

Rory Miller, "Progress without Peace: Enhancing the EU's role in Science and Technology in the Palestinian Private Sector," *Science & Diplomacy*, Vol. 2, No. 2 (June 2013*).

<http://www.sciencediplomacy.org/article/2013/progress-without-peace>.

This copy is for non-commercial use only. More articles, perspectives, editorials, and letters can be found at www.sciencediplomacy.org. SCIENCE & DIPLOMACY is published by the Center for Science Diplomacy of the American Association for the Advancement of Science (AAAS), the world's largest general scientific society.

*The complete issue will be posted in June 2013.

Progress without Peace: Enhancing the EU's Role in Science and Technology in the Palestinian Private Sector

Rory Miller

THERE is a deeply held conviction among European Union (EU) policy makers that the ongoing failure to find a diplomatic solution to the Israel-Palestine conflict undermines the EU's economic and strategic interests in a region that Europe relies on for most of its energy needs. In fact, it is the region's number one external trade partner.

A key aspect of the EU's longtime attempt to develop a more robust foreign policy and to play a more central role in Middle East diplomacy, in the service of its own interests as well as peace, has been its role in building up Palestine's future viability as an independent state. As the largest donor to the Palestinians since the collapse of the Oslo peace process in 2000, the EU acknowledges a special responsibility on this issue. But progress requires the EU to make the right funding decisions and to implement effective measures to create jobs and ensure economic development. In particular, it demands bolstering the Palestinian private sector, as no state or state-in-waiting can prosper without a sustainable private sector led economy.

The EU requires a new approach to funding science and technology (S&T) projects in the Palestinian private sector to successfully help build a viable economy. Traditionally, the EU has focused on funding region-to-region, bilateral (Israeli-Palestinian), and trilateral (EU, Israeli, and Palestinian) projects. Despite

some practical success, Europe has not achieved its longtime goal of becoming a full player in the diplomacy of the Israel-Palestine conflict. Nor has it done much to stimulate the S&T sector or to consolidate the coordination of S&T research between donor-funded efforts through the Palestinian Authority (PA) and the private sector.

A more targeted EU funding strategy that provides support for S&T projects and small- and medium-sized enterprises (SMEs) in the private sector can offer a new generation of Palestinian science graduates and entrepreneurs the chance to play a greater role in developing the Palestinian economy. The deeper integration of Palestinian researchers into the EU's science and research framework programs will not only help improve the quality of Palestinian research, it will help local efforts to nationalize and institutionalize S&T ventures.

Creating S&T opportunities will also lead to job creation that can reduce radicalism and improve the quality of life for Palestinians. The S&T sector is less dependent on Israel for freedom of movement, goods, and services. Investing in this sector can also be a positive move toward Palestinian economic independence, which in turn can contribute to reducing political tensions.

These efforts can improve Palestinian perceptions of the effectiveness of the EU role in promoting the economics of peace, especially as the younger generation of Palestinians is increasingly resentful and frustrated over what they view to be the patronage, dependency, and "handout" culture that has become closely associated with European (and other external) funding strategies.

Challenges to Traditional Forms of EU Funding

Between 2000 and 2011 the EU committed nearly €4 billion to the Palestinians. The EU currently provides 50 percent of the total funding for state building and the reform efforts of Palestinian prime minister Salam Fayyad. It is also the leading source of humanitarian and development aid, which doubled to €200 million in 2012 compared with the previous year. As Štefan Füle of the European Commission explained at the time, this increase in funding was part of Europe's "commitment to help the people of Palestine in the areas which are vital to their everyday lives."

This has earned the EU the status of "shareholder No. 1" in the PA, providing it with a unique opportunity to prepare Palestinian society and institutions for the task of running an independent state at some, albeit unspecified, future date.

Yet the current EU role has its drawbacks. Despite "dwarfing the efforts of all other donors," as former EU special envoy to the Middle East Manuel Marin has put it, the EU has not achieved its long-sought diplomatic breakthrough. Most notably, it has been unable to turn its lead economic and financial role into a position equal to that of the United States in the political process.

The deadlock in the peace process has limited the effectiveness of EU funding. So has the Palestinian economy's ongoing dependence on Israel for its survival, given the latter's control of access to, and movement of, Palestinian goods, services,

resources, and income. The profound divide within Palestinian society, which culminated with the Hamas takeover of the Gaza Strip in 2006, has further diluted the benefits of traditional EU support for infrastructural development, payrolls, and humanitarian relief.

The EU has also endured attacks on its funding of Palestinian society from supporters of Israel as well as those who are opposed to the EU spending large amounts of taxpayer money on aid in an era of recession and financial meltdown across Europe.

In response, the EU has insisted that its budgetary support is based on conditionality and technical assistance for reforms and that, despite obstacles on the ground, a strong institutional framework and vital public infrastructure programs—schools, hospitals, water, electricity, and waste management—are crucial to the long-term national sustainability of Palestinian society.

The EU, S&T, and Private-Sector Development

The 1997 Euro-Mediterranean Interim Association Agreement on Trade and Cooperation between the EU and the PA sealed Europe's commitment to help Palestinians create an environment favorable to private sector and industrial development (article 38), as well as technological innovation, the transfer of new technology and know-how, and support for Palestinian research capabilities (article 49).

In the years since, projects in these areas have received only a tiny percentage of overall EU funds. It was only in 2009 that the EU launched its first large-scale initiative dedicated to supporting the business community in the Gaza Strip, a €22 million Private Sector Reconstruction Program. More recently, the EU has committed itself to respond to the PA's own National Development Plan of 2011–2013, which has prioritized private-sector development (as well as the more traditional areas of education and national infrastructure).

In January 2012 the EU initiated an €11 million financing agreement to support the Palestinian private sector, explaining in the process that this was now a “key policy objective” of the EU.¹ Speaking at the launch of the EU's new Trade Diversification and Competiveness Programme later in 2012, acting EU representative John Gatt-Rutter explained that Palestinian private-sector development was “one of the focal sectors” in the EU's efforts to “promote a sustainable, job-creating economic environment.”

But the sums involved are still small in relation to overall EU investment in Palestine. Out of the €200 million the EU provided for Palestinian development in September 2012, private-sector projects received €11.2 million, half of the amount committed to projects in traditional areas promoting governance, the rule of law, and social sector institutions (€20.5 million), and only around 5 percent of the total amounts of funds allotted.

Even when the EU has channeled funds into the private sector, far too little investment goes to projects focusing on application-oriented, industry-related outcomes or those that provide support for commercializing private-sector ventures in the emerging Palestinian S&T sectors.

In part this is due to the small size and underdeveloped nature of the Palestinian S&T sector. Currently, an estimated three hundred companies with five thousand employees and a market value of US\$300 million operate across the West Bank and the Gaza Strip. This is only a fraction of the Palestinian private sector that now directly supports 200,000 individual Palestinians (as well as their extended families and dependents) compared with the 150,000 employed by the PA in the public sector.

The EU also faces bureaucratic, political, and logistical obstacles that make it difficult to locate, engage, and fund SME and S&T projects. Palestinian society still lacks strong institutions and a national level of coordination of scientific and technological research. Nor is there any tradition of cooperation between government-funded research centers and the private sector. For example, it took the Palestine Academy for Science and Technology (PAST)—an autonomous, nonprofit organization founded in 1997 to serve as an umbrella for science and technology across Palestinian society—five years to gain official approval for its 2002 proposal to set up a science fund to pool research monies.

The EU, an early supporter of the academy, has attempted to help it tackle these impediments. Between 2004 and 2007, the European Commission financed ESTIME, a comprehensive project evaluating science, technology, and innovation capabilities in the PA. It has also taken practical measures to help the academy address the weak coordination and cooperation among various institutions and to achieve national-level coordination of scientific and technological research.

The EU can contribute more to improving this situation by integrating Palestinian researchers further into Europe's research and innovation framework programs that support pioneering research by junior and established researchers from the EU member states and other invited nations. Palestinian institutions and universities have participated in a small number of projects under the 5th and 6th Framework Programmes and a higher number of programs under the current 7th Framework Programme between February 2009 and July 2011.

Overall, Palestinian involvement in the Framework Programme is relatively low, at around €500,000, and limited to research in agriculture, environment, and information and communications technology. By promoting greater participation in the next program, Horizon 2020, the proposed €80 billion program that plans to create a "Common Knowledge and Innovation Space" connecting the EU to neighboring countries, the EU can provide a real boost to public-private interaction in the Palestinian S&T sector.

Rethinking EU Funding Mechanisms

Until recently the EU was the only major global economic player to support narrowly focused, region-to-region programs addressing the specific needs of the Middle East and wider Mediterranean. The United States through the G-8 first launched its Broader Middle East and North Africa Initiative in 2004; the International Monetary Fund and World Bank do not have regional programs. The EU has looked to promote Palestinian S&T through region-to-region initiatives, and the Palestinian private sector has undoubtedly benefited from the various mechanisms that promote national and regional capacity building and boost cooperation in research and innovation.

For example, the EU's Neighbourhood Investment Facility, a €745 million financial mechanism supporting the energy and environment sectors, has had a positive impact on Palestinian SMEs. Future region-to-region programs like the EU's Horizon 2020 will continue to improve opportunities.

But, as in the case of the EU's research framework programs, the disadvantage of these region-to-region programs is that there is no specified amount of funding set aside for Palestinian participation, and Palestinians simply have the opportunity to compete with their peers across the region.

From the beginning of the Oslo era the EU has also looked to support bilateral and trilateral S&T programs as a way to contribute to conflict resolution by building bridges for peace. Between 1995 and 1999, the EU and its constituent member states provided technical and financial support for seventy-six joint Israeli-Palestinian projects in S&T, compared with forty-eight projects supported by the United States and Canada in the same period.²

After the collapse of the Oslo process in 2000, the overriding objective has been, in the words of one senior EU official, to continue to "provide a framework" for Palestinians and Israelis to pursue their "strategic interest in cooperating for research."³

With this in mind, the EU has supported the efforts of the Israeli-Palestinian Science Organisation, which was launched in 2002 to bring together researchers from both sides of the conflict in joint S&T projects and to provide Palestinian researchers access to Israeli facilities and training. In particular, in the absence of political progress, the EU has looked to promote Israeli-Palestinian cooperation on politically and strategically sensitive issues such as energy and water. It can claim some successes on the practical and diplomatic level in both.

One notable example has been the EU effort to nurture an ongoing dialogue between European, Israeli, and Palestinian energy experts on connecting the Israeli and Palestinian electrical networks and establishing a joint Israeli-Palestinian energy office.

In 2003 this led to the first agreement cosigned by Israeli and Palestinian government ministers since the outbreak of the al-Aqsa intifada three years earlier.

Subsequently, the EU made energy cooperation between Israel and the PA one of its three priority projects under the MEDA Neighbourhood Programme, the principal instrument of economic and financial cooperation under the Euro-Mediterranean Partnership (the Barcelona Process) launched in November 1995.

When political crises on the ground derailed this initiative, the EU reverted to using region-to-region forums to promote Israeli-Palestinian cooperation in solar power through its Solar for Peace initiative. Palestinian and Israeli officials expressed a willingness to move forward on this track at both the EU–Africa–Middle East Energy Conference (Sharm el Sheikh, Egypt, November 2007) and the 5th Euro-Mediterranean Ministerial Conference on Energy (Limassol, Cyprus, December 2007).

This resulted in the relaunch of trilateral cooperation between Israel, the PA, and the EU in 2008 with the objective of finally establishing a joint energy office and developing projects of mutual benefit under the Solar for Peace initiative. However, the Gaza conflict of late 2008 and early 2009 resulted in a further stalling of the project, though it was once more rejuvenated after the completion of an EU-funded study in support of the initiative in mid-2009.

This example underlines both the value and the limits of using S&T as a vehicle to resolve conflict and promote Israeli-Palestinian cooperation. Even during the Oslo years, many in the Palestinian science community opposed EU efforts to promote cooperation because of the power imbalance between Israel and Palestine.

Since the collapse of the peace process, the EU's attempt to facilitate such cooperation has become even more difficult. Not only has it been harder to recruit partners and build trust for EU-funded ventures, but Palestinians remain subject to travel restrictions and require special travel permits to interact with their Israeli counterparts in these projects. It has also been more difficult than ever to overcome what Paul Scham long ago termed the "perennial dispute" between both parties over access to confidential data in many important areas of research.⁴ On top of all this, the EU has had to deal with accusations that its support for S&T cooperation normalizes "oppression" and legitimizes Israel's occupation.

By introducing new EU-supported S&T programs that focus on the Palestinian private sector and that are funded primarily on merit rather than on their relevance to conflict resolution, the EU can answer all these criticisms while contributing to an increasingly vital aspect of Palestinian development. Indeed, the most positive outcome of the EU's extensive investment of time and political capital in promoting energy cooperation over the last decade is that Israel's first commercial solar field—launched at Kibbutz Ketura in 2011—is now a model for private Palestinian ventures, and a Palestinian business consortium is learning the lessons of this project in preparation for launching its own solar energy project near Jericho this year.

There are precedents that the EU can follow in refocusing its efforts on supporting S&T in the private sector. In the late 1990s Israel's current president,

Shimon Peres, was instrumental in championing an Israeli-Palestinian investment fund that raised US\$63 million to prepare Palestinian workers for high-tech jobs. More recently, major global players like Microsoft, Intel, and Cisco Systems (a trailblazer in building up local software companies) now support programs nurturing Palestinian high-tech talent.

A number of homegrown and regional funds—such as Siraj Palestine Fund I, the Rasmala Palestine Equity Fund, and the Dubai-based Abraaj Capital's Palestine Growth Capital Fund—have also been launched to take advantage of the huge potential in the Palestinian S&T sector.

By refocusing its efforts on S&T in the private sector, the EU will also be able to appeal to—and take advantage of—this existing culture of high-tech entrepreneurship and pave the way for hundreds of future S&T start-ups. This will provide employment for thousands of graduates who are perfectly placed to capitalize on the rapid rise of Internet users in the Arab world, up from an estimated 35 million in 2009 to around 140 million today out of a total population of 300 million.

This has become even more critical recently. A high percentage of Palestinian S&T graduates are being forced to emigrate to Jordan, the Gulf, the United States, or Europe to find work. At the same time, agriculture, manufacturing, and construction are contracting, resulting in a rise in unemployment as local and global economic conditions take their toll on traditional sectors of the Palestinian economy.

A reemphasis on support for S&T in the private sector does not signal the EU's abandonment of its diplomatic ambitions. A new focus on the S&T sector may even be a more effective way to create the positive environment necessary for a diplomatic breakthrough. Political realities on the ground actually lend themselves to supporting cooperation between Palestinian and Israeli entrepreneurs in the S&T sector.

By backing venture capital funds, start-up incubators, and projects that bring together Israeli and Palestinian technology entrepreneurs, such as the Tel Aviv Start-Up Weekend, the EU will encourage innovators from the two war-torn communities to meet to commercialize their ideas. Several companies in the S&T sector already employ Israeli and Palestinian engineers and scientists who work separately in their offices in Jerusalem and Ramallah, Tel Aviv and Jericho and who communicate online or at prearranged meetings in neutral locations.

There are signs that the EU is increasingly looking to support such efforts. In mid-2011 the European Investment Bank (EIB) was one of several international backers of a West Bank venture capital fund—the Sadara fund—founded by two high-tech entrepreneurs, one Israeli and the other Palestinian. On its launch it had already raised US\$29 million in seed capital and planned to invest exclusively in Palestinian technology start-ups and to take stakes in about fifteen companies over ten years. In March 2012 the EIB along with the Bank of Palestine, Abraaj Capital from Dubai,

the Palestine Investment Fund, and Cisco jointly announced the first close of the Palestine Growth Capital Fund, intended to provide private equity growth, capital investments, and management support to small and mid-cap entities in Palestine.

Turning Necessity into Opportunity

There is a growing consensus that the lack of a diplomatic solution to the festering Middle East crisis so near Europe's borders serves to radicalize and alienate its demographically important and increasingly assertive Muslim communities. These communities view the Palestine problem as their number one foreign policy grievance. As a consequence, the two-state solution to the Israel-Palestine conflict has long been held as not only vital for the future stability and prosperity of the Middle East but, in the words of former EU foreign policy chief Javier Solana, "fundamental to our own security."

It is hardly surprising that playing a diplomatic role in the search for a solution to the conflict is a "strategic priority" of the European External Action Service, the EU's recently established foreign ministry, which was mandated to give the twenty-seven-nation EU "a stronger voice around the world, and greater impact on the ground." As its boss, Baroness Catherine Ashton, the EU's first de facto foreign minister, never tires of stating, Israeli-Palestinian peace is "extremely important" and a "key component" of wider stability.

The EU has a unique opportunity to shape the future of Palestine through more focused, intensive, and extensive support for S&T projects in the private sector. Its success will be measured by whether it can adapt its funding to integrate Palestinian researchers further into Europe's research framework programs and strengthen those nonprofit organizations, such as PAST, working to develop and coordinate S&T activities across the PA in the face of manifold bureaucratic and political obstacles.

Even more crucial, in terms of measuring the EU's success, will be its ability to empower Palestinian entrepreneurs and SMEs in the S&T sector. They hold the key to the future success of the Palestinian private sector. If the EU can back them effectively, it will provide a new generation of Palestinians with the opportunity to play a greater role in the local, regional, and global economy. Now is the time for the EU to put right its relative neglect of funding for S&T projects in the Palestinian private sector. In doing so, it may well find that its attempts to play a greater role in the diplomacy of the Israel-Palestine conflict will benefit through a shift in focus on funding for Palestine. **SD**

Endnotes

1. "EU Gives €11 Million to Support Palestinian Private- Sector and Boost Palestinian Economy," press release, European Union, Jerusalem, PR/02/2012, January 11, 2012. http://eeas.europa.eu/delegations/westbank/documents/news/20120111_11million_fa_en.pdf.
2. Paul Scham, "Arab-Israeli Research Cooperation, 1995–1999: An Analytical Study," MERIA 4, no. 3 (2000): 3.
3. Nicola Nosengo, "European Deal Aims to Attract Arab Scientists," Nature 423 (2003): 906.
4. Scham, "Arab-Israeli Research Cooperation."