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M A S

Palestine Economic Policy Research Institute

The Global Entrepreneurship Monitor (GEM)

Palestine Country Report 2010

2011

The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

Mission

MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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About the GEM Research Project

The Global Entrepreneurship Monitor is a research initiative involving hundreds of researchers in more than 75 countries worldwide who share a concern for understanding entrepreneurship and its dynamics. The annual GEM global report provides analyses of the level of entrepreneurial activity and related indicators in a variety of developed and developing economies to advance the knowledge base about this important field of inquiry, and to identify policies that may help governments and economic development stakeholders to strengthen the role of entrepreneurship in creating jobs and driving innovation and growth.

In 2009, GEM data were collected in 8 new countries from the Middle East and North Africa, bringing the total of MENA countries that have participated in the GEM project to 13. The International Development Research Centre funded the involvement of seven new countries (Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen).

Source: from the Executive Summary of the GEM-MENA Regional Report 2009 (Middle East and North Africa), IDRC.-

Palestine Country Report 2010

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Foreword

The Palestine Economic Policy Research Institute (MAS) is pleased to present the Palestinian & Arab Reader with the 2010 edition of the Palestine Entrepreneurship Monitor. This report, published for the first time in Arabic, is a follow-up to the 2009 edition of the Palestine Entrepreneurship Monitor; it contains data and results which combine extensive & useful sources of information for those interested in entrepreneurship. This field of study is of particular interest to development policymakers who believe in the importance of entrepreneurship and the vital role it plays in spurring economic growth, combating unemployment and reducing poverty.

The GEM report is based on a unified methodology for data collection and analysis which modifies the values of monetary indicators according to the purchasing power parity (PPP) index. This methodology allows for easy comparisons to be drawn between member countries and thus facilitates the exchange of information and results as well as allowing countries to draw upon the policy and test experiences of others in the region. Ultimately, this methodology aims to better assist in solving the complex development problems faced by emerging economies in a cost-effective manner.

In the occasion of publishing this report I would like to congratulate the Palestinian national team for their efforts in preparing this report, delivering it on time, and for developing a method of analysis which simplifies regional comparisons. I would also like to thank the International team for their efforts in checking the results and ensuring that the data is of the highest quality. Finally, we at MAS extend our sincere thanks and gratitude to the International Development Research Center (IDRC) for funding the entrepreneurship survey in the OPT for the second year in a row and for funding this report.

Samir Abdullah
Director General

Executive Summary

The GEM constitutes an international academic research consortium which was initiated in 1999 with 10 countries (G7, Denmark, Finland, and Israel). Despite the different meanings of entrepreneurship available in the field, GEM's definition of this term concentrates on the foundation and sustainability of new businesses. In 2010, GEM conducted research in 60 countries, accounting for the largest single study of entrepreneurial activity in the world.

GEM relies on several indicators to highlight a country's progress with regards to entrepreneurial activities. In the OPT, for instance, the TEA rate (which describes the Total Early-Stage Entrepreneurial Activity in a country) is 10.41%, approximately 1% less than the GEM countries' average. A total of 215,204 adults in the OPT are involved in entrepreneurial activities, most of whom are in the start-up and the new-business stages. According to the TEA rate, 126,215 Palestinian enterprises are in the early stage, and a further 20,706 are established enterprises.

Most new entrepreneurs in OPT are male, 25-44 years old, self-employed, holding at least an associate diploma, and living in a household with a combined annual income of more than 100,000 NIS (US \$28,131.73). Moreover, there is a higher entrepreneurial activity rate in the West Bank (14.4%) than in the Gaza Strip (3.2%), a fact that can be attributed to Israel's blockade on Gaza. The motives for starting a new business vary between necessity and opportunity. Based on the 2010 APS data set, 41 Palestinian entrepreneurs are motivated by necessity reasons for every 100 entrepreneurs motivated by economic opportunity. Furthermore, the rate of necessity-driven entrepreneurship is much higher in the Gaza Strip due to the scarcity of business opportunities as a result of the continued Israeli blockade.

Entrepreneurial activities are distributed among a number of sectors. However, the services sector (retail trade, restaurants, and hotels) dominates the Palestinian economy;

almost half of the entrepreneurs in both the West Bank and Gaza work in this sector. Analysis of the Palestinian market conditions, which have a chief role in determining the entrepreneurial framework, shows that, first, entrepreneurs in the OPT are using more medium/high technology than in most factor-driven economies, and, second, more new products are offered by early-stage entrepreneurs than by established businesses (mainly in the West Bank). In terms of export intensity, the OPT generally lacks a sufficient amount of international consumers and export partners. Furthermore, more international customers are created as the business moves from early-stage into established-business stage. In Gaza, largely due to the Israeli blockade, 96% of the early-stage entrepreneurs do not export their products.

Approximately 563,932 jobs have been created by early-stage enterprises, most of which are micro-enterprises. These micro-enterprises face the challenge of sustainability, as the number of employees per enterprise is at most five in the West Bank and even lower in the Gaza Strip. Although the total number of jobs is expected to grow to 632,850 in the next five years, this number remains unsatisfactory taking into account the high growth rate of the Palestinian population.

Sustainability is crucial to all businesses, as it guarantees their survival. Accessing reasonable local and external financial resources, providing guarantees, and overcoming such profitability problems as high interest rates and commission fees comprise vital factors in any developing country and in the OPT in particular.

The median start-up capital (financial resources needed to transform the entrepreneurial idea into a real business) in the OPT is approximately US \$2,095; 57% of nascent entrepreneurs finance their business fully independently. The median personal money invested is US \$8,201, which is high relative to the GDP per capita (US \$1,470). Palestinian entrepreneurs seek financial support from family members (the main

external funder for entrepreneurs in the OPT), relatives, micro-finance institutions, government programs, and informal investors. Informal investors are those who have – in the past three years – personally provided funds for a new business started by someone else. The rate of informal investors in Occupied Palestinian Territory stands at 3.3% of the adult population.

In 2010, the rate of business discontinuation for Palestinian entrepreneurs was 4.01%. The main reasons for discontinuation were the non-profitability of the business, lack of finance, or personal reasons. Discontinuation is lower among the more educated or higher income categories. Surprisingly, entrepreneurs who perceive that they possess the necessary knowledge or skills to run a business have a higher rate of discontinuation.

The perceptions of a population regarding entrepreneurship expose recognizable differences among factor-driven countries. Most notable in the OPT is the ‘fear of failure’. In 2010, the OPT was in the top 10 countries, among the 60 participating GEM countries, in which fear of failure would prevent people from starting a new business. Fear of failure is negatively influenced by education and positively affected by better skills. This perception negatively impacts the Palestinian economy because it leads to lower participation in early-stage entrepreneurial activity, lower expectations of future involvement, and lower expectations of job growth for entrepreneurs.

The participants in the National Experts Survey included 36 experts, 78% of whom were male. The mean age of the participating experts was 46 years old, and all 36 held bachelor degrees.

The top four professional positions of those surveyed were: Director (30.6%), General Manager (16.7%), Consultant (5.6%), and Manager (5.6%). Half of the participants had worked with their current organization for

more than ten years, and 39% of those were male. The NES also found that 55.6% of the sample group had held their current position for 5 years or less, of whom 44.4% were male.

Furthermore, the data showed that approximately 42% of the surveyed experts had worked in areas associated with entrepreneurial activities for more than ten years and up to 30 years; of these experts with considerable entrepreneurial experience, 31% were male. Another third of the sample group had been exposed to entrepreneurial work for approximately 6-10 years. The study found that although males were more evenly spread across the three categories, women remained more consistently employed and were more likely to stay longer with an employer.

The GEM adopts a widespread approach to understanding the role of entrepreneurial activity in a country’s economic development. The GEM model also takes into account the different types and phases of entrepreneurship. The model suggests that a country’s major social, cultural, political, and economic features, along with the surrounding general framework conditions, have a noteworthy impact on the advancement of the entrepreneurial sector.

The NES contains sixteen questions relating to these broad categories. Thirty-six Palestinian experts (entrepreneurs, academic experts, and policy-makers) were asked to express their views on each of those issues. According to Palestinian experts, the three most negatively viewed EFCs are: primary and secondary education, government programs, and internal market openness. The most positively viewed EFCs are: consumers’ interest in innovation, the social image of entrepreneurs, and the physical infrastructure. Regarding the restricting and fostering factors, the national experts highlighted the political, institutional, and social context; financial support; and government policies as the top three constrains.