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Private Sector Perceptions Relative to Economic Policies and Institutions (March 2005)

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The business environment in the Palestinian territories has been subject to significant shifts in the legal and regulatory frameworks during the past decade, i.e. following the inception of the Palestinian Authority. The dynamics of the business environment witnessed even more drastic transformations following the outbreak of the Intifada in September 2000, which reflected heavily on investment flows, competitiveness of firms, labor market and living standards.

The magnitude and predisposing causes for the predicament of the Palestinian economy and business sector have been extensively assessed by many local and international organizations. This piece focuses on the perceptions of the business community relative to the ongoing shifts in the investment climate in Palestine. The results are based on a field survey involving a sample of 750 firms (450 from the West Bank and 300 from Gaza Strip). The interviewing process was restricted to owner(s) and senior executives in sampled firms. The field work was conducted in March 2005.

The following is a summary of the main results (for a full report on this survey, readers are invited to CPSD website: www.cpsd.ps or email CPSD office for a hard copy: cpsd@cpsd.ps). This project was sponsored jointly by the Center for Private International Enterprise and the Mediterranean Development Forum (World Bank).

1- PA's commitment to market economy principles

The Palestinian leaders have repeatedly emphasized their commitment to market economy principles, yet the Palestinian Authority has systematically engaged in direct commercial activities (e.g. fuel and cement) ever since it was established in 1994. Furthermore, the PA has embarked on excessively interventionist policies, which are widely viewed as not consistent with a modern market economy. Sampled business leaders have the following to say on these issues:

1-1 Counting on the past record, how do you view the impact of the PA's direct involvement in commercial activities (eg. fuel, cement, cigarettes) with regard to serving the interests of ordinary citizens and private sector firms?

	V. good	Good	Bad	No opinion	Total
Serving citizens' interests	13.7	32.8	48.1	5.3	100.0
Serving private sector interests	10.3	32.3	50.7	6.8	100.0

1-2 Some senior PA officials have promised gradual withdrawal from direct commercial activities. Do you feel that the PA's actual policies are going in that direction?

	W. Bank	Gaza	WB . G
Yes	13.3	23.3	17.3
Somewhat	31.1	30.3	30.8
No	50.2	40.0	46.1
No opinion	5.3	6.3	5.7
Total	100.0	100.0	100.0

1-3 One of the indicators on the government's adherence to a market economy is the size of its intervention in the functioning of the private sector. In general, how do you view the PA's level of intervention in the private sector?

	W. Bank	Gaza	WB . G
Excessive	35.6	28.3	32.7
Appropriate	35.1	43.3	38.4
Inadequate	23.8	23.0	23.5
No opinion	5.6	5.3	5.5
Total	100.0	100.0	100.0

1-4 On the whole, how do you characterize the PA's interaction with private sector firms and institutions?

	W. Bank	Gaza	WB . G
Very good	5.8	13.3	8.8
Good	27.3	21.0	24.8
Fair	35.3	34.3	34.9
Bad	27.1	25.7	26.5
No opinion	4.4	5.7	4.9
Total	100.0	100.0	100.0

2- Public sector workforce

The recruitment procedures and size of the public sector workforce have had a considerable impact on the business sector during the past 10 years. Viewed from a private sector perspective, the PA's workforce suffers of deep structural problems, as indicated in the following data.

2-1 In general, how do you view the size of public sector workforce?

	W. Bank	Gaza	WB . G
Too large	62.0	30.7	49.6
Reasonable	18.2	39.3	26.7
Too small	13.8	24.7	18.1
No opinion	5.8	5.3	5.6
Total	100.0	100.0	100.0

2-2 In retrospect, how do you describe the PA's recruitment policies as they were ten years ago?

	W. Bank	Gaza	WB . G
Very good	1.6	13.0	6.1
Good	20.9	28.3	23.9
Not bad	32.2	23.3	28.7
Bad	40.0	33.4	37.3
No opinion	5.3	2.0	4.0
Total	100.0	100.0	100.0

2-3 Ten years later, how do you view the PA's recruitment policies as they are at the present (March 2005)?

	W. Bank	Gaza	WB . G
Much better	10.7	11.7	11.1
Slightly better	24.2	23.3	23.9
No change	33.8	37.7	35.3
Worse	26.4	22.0	24.6
No opinion	4.9	5.3	5.1
Total	100.0	100.0	100.0

2-4 Counting on **what you see on the ground**, how do you rate the relative importance of the following criteria in public sector employment policies?

	Relative significance
Partisan loyalties	(1)
Personal and family relations	(2)
Political track-record	(3)
Academic and professional credentials	(4)

3- Quality of governance

The quality of governance in public sector institutions, especially those bearing on the investment climate, has attracted considerable attention during the past 10 years. The following results are indicative of deep concern on the side of the private sector.

3-1 How do you rate transparency in economic public sector institutions?

	W. Bank	Gaza	WB . G
Good	16.4	20.7	18.2
Fair	32.4	33.3	32.8
Bad	41.6	42.0	41.7
No opinion	9.6	4.0	7.3
Total	100.0	100.0	100.0

3-2 How do you rate the clarity of mission and functions of major economic public sector institutions?

	W. Bank	Gaza	WB . G
Good	12.7	21.7	16.3
Fair	26.9	29.0	27.7
Bad	52.4	40.3	47.6
No opinion	8.0	9.0	8.4
Total	100.0	100.0	100.0

3-3 Coordination between economic public sector institutions has been a major concern to the Palestinian private sector. In general, how do you rate the level of coordination between economic public sector institutions as it is at the present?

	W. Bank	Gaza	WB . G
Good	12.2	23.0	16.5
Fair	22.0	24.7	23.1
Bad	56.9	43.7	51.6
No opinion	8.9	8.7	8.8
Total	100.0	100.0	100.0

4- Corruption

The term “corruption” was loosely used during the past ten years, and it often involved a widely heterogeneous mix of indicators. The following are the perceptions of the private sector leaders viz-a-vis some forms of mismanagement and irregularities which bear heavily on their interests.

4-1 Do you feel that some firms or businessmen obtain favors and privileges from public sector institutions on account of personal, family or political connections?

	W. Bank	Gaza	WB . G
Yes	63.1	52.3	58.8
No	16.4	16.3	16.4
To some extent	16.2	20.7	18.0
No opinion	4.3	10.7	6.8
Total	100.0	100.0	100.0

4-2 If the answer to the previous question is positive, how do you assess the impact of this phenomenon on the business environment?

	W. Bank	Gaza	WB . G
Very serious	45.1	44.7	45.0
Serious	42.9	20.5	34.4
No problem	7.8	20.5	12.7
No opinion	4.2	14.3	8.0
Total	100.0	100.0	100.0

4-3 In general, how do you assess the prevalence of bribery as a means employed by business firms for procuring services or other privileges from public sector institutions?

	W. Bank	Gaza	WB . G
Widely spread	32.2	50.0	39.3
Limited	38.0	29.0	34.4
Does not happen	21.8	11.3	17.6
No opinion	8.0	9.7	8.7
Total	100.0	100.0	100.0

5- Performance of economic public sector institutions

The performance of economic public sector institutions was assessed by sampled business leaders. Respondents were encouraged not to comment on unfamiliar institutions. The results are as follows:

5-1 How do you rate the performance of the following institutions in serving the Palestinian economy?

	V. good	Good	Fair	Bad	No opinion	Total
Ministry of Economy	10.9	31.1	25.3	18.0	14.7	100.0
Ministry of Finance	10.1	40.1	23.2	16.8	9.7	100.0
Ministry of Agriculture	9.1	29.2	23.9	20.8	17.1	100.0
Ministry of Tourism	4.0	16.3	18.8	34.9	26.0	100.0
Ministry of Planning	5.9	20.9	20.5	28.5	24.1	100.0
Ministry of Labor	5.7	31.7	28.7	25.6	8.3	100.0
Ministry of Communication	13.6	36.0	22.4	18.7	9.3	100.0
Palestinian Monetary Authority	3.5	17.5	17.9	27.2	34.0	100.0
Overall rating	7.8	27.9	22.6	23.8	17.9	100.0

5-2 How optimistic you are relative to the prospects of improvement in the performance of economic public sector institutions?

	W. Bank	Gaza	WB . G
Optimistic	30.3	34.7	31.9
Cautiously optimistic	38.9	30.0	35.3
Neutral	10.7	17.7	13.5
Pessimistic	19.6	10.3	15.9
No opinion	0.9	7.3	3.5
Total	100.0	100.0	100.0

6- Performance of the judiciary system in settling commercial disputes

The performance of the judiciary system in settling commercial disputes and fostering the rule of law is viewed as one of the most important prerequisites of a healthy investment environment. Given the turbulent political and regulatory circumstances in the Palestinian

territories, the role of the judiciary system becomes even more critical. This role has been assessed by sampled business leaders through the following indicators:

6-1 Speed of settling disputes

	W. Bank	Gaza	WB . G
Very good	2.7	22.7	10.7
Good	18.9	28.3	22.7
Fair	31.3	23.3	28.1
Bad	41.3	22.7	33.9
No opinion	5.8	3.0	4.7
Total	100.0	100.0	100.0

6-2 Fairness

	W. Bank	Gaza	WB . G
Very good	4.0	13.7	7.9
Good	20.4	33.0	25.5
Fair	32.2	26.3	29.9
Bad	34.9	24.3	30.7
No opinion	8.4	2.7	6.1
Total	100.0	100.0	100.0

6-3 Implementation of court resolutions

	W. Bank	Gaza	WB . G
Very good	2.2	7.0	4.1
Good	13.3	14.7	13.9
Fair	24.7	31.7	27.5
Bad	54.2	41.7	49.2
No opinion	5.6	5.0	5.3
Total	100.0	100.0	100.0

7- Security of persons and property

Counting on the current situation, how do you rate the performance of the PA in providing security to ordinary citizens and their property?

	W. Bank	Gaza	WB . G
Very good	2.0	10.3	5.3
Good	19.1	22.3	20.4
Average	25.1	30.7	27.3
Weak	53.3	34.3	45.7
No opinion	0.4	2.3	1.2
Total	100.0	100.0	100.0

8- The Palestinian Legislative Council

The performance of PLC in relation to economic and private sector issues has been assessed along three main criteria, as follows:

	V. good	Good	Fair	Bad	No opinion	Total
Promulgating growth enabling laws	10.0	28.5	26.4	29.6	5.5	100.0
Overlooking the enforcement of laws	5.6	22.9	26.9	36.7	7.9	100.0
Monitoring the PA's economic performance	7.6	17.9	27.3	40.7	6.5	100.0

9- How do you assess the performance of the following institutions in serving the Palestinian private sector and economy:

	W. Bank	Gaza	WB . G
9-1 Private sector institutions			
Very good	10.9	24.7	16.4
Good	44.7	37.7	41.9
Fair	28.9	26.3	27.9
Bad	10.7	8.7	9.9
No opinion	4.9	2.7	4.0
Total	100.0	100.0	100.0
9-2 Commercial banks			
Very good	8.9	25.0	15.3
Good	43.1	39.7	41.7
Fair	26.4	25.0	25.9
Bad	16.0	7.0	12.4
No opinion	5.6	3.3	4.7
Total	100.0	100.0	100.0
9-3 Local universities			
Very good	15.3	31.0	21.6
Good	46.2	34.0	41.3
Fair	21.3	23.0	22.0
Bad	9.3	9.7	9.5
No opinion	7.8	2.3	5.6
Total	100.0	100.0	100.0
9-4 Labor unions			
Very good	3.8	13.7	7.7
Good	35.8	29.7	33.3
Fair	26.7	25.7	26.3
Bad	28.7	27.7	28.3
No opinion	5.1	3.3	4.4
Total	100.0	100.0	100.0

10- Optimism about the future

10-1 How optimistic you are relative to the future of the investment climate in Palestine?

	W. Bank	Gaza	WB . G
Optimistic	28.2	40.0	32.9
Cautiously optimistic	42.9	28.0	36.9
Neutral	10.0	16.0	12.4
Pessimistic	16.7	8.7	13.4
No opinion	2.2	7.3	4.3
Total	100.0	100.0	100.0

11- What are your plans for your firm in the foreseeable future?

	W. Bank	Gaza	WB . G
Expand production	56.4	54.0	55.5
Reduce production	10.0	10.3	10.1
Stop production	9.1	4.3	7.2
Change type of business	10.7	12.7	11.5
No opinion	13.8	18.7	15.7
Total	100.0	100.0	100.0