



The Eli Hurvitz Conference
on Economy and Society

II DALIA AND ELI HURVITZ
FOUNDATION LTD

Two Economies – One Society

June 19th- 20th, 2018

Conference Background Materials

Research Abstracts and Project Team Summaries

Conference Chair: Prof. Eugene Kandel

Conference Director: Daphna Aviram-Nitzan



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Opening Remarks – Yohanan Plesner, President, Israel Democracy Institute

Dear guests,

This is the 25th year IDI is holding the Eli Hurvitz Conference on Economy and Society. In its new format, the conference serves as the highlight of a multi-year process that creates continuity of research, debate and advocacy around a series of critical challenges, in a manner calculated to maximize the potential for impact. The process, conducted under the leadership of IDI's Center for Governance and the Economy, involves a series of year-round working groups operating in close cooperation with senior government officials, representatives of the business sector, leaders from academia and the think tank community, as well as prominent members of Israel's civil society sector.

The interim products of these working groups will be presented over the course of the conference. They address several strategic challenges, including: preparing for the challenges of the future labor market, with an emphasis on education, higher education, and vocational training systems; promoting changes in legislation that are needed to adapt to an evolving labor market; easing the bureaucratic burden on the business sector; and improving Israel's standing on global economic indices.

The conference's opening session will focus on the overarching question of how the government can develop and implement a social-economic vision for Israel, on the basis of long-term strategic thinking. This discussion will be based on a test case – “Israel 2028” – launched a decade ago and developed under the leadership of Eli Hurvitz z”l, whose name this conference bears. Since we are now midway on the road to 2028, this is the time to examine to what degree the recommendations of the “Israel 2028” report are still relevant; whether they were implemented and why; assess our progress towards the goals laid out in that historic document; and derive lessons from that experience for future government planning efforts.

The discussion will also be based on “Developing a Long-term Economic and Social Strategy for Israel”, a report commissioned by the Government of Israel in 2011, and written by the Rand Corporation and the Shaldor Strategy Consulting Firm. While “Israel

2028” focused on the content of the recommended strategy, the Rand-Shaldor report emphasizes structural changes and changes in processes, which will make it possible for the government to adopt strategic thinking and planning as integral components of its work. Both content and process, needless to say, are essential for sound strategy.

We view this conference as an excellent opportunity to bring together Israel’s economic leadership to engage in an open, professional, and productive dialogue—one that may challenge existing practices and worldviews. For us, it is a superb opportunity to present a series of concrete policy recommendations developed over the course of the past year for feedback and, eventually, implementation.

This will be the sixth conference carrying Eli Hurvitz’s name. Eli was the President, CEO and Chairman of Teva Pharmaceutical Industries and among the most prominent leaders of Israeli industry. He served as Chairman of the Board of IDI, and for many years, chaired the Caesarea Forum (the previous name of this conference). We are deeply grateful to Dalia, Haim, Vered and Dafna for supporting us through the transformation of the conference, and making it possible for us to continue Eli’s legacy.

I wish to thank our partners at *Tzurim*, all of the researchers, team leaders, team members, and the Director of the Conference, Daphna Aviram-Nitzan, and the entire staff of the Israel Democracy Institute, who have worked so hard to make this conference happen.

A special thanks goes to Professor Eugene Kandel – chair of this conference – for his professionalism, dedication, and unwavering commitment to its success.

Sincerely,



Yohana Plesner

President, The Israel Democracy Institute

Eli Hurvitz, Z"l – A Life of Achievement

Eli Hurvitz was born on Passover Eve, 1932 in Jerusalem during the British Mandate of Palestine. Two years later, he moved with his family to the new city of Tel Aviv. He studied at HaCarmel School, followed by the Ironi Alef High School, where he was a leader in the *Tzofim* (Israel Scouts).

In May 1948, Eli, while still underage, enlisted in the Israel Defense Forces to fight in Israel's War of Independence. He returned to school in order to complete his matriculation (*Bagrut*) exams, and later joined the newly-formed IDF Nahal Brigade, which founded Kibbutz Tel Katzir, located on the Syrian border.

He was an effective ambassador and recruiter for the Kibbutz – so successful that he recruited Dalia Salomon, who he later married in June 1953. The young couple subsequently moved to Tel Aviv so Eli could earn his university degree in the Tel Aviv branch of the Hebrew University.

As a student of economics, Eli began working in 1953 as a part-time glassware washer in the laboratory in Assia Chemical Labs Ltd., a firm managed by Dalia's father, Nachman Salomon. He joined the firm full-time after his graduation in 1957 and was rapidly promoted from clerical to executive roles.

In 1964, Eli led the merger of Assia, a small pharmaceutical plant in Petah Tikva, with Zori, another similar plant in Tel Aviv, and in 1969 acquired a controlling interest in the publically-traded Teva, which was then a small pharmaceutical company in Jerusalem. In 1976, the three firms merged to become Teva Pharmaceutical Industries Ltd., Israel's leading pharmaceutical company with sales of \$28 million. Eli was named CEO.

With Eli's vision and strategic leadership, Teva consolidated the fragmented and nascent Israeli pharmaceutical industry. It then embarked upon a series of foreign acquisitions that created the world's largest generic pharmaceutical company and Israel's largest corporate enterprise.

Throughout his life, Eli maintained a strong commitment to public service, including an inspirational career in the Israel Defense Forces. He was deeply committed to the principles of Zionism. Eli enrolled in the field officer's course and served as a reserve

combat officer in the Artillery, earning successive promotions and recognition for service in times of war and peace. He fought on the front lines of the Sinai Campaign, the Six Day War, the Yom Kippur War, and the First Lebanon War, ultimately retiring as a Lieutenant Colonel.

Eli advanced his core principles through his service to academic institutions focused on peace and democracy in Israel and abroad. He chaired the executive committee of the Weizmann Institute of Science (1989-1995) and served as a member of the board of governors of Tel Aviv University (2001-2011). He had a leading role in the planning and eventual opening (2011) of the medical school in Safed, to serve the Israeli communities in the north. In recognition of his lifetime of service, Eli was elected to the international council of the Belfer Center for Science and International Affairs in the J. F. Kennedy School of Government, Harvard University (2002-2005).

He was a trusted advisor of all of Israel's presidents, prime ministers and finance ministers, who frequently recruited him for non-political leadership roles. As president of the Manufacturers Association of Israel, he played a key role in establishing the historic program to stabilize the economy (1986). Three years before his death, Eli chaired "Israel 2028: Vision and Strategy for Economy and Society in a Global World," which was an ambitious and "extensive plan to achieve national objectives – rapid, balanced growth and reduction of social gaps – aimed at positioning Israel among the 10-15 leading countries in terms of economic achievement and quality of life, over the next twenty years".

Eli's prolific activity in both the public and private sectors earned him a long list of awards from public and academic institutions, including six honorary degrees. In April 2002, he was awarded the Jewish State's highest honor, the Israel Prize for Special Contribution to Society and the State.

Eli had a special relationship with the Israel Democracy Institute. He saw IDI's work as crucial to strengthening Israeli democracy. He attached great importance to the Institute's efforts to help decision makers devise and implement wise policies based on research, thoughtful deliberation and long-range planning, for the benefit of Israeli society as a whole.

From 2002-2008, Eli chaired IDI's board. In addition, he was a long standing member of the Caesarea Forum, widely recognized as Israel's most influential economic conference. Eli participated in the prestigious forum until the year he passed away. In his honor, the gathering was renamed The Eli Hurvitz Conference on Economy and Society.

Eli Hurvitz passed away on November 21, 2011, at the age of 79.

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Introduction by the Director of the Center for Governance and Economy

Preparing for the Future Labor Market

Daphna Aviram-Nitzan

The labor market of the future brings with it multiple challenges, along with opportunities for growth and innovation. Experts predict far-reaching changes in the structure and characteristics of the labor market in the coming decades, and indeed we are already seeing their first signs. Among the sources of these changes are technological developments, demographic changes, growing globalization, and changes in perceptions on the working world. Being unprepared for these changes is a situation fraught with dangers including growing inequality and polarization among various groups in the labor market, and in Israeli society.

On the one hand, there is a significant shortage of trained workers in the scientific and technological fields, leading to a rise in salaries in those areas, and on the other, a surplus of workers in the occupations which are already obsolete, or are expected to become obsolete in the evolving labor market. Growing gaps between workers in these two occupational categories – those in which there is a shortage, and those in danger of becoming obsolete – make for a social time bomb that threatens the social, economic, and political stability of countries, and lead to political extremism, as we are already witnessing in several European countries. These trends threaten political stability in democratic countries as well, since citizens are likely to protest against systems that they feel “aren’t working”. Furthermore, the lack of a system-wide strategy for dealing with these threats is liable to be profoundly detrimental to economic growth and to competitiveness. Even the hi-tech sector – today’s engine of economic growth – may find itself lacking the necessary manpower for continued growth, while other economic branches may miss out on opportunities to cash in on the potential for growth of new technologies if there is a lack of skilled workers for their implementation.

Clearly, well-informed, thoughtful planning and gearing up for these challenges could significantly reduce the likelihood of these scenarios and preserve Israel’s status as a “start-up nation”, characterized by rapid economic growth and low rates of unemployment.

Governments and organizations around the world have long recognized the need to take necessary measures to meet the needs of an evolving labor market:

- **The International Labour Organization:** In 2017, the International Labour Organization (ILO) launched its “Future of Employment” initiative, targeted at promoting preparation for the projected challenges and changes in the labor force. It established an international committee, including policymakers, professional experts, and representatives of employees, employers, and civil society organizations, to formulate recommendations for the future. Upon launching the committee, a report was published (*Inception Report for the Global Commission on the Future of Work, ILO, 2017*) identifying several megatrends – such as demographic and technological changes and globalization – as engines for change in the world of work. The report also noted the need to understand these trends’ future impact on employment and on society in general, and analyzed how to best take advantage of them to create new opportunities. In 2019, the ILO plans to publish a summary report on this topic, including recommendations for all of its member countries.
- **The United Nations Millennium Project:** In 2016, the U.N. Millennium Project launched an international initiative to aid both governments and businesses in establishing a long-term strategy for addressing future needs in the areas of technology and employment. The study presented three possible scenarios for employment in 2050, each resulting from a different level of planning for these changes. The first—an international shakeup resulting from a lack of planning and preparation; the second—growing socio-economic inequality as a result of only partial planning; and the third—resulting from proper planning and preparation, a thriving economy, reduced inequality, and a cultural transition from an employment-based economy to an economy based on self-fulfillment.
- **The OECD:** In 2010, the OECD published recommendations on vocational education and training (VET) of workers as a tool to promote rapid and sustainable growth. The report called for creating a strong and stable link between education, training and employment, and emphasized the importance of:
 - A) High quality education in childhood
 - B) Easy access to information on the skills and competencies needed for the labor market
 - C) Flexible education and training systems that are responsive to structural economic and social changes

- D) Identifying relevant competencies and utilizing them in the most efficient way possible in employment

The OECD noted the importance of initiating policy measures that are linked to economic and social policy agendas in order to achieve these goals.

- **The German Government:** Along with international organizations, specific countries are also working on this issue. For example, several years ago, the German Ministry of Labor and Welfare launched a comprehensive and highly-structured project on facing the labor market of tomorrow. The public, along with academic experts, and social and business organizations, participated in its discussions. In 2017, the Ministry published a summary report (*White Paper Work, 4.0*) describing how to best take advantage of the opportunities that automation and digitization offer to the economy, to the labor market, and to the creation of more quality jobs. It also dealt with situations such as loss of jobs, skill burnout, an imbalance between work and personal lives/leisure time, and the need to bridge the gaps between population groups who prefer the freedom and flexibility that the expected changes bring with them, and to those seeking stability and employment security.

Against the backdrop of these local and international developments, in February 2017, the Israel Democracy Institute established a working group on ***Planning and Preparing for the Challenges of the Future Labor Market***. Members of this group include all of the relevant stakeholders in the labor market, government representatives, employees and employers, academics, and social organizations, and put an emphasis on representation of young people.

The group was established to develop a comprehensive strategic plan to provide guidelines for policymakers to identify effective measures that deal with the challenges of the future labor market. The team meets monthly in a roundtable format to formulate recommendations and develop policy.

At the time of its establishment, the committee numbered 18 organizations:

- National Insurance Institute
- The Bank of Israel
- The Israel Employment Service
- Relevant government ministries (Finance, Economy and Industry, Labor and Social Affairs, Education , the Prime Minister's Office)
- JDC-Tevet

- The Central Bureau of Statistics
- The National Economic Council
- The Samuel Neaman Institute for National Policy
- The Taub Center for Israel Studies
- The Aaron Institute for Economic Policy
- The *Histadrut* Labor Federation
- Representatives of the President of Business Organizations
- The Knesset Research and Information Center
- The Millennium Project
- Net Med Israel (U.N project)

Over the course of the year, the “membership circle” was expanded as a result of growing interest among other important organizations; currently there are more than 30 organizations on the committee.

New members include:

- The National Council for Research and Development
- The Council for Higher Education
- The Forum of Technological Colleges
- The Civil Service Commission
- The Innovation Authority
- *Tzurim* Foundation
- The Trump Foundation
- The B’Yachad Foundation
- 121 – An Engine for Social Change
- The Students’ Union
- The Youth Authority
- The Ministry for Social Equality
- Universities and colleges

The committee has held 13 sessions since February 2017, during which members met with experts in the field, exchanged viewpoints, and conducted in-depth discussions on the challenges of the future labor market and how to deal with them most effectively.

In August 2017, in parallel with IDI's working group, MK Haim Katz – the Minister of Labor, Social Affairs, and Social Services – appointed a public committee for “Promotion of Employment towards 2030”. The committee, chaired by Prof. Zvi Eckstein, established four subcommittees that focused on: employment goals; productivity and structural change; employment programs for specific target populations; human capital and training infrastructure; and a subcommittee on planning for an evolving labor market.

IDI's representatives and many of the members of its labor market team played an active role in the committee's discussions and helped to ensure the accessibility of relevant data and recommendations.

The government committee, working hand in hand with the relevant ministries, is expected to publish its recommendations in the near future. These proposals will focus on formulating practical and concrete policy recommendations to the government, and more specifically, to the Ministry of Labor, Social Affairs, and Social Services. The policies aim to achieve measurable objectives related to increasing employment and enhancing workers' human capital in Israel by 2030. In addition, the committee examined the operational steps which the ministries must take as part of their preparation for an evolving labor market, including the proposal of relevant employment programs, recommendations for regulatory and legislative changes, and more. The IDI team aims at formulating recommendations based on a comprehensive and holistic perspective, taking into account the significant stages in an individual's trajectory on the path to employment – from early education, to the choice of an occupation, to acquiring appropriate education and training – and identifies the obstacles and changes that must be faced on this path. Such a multi-system perspective must be based on cooperation with a broad variety of ministries working together to develop a long-term, strategic plan based on in-depth research, which refers to different time frames:

- 1) Short-term – legislation, labor agreements, and training;
- 2) Mid-term – vocational education and training (VET);
- 3) Long-term – higher education.

The IDI team's work includes four components:

- 1) Mapping and analyzing trends on the basis of existing international and Israeli research
- 2) Conducting background studies to bring new data and insights to the discussion forum

3. Developing policy recommendations for implementation up to the year 2030
4. Participating in efforts that promote and implement recommendations

In the course of our work on mapping and analyzing trends, the team was exposed to local and international research, and focused on projected trends and the needed preparations in the area of policy making. We completed the first (interim) report on this subject in the summer of 2017, and presented its findings at a special session of the Eli Hurvitz Conference on Economy and Society in June 2017.

The first (interim) report highlighted the need to achieve several objectives:

- Narrowing social gaps resulting from, among other factors, gaps in the labor market between different groups (especially hi-tech employees as compared with others)
- Reducing the mismatch between supply and demand of workers in the labor market
- Strengthening ALMP – the Active Labor Market Policy
- Strengthening lifelong learning, along with putting an emphasis on developing the needed skills and competencies for a changing environment
- Adapting existing legislation and labor agreements to changes in the labor market, in addition to putting an emphasis on formulating recommendations for adapting the 1951 “Work and Rest Hours Act” to emerging trends

The team’s decision to focus on four main areas was based on: the preparation of the education system; the vocational education and training systems (VET); the higher education system; and the needed changes in legislation and labor agreements.

The project’s second phase was launched in the summer of 2017 and will be completed in the summer of 2018. Researchers at the Israel Democracy Institute are at different stages of conducting their work on these topics. Preliminary findings from these studies were presented to the team in meetings over the course of the past year, and the members’ input and recommendations were discussed. This enabled critical thinking and interdisciplinary insights which are included in the researchers’ recommendations.

Based on the recommendations of the Future Labor Market team, IDI researchers launched four in-depth studies and surveys on the following topics:

- *The Transfer of Social Benefits in Transitions between Jobs*; Prof. Yotam Margalit, Senior Researcher

- *Reforming the “Hours of Work and Rest Law”: New Mechanisms for Flexible Working Arrangements*; Prof. Yotam Margalit, Senior Researcher
- *Preparing Israel’s Education System for the Challenges of the Future Workforce*; Dr. Eli Eisenberg, Senior Researcher
- *Challenges and Opportunities in Vocational and Educational Training (VET) and Higher Education*; Dr. Eitan Regev, Senior Researcher

It is important to note that in light of both the challenges and opportunities which the future labor market will bring with it, the Israel Democracy Institute has made a decision to deepen its involvement in the areas of vocational training and higher education. Currently, IDI is establishing a program to conduct research and develop policy recommendations on improving the VET system.

The full report (in Hebrew) includes the studies and surveys conducted by IDI researchers, submitted as background material for the team’s continued work on the future labor market.

Preparing and Adapting Israel's Education System for the Challenges of the 21st Century

Dr. Eli Eisenberg | Omer Selivansky

The fact that times are changing is reflected in many areas. There is a natural expectation that schools – the institutions responsible for the education of the next generation – will prepare for and adapt to the changes taking place outside their walls and equip their students with the competencies, knowledge, skills, and values that they will need in the 21st century.

More specifically, many educational researchers note that in the 21st century, the education system must change its emphasis from studying defined material and learning by rote, to imparting those competencies, thereby enabling students to contend with a changing world throughout their lifetime. Findings based on a meta-analysis of a large number of studies indicate that these include: information management, critical thinking, creativity and innovation, problem solving, collaboration, communication, technical skills, self-direction, lifelong learning, ethical and cultural awareness, and flexibility.

The need for adapting the education system is no secret to its leadership, and over the years various reforms have been launched aimed at generating change. From 1994 to 2014, nine pedagogic reforms were implemented, each of which aimed at adapting specific components of the educational system to the needs of the 21st century.

Despite these efforts, the education system is still struggling to adapt itself to the needs of today, as is evidenced by the significant gap between the stated goals and objectives of these reforms and what is actually happening on the ground in school classrooms.

Furthermore, PISA and PIAAC test results (despite the sometimes justified criticism of their validity) reflect the Israeli education system's low level of achievement, in comparison with that of other countries. This is especially the case with regard to the achievements of students on Israel's socioeconomic periphery, Arab citizens of Israel, and the ultra-Orthodox.

Barriers to Adaptation

The first step towards promoting needed reforms is to identify and analyze the barriers to their implementation. On the basis of a comprehensive review of the literature which we undertook for our current research and based on the experience of the Israeli educational experts whom we interviewed, we can identify seven main barriers standing in the way of adaptation of the system:

1. The competencies required of students for matriculation exams and the admission requirements of the higher educational system are not compatible with those needed to meet the challenges of the 21st century.
2. School principals and teachers lack adequate mastery of 21st century competencies.
3. The education system is over-centralized, making it difficult to implement tailored policy that addresses local needs.
4. There is a tendency to standardize and focus on specific tests, at the expense of pedagogic autonomy on the school and local levels.
5. The education system is unwieldy; it includes many departments, often working simultaneously at promoting incompatible, or even contradictory, goals.
6. Israel's population is particularly heterogeneous, with various groups differing in both their characteristics and their needs, making it difficult and inefficient to attempt to implement uniform changes on a system-wide level.
7. Frequent political changes make it difficult to promote long-term goals. Reforms launched by politically-affiliated ministers are often discontinued or are not budgeted by their successors.

Recommendations

We must continue our research in order to fully address and analyze the main barriers impeding on the adaptation of the education system, including the in-depth study of each specific barrier and its implications. At this current stage of our research, we are presenting preliminary recommendations on how to deal with three specific barriers and create the basis for a systematic model to update curricula.

1. Adapting national matriculation exams and the criteria for admission to higher education to the needs of the 21st century:

- The competencies which schools must impart must be clearly and concretely defined.

- Clear evaluation criteria must be developed for each competency, so that each can be measured through testing, theoretical and experiential tasks, feedback processes, and by formative and summary evaluation.
- Consensus must be achieved between the Ministry of Education and the leadership of the higher education system as to the competencies with which each student must be equipped in the course of his/her studies, on the basis of the above evaluation criteria.
- These two systems must engage in active cooperation in order to develop more appropriate testing and evaluation methods to replace the existing matriculation exams.

2. Equipping school principals and teachers with 21st century skills:

- There is a need for greater incentives for entering into the teaching profession, including raising salaries for first-year teachers.
- Admission standards for teacher training institutions must be raised, and academic supervision of training must be more stringent.
- Reforms should be planned and implemented to provide 21st century competencies to those in charge of preservice training, professional development, and in-service teacher training.
- Incentives must be provided to develop “teacher communities” which will introduce innovative pedagogic processes and tools.
- Both positive and negative incentives should be provided for the integration and implementation of innovative educational technology in pedagogic processes; positive—through grants and public recognition; negative—by delaying promotions and using organizational means.

3. Establishing a National Education Council:

To ensure greater consistency and introduce educational reforms, we recommend the establishment of a National Education Council to initiate, promote, and implement reforms on the basis of a long-term perspective, and in partnership with various relevant sectors. We propose two alternative models for the Council’s work:

1. A council with executive and operational authority, created through the merger of several Ministry of Education units, to analyze the education system and formulate and promote long-term policy.

2. An advisory council whose activity will be based on the work of the National Economic Council and the National Security Council, operating in the Prime Minister's Office.

4. Developing and implementing a systematic model for ongoing update of the curriculum:

We propose to develop a model for systematic and ongoing updates of the educational curriculum so that it is better suited for meeting the rapid changes in the competencies and jobs of the 21st century. This model's main features are based on the comprehensive research carried out by Waks, Eisenberg and others (1988).

Adaptation of the curriculum to address 21st century needs and challenges should relate to all its components: pedagogic approaches; teaching and study methods; physical infrastructure and equipment; experiential learning in workshops and laboratories; and testing, evaluation, and feedback methods.

The timing and regulation of curriculum updates should be clearly defined, to ensure that the default process will be systematic and continually updated, rather than a reactive response to the specific demands of professional committees in charge of each study subject.

Expanding the Skilled Labor Force in Industry and Hi-Tech while Enhancing Compatibility between Human Capital and the Needs of the Israeli Economy

Dr. Eitan Regev

The Issues

1. **A shortage of skilled workers in manufacturing industries, and overflow of the service sector:** Over the last few decades, the Israeli economy has been struggling with a shortage of skilled workers in manufacturing industries. This, coupled with the continued growth of the service sector – to the point of overflow – has resulted in an industrial sector that is small, not technologically advanced, and constrained by a the shortage of skilled workers.

The shortage of skilled industrial workers in the manufacturing industries was estimated at approximately 11,000 positions in 2016 (Ministry of Economy), and is expected to grow, as a result of the nearing retirement of a large share of skilled workers employed in this sector—many of them immigrants from the FSU.

2. **A clear and urgent need to create a better fit between the composition of Israel's human capital and the needs of its economy:** First and foremost, the number of skilled workers in manufacturing industries and in hi-tech must grow. The need for such expansion is critical, as the current imbalance in the allocation of human capital is at the root of low levels of productivity in both the service and industrial sectors, and is significantly lower than that among OECD countries.
3. **Priorities in the allocation of public resources:** Despite the shortage of skilled industrial workers, the allocation of public resources reflects a clear priority for academic occupations, with the total public investment per college or university student being far greater than the investment per student in vocational training programs. Between 2000-2017, the budget of the Ministry of Economy's Department of Vocational Training, as a share of GDP, shrunk to half of that in OECD countries, and was accompanied by a significant drop in the number of vocational training students per year.

Underlying Factors

A number of systemic barriers and failures hinder the efficient functioning of the Vocational Training System, among them:

1. A mismatch between the training system and the individual needs of its target population
2. Structural problems within the system itself
3. Low rates and short duration of employment in the occupations for which training was provided
4. Inadequate coordination among the various relevant bodies
5. Inadequate understanding of the current needs of the economy (in terms of skilled manpower) and insufficient inter-ministerial cooperation on a holistic approach to the development of vocational training frameworks

The Hi-Tech Industry

While the hi-tech industry is an engine for greater productivity, here, too, the serious shortage of skilled workers is a barrier for further growth. Furthermore, in the last two decades, technological colleges – an important source of labor supply for hi-tech and manufacturing industries – have been facing a serious economic crisis, with many on the verge of shutting their doors. The government has recently launched an initiative for comprehensive reform of the technological educational system aimed at significantly reducing the number of technological colleges, closing those suffering from high dropout rates, and increasing public support for those with high rates of graduation and demonstrated success in integrating their alumni in employment in manufacturing industries and hi-tech. The nature of this reform and the speed with which it will be implemented could have highly significant implications for the system's capacity to provide an effective response to the growing demand for high-quality, technologically-trained workers.

The Need for a Paradigm Shift

Our analysis focuses on the major systemic barriers to creating greater compatibility between the composition of Israel's human capital and the needs of its economy. Increasing the number of workers in the industrial sector requires a paradigm shift and

comprehensive, system-wide planning of vocational training. The economy's needs must be systematically mapped, and public resources allocated accordingly.

In the short term, policy makers must utilize whatever means they have to divert surplus human capital from the social sciences to the exact sciences and to vocational training.

In the long-term, a more comprehensive perspective must be adopted. A public body must be established to oversee all aspects of training human capital – in academia, in technological colleges, and in vocational training programs – based on a comprehensive perspective on the needs of the economy and aimed at creating a better fit between the educational contents provided in each of these frameworks, the needs of the target populations, and the overall needs of the economy.

Reforming the “Hours of Work and Rest Law”: New Mechanisms for Flexible Working Arrangements

Prof. Yotam Margalit | Ayelet Hiller |
Att. Lior Gro | Rachel Zaken

The “Hours of Work and Rest Law (1951)” has a direct and significant impact on key aspects of the Israeli economy and society. These include the number of hours workers spend on their jobs, labor productivity, workers’ ability to bridge between the demands of their jobs and their private lives, and level of job satisfaction. In light of this broad impact, it is striking that the law has undergone only minor amendments since it was first passed in 1951. The Israeli economy and labor market, however, have changed extensively since then, and have undergone an increase in women’s participation in the labor force, the introduction of new technologies enabling long-distance employment, and the increased prevalence of “non-traditional” working arrangements (such as employment through job contractors and temporary employment contracts). These and other changes have led to a growing sense among both workers and employers that current legislation regarding labor laws is incompatible with an evolving labor market.

This incompatibility is also evident in the data. For example, in the Central Bureau of Statistics’ “Social Survey of 2016”, 41% of employees reported that they are dissatisfied with the current balance between their work and other areas of their life; 48% reported that most of the time they work under very rigid timetables; and 52% responded that they find it difficult during the work week to devote “one-or-two hours” to family or personal matters due to the demands of their jobs. Furthermore, there is a 7% (or 2.5 weekly-hours) gap between the average annual working hours in Israel and in other OECD countries. These differences are reflected in the OECD’s Better Life Index, which, among other things, examines the work-leisure balance according to several parameters. Compared with other developed countries, Israel ranks close to the bottom (32 out of 38 countries), confirming that the work-leisure balance in Israel is highly problematic.

Employees and employers have different priorities with regard to flexibility, and these are not necessarily compatible with one another. Employees seek greater flexibility in their work hours and employment arrangements, which would allow for a better balance between work and other areas of life. In contrast, employers seek greater flexibility in their ability to allocate working hours over a given time period, as this directly affects the

calculation of overtime pay. Rather than working hours being defined on a daily basis, as is the case today, a monthly or quarterly calculation will allow them greater flexibility in how they allocate their work assignments.

The gaps in the needs and preferences of employers and workers present a serious challenge: developing an employment model that achieves the common goal of greater flexibility, while addressing the specific needs of both sides.

We conducted a review of employment regulations in various countries with respect to flexibility. Our analyses highlighted two policy directions used in some countries that are relevant in the Israeli context and potentially offer a significant improvement over the current situation. The first— establishing a formal mechanism that allows employees to request a flexible work arrangement from their employers. The second— extending the “reference period” for the calculation of overtime pay beyond a single day, as the current law stipulates.

Creating a mechanism for implementing flexible employment arrangements:

In countries such as Canada, New Zealand, Ireland, and the UK, new mechanisms have been introduced in recent years to legally define a process for implementing flexible employment arrangements at the firm level. Under the provisions of such mechanisms, an employee may submit a request to the employer for a flexible work arrangement. After submitting the request in writing, their employer may choose to approve or deny such a request within a defined time period and subject to “reasonable conditions for refusal” as defined by law. In response to denial of such a request, and if the employee believes that the request was dealt with unfairly, they may appeal. A designated decision-making body will then hear the case and determine whether or not to require the employer to grant the worker’s request for a flexible work arrangement.

Flexible employment arrangements can be implemented along several tracks; we focus on three of these tracks below:

- A) **Flexible work-days:** A mix of short and long work days, in accordance with the employee’s needs and under the condition that the employee is present in the workplace in a set of predetermined “core hours”.
- B) **Concentrated work:** This arrangement allows employees to concentrate their work in a few longer workdays rather than work the entire week.
- C) **Flexibility in start/end of the work-day:** A “flexible clock” enables the employee to choose the hours at which work begins or ends, provided that the

employee works the same set of hours a day (i.e., preserves the same agreed-upon schedule). Unlike the flexible work days arrangement, this arrangement does not include short workdays, but rather allows employees to choose the hour at which their workday begins or ends.

Changing the labor legislation in Israel to allow greater flexibility will have far-reaching implications. More flexibility would increase labor supply (for example, by increasing labor force participation among segments of the population that are more constrained in terms of working hours, such as young parents), reduce absenteeism from work, and enhance workers' welfare by achieving a better balance between work and personal life. Furthermore, flexible working arrangements may even increase safety and reduce environmental degradation by reducing the amount of work-related commute and the number of vehicles driving during rush hour.

In light of the different needs and priorities of employers and employees, it is clear that the best way to move forward is through negotiation between representatives of each side. Against the backdrop of the issues presented above, what is needed is a package deal that will include both proposals for achieving a flexible work arrangement:

1. **A mechanism for flexible work arrangements:** Such a mechanism will address employees' needs and priorities while taking into consideration those of the employer. We believe that the "Flexible Work Arrangements Bill" proposed by MK Merav Michaeli, presents a promising model, which should receive serious consideration, albeit with several amendments. These include transferring the jurisdiction for dealing with employees' appeals from the Court of Labor Affairs to the Ministry of Social Affairs and Social Services; simplifying the mechanism to minimize burdensome bureaucracy; and implementing the mechanism gradually, rather than making the transition in one fell swoop throughout the entire labor market.
2. **Extension of the Overtime Reference Period:** Extending the Overtime Reference Period will enable employers to implement an efficient and more economical employment model. The length of the period is a matter that must be negotiated on, but given our review of models in other comparable countries, and taking into account the features of the Israeli labor market, we recommend an Overtime Reference Period of one month as the basis for negotiations.

As noted, we recommend a gradual implementation of the reform. The impact of the changes we propose should be examined by conducting pilot programs. These programs

would be evaluated through randomized control trials (RCT), and be implemented in specific economic sectors and for a predetermined time period. This would make it possible to identify and analyze the ramifications of the change in legislation on both employers and workers. The government should encourage such an experimental approach, and help in financing it and providing professional support from the relevant government agencies. If the results of the pilot programs are positive, the policy change can then be implemented – with appropriate adaptations – throughout the entire economy.

The Transfer of Social Benefits in Transitions between Jobs

Prof. Yotam Margalit | Ayelet Hillel

The Future Labor Market and the Current Model for Portability of Employee Benefits

In preparing the Israeli labor market for the future, a central factor that requires consideration is the projected change in the characteristics of employment. In particular, projections suggest that workers are likely to switch between jobs quite frequently, whether due to technological developments that reduce the demand for labor in certain occupations, or due to changing norms and expectations regarding the characteristics of a desired career path.

This raises the question of whether the current Israeli model of welfare provision, which assigns certain social benefits based on an employee's seniority with their current employer, is suited to an increasingly dynamic labor market in which switching between jobs is prevalent.

The Current Situation

Despite the fact that many Israelis are not employed in a single workplace for the duration of their careers, existing labor laws are still very much tailored to a model of long-term and consecutive employment. These labor laws stipulate that the degree of eligibility for social benefits such as vacation days, paid vacation, and sick days is contingent on an employee's level of seniority in their workplace.

Such legislation is detrimental to the flexibility and competitiveness of the Israeli labor market, as it creates unwarranted barriers for workers considering a potential move between jobs. Moreover, current legislation is particularly detrimental to disadvantaged and vulnerable workers, who are "punished" twice for their misfortune: not only do they suffer from low job security, when laid off they also lose some of their eligibility to basic social benefits. As our research shows, vulnerable workers with low job security tend to be individuals with only a high-school diploma, who are not unionized nor covered by collective work agreements.

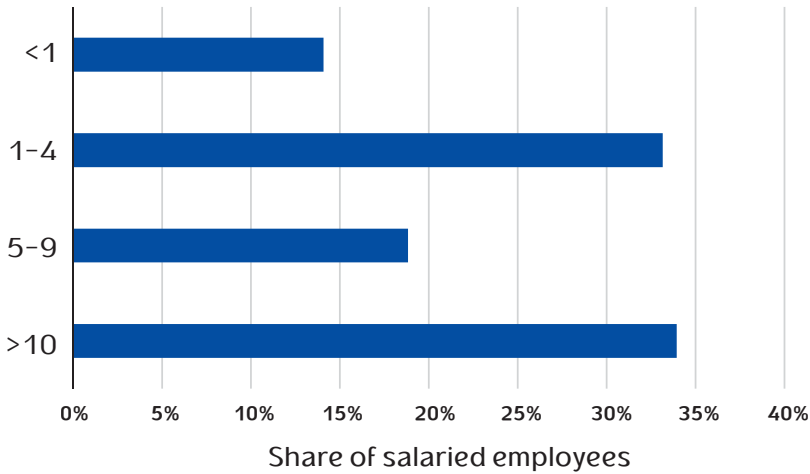
The Israeli labor market is also increasingly characterized by employment based on “non-traditional” contracts, including temporary contracts, employment through contractors, or freelance work. Labor and welfare laws have begun to pay attention to the growing category of workers employed under such non-traditional work arrangements, but have yet to provide a satisfactory response to the circumstance in which the relationship between employer and employee is less binding and less stable than under the traditional employment contract.

Given the characteristics of the evolving labor market, a key question is whether the current model of social benefits provision, which links the degree of eligibility of benefits to seniority with a specific employer, serves Israeli society well. As this brief discussion indicates, there is an unmistakable need for a new model that will allow for the portability of social benefits between jobs. Such a model would be more effective in achieving policy goals in both advancing full employment as well as in ensuring a stronger social safety net.

Research Findings

We began by analysing employment trends and transitions between jobs in Israel and in other advanced economies. This analysis highlighted the fact that workers nowadays switch between multiple jobs during their careers. A unique panel survey of US workers, which tracked the labor market experiences of a large sample of Americans for over forty years, indicates that between the ages of 18 and 50, workers switched an average of 11.9 jobs. While job switches were particularly prevalent among younger workers, switches were not uncommon among older workers, too.

In Israel, no such comparable long-term panel data is available. Yet our analysis of trends from more recent years reveals patterns consistent with those identified in the U.S. Indeed, as Figure 1 shows, almost half of the salaried workers in Israel are working for four years or less with their current employer. Note that seniority of five years is the minimum period which Israeli law currently requires for workers to begin climbing up the social benefits “ladder”. Moreover, we find evidence that in Israel, the rate of job switching has increased among men, but not among women. A similar, and an even more pronounced trend, is also notable in the U.S.

Figure 1. Years working with current employer, salaried employees in Israel

Source: Authors' calculations based on the Social Survey 2016, Central Bureau of Statistics.

Next, with the aim of developing policy recommendations, we analysed a range of policies that could possibly enable the transfer of social benefits across jobs. We focused on two main “penalties” that current laws inflict on a worker when switching jobs: the loss of vacation days, and the loss of accumulated sick days (the number of sick days resets to zero when switching to a new employer). These two areas exemplify two different types of social benefits, each requiring a different model of benefit eligibility. The first type relates to benefits for which an employee is eligible by virtue of the very fact that she is working. The second relates to benefits (or compensation) that are tied to an event occurring and caused by external factors (such as illness or job loss).

Our survey of the policies enacted in different countries with respect to these provisions of social benefits reveals several distinct models. The analysis we conducted suggests that in the Israeli context, serious consideration should be given to a uniform eligibility model. Such a model limits the various stages in the current system, whereby employees climb up the eligibility “ladder” as they accumulate seniority in the job. In a uniform eligibility model, all workers are granted the same level of the benefit in question, irrespective of their seniority within a given workplace. An employer that seeks to provide a worker with more benefits than specified by law will of course be allowed to do so, but will not be required by law. Such a uniform eligibility model is particularly relevant for

policies related to annual vacation days and for similar benefits such as convalescence (or recuperation) pay. A second model we identified as relevant for the case of sickness days is an insurance-based model, whereby eligibility to benefits is based on the employer's payment of a premium to a fund managing the aggregate actuarial risk for all insured workers. Such a system provides workers with an ability to transfer accrued benefits across jobs, while providing employers with greater certainty regarding their expenditure in the event of workers' sickness.

Main Recommendations

Eligibility for benefits contingent on seniority: The link between the degree of eligibility for basic social benefits and the employee's seniority at his current place of work must be severed. In its place, **we recommend transitioning to a uniform eligibility model with regard to annual vacation days and convalescence pay, and to an insurance-based model with regard to sick pay.** This recommendation for change in policy stems from the problems inherent to the current model, and because of the advantages the new models offer.

Among the problematic features of the current model:

- It creates unnecessary barriers to job switching and thus reduces mobility in the labor force.
- There is weak moral justification for making social benefits contingent on an employee's seniority in a specific workplace.
- It places a double penalty on more vulnerable workers with lower job security; first—these workers pay the price for the frequent need to look for a new job; and second—with each transition, they move down to the bottom rung on the social benefits “ladder”.
- Under the current situation, Israeli employees are eligible for fewer days of paid vacation than employees in the vast majority of OECD countries.

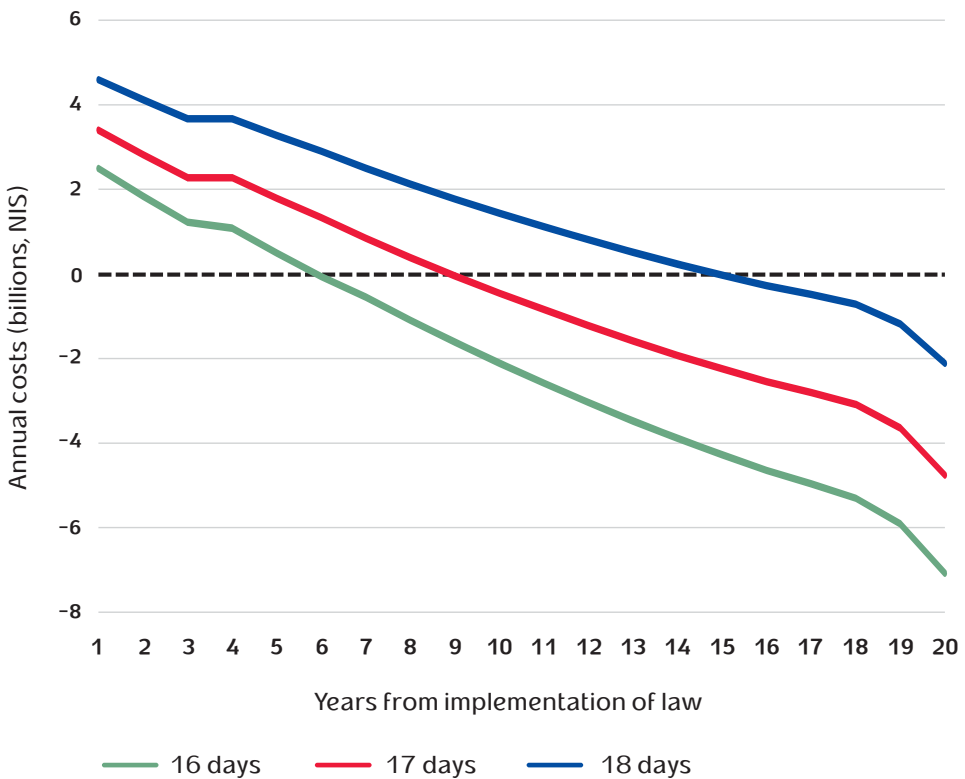
1. The Annual Vacation Law: Transition to a uniform eligibility model

- A uniform eligibility model will allow for transfer of employee benefits between jobs and will reduce the mismatch between supply and demand in the labor market.
- This model provides a more equitable system that is also supportive of the more vulnerable workers. It is simpler to manage, and at the national level, it reduces

employers' costs over the long run. However, since the transition to this model has distributional effects that will increase the costs to some employers, it should be **promoted on the basis of negotiations between representatives of workers and employers.**

- The model must be **implemented gradually**. It would be a mistake if in the wake of the transition to the new model, employees who are already receiving various benefits would be denied these benefits retroactively. By the same logic, it would be misguided to sharply raise the costs that employers have to pay. These considerations were taken into account when calculating both the costs and the savings of a transition to a uniform eligibility model (shown in the graph, with differences between uniform vacation benefits of 16, 17 and 18 days annually).

Figure 2. Projected annual cost of transition to uniform eligibility in vacation days (billions, NIS)



2. Recommendations on Sick Pay: An insurance-based model

The insurance-based model has significant advantages. As in the uniform eligibility model, it allows for the transfer of benefits from workplace to workplace, thus reducing the costs of these shifts, and as a result – enhancing the compatibility between supply and demand. Furthermore, the insurance-based model provides employers with a high degree of certainty as to the funds they will need to allocate for sick pay. As the same time, it provides security to employees who know they will receive sufficient sick pay when needed, regardless of their seniority in the specific workplace. Finally, the model provides a stronger social safety net for more vulnerable workers who need to switch jobs more frequently.

In light of this complexity, we recommend that the three main issues revolving the implementation of the insurance-based model – the source of funding, determining who manages the insurance fund, and the differential costs of funding sick pay – **be determined through negotiations between employers and employees.**

The changes which the labor market has undergone in past few decades, and the changes expected projected in the coming decades are dramatic. With growing automation, competitive pressures resulting from globalization, and changing demographics, the emerging labor market is dynamic and characterized by frequent job shifts. Current Israeli legislation on social benefit eligibility has not been adapted to these changes. As our research indicates, the Israeli model – which defines eligibility for several important benefits as contingent on seniority within an employee's specific workplace – reduces labor market efficiency and rests on normatively weak justifications.

The policy steps that we are proposing constitute the basis for a new model of social benefit provision. Clearly, implementing the policy changes proposed here will be challenging on both economic and political grounds. Nonetheless, advancing them can help us make significant headway in the creation of a more dynamic and fair labor market.

Introduction by the Director of the Center for Governance and Economy

Untangling the Web of Bureaucracy and Regulation

Daphna Aviram-Nitzan

For years, Israel's ranking on international indices of regulatory and bureaucratic burdens¹, and on the ease of doing business² has been far from flattering.

A closer look at these indices reveals the difficulty in complying with the demands of the complexity and inefficiency of Israel's bureaucracy and regulatory system. As a result, compliance with relevant laws is declining; as is equality of opportunity among different types of businesses. In addition, there is a growing sense of a lack of equity among the business community, in light of the gaps between small and large businesses in their access to information. All the above encourage many to resort to middlemen and "operators" (*"machers"*) for doing business, and increase the likelihood of corruption. At the same time, Israeli government officials often note their concern regarding "personal responsibility", which increases their tendency to protect themselves by requiring a multitude of certifications and permits, perpetuating excessive and burdensome bureaucracy and regulation.

This situation is not new. Last year's (2017) Eli Hurvitz Conference on Economy and Society included a session on this subject. The discussion focused on the importance of easing regulatory and bureaucratic burdens, and was based on a comprehensive document³ prepared by researchers at the Israel Democracy Institute which presented a multi-year action plan for achieving this goal.

Many of the projects described in the work plan were launched or implemented over the past year, including the project on a regulatory roadmap for investors interested in establishing a manufacturing plant in Israel. Over the course of the conference, we will

1 www.weforum.org/reports/the-global-competitiveness-report-2017-2018

2 www.doingbusiness.org/data/exploreeconomies/israel

3 <https://en.idi.org.il/media/9139/hurvitz2017.pdf>

discuss the project's main components and present our recommendations for improving the current situation.

The regulatory roadmap project was launched under the joint leadership of the Israel Democracy Institute and the Ministry of Economy and Industry's Division for Promotion of Foreign Investment, and with the active participation and cooperation of the members of the steering committee, which includes representatives of the Division of the Accountant-General in the Ministry of Finance, the Division for Improving Regulation in the Prime Minister's Office, the Strategy Division in the Ministry of Economy, the Manufacturing Association of Israel (MAI), and the consulting company, BDO-Kev Project.

Over the course of the past year, the Israel Democracy Institute has also engaged in discussions with relevant government units on how to improve regulation and reduce bureaucratic burden, with an emphasis on implementing behavioral economic methods and "soft" regulation. In this context, an Institute research team conducted a survey to examine the attitudes of the business sector towards soft regulation. Findings indicated significant support for such interventions in a variety of governance areas, and are presented in this booklet as the basis for our discussion in the session on regulation.

In addition, as part of the implementation of the Institute's multi-year work plan, we assisted the government in strengthening their connection with organizations conducting international rankings, and particularly with the World Bank. Our assumption is that strengthening this connection will create a fruitful dialogue and more precise measurement of Israel's situation. In this context, IDI's researchers conducted a sensitivity analysis of the World Bank's "Doing Business Report", which identified the most problematic aspects of doing business in Israel. We analyzed means of improving Israel's ranking, both on each sub-index, and within Israel's overall ranking, and presented the findings to relevant government agencies. The report's main findings – which will be presented at the session on regulation – are also included in this booklet.

We believe that the adoption of our recommendations will enhance the transparency of the processes which the business sector must undergo in its interface with the government, and as a result, will strengthen equality of opportunity among businesses and reduce the motivation and the opportunities for corrupt behavior. Furthermore, we believe that implementation of our recommendations will provide a strong incentive to both local and foreign investors to establish and expand industrial plants in Israel, thus increasing the volume of employment and accelerating the growth of the Israeli economy.

A Regulatory Roadmap for Investors: Current State and Recommendations for Improvement

The “Regulatory Roadmap for Investors” was initiated against the backdrop of the heavy bureaucratic and regulatory burden with which the business sector must contend when establishing new manufacturing plants and doing business in Israel.

This burden is reflected in many international indices, publicized by the World Bank; the World Economic Forum; and the OECD, all of which work in various ways to improve regulation all over the world. The indices rank countries according to the quality of their regulation and the degree of their competitiveness.

- **These indices point to the fact that regulation in Israel leaves much room for improvement.**
- **In 2018, Israel ranked 54 among 190 countries and fifth from the bottom among OECD countries, in the World Bank’s Ease of Doing Business Index¹.**
- Israel ranked particularly low on the following sub-indexes: registering property (130), tax payments (99), and contract enforcement (92).
- **In 2018, Israel ranked 41 among 138 countries in the sub-index “Government Regulation Burden” presented in the Global Competitive Index report².** While this is a considerable improvement as compared with previous years (in 2014, Israel ranked 116), there is still much room for improvement.
- In addition, a survey conducted by the World Economic Forum, reveals that the **Israeli business sector representatives listed “government bureaucracy” as the most significant obstacle to doing business.** Findings of a report published by the Israel Democracy Institute for the 2017 Eli Hurvitz Conference indicate that this problem is not as dominant in developed countries ranking high on competitiveness, but is characteristic (along with corruption issues) among those ranking low.
- **Israel ranks 39 out of 45 countries on the OECD’s Product Market Regulation (PMR) Index** (according to the most recent published report, 2013³).

1 www.doingbusiness.org/data/exploreeconomies/israel

2 www.weforum.org/reports/the-global-competitiveness-report-2017-2018

3 www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm#cyc

- A variety of surveys conducted over the years by the Manufacturers Association of Israel (MAI) and the Israel Chamber of Commerce also confirmed that regulation and bureaucracy are the main obstacles standing in the way of doing business and investing in Israel.

One of the outcomes of this heavy regulatory burden is the decline in the number of new plants being established in Israel. According to Central Bureau of Statistics, in 2013-2016 an average of only 11 plants were established each year, as compared with 38 each year between 2009-2012, and 49 between 2005-2008. At the same time, Israeli industrialists continued to expand their production lines, but chose to do so mainly outside of Israel. Thus, according to the Manufacturers' Association, while the number of new plants in Israel continues to decline, the share of industrial companies operating abroad increased from 16% in 2005 to over 30% today.

The decision to establish a new manufacturing plant or expand an existing plant stems from the desire to take advantage of market opportunities and to increase production capacity. The more time that elapses between the decision and actual production, the greater the risk that an industrialist will miss out on the opportunity, and/or that their competitors will get there first. In those cases industrialists may sustain irreversible losses in the volume of revenue and potential for future growth.

In light of these trends, the Israel Democracy Institute and the "Invest in Israel" Division of the Ministry of Economy and Industry, initiated a project aimed at: creating a regulatory roadmap for investors; promoting transparency and equity of the process of establishing production plants in Israel; strengthening equality of opportunity among different businesses; and narrowing the existing information gaps between large and small industrialists, thus reducing the need to use intermediaries and "operators".

The goal of this initiative is to provide an effective response to the difficulties experienced by industrialists when establishing an industrial production plant. These difficulties stem from the very fact that this is a complex process, demanding an in-depth understanding of a variety of areas and familiarity with how to work with regulators and government officials in order to meet the various regulatory requirements.

To move forward on this project, we established a steering committee whose members include representatives of the Ministry of Economy and Industry, the Prime Minister's Office, the Ministry of Finance (General Accountant), representatives of the Manufacturers Association of Israel (MAI), and IDI experts. The committee's work was accompanied by consultation provided by the Kav Project (BDO) Management Consulting Firm.

The Steering Committee aims at achieving four objectives:

1. Creating a regulatory roadmap for investors to serve as a “guide for the perplexed” aimed at investors wanting to establish an industrial plant in Israel; this roadmap will provide greater clarity and transparency of the procedures required for both local and foreign investors
2. Identifying the difficulties and shortcomings of the existing regulatory processes
3. Formulating a set of operational recommendations to enhance transparency and accessibility, making the process friendlier to investors
4. Providing assistance to regulators in implementing the committee’s recommendations

The Importance of Implementing the Report’s Recommendations

The crucial importance of implementing the recommendations of this joint project comes to the fore in light of the drawn-out nature of the current process. Our research results indicate that the bureaucratic and regulatory process for establishing a new manufacturing plant ranges from 22-45 months (2-4 years), excluding the time needed for construction, and without taking into account specific cases requiring further approval stages than in the case of the “classic” plant, which served as the basis for our current research. And so, the process (including construction) may take 4-6 years.

In the course of the 2017 Eli Hurvitz Conference, the importance of streamlining the regulatory burden was presented in a detailed document, *Streamlining Regulation in Israel and the Bureaucratic Burden: A proposal for a multi-Year work plan*⁴. One of the proposal’s recommendations was to launch the current project on creating a regulatory road map for investors interested in establishing a manufacturing plant in Israel.

The working group wishes to emphasize the critical importance of promoting and implementing the recommendations of this report in coordination with processes which are already in place and/or being launched by the government.

These processes include a variety of programs led by the Prime Minister’s Office, including: a 5-year plan for reducing regulatory burden; a program for easing bureaucratic burden in cooperation with the National Fire and Rescue Authority and the Ministry of Economy

4 <https://en.idi.org.il/media/9139/hurvitz2017.pdf>, p.47

and Industry; and a program for improving planning and construction processes in industry and incorporating the recommendations of the inter-ministerial committee for improving the business environment, under the leadership of the Accountant-General.

The committee was appointed by the Accountant-General in June 2017. Its recommendations aim to make doing business in Israel easier by cutting down on bureaucracy, making the interactions between the business sector and the government simpler and more efficient, and creating a work plan to improve Israel's ranking on the World Bank's Doing Business Index.

We believe that the adoption of our recommendations will create a simpler and more efficient investment process in Israel; save time and funds for entrepreneurs and industrialists; enhance transparency of procedures; bolster equality of opportunity; and reduce the incentives and opportunities for corruption. Moreover, we believe that the adoption of these recommendations will serve as a significant incentive for investors – local and foreign alike – to establish and/or expand manufacturing plants, and thus increase the volume of employment and accelerate the growth of Israel's economy.

The Roadmap: Flaws and Challenges in the Current Process, and Proposed Solutions

Objectives 1&2: Developing a regulatory roadmap for investors and identifying faults and malfunctioning in the process

Below is a description of the current process of establishing an industrial plant in Israel, stage by stage:

1. Stage 1: Locating a site
 - **Process:** Locating land that is appropriate for the specific industry
 - **Main difficulties:** The information provided by available sources is often only partial and out-of-date; existing zoning laws are not suitable for various industries
 - **Duration of the process:** 3-6 months
2. Stage 2: Allocation of land
 - **Process:** Applying for allocation of land with an exemption from a tender
 - **Main difficulties:** Manufacturers' applications for land with an exemption from a tender are directed to the general waiting list; the process of land assessment by private appraisers is very lengthy; the resources of the Industrial Areas

Administration are limited; there is a substantive defect in the interface between the Ministry of Economy and Industry and the Israel Land Authority in the transition from the stage of locating the land and the stage of applying for land allocation without a tender

- **Duration of the process:** 6-12 months
3. Stage 3: Receiving a construction permit
- **Process:** Submitting an application for a permit to do construction work at the site
 - **Main difficulties:** Incompatibility between the information provided to the entrepreneur and regulatory demands; the demands are very stringent and leave no room for professional discretion on adaptation to different industries. industrialists must provide a large number of documents, certifications, and proof to ensure that the plant will comply with the demands of the relevant regulation
 - **Duration of the process:** 6-12 months
4. Stage 4: Construction and receipt of a Certificate of Occupancy (Form #4)
- **Process:** Meeting the regulation requirements
 - **Main difficulties:** Regulatory bodies present additional requirements; access to the regulators' to conduct tests and receive certification of approval is problematic, leading to significant delays in the construction process
 - **Duration of the process** (not including the construction itself): 6-12 months
5. Stage 5: Receiving a business permit
- **Process:** Applying for a business permit and meeting additional requirements of the regulatory bodies
 - **Main difficulties:** Regulatory bodies demand to meet additional requirements even after they have provided certificates of approval at earlier stages of the process
 - **Duration of the process:** 1-3 months

<p>The bureaucratic process to establish an industrial plant takes 22-45 months (2-4 years, not including construction time).</p>

Objective 3: Operational solutions to reduce the time needed for establishing an industrial plant

1. **Locating land:** Existing sources of information targeted at industrialists must be updated frequently; raising industrialists' awareness of existing sources of information
2. **Land allocation:** Development of an online system at the Israel Land Authority which is aligned with Ministry of Economy systems so to create an efficient network of "information traffic"; working with external consultants in the Ministry of Economy in order to reduce the time for examining applications for land allocations without need for a tender; creating a separate track for industrialists in the Israel Land Authority; limiting the number of manufacturers' applications through the Ask Once system; early appraisal processes in the Israel Land Authority for plots of land designated for allocation to industry
3. **Receiving a construction permit:** Enhancing trust between regulators and manufacturers by enabling the use of affidavits, rather than documents certifications; limiting the time period during which the regulator can request changes by providing an automatic authorization for receipt of a construction permit after a specific time period has elapsed, if during that time the regulator did not identify a problem in the document's and plans which were submitted; reducing regulation burden by adapting the regulation to the accepted standard in western countries
4. **Construction and receipt of a Certificate of Occupancy:** Appointing a coordinator to connect between the industrialists and those responsible for issuing approvals; establishing a special track for dealing with the industrial structures of each relevant regulator; improving development activities in industrial areas and making them more efficient
5. **Receiving a business permit:** Basing the permit on regulatory approvals and affidavits which were provided in the earlier stages of the process (construction permit and certificate of occupancy); implementation of the proposed solutions, which is the responsibility of the regulators themselves, can significantly reduce the length of the process by about 50%, or 1-2 years, instead of 2-4 (excluding construction time)

Many of the recommendations presented in this report were formulated after a series of meetings with relevant regulators – such as the Ministry of Economy, the Israel Land Authority, and the Government ICT Authority – and were adapted in accordance with constraints in the field. At the same time, the report includes general recommendations submitted to the various regulators for examination and implementation, for example: adapting regulations to meet the accepted standard in Europe and the US. We must emphasize that we attribute great significance to the continuation of this process and to our partnership with the relevant regulators and government ministries. This will enable us to move forward towards the project's next stage, in which some of the remaining general recommendations will be translated into action items and policy.

Team Composition

Team Leader

Daphna Aviram-Nitzan, Director of the Center for Governance and Economy, IDI

Team Members

The Israel Democracy Institute

Dr. Assaf Cohen, Researcher, IDI; Head of the MBA Program, Ruppin College

Omer Selivansky, Researcher at the Center for Governance and Economy, IDI

Prof. Yuval Feldman, Senior Research Fellow and Co-Director of the Labor Market Reform Program, IDI; Kaplan Professor of Legal Research at Bar-Ilan University; Member of The Young Israel Academy

Dr. Eyal Peer, Researcher, IDI

The Ministry of Economy and Industry

The Foreign Investment and Industrial Cooperation Authority

Eyal Eliezer, Head of “Invest in Israel”

Ilan Laufer, Director of the Investors Service and Government Relations

Gilad Beery, Head of Economic Research

Division of Strategy

Yochai Bernstein, Head of Improvement of Regulation

The Prime Minister's Office

Shiri Neuman, Director of the Sector in the Improvement and Regulation Division

The Ministry of Finance

Division of the Accountant General

Motti Elisha, Senior Deputy Accountant General (former, until April 18)

Darya Podshivalov, Coordinator of Economic Offices

Hagit Shani, Senior Deputy to the Accountant General

Manufacturers Association

Dr. Ron Tomer, Industrialist and Chairman of the Economics and Regulation Committee

Eyal Frobler, Legal Advisor and Regulatory Director

BDO-Kev Project

Danny Lerer, Co-Director

Esti Goldhammer, Co-Director

The Business Community in Israel: A Survey of Attitudes on “Soft” Regulation

Dr. Eyal Peer | Ariel Tikotsky | Prof. Yuval Feldman

The issue: How to strike the proper balance between protection of consumers through regulatory mechanisms while encouraging entrepreneurship, creativity, and competitiveness in the business world. This is a particularly formidable challenge, given the business community’s opposition to government regulation which may impact the management of their businesses in ways that are not always compatible with their business interests.

A possible response: Insights from the field of behavioral economics serve as the basis for “soft” regulation. Soft regulation refers to interventions which influence behavior without constraining an individual’s freedom of choice by applying sanctions for lack of compliance, or imposing taxes. A concrete example of soft regulations are the reforms put forward in the beginning of this year by the Ministry of the Interior and the Prime Minister’s Office with regard to the process of issuing business permits.

Surveying attitudes among the business community: The business community’s willingness to comply with regulations is of critical importance for the successful implementation of soft regulation. It is in this context that we conducted a survey of business owners’ attitudes towards behavioral interventions of this kind, to assess to what extent modifying regulatory mechanisms might generate support among business owners, which in turn would enhance cooperation and mutual trust with regulation authorities.

Between March-May 2018, we conducted a survey in cooperation with the Geocartography Institute, based on a national sample of 309 owners of small and medium-size businesses providing services in a wide range of areas. Almost all the respondents were business owners, CEO’s or VPs of businesses, differing in levels of education, income, and other demographic characteristics. Respondents expressed their opinion on various types of soft interventions, such as permanent business licenses; requiring disclosure of costs in use of credit; and receiving warnings on excessive usage of water and electricity.

Survey Results

- A. **Attitudes towards current regulation:** Only 8% of the respondents reported that the regulation currently in place is helpful to them or to their clients. The

majority reported that these regulations hinder their business performance “somewhat” (24%) or “very much” (31%).

B. Attitudes towards behavioral interventions: In contrast, we found an average level of support (“support” or “strongly support”) for most behavioral interventions, with four interventions even receiving majority support (80% or above). Six interventions were supported by less than half of the sample.

C. Interventions with high levels of support were those which:

- Provide businesses with advance notices, reminders and warnings; for example, on excessive consumption of water and electricity or on payment deadlines.
- Provide new information; for example, reports of complaints to the Consumer Protection Authority or on the average consumption of electricity among similar businesses.
- Reflect trust in the business, and actually reduce the regulatory burden, transferring some of it to the authorities; for example, automatic approval of applications or accepting affidavits as sufficient documentation for permit requests. It is important to note that despite the fact that one of the interventions based on trust – “granting permanent business permits instead of requiring that they be renewed at specific intervals” – was contingent on more stringent enforcement in cases of violation, support for this intervention continued to be high (74%).

D. Interventions with low levels of support were those which:

- Require businesses to provide consumers with information or place additional costs on the consumer; for example, charging a fee for use of plastic bags in supermarkets or requiring disclosure of the costs of using a credit card.
- Increase the costs of regulation for the business; for example, a default double fine and sharing information with the Consumer Protection Authority.

Who is more or less supportive of various interventions?

No significant differences in levels of support were found by: Size of the business; geographic location (center of the country vs. periphery); or the respondent’s personal characteristics (role in the business or level of education).

Significant differences in level of support were found in:

- **Attitudes on current regulation**
 1. Business owners viewing current regulation as “very bothersome” or “bothersome” (totalling approximately 55% of the sample) were more supportive of interventions transferring the regulatory burden to the regulator; for example, permanent business permits, automatic approval of permit requests, etc.
 2. Those who assessed current regulation as “not very burdensome” (about 45% of the sample), were more supportive of interventions such as sharing information with the Consumers’ Protection Authority and receiving reminders for payment dates.
- **Business transparency:** Respondents were asked to what extent businesses in the same economic branch as their own provide their customers with complete information. 39% indicated that they provide customers with full information; 50.5% with partial information; and only 9.5% expressed their belief that businesses hide important information. Findings indicated that the more that business owners believed that in their area of business full information is provided to customers, the less willing they would be to cooperate with the authorities on changes requiring them to provide additional information to their customers or to the authorities.

Summary and Implications for Policy:

Survey findings indicated considerable support for soft interventions in a broad variety of areas, with no significant differences in levels of support between businesses in the center of the country or on the periphery, or between small and medium-size businesses.

Interventions receiving relatively low levels of support were those perceived as beneficial to the consumer or to the government, but with no immediate or clear benefit to businesses.

Against the backdrop of the growing use of behavioral interventions by governments around the world, and in the context of the perception of regulation as burdensome, the support of the Israeli business community for the implementation of soft interventions seems to open up a window of opportunity for the government’s application of these means. Simultaneously, before taking any such step in this direction, it is important to conduct additional and more comprehensive research on the support for this move.

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