

○ IMPROVING THE BUSINESS ENVIRONMENT

Implementing the Palestinian National Employment Strategy

○ Thematic Fiche 07

○ *Background*

As employment in the Palestinian economy largely depends on family, micro- and small-sized enterprises, incentivising youth to engage in self-employment, freelance work, and entrepreneurship in start-ups and innovation companies while reducing administrative and procedure obstacles, particularly in production and technical sectors, are a cornerstone for Palestinian private sector development and for promoting decent work and full and productive employment.

While noting the disintegration and absence of an investment climate horizon due to the political environment, the World Bank Investment Climate Assessment 2014 referred to some positive aspects of the investment climate.¹ The incidence of petty corruption remains relatively low, the financial sector continues to be stable and liquid, and despite the political division between the West Bank and Gaza, most aspects of the bureaucracy are still functional. Political risk insurance (PRI) has finally been made available. After 11 years of relative inactivity, the PRI

programme offered by the Multilateral Investment Guarantee Agency (MIGA) is currently being actively deployed. In fact, it is approaching its capacity limit in terms of commitment and interest. This turnaround is due to relative improvements in the investment environment since the period following the second Intifada when the PRI fund was first launched.

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1 World Bank 2014

○ Main gaps

According to the World Bank Doing Business Report 2020, in 'ease of doing business', the Occupied Palestinian Territory ranked 117 out of 190 countries and territories, showing noticeable improvement from 2015 when it ranked 143. However, between 2015 and 2020, its ranking fell to 173 from 159 in 'starting a business' indicators, and to 112 from 52 in 'paying taxes'.

On the other hand, a slight improvement was made in dealing with construction permits, getting electricity, getting credit, trading across borders, enforcing contracts, and resolving insolvency. The report emphasizes the importance of accelerating reform and improving administrative processes and doing business requirements. These are key to encouraging investment, creating employment opportunities, and shifting to the formal economy, particularly focusing on young and female entrepreneurs.

○ Geography, Gender & Social Inclusion

The Palestinian economy is beset by significant employment and labour market challenges, particularly among youth and women. This has been compounded by the economic impact of the COVID-19 pandemic. As such, the National Employment Strategy 2021-2025 reflects a preventive and remedial approach that addresses women and youth specifically. Its objectives related to the business environment include addressing inadequate productivity, the creation of self-employment opportunities for both men and women, and encouraging private investment in priority sectors.

The vast majority of Palestinian companies are small in size, with female-run enterprises being mostly small and informal. In areas under Israeli control, basic start-up indicators such as access to electricity, construction permits, and enforcing contracts involve complicated and politicized bureaucracies that force enterprises to remain small, underserved and unregistered. Banking and financial services often do not serve these small enterprises, although non-governmental actors have had success in reaching informal, rural, female and otherwise marginalized business owners.

While more than 20 per cent of tech start-ups in the Occupied Palestinian Territory were created by women (a higher proportion than any other location studied by the World Bank)², a different study found that a high number of entrepreneurs overall (and two-thirds of women and youth) were driven to entrepreneurship by necessity rather than opportunity. Female entrepreneurs are young and inexperienced and need additional support to succeed.

○ Areas for Development



Seeking to build on recent improvements in the business environment,

the Palestinian Authority is committed to further enhancing the legal and regulatory business environment as a main driver for stimulating job-rich growth and investment.



Particular emphasis will be placed on investment promotion

by facilitating company registration processes and requirements- including for high-tech start-ups- consolidating registration and licensing terms of reference, and reforming property and patent registration and protection procedures in line with best international practices.



Topmost priority will be given to amending and approving a modern company law.

○ *Risks & Challenges*

Despite efforts by the Palestinian Authority to strengthen the business climate and promote private investment, ongoing Israeli measures such as the closure of roads and access points and control over raw materials and resources drive up transportation and production costs and depress Palestinian economic competitiveness. Low investment is not a surprise in such circumstances. Movement of persons and goods in and out of Gaza has been especially curtailed.

○ *Desired Outcomes*

1. Develop legal and institutional frameworks to facilitate doing business, and incentivize private investment.

The Law on the Palestinian Industrial Estate and Free Zone Authority will be revised and amended, and its relevant bylaws finalized. The Competition Law will be developed and approved and its bylaws completed. In addition to approving the Accreditation and Quality Assurance Commission Law, the Law on Standards and Specifications will be revised, ensuring promotion of competitiveness and serving the status of local products in the market. While licensing and registration procedures are developed and automated, the Law on the Regulation of Commercial Agents' Business will be upgraded.

Indicators

- ▶ The Palestinian ranking in the doing business index (World Bank) will improve by at least five ranks by 2023.
- ▶ The OPT will enhance its ranking by scoring at least 62 on the ease of doing business index by 2023.
- ▶ The OPT will be among the top ten countries with most business environment reforms by 2025.
- ▶ Annual percentage increase in the size of investments in start-ups, by sector and type of company.
- ▶ Annual percentage of annual increase in the number of companies registered with the Ministry of National Economy, by type of company.

○ Priority Investment Needed

\$100,000



for amendments and reforms

to the legal and regulatory business framework to reduce cost of starting and doing business, including to overcome the COVID-19 crisis.

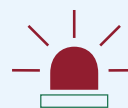
\$1 MILLION



to invest in infrastructure

(including IT systems and networks) to support new reforms, training of staff, developing new business processes, etc.

\$80,000



for awareness raising measures

on the new legal and regulatory framework.

