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Executive Summary

How to Turn the Start-up Region into the Start-up Nation?

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About the Milken Innovation Center Fellows Program

The Milken Innovation Center Fellows Program accelerates Israel's economic growth through innovative, market-based solutions for long-term economic, social, and environmental challenges. Our goal is to accelerate Israel's transition from a Start-up Nation to a Global Nation with solutions that others can replicate.

The Program awards annual fellowships to outstanding Israeli graduate students. We train and deploy some of Israel's best and brightest young professionals to create pragmatic financing and economic policy solutions.. Our applied research and Financial Innovations Labs® are a launching pad for transformative change, using innovative financing mechanisms, programs and policies to bridge social, regional, economic and productivity gaps within Israel and between Israel and the world.
In addition, Fellows craft their own projects during their internship aimed at barriers to job creation and capital formation in Israel. The Fellows' research, carried out under the guidance of an experienced academic and professional staff, support business and policy makers to shape economic reality in Israel. The program offers the ultimate training opportunity, combining real-life work experience with applied research.

Throughout the year, Fellows receive intensive training in economic and financial analysis, public policy and research methods. They acquire tools for communication and presentation, policy analysis, leadership and project management. The fellows participate in a weekly research training workshop where they work with senior economic and government professionals, business leaders, and top academic and financial practitioners from Israel and abroad. They also participate in an accredited MBA course, taught at the Hebrew University School of Business Administration by Prof. Glenn Yago.

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve in key positions in government ministries while others work at private-sector companies or go on to advanced graduates studies at leading universities in Israel, the United States and Great Britain.

The Fellows Program is a non-partisan. It is funded, in part, by the Milken Institute and other leading philanthropic organizations and individuals in the United States and Israel.

This research offers decision-makers a methodological framework for creating a policy to incentivize technological entrepreneurship across a geographic region. The research provides tools to examine a region's features and determine whether a strategic policy initiative is appropriate and efficient.

The motivation for the research comes from the need for a comprehensive regional development policy in Israel that will meet the Government of Israel's goals for dispersing Israel's population as defined in the Strategic Housing Plan of the National Economic Council in the Prime Minister's Office. This policy aims to create high quality employment outside of Israel's central region (surrounding Tel Aviv) and encourage internal migration of educated population groups to these areas. Consequently, the research focuses on the high-tech industry, and specifically on technological entrepreneurship.

Technological entrepreneurship is closely linked to the local "ecosystem", which refers to the conditions and institutions that exist in a certain area and are necessary for innovation and business creation. As described in the academic literature, these conditions include urbanism; and proximity to capital sources, academia and research institutions, large, multi-national companies, hospitals, accelerators and incubators, and others. Therefore, regions where this environment exists have a higher chance of becoming a magnet for tech start-ups than others.

This paper also analyzes the high-tech companies in Israel and demonstrates that the arguments that rise from the theoretical literature appear in Israel. The empirical analysis shows that Israeli high-tech industry clusters significantly in the central regions of the country around Israel's metropolitan areas. Tech start-ups, even more than mature companies, tend to position themselves in the greater Tel Aviv area.

Another conclusion that rises from the analysis is that the geographical location of strategic institutions is correlated with the existence of start-ups in the area, such as VC funds or multi-national companies. The mapping of these strategic institutions reveals that the metropolitan centers hold the most potential to attract tech ventures outside of the Tel Aviv area, more than rural areas outside of the metropolises.

Also, a comparative advantage analysis between regions shows that some areas may have a comparative advantage in a certain sector. For example, the Southern District holds an advantage in the cleantech sector, and the Haifa region in medical devices. However, the absolute advantage in every sector belongs to the Tel Aviv district.

The literature review and the empirical analysis form policy guidelines for incentivizing regional technological entrepreneurship. First, the research indicates that start-ups will most likely emerge

in cities, and specifically large metropolitan centers. Therefore, the government's policy should prioritize the metropolitan centers outside of the central region: Haifa, Jerusalem, and Beer Sheva. Also, artificially encouraging technological ventures to locate themselves in areas outside of metropolises lowers their chances of succeeding and developing. Therefore, the paper recommends that technological entrepreneurship promotion policy should not include exclusive proactive measures in the peripheral areas, such as unique benefits. These areas are less likely to become centers of innovation and high-paying jobs.

The key to establishing high-paying jobs outside of the central region is the creation of an innovative eco-system rather than a limited and narrowly focused entrepreneurship center. Accordingly, the government should incentivize entrepreneurship where there is a high chance of ecosystem development. Also, since Tel Aviv is a magnet for cutting-edge technological ventures, the probability of the development of a competing ecosystem within the borders of Israel is small. Therefore, even if another ecosystem will establish successfully, it will likely remain secondary to the one in Tel Aviv.

Furthermore, the paper argues that the government's policy should aim to increase accessibility to existing sources of financing rather than substituting these sources with new programs or micro-managing funders. In other words, the government must maintain a bottom-up policy approach, rather than a top-down one. The main concern is that a top-down policy may alter companies' economic incentives and interfere with their ability to prosper.

The research also draws out some key features of technological entrepreneurship programs. These features include providing a physical workspace for entrepreneurs, promoting inter-sector collaborations, especially within anchor institutions, and measuring the success of the program in order to adjust it to existing terms.

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