

# ENHANCEMENT OF THE BUSINESS ENVIRONMENT IN THE SOUTHERN MEDITERRANEAN







# Entrepreneurship and Culture of Innovation Declan Gordon Carroll Ramallah 30 October 2014





### Introduction





- Importance and need for Entrepreneurialism and Innovation
- Nature of Entrepreneurship and Innovation
- The Palestinian Situation Needs, Impediments and Potential Benefits
- Building a Culture of Innovation & Improving Entrepreneurship
- The Policy and Ecosystem Frameworks
- Potential Initiatives Good Practice
- Discussion

# Why Entrepreneurship & Innovation?





- Entrepreneurship, Innovation and Economic Development are inextricably linked;
- Enterprise and particularly SMEs are the dynamos of economic growth and job creation (new enterprises in US create 4m jobs while existing lose 1m!);
- Innovation is the key driver of economic growth (50%)
   according to the OECD with knowledge intensive
   products and services dominating the global economy;
- Entrepreneurship & Innovation contribute significantly and innovative enterprises even more so;
- So Palestine needs more entrepreneurship, more innovation and more innovative enterprises!



# Entrepreneurship & Innovation What do they mean really?





- Definitions:
  - Entrepreneur
- Entrepreneurs; contribute to job creation and growth, are crucial to competitiveness, unlock personal potential and are the drivers of the market economy;
  - Entrepreneurship
- Entrepreneurs are often those that recognise and exploit (value) opportunity even when they are not seeking opportunity.



# Entrepreneurship & Innovation What do they mean really?





### Innovation

- "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

# Entrepreneurship & Innovation What do they mean really?





- Entrepreneurship/Entrepreneur; Recognises and exploits opportunity, continuously, allocating resources effectively, maximising value and potential, despite high risk;
- Innovation; the commercial realisation of new ideas for economic (Profit) or social value (Public Good) and the key to sustainable competitive advantage;
- Distinction: Enterprise Creator versus Entrepreneur (99.9% v 0.01%);
- Innovation Product Process or Business Mode Incremental, Radical, Breakthrough (Disruptive)



# **Benefits of Entrepreneurship and Innovation**





- Entrepreneurs boost economic growth by introducing innovative technologies, products, and services, increase competition and productivity by challenging existing firms.
- Entrepreneurs provide new job opportunities in the short and long term.
- Entrepreneurs accelerate structural change by replacing established, non performing firms and by expanding market access.
- Entrepreneurs, creators of new and accelerators of existing firms, are a rare species bringing innovations & offering a key value-generating contribution to economic progress.
- New and innovating firms invest more and create more jobs particularly in their first year. New firms attract resources to new activities, and when they prosper and are able to grow rapidly, they generate significant numbers of new jobs
- In Palestine we need to foster not just entrepreneurship and innovation but focus on Innovation-Driven Entrepreneurship expanding the number and quality of serial entrepreneurs and fast-growing, scalable ventures!!!!



## National Development Plan 2014 - 2016





- Establish more robust foundations for an independent, equitable and sustainable national economy which materialises sustainable development, provides decent employment opportunities to citizens enhances their productivity.
  - Investments creating employment opportunities have increased
  - An enabling environment for balanced economic growth and development is in place
  - National productive capacity and competitiveness of Palestinian



# National Development Plan 2014 - 2016





### Four Pillars

- Investments creating employment opportunities have increased
- An enabling environment for balanced economic growth and development is in place
- National productive capacity and competitiveness of Palestinian businesses has improved
- Entrepreneurial and innovative initiatives among youth and women in the economy sector have expanded both quantitatively and qualitatively
- Planned expenditure \$284m (19% of Dev. Exp)



# **Building the Culture a Framework Approach**





- 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

# Drivers





- Comprehensive Entrepreneurship/Innovation Policy and Framework;
- Engagement through education and training/intern programmes;
- Strong Communications and Promotion;
- Inclusive, involvement/programmes for all groups, youth, women, unemployed, ethnic etc;

#### **Policy Intervention** Higher Productivity & Competitiveness Increased Investment reased Exports & Improved Balance of Trade Better & Cost Competitive Utilities Increased Economic Value Add More Jobs & More Tax Paid Transparent Procedures & Corporate Governance Increased Innovation, Entrepreneurship Wealth & World Class & Competitive Companies Employment Lower Costs for Companies Effective Governance Business Expansion Relief Scheme National Enterprise Agency for Business Support Promote Pro Business Public Sector while maintaining Ownership of the Networks Double Taxation Agreements Tax Relief for R&D National Seed Capital Fund Private Sector Policy Focus National Mentor Programme VC Legislation Economic Zones to Address Regional Easing Capital Market Actions Market Intelligence Services Seed and Equity Funds Promotion Quality Standards & Enforcement Imbalance Improve Business Consultancy Skills Invest to broaden Transport Infrastructure Non Performing Loan Rescheduling Bankruptcy Law Increase Broadband Access SME Loan Guarantee Schemt Improve Skills Training Export Credit & Export Insurance Investment in Industrial Land & Buildings Private Sector innovation Financing Supports Focus on Private Sector Manufacturing Internationally Balanced Regional Aid for Employment Creation Competition Authority Competitiveness Council SME Observatory & Innovation **Build innovative and Technological Capacity** Deregulation & Privatisation Initiatives Tax Incentives for Investment & Innovation Economic Zones Real Technology Parks New Financing Mechanisms Regulatory Impact Assessment Facilitate Sectoral Clusters Cluster Support Broaden Tax Base Regional Development Plans Quality Support Programmes & Schemes Anti-Corruption Committee Improving Productivity & Innovation **Good Taxation & Fiscal Policy** Increased Entrepreneurship & Innovation **Excellent Business Regulation Appropriate Economic & Technical** Balance between Taxation & Public Good Need for Sectoral Balance & Productivity Good Government Infrastructure F.ssential Competitive, Market Led & Innovative Business Sector Fase of Access to Finance & Capital Labour Market Regulation Market Liberalisation Transparent & Objective Assessment Indicators (RIA) Conditions Business Friendly Environment Deregulation **International Competitiveness Investment Climate** Internationally Competitive **Good Governance** Good Climate **Economic & Tech Infrastructure** Policy Appropriate Laws & Procedures Innovative Proper Facilities Utilities & Services Access to Finance High Productivity Ease of Doing Business **Balanced Development** High Skills Lack of Enterprise Culture Low level of Investment & Limited Focus Overcomplicated Contracting Procedures with Foreign No Structured National Development Plan Little New Market Development Poor Access to Finance Companies Poor Legal Contract Enforcement Regional Imbalances Low FDI & Unbalanced Regional Distribution Technology Development Inadequately Supported Poor & Expensive Utilities Black/Grey Economy No Commercialisation Capability Poor Understanding of International Law Poor Innovation Infrastructure despite 7% of Borrowers take 80% Loans Low Export Growth & Productivity Slow Court Procedures investment in Technology Parks Poor Information to Support Finance Applications Little Investment in Secondary or Tertiary Processing Software Piracy & Copyright Infringement No real Incubators or Innovation Centres Poor Standards relevant to International Disconnect between Research & Enterprise Difficulties in Business Closures Regulations Lack of Transparency Low Internal Competitiveness (Monopolies) Poor MIS & Information Management Monopolies High Interest Rates 14%+ Poor Operational & Management Skills Poor Quality & Low Productivity Lack of Competition Over Regulation Lack of Finance Causes Poor Language Skills No Long Term Vision No Enterprise Support Structure or Incentives Low & Poorly Planned Investment Impediments Poor Corporate Governance Over Reliance on State Funded R&D Regulation/Deregulation Lack of Systematic Review of Commerce Code Contract Enforcement Poor Corporate Intelligence Ineffectual Investment in Industrial land, Overlapping Duties and Responsibilities Limited Financing Mechanisms Poor IPR Protection **Buildings and Facilities** Rigidity in Systems Foreign Companies not Market Aggressive Lack of Qualified Testing & Poor Metrology & Standards Vested Interests, Corruption and Political Poor Synchronisation & Stability in Policies Underdeveloped Infrastructure Cronyism Risk Adverse Culture Over Complicated Procedures Crowd Philosophy High Entry Barriers **Taxation Impediments** Poor Education System Low producitivity & High Inventories Lower Tax Income Over Investment in Land & Buildings Higher Public Debt Slows Development relevant to Regional & International Competitors

**EBESM Project** 

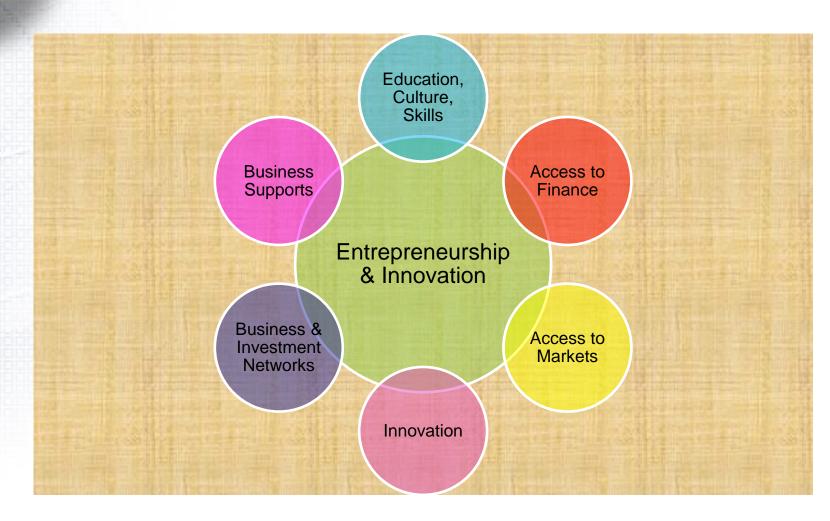
Widening Gap between Public & Private Sector



# **Ecosystem**









## NIS





#### Public & Non-Profit R&D:

University Government R&D Private Research

### People & culture;

Education levels & Creativity, S&T Attitudes Risk Tolerance Entrepreneurship

### Linkages;

TT, Cooperative Research,, Information diffusion & awareness

> Technology Transfer

### **Education:**

Teaching Higher Degrees Workforce Development Private Research VET

**Primary & Secondary** 

### **International Links** & Infrastructure

R&D & Business links,

Imports/Exports & Infrastructure (Physical & ICT)

### **Enterprise Clusters**

Conduit Structure

MNCs, large companies SMEs Innovative companies Start-Ups Spin-Offs Spin-Outs

**R&D** Performing Firms Clusters

#### Linkages;

Risk Finance, VC, Seed Capita Grants Trade & Business incentives

Innovative goods

Services

### Linkages;

Incubators Science & Technology Parks, **Enterprise Advisory** Services

### Market **Environment:** Domestic &

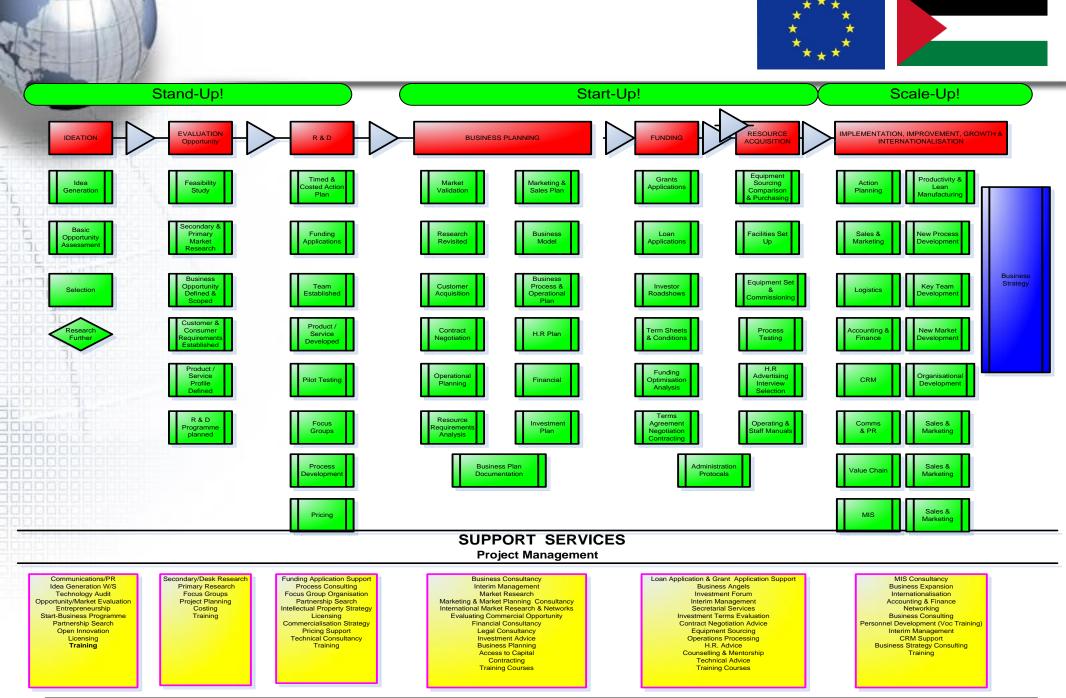
International Customers

End Users

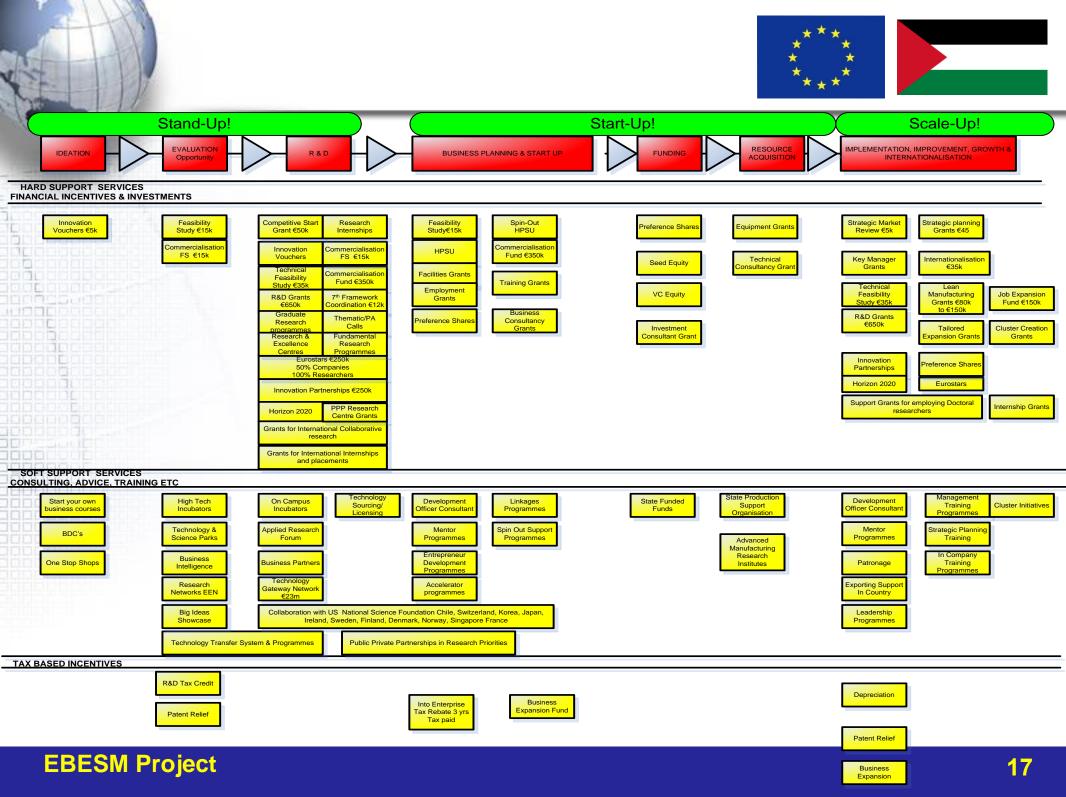
Government Procurement

### **Government Policy, Funding and Procurement Institutions**

Education funding bodies, R&D funding, S&T and Innovation Policy advisory bodies, standards, regulations, legal system, fiscal, tax, trade/tariff & procurement policies. Federal & regional government decision making processes



Business Technical & Management Consulting Services



# What to do





- 1. Vision, Strategy, Sustainability
- 2. Promote Communicate and Celebrate
- 3. Stimulate, Facilitate, Create
- 4. Collaboration, Evaluation & Reinforcement
  We now need to consider initiatives in the
  Ecosystem under the six domains discussed in the
  model



## **Types of Initiatives**





- Entrepreneurship training throughout the education levels;
- Exchange programmes between academiaindustry-academia;
- SYOB courses;
- One-Stop-Shops
- Grant Programmes, exploratory and feasibility



### Kafalat Lebanon





- New Start-up & Innovative Loan Guarantee Scheme 2006;
- €4m contribution by EU leveraged into €40m scheme;
- Over \$220m guaranteed in 2012 alone
- Sustainable



# **Innovation Loan Guarantees**





- The benefits for commercial Banks are;
  - Provide incentives to commercial banks to be more risk tolerant basing their lending decisions on project investment merits, cash flow and market opportunities rather than the traditional collateral cushion requirement;
  - Improve the commercial banks ability to evaluate commercial risk;
  - Increase the amount of commercial bank lending available for innovative SMEs.



## **Kafalat**





Items	Kafalat Standard	Kafalat +	Kafalat innovative
Sectors	<ul><li>Industry</li><li>Agriculture</li><li>Tourism</li><li>Craftsmen</li><li>High Tech</li></ul>	<ul><li>Industry</li><li>Agriculture</li><li>Tourism</li><li>Craftsmen</li><li>High tech</li></ul>	<ul> <li>development new product</li> <li>development of new uses of prod</li> <li>development of new markets</li> </ul>
Guarantee	75 % of value	85 % of value	90 % of value
Amount	Max 200 000 \$	2 600 - 400 000 \$ limited to 80 % of investment	2 600 -200 000 \$ limited to 90 % of project
Duration	7 years	7 years	5 years



# **Kafalat**





Conditions	<ul> <li>less than 40 empl</li> <li>all kind of entity registered in Lebanon</li> <li>Working capital and fixed assets</li> </ul>	<ul> <li>less than 40 empl</li> <li>registered cy</li> <li>Own K greater than 30 % debts</li> <li>Minimum 20 % contribution</li> <li>financial statements audited each year</li> <li>Business plan over 7 years</li> <li>Debt ratio 70/30</li> </ul>	contribution
Interest rate	Variable bank rate (8 to 10 %) + Kafalat 2.5 % com	Same	Same
Other guarantee	Collateral	No collateral	No collateral
Application	All commercial banks	All commercial banks	All commercial banks



# **Innovation Loan Guarantees**





- The benefits for Innovative SMEs:
  - Ensure access to credit to finance sound investment projects, without having to provide any other collateral requirement;
  - Increase and strengthen such SMEs' equity base;
  - Promote a formal SME organisation by requesting SME s to register as formal entities as condition of loan application;



### **Good Practice Palestine**





SMEs Loans Mortgage Programme by the Palestinian Investment Fund (PIF)

- The programme provides both financial facilities and loan guarantees to banks for the purpose of allowing SMEs further access to finance to expand sustainable businesses. The PIF provided financial guarantees to Palestinian banks to allow SMEs and potential entrepreneurs getting access to finance. PIF played as a Loan Guarantee Fund. The lack of uptake of modern technologies has been identified as one of the leading barriers to sustainable business practices among Palestinian SMEs.
- This programme is appreciated by entrepreneurs and those operating small businesses facing intense difficulties securing necessary funding for sustaining and operating their enterprises. With 3,500 new jobs created by SMEs benefiting from the scheme, the programme is a success. However, sustaining these businesses requires more elaborated performance measures and evaluation indicators in place.

# Morroco





The Moukawalati programme, set up in September 2006, is the first global and integrated arrangement designed to assist in setting up and ensuring the survival of small businesses.

Advantages of the programme: • Pre and post set-up assistance for businesses • Government guarantee (CCG) of 85% bank credit, delegated to the banks. • Interest-free advance representing up to 10% of investment, with a limit of 15 000 DHS (around €1325), repayable over 6 years, with a 3-year grace period, part of which (up to 10 000 DHS, around €885) can be released as soon as a project is agreed by the bank. From the time of its launch, Moukawalati has been constructed around the following principles: • Offering integrated services permitting allround support • Procedural facility giving access to funding • Regional implementation • Stakeholders involved in the creation of businesses working together

### **Greece**





- The creation of a system of promotion and reinforcement of entrepreneurship at AUEB with actions to develop culture and positive attitudes, information, training and support for the students (undergraduate, post-graduate and doctoral) with the ultimate aim of developing positive attitudes and entrepreneurial culture and the undertaking of entrepreneurial initiatives.
- Activation of students and wider university community concerning entrepreneurship - Establishment of new enterprises by students and AUEB graduates - Distinction of university students in international entrepreneurship competitions - First public educational institution to receive a distinction for excellence according to the internationally recognized EFQM entrepreneurial excellence model

### **Austria**





- Around ten undertakings (SMEs) wishing to launch an innovative project thereby sustainably improving the innovative processes within the undertaking are selected for each programme year. If recommended for funding, the undertakings select as an innovation assistant for the project development a recent graduate with a technical or scientific academic background. This assistant will be accompanied by an advisor also selected by the undertaking for the two-year duration of the project and will receive additional training specially organised by CATT.
- Since 1998 120 successful projects
- (see extract 'Success Stories' at: http://www.innovationsassistent.at/13\_DEU\_HTML.php) and their results put into practice to the benefit of the participating partners

# **Italy**





By Act No 32/2007, the Region of Liguria has supported local social entrepreneurship that promotes fair trade, by encouraging the creation of an association of the Ligurian fair trade organisations, facilitating relationships with local businesses (companies, hotels, stores, etc.) and involving local entities in sustainable procurement that enhances social and environmental responsibility, both private and public.

• The impact on the local economy consisted of increases in revenues (+25%) and employment (+12%) in fair trade enterprises. A number of 350 initiatives have been implemented with the involvement of almost 10% of the population, over 100 events organised as part of special days and fairs with 90 000 visitors and 15 000 buyers, 6 000 students with 2 500 hours of academic activities per year.



### **Tunisia**





### **Tunisia**

• Start A Business Wednesdays take place on the third Wednesday of every month and bring together in the 24 governorates of Tunisia all those involved in establishing and financing businesses: business centres, technology parks, nurseries, technical centres and banks. The days deal with topics such as how to start a business, steps to go through, incentives to create new businesses, the roles of the various bodies supporting business creation and planning upgrades. Start A Business Wednesdays are also an opportunity for successful start-ups to explain to others how they began and became successful.

# **Algeria**





- Eligible innovations may relate to either products or procedures. They may bring about changes related to materials, human resources and/or working methods. The competition is open to SMEs operating in Algeria. Applications must include proof that the candidate business does in fact exist (articles of association, etc.) and a technical data sheet describing the innovation submitted for the prize, as well as the origin and reference of the innovation. All information and documents submitted are kept confidential. The prize is awarded annually and consists of a certificate and a cash prize. Participation is free.
- The competition encourages developing skills in innovation and making permanent improvements to the quality of products and services through innovation



### **Good Practice**



http://ec.europa.eu/enterprise/policies/sme/best-practices/database/euromed/index.cfm?fuseaction=n=practice.detail&gp\_pk=537&

# **Ecosystem**







### **Domains of the Entrepreneurship Ecosystem**

#### Leadership Government Unequivocal support Institutions Social legitimacy e.g. Investment, support . Open door for advocate Financial support Early Customers e.g. for R&D, jump start funds · Entrepreneurship strategy · Urgency, crisis and challenge Regulatory framework · Early adopters for proof-of-Incentives e.g. Tax benefits Expertise in productizing · Reference customer First reviews **Policy** · Distribution channels Networks Markets **Finance** · Entrepreneur's networks Diaspora networks Multinational corporations Entrepreneurship Labor · Skilled and unskilled Human · Serial entrepreneurs Culture Capital · Later generation family

- Research institutes
- · Venture-friendly legislation
- e.g. Bankruptcy, contract enforcement, property rights, and labor

### Financial Capital

- Micro-loans
- Angel investors,
- friends and family
- Zero-stage venture capital
- Venture capital funds
- Private equity
- · Public capital markets
- Debt

#### **Success Stories**

- Visible successes
- Wealth generation for founders
- International reputation

#### Societal norms

- . Tolerance of risk, mistakes, failure
- · Innovation, creativity, experimentation
- Social status of entrepreneur
- Wealth creation
- · Ambition, drive, hunger

#### Infrastructure

· General degrees (professional and

· Specific entrepreneurship training

- Telecommunications
- · Transportation & logistics
- Energy
- · Zones, incubation centers, clusters

#### Support professions

- · Legal
- Accounting
- Investment bankers
- Technical experts, advisors

Supports

#### Non-Government Institutions

- Entrepreneurship promotion in non-profits
- Business plan contests
- Conferences
- Entrepreneur-friendly associations

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5/19/2011

**EBESM Project** 

**Educational Institutions** 

academic)



### **Education, Culture, Skills**





- Encourage schools to enhance enterprise in education
- Celebrate and reward successful entrepreneurs
- Ensure that more people have an equal opportunity to start and run their own business
- Improve the quality and range of ICT skills domestically to make Palestine a hub for technology start-ups

### **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
- Attract more angel and international venture capital investors and continue to develop the domestic venture capital sector
- Ensure that the banks develop the skills and focus necessary to deliver appropriate financial instruments to start-ups and early stage entrepreneurs

### **Market Access**





- Encourage local and national authorities to make a commitment to provide market opportunities for fledgling businesses (Government Procurement)
- Encourage local and national private enterprises to make a commitment to provide market opportunities for fledgling businesses
- Ensure start-ups are export oriented in their thinking early in their development

### **Innovaton**





- Make Palestine a location of choice for high quality/potential domestic (those who leave to establish enterprises and international diaspora start-ups
- 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 a support framework to assist innovative start-ups reach their full potential

### **Networks**





- Improve the effect of mentoring as a tool to support entrepreneurship
- Increase the number of peer networks for mentoring, angel finance and problem solving which sustain entrepreneurship
- Build world class entrepreneurial hubs and achieve greater regional spread of such hubs to facilitate entrepreneurial leadership
- Engage Private Sector/Representative Bodies



# **Business Supports**





- Promote standards to local authorities to exploit fully the enterprise assets of their community and foster new thinking in the enterprise area
- Stimulate and support high levels of quality entrepreneurial ventures which have high growth, export, wealth and job creation potential

### **Discussion**



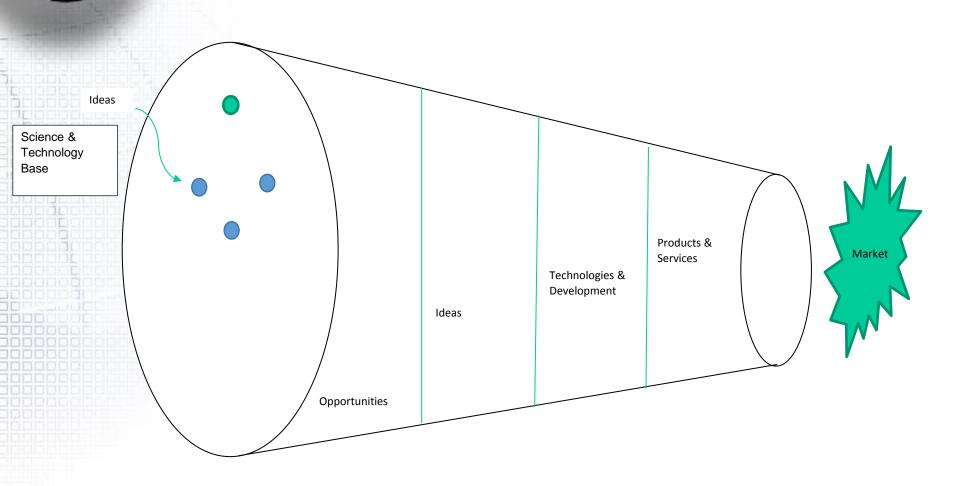


- Are the terms innovation & entrepreneurship understood in Palestine?
- Where do the majority of new ideas & new enterprises come from?
- How important do we consider innovation in the context of economic policy in Palestine?
- What elements of a National Innovation System are working in Palestine and which not?

# **Closed System Innovation**



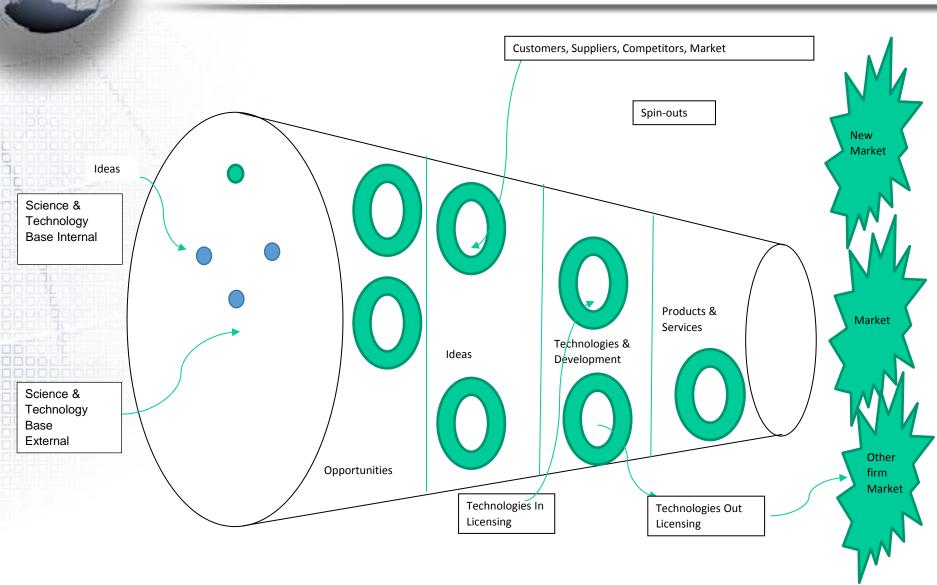




# **Open Innovation**









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