

The Impact of the labour Law On Private Sector Competitiveness



PALESTINE ECONOMIC POLICY RESEARCH INSTITUTE

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Palestine Economic Policy Research Institute

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FOREWORD

The completion of this study on the impact of the labour law on the competitiveness of the private sector comes as part of a series of studies aimed at suggesting policies to create an economically-enabling business environment. The labour law came into effect in 2000 and resulted in the unification of labour legislation between the West Bank and the Gaza Strip. Before this date, the Jordanian labour law of 1965 was in effect in the West Bank and the Egyptian labour law of 1964 covered the Gaza Strip.

Studying competitiveness is a demand-side issue, so the focus was on two related themes: whether this law has resulted in a rise in labour costs for employers, and whether it provided employers with enough flexibility in hiring and firing workers.

The findings of the study indicate that costs have increased, but this is only a consequence of bringing labour laws into line with international standards and those found in neighbouring countries. The legislation in force in the WBS before 2000 was substantially disadvantageous to workers. However, the rise in employers' costs came at a particularly bad time as it coincided with the start of the *Intifada*. The productive capacity of the Palestinian economy was severely damaged, which led to many businesses going bankrupt and others struggling to remain in the market. Higher labour costs then compounded the problems faced by employers. As for flexibility, the study found that the Palestinian labour law still provides employers with a large degree of leeway in comparison to neighbouring countries.

On the occasion of the publication of this study, I would like to thank the research team for the effort that they put into preparing it. I would also like to thank all those who met with the team and contributed their opinions and expertise, and the numerous participants at the workshop held to discuss the study's findings. Their notes and observations made an important contribution to drawing up the final recommendations. Lastly, I would like to express my gratitude to our partners at the International Development Research Centre (IDRC), Canada, for their continuing support of MAS's activities, and the research program of which this study is a part.

Dr. Samir Abdullah
Director General

Executive Summary

A strong legislative framework is an important determinant of competitiveness, and to that end this study examines the effects of the recently-introduced Labour Law on employers in the private sector. The Law was ratified in the year 2000, when it replaced the 1965 Jordanian Labour Law which was in force in the West Bank and the 1964 Egyptian Labour Law which was applicable in the Gaza Strip.

Assessing the impact of the labour law on competitiveness is a demand-side issue, so this study examined the repercussions of the legislation for employers. It found that the law has led to a rise in labour costs of between six and twelve percent, but that this was a consequence of bringing workers' rights into line with international standards. The laws which had been in force prior to 2000 were greatly disadvantaging workers.

The implementation of the labour law coincided with the beginning of the *Intifada* in 2000, which meant that employers suddenly faced much higher production costs. Israeli measures led to a big hike in transportation bills, and other costs associated with uncertainty, which made the timing of an increase in labour costs particularly unfortunate. However, the study found that the new law still provides employers with significant flexibility to hire and fire workers, more even than in some neighbouring countries. For example, firms can sack workers if their production cycle changes, as long as they provide a one month's notice and appropriate severance pay.

The study discovered several ambiguities in the law, which leaves much potential scope for confusion. Many employers indicated that the law would be more effective with a number of clarifications and improvements, including the following:

1. Adding special provisions covering part-time employment. The law fails to deal with this type of labour.
2. Providing better account of the rights and duties of employers and workers in short-term contracts.
3. Altering Section (2) of Article (40), which gives employers 2 days to notify the authorities of any wilful damage done by employees in the workplace. Given the particular circumstances of the WBGS and the difficulty of movement, 48 hours were felt to be insufficient time.

Also, the law does not specify which authorities the employer should contact.

4. Adjusting Section (9) of Article (40) to allow an employer to sack a worker who attacks fellow workers or customers.
5. Clarifying Article (41) which allows employers to sack workers for 'technical reasons'; the law does not explain what these are.
6. Establishing a committee to deal with dismissals, such as is found in neighbouring countries.
7. Clarifying the provisions which cover the issue of workers leaving their jobs before the end of their notice period.
8. Expanding health and safety regulations, which are currently just dealt with very briefly.
9. Activating the committees specified in the law which encourage employers, the government and trade unions to work together on resolving issues such as wages and working conditions.