

Paltrepreneurship

This month the Bulletin takes an in-depth look at entrepreneurship in Palestine. Though widely praised, efforts by Palestinian entrepreneurs still face serious challenges and major constraints, mostly related to the need to create a suitable ecosystem to incentivise, foster and help expand entrepreneurial businesses. In an economy regarded as entrepreneurial in nature, a new generation of forward-looking Paltrepreneurs is working alongside local and international support organisations to overcome some of these challenges and make the most out of opportunities in innovation and high-impact businesses. How are they doing? What are their major concerns? The Bulletin spoke to sector experts and entrepreneurs to answer these and other questions.¹

The case for entrepreneurship

As Sir Ronald Cohen recently noted, over the last four decades *“our lives have been completely transformed by entrepreneurs”* who have *“revolutionised the way we live”*.² One of the founding fathers of European venture capital (VC) and a key player in what was regarded as the ‘entrepreneurial revolution’ that dramatically changed the western economies from the 1970s, Sir Ronald highlights that this revolution *“was driven by innovation and risk-taking”* and that it *“transformed the mind-set of governments about how economic growth should be achieved.”* According to him, in the early stages of this transformation both government and far-sighted institutional investors made a fundamental change in their attitudes towards promising young companies, which enabled entrepreneur-led firms to overtake those that had led their fields for nearly a century.

It is broadly acknowledged that high-potential, innovation driven companies not only have the capacity to boost economic growth and directly create thousands of jobs, but also to promote greater competition and therefore further stimulate innovation, increase productivity and improve overall economic performance. For these reasons young high-impact companies can play a key role in driving economic expansion and should be a central part of the agenda of governments seeking to promote positive change. A recent OECD report focusing on entrepreneurship development in the MENA countries indicates that the economies of the region share two common features: insufficient job creation to cope with high population growth rates and an urgent need to modernise.³ According to the OECD’s

analysis, the promotion of high-impact enterprises led by young companies has the potential to influence both of these region-wide challenges. In Palestine, where unemployment is structurally high (affecting mostly youth and women) and the economic slowdown deepened in 2013, entrepreneurs could play a key role in promoting sustainable recovery.

A data-based snapshot

There are numerous examples of Palestinian talent, innovation and excellence in business: from the Khoury family who returned to Palestine following the Oslo Accords, after spending more than 20 years in the US, to open the first Palestinian brewery in the village of Taybeh; to Bashar Masri, the man behind the development of the new city of Rawabi, the largest ever Palestinian private sector investment. But to what extent are these cases truly reflective of the general economic structure and current business environment?

The vast majority of Palestinian companies are small in size and therefore driven by small ‘entrepreneurs’, as opposed to large corporate leaders. Out of the nearly 145,000 economic establishments operating in Palestine in 2012 (131,000 were private sector companies) almost 90% employed less than five workers and nearly 8% had 5-9 employees.⁴ Only 137 Palestinian establishments employed more than 100 workers: 100 in the West Bank and 37 in Gaza. In that same year small and micro enterprises employed nearly 763,000 people (almost 90% of all employed): 273,000 were entrepreneurs themselves and 489,000 were their employees. However, this is not necessarily an indication of job quality, duration or stability. Many of the jobs created by small businesses are short-term and many were created by nascent entrepreneurs whose businesses have a higher than average probability of discontinuity. At the same time the economy as a

¹ The views expressed are personal to the interviewees and do not necessarily reflect the views of the Portland Trust or MAS

² www.ronaldcohen.org/pubs/revolutionising-philanthropy-impact-investment

³ OECD/International Development Research Centre (IDRC), Canada (2013), “Rationale and policies to promote high growth enterprises”, in *New Entrepreneurs and High Performance Enterprises in the Middle East and North Africa*, OECD Publishing.

⁴ www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1970.pdf

whole does not seem to be oriented towards innovation: low productivity/low value added activities, including services, retail and construction, dominate both GDP and job creation.

The total early-stage entrepreneurial activity (TEA) indicators for Palestine are also not particularly high. The latest Palestine Economic Policy Research Institute's (MAS) Global Entrepreneurship Monitor (GEM) report shows that in 2012 9.8% of the adult Palestinian population (aged 18-64) had started a business in the past 42 months, meaning they were nascent or new entrepreneurs.⁵ This activity rate is lower than the 13% average registered for low-income developing economies and for the whole GEM consortium, but higher than the 6% average of the six MENA countries included in the sample. GEM data shows that the TEA rate decreases as countries reach a higher stage of economic development. This could be indicating that in poorer economies people are reverting to entrepreneurship as a last employment resort given the absence of opportunities in other activities. Data for Palestine seems to validate this argument: in 2012 42% of Palestinian entrepreneurs (and two thirds of female entrepreneurs) were driven by necessity rather than by opportunity. A higher opportunity-to-necessity ratio is desirable as it signals that entrepreneurs are not only looking for employment but are actually seeking better living standards through entrepreneurship. However, opportunity driven entrepreneurship is lower amongst young Palestinians, meaning that youth are most likely to start a business out of necessity. This negative indicator is consistent with the alarmingly high overall levels of unemployment among Palestinian youth. The educational level also appears to be an important driver of entrepreneurship, as Palestinians with post-secondary and graduate education are more likely to start a business than those with only secondary or lower education - an indicator of the lack of high-skilled jobs in the economy. At the same time, TEA rates are lowest in the population segment with lower qualifications, who are typically employed in low-skilled jobs in services and construction.

In addition, analysis by the OECD found that while it is true the MENA region has a smaller stock of entrepreneurial activity compared with other dynamic emerging areas (including Latin America and parts of Asia), the pattern of entrepreneurial activity there is changing as "...a new generation of young enterprises is emerging". "These new entrepreneurs are more educated than those managing and owning more established businesses", the OECD points out.

In Palestine the panorama and prospects are equally promising. A vibrant digital entrepreneurship scene is emerging and different initiatives have been put in place to help launch and support the segment. Some, such as

eZone, a co-working space for digital entrepreneurs, are helping to foster a sense of community. Others provide funding and mentorship to technology start-ups through accelerator and incubator-style programmes. These initiatives have been coupled with the creation of the first technology-focused VC fund to target early stage investments, Sadara Ventures. This and other VC funds have invested in promising Palestinian start-ups such as Yamsafer.me, Souktel and Anoud Games. More recently, Arabreneur, with the support of USAID's Compete Project, invested in a number of Palestinian start-ups through its seed fund, and Palestine for a New Beginning (PNB) is working with major private sector players to establish a \$20m Palestinian innovation fund.

But entrepreneurial activities are still in a nascent stage. What are the major challenges preventing further expansion of the sector? What types of improvements to the ecosystem are needed? What specific policies can be promoted to support high-potential new enterprises?

Improving the business environment

Focused public sector efforts to improve the business environment would signal to existing and potential entrepreneurs that the government regards them as a central partner for growth and job creation; and that the need for them to realise their full potential is in line with the broader national development strategy. Laila Duaibes, from Sharek Youth Forum, considers that there is a lack of a clear national policy to support entrepreneurship: "We need to see the public sector more active in easing the conditions for doing business. The investment and business climate is very bad, especially for young people", she said. A World Bank report assessing the ease of doing business in 2014 confirms this statement, as Palestine is ranked 138th out of 189 economies.⁶

Increased competition, clearer and simpler regulations and greater access to finance and capital by entrepreneurs are also needed to help build the environment. Shadi Atshan, Director of Leaders Organization, told the Bulletin: "Entrepreneurs are now starting to be more accepted and their potential more broadly acknowledged. There is a regional digital market of 400 million people and 160 million internet users, giving us the opportunity to become the start-up nation of the region. But success will be necessarily driven by investment and private capital." Ambar Renova, from PNB, added that "When start-ups finish their participation in acceleration programmes they simply can't make it to attracting private investment to grow. This is why we are working to create the 'Innovation Fund', a high-impact gap fund which will help establish and invest in innovative start-up companies across a wide range of both ICT and non-ICT sectors." PNB has recently engaged Mr Marcelo Díaz (Abdul Mesiah)

5 www.bit.ly/1iTa0ub

6 www.bit.ly/1fDPsuk

Bowen, a Chilean member of the Palestinian Diaspora and manager of IncubaUC (the number one incubator in Latin American Spanish-speaking countries) as an advisor for structuring and establishing the fund. Mr Diaz told the Bulletin: *"During my last visit to Ramallah I saw programmers working on coding lines with a level of skill you would only see in the Bay Area. The Palestinian talent is definitely out there and has the potential to develop the country into a regional IT hub. But entrepreneurial developers are currently stuck at the post-acceleration stage. This is why the Innovation Fund is so critical. It will act as a bridge between Palestine and the Silicon Valley, giving more international exposure to Palestinian entrepreneurs, leveraging current investment by the existing accelerators and ultimately allowing start-ups to penetrate the global market."*

Moving towards a competitive private-sector driven entrepreneurship market, pushed by profitability, appears to be at the core of potential for future development.

Perceptions and education

There seems to be a general agreement among sector experts that, as in many other developing economies, cultural traditions and values in Palestine do not promote entrepreneurship. Parents typically discourage their children from entering entrepreneurial activities, as they associate 'traditional' careers with greater stability and social prestige. Ms Duaibes considers that *"We live in a patriarchal society moved by traditional thinking. Education is not oriented towards entrepreneurship and, especially as a young woman, you are not really in control of your professional life. Families still expect young girls to become teachers or stay in the house"*. The predominant negative perceptions on the possibility of failure, strongly associated to riskier new ventures, also hinder risk-taking in entrepreneurial activities. Ihab Jabari, USAID Compete Project's Deputy Chief of Party, considers that local and international stakeholders *"need to promote a change in the mentality of the Palestinian youth. They usually finish school and go to work for their families, do an MBA or look for a job in the PA – in the belief that these are 'safer' options. We need them to internalise the notion of failure, to learn how to get the most out of failed experiences, and to not be afraid of failing."* While Mr Atshan shares the general view, he is more optimistic as he considers that *"We are increasingly seeing that young entrepreneurs are thinking beyond a salary: they are driven by their passion to create, to innovate"*. Talal Jabari, the founder and CEO of the online gaming platform Fariqak (www.fariqak.com), definitely sees himself as part of this group: *"I graduated from university in 2000 and worked for a newspaper for a few years. But from 2004, when I started my first company (Capture Productions), I knew there was no turning back: I decided I would channel my passion and interests through entrepreneurial projects"*, he explained. Recently

supported with investment by Arabreneur's accelerator fund, Fariqak launched a fantasy football application and has other products in its pipeline, with which the company aims to penetrate markets beyond the Arab-speaking world. Radi El Fassed, Arabreneur's Programme Director, added that a 'big success story' is needed to further promote entrepreneurship in Palestine: *"This is exactly what happened in Jordan after the Maktoub exit, which was bought for \$164m by Yahoo! in 2009. This inspiring case ignited the entrepreneurship ecosystem in Jordan."*

Education and skills development are also key drivers of entrepreneurship activities. The OECD points out that MENA entrepreneurs typically complain that existing, publicly-funded training schemes, even when available, are often too generic and not tailored to their specific needs. In Palestine, it is broadly argued that university curricula are outdated and do not prepare students for the labour market, nor do they equip them with the necessary (technical and soft) skills to think in an entrepreneurial way and pursue their own business ideas. Tools and mechanisms to respond to the rapidly changing and highly demanding standards of international markets therefore need to be established. These could include the creation of joint training programmes and on-the-job skills development schemes by universities and private companies. Iliana Montauk, Director of Mercy Corps' Gaza Sky Geeks Accelerator programme, explained that *"Start-up accelerators in Palestine are similar in structure to those in the US, but here we operate in a very different environment. In the US, you have plenty of companies applying for acceleration. At Gaza Sky Geeks we had about 300 applications for our first round of acceleration, but only three of them were start-ups ready for investment. They have good ideas but they have not started implementing them yet - they think investment should be given simply for the idea. We have to work much more to build our pipeline here, training and coaching potential entrepreneurs to get them to build, launch, and test their ideas."* Feras Nasr is the Co-founder and CEO of AidBits (www.aidbits.com), an online platform providing NGOs in the aid sector with tools to maximise their impact. He considered that support by an accelerator allowed his company *"...to focus on developing the product rather than worrying about securing financial resources"*. *"During the past few months we have made substantial progress and managed to attract several clients, including some major NGOs. We are planning to expand globally next year"*, he added.

However, while training and mentoring programmes can fill short-term gaps in human capital readiness, long-term investment in education is also required. Many countries in the region have launched education programmes to support nationwide IT initiatives, including the Jordan Education Initiative, a public-private partnership to restructure IT education. Including technology in primary and secondary

school curricula, along with enhancing IT and digital education at universities, would also help prepare a wave of graduates to bolster the sector in the future.

The Portland Trust's 'Beyond Aid' report indicates that Palestinian IT businesses could readily build on the strengths of a strong human capital base to take advantage of regional opportunities in the technology sector, including in Israel.⁷ However, challenges remain to make the most out of large-scale opportunities, since a critical mass of highly qualified workers is not yet available. *"The crucial key to growth in the entrepreneurship space is the creation of a broad mass of talent. This is a challenge that goes well beyond training. It will require increased coordination between stakeholders and allowing young graduates work experience in real projects"*, Mr Ihab Jabari said.

Structural constraining factors

Other pressing factors in the Palestinian economy further constrain entrepreneurial development. The low participation of women in the labour force is a major determinant of the entrepreneurial gender gap (OECD). Between 2010 and 2012 there was a decline in overall TEA in the West Bank, from 14% to 10%, mostly driven by a sharp drop in female entrepreneurial activities. In 2012 the country level TEA gender gap reached 12.6 percentage points, above the global (5pp), MENA countries' (8pp), and low-income economies' (6pp) averages.⁸ OECD recommendations suggest that in designing training and internship programmes governments should pursue an active gender policy. This might include subsidising enterprises which hire qualified female interns or employees. Ms Montauk stresses that there is a strong case for promoting female entrepreneurship, especially in Gaza where *"60% of the top university's computer department students are women."*

In addition, the existence of a large informal economy and of a limited number of concentrated firms holding dominant positions across some economic sectors may also act as a further factor for deterring smaller businesses from entering the market.

⁷ www.bit.ly/1hr6AEV

⁸ www.bit.ly/1jDccTd

Finally, the current political situation, and more specifically the system of restrictions imposed by the government of Israel, poses additional challenges to business development in Palestine. Access to low cost, efficient public services (including ICT, water and electricity supply and transport infrastructure) is greatly affected by Israeli measures, which further constrains business activities for entrepreneurs, typically heavy users of such services. While some stakeholders identified great potential for entrepreneurship development in sectors like tourism or agriculture, they acknowledged that these tend to suffer much more from Israeli restrictions than digital businesses (although the blockage of 3G technology remains a major challenge). This is one of the main reasons why most of the existing entrepreneurship development initiatives currently take place in the digital economy spectrum.

Looking forward

While challenges remain, opportunities are equally large for *Paltrepreneurs* to make a substantial contribution to the economy. As with all structural changes, the Palestinian 'entrepreneurial revolution' will require time to take-off at a larger scale, and would greatly benefit from a series of fundamental changes in the enabling environment. These include increased access to capital by young businesses as a way of creating an adequate private-sector driven set of incentives for innovation; the introduction of tax holidays for innovation-driven start-ups; the establishment of a clear, fair and innovation-friendly set of norms and regulations; greater female participation in entrepreneurial activities; a comprehensive revision of the education system to support the development of entrepreneurial skills and the gradual instilment of an entrepreneurial and risk-taking spirit among youth; and the leveraging of expertise and experience of successful Palestinian entrepreneurs from the Diaspora.

Will the 'big win' that *Paltrepreneurship* needs come from the high-technology field? Will it be led by female entrepreneurs? Will entrepreneurship development be the key to drive employment generation and growth over the next decades? The road ahead is long and major challenges remain, but judging by the forward-thinking approach of the local entrepreneurship community, the potential for positive change is definitely there.

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