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Palestine Economic Policy Research Institute

**The Role of Research and Development in
Enhancing the Competitiveness of the
Palestinian Private Sector**

**Mahmoud El-Jafari
Ibrahim Abu Hantash
Sarah Al-Haj Ali**

2008

The Palestine Economic Policy Research Institute (MAS)

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

Mission

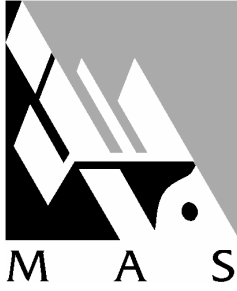
MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

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

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This study was prepared by Palestine Economic Policy Research Institute (MAS) research team, particularly by the following researchers:

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Forward

Research and Development (R & D) play important roles in enhancing the capability of companies as they stimulate innovative methods of production, reduce costs and improve product quality. Some large businesses allocate a significant part of their budget for research and development activities, improving performance and increasing profitability. Various indicators show that R & D activities do not receive sufficient attention in either the private or public sectors in Palestine. This situation has led the Palestinian legislator to provide incentives that encourage R & D activity, through tax exemptions in the Income Tax Act, the Banking Act and the Company Bill.

This study aimed to highlight the reality of R & D in Palestine and to expose obstacles that prevent the potential efficacy of research outputs. It also proposes practical recommendations to encourage private sector participation in R & D. The study aims to suggest policies that activate research institutions in universities and research centres to conduct research and studies that meet private sector needs and enhance competitiveness in domestic and foreign markets. These studies will form a basis for further research into policies that strengthen connections between research centres and the private sector in Palestine.

This study is part of the final phase of research conducted by MAS with the objective of "enhancing the competitiveness of the private sector". They have all been possible due to the generous support of the International Development Research Centre (IDRC) Canada. I would like to take this opportunity to thank them very much for funding this series of studies. I extend my thanks also to the experts who interviewed the research team, to reviewers on the study, to participants in the workshop with whom we were able to fruitfully discuss the results of the study and to those who contributed valuable notes during its development. And, last but not least, I would like to thank the research team for their dedicated efforts in making this research relevant and valuable.

Dr. Mohamed Nasr
Director General

Executive Summary

The increasing gap between research and development (R & D) and the needs of the private sector constitutes a major problem in developing countries, including Arab countries and Palestine. There are many necessary elements, besides funding, that lead to efficient R&D that benefits development, achieves efficiency in production and penetrates export and other markets.

Interest in this problem by both users and providers has increased as indicated by the number of scientific conferences on research held each year, in addition to universities' interest in research, by the wide use of foreign consultants and by information purchased by the private sector. Research is not yet delivering to its potential so it is necessary that research outcomes are adjusted so that they more successfully achieve development goals.

The subject of R & D has gradually become more visible in economic literature and many studies cover its interweaving aspects, including, the relationship between R & D and its impact on national economic performance and economic growth rates in a number of countries.

This study on the situation of R & D in the Palestinian Territory is very complementary to a vision of MAS - to prepare studies on economic policies, particularly those related to the Palestinian economy.

The study aims to diagnose the situation of R & D in Palestine and identify any difficulties preventing the research outputs from being as beneficial as possible. The objective is to propose policies that can be adopted by private sector institutions that will enhance their competitiveness in local and export markets. The study also proposes policies that would activate the role of research institutions in universities, think tanks and other supportive institutions in order to secure the research and consultancy needs of the private sector. In addition to this, The paper makes recommendations for the decision makers to introduce laws and legislations, or amending and updating laws to encourage companies to make use of R & D.

To realize the objectives of this study, two questionnaires were prepared in order to examine the opinions and trends of the providers of research and

the beneficiaries using the research. The providers sample included specialized research institutions, research centres in Palestinian universities and a number of supportive organizations. The users list included private institutions representing all productive, commodity and service sectors.

The results of the questionnaires revealed that: over 50% of the private sector institutions were established before 1994, more than 60% of them employ ten or less employees and that the area of works they involved in, is the production of final products. The subjects covered by research teams in private sector establishments were concentrated in the applied sciences (physics, engineering, information technology), followed by administration and economics.

The study revealed the major causes limiting institutional use of R & D. They include: the level of persuasion of the private sector institutions in research, the need and potential benefits of R & D, the ability of institutions to benefit from internet services. Limitations also include: the availability and allocation of a budget for specialized and qualified research teams, budget for outsourcing the services of other specialized research centres and organizations working in R & D, calculating the return on R & D in comparison to the cost thereof and finally, the availability of equipment (used in R&D).

The centres that the private sector generally relies upon for research are: research centres in Palestinian universities, specialized local research institutions, ministries of the Palestinian National Authority, the General Federation of Palestinian Industries, Pal-trade and unions of specialized industries (mines, paper, pharmaceutical, food, IT systems, etc.).

A very successful medium of R & D is through reports or consultancy research studies. These are prepared using local specialists, the internet or staff members who have been sent on training courses. Surveys are the most preferred form of research by the private sector followed by quantitative and exploratory research and finally descriptive research and case studies.

The private sector benefited from R & D as it was seen to improve the quality of existing products, to create new products and goods and to contribute to an increase in their market share of the local market. It enhanced opportunities of innovation, encouraged institutions to acquire

modern techniques and reduce cost and, finally, it developed human resources.

The lack of consulting institutions that employ research findings in a way that transforms it into an economic value constitutes one of the major obstacles currently facing the private sector and continually undermines its ability to fully benefit from scientific research.

The obstacles that limit the private sector from benefiting from the results of R & D may be summarized as follows:

- ✧ Outcome of prepared research does not match the needs and requirements of the private sector.
- ✧ Research institutions are not able to publish or/and distribute the results of their research and studies.
- ✧ The private sector is not invited to participate in workshops which prevents it from presenting opinions and relaying trends.
- ✧ Research activity is restricted to universities in purely academic fields.
- ✧ The research outcome in universities lacks applicable aspects.
- ✧ Recommendations and suggestions proposed by academic research are difficult to apply.
- ✧ A lack of information and sufficient data in research centers about the research needs of private sector institutions.
- ✧ Research methods are not appropriate for providing solutions to the problems faced by the private sector.
- ✧ It is not possible to organize joint research between research institutions and the private sector.
- ✧ The high costs of patents for many research studies.

The private sector cooperated with research institutions to gain data and information. In addition, research institutions organized training courses for staff members of the private sector and invited them to workshops organized by their institutions.

Funding of research in research organizations relies heavily on non-governmental and international organizations, in addition to internal resources. The support from the private sector and PNA for research and development is very low. International organizations, university students and researchers were the most important beneficiaries of such research, followed by the public sector. The private sector's benefit, however, was minimal.

Different ideas were presented by research institutions and the private sector showing some points of convergence and divergence. They all agreed that the outcome of scientific research has not tangibly contributed to innovating new products, accessing new markets, increasing market share in export markets or in identifying the opinion of consumers in local products or in international export markets. Obstacles impeding the private sector from benefiting from the outcome of the scientific research explain the poor assessment given by the private sector users to the research institutions. On the other hand, research institutions report that the private sector under uses their products. Both agreed that there is low support and funding from the private sector for research activity in the R & D institutions.

They disagreed on the level to which private sector institutions benefited from research institutions in the area of development of human resources. This contradicts with the trend expressed by research institutions. The opinions of the providers and users also differed regarding the benefits of research output for the private sector, specifically in acquiring information on consumer's behaviour in local markets. The private sector claimed that there was no benefit from research output regarding production efficiency, whilst the research institutions reported that the private sector had in fact benefited. The providers pointed out that the parties that benefited most from their research were students, researchers and international NGOs, while the private sector benefits were minimal. However, the private sector explained that they had profited a lot from the research institutions and research centres in universities.

The study proposed a number of recommendations and policies to bridge or fill in the gap between the output of research institutions and needs of the private sector, including:

- ✧ Identifying the types of partnership between capital in the private sector and actors in universities and research centers.
- ✧ Focusing on specific types of partnerships that lead to fostering the inputs used in producing developmental research; this requires advanced knowledge in writing research and means continuing to develop the research capabilities of researchers on the one hand and their linguistic and scientific skills on the other.
- ✧ In order for the private sector to benefit from the results of research, it needs to:

1. Employ human resources on a part-time or full time basis to explain the results of research, facilitate their use and/or reproduce them.
2. Increase networking, collaboration and cooperation between both parties (providers and users)
3. Determine the tasks needed from each party to attain a level that achieves its goals are not neglected and that parties are ready to deal with one another.
4. Improve the results of scientific research to transform them into an economic value at a macro level or to become part of the procedures used by institutions and companies. This will depend on economic policies, the fiscal situation and trade.