public sector mutual funds and contribution of the State as an employer for the National Social Security Fund

B. Indemnities provided to government employees

Family indemnities are provided to nearly all employees, including civil administration, armed forces and teachers. Overtime and transportation indemnities are exclusive to personnel in the civil administration.²⁴

i. Family indemnity is linked to the minimum wage. However, despite the minimum wage increase in 2008, the 1999 minimum wage is still used as a reference. In details, family indemnities are the following:

- ✓ Each employee receives the equivalent of 20 percent of the minimum wage (or LL 60,000) for his wife / her husband, and
- ✓ Each employee receives the equivalent of 11 percent of the minimum wage (or LL 30,000) for each child (up to a maximum of 5 children)

ii. Overtime indemnity is set to a maximum of 75 hours per month²⁵ but can go up to 100 hours in exceptional circumstances.

iii. Transportation indemnity: For each effective working day, it is equivalent to LL 8,000 per day. Armed forces do not usually receive transportation indemnity because they have different types of transportation compensations.

iv. Circumstantial indemnities – security alerts (Tadabeer): Typically there are 3 levels of security alerts or “tadabeer”, with 1 representing the lowest level and level 3 when major security events are taking place in the country. The level can go up to 4 in extreme and rare cases. Indemnities linked to security alerts are applicable to all military personnel (Lebanese Army, Internal Security Forces, General Security Forces and State Security Forces) as well as Customs personnel if they are located on the borders. These indemnities constitutes 13% to 24% of the employee’s respective basic salary and increase in line with the security alert level²⁶. Lower level employees receive the highest circumstantial indemnities.

²⁴ Military personnel do not usually take overtime allowances because they are subjected to different types of working hours.

²⁵ Overtime allowance is expected to decrease to 36 hours if COM decision dated 21 March 2013 is approved by Parliament.

²⁶ Security alert indemnity in percent of basic salaries

v. Additional indemnities provided to military personnel²⁷: Each military employee is entitled to one or more of the four indemnities listed below with the respective percentage of reference basic salary based on his / her grade and step. They are calculated using a fraction of a reference basic salary for each grade and step. In absolute terms, the values of these indemnities start at LL 137,000 and can reach LL 860,000.

- Field service indemnity (Khidmet el Midane)²⁸
- Military equipment indemnity²⁹
- Post indemnity³⁰
- Specialization indemnity³¹

C. Allowances provided to government employees

Allowances are mainly provided to military personnel through direct payments and to civil servants through the Employees Cooperative in exchange for 3 percent of their salary if they are regular employees and 1.5 percent if they are subject to a contractual arrangement.³² They include certain non-recurrent allowances such as marriage³³, maternity³⁴, birth³⁵, and death³⁶ allowances which are all linked and based on an employee's basic salary. They are provided by the employee's cooperative to civil employees working in the regular administration and through direct budget payments to the military personnel.

Level	Security alert 1	Security alert 2	Security alert 3
General Officer	13%	15%	17%
Commander Officer	17%	19%	21%
Assistant Officer	18%	21%	23%
Officer	18%	21%	23%
"Fard"	18%	21%	24%

²⁷ Also called "Annex 6" indemnities

²⁸ Field service indemnities are provided to the lowest graded employees in the armed forces; they are between 16 percent and 20 percent of the basic salary of a Joundi (Step 1) – or the equivalent of LL 860,000.

²⁹ Military equipment and post-related indemnities are provided to the highest ranking employees in armed forces; they are between 12 percent and 45 percent of a Moulazem's (step 1) basic salary (equivalent of LL 1,260,000) for the military equipment indemnity.

³⁰ Post-related indemnity is between 25 percent and 100 percent of the basic salary of a Joundi (step1) or the equivalent of LL 860,000.

³¹ Specialization indemnities are provided to armed forces with professional degrees, such as medical doctors, engineers, and pharmacists, ranging between 35 percent and 50 percent of a Moulazem step 1 basic salaries (LL 1,325,000).

³² Contractual employees are also covered by the NSSF

³³ Marriage allowance: Amounts to two months' worth of salary. This allowance is provided only for one marriage and for both female and male employees, equally;

³⁴ Maternity allowance: The employee receives the equivalent of half a salary at the time of delivery;

³⁵ Birth allowance: The employee receives the equivalent of half a salary for each newborn child;

³⁶ Death allowance: When an employee is deceased, his/her family is entitled to receive nine-fold his/her salary. When the employee's parents are deceased, he/she gets one month worth of salary.

Employees also receive school³⁷ and health³⁸ allowances in accordance to different systems for the military and civil servants. The system which covers military employees is much more generous with very high ceilings. Both systems allow public servants to send their children to private schools and makes it possible for employees and their dependants to be treated in private hospitals. Military personnel can even be sent abroad for medical treatment. All employees receive allowances for purchasing medicine³⁹ and military employees are entitled to a housing allowance⁴⁰.

D. Other allowances and indemnities

Other allowances and indemnities such as annual bonuses⁴¹, committee compensations⁴², redistributable fines⁴³ and tax returns⁴⁴ are also important allowances which are repetitive on a yearly basis and depend on the employees' salaries.

5. Comparative analysis of the gap between the basic salary and the final take home pay

The basic salary differs substantially from the final take home pay because central government employees are entitled to receive around twenty types of allowances and indemnities (or fringe benefits) over and above their basic salary, with fringe benefits being more generous in armed forces. In order to demonstrate the gap between the basic salary and the final take home pay, three theoretical case studies are conducted for civil servants and four examples from the military forces.

Here are the conclusions:

³⁷ School allowance: The Employees' Cooperative issues schedules for each year assigning the amounts to be paid for each child in public and private education, whether schools or universities. This allowance is not linked to the level of an employee or his step. In 2012, civilian employees received 75 percent of the private sector school bill, with a ceiling of LL 1,140,000 for each child. For children who are enrolled in public schools, they were paid LL 570,000 per child in accordance to the labor law. School allowances for civil servants are covered by the Employees' Cooperative and not by the budget, and those of military personnel are included as part of the budget. For the latter, school allowances depend on how much budget allocations amount to and the level of demand for these allowances in the armed forces. For all grades of military employees, in 2011 the coverage amounted to 50 percent of private sector school bills and in 2012 the coverage amounted to 85 percent of private school bills.

³⁸ Hospitalization allowance: Civil employees can only be checked in hospitals which are on the list of approved hospitals by the Cooperative. The Employees Cooperative pays 90 percent of the bill, with a ceiling of LL 900,000 for employees in grade 4 and LL 1,200,000 for employees in grade 1. Classes of hospitalization depend on the level of the employee. Grades 1, 2 and 3 of education and administrative employees are eligible for Class 1 hospitalization with a ceiling of LL 1,000,000, whereas employees of grades 4 and 5 are eligible for Class 2 hospitalization with a ceiling of LL 500,000. Military personnel, who receive this type of allowance directly from the budget, are fully covered in hospitals under contract with the military, noting that they have contracts with most hospitals; the officer level is eligible for Class 1 and "routaba" and "afraad" levels are eligible for Class 2. In cases of emergency, military personnel can even be transferred abroad for treatment.

³⁹ Allowance for medicine: The employees' cooperative pays 75 percent of the medication bill.

⁴⁰ Housing allowance is only provided to married military personnel and is equivalent to 12 percent of the basic salary.

⁴¹ The annual bonus can go up to two months of civil employees' basic salary. Military personnel are not entitled to bonuses, however they do receive a similar compensation called social aid ("Mousa3ada ijtima3iya"), with no limit.

⁴² Committee compensation depend on each ministry; at the Ministry of Finance for instance, committee compensation includes that of missions to the Casino du Liban, the Lottery, and the printing press. For each visit to the Casino, an employee is paid LL 75,000 and he / she is entitled to make 10 visits per month. For each visit to the printing press, an employee is paid LL 60,000 and he / she is entitled to make 14 visits per month. Some employees can have more than one committee compensation

⁴³ The percentage of the redistributable fines at the Ministry of Finance are distributed twice per year in accordance to pre-set shares which are in turn linked to the level of the employee

⁴⁴ The Ministry of Finance also distributes the tax returns (Zaidat) once per year. They are calculated as a percentage of the minimum wage

A. Personnel working in civil administration:

- For personnel working in civil administration, only the transportation indemnity and the overtime allowance were added on top of the family indemnity.
- The three examples demonstrate that employees' monthly pay is higher than their basic salary even when only three allowances were added; in fact, the increment to their basic salary ranges between 51 percent for the highest ranking employees to 91 percent for the lowest ranking civil servants.
- The three examples do not represent the complete picture and underestimate the total take home pay. More precisely, in order to understand the full take-home pay of an employee, all of the allowances and indemnities need to be added to the basic salary; while the annual bonus, school and health indemnities, and committees' indemnities are amongst those that are repetitive on an annual basis, other allowances and indemnities are only circumstantial such as the marriage, death, birth, etc.
- In parallel, deductions relating to the income tax, the employees' cooperative, and retirement have to be made in order to provide the full picture.

Table 8. Civilian personnel – Take-home pay, Examples at three different grades

<i>In Lebanese Liras</i>	Employee at grade 1, step 10	Employee at grade 3, step 10	Employee at grade 4, step 10
Basic salary	3,645,000	1,408,000	1,018,000
2012 Cost of Living	300,000	272,000	232,000
Family indemnities (1 wife, 3 children)	159,000	159,000	159,000
Transportation indemnity	200,000	200,000	200,000
Overtime allowance (50 hours)	1,215,000	469,333	339,333
Monthly take-home pay	5,519,000	2,508,333	1,948,333

B. Military personnel

- For military personnel, four examples were picked to represent different grades of military personnel.
- Four types of allowances and indemnities were added to the basic salary: the family indemnity, indemnities specific to the armed forces⁴⁵, the housing allowance, and the Security Alert indemnity.
- Similarly to civil servants, the four examples show that employees' total monthly pay is much higher than their basic salaries; in fact, the increment to their basic salaries ranges between 80 percent for the highest ranking employees to 109 percent for the mid ranking armed forces.
- The five examples do not represent the complete picture. In order to understand the full take-home pay of an employee within the military forces, all of the allowances and indemnities need to be added to the basic salary;

⁴⁵ Under Annex 6

- In parallel, deductions relating to the income tax and retirement have to be made in order to provide the full picture.
- Military personnel receive other types of benefits not listed above which include a driver, cars, mobile and fixed line allowances, and gasoline coupons.

Table 9. Military personnel – Take-home pay, Examples at four different grades

<i>In Lebanese Liras</i>	Liwa' grade, step 5 (out of 7 steps)	'Aamid' grade, step 6 (out of 11 steps)	'Moulazem' grade, step 7	'Routaba' grade, Rakib, step 10
Basic salary	3,648,000	2,793,000	1,331,000	1,028,000
2012 Cost of Living	300,000	300,000	264,000	237,000
Family indemnities (1 wife, 3 children)	159,000	159,000	159,000	159,000
Military equipment indemnity ⁴⁶	567,000	567,000	252,000	-
Post compensation indemnity ⁴⁷	860,000	860,000	344,000	-
Field service indemnity ⁴⁸	-	-	-	137,000
Housing allowance ⁴⁹	437,760	335,160	159,720	123,360
Security alert #3 ⁵⁰	620,160	474,810	306,130	236,440
Monthly take home pay	6,591,920	5,488,970	2,815,850	1,920,800

6. Government policies behind the rise in personnel cost

A. Frequent recruitments

Over the past ten years, recruitment in the public sector took place, especially in the education and military branches, notably through the following forms:

- Frequent hiring of teachers, such as the taking into service of 2,727 new teachers at the end of 2004, and the recruitment of 2,835 primary teachers in 2010;
- Regular transformation of military personnel's contracts from contractual to permanent, such as on two major instances: (a) throughout and after the July 2006 war with Israel and to help implement UN Security Council resolution 1701, 15,000 army and security forces became permanent

⁴⁶ For the first two examples (Liwa' and Aamid), the military equipment indemnity is 45% of the basic salary of a Moulazem grade, step 1 = LL 1,260,000; for the third example, it is equivalent to 20% of the basic salary of a Moulazem grade, step 1 = LL 1,260,000; for the fourth example, it is not provided.

⁴⁷ For the first two examples (Liwa' and Aamid), the post compensation indemnity is 100% of the basic salary of a Joundi grade, step 1 = LL860,000; for the third example, it is equivalent to 40% of the basic salary of a Joundi grade, step 1 = LL860,000

⁴⁸ Field service indemnity is 16% of the basic salary of a Joundi grade, step 1 = LL860,000

⁴⁹ Housing allowance is only provided to married employees and amounts to 12% of an employee's basic salary

⁵⁰ For the first two examples, Security alert # 3 is 17% of an employee's basic salary; for the last two examples, it is 23% of an employee's basic salary

employees, (b) 10,637 personnel in the Internal Security Forces became permanent members in 2011.

- Enlistment of volunteers in armed forces, such as the 4,000 new volunteers in 2011.

B. Adjustment in minimum wages, the new salary scale, transportation indemnity, and bonuses

On February 19, 2013, civil servants and teachers started an open-ended strike to pressure the government to transfer a new salary scale to Parliament⁵¹. On March 21, 2013, the Council of Ministers approved the proposal for the increase of the minimum wage, the provision of cost of living⁵², and the amendment of the basic salaries based on the new scale in the public sector, as well as a list of revenue measures. However, prior to that and since 2003, wages and salaries have been subject to a number of changes. These changes include but are not limited to:

- The transportation indemnity was raised to LL 6,000 per day in February 2005 and again to LL 8,000 per day in November 2008.
- In 2007, an exceptional bonus salary was paid to military personnel after the Nahr el Bared war in 2007;
- In December 2008, Parliament ratified a law to increase the minimum wage from LL 300,000 to LL 500,000. Accordingly, all salary and wage scales were adjusted. In fact, all schedules were revised in order to grant public sector employees a 5 percent increase on the value of their echelons. In addition, the same law approved the monthly pay of retirees to be raised by LL 170,000 per month, with a retroactive which started in May 2008.
- In March 2010, Parliament ratified a law to grant 3 exceptional steps to primary and intermediate teachers; again, in August 2010, 4 exceptional steps were granted to secondary teachers. Lastly, in April 2012, four exceptional echelons were granted to primary and secondary teachers.
- In August 2011, Parliament ratified a law to increase the salaries of judges; in accordance to that law, the highest ranking judge will see his basic monthly salary rising from LL5.4million to LL 9.3million;
- In March 2012, a law was ratified to provide for a new salary scale for Lebanese university professors and retirees;
- In September 2012, the Cabinet approved the granting of public sector employees with a cost of living increase.

C. Retroactive payments

In 2012, the Treasury disbursed four different kinds of retroactive payments, namely the 1996-98 retroactive, the one-off field service indemnity retroactive, the 2012 cost of living retroactive, and the exceptional degrees' retroactive of education personnel, including the retroactive to the Lebanese University professors.

⁵¹ Kindly refer to box 1

⁵² Cost of living adjustment started to be paid since September 2012 before the Parliament approval, in accordance with a treasury advance in the amount of LL 750 billion as per decree 8851 dated September 7, 2012.

7. Conclusion

(1) This study constitutes a starting point for conducting further research in the personnel cost area in Lebanon. It was a first attempt to look more closely at one of the largest expenditure items in Lebanon's budget.

(2) A step further should involve conducting a deeper analysis into the untapped area of retirement and end of service which represent a serious contingent liability and an area of important fiscal pressure in the future especially with 22 percent of employees retiring in the next five years.

(3) it was clear from the study that there is a gap between the basic salary of an employee and his final take home pay. Only by including a limited number of fringe benefits for civil servants and armed forces, the difference was important. The analysis should be further extended to cover the remaining allowances and indemnities, taking into account deductibles for income tax, retirement, and employees' cooperative.

(4) Due to data limitations, it was not possible to conduct a comparison between the wages in the public and the private sectors. Any continuation or deepening of this study should involve delving into this assessment, especially by covering the entire life of an employee and his pension payment.

(5) Only by conducting a review of the two different systems of civil servants, the armed forces and the civil servants, it was clear that they are different in the salary scales, the allowances and indemnities, the ranks and levels. The others systems which cover teachers, judges, university professors also contain large discrepancies amongst themselves and with the civil servants and armed personnel.

(6) With one of the highest debt ratios in the world, the government should carefully consider further raising its spending by adopting the new salary scale without instigating a decline in transfer to the loss making electricity institution, EDL. By reaching 7.6 percent of GDP with the recently implemented cost of living, the ratio of personnel cost has risen above regional and global comparables.

(7) In case the new salary scale is adopted , employees' basic salaries will substantially increase; it will rise by 49% for the first example , 56% for the second example , and 30% for the third example. However, this calculation only pertains to basic salaries and does not take into consideration the impact of the latest Council of Ministers' resolution on the final monthly take home pay of an employee which includes allowances and indemnities that were cut as part of the reform measures attached to that decision.