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SME and Entrepreneurship Policy in Israel 2016


*Chapter 6*

# The local dimension to SME and entrepreneurship policy in Israel

*This chapter considers the extent to which SME and entrepreneurship policy actions are adapted to differing local conditions in Israel and the role of regional policy and local government authorities in SME and entrepreneurship development. The national government's regional policy offers capital investment incentives to encourage mobile industrial investment to locate in the under-developed northern and southern regions of the country, but could do more to support entrepreneurship and innovation and to build local supply chains and clusters. Local government authorities in Israel have an influence on SME and entrepreneurship development through supporting the availability of appropriate sites and premises, simplifying local business regulations and supporting SME access to local public procurement. However, most are very small, and lack budgets and professional capacities for SME and entrepreneurship development. Government can support the local level through capacity-building activities in these areas and by encouraging inter-municipality co-operation.*

## The role of local government

### *Local government responsibilities*

Although Israel is often divided into six districts for statistical and planning purposes, which can also be combined into three major regions, there is no elected administrative structure at the district or regional level and there is no policy coordination at this level. Furthermore, neither regional development agencies nor regional development strategies exist. The only relevant level of sub-national government for SME and entrepreneurship policy in Israel is therefore the local government authorities.

Israel has 232 local authorities, which are mostly small. The local authorities are classed into three kinds: cities (urban municipalities with populations greater than 20 000), municipalities (covering settlements with populations of between 2 000 and 20 000), and regional councils (coordinating sets of settlements with population of less than 2 000 each). Of the 232 local authorities, 170 have less than 25 000 inhabitants and a further 34 have less than 50 000 inhabitants. Only 28 local authorities have populations of 50 000 or more, of which 6 have populations of more than 200 000. The two largest local authorities are Jerusalem with a population of 815 000 and Tel Aviv-Yafo with a population of 415 000.

Economic development is not a general statutory duty of the local authorities. However, they do have an influence on SME and entrepreneurship development through their roles in business licensing, land use planning and property development and their ability to make discretionary funding of SME and entrepreneurship actions from their own budgets.

### *Business licensing*

Business licensing largely falls within the remit of local authorities, although some permits are awarded by other types of authorities (for example fire authorities), which cover different geographical areas. There is a wide range of permits which are necessary for businesses, and there are plans to streamline the system by reducing the numbers and combining permits at national level. Meanwhile, some local authorities have tried to streamline business licensing (e.g. Jerusalem), at least in as much as this is related to actions determined by the local authority itself, through the development of one-stop shops and better coordinated provision of information.

### *Planning permission*

Local authorities have responsibility for the award of planning permission for business property development either individually or in combination with neighbouring authorities. Although a 2008 government decision called for the establishment of local planning committees for every municipality with more than 15 000 inhabitants, this policy is still not fully implemented and so local planning decisions are often made by combined planning committees covering several municipalities, particularly for smaller settlements. The fact that planning powers often rest with very small local authorities can have certain adverse

consequences for the development of sites and premises for SMEs and entrepreneurs. Sometimes local authorities take an excessively long time to reach planning decisions, reflecting low capacities to handle files (BIMKOM, 2012; Hamdan and Jabareen, 2006; Charney, 2013). The fragmentation of power across small authorities can also encourage competition among local authorities to approve industrial zones, given that zones generate revenues for local authorities from the business taxes paid. As a result many competing and under-occupied small sites are often approved, while larger industrial sites are not put forward. Furthermore, local authority planning decisions must be in line with the national spatial plan (TAMA 35) while the majority of land (93%) is publicly owned and managed by the Israeli Land Authority. The way in which land has been zoned at national level and released for use by the Israeli Land Authority has often not been well integrated with local economic development needs, such that appropriate business sites and premises are lacking in some localities.

### *Industrial site provision*

Local authorities in Israel can play an important role as investors and developers of commercial property. The extent to which they are able to develop industrial and business property is nonetheless dependent on their professional and financial resources. Central government grants compensate to some extent for lower direct tax revenues per capita in poorer local authorities since grant allocations are weighted by the level of socio-economic development and the degree of peripherality of the local authorities. Despite this, local authority revenue per capita is greater on average for authorities with higher socio-economic rankings. The larger local authorities can also pull together a greater critical mass of funding given their larger population sizes. It is therefore the largest local authorities that are most active in property development. Indeed, the three largest local authorities (Jerusalem, Tel Aviv-Yafo, and Haifa) all have their own municipally-owned development companies (Jerusalem Development Agency, Tel Aviv-Yafo Economic Development Authority, and Haifa Economic Corporation respectively), dealing mainly with property development. On the other hand, smaller local authorities often do little commercial property development, leading to shortages of appropriate sites and premises.

### *Local economic development programmes*

Some of the larger local authorities have been involved in small-scale actions to support SMEs and entrepreneurship. For example, some participate in the sponsorship of business incubators and accelerators in their localities and some have participated in the past in the funding of the business support activities of the MATI business centres, which preceded the new MAOF business centre network. Israeli local authorities in general, however, are not very active in using their own discretionary funds to promote local economic development actions, such as in access to finance, workforce training, consultancy and mentoring or bending procurement to SME development needs. Limited budgets stand in the way of more active involvement for most local authorities.

### *Potential capacity-building support*

Even where local authorities do not have substantial dedicated budgets for SME and entrepreneurship development they can still have a positive impact, by simplifying regulations and procurement processes, co-operating in the planning of industrial zones or simply in providing information to SMEs and entrepreneurs on the local availability and specifications of premises, public procurement, and regulations. The central government

could assist by supporting the development of stronger capacities among local authorities in these areas, including by preparing appropriate guidelines for local authorities and supporting the sharing of information among them on good practices. For example, in terms of the planning process, the government could produce clearer planning guidance notes that take into account the needs of SME development, and provide capacity building training for local authorities involved in the planning process, helping them to make strategic decisions and to cooperate with neighbouring authorities. Similarly, to support industrial site provision, the central government could provide capacity building training at the local level on how to bring forward development as well as provide some funding from central sources to allow the smallest local authorities to work effectively on industrial sites.

## Co-ordination among local authorities

Policy co-ordination across levels of government can be problematic when regional and local governments operate SME and entrepreneurship interventions that are not fully coherent with national interventions. In Israel, this is not a major problem since local authorities are generally not engaged in SME and entrepreneurship development programmes, beyond business licensing and property development, and there is no regional level of government. More formal coordination with national policy is possible for the largest local authorities. For example the Jerusalem Development Agency has an advisory council including representatives of the state (various ministries) as well as the city, meaning that any strategies produced (for example the Regional Innovation Strategy – see Kaufman et al., 2007) are coordinated with national priorities.

On the other hand, one of the future opportunities in Israel is to facilitate greater co-operation among local authorities in SME and entrepreneurship development. For example there are relatively few cases of shared industrial zones, perhaps due to the difficulty of coming to agreement over the use of revenues. Shared zones could be encouraged further in the future. There are also some examples of co-operation among associations of local authorities promoted by the Centre for Mayors and Regional Development of the American Jewish Joint Distribution Committee (JDC) Institute for Leadership and Governance, which offers a model for other potential inter-local authority co-operation efforts. One of the most important areas of co-operation supported by JDC is the development of regional clusters in Eastern Galilee, Western Galilee, Eastern Negev, Western Negev, and Beit HaKerem Valley. In each case the relevant local authorities co-operate in the preparation of regional cluster development strategies. A cluster organisation is set up in each case (with powers similar to a municipal company) which can receive government funding, participate in competitive bids, and hire employees. The cluster organisations also co-ordinate joint actions funded by the member local authorities. The most developed cluster is the Western Galilee Cluster, which was formed in 2009 and coordinates 10 local authorities. There are four main pillars supporting the cluster: the intra-authority pillar (the cluster acts as an executing arm for municipal projects); the governmental pillar (an interlocutor for governmental initiatives looking for a local implementation framework, and for local initiatives seeking partnership with government offices); the civilian pillar (a regional anchor point for civil society organisations); and the economic pillar (acting as a lever for economic development initiatives and networking between them). As a result, a joint regional employment and training centre and a business incubator have been put in place, as well as new collaboration mechanisms and a regional strategic plan. The clusters have attracted financing from the Ministry of the Interior and the Ministry of Finance, which

value the economies of scale and improved contacts with local government. As a result, the programme has a budget of more than NIS 15 million.

Another example of inter-local authority co-operation for SME and entrepreneurship development is the "Negev Circles" initiative, which aims to strengthen regional collaboration for the local exploitation of procurement opportunities from the transfer of Israel Defence Forces (IDF) bases to the Negev. The programme includes representatives not only of local authorities but also government offices, security forces, social organisations and businesses. They work together to develop initiatives to offer local entrepreneurs access to business opportunities provided by industrial parks and by IDF training camps.

There is significant scope to expand these types of co-operation among local authorities. National government could contribute with some funding and capacity building support. It could also support the establishment of formal structures for such collaborations. An example of this type of approach is the inter-municipal economic development company. An example of the operation of such a company in Belgium is shown in Box 6.1.

### Box 6.1. **Inter-municipal cooperation company Leiedal, South West Flanders**

**Description of the approach**

This model shows the way in which an inter-municipal company can operate, giving services related to planning as well as support to entrepreneurship. Whilst such cooperation is voluntary, this could prove a template for such cooperation in Israel.

The Leiedal inter-municipal company for regional development groups together local authorities in the region on a voluntary basis for the common provision of planning and economic development services. The company was established in 1960 and supplies services to 13 municipalities in South West Flanders. These are centred on the town of Kortrijk (75 000 inhabitants) and all have populations of less than 50 000 people.

The company was initially established to supply services such as local spatial structure and zoning plans but has expanded, now employing more than 50 people and operating in three general fields: entrepreneurship and economic development; space and environment; and people and society. Within the field of entrepreneurship, a major part of its work relates to the planning and development of sites for businesses, particularly SMEs. For this it has capabilities in research, planning, and implementation which do not exist in the individual municipalities. Leiedal also organises provision of advice and other support to entrepreneurs and seeks to provide premises adapted for innovative businesses as part of its strategy.

**Factors for success**

The major reason for the success of this company as an inter-communal project is that it adds expertise and services to a region which could not afford them as individual municipalities. For this to be effective there needs to be a common understanding of the problems of the area, and the area itself needs to be a cohesive economic unit.

**Obstacles and responses**

The fact that the company has slowly been given more responsibilities as it has proved its capabilities has been a useful way of developing on the basis of mutual trust, which is clearly an obstacle to the rapid establishment of such a company.

The way in which the company has been set up means that there is no direct private sector representation and that the Board consists purely of representatives of the municipalities.

Box 6.1. **Inter-municipal cooperation company Leiedal, South West Flanders** *(cont.)*

This limits its ability to provide a regional vision for development. The representation of all municipalities additionally limits the ability of the company to develop larger strategic projects which do not benefit every one of them. Since this is a small region dominated by a single urban settlement, this has not caused problems. However the composition of the Board and the avoidance of "cake splitting" can be an issue. Partly as a result of this, other studies show that leadership is a key factor in effective inter-municipal cooperation (CoE et al., 2010).

**Relevance for Israel**

Although legal instruments are in place for cooperation between municipalities in Israel there have been only limited collaborations in the field of economic development. Many economic development services could be provided on an inter-municipal basis using structures such as the inter-municipal company, such as provision of information on public procurement and business regulation, planning and development of shared industrial zones, development of regional cluster strategies, and offering of basic SME development support such as access to loans and business development advice.

**Sources for further information**

- CoE, UNDP, and LGI (2010), Intermunicipal Cooperation Toolkit, Council of Europe (CoE), the United Nations Development Programme (UNDP) and the Local Government Initiative (LGI) of the Open Society.
- Leiedal (2014), Beleidsplan 2014-2019 [Policy Plan, in Flemish].
- Pisman, A., P. Vervoort and I. Loris (2013), Inter-communal cooperation and spatial planning in Flanders.

## Tailoring policies to local conditions

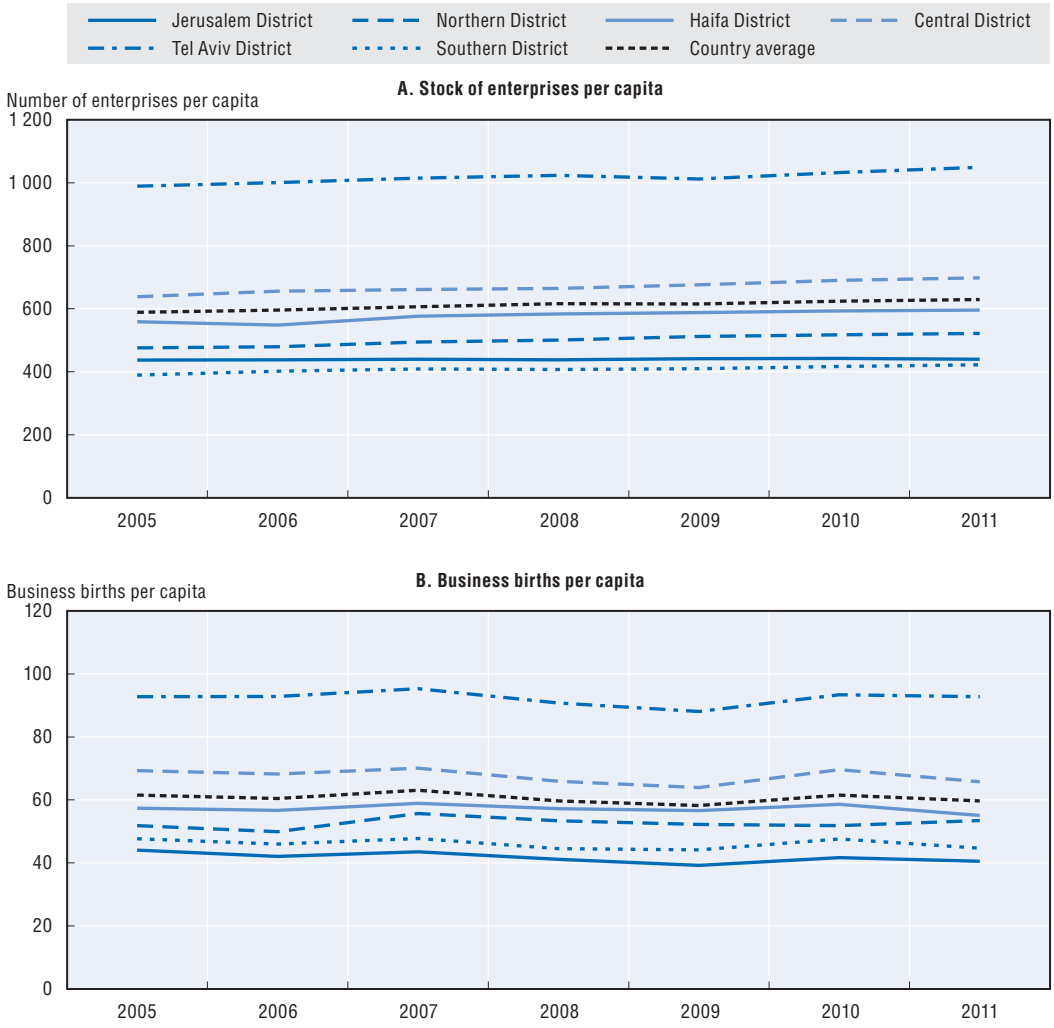
### *Local variations in SME and entrepreneurship activities and conditions*

Figure 6.1 shows the evolution of the number of enterprises and of the rate of enterprise births per head at district level in Israel. The Central, Haifa, Jerusalem and Tel Aviv districts can be seen as the broad core, whereas the Northern and Southern districts represent the broad periphery. The Figure shows that there are significant differences in performance in generating SMEs and entrepreneurship. The northern and southern periphery and Jerusalem are trailing the average on both enterprise numbers and enterprise birth rates. Furthermore, relative gaps are not changing over time. This would tend to suggest the need for a stronger policy for enterprise development in the periphery and Jerusalem if these areas are to develop as entrepreneurial economies.

The existence of important local differences in the rate of business creation is confirmed by the Global Entrepreneurship Monitor (GEM) survey. For example, the 3.0% of the adult population involved in total early-stage activity (TEA) in the Negev region in the south of Israel is much lower than the average of 5.0% nationally (Menipaz et al., 2011). Similarly 33% of entrepreneurs with young businesses are in Haifa and the North and 31% in the Centre, compared to only 18% in the Southern Region (Menipaz et al., 2013).

There are also significant local differences in earnings from self-employment, as shown in Figure 6.2. Across the main population groups, earnings from self-employment were higher in Tel Aviv and the Centre than in Haifa, Jerusalem, the North and the South.

Figure 6.1. **Number of enterprises per capita and enterprise births per capita in Israeli districts, 2005-11**




*Note:* these figures relate to the location of business registrations and may therefore probably be biased towards Tel Aviv and the Centre since this is where the majority of lawyers and registration agents are located.
*Source:* Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888933421913

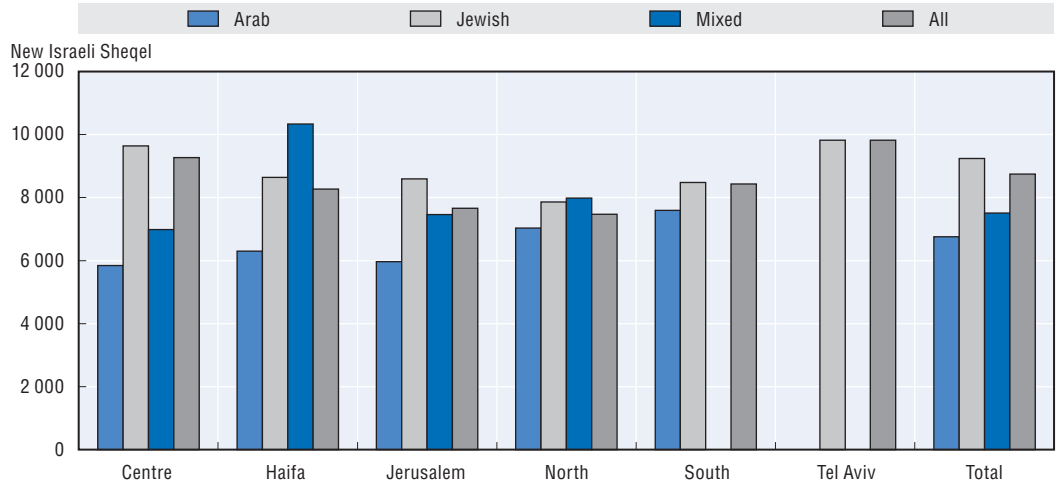
The local differences overlap to a significant extent with the distribution of the Arab Israeli population, which is relatively concentrated in districts with low earnings from self-employment, particularly in the northern district. This suggests that there can be synergies between addressing the regional entrepreneurship gap and increasing the integration of Arab Israeli populations in the economy. It highlights the potential benefits of additional entrepreneurship training, advice, consultancy and access to finance support in peripheral and Arab-dominated localities.

### *Building local clusters and supply chains*

The majority of SME and entrepreneurship policies and programmes in Israel are delivered by national government ministries and agencies in a standardised or "spatially-blind" way across the country. Certain policy measures weight their spending towards the

Figure 6.2. **Self-employed earnings per capita by main ethnicity of the local authority district, 2011**

New Israeli Sheqel (NIS)




*Note:* "Mixed" are majority Jewish municipalities where there is a non-Jewish population of at least 25%.
*Source:* Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888933421926

periphery, but in general the design and overall availability of the measures is no different according to the region (Kipnis, 2010, 2013). For example, there is a weighting of SMBA expenditure on the MAOF business development centres that favours centres located in the periphery enabling them to carry out more of the same services available elsewhere in the country. Similarly the high technology incubators supported by the IIA are located across the country (and are not concentrated in the Central region where innovation activity is concentrated), but the services which they deliver are the same across the country.

The main exceptions are the activities of the Israel Investment Centre, which targets financial and tax incentives to mobile investment projects locating in the peripheral regions and the activities of the Ministry of Development of the Negev and Galilee, which provides business and transport infrastructure and undertakes investment promotion in order to promote economic development in these peripheral regions (Salman et al., 2005). In addition, the Ministry operates a few direct actions to support SMEs as part of this strategy, including Tourism Incubators (in the Galilee) and a programme ("A Classroom in a Factory") to assist immigrants from Ethiopia in integrating within local SMEs.

One of the features of this generally "spatially-blind" approach is that partnership among ministries and agencies in designing relevant actions is often underdeveloped in Israel with respect to adapting policies to distinct local needs and opportunities. In the area of innovation policy, for example, the IIA operates a technology incubator programme with incubators spread across the whole country. However, these have been funded as individual initiatives and their technology focus has not been specifically linked to the strengths and potentials of particular locations, such as the presence of relevant university research or local cluster specialisations. Greater co-operation between the IIA and other ministries could help to link the technology incubators with strategies for regional development. The Centre for Expertise Programme (OSKE) in Finland illustrates a way in which place-based regional policy can be integrated with national innovation policy in a way that could more deliberately promote the development of regional clusters in Israel (Box 6.2).

### Box 6.2. **The Centres of Expertise Programme (OSKE), Finland 1994-2013**

**Description of the approach**

The Centre of Expertise Programme's objective was to create new innovations, products, services, enterprises and jobs based on national excellence. It supported the specialisation of regions and division of duties between them in order to create internationally competitive centres of expertise. At the same time, the Centre of Expertise Programme aimed to enhance the attractiveness of regional innovation environments, in order to draw international companies, investments and top experts to Finland. The programme formed part of the national innovation strategy, but combined this with local and regional development.

In pursuit of these goals, the programme worked on the principle that there should be one Centre of Expertise in each region, based on regional strengths, and that these should collectively support a set of Competence Clusters of national importance. The regional centres were set up based on local circumstances and institutions and several centres supported each cluster.

In the final period, the programme consisted of 21 regional Centres of Expertise which supported 13 national Competence Clusters. From a regional point of view, a centre of expertise could contain several fields of expertise belonging to different clusters. The objectives and measures of Centres of Expertise were defined in accordance with the needs and opportunities of businesses, both in the region and the entire cluster, and of other actors in the innovation system. The Centre of Expertise acted as a network of regional operators implementing the national Centre of Expertise Programme in their region together with other members of the cluster, with activities based on a regional structure comprising businesses, universities, institutes of higher education, research institutes and technology centres.

Centres of Expertise were initially selected through a competitive process with applications being judged centrally against a menu of competence clusters which had also been determined by a process of applications. Although there was naturally a bias towards high technology, some were in other areas such as tourism and culture.

**Factors for success**

This was a long term approach (starting in 1994), providing a framework for a national approach to innovation support but at the same time accommodating regional specialisation.

A wide range of stakeholders were involved at all levels and the programme worked on the basis of partnership. This allowed the definition of clusters and participation by Centres of Expertise to be largely consensual and for the programme to become a forum for coordination between the "triple helix" of research, government, and the private sector.

The approach of defining Centres and Clusters by a process of competitive applications allowed structures and ways of working to be built from the bottom up even within a nationally-defined framework and objectives.

**Obstacles and responses**

There are some inherent contradictions between national innovation policy (meaning that there should be a concentration on national priorities and competences and those actions should take place where there is the biggest concentration of expertise) and regional policy (ensuring equitable development of different regions of the country). These contradictions remain, even though the OSKE system did give to some degree a forum where issues could

### Box 6.2. **The Centres of Expertise Programme (OSKE), Finland 1994-2013** *(cont.)*

be discussed. The system has been more successful at supporting innovation than supporting lagging regions, particularly because some of the regions do not have strong expertise on a national level. As a result there has been some suggestion that instruments for regional development and for innovation should be more clearly divided.

The emphasis on regional centres to some degree caused the programme to become inward looking, even though effective innovation requires internationalisation. In the latest phase, each cluster had a single coordinator who was specifically responsible for creating shared aims within the cluster, but also for cooperation outside it, including with other countries. Clusters were chosen with internationalisation potential as one of the criteria.

As with all such programmes, there has been a need for renewal, to avoid institutional structures becoming self-justifying and unimaginative in their approach. The programme was terminated in 2013 on the basis that self-sustaining clusters and expertise had been developed and that this could form the basis of actions based around the EU's smart specialisation strategy.

**Relevance for Israel**

Israel's approach to supporting innovation through the Office of the Chief Scientist (now the IIA) has been centralised and has had a limited local and regional component, meaning that innovation activities tend to be concentrated in the core districts ("Silicon Wadi"). Although technology incubators have been spread throughout the country, they have not had any sectoral specialisation and have been relatively poorly connected to the regional innovation system, even connections with universities happening through proximity rather than design (Shefer et al., 2002).

The Finnish experience shows that even more remote areas can participate in a programme of national clusters and that through this regional development and national innovation objectives can be combined. An approach of this nature, perhaps based around the existing technology incubators, could act as a stimulus for local development in Israel's peripheral regions. This would additionally form part of development of regional policy from a traditional "core-periphery" model to a more place-based system.

**Sources for further information**


- Ministry of Employment and the Economy of Finland (2009), Evaluation of the Finnish National Innovation System – Full Report, Helsinki.
- Ministry of Employment and the Economy of Finland (2010), chapter 4.2, "The OSKE programme in international perspective", in Osaamiskeskusohjelman (2007-13) väliarviointi, Helsinki.
- The Research and Innovation Council of Finland (2010), Research and Innovation Policy Guidelines for 2011-2015, The Research and Innovation Council of Finland, Helsinki.

*Websites*

- *http://erawatch.jrc.ec.europa.eu/erawatch/opencms/information/country_pages/fi/supportmeasure/support_mig_0033*.
- *www.ccdr-lvt.pt/files/aa3f8753ce509dca676a94c436cfd9a4.pdf*.
- *www.hyvinvointiklusteri.fi/en/*.
- *www.tekel.fi/in_english/science_parks_in_action/programmes_and_networks/oske/*.

Another feature of this "spatially-blind" approach is that, apart from the inter-municipality collaborations discussed above, there is no policy aimed at developing locally-specific clusters or local supply chains, despite the existence of some potential for developing regional clusters in Israel. For example, an OECD study concluded that there is a significant opportunity to establish a clean-tech sub-cluster in the Negev region specialised in research, demonstration and testing, linked into the broader Israel clean-tech cluster. A number of actions could be undertaken to build up existing nascent activity in the sub-cluster: the promotion of collaborative innovation projects, the creation of a clean-tech technology validation centre, a green strategy at the regional (Negev) level, the creation of a regional cluster management organisation, and the transformation of Eilat into a focal point as Israel's model green city (Potter et al., 2012). However, there has not yet been a specific strategy to promote this cluster at the Negev level.

Similarly, in respect of FDI attraction, there is currently a lack of localised FDI-SME linkage programmes in Israel that could create local SME supply chains and capabilities in the regions. Ireland is a good example of an OECD country that uses inward investment to develop local supply chains. Enterprise Ireland and IDA Ireland currently operate a global sourcing initiatives which aims to strengthen the connections between Irish-owned firms and the foreign-owned bare of companies in Ireland. It involves meeting with multinationals operating in Ireland to discuss their procurement practices and identifying domestic SMEs with relevant products and services that can compete with overseas supplies with the aim of identifying import substitution opportunities. Actions to develop local strategies for developing supply chains (including training and investment in selected companies with the greatest potential to be part of the supply chain) could be introduced in Israel through cooperation between the Israel Investment Centre, the Industrial Cooperation Authority, the SMBA and interested municipalities.

Increased efforts to build local FDI-SME supply chains and local clusters would be supported by a shift in both the enterprise policy and the regional policy approaches in Israel. In the case of enterprise policy, more emphasis could be placed on identifying and overcoming locally-specific barriers to SME and entrepreneurship development and building local clusters and linkages. In the case of regional policy, a greater emphasis on promotion of entrepreneurship and innovation could be included in order to support bottom-up development. Thus whereas Israel can currently be characterised as operating a "traditional" regional policy approach based on compensating for the disadvantages of location via investment subsidies for mobile businesses, modern approaches to regional policy increasingly stress the use of a range of soft support and financial support to develop peripheral regions based on exploiting their unique assets and overcoming local barriers to entrepreneurship and innovation in areas such as firm capabilities, specialisations and business linkages of universities and research institutions, skills, and business networks (Reut Institute et al., 2010; McCann and Rodriguez-Pose, 2011). The differences between the two approaches are summarised in Table 6.1.

Some of the collaborations among local authorities in the development of regional clusters represent the first steps along this type of approach. These types of approaches need to be extended to become an integral part of regional and enterprise policy in Israel, with the collaboration not just of the local authorities but also relevant ministries and agencies, such as the Ministry of Development of the Negev and the Galilee, the IIA and the SMBA, as well as local authorities and business, research and education stakeholders. The

Table 6.1. **Traditional and modern approaches to regional policy**

| | Traditional Regional Policy | Modern Regional Policy |
|---|---|---|
| Objectives | Compensating temporarily for location disadvantages of lagging regions | Tapping into underutilised entrepreneurship and innovation potential in all regions |
| Unit of Intervention | Administrative units | Functional economic areas |
| Strategies | Sectoral approach | Integrated development projects |
| Financial tools | Subsidies and state aids | Mix of hard capital (infrastructure) and "soft" capital (business support, credit availability, networking systems) |
| Actors | Central government | Multi-level governance involving different tiers or levels of local, regional and national government working in partnership and alongside the private and civil society sectors |
| Policy prioritisation | Sectoral logic and capital investment | Place-based approach Smart Specialisation principles – focus on innovation and SMEs |
| Incentive Tools | Absorption and expenditure criteria | Outcome oriented policies |

*Source:* OECD based on OECD 2009.

locally-specific measures to be promoted in this way could include support for the emergence of local entrepreneurial ecosystems, clusters and supply chains.

In a more comprehensive manner, the European Union has developed an approach to developing regional "smart specialisation strategies" to encourage economic development based around specific regional assets. Box 6.3 explains the approach, which offers a model of how the process could be started in Israel involving a range of partners in regional strategy development including relevant ministries, the SMBA, local authorities and stakeholders from the business, research and education sectors.

### Box 6.3. **The EU Smart Specialisation Strategies**

**Description of the approach**

National/Regional Research and Innovation Strategies for Smart Specialisation – known as Regional Innovation Strategies (RIS3) or Smart Specialisation Strategies (S3) – seek to provide a strategic approach to economic development and are based on targeted support for research and innovation activities. The strategies aim to promote integrated, transformative and place-based approaches to economic development. The agenda is focused upon making innovation a priority for all regions, focusing investment and creating synergies, improving the innovation process and enhancing governance and stakeholder involvement. Specifically, the Smart Specialisation approach aims to:

- establish a process for developing a vision;
- identify specialisation, competitive advantage and potential for excellence in activities appropriate to the local context, building upon national/regional strengths;
- set strategic priorities for future development policy and investments dovetailing with key national/regional priorities, challenges and needs for knowledge-based development;
- develop policies to maximise the potential for knowledge-based development in different kinds of local contexts – including strong or weak, and high-technology or low-tech;
- support technological as well as practice-based innovation and aim to stimulate private sector investment;
- engage and involve stakeholders to encourage innovation and experimentation; and,
- build upon sound research and analysis from a strong evidence-base, incorporating rigorous monitoring and evaluation systems.

### Box 6.3. **The EU Smart Specialisation Strategies** *(cont.)*

Smart Specialisation is the basis for the investments to support research, innovation and entrepreneurship through the European Union (EU) Cohesion Policy and its Structural and Investment Funds. The EU's Cohesion Policy aims to promote balanced and harmonious development across the territory of the EU.

**Factors for success**

While it is too early formally to assess the effectiveness of Smart Specialisation Strategies, the OECD undertook a recent enquiry into progress to date (OECD, 2013). The report identified a number of key issues that are likely to support success.

A consistent approach to assessment and diagnosis of potential is important in order to generate systematic understanding and to enable international comparisons. This also enables priorities to be chosen in a clear and systematic manner. The EU's strategy of encouraging peer reviews of strategies has been helpful in this respect.

The process and objectives of S3 enables a focus on particular local strengths and consideration of areas beyond generic areas for development (e.g. ICT, life science, biotechnology, health, materials, nanotechnology, logistics, transport, mobility, energy/ green energy, green/clean technologies). Peer reviews have assisted in challenging regions which have not made detailed analyses.

The adoption of the process as part of EU Structural and Investment Funds programmes ensures that there are adequate resources to make it possible to implement the strategies and realise the stated objectives with the agreed policy mix. The EU approach to co-financing has ensured effective ex ante evaluation in this respect, and will additionally enforce comprehensive monitoring and evaluation system to enable learning from experience.

**Obstacles and responses**

Given the early stage of development of S3 across Europe, the ways in which actors at the national, regional and local levels have responded to obstacles is currently being identified. Early analysis from the European Policies Research Centre (Strathclyde University, UK) (EPRC, 2012) has drawn a number of key conclusions:

- S3 is proving useful in promoting innovation policy in different types of regions rather than just those with high-technology and/or R&D assets;
- considerable uncertainty remains about how the approach will be implemented, some advanced regions have the necessary elements but see little value-added formalising this in a S3 strategy document while others lack the most basic capacity and elements for innovation policy rendering such an approach unrealistic;
- leadership is a critical issue in delivering on the S3 strategies when developed;
- S3 can have most impact where it can enhance regional innovation capacities and support existing efforts;
- while promoted as a strategy for all kinds of regions, putting together the S3 strategy for some regions will entail much time, effort and resources while generating limited benefits;
- S3's most positive effect may be through building capacity especially in regions with little experience of developing strategy and policy for innovation.

**Relevance for Israel**

Moving to a more place-based approach to regional and enterprise development will require coordination of a number of different stakeholders. To start this process it will be important to have clear written objectives and a strategy. The S3 approach shows a way of

Box 6.3. **The EU Smart Specialisation Strategies** *(cont.)*

doing this that could be implemented at regional level (districts or groups of districts) in the Israeli context.

**Further information**

- European Commission (2010), Regional Policy contributing to smart growth in Europe 2020. SEC (2010) 1183.
- European Commission (2012), Guide to Research and Innovation Strategies for Smart Specialisation (RIS 3).
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## Conclusions and policy recommendations

There is no regional level of government and no regional development agencies in Israel. The relevant subnational level of government is rather the local authorities, the majority of which have relatively small populations. It is rare for Israeli local authorities to operate their own local economic development programmes. They nevertheless have some important impacts on SMEs and entrepreneurship through their powers and responsibilities in the areas of business licensing, planning permission for commercial property and industrial site provision. There are a number of constraints for SMEs and entrepreneurs in these areas of local authority responsibility, which in large part reflect limited local authority budgets and professional capacities. Central government could make a significant difference by offering capacity-building support to help improve local authority practices in these areas.

There are also opportunities to facilitate greater co-operation among Israeli local authorities in SME and entrepreneurship development, for example in developing shared industrial zones, in providing shared information on local procurement and regulations or developing joint cluster development initiatives or supply chains. There are some examples of such inter-municipal collaboration, but there is scope to do more, for example by encouraging the creation of inter-municipal co-operation companies for SME and entrepreneurship support services.

Israel is also characterised by significant local variation in SME densities and start-up rates, with the north, south and Jerusalem lagging behind the centre regions on several measures. This suggests the need for stronger SME and entrepreneurship support in the peripheral regions. Most existing national government SME and entrepreneurship programmes are "spatially blind" in the sense of offering standard and common support throughout the country. At the same time, the main existing regional policy subsidy instrument operated by the Israel Investment Centre puts relatively little emphasis on the promotion of entrepreneurship and innovation. Both the national enterprise and regional policy approaches would benefit from an increased emphasis on identifying and overcoming locally-specific barriers to the development of SMEs and entrepreneurship, with particular emphasis on developing local supply chains and regional clusters. This type of more place-based approach to SME and entrepreneurship development can be encouraged by establishing local strategies and actions with the co-operation of a range of relevant government ministries and agencies together with private sector and other stakeholders. This type of process can most easily be started up through voluntary collaboration of

municipalities at a local level, but this will require targeted support. Furthermore, SMBA should participate in discussions regarding regional development to ensure that SME and entrepreneurship development policy instruments are appropriately applied.

With these considerations in mind, the following specific recommendations are suggested:

**Key recommendations on the local dimension of SME and entrepreneurship policy**

- Provide capacity-building support to local government authorities on local actions for streamlining local business licensing procedures and assisting entrepreneurs through the process of obtaining licenses, making the local planning system more effective and opening up local public procurement to SMEs. This could take the form of professional training, preparation of guidelines and disseminating information on the practices of the best performing local authorities as examples for others to follow.
- Encourage participation of local authorities in national efforts to open up public procurement to SMEs, including simplification of procurement procedures for SMEs, training for officials in good practice procurement methods and participation in a national e-procurement system or SME set-aside system if introduced.
- Offer funding and brokerage for co-operation projects amongst groups of smaller local authorities for joint SME actions. These can include joint projects for property development, business licensing simplification, local public procurement from SMEs, and local cluster and supply chain development.
- Expand support for SME and entrepreneurship development in the regional development programme for the southern periphery and develop a relevant set of SME support actions for development in the northern periphery.

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