

Foreword

The Palestine Economic Policy Research Institute (MAS) is pleased to offer interested local, regional, and international readers the latest Global Entrepreneurship Monitor (GEM) Palestine Country Report 2012. The present report constitutes a follow-up of the 2009 and 2010 publications of the Palestine Country Report. The study encloses significant information about individuals' involvement in venture creation by assessing the motives, aspirations, and attitudes of entrepreneurs in addition to the national perceptions of experts of the entrepreneurial framework conditions in the Palestinian economy. The resulting report is of particular interest to development policy-makers who acknowledge the crucial importance of entrepreneurship for enhancing economic growth, reversing unemployment, and combating poverty.

The GEM project is an annual assessment of the entrepreneurial activity, targets, and approaches of individuals across a wide range of countries which was initiated in 1999. GEM explores the role of entrepreneurship in national economic growth by unveiling detailed national features and characteristics associated with entrepreneurial activities. The objective of the consequent research results is to identify and develop informed economic policy recommendations designed to foster and promote entrepreneurship and in this way encourage sustainable economic growth and development. The unified and harmonized data collection and analysis process assures the possibility for easy and accurate comparisons among countries and thus facilitates the exchange of information and experiences among countries. Ultimately, the used methodology assists in solving complex development problems faced by the majority of emerging countries in an experience-sharing and cost-effective manner.

In the occasion of publishing the third GEM Palestine Country Report, I would like to congratulate the members of the Palestinian national team for their extensive efforts and excellent work in delivering the report. I would also like to thank the international team for their assistance and support in checking the data and assuring its highest quality. Last but not least, I would like to take the opportunity to extend our most sincere gratitude to the International Development Research Centre (IDRC) for making the third publication of the Palestine Country Report possible.

Samir Abdullah
Director General

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List of Abbreviations

APS	Adult Population Survey
BB	Baby Business
DOI	Declaration of Independence
EB	Established Business
EFC	Entrepreneurial Framework Conditions
FU	Future entrepreneur
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GERA	Global Entrepreneurship Research Association
GS	Gaza Strip
IDRC	International Development Research Centre
ILO	International Labour Organization
JEDCO	Jerusalem District Electric Company
KAB	Know About Business
LDC	Less Developed Countries
MAS	Palestine Economic Policy Research Institute
MENA	Middle East and North Africa
NES	National Expert Survey
OM	Owner Manager Entrepreneur
oPt	occupied Palestinian Territory
PCBS	Palestine Central Bureau of Statistics
PEA	Palestine Energy Authority
R & D	Research and Development
SU	Start Up entrepreneurs
TEA	Total Early-stage entrepreneurial Activity
WB	West Bank

Executive Summary

This is the third round in which Palestine participates in the GEM; the first two rounds were in 2009 and 2010. The data for 2012 add an important time dimension, which allows to track entrepreneurship indicators over time and make comparisons for Palestine over time and with respect to other countries for 2012. Due to the continuing lack of political progress, in recent years Palestine has not undergone any major socio-economic improvements; to the contrary, some experts argue that there has been a deterioration in real wages and income distribution and a rise in poverty. This reality has prevented any development in entrepreneurship as well. The entrepreneurial situation is characterized by high business discontinuation rates (compared with other countries), relatively low activity rates, and the expansion of mostly necessity entrepreneurship. The Palestinian gender gap in entrepreneurial activity rates remains one of the highest in the region.

The scale and characteristics of entrepreneurship in Palestine exhibit some general trends when compared to other nations and over time. The Total Early-Stage Entrepreneurial Activity (TEA) rate in Palestine (9.8%) is relatively low for a factor-driven economy but is at the median level for all GEM countries. Palestine's TEA rate is mostly composed of entrepreneurial activity in the start-up stage. The baby business rate (businesses aged up to 42 months) is low relative to all GEM countries. The established business ownership rate is also low for Palestine. A comparison of the entrepreneurial activity rates over time indicates deterioration at almost all levels from 2010. The TEA rate dropped to 9.8% in 2012 and the nascent rate declined to 6.2%, while the necessity/opportunity rate rose to 72%, and the discontinuation rate increased to 5%. Although the EB rate went up to 3%, it is still below the 2009 level. These trends make entrepreneurial expectations gloomy as a result of the worsening economic conditions and the lack of political stability in the current environment of a stagnated peace process. The WB/GS TEA rates are more at parity in 2012 than they were in 2010; in the WB, in 2010, the WB rate was above 14% and decreased to just below

10%; while in the GS the rate went up from roughly 2.5% to almost 10%. This reversal of the trends has been possible owing to the recovery witnessed in the GS. Much of the improvement in activity rates in the GS is dominated by enhanced male participation, while the deterioration in activity rates in the WB is due to a decline in female participation.

Compared to 2010, there has been a shift in entrepreneurs' age distribution in favour of younger entrepreneurs. Over the three years of GEM Adult Population Survey (APS), the youngest adult age category, those aged 18-24 years, has the lowest TEA rate, while the middle age categories exhibit the highest TEA rate. However, the middle age categories (25-44 years) involvement in early-stage entrepreneurial activity decreased in 2012, while the involvement of young entrepreneurs increased. As for income, the trend overtime has been that higher income groups are associated with higher TEA rates. Finally, the ratio of necessity to opportunity shows that for each 100 opportunity-driven entrepreneurs, there are nearly 72 necessity-driven entrepreneurs. 42% of the entrepreneurs are necessity-driven in the WB; in the GS they are in parity. This implies that entrepreneurial activities are more opportunity-driven in the WB than in the GS. The prevalence rate of discontinuation was around 5% of the adult population in 2012, compared to 4% in 2010. The rate is almost twice as high in the GS (7.3%) as in the WB (3.8%). The gender difference is also significant in the discontinuation rate. The male discontinuation rate is 6.5%, while the female discontinuation rate is 3.6%.

The National Expert Survey (NES) is mainly concerned with the Entrepreneurial Framework Conditions (EFC's). According to national experts, the entrepreneur social image is the most positive condition influencing entrepreneurial activities in Palestine. The physical infrastructure and interest in innovation were other conditions perceived by national experts as encouraging entrepreneurial activities. The three areas that impede entrepreneurship in Palestine the most were the level of education and training,

intellectual property rights, and government programs.

Internationally, financial support is the number one constraining factor as more than half of the global experts cited this as a constraining factor, although in Palestine only 40% thought that it constrains entrepreneurship. The political, institutional, and social context was considered the most important constraining factor in Palestine while it ranks sixth at the international level. The constraint caused by government policies is also perceived similarly in Palestine (36% of national experts regarded them as a constraint) compared with an average of 30% for the rest of the world.

Though education and training was not cited as one of the most significant constraining factors, the recommendations for the improvement of entrepreneurship in Palestine focus firmly on aspect as it received the highest number of respondents' ranks as the first, second, and third most important recommendation.

Networking activity by firms is regarded as important for firm performance and survival. The following deductions are based on the sample findings:

- ✧ Palestinian entrepreneurs receive advice most often from private sources. This may be due to the closeness, support, and trust that this environment provides. International sources of advice are nearly non-existent.
- ✧ There are similar patterns of networking for the three types of entrepreneurs.
- ✧ The proportion of entrepreneurs who do not receive advice from any source other than private is larger than that for those who do. This implies that more entrepreneurs are not involved in networking activities.
- ✧ The gender analysis shows that males and females are alike in that most do not receive advice from any source other than private; however, in terms of network size, males' networks are larger.
- ✧ Professional networks seem to increase in importance with education and income. Thus, more educated entrepreneurs (who may also be the ones with higher income) seem to value professional networks more than others.

- ✧ Differences between types of networks exist across firm characteristics; most importantly, the firm age is negatively related to the network size, but the firm size is positively related to the network size.

Economic impact of entrepreneurship is evaluated based on created employment, job growth expectations, and informal investment. The report estimates the number of jobs (excluding owners) created by entrepreneurial activities at 416,020 jobs as of 2012 at all stages. In addition, 276,143 people were employed as owners of these enterprises. Thus, entrepreneurship created a total of 692,163 positions in all stages. An estimated 105,726 entrepreneurs discontinued their businesses, causing a loss of many jobs.

Although job-growth expectations are higher for older entrepreneurs (35 years or older), the distribution of the expected number of jobs in 5 years is flatter for older entrepreneurs. Older entrepreneurs expect higher growth rates but also a higher proportion of older entrepreneurs expect no jobs in 5 years. Thus, youth entrepreneurship may be an important source of job creation. Entrepreneurs who use the very latest technology have higher growth expectations with most expecting to add between 1 and 5 jobs. A higher proportion also expect to add 6-19 jobs than entrepreneurs who use older technology.

The prevalence rate of informal investors in the adult population who provided funds to someone to start a business in the last three years is around 2.6%. Using an adult (18-64 years) population size of 2.1 million in 2012 in the WB and the GS and a mean informal investment of US\$5,814, the total amount of informal investments is estimated at US\$317.68 million. This amount represents 3.18% of GDP in 2012. This ratio is very close to that found in 2010, where total estimated informal investments constituted 3.19% of GDP, was an increase from 1.52% in 2009.

Youth entrepreneurship is the 2012 special topic. Nearly 75% of the interviewed experts believe that the military conflict is an obstacle to expansion in young adults' entrepreneurship. In their views, the conflict pushes young adults to seek opportunities

outside the country. Because of their age, young adults tend to face additional constraints when compared to the older adult population. Most of these constraints deal with resources or lack thereof. That is why young adults depend on family support to start their businesses. National experts point out that there is a need to have credit facilities and business support services to facilitate youth entrepreneurship.

The APS data show that age group (youth and non-youth) is not correlated with the amount of start-up capital. The proportion of each age group falling in any of the required start-up capital categories is nearly equal for both youth and non-youth. However, there are significant differences between Start Up (SU) and Owner Manager (OM) entrepreneurs. The mean start-up capital requirement for youth is NIS 215,242 and the median is NIS 30,400. The corresponding figures for non-youth are NIS 160,553 and NIS 50,000 respectively.

1- Introduction

This is the third round in which Palestine participates in GEM; the first two rounds were in 2009 and 2010. The data for 2012 add an important time dimension, it makes it possible to track entrepreneurship indicators over time, comparisons will be made for Palestine over time and with respect to other countries for 2012.

Palestine has continued to suffer from the main economic problems it has suffered from in the past; a weak and constrained private sector; a mounting pressure on the public debt resulting in restricted growth of public employment and investment; and restricted access to Israeli labour markets. As a result, GDP growth has been tapering off, the PNA continues to have difficulties in initiating programs of reform in the health and educational sectors, unemployment is rampant, and the political divide makes it even more difficult to take advantage of economies of scale in domestic production. In summary, Palestine did not undergo major improvements in its well being, rather, some argue that there has been a deterioration in real wages and income distribution and a rise in poverty. The impact on entrepreneurship is that there is not expected to be much departure from previous trends. This means high business discontinuation rates (compared with other nations), relatively low activity rates, and the development of mostly necessity entrepreneurship. The gender gap in activity rates is one of the highest in the region.

1.1 The GEM research project

There was a general sense that insufficient attention was being given to entrepreneurship and venture creation up until the early 90's (Bosma 2012). Reynolds, Storey, and Westhead (1994) pointed to the need of internationally comparable data on entrepreneurship and venture creation to study the impact of entrepreneurship on development. This resulted in the establishment of an academic group who labeled the initiative as the Global Entrepreneurship Monitor (GEM). Three main objectives were behind this initiative: *First*, to find the factors that determine entrepreneurial

activity rates; *Second*, to explain differences in activity rates internationally; and *finally*, to identify policies which foster entrepreneurship. Throughout its development, the GEM model has undergone systematic changes to reflect the dynamic nature of the relationship between entrepreneurship and development. The newly revised GEM model emphasizes the role of the level of economic development in moderating the relationship between entrepreneurship and its impact on growth. Since then, GEM based academic research has increased. Bosma (2012) provides an overview of GEM based research and the contribution it has made to entrepreneurship literature.

The GEM research programme was initiated in 1997 as a joint venture between academics at London Business School and Babson College in the United States. Its purpose was to explore and assess the role of entrepreneurship in national economic growth through the creation of relevant cross-national harmonised data sets on an annual basis. Traditional analyses of economic development and growth tend to focus primarily on the contribution of large corporations. GEM, on the other hand, recognises and takes into account the roles played by new and small businesses in the economy.

The first GEM study was conducted and published in 1999, with ten participating countries. In the ensuing 14 years, GEM has grown to a consortium of more than 400 researchers from more than 99 countries. GEM is now widely regarded as one of the most important longitudinal studies of entrepreneurship in the world. In 2012, 69 economies participated in GEM spanning a diversity of geographic regions and representing all levels of economic development.

Palestine joined the GEM project in 2009, initially through a pilot project funded by the IDRC. The Palestine Economic Policy Research institute (MAS) was contracted through a competitive tendering process first to prepare a draft analysis of the Adult Population Survey (APS) from 7 MENA

countries, in addition to prepare two national reports for the years 2009 and 2010. The project was suspended in 2011 due to lack of funding, but resumed in 2012 thanks to the generous support of the IDRC.

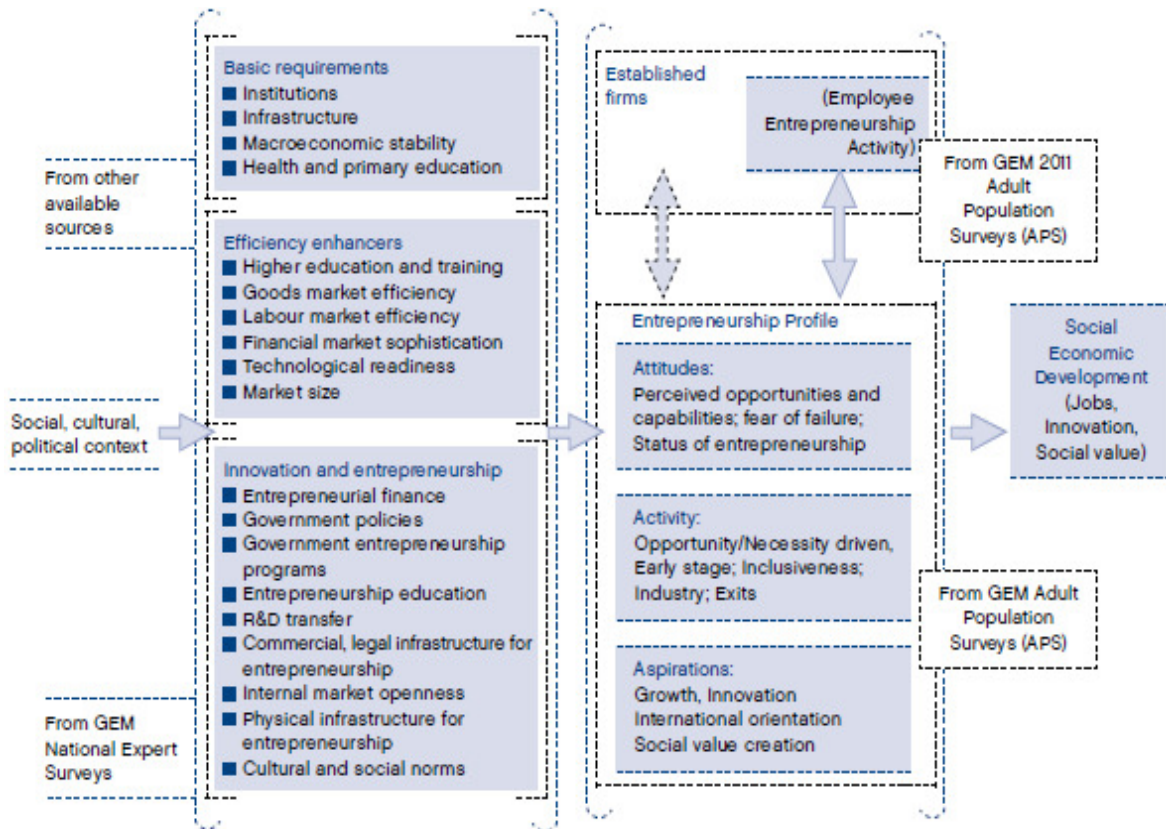
1.2 The GEM conceptual model

The objective of the GEM project is to understand the role of entrepreneurial activity in a country's economic growth, including consideration of the different types and phases of entrepreneurship. Obviously, major features of a country's social, cultural, political, and economic context, as well as the mix of framework conditions, have a significant impact on development of the entrepreneurial

sector. The GEM model maintains that, at the national level, the framework conditions that apply to established firms differ from those set that apply to stimulating new business activity.

The GEM conceptual model is dynamic and is constantly updated to incorporate advances in understanding of the entrepreneurial process and to allow for further exploration of patterns detected in previous GEM studies. The model also recognizes and emphasizes the impact of the surrounding Entrepreneurial Framework Conditions (EFC) on the three main components of entrepreneurial activity: attitudes, activity, and aspirations. The model is illustrated in Figure 1.1.

Figure 1.1: The GEM conceptual model



Source: GEM Global Report, 2011

The GEM global report (2012) classified participating Countries into one of three phases of economic development, on the basis of GDP per capita and the share of exports comprising primary goods. The three phases are factor-driven economies, efficiency-driven economies, and innovation-driven economies.

The factor-driven phase is typically dominated by subsistence agriculture with a heavy reliance on unskilled labour and natural resources. Development efforts focus on building a sufficient foundation of basic requirements. In the efficiency-driven phase, an economy is more competitive with further

development accompanied by industrialisation and an increased reliance on economies of scale. Large organisations with capital-intensive technologies become more dominant. During the innovation-driven phase, businesses are more knowledge-intensive, and the service sector expands. While entrepreneurship and innovation factors are more dominant in this phase, it must be noted that these conditions are contingent on a healthy set of basic requirements and efficiency enhancers already being in place.

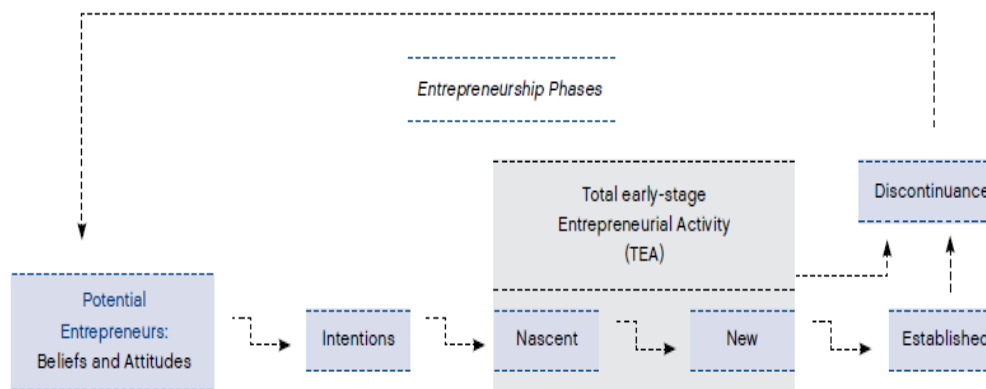
1.3 How GEM measures entrepreneurship

The GEM measures the attitudes of individuals within a country with respect to the entrepreneurial environment and measures individuals' activities in various phases of entrepreneurship. The data are gathered in different countries in different economic

environments. The country results are compiled and presented as an overview of entrepreneurs around the world. The GEM project also considers the aspirations of entrepreneurs regarding their businesses, along with other key features of their ventures.

The GEM uses two measures of entrepreneurship: the primary measure is the Total Early-stage Entrepreneurial Activity (TEA) Index, which measures the level of dynamic entrepreneurial activity in an economy by considering the incidence of start-up businesses (*nascent entrepreneurs*) and new firms (up to 3.5 years old) in the adult population (i.e. individuals aged 18–64 years). The second measure of entrepreneurship used by the GEM is the *established business* rate, which measures the level of entrepreneurial activity for established firms (more than 3.5 years (see figure 1.2).

Figure 1.2: The entrepreneurial process and the GEM operational definitions



Source: GEM Global Report, 2011

The GEM also aims to distinguish between types of entrepreneurship, and to explore differences in national levels and show how entrepreneurship activities contribute to job creation and economic growth. Individuals who are motivated to start businesses due to a lack of other employment opportunities are called *necessity entrepreneurs*. Individuals who start businesses to take advantage of an opportunity, or those who wish to maintain or improve their income, or to increase their independence, are classified as *opportunity entrepreneurs*. In line with this qualitative approach, interviewees are also asked

questions on market innovativeness and expected employment growth.

1.4 GEM methodology

In order to provide useful and reliable comparisons, within national economies, between different economies and over time, GEM data are obtained using a research design that is harmonised over all participating countries. The data are gathered annually from two main sources:

1. **Adult population survey (APS)**

Each of the participating countries conducts a survey of a representative sample of at least 2000 adults between the ages of 18 and 64. The surveys are conducted at the same time each year (generally between April and June) using a standardised questionnaire provided by the GEM consortium. In Palestine, 2012 APS survey was conducted by PCBS mostly during June 2012. The raw data were sent directly to the GEM international data team for review and uniform statistical analysis before being made available to participating countries.

2. **National experts survey (NES)**

The national experts survey (NES) provides insight into the entrepreneurial start-up environment in each country. The GEM provides a number of criteria which must be met when selecting experts, in order to construct a balanced and representative sample.

- ✧ At least four experts from each of the nine entrepreneurial framework conditions must be interviewed, making a total of 36 experts per country. The nine entrepreneurial

framework conditions are: Financing, government programs, government policies, education and training, research and development transfer (R&D transfer), commercial infrastructure, internal market openness, physical infrastructure, and cultural and social norms.

- ✧ A minimum of 25% must be entrepreneurs, and 50% must be professionals.
- ✧ Additional aspects such as geographical distribution, gender, public versus private sector, and level of experience should also be taken into account when balancing the sample.

3. **Additional sources of data**

In addition to the annual surveys, the GEM also makes use of standardised national data from international data sources such as the World Bank, the International Monetary Fund, the United Nations and data from national statistics centres such as PCBS in Palestine economy. These data are used to determine the relationship between entrepreneurial activity and national economic growth.

2. The Scale and Characteristics of Entrepreneurship in oPt

2.1 Scale of entrepreneurship in oPt: Time and global perspectives

Table 2.1 below explores entrepreneurial activity involvement in oPt and a sample of GEM participating countries in 2012. The general trend is that in more developed economies the Total Early-Stage Entrepreneurial Activity rate (TEA) is lower, but the Established Business (older than 42 months) Ownership rate is higher in more developed economies. The gap between male and female involvement in Early-Stage Entrepreneurial Activity varies between countries. Even though the gender gap is lower for Innovation-driven economies, the gap is also low in some factor-driven economies, notably African countries. Moreover, TEA motivated by necessity reasons, rather than economic opportunity reasons, is more important in factor-driven economies. Business discontinuance is another important indicator of business sustainability and performance. High discontinuance rates are mostly found in factor-driven economies.

The Total Early-Stage Entrepreneurial Activity (TEA) rate in oPt (9.8%) is relatively low for a

factor-driven economy. However, this rate is at the median level for all GEM countries. The oPt's TEA rate is mostly composed of entrepreneurial activity in the start-up stage. The baby business rate (Businesses aged up to 42 months) is low relative to all GEM countries. The established business ownership rate is also low for oPt. The oPt rate is also low relative to countries in the MENA region (Algeria, Egypt, Iran, Tunisia, Turkey and Israel). Although some countries have levels of GDP per capita that are similar to oPt, their activity rates are higher (e.g. Yemen). Unlike the MENA countries, however, the Palestinian private sector is constrained by Israeli seizure of the Palestinian natural and economic resources, the separation wall which separates Palestinians from productive Palestinian land, checkpoint obstacles that consume valuable time and create unnecessary inefficiencies and illegal settlement activities which restrict the movement of labour and the free flow of goods in trade.

Table 2.1: Entrepreneurial Activity Rates by Country and Development Phase

	Involved in Total early-stage Entrepreneurial Activity	Actively involved in start-up effort, owner, no wages yet	Manages and owns a business that is up to 42 months old	Manages and owns a business that is older than 42 months	Male: Involved in Total early-stage Entrepreneurial Activity	Female: Involved in Total early-stage Entrepreneurial Activity	Involved in Opportunity early-stage Entrepreneurial Activity	Involved in Necessity early-stage Entrepreneurial Activity	Informal investor in the last 3 years	Discontinued a business in the past 12 months, business was NOT continued
Factor-Driven Economies										
Algeria	8.8	1.6	7.3	3.3	12.1	5.4	5.5	2.6	6.5	5.9
Angola	32.4	14.9	18.9	9.1	34.4	30.6	23.9	7.7	9.4	13.1
Egypt	7.8	3.1	4.9	4.2	13.1	2.4	3.1	2.6	3.6	3.6
Ethiopia	14.7	5.7	9.3	10.2	16.6	12.9	11.7	3.0	4.0	1.8
Ghana	36.5	15.4	22.8	37.7	35.0	38.0	26.0	10.1	16.6	11.0
India	2.2	2.1	0.0	0.5	2.7	1.6	1.7	0.5	1.3	0.4
Iran	10.8	4.5	6.5	9.5	15.6	5.9	6.2	4.5	6.6	2.7
Malawi	35.6	18.5	20.4	10.8	39.3	32.1	20.7	14.9	13.1	28.2
Nigeria	35.0	21.8	14.2	15.7	34.5	35.6	22.8	12.1	13.0	5.5
Pakistan	11.6	8.3	3.4	3.8	21.3	1.2	5.2	6.1	0.2	1.4
Palestine	9.8	6.2	3.8	3.0	16.0	3.4	5.7	4.1	2.8	5.0
Uganda	35.8	9.6	27.6	31.3	36.0	35.5	18.9	16.5	25.8	22.0
Zambia	41.5	27.5	14.6	3.8	42.9	40.0	28.2	13.3	11.7	13.2
Efficiency-Driven Economies										
Bosnia and Herzegovina	7.8	4.5	3.4	6.0	10.4	5.1	3.1	4.5	4.1	3.4
Chile	22.6	14.7	8.4	7.8	26.2	19.1	18.6	3.9	10.9	3.4
Croatia	8.3	6.4	1.9	3.1	11.8	4.9	5.4	2.8	2.2	2.9
Hungary	9.2	5.8	3.6	8.1	12.8	5.8	6.1	2.9	3.1	2.8
Macedonia	7.0	3.7	3.3	6.7	9.4	4.5	3.3	3.6	3.7	3.1
Tunisia	4.8	2.4	2.5	4.4	6.8	2.9	2.9	1.7	1.6	3.5
Turkey	12.2	7.3	5.4	8.7	17.5	6.9	8.2	3.8	6.3	3.3
Innovation-Driven Economies										
Denmark	5.4	3.1	2.4	3.5	7.6	3.1	4.8	0.4	1.6	1.1
Germany	5.3	3.5	2.2	5.0	7.2	3.5	4.1	1.2	3.4	1.2
Israel	6.5	3.5	3.0	3.8	7.6	5.5	4.5	1.3	1.5	2.5
Taiwan	7.5	3.3	4.2	10.4	9.1	6.0	6.2	1.4	5.0	2.5
United States	12.8	8.9	4.1	8.6	15.2	10.5	9.7	2.7	3.7	2.9

The entrepreneurial activity rates over the period 2009 – 2012 are shown in Table 2.2 below. Careful examination of these rates indicates deterioration at almost all levels when compared with 2010. The TEA rate dropped to 9.8% in 2012 and the nascent rate dropped to 6.2%, while the necessity/opportunity rate rose to 72%, and the discontinuation rate rose to 5%. Although the EB rate rose to 3%, it is still below 2009

levels. If any conclusions are to be drawn, it seems that entrepreneurial expectations are gloomy at best, mainly resulting from worsening economic conditions and lack of political stability due to a lack of progress in the peace process. Real GDP per capita growth rate declined from a level of 8.8% in 2011 to a mere 2.4% in 2012 (PCBS national account statistics), while real GNDI growth rates have been negative since 2009.

Table 2.2: Entrepreneurial activity rates by year of survey

	2009	2010	2012
Involved in Total early-stage Entrepreneurial Activity	8.6%	10.4%	9.8%
Actively involved in start-up effort, owner, no wages yet (Nascent rate)	3.0%	7.9%	6.2%
Manages and owns a business that is up to 42 months old (Baby business ownership rate)	5.9%	2.6%	3.8%
Manages and owns a business that is older than 42 months (Established business ownership rate)	6.9%	2.0%	3.0%
Involved in necessity early-stage entrepreneurial activity	3.2%	3.3%	4.1%
Involved in Opportunity early-stage entrepreneurial activity	5.3%	7.1%	5.7%
Necessity to opportunity TEA ratio	0.60	0.47	0.72
Discontinued a business in the past 12 months, business was NOT continued	5.9%	4.0%	5.0%
Informal investor in the last 3 years	1.5%	5.0%	2.6%

2.2 Perceptions and population attitudes

The entrepreneurship process is a complex process strongly affected by cultural context and societal attitudes. Differences in population attitudes toward entrepreneurship, surrounding conditions and expectations to start a business are observed across countries (Table 2.3). Entrepreneurship intentions in oPt has a median level among factor-driven economies and a high level among all GEM countries. Although the perception of good skills and experience to start a business is relatively high compared with GEM participating countries, the networking level (% of population who know someone who started a business in the past two years) is low in oPt compared to other factor-driven economies. In oPt, 46.1% of the adult population perceive good opportunities to start

a new business in the next 6 months. However, this is one of the lowest rates in factor-driven economies. Occupation and instability are important reasons why Palestinians do not perceive good opportunities.

Over the three years of oPt participation in the GEM, some of the previous indicators are variable. Entrepreneurial intentions increase each year. However, the perception of good opportunities to start a business is lower in 2010 and 2012 than in 2009. Networking with people who started a business in the past two years declined in 2012. Perception of media coverage of successful entrepreneurial stories was increasing each year.

Table 2.3: Perceptions and population attitudes by country

	Expect to start a business in the next 3 years	Know someone who started a business in the past 2 years	Good opportunities to start a new business in the next 6 months	Have knowledge, skills and experience to start a business	Fear of failure would prevent one from starting a business	In my country, people prefer to have similar standard living	Starting a new business is considered as a good career choice	Successful people business start-ups have high and respectful status	Successful stories coverage in public media
Factor-Driven Economies									
Algeria	22.4	60.0	45.7	54.1	31.7	59.3	78.9	81.0	47.0
Angola	70.7	67.4	66.2	72.1	33.0	.	.	.	.
Egypt	43.6	30.6	53.7	58.7	35.6	77.4	83.0	87.2	63.7
Ethiopia	27.3	56.1	64.9	69.1	35.0	52.0	76.2	91.9	72.9
Ghana	58.6	55.7	79.3	86.3	18.0	62.8	84.0	91.3	82.1
India	10.3	12.1	19.4	39.6	29.0	.	.	.	.
Iran	22.3	40.0	39.2	54.2	39.9	44.4	60.2	73.0	61.0
Malawi	72.4	74.8	74.3	84.5	15.3	.	.	.	.
Nigeria	47.3	76.7	82.2	87.9	22.6	69.9	81.7	76.0	78.1
Pakistan	27.9	37.9	46.5	48.7	27.7	71.8	66.4	67.9	50.8
Palestine	37.5	39.7	46.1	59.4	39.6	56.4	84.6	80.4	70.9
Uganda	71.8	68.8	80.7	87.7	18.6	.	.	.	.
Zambia	60.5	77.5	77.9	83.8	18.2	47.9	67.3	78.7	71.6
Efficiency-Driven Economies									
Bosnia and Herzegovina	24.9	29.6	19.6	49.1	39.1	91.0	80.9	72.3	39.4
Chile	44.9	41.9	64.9	59.9	32.0	.	69.7	67.8	65.8
Croatia	23.6	23.5	17.2	44.1	46.3	76.5	64.2	41.7	39.7
Hungary	15.3	27.6	11.0	39.8	45.9	67.6	41.5	74.0	29.3
Macedonia	29.1	31.3	30.8	55.1	44.9	71.9	69.6	66.7	64.1
Tunisia	23.8	34.6	32.6	62.2	19.5	76.5	87.9	93.9	47.6
Turkey	18.8	34.1	39.9	49.4	34.5	77.1	67.1	76.1	57.5
Innovation-Driven Economies									
Denmark	8.4	33.5	44.4	31.0	42.1	.	.	.	.
Germany	8.9	24.3	36.2	37.1	49.0	62.6	48.9	76.4	49.0
Israel	14.5	28.6	30.6	29.3	41.7	55.3	59.5	72.4	47.4
United States	16.5	29.0	43.5	55.9	37.8	.	.	.	.

Table 2.4: Perceptions and population attitudes by year of survey

	2009	2010	2012
Expect to start a business in the next 3 years	26%	31%	37%
Know someone who started a business in the past 2 years	49%	53%	40%
Good opportunities to start a new business in the next 6 months	52%	44%	46%
Have knowledge, skills and experience to start a business	63%	57%	59%
Fear of failure would prevent one from starting a business	39%	43%	40%
In my country, people prefer to have similar standard of living (i.e: prefer less inequality)	46%	59%	56%
Starting a new business is considered as a good career choice	87%	85%	85%
Successful people business start-ups have high and respectful status	79%	83%	80%
Successful stories coverage in public media	53%	63%	71%

2.3 Characteristics of early-stage entrepreneurs in oPt

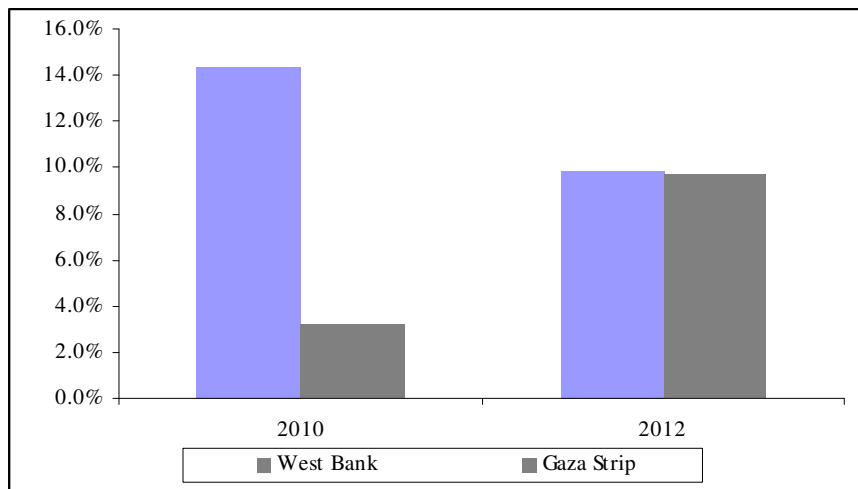
In order to design policies that promote entrepreneurship, it is essential to explore who the entrepreneurs in oPt are based on their demographic and economic characteristics.

Region

From 2010 until June 2012, it is obvious from the figure below that GS recovered from the implications of 2008/2009 Israeli invasion and

destructive war. However, the November 2012 war on GS, which came after the APS survey, will likely have negative implications due to the inherent economic paralysis that accompanies armed military attacks. These negative impacts are not reflected in the data below.

Figure 2.1: TEA rate by region and year of survey

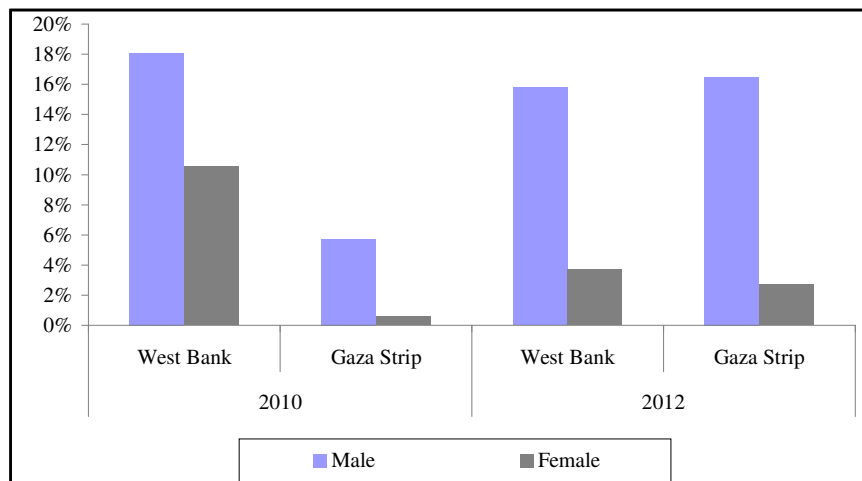


Gender

Differences between males and females in TEA rates are found in all participating GEM countries (GEM 2010 Global Report). Figure 2.2 shows the current trend through gender-disaggregated rates, The gender gap in the TEA rate increased in the West Bank and in

GS. The TEA rate decreased for males and females in West Bank. The TEA rate gender disparity increased however because the TEA rate for females decreased more sharply than the TEA rate for males.

Figure 2.2: TEA rate by gender and region



Box 1: Women's Entrepreneurship in Palestine: Ougarit

Ougarit It is one of the leading Palestinian companies in the field of marketing, advertising and public relations and was established by a Palestinian female entrepreneur (Amal Al-Masry). Al-Masry had worked in all three sectors prior to establishing Ougarit in 2000. This was the realization of the dream of being self employed before she was 30 years old. Her choice of this field was based on her knowledge of market needs and her experience.



Financing: Initially, Mrs. Al-Masry did not finance her startup company with loans thinking that would weaken her longterm chances of success. She financed her operations through networking with potential clients. She rented a small office in Ramallah (only 40 m²) and started working to complete client orders. In 2007, responding to market demand, she decided to expand her business. Through complex and smart negotiations, she purchased a piece of land about 620 m². The land purchase was financed by a bank loan, which is currently being paid off through rent obtained from the building.

Ougarit expansion: after 2007 when the building was complete, a merger occurred between “Ougarit Company for Marketing, Advertising and Public Relations” and “Al-qalam Company for Printing and Publishing”. The new venture was called “Ougarit Group for Marketing”. A new subsidiary “Ougarit for Continuous Professional Development” was also formed. This company trains and develops human resources in the field of marketing and public relations skills. The fourth company in the Ougarit group is “Ougarit for Event Management Services” which manages and organizes conferences and various events. For example, Ougarit group fully organized the “Palestine Conference for Public Relations and Communication” which is the first of its kind in Palestine and the third in the Arab World.

Limitations: As a female entrepreneur, she was constrained by two factors. The first is a culture which makes it difficult for women to interact with male clients. The second relates to Israeli closure practices which increases the cost of doing business.

Factors of success: Al-Masry believes that the keys to business success are: creativity, innovation, positive thinking and confidence, efficiency, ethics and maintaining a good reputation.

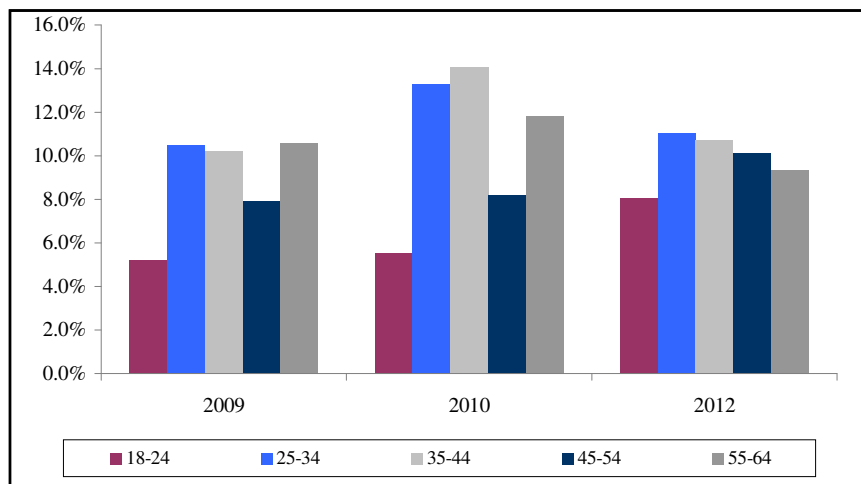
Age

Youth entrepreneurship is a special topic for this years' issue. It is discussed later in this report. Since youth entrepreneurs contribute enthusiasm, motivation, and innovation, youth entrepreneurship is considered as a driving engine of the economy. Over the three years of GEM-APS, the youngest adult age category, those aged 18 – 24, has the lowest TEA rate, while the middle age categories exhibit the highest TEA rate. However, middle age categories (25 – 44) involvement in early-stage entrepreneurial activity decreased in

2012, while young entrepreneurs (18 – 24) involvement rate increased.

Thus compared to 2010, there has been a shift in the age distribution in favour of younger entrepreneurs. This may result in an improvement in future established business rates provided high discontinuation rates do not erode the businesses started by these young entrepreneurs.

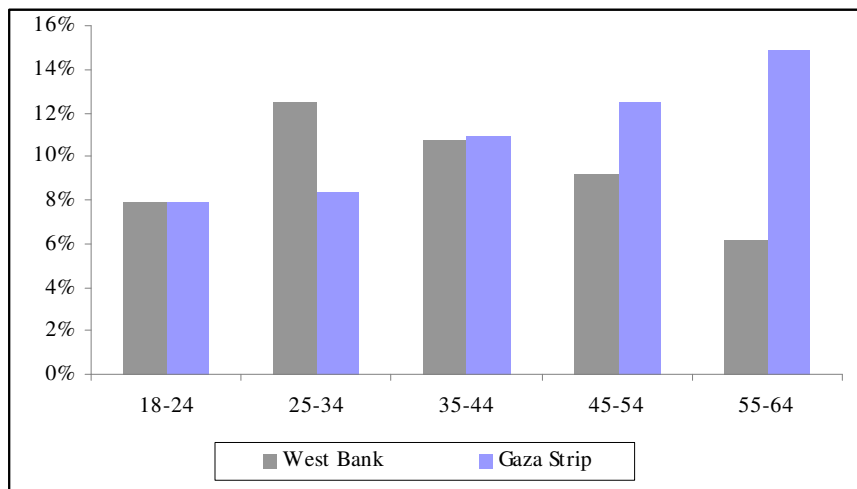
Figure 2.3: TEA rate by age and year of survey



Regional differences between WB and GS are present in the age dimension. While WB has the highest TEA rate for the age category 25 – 34, the TEA rate in GS is higher for older people. This reflects the minimal opportunities for young people in GS due to the blockade

and high unemployment rate. At the same time, high unemployment drives entrepreneurs to necessity entrepreneurship. Thus, GS entrepreneurship is mostly motivated by necessity reasons.

Figure 2.4: TEA rate by age and region

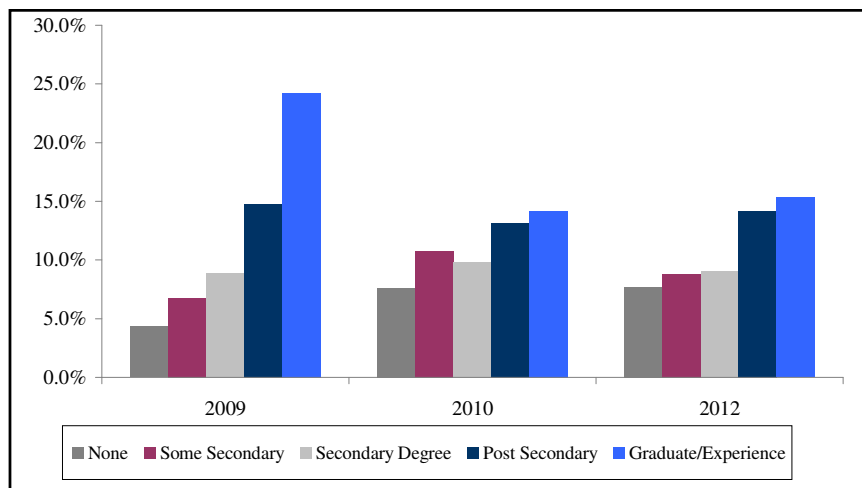


Education

The structure of TEA rate distribution by educational achievement does not vary over time in the sense that higher education rates are always associated with higher TEA rates. However, the gap between the different categories narrowed in 2010 only to increase marginally in 2012. While the shift between 2010 and 2012 is minor reversal of course, the post 2009 trend is a general improvement in favour of equality in entrepreneurial participation. Higher education entrepreneurs are still enjoying a higher TEA rate. The low

involvement rate for those holding secondary degrees (close to the lower education categories) may be attributed to structural problems in the educational system. A working paper by MAS (Hashweh, 2012) evaluates 15 entrepreneurship learning outcomes in the Palestinian school system. According to Hashweh, over crowdedness, lack of practical curricula, and traditional, teacher-centred teaching methods are mostly to blame for the inadequate preparation for entrepreneurship.

Figure 2.5: TEA rate by education and year of survey

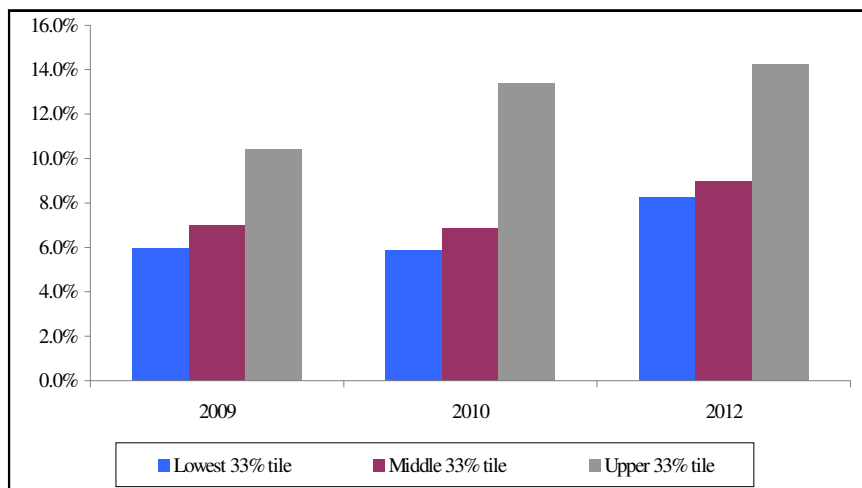


Household Income

The Household Expenditure Survey (PCBS 2010) reports that the Gini inequality index increased in 2010 to 0.41, from 0.38 in 2009 despite higher GDP growth in 2010. Although the GINI index is consumption based, it is highly correlated with income, which increases entrepreneurship. Figure 2.6 below shows that only people in the 33rd percentile

revealed significantly higher TEA involvement rates over time. The lower income categories exhibit higher involvement rates in 2012 only, both of which show an increase of only 2 percentage points from 2009. By contrast, the wealthiest third experienced an increase of 4 percentage points.

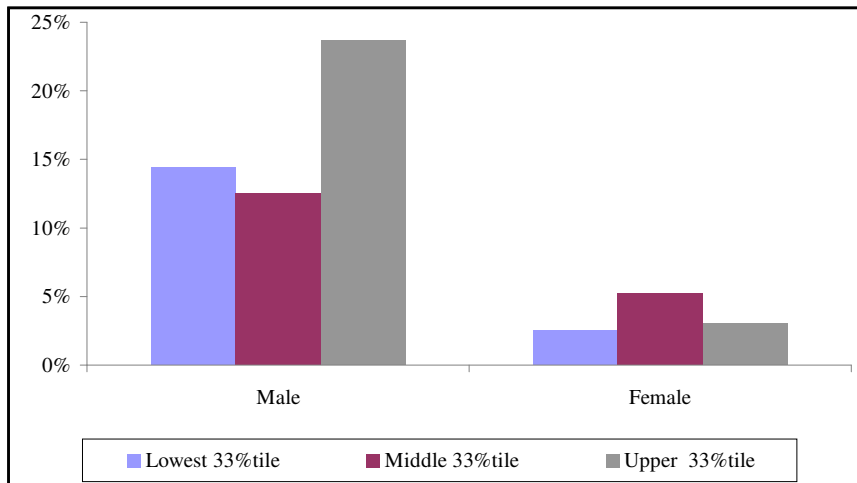
Figure 2.6: TEA rate by household income and year of survey



TEA rate inequality by household income is lower among females than among males (Figure 2.7). The middle income category has

the highest TEA rate for females, while the wealthiest males are most involved in early-stage entrepreneurial activity.

Figure 2.7: TEA rate by household income and gender



The data, disaggregated by sex and income, show higher TEA ratios for men in the top third and women in the middle third of income. One possible explanation for this phenomenon could be differences in male-female education distribution by income group. The proportion of women in each income group with secondary or higher education is higher than the other education groups. Within income groups, the frequency of women with secondary or higher education is higher than the frequency of men with secondary or higher education.

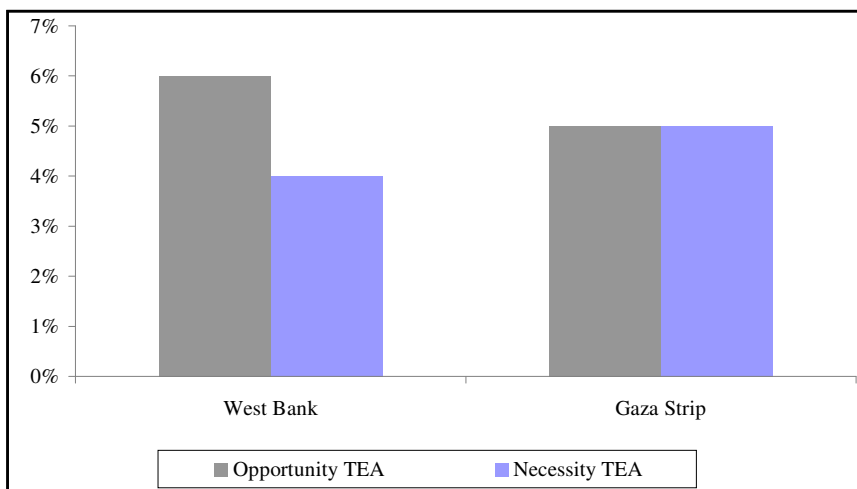
Region

The overall rate of necessity driven entrepreneurship is 4.1 and for opportunity driven rate is 5.7 (See Tables 2.1 and 2.2). This implies that For each 100 early stage entrepreneurs, nearly 58% are opportunity driven and 42% are necessity driven. The ratio of necessity to opportunity shows that for each 100 opportunity driven entrepreneurs, there are nearly 72 necessity driven entrepreneurs. A lower ratio is more desirable because opportunity driven entrepreneurship is not just to secure employment, but to realize a higher standard of living. Figure 2.8 below shows regional differences.

2.4 Motives of early-stage entrepreneurs

This section explores the motives of early-stage entrepreneurs (necessity or opportunity) by demographic and economic factors.

Figure 2.8: TEA rate by motive and region



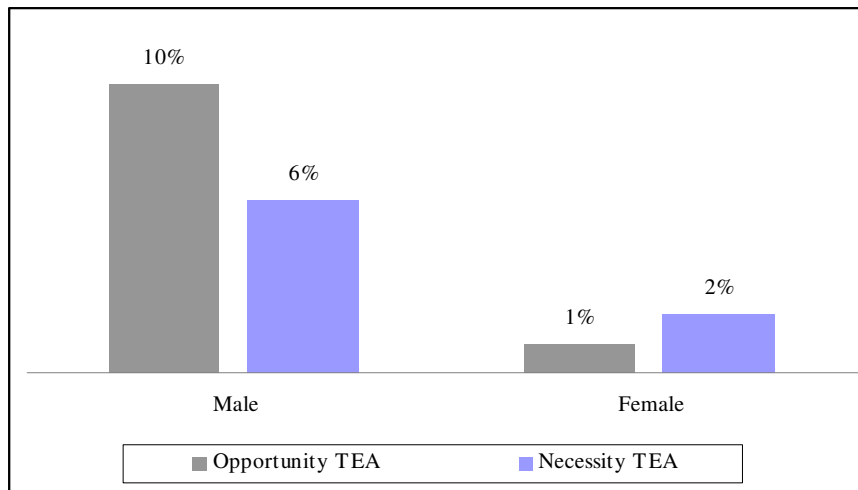
Based on the figure above, around 42% of entrepreneurs are necessity driven in the WB; in Gaza, they are in parity. This implies entrepreneurial activity is more opportunity driven in the WB than the GS.

Gender

Female early-stage entrepreneurs are more motivated by necessity than males. Among males, for every 10 early-stage entrepreneurs motivated by economic opportunity, 6 are motivated by necessity. Among female early-stage entrepreneurs, for every 10 women motivated by opportunity, 20 are motivated

by necessity reasons. In 2010, the gender difference in the ratio of necessity to opportunity motivated early-stage entrepreneurs was insignificant. This result is consistent with the fact that females are more sensitive than males to economic circumstances in entrepreneurship decisions. Borghans *et al.* (2009) study economic preference parameters related to individual characteristics, including psychological measures and gender. They find that women are more risk-averse than men and this difference in risk-aversion is unexplained by any of the variables¹.

Figure 2.9: TEA rate by motive and gender



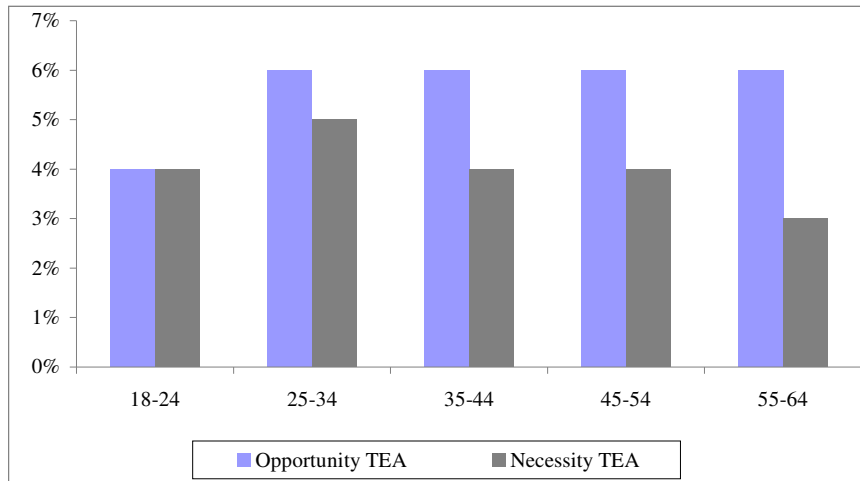
Age

The ratio of necessity to opportunity TEA rates decreases with age. Finding opportunities is a difficult task for young entrepreneurs. Around half of young entrepreneurs (18 – 24) are motivated by necessity. In other countries in the MENA region, the statistics tell a different story. For example, in Jordan, the highest rates of necessity entrepreneurship were amongst the 45-54 and 55-64 age groups; in Syria, in the 25-34 and 55-64; and Yemen in the 55-64 age group. The higher rates of necessity

entrepreneurship in Palestine could possibly be due to problems in the educational system as discussed in the previous section (Hashweh, 2012), however, this study was limited to Palestine and did not compare educational systems cross-nationally. Another plausible explanation is that younger would-be opportunity driven entrepreneurs, who have the opportunity to do so, leave Palestine to seek their fortunes elsewhere, joining the Diaspora.

¹ Other research has identified several factors that explain women’s greater risk-aversion, notably Langowitz and Minniti (2007), and Sepúlveda and Bonilla (2011).

Figure 2.10: TEA rate by motive and age



Education

Necessity to opportunity ratio of TEA rates decreases for entrepreneurs with higher than a secondary degree. Entrepreneurs with a secondary degree or less are less capable of

perceiving good opportunities of investment or they are less likely to find a job in labour market.

Figure 2.11: TEA rate by motive and education

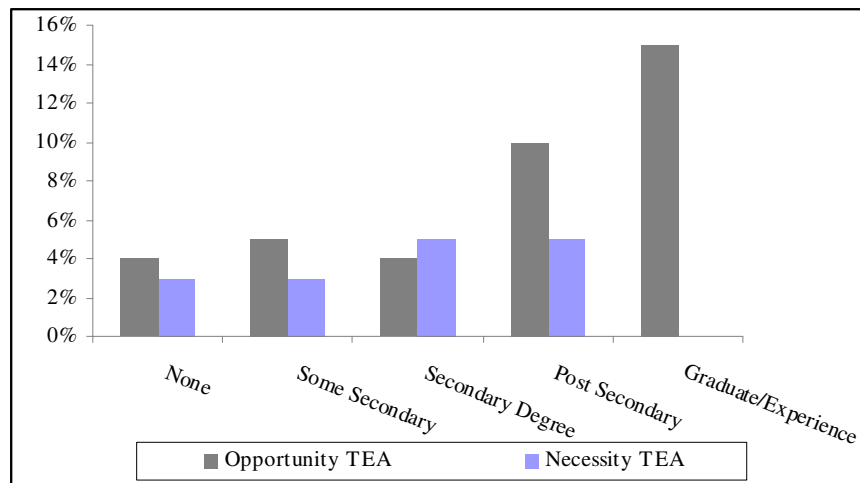
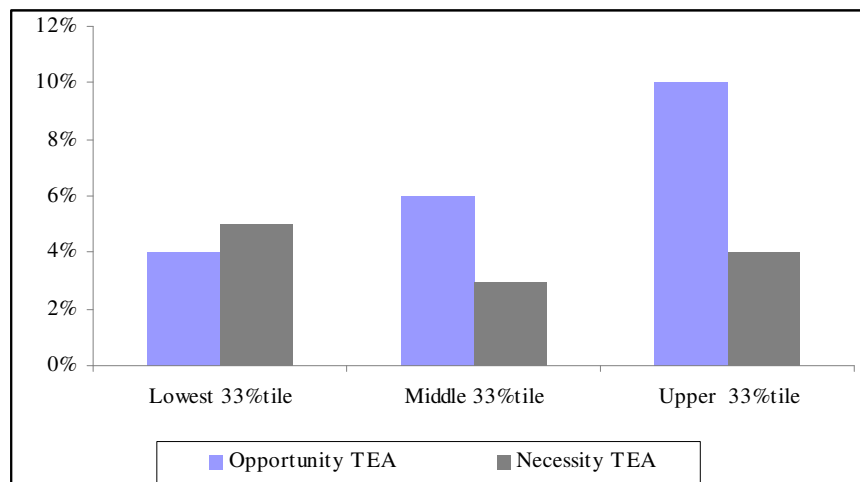


Figure 2.12: TEA rate by motive and household income



Household Income

As expected, richer entrepreneurs are more likely to be involved due to economic opportunities rather than necessity.

2.5 Characteristics of Early-Stage Enterprises

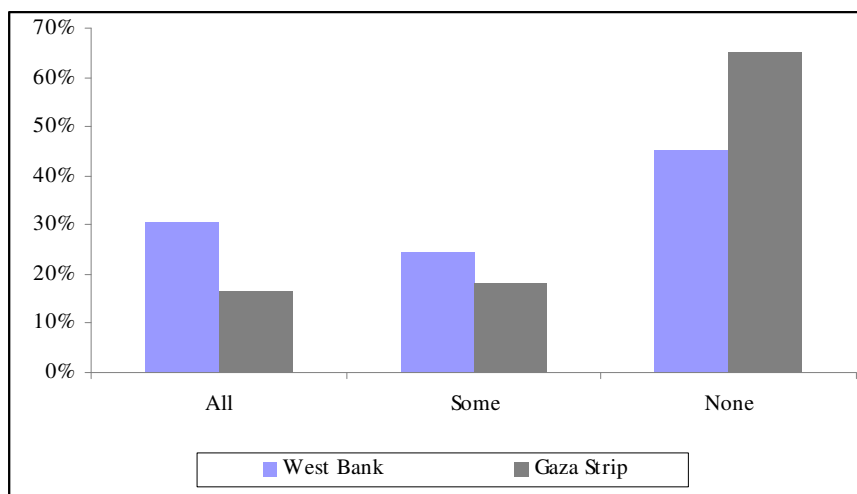
Innovation

Early-stage entrepreneurs are asked to estimate how many customers consider the product or service provided by the entrepreneur as new or unfamiliar. Figure 2.13 illustrates that

innovation is more likely to be perceived by customers (in entrepreneurs opinion) in WB than in GS.

The proportion of GS entrepreneurs who perceive “None” of their customers consider their output as new or unfamiliar is 65% compared to 44% in the WB. On the other hand, a higher percentage of the entrepreneurs reported that all customers consider their output new in the WB. This is probably due to the heavy restrictions imposed by Israeli occupation on GS.

Figure 2.13: Distribution of customers considering the product new/ unfamiliar by region

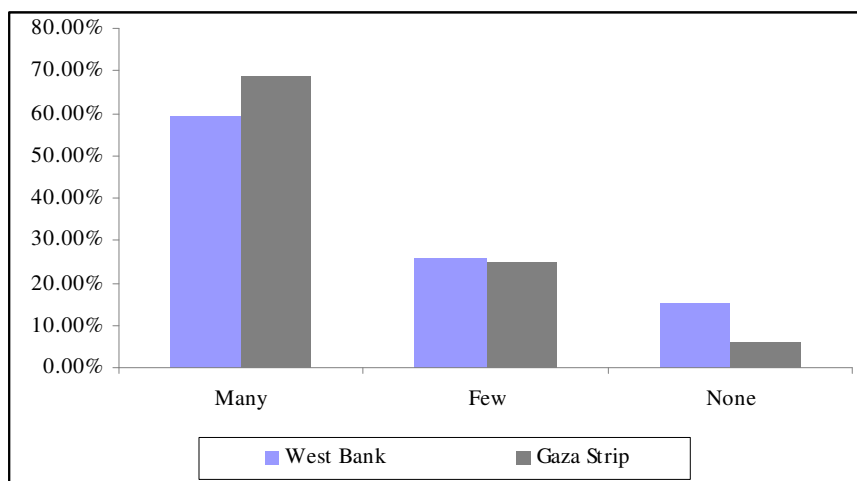


Competitiveness

Adult entrepreneurs were also asked about the number of competitors producing the same output. Higher competition is found in GS (with less new products) than in WB. When

there is no competition (zero firms producing the same output), the proportion is higher in the WB (albeit a low proportion in both).

Figure 2.14: Number of enterprises that produce the same product by region

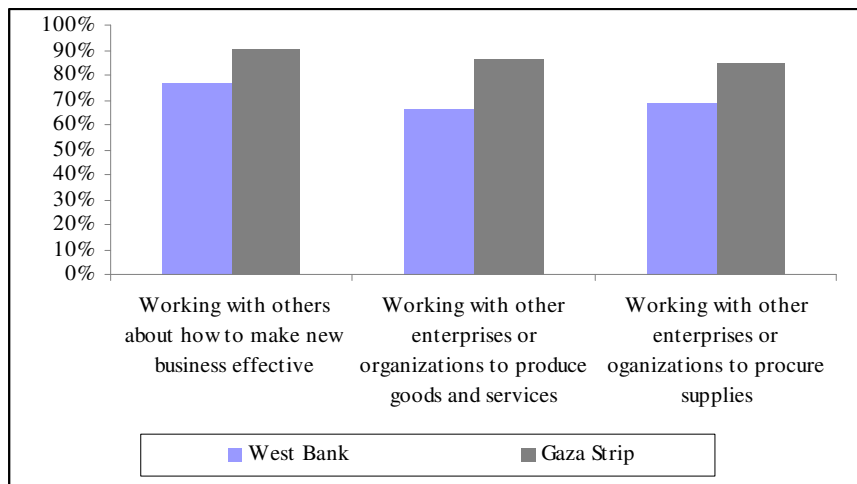


Cooperation

Cooperation between enterprises to produce a product, to make the business effective or to procure supplies is stronger in GS than in WB. Tsai (2001) argues that organizational learning and networking between enterprises can produce more innovation and better

performance. However, this depends on absorptive capacity or ability to replicate newly acquired knowledge. A later chapter in this report deals with networking structure and implications.

Figure 2.15: Percentage of entrepreneurs working with others by region



2.6 Discontinuation

Business discontinuation is defined as entrepreneurs who discontinued a business in the past two years², where the business did not continue without them. Prevalence rate of discontinuation is around 5% of the adult population in 2012, compared to 4% in 2010. The rate is almost twice as high in GS as WB; 3.8% in WB and 7.3% in GS. The gender difference is also significant in the

discontinuation rate. The male discontinuation rate is 6.5%, while the female discontinuation rate is 3.6%. One possible explanation of this phenomenon is that females are more risk averse than males, and the differential in discontinuation rates implies that females study business feasibility more carefully than males and are therefore less likely than males to discontinue a business.

Table 2.5: Reasons for discontinuation by region and gender

Reason	Region		Gender	
	WB	GS	Male	Female
Opportunity to sell	1.2%	7.0%	3.0%	3.8%
Business not profitable	32.1%	53.5%	43.6%	38.5%
Problems getting finance	21.4%	7.0%	16.8%	9.6%
Another job or business opportunity	6.0%	4.2%	7.9%	0.0%
Exit was planned in advance	1.2%	0.0%	0.0%	1.9%
Retirement	2.4%	0.0%	2.0%	1.9%
Personal reasons	21.4%	28.2%	17.8%	38.5%
Incident	14.3%	0.0%	8.9%	5.8%
Total	100.0%	100.0%	100.0%	100.0%

² This question is asked for the whole sample and not entrepreneurs only.

The reasons for discontinuation disparity between WB and GS and by gender are shown in Table 2.5. In the WB, financing problems are more important than in GS, probably because enterprises require higher capital. In GS, the most common reason for discontinuation is lack of profitability. This is also the case in WB but at a lower percentage. More than half of entrepreneurs who discontinued their businesses had problems making their businesses profitable. Political

instability and the blockade on GS are the main causes of the lack of profitability, because firms cannot export their products or import key production inputs. Lack of profitability is a problem for both males and females. By contrast, men discontinue their businesses for lack of financing significantly more often than women. Personal reasons for discontinuation are more important for females. These reasons may include social problems, child care and family opposition.

3. oPt's Entrepreneurship Environment

The Environmental Framework Conditions are measured from the viewpoint of national experts to assess the GEM's model of entrepreneurship. Within each country, there is a multiplicity of factors that affect entrepreneurship. Some of which are social, cultural, economic, legal and institutional. These factors vary across countries by their stage of development as well as geographic region. This section provides an analysis of national experts' views and cross country comparisons.

3.1 An assessment of oPt's entrepreneurial environment

In order to assess the national conditions influencing entrepreneurial activity in oPt, experts were asked to complete a closed questionnaire consisting of 20 statements about factors relating to the entrepreneurial environment in oPt. The questionnaire sample included 36 experts in the following areas: finance, government policies, governmental programmes, education and trainings, R&D transfer, commercial & service infrastructure, market openness, physical infrastructure, cultural and social norms, opportunities to start

up, intellectual property rights, and interest in innovation. Each expert was asked to determine the level to which he/she agrees with 5-7 statements relating to the above areas.

Each response was measured on a 5-point Likert scale where a score of 1= completely false, 2=partly false, 3=neither true nor false, 4=partly true and 5=completely true. The statements were phrased so that a score of 4 or 5 would indicate that the expert regarded the factor as positive for entrepreneurship, while a score of 1 or 2 would indicate that the expert regarded the factor as negative for entrepreneurship. The national expert sample was carefully chosen from academic experts, policy-makers and entrepreneurs. The data obtained from the 36 respondents were analyzed in order to determine the mean score for each category of questions. The results are shown in Table 3.1. The table is organized by descending mean. In other words, the highest ranked categories are those about which the experts feel more positive, while the lowest ranked categories are seen as the most underdeveloped. On the Likert scale of five, a mean score of three is regarded as average.

Table 3.1: Summary of experts' assessment of the entrepreneurial environment

Category	Mean score
Entrepreneur social image	3.8
Physical infrastructure	3.5
Interest in innovation	3.3
Entrepreneurship and youth	3
Commercial & services infrastructure	3
Education and training	2
Intellectual property rights	1.9
Governmental programs	1.8

Table 3.1 shows positive and negative conditions influencing entrepreneurial activity in oPt as viewed by national experts. According to national experts, entrepreneur social image area is the most positive condition influencing entrepreneurial activity in oPt. This condition was measured by national experts' opinion of 5 statements:

- ✧ The creation of new ventures is considered an appropriate way to become rich.
- ✧ Most people consider becoming an entrepreneur as a desirable career choice.
- ✧ Successful entrepreneurs have a high level of status and respect.
- ✧ You will often see stories in the public media about successful entrepreneurs.

- ✧ Most people think of entrepreneurs as competent, resourceful individuals.

Physical infrastructure was another condition perceived by national experts as encouraging to entrepreneurial activity in oPt. Five statements in the questionnaire represented this condition as follows³:

- ✧ The physical infrastructure (roads, utilities, communications, water disposal) provides good support for new and growing firms.
- ✧ It is not too expensive for a new or growing firm to get good access to communications (phone, Internet, etc.).
- ✧ A new or growing firm can get good access to communications (telephone, internet, etc.) in about a week.
- ✧ New and growing firms can afford the cost of basic utilities (gas, water, electricity, sewer).
- ✧ New or growing firms can get good access to utilities (gas, water, electricity, sewer) in about a month.

The three areas that most impede entrepreneurial activity in oPt were; level of education and training, Intellectual property rights, and government programs. Not only has education in oPt been criticized for not meeting the market needs of WB and GS thereby stifling job creation (MAS, 2004)⁴, it has also been criticized for being too traditional and killing students' creativity and entrepreneurship skills. Hovspian (2008) noted: *"...the structure of the high school, encourages a pedagogy which fosters rote and almost meaningless learning. This type of learning is not only thought-less, but creates a learning environment that is quite uninteresting and stifling. Such an approach emphasizes the passive acquisition of knowledge as facts, which in turn excludes*

³ The World Bank's (2013) ease of doing business index gives the WB and GS a rank of 135 in 2012. A high rank (say 1 for example) means that the country's regulatory environment is conducive to starting and continuing a business. The index is valued between 1 and 185 (oPt is 135). In the MENA region, Only Syria, Iran, Algeria, Iraq, and Djibouti are worse off than the oPt. In the sub indices area, resolving conflict and starting a business have very low rankings. Obviously, more needs to be done in those two areas. Although, the oPt is not the worst with regard to paying taxes, but it worse than the average country with an index of 10 where the values for MENA range between 1 for UAE and 19 for Algeria.

⁴ MAS (2004). Matching Higher Education Graduates with Market Needs in the West Bank and GS

*problem solving and critical thinking. As passive recipients of facts, students do not learn how to learn..."*⁵

The government programs category was the least favorable condition for entrepreneurship according to national experts. The 6 statements that represent this condition are as follows:

- ✧ A wide range of government assistance for new and growing firms can be obtained through contact with a single agency.
- ✧ Science parks and business incubators provide effective support for new and growing firms.
- ✧ There is an adequate number of government programs for new and growing businesses.
- ✧ The people working for government agencies are competent and effective in supporting new and growing firms.
- ✧ Almost anyone who needs help from a government program for a new or growing business can find what they need.
- ✧ Government programs aimed at supporting new and growing firms are effective.

Table 3.2 compares 9 statements about factors relating to the entrepreneurial environment in oPt compared with 5 MENA countries participating in the 2012 GEM. Analyzing Table 3.2 leads to the following findings:

- ✧ At the MENA regional level, national experts in oPt, as in most Middle East and North Africa countries (including Israel), perceive education, mainly primary and secondary education, as one of the most negative conditions to entrepreneurship activities. The average score for this area was 1.68 in oPt.
- ✧ Government programs are only perceived as the most negative condition in oPt and Iran among MENA region countries. While the other countries of the MENA region perceived this condition as neither negative or positive for entrepreneurship activities.
- ✧ Physical infrastructure was perceived as one of the most positive conditions for entrepreneurship activities in all MENA countries participating in the 2012 GEM.

⁵ Hovspian, N. (2008). Palestinian State Formation: Education and the Construction of National Identity. Cambridge Scholars Publishing, UK

Table 3.2: Most positive (+) and most negative (-) entrepreneurial framework conditions by GEM MENA region country, 2012

SCALE: FROM (-) TO (+)					1 Finance, 2a Nat. Policy — General Policy, 2b Nat. Policy — Regulation, 3 Government Programs, 4a Education — Prim. And Second., 4b Education — Post-School, 5 R&D Transfer, 6 Commercial Infrastructure, 7a Internal Market — Dynamics, 7b Internal Market — Openness, 8 Physical Infrastructure, 9 Cultural and Social Norms											
1	2	3	4	5	1	2a	2b	3	4a	4b	5	6	7a	7b	8	9
ALGERIA						-			-	+	-		+		+	
EGYPT									-	-	-	+	+		+	
IRAN							-	-	-			+	+		+	
ISRAEL						-	-		-			+			+	+
PALESTINE								-	-			+	+	-	+	
TUNISIA						+		-					+	-	+	-

Source: 2012 GEM Global Report

Box 2: Entrepreneurship: looking for success: “AYAVA”

About Ayava: Ayava is an established business that works in the field of renewable energy. Ayava was established in Palestine in 2006 by a young engineer (Moyyad Hamad) and his wife as a subsidiary of a company in the US which was established in 2002. The startup capital for this company was self supplied; The Owner-Manager (Mr. Hamad) preferred not to resort to any external financing. The kind of product (solar generated electricity) is very new in Palestine; JEDCO has just recently allowed the purchase of electricity from home suppliers. Prior to that, the bulk of Ayava’s and other firms’ sales were for self sufficiency to areas where electric networks are not available.



The Palestinian Initiative for Solar Energy: The Council of Ministers recently approved “the Palestinian Initiative for Solar Energy” which aimed to produce 5 megawatts in the West Bank from solar panels during the period (2012-2014). The Council is expected to supply the roofs of 1,000 houses with solar modules to produce 5 kilowatts per house. The expected cost for each house is about 16,000 dollars. Every homeowner must contribute by 8,500 dollars, and the rest is financed by the energy authority or other donors. Electricity Company is committed to purchasing the electricity from producers at NIS 1.07 for each kilowatt for the first 100 producers and then at NIS 0.8 for each kilowatt from the remaining producers.

Difficulties and Constraints: According to Mr. Hamad, there are some obstacles that stand in the way of his company’s success. The first and foremost is the existence of many competitors in the field. The second is the absence of clear guidance from the PEA on regulation and standards. Mr. Hamad believes that the absence of a net-metering system (consumption less production without price discrimination) is an obstacle to widespread use of the home energy system. According to the energy authority, the absence of this system is due to the unavailability of laws and regulations which control standards for the devices and technical aspects. According to Mr. Hamad, the opportunity for success does exist if the solar power system becomes available to all people, not only the rich.

It remains to be said that for many years (2000-2004), imports of electricity from Israel was the number 1 import ranging from 3.7% in 1999 to 9.5% in 2004 (UNCTAD, 2011). The value of electric power imports was US \$200 million in 2004. Renewable energy should have been a national priority, as it would have spared the PNA .Israeli’s withholding of transfer of customs clearances arising from delayed electric payments by municipalities.

3.2 Key constraints to entrepreneurial activity

The NES asks the national experts to list 3 factors which they think are the most constraining to entrepreneurship in the oPt. Their responses are provided in Table 3.3. Each column shows the percentage of respondents who put that factor first, second, or third. The last column adds up these percentages.

The second and third constraining factors – “financial support” and “government policies” – received a nearly equal number of respondents. Infrastructure, both physical and commercial, as well as R&D transfer were not regarded as constraining factors by the national experts.

Table 3.3: Vote distribution of top constraining factors to entrepreneurship

Topic/ Area	%			Sum of raw
	First	Second	Third	
Political, institutional and social context	30.3	12.1	12.1	54.5
Financial support	15.2	12.1	12.1	39.4
Government policies	15.2	15.2	6.1	36.4
Capacity for entrepreneurship	12.1	12.1	9.1	33.3
Economical climate	9.1	6.1	12.1	27.3
Education and training	3.0	9.1	9.1	21.2
Government programs	6.1	9.1	6.1	21.2
Cultural and social norms	9.1	6.1	6.1	21.2
Market Openness	-	6.1	12.1	18.2
R&D transfer	-	6.1	3.0	9.1
Commercial and professional infrastructure	-	6.1	3.0	9.1
Number of respondents	33	33	33	

The most significant constraining factor to entrepreneurship in the oPt is the “political, institutional, and social context.” Investment depends critically on the expected rate of return, which, in the Palestinian case, is highly dependent on political stability.

However, restrictions put in place because of the Israeli occupation continue to stand in the way of potential private investment and remain the major impediment to sustainable economic growth (World Bank, 2012).⁶

Table 3.4: Key factors constraining entrepreneurship

Category	Percentage (%) of experts in oPt - citing this factor	Average % of GEM experts citing this factor
Education & training	21.2	30.0
Government policies	36.4	40.4
Financial support	39.4	54.4
Government programmes	21.2	14.5
R & D Transfer	9.1	5.7
Commercial & professional	9.1	9.8
Capacity for entrepreneurship	33.3	13.9
Cultural and social norms	21.2	25.9
Economical climate	27.3	14.7
Political, institutional and social context	54.5	23.6
Market openness	18.2	11.0

⁶ World Bank (2012). Fiscal Crisis, Economic Prospects: The Imperative For Economic Cohesion In The Palestinian Territories. Economic Monitoring Report to the Ad Hoc Liaison Committee. September 2012.

Table 3.4 above presents evidence that the top constraining factors for Palestine are not very different from the world average. Internationally, financial support is the number one constraining factor; more than half the experts cited this as a constraining factor, although in Palestine only 40% thought it was a constraining factor. Political, institutional and social context was considered the largest constraining factor in the oPt. This ranks sixth at the international level. The constraint caused by government policies is also perceived similarly in Palestine (36% of national experts regarded them as a constraint) as in the rest of the world (30% by average international experts regarded them as a

constraint). The factors that rank at the bottom are also similar, as R & D transfer and Commercial & professional infrastructure come in last place in both contexts.

3.3 Key recommendations from the national experts

Though “education and training” was not cited as one of the most significant constraining factors, the recommendations for the improvement of entrepreneurship in the oPt focus firmly on “education and training.” “Education and training” received the highest number of respondents’ votes as first, second, and third most important recommendation.

Table 3.5: Recommendations to improve entrepreneurial Activity

Topic/ Area	%			Sum of raw
	First	Second	Third	
Education and training	43.8	12.5	9.4	65.6
Financial support	12.5	12.5	12.5	37.5
Government policies	6.3	18.8	3.1	28.1
R&D transfer	3.1	9.4	12.5	25.0
Capacity for entrepreneurship	3.1	15.6	6.3	25.0
Government programs	18.8	6.3	18.8	43.8
Cultural and social norms	-	3.1	6.3	9.4
Market Openness	3.1	3.1	3.1	9.4
Economical climate	6.3	-	3.1	9.4
Political, institutional and social context	-	6.3	-	6.3
Commercial and professional infrastructure	3.1	3.1	-	6.3
Number of respondents	32	32	32	

4. Networking and Firm Characteristics

The APS questionnaire divides entrepreneurs into three phases of business activity according to development. **Nascent entrepreneurs** are those in the planning phase and who have not paid wages yet and those who have established a business and paid wages for up to 3 months. **New entrepreneurs** are those who have established a business and paid wages for from 3 to 42 months. **Established enterprises** are those who have been in the market for more than 42 months. An entrepreneur may discontinue an enterprise, and those who do so may be considered potential entrepreneurs or **future entrepreneurs**. The network questions follow each of the start-up (SU) entrepreneurs, owner-manager entrepreneurs (OM) and future entrepreneurs (FU).

4.1 Network Structure

There are 20 network questions at the end of each block (SU, OM, FU); each question asks the entrepreneur if they received advice from 1-20 potential sources. The sources can be grouped into 5 categories:

- ✧ Private network environment which includes spouse, parents, other family, and friends (4 questions).
- ✧ Work environment which includes co-workers, bosses, anyone who has started a project, and anyone with experience in business (4 questions).

- ✧ The international network environment includes anyone who has just come from abroad or anyone living abroad (2).
- ✧ The professional network environment includes any of the following: researchers, lawyers, accountants, investors, banks, and business service providers (6 questions).
- ✧ Finally, the market environment includes a competitors, and partners, e.g. a supplier, or a customer (4 questions).

If an entrepreneur gets advice from one source then he/she answers the question yes. For the private network, there are 4 questions and the entrepreneur may answer yes to each. This means that the maximum score for the private network is 4 advisors and the minimum is zero. After the data are aggregated in this fashion, one can evaluate the distribution by individual, or other firm characteristics.

First, we report the average number of advisors in each network environment⁷. According to table 4.1 below, entrepreneurs have the greatest average number of advisors in the private environment. This may be due to the closeness and support the private environment provides to entrepreneurs. Trust could also be a contributing factor. Unlike in work or market environments, entrepreneurs do not feel exposed when revealing information to family. The closed nature of the Palestinian economy makes the international environment least prevalent.

Table 4.1: Mean number of advisors by environment and type

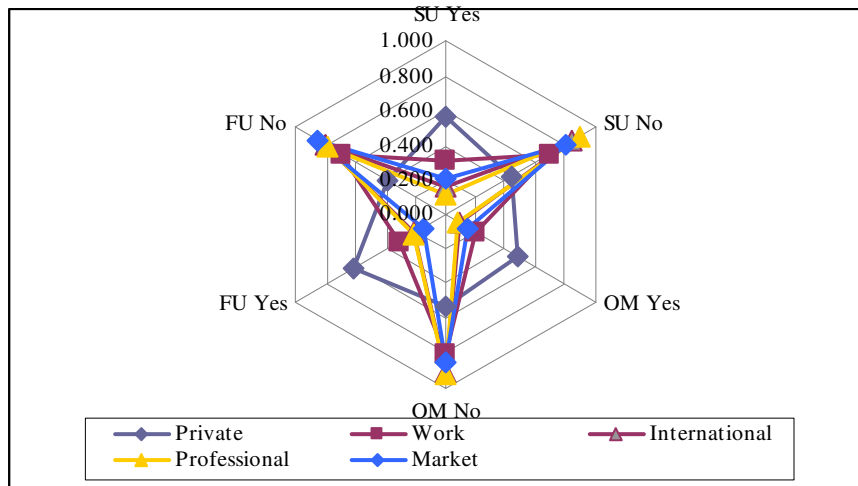
Network Environment	Type		
	SU	OM	FU
Private	2.22	1.89	2.38
Work	1.27	0.75	1.17
International	0.29	0.17	0.37
Professional	0.72	0.46	1.34
Market	0.84	0.55	0.59
Valid N	137	118	626

⁷ We report the mean here rather than the median because in many cases the reported median or mode is zero. The frequency distribution does not approximate a normal one for any of the reported cases. The use of the mean is only to give some orders of magnitude.

We first analyze the results of the frequency distribution for each of the network environments. This is done by adding up the “yes” and “No” responses. For example, in the private network environment there were 147⁸ who answered each of the 4 categories that constitute the private network

(a total of 588 who answered yes); This figure is broken into a proportion of those who answered yes and the remaining proportion who answered no. This is done for the 3 types of entrepreneurs: Start Up (SU), Owner Manager (OM), and Future entrepreneur (FU). The results are shown in Figure 4.1 below,

Figure 4.1: Proportion of entrepreneurs who receive advice by type of network and entrepreneur



Since the Yes-No proportions for each network type add up to 100%, it can be inferred that a higher proportion represents a higher utilization of the maximum possible number of sources. Taking the private network environment for example, we find that the line is nearly circular between 0.6 and 0.4 implying that entrepreneurs of all types are taking advice from 55%-60% of the possible sources, while the remaining proportion would not be utilized. For the other network structures, it is evident that the “No” nodes have higher proportions than the “yes” nodes; the implication for these types of structures, is that only a small fraction of the possible sources is utilized by entrepreneurs. But if we want to translate this from the entrepreneurs view point, we can ask the question, what proportion of the entrepreneurs who receive advice from each of the twenty possible sources? It can be inferred from the above figure that (aside from private network) it always the case that the proportion of entrepreneurs who

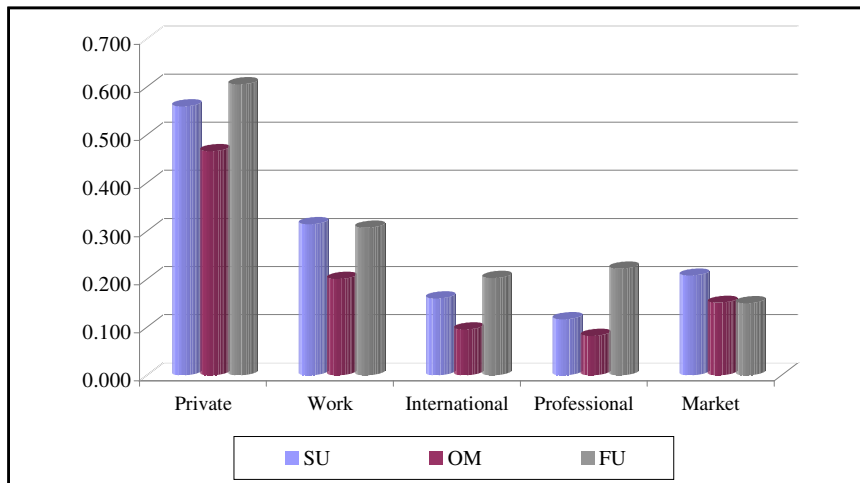
answered “Yes” to each of the 20 questions is always less than 50%⁹. A logical deduction is that entrepreneurs do receive advice from private sources more than any other source. This result has been found in Daoud (2012) also. Entrepreneurs typically turn to their families for advice and support. It could be argued that some entrepreneurs prefer a closed network (Anderson, *et Al* (2005) argues that the closed network provides trust within the network that acts as a binding relationship among entrepreneurs; while others prefer an open network (the structural holes network (Burt (2000)), which implies an open non-redundant network that provides diverse information), which may be driven by the ownership structure of the firm.

Figure 4.2 below shows the average number of advisors per entrepreneur, this was calculated by dividing the sum of “Yes” counts in each environment by the number of entrepreneurs.

⁸ The actual frequencies may differ from the ones reported here because the sample weights were turned on when these frequencies were calculated.

⁹ For example, there are 147 SU entrepreneurs who answered the questions of receiving advice in the private network (and other networks). The ones who answered yes to each of the four questions are 56% of the 588 possible sources which is 329. Therefore the average number of “yes” answers is 329/4 or 82 which also represents 56% of the 147 entrepreneurs. It is thus possible to say that on average 56% of the SU entrepreneurs receive advice from each of the private sources. One should note though that network utilization is a better indicator of networking activity. Differences do exist between SU, OM, and FU entrepreneurs.

Figure 4.2: Average number of advisors per entrepreneur



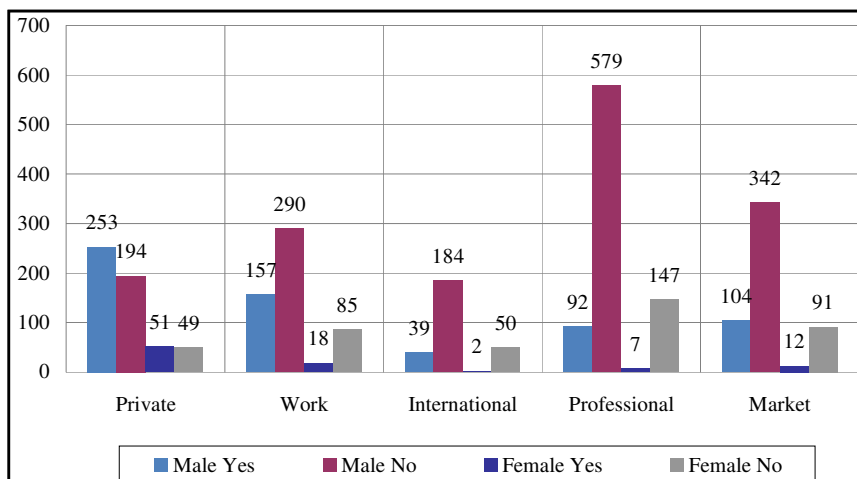
It is evident that all three types of entrepreneurs seem to have more private advisors than others. It is worth noting that the FU entrepreneurs have similar networking habits to SU entrepreneurs, except for in the professional network structure, where FU entrepreneurs have almost twice as many advisors as SU and three times as many as OM.

4.2 Networking and Gender

The gender aspect of networking takes a special meaning due to lower activity rates and higher fear of failure (as a measure of risk-aversion) for women in oPt. The literature refers to social capital as a set of network relationships and assets within those networks (Burt, 1997 and Coleman, 1988). Studies have shown the importance of social capital to firm

performance. For example, Baker (1990) found that social capital is positively correlated with improved firm performance. On the other hand, another breed of literature (Batjargal, 2000) examines the determinants of network dynamics; finding that successful entrepreneurs tend to preserve their networks; while less successful entrepreneurs tend to expand their networks. Although this chapter is exploratory in nature, one can postulate that if women have smaller networks compared to men, then they ought to expand their networks to be more successful. The network question is primarily aimed at entrepreneurs (where female representation is low). It is interesting to extend the analysis to all three types of entrepreneurs (SU, OM, and FU) particularly FU entrepreneurs.

Figure 4.3: Total number of advisors for SU entrepreneurs by gender



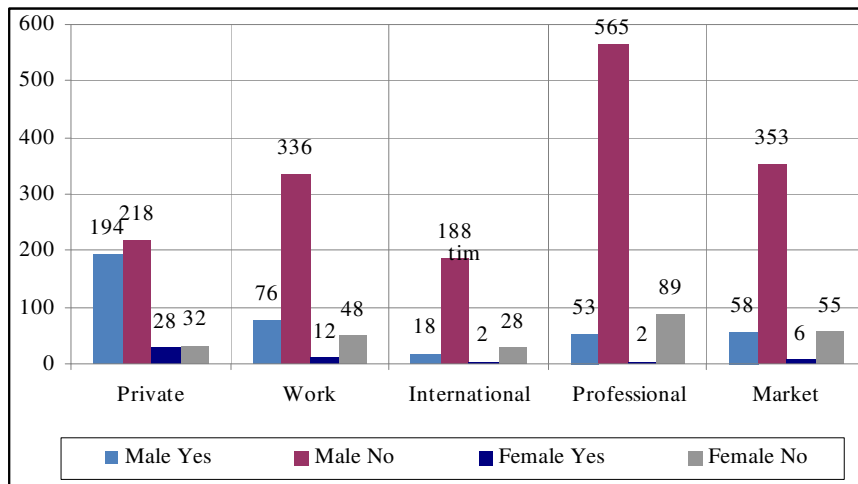
The first figure shows the total number of advisors in each network environment for both men and women. A total of 138 entrepreneurs¹⁰ answered the SU network questions, 112 males and 26 females. There are 4 questions (each inquiring as to a potential source of advice) in the private environment, 4 in work, 2 in international, 6 in professional, and 4 in market. Each entrepreneur can answer yes or no to each of the questions. Thus the total number of advisors in Figure 4.3, 4.4 and 4.5 exceeds 138.

The figure reports frequencies rather than proportions to emphasize network size. When the two bars are equal in length, it can be inferred that the proportion of entrepreneurs who receive advice is close to

those who do not¹¹. The number of affirmative responses for each potential network corresponds to network size. Taking the case of males first; the figure shows how male entrepreneurs receive advice the most from private sources and least from professional sources. The division of yes counts by the number of entrepreneurs who answered each question results into the average number of advisors. The results (not reported) show that gender differences are minimal in private network, but increase dramatically in favour of male entrepreneurs in other network structures.

The owner-manager entrepreneurs' statistics are shown in Figure 4.4 below.

Figure 4.4: Total number of advisors for OM entrepreneurs by gender



There are 103 male and 15 female OM entrepreneurs in each environment. This makes the number of potential sources of advice for men equal to 103 times the number of questions in each environment. This will be 412 for private, work, and market, but 206 for international and 618 for professional. Given this information, network resource utilization rate is 47% for males in private environment. For females it is 46.6% also in private environment. For all other network structures, the ratio is always below 20% and in many cases below 10%. The gender gap in network utilization is

narrowest in private and highest in work and professional environments.

Finally, the number of FU entrepreneurs in the sample is greater than the previous two categories of entrepreneurs with a total of 626 respondents (338 men and 288 women). There are a few differences between this group and the previous two groups.

First, the sheer number of entrepreneurs classified future entrepreneurs is immense. These are individuals who are neither nascent entrepreneurs nor established business

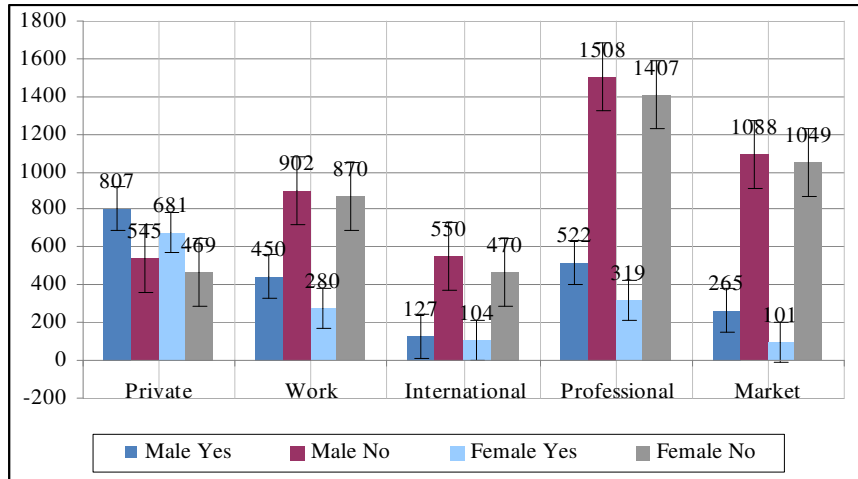
¹⁰ This is also with sampling weights, without weights the figure would be 147.

¹¹ Male responses constitute 100%, so do female responses. Each of those is broken between yes and no. It is not the sum of males and females that is 100%. Taking female for example, there are 51 "Yes" counts and 49 "No" counts in Private. That is almost 12.5 for each question, since there are 25 females, then 50% of them receive advice on average and 50% do not.

entrepreneurs, but could potentially become entrepreneurs in the next three years. Because the question is asked to the entire sample regarding their potential project, one can expect departures from the trends observed for the previous two types of entrepreneurs.

Second, the male/female distribution in numbers is closer in this group; females constitute roughly 47% for FU but only 15-16% in the other two categories.

Figure 4.5: Total number of advisors for FU entrepreneurs by gender



Third, FU entrepreneurs are similar to the other two groups in terms of the dominance of private networks in providing advice. The network resource utilization rate is roughly 60% for men and women in the Private network. The least ratio for men is in the international environment (18.8%) and for women in the market environment (8.8%); this is also a departure from the previous two cases.

Fifth, another departure is that the gap between where men and women utilization of network resources is highest for the market environment.

4.3 Networking, Income, and Education

The following section will focus on the total number of advisors for both SU and OM entrepreneurs disaggregated by educational level and income. One might expect that the

more educated realize that networking is important, and would therefore put more effort into networking at all levels. A counter argument is that networking may be used by less educated entrepreneurs to make up for their lack of education, which would imply a negative relationship between education and networking. Thus, on theoretical grounds, the relationship may be positive or negative. As for income, higher income entrepreneurs are more likely to pursue professional networks than other types of networks. Previously, we discovered that the private network is more important for seeking advice than other types of networks for both men and women. Table 4.2 below reveals the relationship between income and the types of advisors entrepreneurs seek with respect to GEM harmonized income, where income earners are ranked by their income level. Starting with the lowest 33rd percentile to the highest 33rd percentile.

Table 4.2: Total number of advisors by income level and type of network environment

Network Environment	Lowest 33% tile		Middle 33% tile		Upper 33% tile	
	SU	OM	SU	OM	SU	OM
Private	115	81	96	68	90	75
Work	54	31	57	19	54	38
International	13	6	11	2	17	11
Professional	29	6	21	9	50	38
Market	44	25	24	11	43	28

Although the private network dominates (both SU and OM), for all three levels of income, it is interesting to note that upper level income entrepreneurs depend much more on their professional network for advice compared to their lower income counterparts. They also rely on their private network for advice less

than the lower two thirds of income earners, but are similar in the market network for SU entrepreneurs. The same trend is not observed for OM entrepreneurs except in the professional network where the total number of advisors is high compared to other environments.

Figure 4.6: Total number of advisors for both SU and OM entrepreneurs by education

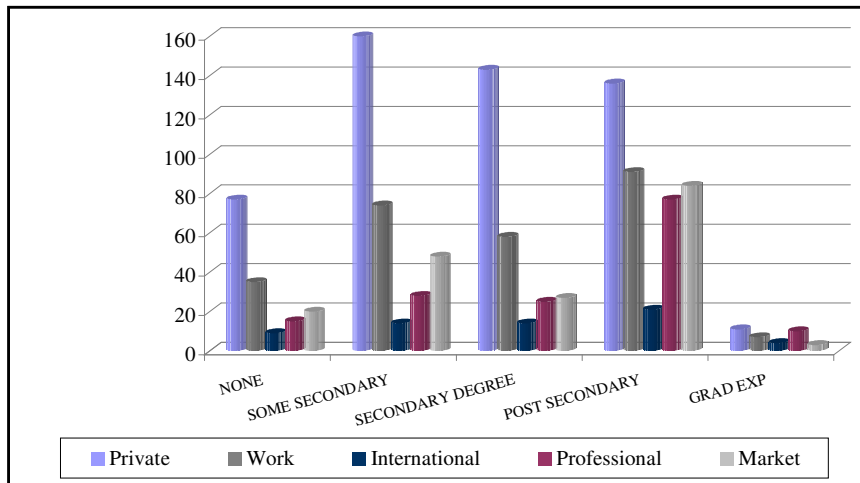


Figure 4.6 above shows that as education increases, so does the number of advisors in the professional and market networks, and to some degree in the work and market environments.

4.4 Networking and Firm characteristics

Since firms differ by their age, size (number of workers), the stage of operation, the type of output, and their ownership structure (partly or wholly owned) one would expect their networking behaviour to differ also. The data must be analysed to determine whether any distinguishable patterns emerge from the sample based on these characteristics. Yang, *et al* (2010) and Shipilov (2006) find that network structure does impact firms' boundary choices¹². For example, Yang, *et al* (2010) postulates that network density promotes partnering over non-partnering. An open and wide network benefits the entrepreneur by providing diverse information (structural holes network, Burt 2000). On the other hand, others believe in the closure argument (Anderson et al, 2005) which posits that closed networks provide an environment of trust and strength in

the relationship. There are few studies which investigated the relation between firm characteristics and network structure. This section provides an overview of each of the firm characteristics *visa-a-vis* network structure. The average network size is the sum of the yes responses to potential advisors divided by the number of entrepreneurs responding to the questions.

4.4.1 Firm Age

As firms (and entrepreneurs) grow older, they accumulate experience; therefore, less networking activity is required. On the other hand, older firms accumulate a larger stock of relationships over time. Thus it is not determined a priori that there is a positive or negative relationship between firm age and average number of advisors. Figure 4.7 below shows this relation.

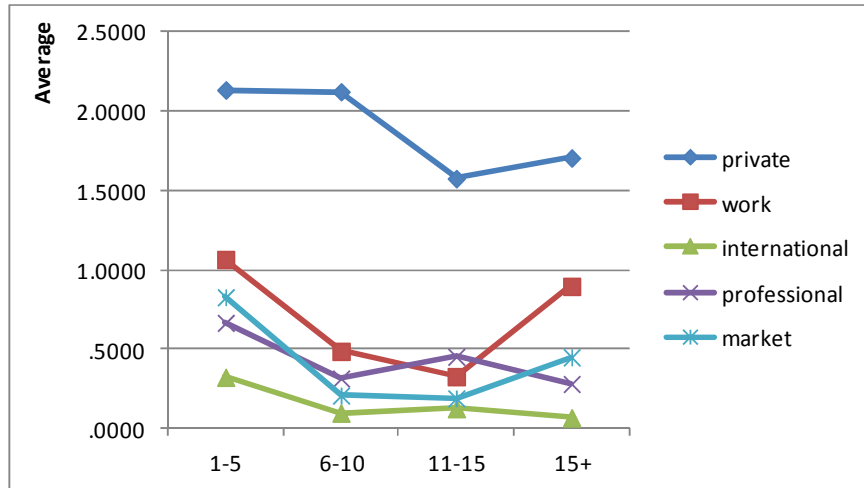
In order to find the "yes" counts for each network structure, the "yes" answers to each question were added up for each market structure. This was done for SU, OM, and FU. After that we took the maximum "yes" counts from the three entrepreneur types; the private for example will be the maximum sum of "yes" counts from the three types of entrepreneurs. Then we calculated the average

¹² Firm boundaries can be defined as "the demarcation between the organization and its environment" (Santos and Eisenhardt 2005 p.491)

“yes” counts for each age group as shown in Figure 4.7. The relation between average number of advisors and firm size seems to be a u-shaped curve for each network type; the average number of advisors declines to a

point, then increases. This is most evident for work and market structures, the other cases display a negative relation. If a grand average (over the five classifications) is obtained, a u-shaped relation emerges.

Figure 4.7: Average number of advisors and firm age by network type

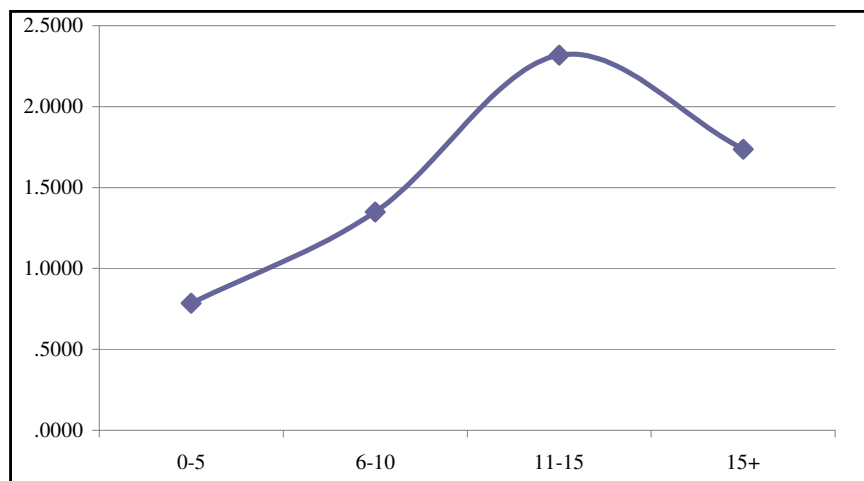


4.4.2 Firm Size

There are 147 entrepreneurs (all types) who responded to the network questions, obviously, FU entrepreneurs are prospective, thus do not have firm size. That leaves SU and OM entrepreneurs. The majority of them fall in the

1 – 5 workers size (134); the category from 6-10 had 8 firms; the category from 11-15 had 2 firms; and the category of more than 15 workers had 4 firms. This is in line with the fact that most enterprises are small in nature.

Figure 4.8: Average number of advisors and firm size (measure by workers)



A positive trend emerges in figure 4.8 above. Bigger firms have more networking activity. Again, this is averaged over all five network environments. This trend is evident for market, work, and international environments. For

private and international, the trend is less obvious¹³.

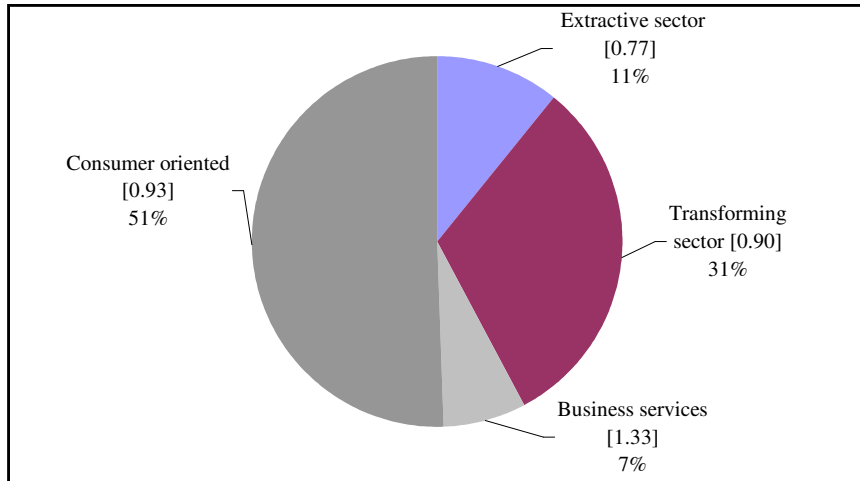
¹³ This result is not likely to be driven by correlation between age and size for two reasons, first, spearman rank correlation shows an insignificant negative correlation (-.09); second most firms are small (0-5) workers and the majority are young, but others are found across the spectrum of ages.

4.4.3 Firm Type

Firms are classified into four categories based on SIC-4 classification. Figure 4.9 shows that

most entrepreneurs operate in consumer oriented businesses with 51% of the cases.

Figure 4.9: Average number of advisors by firm type



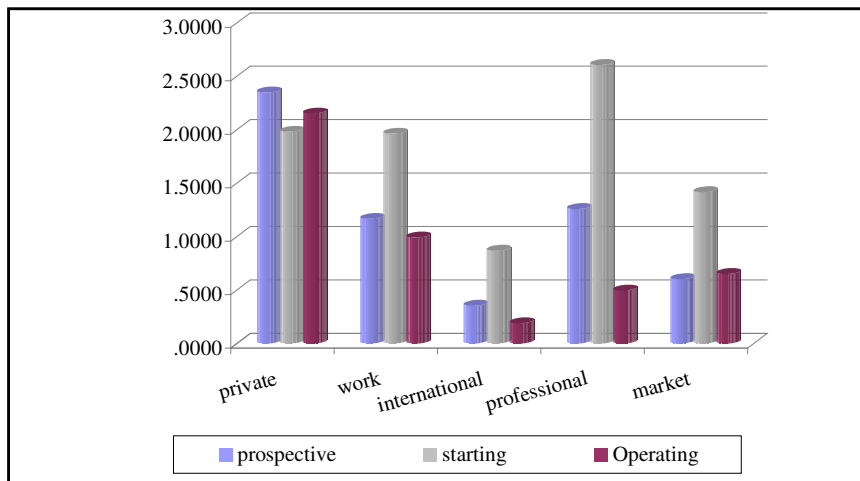
The average number of advisors is included in square brackets (averaged over all network structures). We find that business services firms have the highest average. This result is expected since firms in business services are dependent on networking activity by the nature of their work. Closer inspection of the network environment shows that the average is highest for private networks, followed by work networks for all types of businesses.

4.4.4 Firm Phase

If an entrepreneur is expecting to start a business in the next three years, then she/he is classified as prospective entrepreneurs (Phase

1). Firms in their first years without any workers are in Phase 2 (starting phase). Finally, operating firms are more than one year old with workers. A total of 802 entrepreneurs are found across the three phases, the majority (721) are found in the prospective phase, 6 in the starting phase, and 74 in the operating phase. Despite the low number of cases in the starting phase (2), their average is highest, indicating that entrepreneurs communicate with advisors in the preparation stage of entrepreneurship. However, in terms of total number of advisors; the prospective have the largest figure due to the large number of yes counts.

Figure 4.10: Average number of advisors by phase

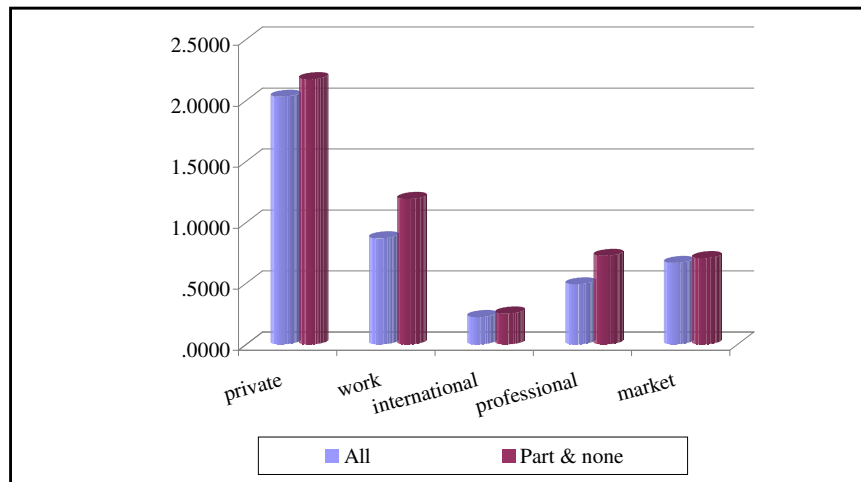


4.4.5 Firm Ownership

Entrepreneurs were asked if they owned the firm entirely, if they had partners, or if they were not owners. The theory suggests that sole owners may favour smaller networks (closure

argument), and the partners would then have a more open network. The patterns of Palestinian entrepreneurs' behaviour are shown in Figure 4.11 below,

Figure 4.11: Average number of advisors and firm ownership



The evidence suggests that the average number of advisors is lower for sole owners in almost all network environments; however, the difference is small. Differences between Professional and work environment are larger, which lends support to the trust argument.

4.5 Concluding Remarks

In order to make some sense of the above discussion, a few remarks are in order. The first of which is that the survey questionnaire asks respondents whether they *received* advice from...etc, but that does not by default mean that the entrepreneur has acted based on that advice. The mere observation that private network dominates all other network environments implies that people just talk to those closer to them. In comparison, professional networks and international networks are potentially more beneficial to entrepreneurs, but fewer entrepreneurs use them. The argument that networks facilitate firm performance is itself a testable hypothesis; the data at hand make no direct measurement of firm performance. Some of the research on this topic points to multidimensional measures of firm performance. Yildiz, et al (2011) provide a performance model based on expectations from the perspective of performance measurement and evaluation. scale variables

such as employee satisfaction, finance, production, and marketing management functions were considered. Unfortunately, none of these dimensions are available for an assessment of networking activity against firm performance.

In light of the preceding discussion, one can make the following logical deductions based on the sample findings:

- ✧ Palestinian entrepreneurs receive advice most often from private sources. This may be due to the closeness, support, and trust that this environment provides. International sources of advice are nearly non-existent.
- ✧ There are similar patterns of networking for the three types of entrepreneurs.
- ✧ The proportion of entrepreneurs who do not receive advice from any source other than private is larger than that for those who do. This implies that more entrepreneurs are not involved in networking activities.
- ✧ The gender analysis shows that females are like males in that most do not receive advice from any source other than private; however, in terms of network size, males' networks are larger.
- ✧ Professional networks seem to increase in importance with education and income.

Thus more educated entrepreneurs (who may also be the ones with higher income) seem to value professional networks more than others.

✧ Differences between types of networks exist across firm characteristics, most importantly, firm age is negatively related to network size, but firm size is positively related.

5. Economic Impact of Entrepreneurship

The effect of entrepreneurship on the whole economy is a topic under investigation. Audretsch *et al* (2001) test the relationship between unemployment and entrepreneurship and find that the relationship is significant in both directions; unemployment is a reason for necessity entrepreneurship, but entrepreneurship also creates new jobs and reduces unemployment. Audretsch and Keilbach (2004) include entrepreneurship capital as input in production function, which is an important factor shaping output and productivity. Stel *et al* (2005) find that total early-stage entrepreneurship affects economic growth, but this growth depends on the country level of income per capita. Mueller (2007) finds that an increase in

innovative start-ups has a more positive impact on economic growth than a general increase in entrepreneurship.

5.1 Employment Impact

While the increasing supply of labour urges policy makers to find job opportunities, entrepreneurial activity constitutes an important potential source of job creation. In table 5.1, we estimate the number of jobs (excluding the owners' own jobs) created by entrepreneurial activity to 416,020 jobs as of 2012 at all stages. This number includes all types of jobs including short-term jobs. In addition to those jobs, 276,143 people were the owners of these enterprises

Table 5.1: Estimated number of jobs and number of entrepreneurs by stage of activity

Stage of Activity	Number of Self employed Entrepreneurs	Number of Workers	Total
Nascent	131,699	51,639	183,338
Baby	80,719	223,676	304,395
Established	63,725	140,705	204,430
Total	276,143	416,020	692,163

* This number was obtained assuming each entrepreneur is an establishment, if however we divide the number of entrepreneurs by the average number of owners to get the number of establishment, then the total number of workers will become 194,562 jobs.

A total of 692,163 positions in all stages of entrepreneurship would constitute around 69.86% of the labour force if all jobs were sustainable. However, most of these jobs are created by nascent entrepreneurs who have higher probability than other entrepreneurs to discontinue entrepreneurial activity. Around 5% of the adult population has discontinued a business in the past two years of the survey, where the business did not continue without them. As a result, the estimated figure should be reduced, however, an estimate of the reduction is not possible because the discontinuation occurred over the last two years.

5.2 Job Growth Expectations

Early-stage enterprises have the potential to become fast-growing firms in the short and

medium term. In the APS, entrepreneurs were asked to provide an estimate of the number of employees they will need to add in the next five years. Nascent entrepreneurs expect to add a mean of 4.77 jobs, compared to the current mean of 5.37 current jobs per enterprise. Baby business owners have high growth expectations with a mean estimate of adding 4.04 jobs compared to the 1.84 current jobs they currently provide¹⁴. Even though entrepreneurs' expectations are affected by personal perceptions, these numbers may reflect entrepreneurs' degree of optimism for the growth of their entrepreneurial activities. A similar projection methodology to the one used above, estimates that 516,657 jobs (334,213 by nascent enterprises and 182,443 by baby enterprises) will be created by

¹⁴ Means are calculated after excluding outliers.

early-stage entrepreneurial activities in the next five years, including the existing jobs. This represents an expectation of growth of around 26.47% in the next five years, compared to 12% in GEM (2010) report for a five-year growth expectation.

Growth expectations are affected by several variables at the individual and national levels. Sadeq and Setti (2013) use GEM data for 14 MENA countries in addition to Denmark in a two-level hierarchical linear regression model. They find that educational, professional and international networks have positive effects on early-stage entrepreneurs' growth expectations, but the private network environment (Family, friends and neighbors)

has a negative effect. Moreover, entrepreneurs with high export levels always have high growth expectations. At the national level, growth expectations are higher in more developed countries (except Denmark).

Job-growth expectations are higher for older entrepreneurs (35 years or older) than for 18 – 34 young entrepreneurs, however, the distribution of the expected number of jobs in 5 years (in figure 5.1) is flatter for older entrepreneurs. Older entrepreneurs expect higher growth rates but also a higher proportion of older entrepreneurs expect no jobs in 5 years than young entrepreneurs. Thus, youth entrepreneurship may be an important source of job creation.

Figure 5.1: Distribution of number of expected jobs in 5 years by age

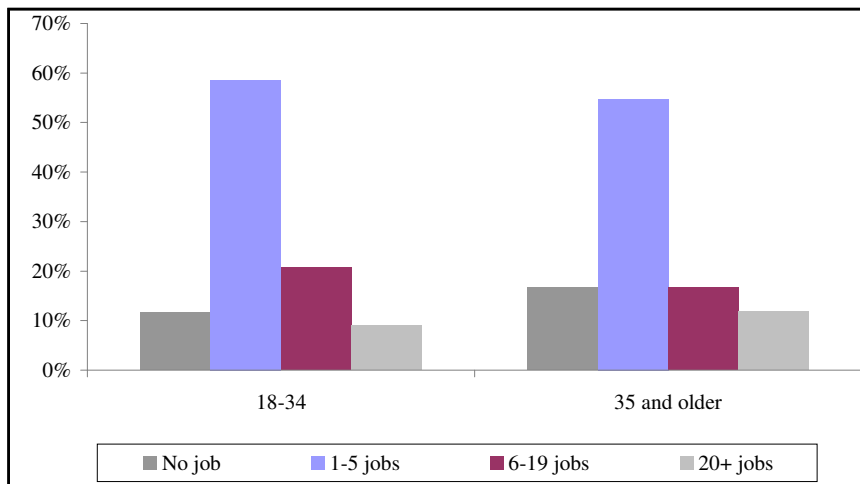
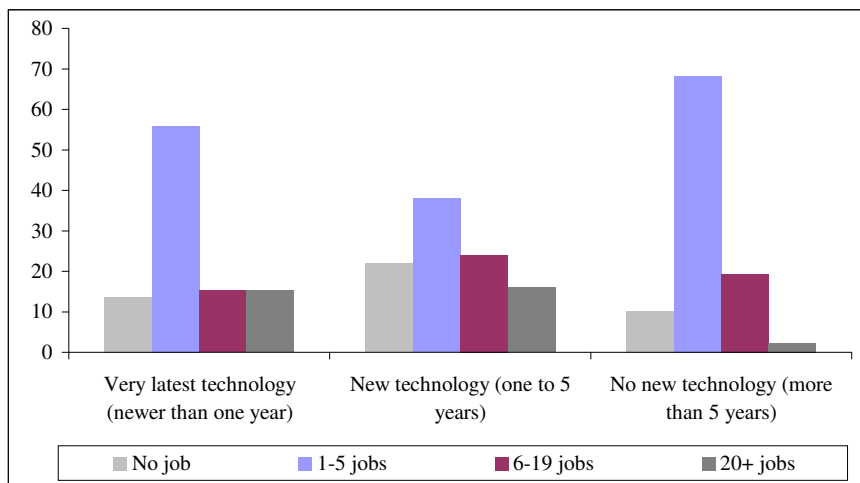


Figure 5.2: Distribution of number of expected jobs in 5 years by technology level



Despite the fact that technology can be a substitute for labour, new technology use can be help spur success and future growth. In figure 5.2, entrepreneurs who use the very latest technology have higher growth expectations; with most expecting to add between 1 and 5 jobs. A higher proportion also expects to add 6-19 jobs than entrepreneurs who use older technology.

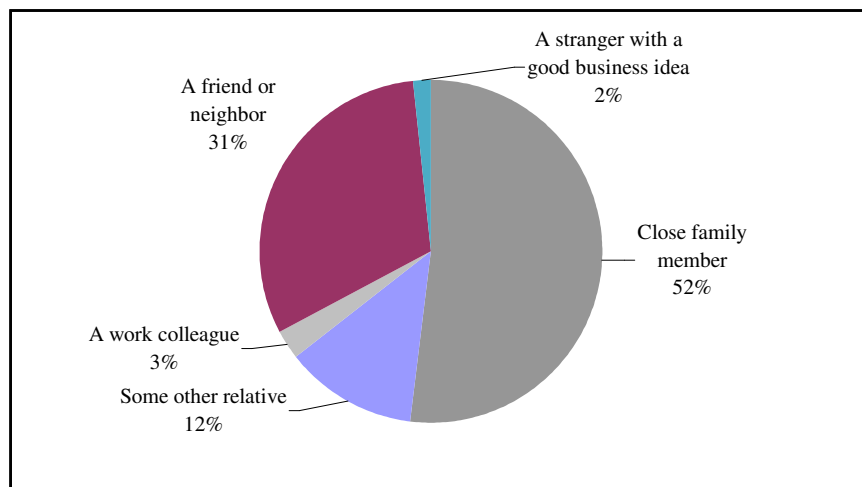
5.3 Informal Investment and GDP

Financing small and medium sized enterprises is a challenge to Palestinian entrepreneurs. The GEM 2010 country report for Palestine estimates average start-up capital to be US\$ 8,201, which is extremely high relative to GDP per capita of US\$ 1,470. The same report indicates that around 57% of nascent entrepreneurs fully finance their enterprises through their own sources. Thus, informal investment is considered an important financing component of start-up capital.

The prevalence rate of informal investors in the adult population who provided funds to someone to start a business in the last three years is around 2.6%. Using the adult (18-64) population size of 2.1 million in 2012 in WB and GS and the mean informal investment of US\$ 5,814, the total amount of informal investments is estimated to be around 317.68 million US\$. This amount represents 3.18% of GDP in 2012. This ratio is very close to that found in 2010, where total estimated informal investments constituted 3.19% of GDP, while it was 1.52% in 2009.

Informal investors provide funds mostly to family members and relatives, followed by friends and neighbours as shown in figure 5.3. As a result, investor return on informal investment is expected to be low since people do not expect high returns on funds provided to close family members or friends.

Figure 5.3: Distribution of relation of beneficiaries to informal investors



Friends and family constitute 83% of the recipients of informal investment. It is worth noting that lending to someone not related but has a good business idea is very small. Thus,

informal investment is not as much about business as it is a form of support to family and friends.

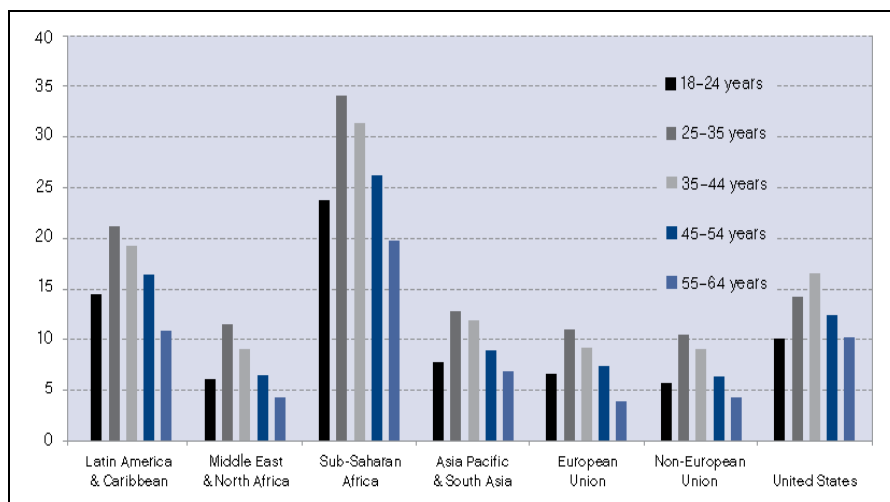
6. Special Topic: Youth Entrepreneurship

The young segment of the population in oPT and many other LDC's suffers from widespread unemployment, under-employment, poverty, and social exclusion. This segment constitutes a higher proportion of the population of LDC's compared to developed economies. The youth are also considered the future of any society, and it is imperative to invest in special educational programs to foster youth entrepreneurship. This is especially true because of the dynamic nature of economic systems. Youth entrepreneurship fosters the innovative process and investment in technology which are necessary for the transformation of ideas into reality. Investing in special youth entrepreneurship educational programs has become even harder with fiscal hardships facing national governments worldwide. This is particularly true for the PNA which has been suffering staggering deficits throughout

the last decade. Due to serious levels of youth unemployment and poverty, the ILO started a program with the aim of promoting awareness of entrepreneurship and self employment. The program was called Know About Business (KAB)¹⁵, one of the background papers (Haftendorn and Salzano, 2003) for this program provides an analysis and review of existing programs in educational systems worldwide. The paper is a rich source of information on youth entrepreneurship policies.

The age distribution of entrepreneurship is provided in Figure 6.1 below. With the exception of the United States, the 25-35 age group has the highest rates. The next age group is 35-44 years. These two groups make up more than 50% of all entrepreneurs according to the 2012 GEM.

Figure 6.1: TEA rates by age and geographic region



Source: GEM 2012 Global Report

The 2012 questionnaire for Palestine incorporated team added questions as well as the GEM questions regarding youth. In addition, the NES also incorporated two blocks on young entrepreneurs: the first focused on 14-20 years of age and the second focused on 21-34 years.

6.1 NES and youth entrepreneurship

Answers to the first set of question regarding youth (14-20) are provided in Table 6.1 below

¹⁵ The web link to this program is <http://www.ilo.org/empent/areas/youth-entrepreneurship/lang--en/index.htm> accessed (April 29th 2013)

Table 6.1: Proportion of national experts views on youth entrepreneurship*

Youth questions	False	Neutral	TRUE
In my country, youth have easy access to primary and secondary education	8.33	5.56	86.11
In my country, most of the youth have no option other than to find work	48.57	2.86	48.57
In my country, youth are pushed into business activity by necessity	25.00	13.89	61.11
In my country, families expect youth to contribute to the family's finances	33.33	13.89	52.78
In my country, the youth involved in business activity are more likely to be self-employed than an employee (work for someone else)	69.44	13.89	16.67
In my country, self-employed youth learn to develop their business activities largely through their own experience and relationships	20.00	20.00	60.00
In my country, there are many opportunities to develop "micro business" for youth	44.44	30.56	25.00
In my country, governmental programs effectively train and support youth entrepreneurs	86.11	13.89	

* The column headings False include both somewhat false & completely false. The same applies to True

A large majority of national experts agree that access to primary and secondary education is easy. However, they also agree that youth are expected to contribute to family finances, they are pushed to entrepreneurship out of necessity, and that self employed youth depend on themselves to learn to run their businesses. National experts believe that business involvement for youth is more likely to be a form of employment and not self employment. They also disagree that there are many opportunities for the youth. Lastly, a very large majority does not think that there are government programs to train and support youth entrepreneurship.

In order to investigate the government programs further, a cross-tabulation of experts' specialty and the government program question was done. Of the 36 experts, 16 classified themselves as entrepreneurs; all 16 responded that governmental programs do not effectively train and support youth entrepreneurs. The Chi-Square test of no relation between entrepreneurs' and non entrepreneurs' responses are significant at the 4% level. The next specialty is investor, financier, and banker with 8 experts falling into this category. The Chi-Square test does not show a significant relationship here. This means whether an expert is an entrepreneur or not, they tend to disagree with the statement on government programs. The same also applies to policy makers, in general non policy

makers and policy makers do not significantly differ in their answers to this question. Business support providers and educators are likewise in agreement. In summary, only entrepreneurs differ from non entrepreneurs in that there are few cases which is neutral on government programs, while all entrepreneurs responded that it is false or completely false. This suggests there is a need to enact a policy which aims at providing support and training for youth entrepreneurs.

6.2 NES and young adult entrepreneurs

The general view of national experts on young adults does not seem to differ from those in the previous section. Table 6.2 below provides the details

Although the peace process is faltering and the PNA is holding to the peace process, Israeli practices of administrative detention, settlement activity, movement restrictions on labour and goods all result into near an economic collapse in the oPt. The views of the experts on the first question is testimony to this conclusion, almost 75% of them believe that the conflict situation is an obstacle to young adults' entrepreneurship. In their views, this will push young adults to seek opportunities outside the country. Because of their age, young adults tend to face additional constraints when compared to the adult population. Most of these constraints deal with

resources or lack thereof. That is why, young adults depend on family support to start their businesses. National experts point out that

there is a need to have credit facilities and business support services to facilitate that kind of entrepreneurship.

Table 6.2: Proportion of national experts views on young adults' entrepreneurship*

Young adults questions	False	Neutral	TRUE
In my country, conflict situations form a substantial barrier for youth/young adults to start and grow a business	22.86		77.14
In my country, young adults are significantly involved in entrepreneurship	38.89	36.11	25.00
In my country, youth and young adults face greater constraints to entrepreneurship relative to the general adult population	34.29	14.29	51.43
In my country, there is an adequate system of business incubators that can be accessed by young adults	63.89	27.78	8.33
In my country, most young adults that become entrepreneurs have been helped to start up by their families, close relatives or friends	8.33	2.86	83.33
In my country, financiers (banks, informal investors, business angel..) fund young adults business initiatives	50.00	30.56	19.44
In my country, micro-credit facilities for young adults to start a business are efficient	63.89	33.33	2.78
In my country, young adults consider life/work opportunities outside the country to be more attractive	2.78	2.78	94.44

* The column headings False include both somewhat false & completely false. The same applies to True

On the question of whether young entrepreneurs find it more attractive to pursue opportunities outside the country, the cross tabulation by specialty shows no significant difference between experts of a particular specialty and all other experts. The only exception is that educators and entrepreneurship researchers chose to answer “completely true” as opposed to “true” for non educators.

6.3 APS and youth entrepreneurship

There are 2 blocks of questions specifically for nascent entrepreneurs and baby business entrepreneurs. Each consists of 9 questions covering all ages (18-64 years of age). The analysis in this section is primarily focused on how young entrepreneurs (18-34 years of age) differ in their responses from older entrepreneurs (35 – 64 years) on each of the 9 questions. The report also shows how the two sets of responses differ between nascent and baby business entrepreneurs.

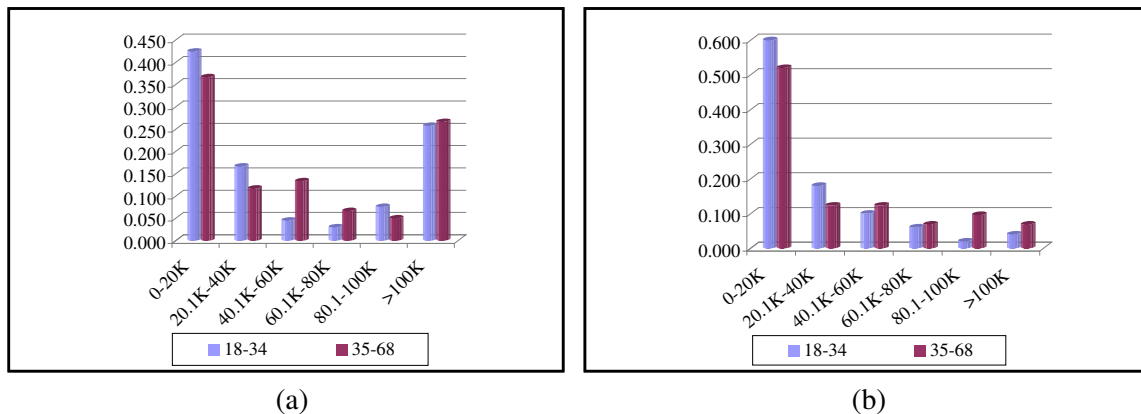
6.3.1 Financing

The first of the 9 youth questions refers to the total amount of money (NIS) used for the project. The reported data are not limited to any particular age group. However, the data do

have a high concentration of low levels of investment and younger entrepreneurs. Figure 6.2 below shows the distribution for SU (Panel a) and OM (panel b).

The proportions in the figure above add up to 100% for each age group in each panel. There are two points that can be deduced from the figure above; first, the Pearson chi-square test is not significant for either panel (a) or Panel (b) indicating that age group membership (youth and non-youth) is not correlated with the amount of start - up capital. From the figure above, it is obvious that the proportion of each age group falling in any of the required start-up capital categories is nearly equal for both categories. A second point is that there are significant differences between SU and OM entrepreneurs. This is particularly obvious for the highest start-up capital requirement category. For SU entrepreneurs, there are about 25% of each age group requiring that much start-up capital. This is not the case for baby businesses. While there is a high concentration of both groups in the lowest startup capital category, young entrepreneurs are more represented in this category. The mean start-up capital requirement for youth is NIS 215,242 and the Median is NIS 30,400. The corresponding figures for non youth are NIS 160,553 and NIS 50,000 respectively.

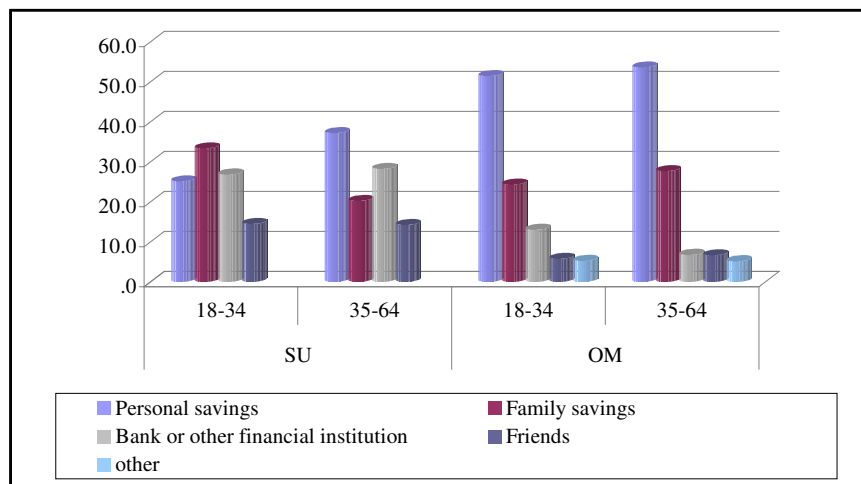
Figure 6.2: The distribution of entrepreneurs by age group and startup capital (NIS) requirement



Entrepreneurs were also asked about the source of the financial capital. The figure below shows the sources of funding. The sum

of the proportions from various sources is 100%.

Figure 6.3: The distribution of entrepreneurs' financing sources by age group and type of entrepreneur

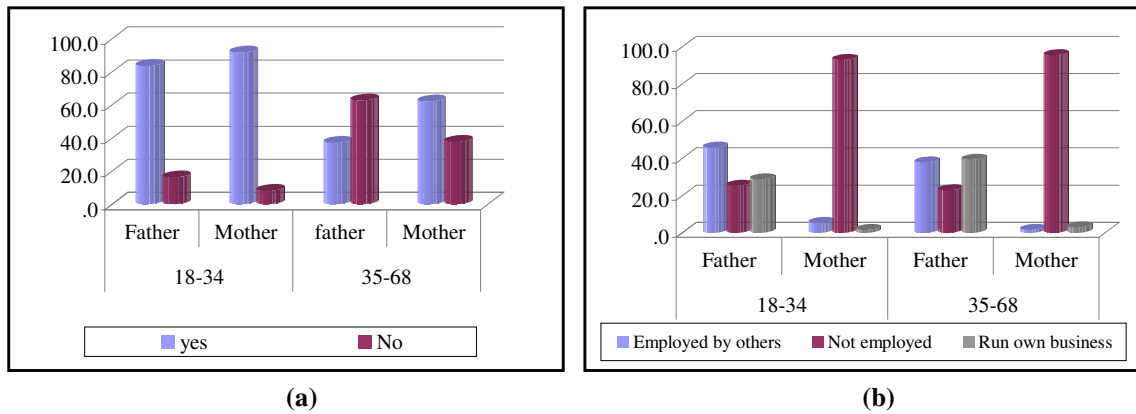


Differences do exist between younger entrepreneurs and older ones; there are also differences between SU and OM entrepreneurs. For baby businesses, personal savings are the largest source of financing whether they are younger or older; about 50% of the entrepreneurs stated that personal savings are the source of their startup capital. On the other hand, younger SU entrepreneurs, depend more heavily on family savings (about 34%). In the meanwhile 37% of older SU entrepreneurs reported personal savings as their source of start up capital.

6.3.2 Role of family and friends

In order to give an idea of the profile of entrepreneurs parents, the team added questions that asked whether the parents are alive or not and their employment status. It is expected that a greater proportion of younger entrepreneurs will have their living parents when compared to older entrepreneurs. It is also expected that of the two parents, fathers are more likely to be labour force participants, confirming labour force statistics. The findings are reflected in figure 6.4 below

Figure 6.4: Proportion of parents alive (a) and employment status (b)



The proportions for each parent add up to 100%. For young entrepreneurs, 84% of fathers are still alive compared to 92% for mothers. The second age group (35-68) shows that a greater proportion of mothers are still alive, reflecting the fact that females live longer, and women are married at a younger age in Palestinian society.

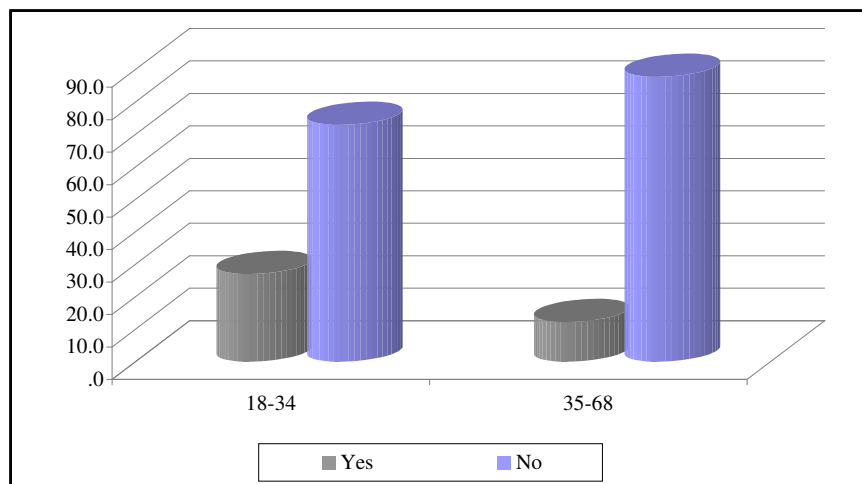
Young female marriages could be one of the many problems that entrepreneurship faces in oPt. The second panel (b) of the figure expands on this idea; the vast majority of mothers are not employed when compared to fathers. This in turn puts more pressure on

family resources as the dependency ratio rises. It also implies that early marriage gets in the way of completing education; leaving child raising to younger mothers with little work experience and education.

6.3.3 Parents' profile

This section focuses on other forms of support from family and friends. The first of these questions is: "Have you received or do you expect to receive any resources other than money to start this business?". The results are showed in figure 6.5.

Figure 6.5: Proportion of SU entrepreneurs who have other forms of support



As was the case with start up capital, younger entrepreneurs are less self reliant compared to older entrepreneurs. This indicates that in order to encourage younger entrepreneurs start a business, programs are needed to facilitate their endeavours; whether it be capital, advice,

or education. The following questions are designed to reflect the reality and fragility of entrepreneurship. A brief description of the findings follows each question to preserve space.

Where will this business primarily trade from?

The number 1 location for both age groups is home (49.1% and 42.7% for the first and second age groups) followed by a formal business space (28.5% and 22.5% respectively). For both these locations, younger entrepreneurs have a slightly larger proportion. The proportion of entrepreneurs trading from an organized market is around 20% for the second age group, while it is 11% for young entrepreneurs. This location ranks third for both age groups. The implication is that although there are marginal differences between younger and older entrepreneurs, the trend for business locations for both is similar. Operation from home for the majority reflects that financial constraint on entrepreneurs requires them to rent their own formal business space. It could also mean that a larger proportion are involved in informal sectors and avoid registration fees and taxes.

What proportion of your sales do you expect to be among your family and friends?

Here again, it is found that the highest proportion is for 50%-75% followed by 25% to 49% for both age groups. The proportion in the first category is slightly higher (32.8%) for 35-68 age group than for the 18-34 age group (31.1%), while the reverse is true for the second category. Younger entrepreneurs are a bit more represented in the above 90% and 75-90% categories. The proportion of older entrepreneurs is slightly higher in the less than 10% category and the 0% category. This is cause to believe that essentially the differences are marginal, but where they do exist, younger SU entrepreneurs depend on family and friends more.

To what extent will your business activities be similar to one or more businesses in your family?

In this regard, younger entrepreneurs seem to depart from family tradition more than older ones. The proportion of older entrepreneurs who start businesses that are not at all similar to family businesses is 46%, compared with 55% for young entrepreneurs. More young entrepreneurs tend to have a formal business space (28.5%) compared to 22.5% for older ones as well. The implication of these two responses taken in conjunction is that young entrepreneurs tend to more formal and possibly more innovative.

Was there one or more persons who influenced you in your decision to start this business?

Young entrepreneurs are more likely to be influenced by others in forming their businesses. Almost 70% of them were influenced by one or more people. 66% of older entrepreneurs are also influenced for the most part by one or more people. Entrepreneurs in general are influenced by others in their decision to start a business, but this is more true for younger ones.

Who was the person who primarily influenced you in your decision to start this business?

The majority of older entrepreneurs (roughly 60%) were influenced by "other family member" (possibly a spouse), while younger entrepreneurs were influenced by "parents" and "other family member" in roughly equal proportions (28% in each category). A "friend" was another source of influence with nearly equal proportion for each age group (26.1% and 29% respectively). Finally, younger entrepreneurs were more likely to be influenced by a sibling. Grandparents seem to have little or no influence on either age group.

As a long term option, would you prefer to run your own business or be employed by others?

There is a strong preference by both young and old entrepreneurs to run their own businesses, with 84% of younger entrepreneurs and 92% of older ones responding that they would prefer to run their own businesses.

One can summarize this section by saying that 18-34 year old entrepreneurs are not very different from the 35-68 year old entrepreneurs in general; though minor differences do exist. For example there is more dependence on family and friends for the 18-34 year age group in financing, nonfinancial support, and client base. On the other hand, members of this group are more likely to be more formal and innovative in the sense that they are more likely to depart from established family businesses and are more likely to conduct business out of a formal business place. As a result of this innovative spirit, and because of the rampant unemployment in this age group, special efforts should be made to improve youth education and training, financing options, and the development of infrastructure.

7. Conclusions and Policy Recommendations

This report explored the characteristics and the environment of entrepreneurship in the oPt. The GEM's conceptual model of entrepreneurship is a complete view which incorporates and emphasizes the impact of entrepreneurial framework conditions on the three main components of entrepreneurial activity: attitudes, activity and aspiration.

7.1 Conclusions

The GEM measures the impact of entrepreneurship on the whole economy through job creation by early-stage entrepreneurial activities. It is estimated that more than 489 thousand jobs were in existence due to entrepreneurial activity by all enterprises at all stages, in addition to the roughly 273 thousand owners and managers of the enterprises. Most were due to nascent entrepreneurs. However, around 207 thousand jobs are estimated to be lost due to business discontinuation (over the last two years). GEM focuses on early-stage entrepreneurs to provide solutions to unemployment and other socioeconomic problems.

The oPt has a median Total Early-Stage Activity (TEA) rate among all GEM participating countries, with low variability over the three year period covered (2009, 2010, and 2012). However, the trend between 2010 and 2012 is negative for most indicators (TEA, discontinuation, gender gap). On the other hand, a low rate of operating businesses (baby business and established business ownership) is observed relative to other GEM countries. Even though there are many business start-ups, many discontinue due to problems in profitability and difficulty in obtaining finance and many females leave for "personal reasons."

The TEA rate gap between the WB and GS has narrowed in 2012 because GS rates rose to nearly 10% (from 3%) and in the WB they declined to 10% from 14%. In the oPt, there is an overall deterioration because the WB carries a heavier weight. On the other hand, the gender gap (TEA rate-male less TEA rate-female) has widened in both the WB and GS, but more so in the GS. So a lot of the TEA rate

improvement in the GS was due to male rates. Although TEA rates were similar in the WB and GS (nearly 10% each), the necessity to opportunity ratio is 4/6 in the WB, but 5/5 in GS. In the oPt, the necessity/opportunity TEA ratio is 6/10 for men and 2/1 for women. This leads us to conclude that more often than not, females are forced to start businesses to cope with their hardships and that it is more difficult for them to realize their opportunities. Although female discontinuation rates are lower than males' and are higher in the GS.

Entrepreneurship increased in 2012 for the youngest age category (18-24), but decreased for the middle age category (25-44). However, half of the young early-stage entrepreneurs are motivated by necessity.

Each of the EFC's in the National Experts Survey (NES) consists of a group of questions, the responses are aggregated and conclusions are drawn based on that. The results show that entrepreneur social image, physical infrastructure, and interest in innovation are the top three positive conditions encouraging entrepreneurial activity. Government policies, intellectual property rights, education and training are perceived by experts as the top three negative conditions. Physical infrastructure is perceived as a positive condition in all MENA countries and lack of adequate education is perceived as a negative condition in all MENA countries. National experts found that political, institutional and social context, financial support and government policies, especially for young entrepreneurs, as the top three constraining factors to entrepreneurship in oPt. They mostly recommend developing these three areas.

It is known that entrepreneurs' networks can increase business performance through sharing knowledge and information. This report explored the structure of networks in oPt. Palestinian entrepreneurs mostly receive advice from private sources, but a low proportion also receive advice from professional and international networks. The gender analysis shows that females are like males in that more of them do not receive advice except from their private network.

However, in terms of network size, males' networks are larger. Professional networking seems to be higher for more educated and higher income entrepreneurs. Regarding firm's characteristics, specifically age and size, owners of older businesses tend to have lower networking, but owners of firms with other partners tend to network more.

Young population in oPt and all developing countries suffers from high unemployment rate and mismatch between jobs and qualifications. Entrepreneurship can provide opportunities for youth to access the labour market and to express their interest in innovation. Entrepreneurs in the 18-34 age group are not very different from those in the 35-68 age group generally; though minor differences do exist. For example there is greater dependence on family and friends in the 18-34 year age group in financing, receiving other support, and sales. On the other hand, this group seems to be slightly more formal and innovative in the sense that they depart from family tradition in selecting their business fields, and because they are more likely to find a formal business place rather than run their businesses from the home. As a result, and because of the widespread unemployment in this age group, special attention should be paid to them particularly in education and training, and financing.

National experts mostly found that youth have easy access to primary and secondary education, but that governmental programs including the educational system, do not train entrepreneurs efficiently. Rather, young entrepreneurs learn how to develop their businesses based on their experience and relationships, notably their relationships with family and friends. National experts found a lack of financing facilities and business incubators for young entrepreneurs. Policy-makers should take note that 34 out of 36 experts believe that youth consider life and/or work opportunities outside the country to be more attractive. This leads innovative young entrepreneurs to emigrate to seek opportunities abroad.

7.2 Policy Recommendations

Based on the results presented above, we present the following recommendations to

policy-makers. Some of these recommendations need to be implemented through adjusting long-term policies, such as closing the gender gap and the improving the educational system. These recommendations were made in the 2010 GEM report also, but we re-assert these recommendations to keep the attention of policy-makers to these topics. Other concerns are as follows:

- ✧ Political uncertainty and the divide between the WB and GS continues to be a source of economic and developmental disparity between the regions. It is a national priority to end this separation to reduce the gaps that exist.
- ✧ Policies to increase female entrepreneurship through increasing awareness about the role of women in society. The development of the educational system and the permanent assistance of women-empowerment organizations can contribute to reducing this gap. Training programs are needed to train women on how to establish a formal business as well as marketing techniques and how to identify business opportunities.
- ✧ The gap between WB and GS became smaller for some indicators in 2012, but entrepreneurship in Gaza is mostly motivated by necessity. The lack of employment opportunities in Gaza is in large part caused by continuing blockade. The blockade also makes innovative new business ideas a near impossibility due to the difficulty of importing raw materials. Thus, efforts to remove the blockade on Gaza should be made.
- ✧ The main causes of business discontinuation are lack of profitability and in difficulty in obtaining financing. Programs that help future entrepreneurs study project feasibility will provide efficient information before or during business start-up and expanding existing financial resources will help promising businesses meet their initial and working capital needs.
- ✧ The creation of a business outreach centre for entrepreneurs at all stages of entrepreneurship to network with professionals and those with international experience would facilitate information sharing and business performance. Chambers of commerce and industry

would be wise to encourage the development of entrepreneur associations in specific sectors that could provide professional advice. The expertise of successful Palestinian entrepreneurs in the Diaspora is potentially a useful source of advice in the international network and establishing an outreach program to facilitate connections between domestic entrepreneurs and Diasporas entrepreneurs should be considered.

- ✧ The educational system must be urgently and seriously re-evaluated at all levels with special attention given to the primary and secondary levels. The current educational system trains students to be employees but does not train them in

managerial skills. Furthermore, more training is also needed in creative thinking in order to perceive good entrepreneurial opportunities and the use of technology in business innovation. The development and expansion of vocational education and training programs is an important and urgent step to consider.

- ✧ Evidence on youth entrepreneurship shows that they are slightly different from the older age groups; they are less likely to follow family business tradition and a little more likely to operate in a formal business. Given that this age group has higher unemployment rates, special attention should be given to them particularly the females in all programs.

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