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**Enhancement of the Business Environment in the
Southern Mediterranean**

National Seminar for Palestine

« Entrepreneurship and innovation »

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1. INTRODUCTION

The subject of this paper and presentation is Entrepreneurship and the Culture of Innovation in the context of promoting a culture of innovation and entrepreneurship in Palestine. In addressing this however we need to consider the enterprise ecosystem and the role that entrepreneurialism and innovation play in promoting an ecosystem that stimulates, facilitates and supports Entrepreneurial endeavour, and which insures that new enterprises are created, grow, create jobs, attract investment (Domestic & Foreign), create wealth and ultimately contribute to the economy's growth and improvements in the standard living of its citizens. This ecosystem is a framework of interrelated and reinforcing elements which support and underpin each other throughout the lifecycle of the enterprise.

In this paper therefore we will explore the nature and drivers of Entrepreneurship and how a Culture of Innovation in the context of the ecosystem can influence it positively and how policymakers and practitioners can ensure a Culture supportive of entrepreneurship and innovation in Palestine. We therefore initially will explore what we understand by Entrepreneurship and the role of Innovation and Culture, the current situation of these within Palestine, some examples of international "good practice"¹ and how potentially we can build on these to design and implement policy and initiatives relevant to the situation and resources of Palestine.

2. THE NATURE OF ENTREPRENEURSHIP

Entrepreneurship is a key element in the health and wellbeing of any thriving economy and should be central to Palestine's economic recovery and future. This means having excellent support networks at local and national level and strong policy frameworks within which businesses can be born and flourish.

Entrepreneurship, Innovation and economic development are inextricably linked. Entrepreneurship is the driving force behind the emergence of new enterprises and in particular new SMEs. The importance of small and medium sized enterprises (SMEs) to economic and employment growth in developed economies is well recognised and understood with over two thirds of all jobs being created in SMEs (67% in the European Union (EU))². In Europe, SMEs account for over 99% of all firms, two-thirds of jobs, eight out of 10 jobs net generated since 2008 and more than half of the total added value created by businesses³. While the debate still continues on their impact in developing economies where often data is patchy and timelines recent, recent reports⁴ show that in developing economies SMEs are responsible for 80% of all jobs. Existing businesses however while creating jobs also destroy jobs and in the US for example research of job data by the Kaufman Foundation into the role of start-ups shows that while on average existing businesses in the US lost 1 million jobs per year over the period since data records began (1999) new enterprises created 3 million in their start-up year⁵. This raises interesting issues in relation to policies and initiatives aimed at the stimulation of new enterprise creation and particular the potential

¹ Good versus Best Practice, there is in my opinion no such thing as best practice as any practice must be "fit for purpose" and therefore designed specifically to the situation. Good Practice from other regions can be adapted and built on only, not transferred and implemented verbatim, as has mistakenly happened in the past.

² Do SMEs Create More and Better Jobs? (EU) http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs_en.pdf

³ EU Annual SME Report 2014 http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf

⁴ Is Small Still Beautiful? (ILO)

http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_216909.pdf

⁵ Importance of Start-Ups in Job Creation and Job Destruction (Kaufman

Foundation) http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2010/07/firm_formation_importance_of_startups.pdf

role that innovation can play in supporting the creation of new high potential dynamic enterprises who in turn create the jobs necessary to meet the growing need in the MENA region. The MENA region needs to create an estimated 28m jobs in the next 4 years just to keep unemployment at its current rate and with unemployment particularly in youth contributing social unrest a focus on enterprise development which includes a focus on high potential knowledge intensive start-ups is vital.

This is our aim for Palestine, to gain a global reputation as a location for smart capital and as an entrepreneurial hothouse. To become recognised as a place, where;

- good ideas can be transformed into excellent businesses,
- entrepreneurs and investors (domestic & foreign) are committed to and investing in new, risk opportunities
- new quality jobs are being created, and,
- an obvious 'can do will do' innovative culture is extant.

In Palestine we need more entrepreneurs and more enterprises and we need the types of enterprises which will grow and internationalise rapidly and these will likely be high risk, innovative potentially disruptive and with a global perspective and competitiveness. This raises a number of questions;

- Do we have these types of entrepreneurs?
- How will we identify them?
- How best to stimulate and support them
- What do we mean when we talk about Entrepreneurs and Entrepreneurship in Palestine?

Let's look at what we mean by Entrepreneur! There are different definitions for entrepreneur and entrepreneurship:

- a risk taker who deliberately allocates resources to exploit opportunities in order to maximize the financial return Richard Cantillon
- a person who attempts to profit by risk & initiative, Oxford English Dictionary;
- entrepreneurs shift economic resources from an area of lower productivity to an area of higher productivity and greater yield, Jean Baptise Say 1800's;
- Entrepreneurs; contribute to job creation and growth, are crucial to competitiveness, unlock personal potential and are the drivers of the market economy;
- Entrepreneurship is an innovation process of change whereby new products or new combinations and procedures are created. Inherent in this process is "creative destruction" by which the innovative process interferes with established procedures and scatters, destroys or reallocates amassed resources, structures or knowhow. Joseph Schumpeter
- Entrepreneurs are often those that recognise and exploit (value) opportunity even when they are not seeking opportunity.

Enterprises are established/created for different reasons including necessity and survival as well as response to market opportunity. At this stage I would like to introduce a personal differentiation between Entrepreneur and Enterprise Creator; the enterprise creator is one who establishes any business while the entrepreneur utilises innovation across the spectrum of the value chain to build, high potential, high risk, opportunity driven, potentially born global and often multiple operations. This may seem like a petty differentiation but has implications from a policy perspective where macro initiatives which impact the environment and micro which are more focussed policies and initiatives are deployed. As policymakers we must ensure that the business environment is conducive to all enterprises (a rising tide lifts all boats) but often limited resources dictate that the emphasis and focus be on those best placed to impact on job and wealth creation and international competitiveness. All

enterprises are contributors to economic development but with limited resources the emphasis and focus must be on those which have the greatest potential to be internationally competitive and maximise the creation of wealth. At the macro to create an environment which facilitates and supports enterprise and at the micro level to stimulate and directly support individual entrepreneurs and high potential businesses. Often Entrepreneurs will emerge within existing businesses and through innovation radically change the competitive state and potential of that business.

This leads to two axes of intervention for improvement for policymakers and practitioners at the Macro and Micro levels

Environmental (Macro)	Individual (Micro)
<ul style="list-style-type: none"> • Investment Climate • Infrastructure/Utilities • Regulatory/Corporate Governance 	<ul style="list-style-type: none"> • Firm Level • Support Structures/Services • Financing Mechanisms

These then will be the areas where policy and initiatives will need to be developed and where they will interact in promoting a culture of Innovation. We will look at these arenas more closely later.

3. INNOVATION CULTURE

Innovation as far as I am concerned means the commercial realisation of new ideas, it is not about invention or technology it is about doing things that differentiates your product, process or service it a way that customers value and are prepared to pay a premium to acquire.

Innovation is the key driver of economic growth in developed countries responsible, according to the OECD, for over 50% of the world's economic growth. Knowledge intensive products and services do and will in the future dominate in the world economy. For transition and developing economies therefore, real economic growth will be predicated on their ability to create an environment which stimulates and supports innovation throughout the value system. The OECD defines Innovation as follows:

- "Innovation entails investment aimed at producing new knowledge and using it in various applications. It results from the interaction of a range of complementary assets which include research and development, but also software, human capital, design, marketing and new organisational structures –many of which are essential for reaping the productivity gains and efficiencies from new technologies".

Other definitions include:

- "Implementing new ideas that create value" Innovation Network US
- "The intersection of invention and insight leading to the creation of social and economic value" US National Innovation Initiative
- "The development of new ideas and economic application as new products or processes" UK DTI

The common theme here is value creation! On the sales side customers are prepared to pay more for it or on the cost side saving through producing more efficiently

Either way value is created for the organisation, business, client and consumer, the conscious commercial exploitation of new ideas in products, processes, and procedures for the purposes of competitive advantage, wealth creation and overall societal improvement⁶

The relationship between innovation and economic growth is well accepted but often not so well understood. What is being increasingly understood however is that a fundamental difference in innovation is the importance of human capital developed by investment in education and training rather than physical capital predicated on equipment and processes. The interesting thing here is that human capital produces constant returns rather than the diminishing returns most often associated with the depreciation of physical capital. Yet the challenge remains in the cost benefit analysis of the high level of investment required to initially develop the human capital versus that which is required to develop physical capital. Companies engage in R&D because they expected to be profitable, that is they allocate funds in anticipation that the return on investment from R&D is higher than is likely from investment of resources in other activities. Firms therefore when they conduct R&D apply human capital to the stock of knowledge for profit maximising purposes.

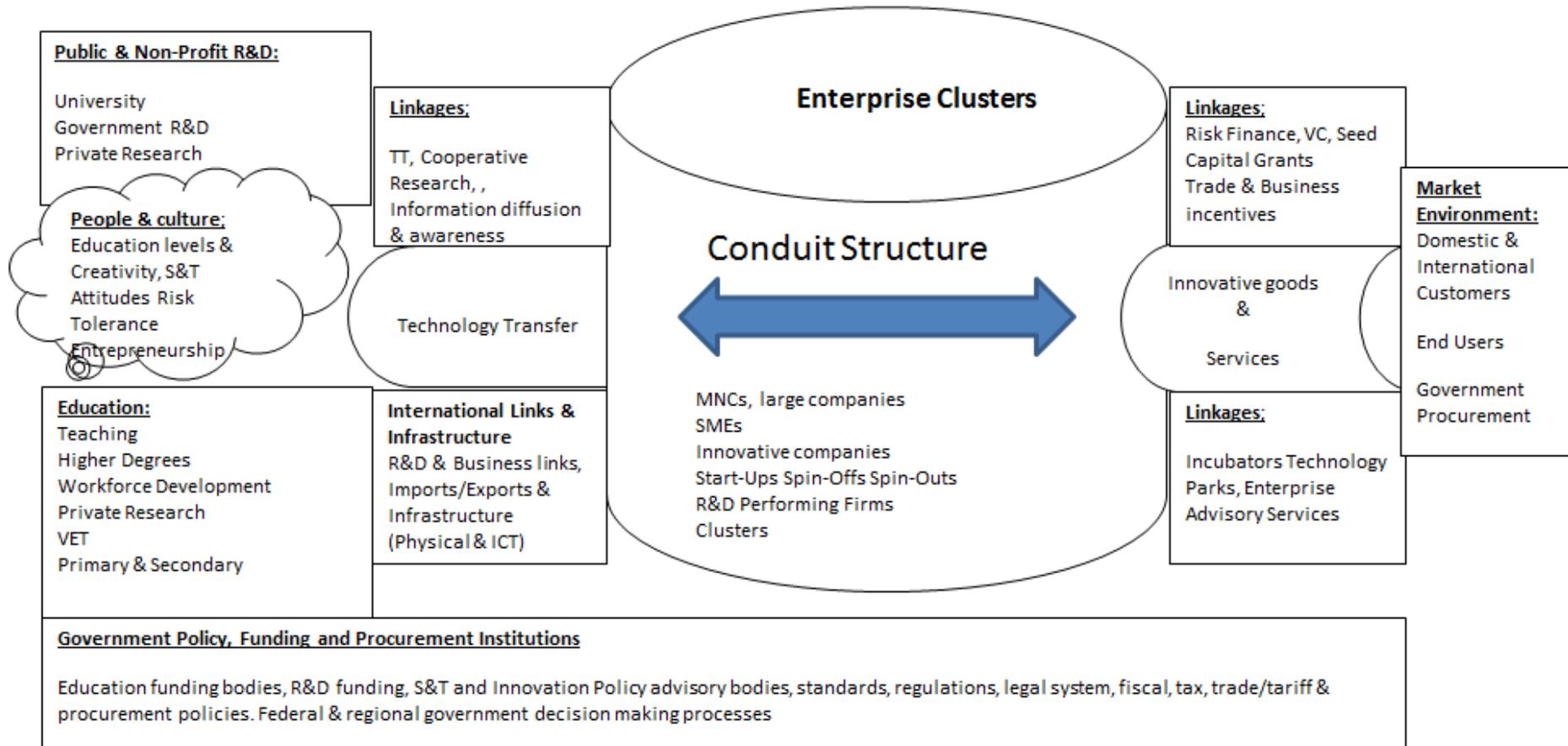
In the process however they unintentionally contribute to increasing the stock of knowledge which is referred to as "knowledge spill-over". This means that investment in R&D represent an increasing return to growth from investment in human capital both in 'appropriable knowledge' (can be utilised exclusively for profit generation) and 'unappropriable knowledge' (contributes to the public good). The implication therefore for economic development policy, particularly in terms of innovation is that the more investment by firms in the private sector in R&D which improve their competitiveness and export capability, the more the "knowledge spill-over" contributes to the public good and improvements in the Human Capital of the economy and further economic growth and strength. The potential therefore is to create a constantly evolving and strengthening knowledge economy. This is part of an operating an effective National Innovation System (NIS). This NIS is fundamental to the commercial realisation of the investment in human capital through innovation and requires not only cooperation but an obvious conduit through which knowledge flows back and forth between all aspects of the innovation system. Below I have included a graphic of my idea of what a National Innovation System should look like. Often innovation systems are envisaged as a pipeline between research institutions and enterprises with ideas (technologies) flowing from researchers to enterprises or as part of the Triple Helix where Universities as a source of new knowledge and technology, the Government as a source of contractual relations guaranteeing stable interactions and exchange and industry operating as the locus of production. I put enterprise at the heart of the system where it is a conduit between the market environment and the Helix partners through which information is processed and through which innovative goods and services are designed and delivered to meet market expectations. In this all the linkages are there to support the processes which support innovation building competitiveness. A key element of competitiveness in knowledge based economies therefore is the degree networking i.e. linkages or interconnectedness that the nation fosters amongst its stakeholders; firms, universities and education institutions, government agencies, financial institutions etc. Through these networks the nation gains competitive advantage underpinned by rapid information diffusion and product development. In effect a nation needs an innovation system on the national level. This includes all political, economic and social institutions that contribute to or affect the process of learning and exploring; universities and research institutes, financial systems and monetary policies and the organisation of firms. The elements all exist in any economy but it is the way they interact and support each other which is important. To exploit this effectively for innovation to

⁶ Some observers ask where is the "commercial" realisation in societal improvement or public good, but all improvements have a financial implication or saving; medical advances reduce "bed days" saving (often publically funded) hospital costs and allowing otherwise indisposed patients to contribute more productive days.

achieve international competitiveness for the nation demands an understanding of the overall environment and what contributes to or impedes innovation so that relevant policies and initiatives can be developed and implemented.

The challenge for Palestine therefore is to develop policy, incentives, stimuli and funding mechanisms which not only stimulate and facilitate the investment by the productive sector both private and public in research and innovation development initiatives but also in the mechanisms which will facilitate the commercialisation of the results of such efforts.

National Innovation System



Creating a Culture of Innovation that supports innovative entrepreneurial activity is vitally important for Palestine but what do we mean when we talk about “Culture”? Is it in the attitudes and aspirations of individuals or that of the society as a whole? Firstly Innovation is a creative thing and this comes from people so therefore it’s likely to be a highly social and cultural process involving beliefs and value systems, educational systems, risk tolerance, acceptance of change and perhaps importantly within the MENA social hierarchies and the power structures within communities. In the past businesses developed competencies and models based on the cultures and opportunities that existed within their immediate sphere of operations. This gave rise to the theory of Cultural Literacy (the ability to recognise and exploit social, cultural, lifestyle and ethnic distinctions) which next to managerial expertise and technological competence represent the core capabilities for successful innovation exploitation. In fact recent studies in China demonstrated that returning émigrés with technological advancements and international experience performed no better than local entrepreneurs because of lack of up to date “cultural literacy” of local markets. While this may have market implications for international players in the huge Chinese markets it adds no comfort for Palestine where the small size of the local market means that enterprises must internationalise and internationalise early. This cultural literacy however is being exploited globally in many knowledge based sectors where the innovations for example associated with advancements within ICT have had not only had major impacts on society and culture in a short time period but also have created certain global societies where opportunity for innovative companies abound. In developing a Culture of Innovation therefore we need to be cognizant of a number of assumptions about people, attitudes, lifestyle, value systems and ethnic dimensions but also that as culture of innovation is;

- network oriented at local, national, regional, international and global levels;
- has economic, social, cultural and social dimensions;
- is people centric around the core of knowledge and creativity;
- is about long term perspectives rather than short term gains.

Creating a Culture of Innovation is dependent on many factors being right and through change management and reinforcement underpinned by education, training, and efficient relevant information flows which are underpinned by world class communications and a global orientation. It is also highly contextual being “fit for purpose” relevant to the situation in which it is being initiated. Palestine’s growing ICT sector and competence has the potential to contribute to creating a Culture of Innovation which is relevant to the local context but also overcome disparities between it and international cultures.

4. The Palestine Situation

As a regional player within the MENA Palestine is subject to many of the same travails and opportunities that impact its neighbours. Despite significant economic growth in the period 2000 to 2010 the economies of the MENA region slowed considerably in the period to the end of 2013 and although growth expectations for the current year are expected to increase in line with global recovery they remain modest at best. The economies of the beneficiary countries of this TA including Palestine face therefore many challenges with rapid population growth and high unemployment, weak confidence and, in some cases, large public deficits which will continue to weigh on the region’s economic prospects. Deeper economic transformations are necessary to ensure inclusive growth and creation of enough jobs for the rapidly-growing labour force. Persistently high unemployment is spurring social tensions, as demonstrated in the Arab Spring and domestic security concerns with regional economic and social spill overs as a result of the conflict in Syria adding to these challenges.

According to recent reports from the World Bank⁷ and International Monetary Fund⁸ compared with the previous three years, 2014 seems hopeful and 2015 could be a turning

⁷ World Bank Report April 2014, <http://siteresources.worldbank.org/INTMENA/Resources/HARNESSINGTHEGLOBALRECOVERY.pdf>

point for the countries in the Middle East and North Africa (MENA) region. Many countries in the region are expected to benefit from stronger external demand in the high-income economies, as the global economy is set for a rebound in 2014. In the MENA region, higher global demand is expected to boost exports of energy and manufactured products in those countries that have trade linkages with high- income countries. Growth in MENA is expected to reach 3.3 percent in 2014 and further accelerate to 4.6 percent in 2015. Nevertheless, the prospects for growth could be threatened if long awaited structural problems remain unresolved. The World Bank report states” Estimates from the World Bank show that over the next 7 years (between 2014 and 2020) the region must create about 28 million jobs just to keep the unemployment rate from rising. This translates into creating 4 million jobs per year. Prior to the 2011 revolutions, the region historically created about 3.5 million jobs per year with an average GDP growth rate of 5 percent. The slowdown in economic activity in the transition countries post- Arab Spring (2011-13) and the spill overs to neighbouring countries have been holding back output resulting in growth averaging about 2-3 percent. Under the scenario of a continued slowdown in economic activity, the average unemployment rate in the region will increase substantially, with youth and females being affected the most”.

In Palestine as we know over 40% of enterprises are driven by necessity rather than by opportunity and this is quite common in developing and emerging economies. These are often copycat in nature and exist within the informal rather than the formal economy. And while there is potential wealth and job creation in all enterprises the majority of these necessity driven businesses employ between 1 and 2 people and in Palestine represent a substantial percentage of the 100,000 + informal sector. A SWOT profile of the Palestinian situation

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Willingness at Government and SMEs to innovate and promote innovation • Existing institution (Higher Council) charged with addressing and developing innovation structures • Strong universities exist with capability to develop ideas and also skills • Availability of many relevant institutions at local level to facilitate innovation initiative dissemination • Palestine is a young society with a bright dynamic youth population • High-skilled and educated workforce • Proximity to strong regional & global markets • Abundant labour force • Strong agricultural, stone and textile sectors and emerging ICT • Low corruption levels 	<ul style="list-style-type: none"> • Political Instability • Poor infrastructure • Weak higher education system • Fear of failure & difficulties in bankruptcy • Low levels of applied research and development (technical absorption rather than development) • Poor collaboration internally & internationally • Absence of links between foreign and domestic firms & between domestic firms • Lack of tools for innovation • Internal working environment is not conducive to innovation realisation • Educational system and approach to R&D is poor in terms of innovation • Lack of communication and understanding between the parties / stakeholders I.e. major disconnect • Lack of legal framework and infrastructure • Poor awareness of and understanding of Innovation, types, how it emerges and how it should be supported • Lack of incentives for firms or researchers to innovate

⁸ <http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/pdf/menacca0514.pdf>

	<ul style="list-style-type: none"> Lack of national funding schemes and only access to project-funding e.g. from donors and hence not sustainable
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> NGOs and Institutions willing to help Tools to help implementation of innovation Diaspora which can be a source of idea, FDI and seed equity Young population and sizeable diaspora Expanding information technology sector Regional Opportunities 	<ul style="list-style-type: none"> Brain drain young people continue to leave Corruption although not as bad as other regional economies The Political issue with Israel which overshadows everything IP Law is Donors [Easy money] Entrenched public research system Lack of administrative and legal reforms Performance relative to regional competitors Increasing brain drain

The World Bank Doing Business report shows the following performance:

Indices	2010	2011	2012	2013	2014
Doing Business	139	135	131	135	138

Future Potential and Major Impediments

The political situation still remains the main obstacle to innovation and economic development in Palestine and yet despite this there is significant local commitment and endeavour to build Palestine as knowledge and innovation led economy. While the business environment in Palestine has improved over recent years enterprises it still face major constraints and it remains low down in the Doing Business having improved in 2011 and 2012 it has slipped again in the last two years and getting credit and starting a business are still extremely difficult. Palestine is not measured in the Global Innovation Index or by WIPO generally. The ICT sector has seen rapid growth and in fact in 2012 Cisco was predicting it as a major future ICT hotspot⁹ having grown from 0.8% of GDP in 2008 to 8% in 2012 ensuring its place as a discrete economic sector and demonstrates the potential of the Palestinian economy in high technology sectors and in building innovative SMEs. The issues therefore are not insurmountable and merely require a planned, systematic and cohesive approach which profiles and understands the Palestinian environment, designs innovative stimulating and entrepreneurial initiatives relevant to that situation and are implemented within a smart and flexible timeframe with ongoing review and revision assessment.

The following section outlines a potential approach that can be followed/adopted by Palestinian policymakers.

5. BUILDING A CULTURE OF INNOVATION AND IMPROVING ENTREPRENEURSHIP

In order to initiate change and improve any aspect of the business/innovation environment it is necessary to consider the overall environment and how these initiatives will integrate and interact with others. Just like planting a seed or plant in your garden you need to know its place and how it will complement or enhance the overall garden aspect and beauty. It is

⁹http://missionmeasurement.com/uploads/documents/Cisco_Pioneers_Market_Development_Approach_in_Palestine_-_White_Paper_by_Mission_Measurement.pdf

therefore important with any aspect of change management or improvement to know how it fits in overall with the Ecosystem.

The Entrepreneurial Ecosystem involves creating an environment which understands the needs and resource requirements of an evolving, dynamic and competitive, innovative enterprise sector where entrepreneurial talent and endeavour is recognised and risk taking is facilitated supported and rewarded and where the fundamental role of innovation as the main attribute of competitive advantage is appreciated. As stated earlier Innovation is about the commercial realisation of new ideas in products, processes or services that differentiates it in a way that customers value and are prepared to pay a premium to acquire. Innovation is about building competitive advantage and a culture of innovation is about recognising how, where and why innovation occurs. Building an Innovation Culture is basically about people and inspiring and exploiting human capital. It involves addressing

- Awareness and Promotion
- Education and Training
- Collaboration and Networking
- Open Innovation Practices

This development of an improved enterprise sector and culture of innovation is influenced at three hierarchical levels:

1. **Overall Environment**; This is where policy is addressed in the context of an overall business environment and has four pillars Investment Climate, International Competitiveness, Good Governance and Economic and Technological Infrastructure.
2. **Ecosystem for Enterprise**; The elements of the ecosystem are profiled differently in different countries but generically recognised as the interaction of Culture, Business Environment, Innovation, Access to Finance, Entrepreneurial Networks and Market Access.
3. **Micro Intervention**; the range of supports and initiatives which will stimulate and facilitate innovation and the creation, development, growth and internationalisation of innovative enterprises

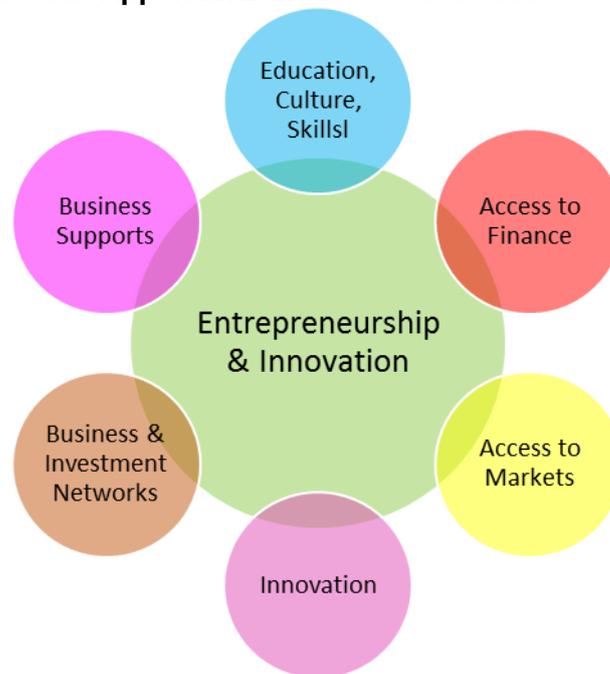
1. Overall Environment

This is where policy is addressed in the context of an overall business environment and has four policy pillars of Investment Climate, International Competitiveness, Good Governance and Economic and Technological Infrastructure. The development of effective and meaningful policy and measures for international competitiveness through innovation is dependent on the ability to identify correctly the issue and constraints impeding such development and designing appropriate policy, measures and support mechanisms that address and improve the relevant situations. We bring a one page a framework matrix as per **Appendix 1** which utilises these four pillars and with which we can start building ideas for policy and programmes. In each Pillar going down we identify the Issues, Causes and Impediments and resulting Impacts associated with each policy pillar and going upward we establish the Essential Conditions in each policy pillar and start to design the Initiatives, and Actions which will promote the Essential Conditions and achieve desired results. An example of how this is developed is included in Appendix A and we will do some exercises around Pillar 2 International Competitiveness which addresses Entrepreneurship and Innovation in our afternoon workshop.

2. Ecosystem for Enterprise

Fostering entrepreneurship has become a central platform of economic development policy with different elements promoted by different groups. Whatever is identified as the elements of the ecosystem to be effective they must form a coherent mutually reinforcing framework supporting enterprise throughout the innovation/enterprise lifecycle? The model (see graphic below) for this begins with **education, culture and human capital** and the attitude of the local society to entrepreneurship which directly influences an individual's creative approach, attitude to risk and the fear of failure. Additionally **business environment** plays a

similar role affecting the obstacles likely to be encountered and the rewards to be achieved. **Innovation and business development supports** available, **access to markets** and **access to** appropriate affordable **finance** underpinned with sophisticated and inclusive **business and investment networks** complete the ecosystem. Each ecosystem while composed of the same primary elements/domains is unique and contextual to the economy that it inhabits and the hundreds of specific elements interacting. The detail of potential initiatives is included within **Appendix 2** under each individual element.



3. Micro Intervention

Having established the requirements and actions at the policy level and the framework of the ecosystem we need now to consider the types and scale of initiatives that will be put in place to act at the entrepreneur, firm or project level which parallel the innovation/enterprise lifecycle from ideation to growth and internationalisation. These supports could include hard (grants, seed & equity investments, loans, guarantees etc), soft (advisory/consultancy, skills, training, mentor, incubators/accelerators, networks) and fiscal (tax based, R&D Credits, depreciation, patent etc) and reflect the major impediments and needs of entrepreneurs and other stakeholders within the ecosystem such as researchers etc. An example framework of the innovation/entrepreneurial process is in Appendix 3 which will allow us to assess in a Palestinian context and design accordingly.

So how do we then in the Palestinian context enhance Entrepreneurship and Culture of Innovation? Ask entrepreneurs anywhere globally what the main barriers/needs are and invariably they will tell you access; access to markets, funding and human capital (skills) but in reality these are quite simplistic. In all cases we need to understand the context and design appropriate measures and initiatives and money is just a tool rather than the solution.

Initiatives and Good Practices

High potential rapidly growing entrepreneurial enterprises are a key driver of economic growth and societal progress. As innovation originators, sources of wealth and job creation policymakers globally are seeking to actively promote entrepreneurship and a culture of innovation where enterprises can be accelerated to scalable high growth businesses and win increasing shares of competitive international markets. If we wish to do the same in Palestine we need to identify core elements with which we can work and improve building on examples of good practice in other countries but designing our own. If we could just follow a best practice example the world would be full of Silicon Valleys (not to say that some

countries haven't tried) which according to a World Economic Forum¹⁰ commissioned report is the most highly ranked ecosystem by entrepreneurs at 86% while MEA is at 45%. We can be pragmatic and practical and work within our resources and still enhance our situation we need to demonstrate leadership, promote knowledge acquisition and skills development and factor in supports and network access. We need to develop a propensity to entrepreneurship externally in new business creation and internally (intrapreneurship) in existing businesses based on innovation as the source of competitive advantage and promote within Palestine.

This means

1. Vision, Strategy, Sustainability
2. Promote Communicate and Celebrate
3. Stimulate, Facilitate, Create
4. Collaborate, Evaluate & Reinforce

6. CONCLUSIONS

The recognition of the importance of a culture of Entrepreneurship and Innovation in Palestine and the desire to engender it is evident and many of the elements are potentially there. The most important element however will always be commitment to change, a willingness to innovate and try new things and a bureaucracy that embraces its role in stimulating and facilitating rather than seeking to control. A major step in the right direction will be the design and development through public dialogue with the private sector an SME Policy and Framework.

In order to do this we need clear and effective policies and to communicate and advance stimuli that engender:

- Clear and effective policies with realistic KPI/Benchmarks that are measurable and have a reasonable timeframe
- Empowerment & Encouragement
- Education and Training
- Entrepreneurial Culture (can do, will do)
- Dissemination and Demystifying of Innovation
- Access to resources; technology and funding
- Collaboration
- Incubators & Accelerators
- Effective TT structures and funding
- Role of private sector as innovation conduit.

The paper sets out a comprehensive potential approach which presents tools and frameworks to assist in the process. It is unlikely that such a process can be completed without considerable external support and the Authorities in Palestine need to secure international donor ODA to support this policy development and the implementation of the appropriate framework.

¹⁰ Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics
http://www3.weforum.org/docs/WEF_EntrepreneurialEcosystems_Report_2013.pdf

APPENDIX: ENTREPRENEURIAL & INNOVATION ECOSYSTEM INITIATIVES

1. Culture HR & Education

Education

- Encourage schools to enhance enterprise in education through awards, competitions and enterprise programmes.
- Series of business planning/idea competitions at high school and university level
Student Science & Enterprise Awards
- Work with education stakeholders across the education system to identify best practice and to mainstream successful programmes wherever feasible. (
- Build an Enterprise & innovation education programme at secondary and tertiary levels (Ireland has at all 3)
- Develop a programme asking entrepreneurs to invite in students exposing them to the excitement and opportunity of entrepreneurship,
- Develop SYOB Programmes (Start your own business) for different categories (Night School, Unemployed, Women, Innovative) with varying time commitments. .

Celebrate and reward successful entrepreneurs

- Develop new entrepreneurship/innovation award schemes to ensure specific categories of untapped potential are promoted e.g. women, unemployed etc and to promote emerging entrepreneurship networks, clusters and accelerators.
- Work with international award-giving initiatives to increase public awareness of entrepreneurship successes. EY, Young Scientist

Ensure that more people have an equal opportunity to start and run their own business

- Promote Into-Enterprise for unemployed, and support these start-ups with appropriate interventions e.g. mentoring, micro-loans.
- Develop dedicated programmes & grant calls to target underrepresented (women, ethnic, unemployed, youth)
- Create a Best Young Entrepreneur Fund with a view to increasing the number of youth entrepreneurs accessing support systems.
- Promote female entrepreneurship through identification and promotion of female role models, targeted events and awards, support for female entrepreneur networks and promotion.

Improve the quality and range of ICT skills domestically to make Palestine a hub for technology start-ups

- Develop plans to increase the availability of ICT skills from Palestinian Education Institutes.
- Increase the attractiveness of STEM subjects to a larger cohort of matriculating students.
- Attract Palestinian Diaspora with strong ICT talents/experience back to establish, mentor and partner in new enterprises
- Develop High school short courses in Digital Media Literacy and Coding.

2. Access to Finance

Expand the range of access to finance instruments to match our ambition as a startup hub so that all viable businesses have the opportunity to access sufficient finance to meet their needs

- Improve monitoring of the supply and demand for bank credit (6%) within the SME sector particularly, the high rate of refusal among micro enterprises, taking account of developments Internationally
- Evaluate the international Building Financial Capability in SMEs (Skillnets pilot support) programme with a view to copying the scheme.
- Review the operations of Microfinance programmes with a view to enhancing their positive influence on the microfinance environment.
- Establish SME Credit Review Board to which SMEs can refer bank refusals to establish better approaches by both borrowers and lenders and to ensure bankable projects have a fair opportunity for funding.
- Promote the Loan Guarantee Schemes as an option for innovative start-ups. ((e.g.Kafalat)
- Undertake a rolling review of new and innovative sources of funding for entrepreneurs, including crowdfunding etc.
- Evaluate establishing Competitive Start Funds, including schemes targeted specifically towards female entrepreneurs, the agri-food, ICT and manufacturing sectors and towards unemployed and graduates.

Attract more angel and international venture capital investors and continue to develop the domestic venture capital sector

- Double the volume of angel funding over the next five years through actions such as creating an Employment Investment Incentive where individuals would get tax reliefs for investing in start-ups or innovative expansions of certain sectoral SMEs (e.g. BES)
- Incentivise international fund managers to invest in Palestinian or Palestine based firms engaged in innovation through tax, equity guarantee or co-funding programmes.

Ensure that the banks develop the skills and focus necessary to deliver appropriate financial instruments to start-ups and early stage entrepreneurs

- Establish with support of EIB/EIF Innovation Loan Guarantee schemes specifically for start-ups or radical expansion through innovation with group of local banks an upgrade their competencies to evaluate innovative projects and risk assessment/management.
- Drawing on international good practice, work with banks to improve their internal review mechanisms and enhance the quality of feedback to SMEs on credit application decisions.
- Establish right of SMEs to gain feedback on credit decisions and raise the awareness of enterprises about such rights to obtain from banks and develop an agreed approach to providing this information.

3. Market Access

Encourage local and national private enterprises to make a commitment to provide market opportunities for fledgling businesses

- Promote programmes through which retailers and other enterprises can provide support to new businesses (e.g. to reach supply standards and access exposure or shelf space).
- Develop global and local sourcing initiatives, particularly within clusters and work to attract international buyers to Palestine to source goods and services. (Showcase)
- Explore and facilitate innovative ways for established indigenous and foreign enterprises to collaborate in support of early stage companies in various sectors. (Patronage, Linkages)

Encourage local and national authorities to make a commitment to provide market opportunities for fledgling businesses (Government Procurement)

- Encourage local authorities to support start-ups by providing display space, promotional events and procurement opportunities.
- Examine practical ways of highlighting the merits of the public procurement of innovative products and services.

Ensure start-ups are export oriented in their thinking early in their development

- Design a Potential Exporters Programme and build a pipeline of enterprises to take part.
- Promote a major expansion of online trading from the early stage of an enterprises life.
- Develop an industry-led awareness campaign to promote the development of online trading capability by small businesses.

4. Innovation

Make Palestine a location of choice for high quality/potential domestic (those who leave to establish enterprises and international diaspora start-ups

Develop an integrated marketing programme involving PIPA (Diplomatic Network) to promote Palestine as a location for international start-ups. In particular to:

- Develop the programme of Start-up Ambassadors.
- Promote a high potential Start-up Entrepreneur Programme perhaps with existing BICs or Accelerators,
- Promote commercialisation opportunities and entrepreneurship bootcamps among high-tech targets,

Develop the best infrastructure to support the commercialisation of technology as a new business opportunity (Knowledge/Technology Transfer; Campus Incubators; Commercialisation Fund; Innovation Centres).

- Develop an Innovation Partnership service with Institutions and larger firms for smaller projects seeking to address identified industry needs. (Patronage)
- Consideration of Campus Incubation Programmes and Commercialisation Fund, including an analysis of international comparisons to ensure it meets best practice and identification of any unmet industry demands.
- Consider establishing innovation development hubs within Universities for specific priority sectors .g. Agri-food, ICT
- Develop a start-up modules for priority sectors e.g. Agri-food, ICT to support innovations emerging from these
- Establish targets for spinouts each year from Technology Transfer and set annual increase expectations
- Establish targets to increase the number of licences from Technology Transfer Offices especially for new or young SMEs

Develop a support framework to assist innovative start-ups reach their full potential

- Create a searchable national database of licencing opportunities (domestic and international) in order to increase the visibility of research opportunities to industry. (EEN)
- Consider the merit of rolling-out an “express licensing” model to transfer IP rapidly into the hands of companies well positioned to exploit it commercially.
- Maximise opportunities presented by Horizon 2020.

5. Networks

Improve the effect of mentoring as a tool to support entrepreneurship

Establish a Formal Mentor Programme with international support (e.g Mowgli)

- Create a simple mentors database to which new types of mentors (volunteer entrepreneurs or serving executives) would be attracted.
- Test market on a regional pilot basis the establishment of an interactive searchable portal for mentors accessible to all enterprises.
- Broaden mentoring services to support the challenges of scaling and under-represented specialist expertise (sectoral, market, technical, internationalisation etc.) and improve the consistency and quality of mentoring against smart performance metrics.

Increase the number of peer networks for mentoring, angel finance and problem solving which sustain entrepreneurship

- Develop founder and entrepreneur networks whose members are prepared to work with entrepreneurs or young enterprises

Build world class entrepreneurial hubs and achieve greater regional spread of such hubs to facilitate entrepreneurial leadership

- Work with commercially managed accelerators to develop and implement a strategy for supporting the quality of start-ups and increase the number of innovative start-ups.
- Work with enterprise and the wider communities and public authorities to develop new sources of co working spaces, hot-desks and hothouse facilities.
- Work with local authorities to identify and develop a number of pre-commercialisation units for start-ups moving from incubation phase to market.

Private Sector/Representative Bodies

- Business Representative Bodies should promote and celebrate entrepreneurship and commend entrepreneurs who have achieved success, particularly those to whom people can relate and aspire to emulate.
- Business Representative Bodies should ensure active engagement in coaching and mentoring programmes (public and private).
- Existing entrepreneurs should actively engage with state agency/business representative bodies platforms for networking, forums for exchange of expertise, entrepreneurship promotional events etc.
- Business Representative Bodies should leverage resources from the entrepreneurial community in Palestine for the promotion of initiatives to celebrate entrepreneurs (competitions, conferences, internships).

6. Business Supports

Promote standards to local authorities to exploit fully the enterprise assets of their community and foster new thinking in the enterprise area

- Each local Governate will develop a Local Enterprise Development Plan for boosting enterprise. Key targets in the local plan will be new business start-ups, business expansions and jobs created or sustained as well as wider economic impacts such as exports, mentoring, training and enterprise promotion.
- Initiatives will be developed at local and regional levels to encourage business to support more start-ups establish, survive and grow (e.g. through mentoring or networking).

Stimulate and support high levels of quality entrepreneurial ventures which have high growth, export, wealth and job creation potential

- Work with all supported enterprise centres (Incubators, BICs Accelerators etc.) to set out ambitions for the cultivation of start-ups and to publish performance metrics.
- Vigorously promote the full range of supports to start-ups to ensure start-ups are aware of and avail of the full range of available supports.
- Consider income tax rebates for professional employees who wish to leave employment to establish their own innovative SMEs

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