



معهد أبحاث السياسات الاقتصادية الفلسطيني (ماس)



Palestine Economic Policy Research Institute (MAS)

سياسات النهوض بريادة الاعمال في اوساط الشباب في دولة فلسطين

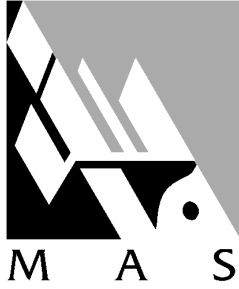
Policies for Scaling up Youth Entrepreneurship in the State of Palestine

سمير عبد الله
باسل النتشة
محمد حتاوي

Samir Abdullah
Basel Al-Natsheh
Mohammad Hattawy

2014

2014



Palestine Economic Policy Research Institute

Policies for Scaling up Youth Entrepreneurship in the State of Palestine

**Samir Abdullah
Basel Al-Natsheh
Mohammad Hattawy**

2014

The Palestine Economic Policy Research Institute (MAS)

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

Mission

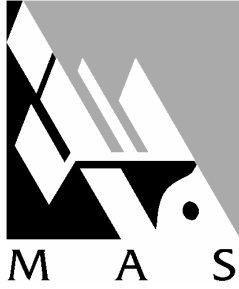
MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

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

Board of Trustees

Ghassan Khatib (Acting Chairman), Jawad Naji, Jihad Al Wazir, Lana Abu-Hijleh, Luay Shabaneh (Secretary), Magda Salem, Mohammad Mustafa, Nafez Al-Hussieni, Sabri Saidam, Samir Huleileh (Treasurer), Nabeel Kassis (Director General).



Palestine Economic Policy Research Institute

Policies for Scaling up Youth Entrepreneurship in the State of Palestine

**Samir Abdullah
Basel Al-Natsheh
Mohammad Hattawy**

2014

Policies for Scaling up Youth Entrepreneurship in the State of Palestine

Researchers: Samir Abdullah
Basel Al-Natsheh
Mohammad Hattawy

Reviewers: Mohammad Al-Mbaid
Hassan Ladadweh

Layout: Lina Abdallah

Funding: This study was funded by The International Development Research Center (IDRC).

Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah

ISBN 978-9950-374-43-0

Foreword

This is the second in a series of studies produced by the Palestine Economic Policy Research Institute (MAS) that provide in-depth analysis of the more important findings of the Global Entrepreneurship Monitor (GEM) Palestine Country Report, published also by MAS. Three issues of GEM Palestine Country Report have been published so far.

As pointed out in the foreword to the first study in this series, “Policies for Scaling Up Female Entrepreneurship in the State of Palestine”, which was published at almost the same time as this one, in 2009 the Institute started studying the concept of economic entrepreneurship and participated in the preparation of the GEM: MENA Regional Report. In this year also MAS produced the first GEM Palestine Country Report. Since then, the Institute has joined the Global Entrepreneurship Research Association (GERA), conducted three rounds of the GERA Adult Population Survey (APS) for Palestine in collaboration with the Palestinian Central Bureau of Statistics, and executed the National Expert Survey (NES) for 2009, 2010 and 2012.

In the present study, the focus is promoting entrepreneurship amongst the youth. Youth constitute 29% of Palestinian society, a segment that is considered to be the most educated, energetic and lively, but is also the one that suffers the most from unemployment. This makes the present study especially important because of the significant role played by entrepreneurship in the creation of job opportunities, in maximizing the contribution of the youth, and in employing their creative potential in enhancing the Palestinian economy. This study attempts to identify the directions in which economic entrepreneurship is developing among Palestinian youth, and to search for possible solutions to impediments, making use of successful local and international practices.

The team that produced this study deserves to be congratulated on their work and I commend them for this important contribution to the literature on youth entrepreneurship. I also thank the reviewers and the discussants for their remarks and comments that enriched this study and its recommendations. On behalf of MAS, I extend my sincere thanks to the International Development Research Centre (IDRC) for supporting this study within the research program “Enhancing the Framework for Entrepreneurship in the West Bank and Gaza.”

Nabeel Kassis, PhD
Director General

Executive Summary

The present study is part of a series of MAS reports that seek to address entrepreneurship in the Occupied Palestinian Territory (OPT). The following analysis examines several aspects of youth entrepreneurship (18-34 years of age), including entrepreneurship growth and characteristics as well as impediments and obstacles in the business environment which entrepreneurship faces. As a central goal, however, the study attempts to identify the policies and programs necessary to overcome market access impediments and to scale up the entrepreneurial engagement and spirit of Palestinian youth.

The study is of particular significance as it targets individuals who represent 29% of the total Palestinian population and 57% of the working age population (18-64 years of age). In other words, it looks at people with the highest level of education and the greatest amount of energy. Given that this group suffers from extreme unemployment, their active participation as entrepreneurs would further economic development in general and reduce unemployment rates and improve family living standards in particular.

The Global Entrepreneurship Monitor (GEM) defines entrepreneurship as the individual or collective initiatives that produce goods and services for the purpose of making a profit. An entrepreneur is a person who establishes and manages a business by taking risks regardless of the size and in/formal status of the project. The present study adopts this definition of entrepreneurship and builds its analysis accordingly.

The GEM classifies entrepreneurship in two group stages: (1) early-stage entrepreneurial activity includes those in the process of starting a business as well those entrepreneurs operating a business during less than 42 months, while (2) the established phase involves individuals who are actively involved in a business older than 42 months. Entrepreneurs are categorized as either necessity-driven (those who are driven to start their own business out of necessity or economic need) or opportunity-driven (those who start their business to take advantage of a unique opportunity so as to enjoy increased incomes, independence and working conditions).

To review and analyze the characteristics and status of entrepreneurship among young people in the Palestinian territory, the study relies mainly on

results of the Adult Population Survey (APS) in the OPT for 2010 and 2012, (conducted by MAS in collaboration with the Palestinian Central Bureau of Statistics). In addition to examining the business environment for entrepreneurship, the APS looks at entrepreneurship levels and obstacles for individuals aged 18-64 years. The present study also builds its analysis using responses from interviews with national experts that seek to assess the conditions that influence entrepreneurship as well as the policies required for a more developed environment entrepreneurship. Additionally, the study reviews relevant literature and proposed policies, particularly sources examining the role of general education, vocational education and specific entrepreneurship programs. Finally, the study assesses entrepreneurship models from a number of countries around the world.

The results demonstrate that the rate of early-stage entrepreneurship among young people in the OPT is slightly above the MENA average of 9% in 2012. In terms of established business rate (1.3%), however, the OPT marks 2.4 percentage points below the MENA average. In terms of early-stage young entrepreneurship, the OPT ranks 38th out of 67 countries and 58th in terms of established businesses.

The study also examines the characteristics of entrepreneurship among young Palestinians, aged 18-34 years. The results suggest that the rate of established entrepreneurial activity for adults (aged 35-64 years) is roughly 4 percentage points higher than among young entrepreneurs. Early-stage adult entrepreneurs marginally outperform young entrepreneurs by only 0.8 percentage points. In terms of motivation, 46% of youth projects in the OPT were necessity-driven, a much higher rate than among Palestinian adult entrepreneurs (37%) and the MENA average (36%).

The study reveals significant entrepreneurship differences with regards to gender. Primarily, the early-stage entrepreneurial activity rate among young males ranges to roughly 4 times that among young females (14.9% versus 3.9%). An even starker difference is evident when one looks at the very low established entrepreneurial rates among young females (compared with 2.6% entrepreneurial rate for young males).

In terms of economic activity, the study finds that 53% of projects are consumer related (retail and social services), while manufacturing, wholesale and construction businesses together account for 30% of total entrepreneurial projects.

The study also concludes that the most influential determinants (or factors) that influence entrepreneurship among youth are educational attainment and family income. The analysis reveals a positive correlation between the level of educational attainment and the rate of entrepreneurship activity, particularly opportunity-driven activities. In contrast, there exists a negative relationship between the level of household income and the rate of entrepreneurship activity, particularly among individuals with only primary and secondary education.

Among the main obstacles that affect entrepreneurship among young Palestinians are: political impediments resulting from the occupation and its development-crippling policies; gaps between educational output and Palestinian market needs; credit availability issues; legal and regulatory environment barriers; socio-cultural challenges; and barriers to market entrance.

The study concludes with a number of policy recommendations, listed below by topic:

1. Political Obstacles

- ✧ Remove all barriers that constrain freedom of movement of people and goods within the OPT.
- ✧ Promote the boycott of the Israeli settlements products.
- ✧ Bring to an end settlers' and Israeli extremists' crimes of burning Palestinian crops and cutting down trees, the source of livelihood for poor Palestinian farmers.

2. General Education

- ✧ Comprehensively review the curriculum of the Palestinian educational system in order to account for the knowledge and skills necessary for the development of entrepreneurs as well as to gradually instill entrepreneurial spirit, critical thinking, and risk management skills in students.
- ✧ Recruit professional, well-trained educational supervisors who, depending on experiences, can advise students in the selection of academic and professional disciplines required in the market.
- ✧ Develop learning activities for students centered on teaching problem-solving skills.
- ✧ Generate initiatives that bring young entrepreneurs to talk about their experiences before schools and university students.

- ◇ Channel government support to universities to target programs that are consistent with market needs, including those that develop economic and social entrepreneurial skills.

3. Vocational Education and Training

- ◇ Reform the vocational education and technical training system in a way that changes the perception of the community (often considering vocational education as inferior); launch awareness campaigns (including success stories) in all media outlets to highlight the advantages of vocational education and its role in leveraging the Palestinian economy.
- ◇ Classify and regulate vocational and technical graduates so as to protect their rights and differentiate them from professionals who do not have degrees.
- ◇ Develop new programs that respond to market needs and equip vocational schools and training centers with modern facilities that appeal to young men and women seeking high-quality professional training.
- ◇ Build the capacity of trainers and prepare them to teach entrepreneurship skills in vocational programs.
- ◇ Establish partnership programs between educational institutions, the private sector, and the public sector in order to support entrepreneurship among young people.

4. Funding

- ◇ Allocate a portion of international aid to provide loan guarantees for young entrepreneurs in order to encourage banks to grant small loans and appropriate credit channels to entrepreneurs.
- ◇ Set up funds that provide seed capital, venture capital, and equity capital to finance micro and small projects initiated by young entrepreneurs.
- ◇ Encourage banks to finance small and medium-size enterprises and facilitate lending to young entrepreneurs through monetary policy tools as an exemption from minimum reserve requirements.
- ◇ Build a network of angel investors to provide soft loans for distinctive youth projects.

5. Regulatory Framework

- ◇ Streamline procedures for the establishment of micro, small and medium-sized enterprises.
- ◇ Enact legislation necessary for the effective registration and protection of intellectual property and patents.

- ◇ Provide tax-breaks that motivate project development of entrepreneurial business owners.
- ◇ Design a government guaranteed loan system for young entrepreneurs.

6. Other Recommendations

- ◇ Create business incubators in all Palestinian governorates to sponsor innovative ideas and develop entrepreneurial activities.
- ◇ Enhance partnerships with local and international institutions and encourage exchange of expertise to support and develop the entrepreneurial spirit.
- ◇ Establish a national institute tasked with the development of entrepreneurship that offers courses in entrepreneurial skills and advises participants on available investment opportunities.