



חזון ראות

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ISRAEL 15 Vision

Leapfrogging the Periphery

Conceptual Framework

Version A

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Nonetheless, the ideas presented in this paper reflect the views of its authors.

For a list of the experts with whom we met for this work, see Appendix A.

Glossary / Concepts

| | |
|------------------------------|---|
| ISRAEL 15 Vision | A vision that calls for transforming Israel into one of the 15 leading countries in terms of the quality of life of its residents. This vision requires a national leapfrog in the quality of life in Israel (see below) which is in part conditioned on formulating and implementing a regional development policy that is unique and global (see below). ¹ This goal became a public objective of Israel's government in May 2010. ² |
| National Leapfrogging | An accelerated development that can ultimately narrow gaps in the quality of life of Israeli citizens, compared with other leading countries. Leapfrogging requires a combination of rapid and continuous growth (sustained growth), together with a more equal distribution of resources in a manner that improves the quality of life for all (inclusiveness), while preserving resources for future generations (sustainability). ³ |
| Quality of Life | A bundle of factors that together account for the well-being of an individual. In addition to measurable variables such as income per capita, which measures the standard of living, the concept also includes abstract factors, such as the level of happiness, innovation, and economic and political liberties. Across the world, the quality of life in a given country is assessed according to uniform international standards, while each country also has a unique index of its own. ⁴ |
| Development Policy | A concentrated effort by the state authorities, aimed at accelerating economic development via legislation, standardization and regulation, training of personnel, development of infrastructure, fostering international connections, or research and development |

¹ See: [ISRAEL 15 Vision – Principles and Guidelines for Achieving a Socio-economic Leapfrog – Version B](#), Reut Institute, 2009, (hereinafter: [Leapfrogging – Version B](#)), and [About the Reut Institute – Frequently Asked Questions](#), Reut Institute, 2009.

² See: [PM Netanyahu's Statement at the Press Conference in Honor of Israel's Accession to the OECD](#) (May 10, 2010).

³ See [Leapfrogging – Version B](#), p. 11.

⁴ Various indexes measure quality of life in different ways. According to [The Economist's](#) index, GDP per capita accounts for 50% of the discrepancy in the level of satisfaction expressed by people from different countries. The remainder is composed of factors such as health, quality of family life, quality of community life, and employment security. For additional information, see: **The Economist Intelligence Unit**, "Quality of Life Report," 2005. The Reut Institute focuses on four aspects that are considered important for the quality of life in Israel: economic security, social security, personal-physical security, and the Jewish added value. For additional information, see: [Quality of Life in Israel](#), Reut Institute, 2007.

(R&D).

| | |
|------------------------------------|--|
| Regional Innovation | A combination of instruments and activities that support innovation and are based on leveraging regional assets. These instruments are likely to include regulation, taxation, government programs, municipal policy, and research and training institutes. |
| Regional Development Policy | A development policy aimed at accelerating economic growth in a given region. |
| Global Development Policy | A development policy that is focused on identifying robust and stable global trends – such as climate change, population ageing, and desertification – and leveraging the unique added value the country has to offer in this context. |
| Unique Development Policy | A development policy that focuses on leveraging a given country's unique and immovable assets. For example, Israel's unique assets include its achievements in making the desert bloom, its defense establishment, and its connection with the Jewish people. |
| The Periphery | <p>This concept refers to the outlying regions of Israel that are geographically distant from the center of the country and are also weak from a socio-economic perspective.⁵</p> <p>According to the Central Bureau of Statistics, the official definition of the periphery is: “A region that contains local authorities included in clusters 1-4 in the Periphery Index.” A community's level of peripherality is determined by calculating its geographic distance from the center of the country and its aggregate distance from other communities. The definition of the periphery is reflected in government decisions that chart the regions of national priority and guide government agencies in extending benefits to communities included in these regions.⁶</p> |
| Region | For the purpose of this report, a region is defined as a geographic area with distinct geographic, historical, demographic and economic attributes, <i>as well as</i> a 'regional story' (see below) that relates to the region's vision. Because the regional story is determined based on a combination of 'regional assets' (see below), the region's boundaries, which usually include a number of local |

⁵ See: Tzameret, Z., Halamish, A. and Meir Glitzenstein, A., **The Development Towns** (Jerusalem: Yad Yitzhak Ben-Zvi, 2009), p.9, (in Hebrew) (hereinafter: **The Development Towns**).

⁶ For additional information, see: [Index of Peripherality of the Central Bureau of Statistics](#) and [Government Decision 1060](#) of 2009, which defines the regions of the periphery according to the Index of Peripherality of the Central Bureau of Statistics (in Hebrew).

authorities, are liable to change.

| | |
|------------------------------------|--|
| Regional Asset | A local quality – whether economic, social, geographic, historical, or environmental – that is not moveable and is likely to help the region compete on the national and global level. |
| Regional Story | A long term vision which offers a description of an ideal future for a given region, based on an integration of its assets. This vision is meant to assist in defining priorities, provide inspiration for local entrepreneurship, and serve as an umbrella for connecting and integrating various enterprises. |
| Regional Leapfrogging | A significant improvement in all components of the quality of life in the region – in areas such as economics, society, and the environment – resulting from the realization of regional assets. Regional Leapfrogging renders the region attractive for individuals and companies that may be a good fit for the regional story. Regional leapfrogging is the successful conclusion of a unique and global regional development policy. |
| Regional Steering Committee | A voluntary institution that convenes local authorities, non-profit organizations, businesses, entrepreneurs, and stakeholders around the regional story, with the goal of generating a regional leapfrog. It connects relevant stakeholders and local authorities, represents the region vis-à-vis the government, promotes the regional story, and fosters regional innovation. |
| Social Capital | An aggregation of community and institution characteristics, such as level of community involvement, trust among its members, and associated norms – which are expressed in the existence of social networks. ⁷ These facilitate the coordination and cooperation between individuals, lower business costs, reduce uncertainty and risk, and help leverage regional assets. |

⁷ For additional information, see: Putnam, R.D., “Bowling Alone: America's Declining Social Capital”, **Journal of Democracy**, 6:1, January 1995, pp. 65-78.

Executive Summary

Guidelines for Quick Reading

This document can be skimmed by reading the bolded phrases. Each paragraph contains only one idea, captured in the bolded sentences. Footnotes do *not* contain new ideas, but examples, sources, and references. **This document is a non-verbatim translation to English of the Hebrew original.** It has been adapted to a non-Israeli readership.

1. **This document presents a conceptual framework on how to leapfrog Israel’s geographic periphery – i.e. its remote regions. It outlines which strategies can succeed in rapidly improving the socio-economic status of these regions. Doing so is a necessary condition to realize the ISRAEL 15 Vision** (see below). This document represents the joint work of the Reut Institute, the Jewish Agency’s Partnership 2000 Program and JDC-ELKA. The recommendations it makes are based on the latest research in regional development, meetings with experts and field personnel in Israel, two pilot projects in Beit Shemesh and the Western Galilee,⁸ and a study of the experience gained by ELKA also in the Western Galilee.
2. **The ISRAEL 15 Vision calls for Israel to become one of the top 15 countries in terms of its citizens’ quality of life. This vision requires a socio-economic leapfrog** that can narrow the gap in quality of life between Israel and the world’s leading countries. Leapfrogging requires that three trends occur: one, rapid and sustained growth that enlarges the economic pie; two, the allocation of this “pie” in an inclusive fashion such that the quality of life improves for all citizens; and three, the preservation of resources for the benefit of future generations. Put simply, leapfrogging requires growth, inclusiveness, and sustainability.
3. **Leapfrogging also requires a balanced distribution of the fruits of growth between different regions.** Such a distribution is one example of inclusiveness. Without such an allocation, people, goods and capital are liable to quickly migrate from underdeveloped to developed regions. Such migrations can weaken and even jeopardize the human capital and resources of poor regions.
4. **In Israel, the central region enjoys most of the fruits of growth.** Consequently, the peripheral regions lag socio-economically and suffer from negative migration.
5. **This document presents a conceptual framework for developing Israel’s peripheral regions based on identifying their unique assets and realizing their latent global potential.** Because globalization enables the rapid migration of

⁸ The Praxis Institute, which develops and operates a unique model based on the “competitive regions” approach, was selected to lead the day-to-day operations of these pilot projects.

human capital, goods and knowledge from one place to another, regional assets offer an important foundation for sustained development. These assets are unique local qualities – such as a specific climate, history, heritage, environment, landscape, or challenge – which are rooted in a region and cannot be moved easily.

6. **Because of its geographic, demographic, and climatic diversity, Israel has the potential to cultivate several regions that can compete globally.** Each of these unique regions can develop its own latent growth engines. According to Reut's initial assessment, there are about 12 such regions including the Western Galilee, the Eastern Galilee, the Western Negev, and the Arava.
7. **Despite this potential, Israeli governments have continually aimed to transfer economic activity, capital, and places of employment from the center to the periphery. This policy assumes that no local engines for growth exist.** The government still promotes this policy by encouraging young Israelis to settle in the periphery and by supporting major projects such as the subsidization of Intel's factory near Kiryat Gat, the transfer of IDF bases to the Negev, and the building of a medical school in Safed.
8. **Such a policy stems from the view that Israel is a small state, and therefore can and should function as a single region. According to this view, it is possible to apply the same policy across the country.** For example, successful businesses in the center, such as high-tech startups, can easily be emulated in the periphery. Such a policy tends to ignore the regional context.
9. **Yet despite investing significant resources in the periphery for many years, the government has not succeeded in narrowing the socio-economic disparities between the periphery and the center.**
10. In fact, the State of Israel's current approach to developing the periphery reveals an underlying tension between two different schools of thought. **On the one hand, the government acts based on its belief in a market economy – it intervenes only to shape regulation and address market failures while executing a *laissez-faire* policy. On the other hand, the government acts on a commitment to develop the periphery, and therefore intervenes to the point of sometimes causing market imbalances.**
11. **To reduce this tension and enhance Israel's development outlook, the government should add another layer to its development strategy – regional development based on unique assets.** Such a change is not intended to replace a national development policy based on national assets, but rather to expand and strengthen it.
12. **A policy of regional development must address two central challenges: identifying unique regional assets and encouraging regional innovation based on them.** For example, ever since the Western Galilee identified wellness tourism as one of its unique regional assets, it has encouraged local entrepreneurs to innovate and establish the relevant businesses, infrastructure, and institutions.

13. **Such a policy requires an organizing body in each region that can lead and define an overarching strategy.** This body should include the various stakeholders in the region such as entrepreneurs, local authorities, and non profit organizations. Its mission should be to identify regional assets, mobilize relevant partners, set priorities, and promote regional innovation. **At present, organizations exist that are willing and capable of helping to establish such a body.** A prominent example is the Western Galilee cluster supported by JDC Israel-ELKA and the regional laboratories launched by the Reut Institute and Partnership 2000.
14. **Regional mobilization can help the government achieve its objectives of integrating marginalized populations such as Israel's Arab citizens.**
15. **The government, local authorities and non profit organization all have central roles to play in encouraging regional leapfrogging.**
 - **The government** – First, it should test the strategies for regional development outlined in this document by implementing them in a few regions. Second, it should encourage the establishment of new regional mobilizations that can help regions identify unique assets and compete globally. At the same time, it should nurture regional innovation through various policy tools. For example, it could leverage the Ministry of Science regional R&D centers and encourage regional colleges to focus on local assets.
 - **The local authorities** – International experience proves that leapfrog occurs only when local authorities formulate a long-term vision that addresses the regional context. Therefore Israel's local authorities should create mechanisms for coordination with neighboring local authorities and should mobilize other players in the region such as entrepreneurs, local leadership, and non-profit organizations.
 - **Non-profit organizations** – According to international experience, non-profit organizations can catalyze regional development by bringing together key players, learning from cases around the world, and strengthening local leadership.

The Regional Laboratories Project

16. **As mentioned above, socio-economic leapfrogging demands the involvement of other sectors besides business and government**, such as local authorities, civil society, non-profit organizations, and philanthropic organizations.
17. **For this reason, the Reut Institute joined forces with the Jewish Agency's Partnership 2000 Program (P2K) in January 2008**. P2K is a unique collection of 45 partnerships between Israeli regions and Jewish communities across the world. Recently, **P2K has studied how it can facilitate leapfrog in those Israeli regions it operates in**. Specifically, P2K has discussed how to harness the unique assets of the Jewish world to help develop specific regions.
18. **Through this partnership, Reut and P2K decided to establish laboratories in three different regions across Israel in order to formulate a new approach toward development**. The first laboratory was established in the Judean plains region in June 2008 and the second laboratory was established in the Western Galilee region in January 2009. The location of the third laboratory will be determined following the publication of this document. In the future, these laboratories could serve as a model for other regions in Israel. **This document marks the first milestone in refining this model**.
19. **The Praxis Institute**, which develops and operates a unique model based on the “competitive regions” approach, **was selected to lead the day-to-day operations of these laboratories**.
20. **The laboratories have progressed through the following three stages:**
 - **Stage A: Develop a story for the region based on its unique assets** – These assets were identified by convening meetings of local entrepreneurs from different sectors. The entrepreneurs described the global potential they saw in the region, suggested possible joint ventures, and discussed the barriers limiting the region's development.
 - **Stage B: Form a regional steering committee** – This committee mobilizes stakeholders, recruits support, gathers resources, and promotes regional innovation.
 - **Stage C: Implement a strategic plan to realize the regional story**. Gather funding, invest in specific projects, and measure outcomes.

Table 1: Summary of Activities in the Regional Laboratories

| | The Regional Lab in the Judean Plains | The Regional Lab in the Western Galilee |
|--|---|--|
| What are the boundaries of the project? | Beit Shemesh and the Mateh Yehuda Regional Council – The project’s boundaries were determined based on the activity of the Jewish Agency’s Partnership 2000 organization in the juridical domain of these authorities. ⁹ | Acre and the Mateh Asher Regional Council – The project’s boundaries were determined based on the activity of the Jewish Agency’s Partnership 2000 organization in the juridical domain of these authorities. ¹⁰ |
| What regional assets were identified? | <p>A rich biblical heritage – There are many heritage sites scattered throughout the region, such as the Elah Valley (where the battle between David and Goliath took place), Beit Natif, Khirbet Qeiyafa and Tel Yarmut.</p> <p>A developing wine industry – including about 30 leading wineries, some of which are already part in the framework of “The Wine Route.”</p> <p>Central geographic location – between Jerusalem and Tel Aviv: Israel’s two global cities.</p> | <p>The city of Acre, which was recognized in 2001 as a world heritage site by UNESCO.</p> <p>Cultural initiatives such as the Acre Festival, the Keshet Ayalon Music Center and the Kibbutz Gaaton Dance Troupe.</p> <p>Expertise in the field of machinery – the Iscar company, Rafael and relevant academic institutions, such as the Technion and the ORT Braude College.</p> <p>Expertise in the field of promoting healthy living – olive oil production, medicinal plants, natural food, and natural medicine.</p> |

⁹ In the future, it will be appropriate to change the boundaries according to geographic-demographic logic, based on the assets that were identified. In our assessment, the western border is the most flexible and is likely to also include, for example, the Yoav or Gezer regional councils, which are linked to the identified assets.

¹⁰ It will be appropriate to change the boundaries according to geographic-demographic logic, based on the assets that were identified. In our assessment, the eastern border is the most flexible and is likely to also include, for example, Karmiel, where the ORT Braude College is located.

| | The Regional Lab in the Judean Plains | The Regional Lab in the Western Galilee |
|--|--|---|
| What is the global potential of the region? | A region of “slow” living – The Judean plains region offers its residents and visitors a balanced lifestyle in a central location. In the future, the region could become part of the “slow” food and tourism trend that is gaining popularity, similar to the Orvieto or Tuscany regions in Italy. | A region of healthy living – The Western Galilee region could specialize in developing technologies, services, and tourism for the “wellness” industry (promoting a healthy lifestyle for healthy people). The region could compete with regions such as the Swiss Alps or the Tirol mountains in Austria. |
| Who leads the regional steering committee? | Entrepreneurs, local leadership, non-profit organizations and local authorities. The chairman of the committee is Mr. Ra’anan Dinur. | The composition of the steering committee is currently being formulated. The chairman of the committee is Mr. David Laron. |

Conceptual Framework

ISRAEL 15 Vision: Leapfrogging the Periphery

Background

21. **The Reut Institute is a non-profit non-partisan organization that supports strategic decision-making processes in Israel and in the Jewish world.** Reut's expertise lies in its ability to identify strategic opportunities or strategic surprises, and in its ability to mobilize and work with the relevant stakeholders to ultimately perform the necessary changes.¹¹
22. **The Reut Institute promotes the ISRAEL 15 Vision,** which calls for transforming Israel into one of the leading fifteen countries in terms of the quality of life its citizens.¹² This vision has guided the work of Reut's socio-economic teams during the past four years. The challenge ahead stems from the fact that among the developed countries, Israel is currently ranked at the bottom in terms of the quality of life of its citizens.¹³
23. **Realizing the ISRAEL 15 vision, and more specifically bridging the socio-economic gap between Israel and the world's leading countries requires social and economic leapfrogging.** In the context of social and economic development, leapfrogging stands for accelerated development that ultimately results in narrower gaps in quality of life, compared with other leading countries.¹⁴ Leapfrogging rests on a combination of rapid and sustained growth that enlarges the 'pie'; inclusiveness – that is, the allocation of the fruits of growth

¹¹ See: [About the Reut Institute – Frequently Asked Questions](#), **Reut Institute**, 2009.

¹² A similar vision is being promoted by the team Israel 2028 – Vision and Strategy For Economy and Society in a Global World: “The State of Israel will be among the world's ten to fifteen leading countries in terms of income per capita; it will strive for the good of all its citizens, their quality of life, and that of its future generations”. Brodet, D. (ed.) and Hurvitz, E. (chairman) [Israel 2028 – Vision and Strategy For Economy and Society in a Global World](#) (The Samuel Neaman Institute for National Policy Research, 2008), p. 41 (hereinafter: [Israel 2028](#)).

¹³ See: **The Economist Intelligence Unit**, “Quality of Life Report,” 2005.

¹⁴ For additional information, see: [Leapfrogging – Version B](#); The Commission on Growth and Development, **The Growth Report – Strategies for Sustained Growth and Inclusive Development** (Washington DC: The World Bank, 2008) (hereinafter: **The Growth Report**). The report presents common aspects of countries that have leapt, as well as guidelines for action.

in a way that improves the quality of life of all of the state's citizens;¹⁵ and sustainability – that is, preserving resources for future generations.¹⁶

24. **Leapfrogging requires a more balanced distribution of the fruits of growth between the various regions in a given country.** Studies show that fruits of growth tend to be divided in an unequal manner between different regions within a given country as a direct result of market forces and disparate geographic, cultural, economic and demographic characteristics.¹⁷

At the same time, **a balanced distribution of the fruits of growth between regions is essential for rapid and sustainable growth, as well as for promoting inclusiveness.** Policies designed to narrow gaps in growth rates between various regions should therefore be instituted.¹⁸ Without a balanced distribution, people, goods and capital are liable to rapidly migrate to developing regions and ultimately weaken the quality of human capital in lagging regions.¹⁹

25. **We therefore call for the establishment of a regional development policy that will be based on identifying and utilizing the global potential of different regions.** Leapfrogging rests on leveraging the country's comparative advantages in the global market.²⁰ That is, the state must identify robust and stable global trends relevant to its unique resources, and learn how to leverage them.²¹ For example, Ireland's response to the need of international companies for inexpensive English-speaking personnel led to a high growth-rate that lasted approximately twenty years.²²

¹⁵ "Inclusiveness" is defined as a state in which a given country's residents have the confidence that they and their children will benefit from economic growth. The definition of inclusiveness is different from concepts like justice or equality. See: **The Growth Report**, p.27.

¹⁶ "Sustainability" is defined as a state in which one's present activity does not harm the ability of future generations to fulfill their needs and desires. For additional information, see the website of [The Heschel Center](#) (in Hebrew).

¹⁷ See: **The Growth Report**, p. 63.

¹⁸ The Growth Report presents the regional development slogan of the European Union – 'Unity, not Uniformity' – as exemplifying this view. See **The Growth Report**, p. 63.

¹⁹ This type of phenomenon was observed at the beginning of the 1990s in former East Germany, Poland and Hungary. Based on a conversation with Judit Torokne Rozsa, Head of Unit - Denmark, Lithuania and Sweden, Directorate-General for Regional Policy, European Commission, (October 29, 2009). Also see: "Cradle Snatching," **The Economist** (May 16, 2006).

²⁰ A comparative advantage is likely to also be based on cultural characteristics. For example, Porter notes that the Germans' meticulous methods of management and their work values that emphasize precise production, ongoing development and customer service, are beneficial in the branches in which Germany excels: optics, chemistry and complex mechanical equipment: Porter M. E., [The Competitive Advantage of Nations, On Competition](#) (Harvard Business School Press: 1979), p. 178 (hereinafter: **The Competitive Advantage of Nations**).

²¹ For additional information, see: "[Unique and Global Development Policy](#)," **Reut Institute**, 2009.

²² See: "[Ireland and the European Union: Identifying Priorities and Pursuing Goals](#)," **Department of the Taoiseach**, 2006.

Additionally, it is possible to identify unique resources which may come in the form of a response to a global trend. These could serve as catalysts for rapid and sustained growth. This report addresses the challenge of formulating a regional development policy that leverages these unique resources.

26. **This paper proposes a conceptual framework for leapfrogging the periphery** under the ISRAEL 15 Vision, and elaborates on what is required to accomplish this vision by offering a new perspective, principles and guidelines for action.²³ However, **this document is not a strategic plan.** It does not propose an action plan as in the following reports: [Shifting Northern Israel to its Center – A Plan for Developing Northern Israel](#) (hereinafter: Tzafona) or [A National Strategic Plan for the Development of the Negev](#) (hereinafter: Daroma).

27. **This report is the result of an ongoing partnership with the JDC Israel-ELKA association.** ELKA was established in 1984 by JDC Israel and the Government of Israel. ELKA is a professional, non-partisan independent body, with experience and expertise in working with leaders and senior executives, and in developing managerial and organizational infrastructure in the public sector in Israel. ELKA specializes in developing and leading innovative organizational processes in the interface between organizations from the three sectors. The organization operates on two tracks: 1) vis-à-vis the central government and 2) by supporting regional and local governance in a way that boosts community solidarity and lays the groundwork for leapfrogging a given region's quality of life.

28. **This document will not focus on the following subjects**, despite the fact that they are related to the challenge of leapfrogging the periphery:

- **Israel's 'social periphery'**– This report deals with the regions of the geographic periphery of Israel, but at this stage, does not address the poor and marginalized populations living in central Israel;
- **International regional development** – This report focuses on regional development within Israel and does not address cross-border regional development – for example, between Israel, Jordan and the Palestinian Authority;
- **The relationship between sustainability and leapfrogging** – The Reut Institute plans to form a team dedicated to this subject in the near future;
- **The challenge of integrating specific sectors** such as ultra-Orthodox Jewish men or Arab women in the labor market and in the Israeli economy;

²³ For additional information on the nature of the challenges of adapting work, see: Ronald A. Heifetz, **Leadership without Easy Answers**, (Harvard University Press, 2003), p.35.

- **The special role of Tel Aviv as a 'Global City' and the role of metropolitan cities (such as Haifa or Beer Sheva) in regional development.**
29. **In writing the document, we relied on the following input:**
- **A research method based on a package of theory, methodology and computerized tools developed by the Praxis Institute, led by Dr. Zvi Lanir and Boaz Israeli (see www.praxisisrael.com);**
 - **Monitoring projects in the field** with Partnership 2000 of the Jewish Agency and the Praxis Institute in the Judean Plains and in the Western Galilee, and monitoring the Western Galilee in partnership with ELKA;
 - **Meetings with dozens of professionals and experts** from all relevant sectors, including: the government and its affiliated agencies, local authorities, non-profit organizations and philanthropic foundations, media and academia (see the list of experts in Appendix A);
 - **Review of relevant literature and research conducted** in Israel and abroad, first and foremost: the Tzafona Report, the Daroma Report, the [Makov Committee Report](#) (Committee for Developing the Periphery and Improving Traditional Industry), [National Master Plan 35](#) – An Integrated National Master Plan for Construction, Development and Preservation; the State Comptroller's report on the regional echelon in government ministries; a World Bank report ([World Development Report 2009: Reshaping Economic Geography](#)) and the OECD: Building Competitive Regions report. (See the bibliography for the full list);
 - **Study of existing models of regional economic development in Israel and abroad;**
 - **A study visit to European Union and OECD institutions** (November 2009), funded by the Friedrich-Ebert-Stiftung Foundation, which included meetings with leading experts in the field of regional development (see the list of experts).

This document constitutes 'Version A' of our research on regional development. We plan to present the document to relevant audiences in order to expand and improve our analysis and recommendations, and add lessons from projects in the field in order to ultimately publish 'Version B'.

Structure of the Document

- The introduction tracks the evolution of the concept "periphery" in Israel;
- Chapter 1 focuses on the conceptual challenge related to developing the periphery;
- Chapter 2 presents the principles of a development policy aimed at leapfrogging the periphery;
- Chapter 3 describes how regional mobilization may contribute to national leapfrogging;
- Chapter 4 suggests policy instruments for government, local authorities and civil society organizations.

Introduction: Evolution of the Concept "Periphery" in Israel

30. **Since the beginning of Jewish settlement in the Land of Israel, the establishment of new communities in outlying areas was seen as having strategic importance and moral significance:**

- **Before the establishment of the State of Israel, the Zionist movement raised the banner of rural settlement in outlying areas** – The settlement in outlying areas was seen not only as a means of expanding the boundaries of the country, but also as a foundation on which to build a new and productive agricultural Jewish society. The Zionist pioneers – those who made a conscious, ideological choice to live away from the country's center – were considered part of the social, cultural and political elite of the Jewish Yishuv prior to the establishment of the state.²⁴

Even in those early days, Yishuv institutions and communities throughout Israel generally faced financial difficulties, over-reliance on support coming from central Israel, external migration and the often tense relationship with the local Arab population.

- **During its early years, the state directed many immigrants to these regions based on strategic national considerations** of population distribution, with the aim of strengthening the state control in regions where the Jewish population was sparse.²⁵

Population placement in peripheral regions rested on a conception of central planning, as prominently expressed in the Sharon Plan (1951), which was the first comprehensive planning tool of the State of Israel. This plan combined settlement planning with national economic development, absorption of Jewish immigration (klitah) and security goals. Further, the plan sought to implement the policy of population dispersion by creating a hierarchical array of settlements based on medium-sized cities in the periphery, designed to serve as a focal point for the agricultural communities around them. And indeed, during the 1950s and 1960s, hundreds of communities were built, together with about 30 cities and development towns, from Kiryat Shmona in the North to Eilat in the South.²⁶

31. **This policy met with difficulties, and the concept ‘periphery’ was gradually embedded into the national discourse** – Newly arrived immigrants who were

²⁴ See: **The Development Towns**, pp. 7, 20; Tzahor, Z., “[Center-Periphery Relations](#),” in: Aharoni, S. and Aharoni, M., **Israel 2000** (Kfar Sava: Miksam, 2000) (in Hebrew) (hereinafter: [Center-Periphery Relations](#)).

²⁵ See: **The Development Towns**, pp. 7, 20; [Center-Periphery Relations](#).

²⁶ For additional information, see: Sharon, A., **Physical Planning in Israel** (Government Printing Office, 1951) (in Hebrew).

sent to outlying areas, the great majority of whom of North African descent, were in effect removed from sources of employment, cultural hubs and institutions of higher education. In contrast, immigrants who were educated and relatively well-off refused to settle in these areas or hurried to leave them. Populations thus remained in what became the periphery faced an unpleasant reality characterized by unemployment, dependence on transfer payments, economic deprivation and social alienation. It was at that time that the concept “periphery” appeared for the first time, expressing the marginality of the place – owing not only to its geographic remoteness, but also to its socio-economic nature.²⁷

32. **During the 1960s, an initial national effort began to assist the communities of the periphery**, based on recognition of the complexity of the challenge associated with absorbing new immigrants. This effort included investments in infrastructure, subsidies, development of public service systems and the guidance of a national industrial policy.²⁸
33. **The 1970s were characterized by a slowdown in growth and an increase in unemployment rates in the periphery.** The 1973 Yom Kippur War and subsequent global oil crisis²⁹ led to a halt in the rapid growth that began at the end of the 1967 Six Day War, and to a steep rise in inflation rates. These changes were also detrimental to the periphery regions, leading to a rise in unemployment rates. One of the prominent policy instruments the government exercised during this period was the Encouragement of Capital Investments Law, which sought to provide incentives for building new factories in these regions.³⁰
34. **During the 1990s, the periphery absorbed yet another wave of large-scale immigration – this time from countries of the former Soviet Union – under a policy of “direct absorption.”** This policy was meant to enable the immigrants to ostensibly choose their place of residence based on their skills and needs. In practice, however, the Government of Israel continued to indirectly pursue a policy of population dispersion.³¹

²⁷ The phrase “development town” also reflects the way in which the periphery was portrayed – as a backward place that needs to be developed. See: **The Development Towns**, pp. 7, 28.

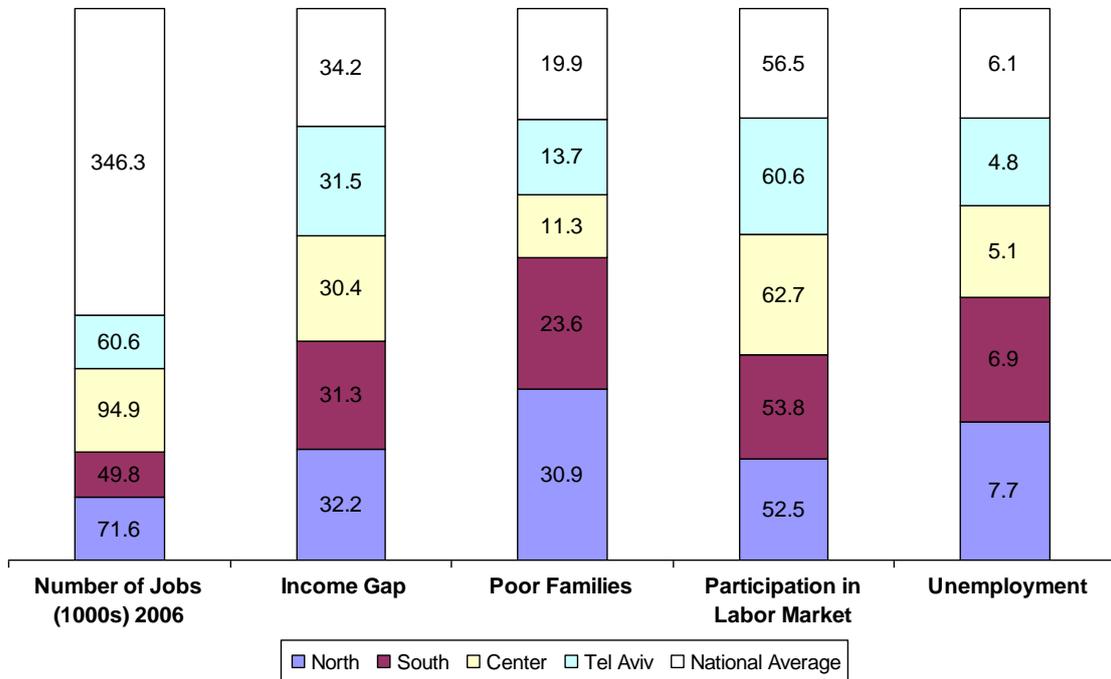
²⁸ See: Ben-Elia, N., “[The Missing Link: Regional Government in Israel](#),” **The Floersheimer Institute for Policy Studies**, 2006, pp. 9, 13 (in Hebrew) (hereinafter: [The Missing Link](#)).

²⁹ [The Missing Link](#), pp. 9, 13; OECD states were also affected by the crisis and contended with waves of unemployment via subsidies and incentives to factories, with the aim of encouraging the creation of new jobs. For additional information, see: Charbit C. and Davies A., **Building Competitive Regions: Strategies and Governance**, (OECD, 2005), p. 21 (hereinafter: **Building Competitive Regions**).

³⁰ The Encouragement of Capital Investments Law was enacted in 1959, aiming to encourage the development of the economy, create employment opportunities and promote population dispersion. Though it was not enacted with the aim of developing the periphery, nearly all of the governments of Israel used it as a central tool for pursuing this objective. An inter-ministerial committee is slated to soon present the conclusions of a re-examination of the law’s objectives.

³¹ For example, by building small apartments in development towns that attracted weak populations from among the new immigrants because of their low price. See **The Development Towns**, p. 13.

Figure 1: Socio-Economic Indexes by Districts, 2008 (in %)



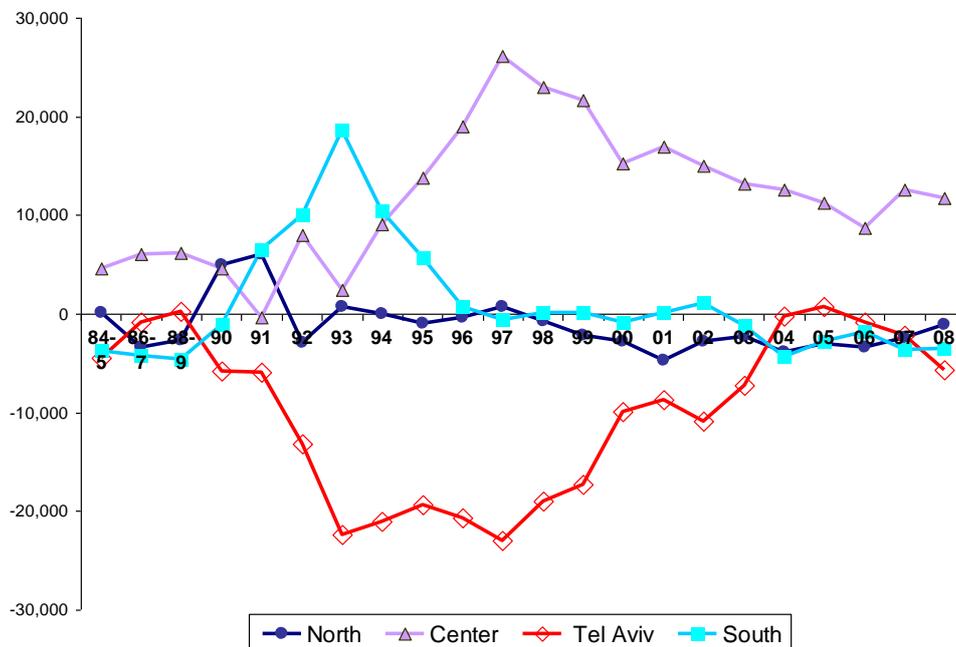
Source: Table 12.4 Statistical Abstract of Israel 2009, Central Bureau of Statistics; Poverty and Social Disparities Report 2008, the National Insurance Institute, p. 22.

35. **The creation of a dual economy as a result of opening the economy to the global market:**

- **The opening up of the Israeli economy to world markets in the 1990s led to a change in the composition of the branches of the economy:** Alongside an increase in the relative importance of the branches of the knowledge-based industries and specifically the high-tech sector, the importance of labor-intensive traditional industries declined.³²

³² Joseph Schumpeter calls this phenomenon [Creative Destruction](#). Regarding the need to adapt to change as part of economic development policy, see: [Leapfrogging – Version B](#).

Figure 2: Internal Migration by District, 1984-2008 (in 1000s)



Source: Table 2.18 Statistical Abstract of Israel 2008, Table 2.18 Statistical Abstract of Israel 2009; Table A: Internal Immigration Between Communities by District and Region, Central Bureau of Statistics.

- **As a result, the Tel Aviv metropolitan area became a financial center and one of the world’s leading centers of high-tech entrepreneurship** – The Tel Aviv metropolitan area began to increasingly centralize most of the economic, culture and employment opportunities in Israel, while becoming an international hub for high-tech industries, venture capital funds and financial services.³³
- However, despite attempts to structurally change and adapt industrial branches and human capital, **the periphery did not succeed in adapting itself to the challenges of globalization.** This was despite attempts to bring in technology-oriented companies.³⁴ For example, when sewing workshops were closed in the North and transferred to the Far East, many of the

³³ The term “between Hadera and Gedera” that is commonly used in public discourse in Israel expresses the existence of a boundary separating two “states” – the state of Tel Aviv (central Israel) in contrast to the Negev and the Galilee (the periphery). See [The Missing Link](#), p. 9; Soffer, A. and Bystrov, E., [Tel Aviv State: A Threat to Israel](#) (Haifa: 2006), pp. 28-39 (hereinafter: [Tel Aviv State](#)).

³⁴ See Schwartz, D., “The Experience of Industrialization in Three Development Towns”, in [The Development Towns](#), p. 153.

workers who lost their jobs encountered difficulty in finding alternative employment.³⁵

- **As a result, the periphery continues to lag behind the center in various indexes** such as rates of employment, percentage of eligibility for matriculation, income level, and even life expectancy.³⁶ Largely as a result of this, many of the local authorities in the periphery experience difficulties.³⁷ A clear expression of the periphery's unattractiveness is the trend of negative migration.³⁸

³⁵ In the past, similar processes also took place in rural regions in Brazil that had specialized in agriculture. See: Bar-El, R. and Schwartz D., [Regional Development for Growth with Equity: The Ceara \(Brazil\) Experience](#), Ben-Gurion University (hereinafter: **Regional Development for Growth with Equity**).

³⁶ See: [Health and Social Profile of The Localities in Israel 1998-2002](#) (Jerusalem: Ministry of Health and Central Bureau of Statistics, 2006), pp. 41-44 (in Hebrew); State Budget, Proposal for Fiscal Year 2009-2010 (Ministry of Finance, 2009), p. 69 (in Hebrew); [Population Aged 15 and Over, By Civilian Labor Force Characteristics, District and Sub-District of Residence, Localities Numbering 100.000+ Residents and Sex](#), Chart 12.4, Statistical Abstract of Israel (Jerusalem: Central Bureau of Statistics, 2009).

³⁷ Hananel, R., "Development Cities and Distributive Justice: The Politics of Regional Planning and Lands Allocation in Israel", in **The Development Towns**, p. 119.

³⁸ Data from the Central Bureau of Statistics shows consistent negative migration during the past two decades from the southern and northern districts. On the other hand, the center recorded a positive migration balance. See: [Selected Data from the New Israel Statistical Abstract No. 60](#), 2009 (in Hebrew); [Internal Migration Between Localities By District and Sub-District, 1984-2005](#).

Chapter 1: The Challenge of Developing the Periphery

The Current Mindset: Israel is one region and should thus be developed from the center

The prevailing mindset on how to develop Israel's periphery rests on the following basic assumptions:³⁹

36. **The periphery is weak. Therefore, it needs to be strengthened externally** – The prevailing mindset holds that because the periphery lacks its own growth engines, high-quality human capital, and a strong business foundation, it also lacks the ability to prosper economically. Therefore, it can only develop by outside sources, through one of the following policy tools:⁴⁰
- **In the short term, the government should offer incentives to companies that provide any type of employment. Such a policy emphasizes the quantity of jobs, and not their quality** – The Government of Israel grants tax breaks and offers subsidies to companies that build factories in the periphery. In most cases, these companies receive government assistance based not on the quality of employment they provide, but rather on the quantity;⁴¹
 - **In the long term, the government should fund major projects that have the potential to generate systemic effects.** Such large projects can have long-term impact on one of the peripheral regions. Examples of such projects include setting up an Intel factory in Kiryat Gat, transferring IDF bases to the Negev, and establishing a medical school in the Galilee.

³⁹ The prevailing mindset refers to “the conceptual, interpretative system” by which one interprets, understands and contends with different situations. This conceptual system is expressed in what people do, say, and write. It also affects the decisions they make and policies they implement. For additional information, see: Lanir, Z., “[The Phenomenon of the Fundamental Surprise](#),” **the Praxis Institute**, 2006, (in Hebrew). The conceptual, interpretative system described here is that of the government, local authorities, the third sector, and the business sector, all of which are engaged in developing the periphery.

⁴⁰ The World Bank invokes a similar view, namely that economic activity in metropolitan areas will naturally trickle down to other regions. See: The World Bank, [World Development Report 2009: Reshaping Economic Geography](#), p. 93 (hereinafter: **Reshaping Economic Geography**).

⁴¹ See: Ministry of Industry, Trade and Labor regarding [An Assistance Track for Establishing Change-Generating Factories in the Periphery in Israel](#), July 8, 2009 (in Hebrew). Also see: Arlozorov, M., “[How Much Does Each Worker in the Periphery Cost the State?](#)” **TheMarker**, August 3, 2009 (in Hebrew).

Because these projects are of unprecedented scale, only the central government can drive them;⁴²

- **Immigration of strong communities from central Israel will strengthen the periphery** – The Government of Israel often assumes that part of the reason the periphery lags economically is a dearth of high quality human capital.⁴³ Therefore, it provides incentives for internal migration of especially young educated professionals to the periphery.⁴⁴
- **The distance between the periphery and the country's center should be narrowed by building a network of roads and railways** – The geographic distance from the center is perceived as the main market failure hindering the development of the periphery.⁴⁵ The assumption is that the high cost of living in central Israel will only encourage migration of strong populations to the periphery if they are able to commute daily to central Israel, where most of the economic activity is concentrated. Additionally, it would encourage companies and firms to set their business in the periphery, as transportation costs would be reduced.
- **The government is the principal engine for development in the periphery; local municipalities are weak** – The prevailing view is that the government is responsible for the economic development of outlying regions, which is seen as a national objective.⁴⁶ Local government in the periphery is usually perceived as incapable of bearing the responsibility of development due to its weakness and concerns about unsound practices.⁴⁷

37. **Israel is a small country that can function as a single economy without distinct regional differences** – The prevailing view in the government is that due

⁴² Based on a conversation with Yishai Sorek, Ministry for Development of the Negev and the Galilee, March 18, 2009.

⁴³ One of the goals of the [Daroma](#) Plan, as well as the [Makov Committee Report](#) (The Committee for Developing the Periphery and Improving Traditional Industry), Ministry of Industry, Trade and Labor, 2007, hereinafter: **Makov Committee Report**), is to attract high-quality population to the periphery regions. In addition, the Ministry of Development of the Negev and the Galilee plans to encourage 300,000 people to move to the Galilee and the Negev during the next decade. See: **Vision for Developing the Galilee 2010-2020** (Ministry of Development of the Negev and the Galilee, 2009), pp. 9-13 (in Hebrew).

⁴⁴ Tax benefits comprise about 30% of the total public expenditure for high-priority regions. See: Zenovar Consultants, [Tools for Encouraging Settlement in National Priority Zones](#) (submitted to the Ministry of Construction and Housing, 2006), p. 83 (in Hebrew). (hereinafter: **Tznobar Report**).

⁴⁵ For example, the [Peripherality Index of Local Authorities](#) (Central Bureau of Statistics, 2004) weighs the distance from the center and other urban centers in order to determine the extent of a community's peripherality.

⁴⁶ Taken from a conversation with Haim Blumenblatt, former periphery advisor of the Budget Department in the Ministry of Finance and the CEO of Daroma-Idan Hanegev company (March 15, 2009).

⁴⁷ For additional information, see: Ben-Bassat, A. and Dahan, M., The Crisis of the Local Authorities – Efficiency Versus Representation (**The Israel Democracy Institute**, 2008) (in Hebrew).

to its small size, Israel can function as a single economic unit whose prosperity emanates from the center,⁴⁸ as the country's short distances do not justify addressing the variance between regions;

- **Therefore, uniform policy tools can be applied** that encourage homogeneous economic activity throughout the country, **with little attention to regional characteristics**. For example, it is supposedly possible to emulate success stories from central Israel in the periphery, particularly in the high-tech field.⁴⁹ In addition, the basic package of goods and services offered to businesses by the Ministry of Industry, Trade and Labor are uniform across the periphery – whether in the Galilee or the Negev.⁵⁰

In Reality: Minimal Success in Narrowing Gaps Vis-à-Vis Central Israel

38. **In practice, the government's policy did not facilitate the creation of sustainable growth engines nor help to bridge economic, social and environmental disparities between the periphery and central Israel:**

- **'Importing' companies did not create sustainable growth engines**, failing to have a long-term impact on unemployment rates and raising the standard of living to that of central Israel. (See Diagram 1 in the previous chapter.) For example, the Intel factory which was built in Kiryat Gat had almost no effect on the standard of living of its residents.⁵¹ Studies show that incentives alone, absent measures to support them – such as professional training, collaboration with research institutions, and grooming local leadership – are not effective for long-term regional development;⁵²

⁴⁸ See: PM Netanyahu's remarks: "We have a very small country. It is absurd for us to be thinking of the concept 'periphery;' It is absurd for it to take hours to get from the periphery in the North to Tel Aviv. The same goes for the south, the Arava and the suburbs of Beer Sheba. We're going to put an end to this farce." ([The Galilee Conference](#), October 13, 2009).

⁴⁹ See: [Remarks by the Minister of Finance](#), Yuval Steinitz, at the Galilee Conference (October 13, 2009) (in Hebrew).

⁵⁰ For example, the '200 Times 2' Program grants uniform assistance to exporters in the periphery. For additional information, see: the website of the Ministry of Industry, Trade and Labor, the [200 Times 2 Program](#) (in Hebrew).

⁵¹ Only 15% of Intel employees live in Kiryat Gat, and most of them are unskilled labor. See: Felsenstein, D. and Freeman, D., "Analysis of the Inter-Regional Economic Effects of the Industrial Park," in **Global Development in a Local City – The Local and Regional Impact of the New Industrial Park in Kiryat Gat** (Ben-Gurion University and the Hebrew University of Jerusalem, 2005) p. 42 (in Hebrew).

⁵² The World Bank found that monetary incentives alone, such as subsidies and tax breaks, when offered to attract factories to lagging regions, did not generate sustained economic growth. See: [Reshaping Economic Geography](#), p. 255. In Israel too, the Encouragement of Capital Investment Law was found to have only a marginal impact on employment rates in the periphery. In cases where success was achieved, there were complementary measures on the local level. For additional

- **Tax breaks alone failed to attract people to the periphery** – The periphery suffers from ongoing negative migration (See Diagram 2 in the previous chapter). Studies show that proposed tax benefits neither attracted new residents nor benefitted the local population, which for the most part did not qualify for the tax breaks;⁵³
- **Although important in and of itself, developing infrastructure to reduce travel time between the periphery and central Israel did not drive regional development or narrow socio-economic gaps** – Investment in infrastructure and in transportation in particular undoubtedly promotes growth. Such investment supports industries that rely on economies of scale, and need convenient market access. Additionally, investment of this kind can bring employment to rural and distant areas.⁵⁴

However, without a comparative advantage or a strong array of services in the fields of health, education and welfare, infrastructure alone will not drive regional development.⁵⁵ Moreover, without a distinct comparative advantage, convenient transportation options may even result in the opposite objective:⁵⁶ that is, a strong population that used to live and work in the periphery now has the option to reside in central Israel and commute daily, as many lecturers at Ben-Gurion University of the Negev in fact do.⁵⁷

Moreover, a national transportation infrastructure only provides a partial solution for populations that rarely travel long distances due to cultural conventions or a low income level, such as some of Israel's Arab citizens in the periphery.⁵⁸

information, see: Schwartz, D. “The Experiment of Industrialization in Three Development Towns,” in **The Development Towns**, p. 153; Moav, O. and Reingewertz, Y., “[The Law for the Encouragement of Capital Investments and Its Impact on the Employment in the Periphery, 1985-2004](#),” the **Socio-Economic Institute, Shalem Center**, 2007, p. 13 (in Hebrew).

⁵³ See: the **Zenovar Report**, p. 40.

⁵⁴ See: **Building Competitive Regions**, pp. 53-55.

⁵⁵ Based on a conversation with Raphael Goulet, Head of Unit and Alejo Lopez Sanchez Ramon, International Relations Officer – Communication, Information and Relations with Third Countries, Directorate-General for Regional Policy, European Commission, (November 4, 2009).

⁵⁶ See: “[Summary of the Roundtable on Transportation and Regional Development](#),” The Geography Department and The Federman School of Public Policy and Government (The Hebrew University of Jerusalem, 2009) (in Hebrew).

⁵⁷ See: Sinai, R., “[The Train to Work? That’s Only for Those of Means](#),” **Haaretz**, October 5, 2004 (in Hebrew).

⁵⁸ Generally, the World Bank supports reducing the 'economic distance' between outlying regions and centers of economic activity. However, in cases in which there is a wide disparity between the nature of the population in the target area and the center of economic activity, investment in infrastructure is liable to turn out to be ineffective. For additional information, see: [Reshaping Economic Geography, Chapter 8: Unity, Not Uniformity](#).

- **The government finds it hard to implement decisions. Some of the local authorities are growing stronger** – Many government decisions pertaining to the periphery are not implemented; those that are implemented rarely result in a significant improvement.⁵⁹ Nonetheless, some of the local authorities succeed in promoting local economic development, evident in Yokneam and Netivot, for example.⁶⁰
- **Uniform government policies do not address differences between regions, entrepreneurs and communities** – Opportunities for economic development in a given region are shaped by its unique characteristics, such as demographics, institutions, or history.⁶¹ For this reason, there is a preference for a policy that takes into account the regional context as a whole, as seen in some local MATI centers (centers for fostering entrepreneurship).⁶²

The Relevancy Gap: In a Global Era, Regional Diversity Should be Leveraged⁶³

As noted earlier, the perception that Israel is a single region and should therefore be developed from its center, was shaped several decades ago and requires revision in light of the following trends:

39. **Despite its small size, Israel is host to a number of regions with significant variance**, a result of its peculiar geographic location at the intersection of different continents and climates.⁶⁴ In a travel journal from the 19th century, the country is portrayed as an array of “naturally separate territories, each distinct

⁵⁹ Thus, many government decisions giving preference to the periphery were not implemented in practice. See: a lecture by Dabash, D., a former mayor of Mitzpe Ramon, at the Sderot Conference for Society (November 17, 2009); Also see: [The Missing Link](#), p. 28.

⁶⁰ See: Yagna, Y., “[Celebration in Netivot: A Huge Shopping Center Inaugurated](#),” *Haaretz* (March 25, 2009) (in Hebrew). This trend already began in the 1980s and 1990s, when a number of mayors were prominent in leading economic development in their city, including Meir Sheerit in Yavneh, Zeev Bielski in Ra’anana, Simon Alfasi in Yokneam and Meir Nitzan in Rishon Letzion. Based on a conversation with Prof. Daniel Felsenstein, head of the Institute of Urban and Regional Studies, The Hebrew University of Jerusalem (July 30, 2008).

⁶¹ This is in contrast to high-science industry parks that were built without any regard for the context, conditions and local characteristics. The OECD calls such parks “cathedrals in the desert.” See: *Building Competitive Regions*, p. 9.

⁶² For example, MATI Ra’anana specializes in business mentoring for high-tech initiatives, while the Western Galilee MATI center specializes in alternative medicine. See the website of [MATI Ra’anana](#).

⁶³ A relevancy gap signifies the gap between an organization or government’s mindset and the changing reality, expressed in its policies on the ground. It is based on Zvi Lanir’s work, mentioned above.

⁶⁴ See: Sagi, Y., “[Open Areas – The Foundation for Preserving the Character of the Country](#),” *The Open Landscape Institute*, 2000 (in Hebrew).

from the other in its characteristics.”⁶⁵ Since ancient times, this geographic diversity has shaped ways of life and economic activity in the region.⁶⁶

40. **Regional uniqueness constitutes a comparative advantage in a globalized world** – In a world in which similarities between economies are growing, uniqueness becomes an added value. To a large extent, the economy functions as a global arena in which different regions (and not necessarily states) compete with one another via their local qualities. For example, if in the past most of Israel’s agricultural production was marketed via a single company (Agrexco), today, different regional brands market their own goods (for example, peppers from the Arava region or apples from the Golan Heights).⁶⁷
41. **Regional development requires a systemic view that integrates economics, society, local politics and environment factors** – Studies show that regional development focuses on one aspect and neglects others, will fail to generate lasting improvement. For example, if investment in infrastructure is not accompanied by stressing the importance of protecting it, it will fail to achieve viable success.⁶⁸ In contrast, benefits given as part of the Encouragement of Capital Investments Law, such as day care centers or assistance in professional training, were successful in places like Migdal Ha’emek and Ma’alot Tarshiha, since they were characterized by a holistic worldview.⁶⁹
42. **Regional leapfrogging rests on the inclusion of *all* sectors in a given region** – Investment in the periphery that does not properly address the needs of minority groups,⁷⁰ gives rise to alienation and hostility, with the resultant difficulty of fostering cooperation, innovation and growth.⁷¹ In the Negev region, for example, the absence of a solution to the problem of unrecognized Bedouin villages and continued neglect of their population is linked to an increase in damage to private

⁶⁵ This description appears in a book by J. Kitto, “Palestine: The Physical Geography and Natural History of the Holy Land,” which was published in 1841. See: Ben Aryeh, Y., **The Rediscovery of the Holy Land in the 19th Century** (Jerusalem: Carta, 1970).

⁶⁶ The division of land to the twelve tribes was based on the land’s varied landscape. For example, valleys, river channels and mountain-valley junctions defined tribal borders. See the Book of Joshua, Chapter 15, verses 2-5.

⁶⁷ Based on a conversation with Natalie Gutman-Chen, First Secretary - Commercial Affairs, Mission of Israel to the European Union (October 27, 2009). For additional information on the rise of regional economies as engines of national economies, see: [The Missing Link](#), p.10.

⁶⁸ Based on a conversation with Ido Shelem, CEO and founder of Bridge to the Future NGO (May 20, 2010). For additional information, see: the website of [Bridge to the Future](#).

⁶⁹ See: Schwartz, D., “The Experiment of Industrialization in Three Development Towns,” in **The Development Towns**, p. 167.

⁷⁰ Minority populations comprise about half of the population in the periphery regions. See: [Data of the Central Bureau of Statistics](#).

⁷¹ Based on a conversation with Prof. Rassem Khamaisi, Department of Geography, University of Haifa (June 3, 2010).

property and public infrastructure, and to a general decline in the level of security across the region.⁷²

The Implication: Israel's Periphery Regions are ill-prepared to Compete Globally

Inadequate Perception

43. **Israel's development policy is anchored in the perception that it constitutes a single economic region, which makes it difficult to take advantage of regional uniqueness.** As a result, Israel overlooks a significant additional engine of growth crucial in today's globalized world. To this end, a relevant conception and policy tools should be formed in order to identify regional assets.
44. **National discourse merely focuses on narrowing the gaps between the periphery and central Israel; instead, Israel needs to focus on the unique and global potential of its various regions.**⁷³
45. **Moreover, while a great emphasis is given to the *quantity* of jobs created there is a need to focus on the *quality* of jobs created, i.e., their productivity level, which is essential for creating globally competitive regions.**

Inadequate governmental structure

46. **The current government structure does not sufficiently support economic development in a global era –**
 - **Current municipal borders are not conducive to regional economic activity, creating friction and preventing cooperation** – The logic behind these borders is rooted in politics and the early days of the Zionist movement in the Land of Israel. These considerations are not in line with geographic, economic or demographic realities.⁷⁴ Moreover, the revenue structure derived from municipal tax creates an ongoing tension (zero sum

⁷² Based on a conversation with Prof. Shlomo Hasson, Department of Geography, The Hebrew University of Jerusalem (June 7, 2010). One of the most prominent recent events was the incident in which the farmer Shai Dromi shot a Bedouin burglar who had entered his property. See Inbari, I., Bindar, O. and Priel, M., "[The State is to Blame for the Bedouins Falling into Crime](#)," NRG (January 15, 2007) (in Hebrew).

⁷³ For example, TAMA 35 National Master Plan and the Makov Report. The Makov Report recommendations include the formation of clusters, and TAMA 35 National Master Plan recommends regional employment zones. However, neither of the two plans links the subject of regional development to the unique and global characteristics of each region. See: [Tama 35 - Integrated National Master Plan for Construction, Development and Preservation](#), (Jerusalem: Ministry of Interior, Planning Administration, 2005) (hereinafter: **TAMA 35**) Volume of Policy Measures, p. 170 (in Hebrew).

⁷⁴ For example, Sha'ar Hanegev Regional Council includes mainly kibbutzim, while the neighboring regional council, Sedot Negev, includes primarily moshavim and national-religious kibbutzim.

game)⁷⁵ between neighboring municipalities. In addition, there is a lack of regional statutory frameworks for cooperation.⁷⁶

- **The Israeli Government fails to allocate resources in a systematic manner that is favorable to regional development** – Some of the funds given to local municipalities are the result of ad-hoc requests, with little coordination between governmental agencies, and thus fail to create a systematic regional impact. This phenomenon is exacerbated by the weakness of the central government district level (i.e., the Northern District at the Ministry of the Interior) that could have created a comprehensive view of a given region's needs.

In conclusion,

47. **Without a conceptual change, Israel's periphery will find it difficult to leapfrog and to curb negative migration.**

⁷⁵ The ministries of Finance, Interior, and Industry, Trade and Labor are working to form regional industrial zones that will address this problem. Based on a conversation with Avi Feldman ADV, director of the Negev and Galilee Development Center at the Ministry of Industry, Trade and Labor (March 11, 2010).

⁷⁶ While numerous committees (for example, the Zanbar Committee and Kovarsky Committee) have recommended increased cooperation between neighboring local authorities, in practice, regional frameworks have not been formed. See: [The District Level in Government Ministries](#), in Annual Report 54B (State Comptroller's Office, 2004) (in Hebrew).

Table 2: Conceptual Gap - Summary

| | Current strategy | Changing reality | Implications |
|---------------------------------------|---|--|---|
| What is the goal? | Government policy is to narrow gaps between the periphery and the center. | Gaps between the periphery and central Israel have not significantly changed. | The need to update the plan to develop the periphery. |
| What is the prevalent mindset? | Israel can and should function as a single economic region, with Tel Aviv as its center. | Despite its small size, Israel's geographic, demographic and cultural diversity is among the highest in the world. | In a global world, local uniqueness has become a comparative advantage. However, Israel is not taking advantage of this untapped potential. |
| What defines a region? | A region's boundaries are artificially defined by the government. The status "periphery" is given to a community by considering its relative distance from Tel Aviv, along with its distance from all other communities across the country. | A region is a geographic area with distinct geographic, historical, demographic and economic attributes, <i>as well as</i> a regional story that relates to the region's vision. | |
| Who should lead? | The government plays the leading role in development. Local authorities are not capable of bearing this responsibility. | Acting on its own, the government is failing to drive development, and has limited tools for encouraging regional collaboration. | |
| What are the policy tools? | Uniform government policies do not address differences between regions. | | The structure, conduct and policy tools must be modified and ready for development in a global era. |
| What is the goal? | Raising the employment level in the short term. | Unemployment rates have not significantly decreased, and industries have not evolved in a meaningful way. | Over the long term, the market's competitive ability and general productivity will be compromised. |
| What is the driving force? | Change will come from 'the outside' by encouraging strong populations, encouraging any type of employment, and reducing travel time to central Israel. | Ongoing negative migration; the periphery is characterized by tensions along ethnic lines; infrastructure alone cannot generate regional growth. | The need to institute a regional development policy that takes into account unique assets. |

Chapter 2: Development Policy Aimed at Leapfrogging the Periphery

48. In light of these implications, **Israel's development policy must be refined. Israel should be treated as a country comprised of several regions, each capable of developing independent growth engines based on their unique assets.**

49. **A regional asset is a local economic, social or environmental quality – that is not movable and has the potential to compete nationally and globally.** This quality can be local expertise, climate, history, heritage, nature and landscape, modes of work and so on. The regional asset can also derive from a regional weakness. For example, a small region in northern Sweden (Arjeplog) is taking advantage of its difficult weather conditions to establish a new industry of testing vehicles under extreme weather conditions.⁷⁷ Likewise, it is possible to imagine regions in the Negev serving as a global laboratory for the fight against desertification.

50. **As noted, regional assets have become a comparative advantage in the global world** – Globalization allows human capital, goods and knowledge to rapidly and easily move from place to place. It has also created uniform standards and great similarity among national economies. Consequently, a country's competitive advantage lies in local and regional assets that cannot be transferred from one place to another.⁷⁸ This conception guides the regional development policy of the OECD and was also recently adopted by member states of the European Union.⁷⁹

51. **Ensuring that a regional asset generates economic value requires innovation** – In the early days of globalization, revenues came mainly from making production processes more efficient and lowering production costs. However, today's economic growth derives more from access to high-quality human capital, and innovation.⁸⁰ Studies show that new knowledge based on innovation is the

⁷⁷ For additional information, see: **Building Competitive Regions**, p. 14.

⁷⁸ For additional information, see: M. E. Porter, "Clusters and Competition" in **On Competition** (Boston: Harvard Business School Publishing, 1998), p. 237 (hereinafter: **Clusters and Competition**).

⁷⁹ For additional information, see: Commission of the European Communities, **Green Paper on Territorial - Cohesion Turning Territorial Diversity into Strength**, (Brussels: 2008).

⁸⁰ See: **The Innovation Driven Economic Development Model** – Report prepared for The Bay Area Council Economic Institute, 2008. p.10 (hereinafter: [The Innovation Driven Economic Model](#)).

chief driver for generating economic value. Unique assets should thus be seen as a platform for promoting innovation.⁸¹

52. **Israel has already succeeded in leveraging its national assets in an innovative way, thereby achieving a global comparative advantage** – In the early 1990s, Israel successfully leveraged – via foreign investment and its relationships with Jewish communities abroad – investments made in the defense establishment in order to create a flourishing ICT (information communication technologies). At the time, there was a great global demand for expertise in this field.
53. **In the same vein, we call for leveraging the dormant potential of Israel's regional assets in order for them to become globally competitive.**

Box 1: The Regional Lab in Acre and Match Asher – Competing in the Global Wellness Industry

The regional laboratory in the Acre and Match Asher region exemplifies the proposed strategy (see the Executive Summary).

One of the prominent assets identified in the initial mapping was the region's qualities that relate to the health industry. The Western Galilee region possesses abundant knowledge on subjects such as therapeutic qualities of olive oil, medicinal plants, natural cosmetics and natural food. This local expertise, together with a great potential for tourism, may create a unique growth engine and turn the region into a significant player in the global wellness market – an industry with an annual turnover of about \$600 billion.⁸²

The vision for the region will address the development of technologies, services, products and methods, and tourism – related to promoting a healthy lifestyle for healthy people. The goal is to allow the Western Galilee to become globally competitive with other regions such as the Swiss Alps, Austria's Tyrolean mountains and central Finland.⁸³

⁸¹ For additional information on the new growth theory, see: Cortright J., "New Growth Theory – Technology and Learning", **Reviews of Economic Development Literature and Practice**, No. 4, 2001. (hereinafter: **New Growth Theory**). A good example in Israel's periphery are the factories such as Plasan Sasa and Iscar, which compete on the global level, based on innovation that leverages the local experience. See: Menachem S., and Gavison, Y., "[The Secret of the Success of Plasan Sasa](#)," **TheMarker**, December 17, 2009. (in Hebrew)

⁸² For additional information, see: P. Z. Pilzer, "[The Wellness Revolution: How to Make a Fortune in the Next Trillion Dollar Industry](#)", Second Edition, (John Wiley & Sons, 2007, New Jersey).

⁸³ See: the website of [Alpine Wellness Austria](#).

The Challenge: Identifying Regional Assets and Encouraging Regional Innovation

54. **A policy based on leveraging regional assets should address two central challenges:** The challenge of identifying the potential in regional assets and the challenge of creatively combining these assets to achieve regional innovation.
55. **Challenge 1: Identifying the potential of assets in the region and/or obstacles that hinder their realization**
- **Identifying regional assets requires coordination between the government and entrepreneurs in the field** – leveraging regional assets requires overcoming the information gap between local entrepreneurs and the government. The entrepreneurs identify the region's potential, yet are unlikely to undertake financial risk in the absence of relevant public goods and services. The government, for its part, will not invest resources in regions where the demand or potential is not expressed.⁸⁴ For example, the Western Galilee region specializes in cutting tool industries and a main obstacle hindering the industry's development is a lack of suitable professional training.⁸⁵
 - **The structure of local government in Israel makes it difficult to identify the potential of regional assets** – A regional asset crosses municipal boundaries such as a river, a coastline, or a university campus. Leveraging an asset therefore requires coordination between the relevant stakeholders which may come from a number of local authorities. The current structure of local government makes such coordination difficult.
56. **Challenge 2: Encouraging regional innovation** – Assets such as natural or historical landmarks do not in and of themselves constitute a competitive advantage for creating industries, services and high-quality jobs. The unique value of the region derives from creatively combining regional assets.⁸⁶ For example, the Arava combined geographic assets (inexpensive land, solar radiation) and human assets (knowledge in the field of biotechnology) in order to establish a

⁸⁴ This problem is known as the “coordination problem”. For additional information, see: **One Economics**, p. 107.

⁸⁵ Based a conversation with Alon Schwartz, CEO of the Association of Craft and Industry, Haifa and the North (December 31, 2009). According to Ra’anan Dinur, former director-general of the Prime Minister’s Office, the government initiated such professional training for the cutting tool industry in the region. However, it was not accompanied by appropriate incentives for the local industry, and therefore missed its opportunity.

⁸⁶ For additional information, see: Romer P. M., “[Economic Growth](#)”, in Henderson D. R. (ed.), **The Concise Encyclopedia of Economics**, (Liberty Fund, 2007), p. 2 (hereinafter: **Economic Growth**).

company that produces algae for the food supplements industry.⁸⁷ As noted, Israel is characterized by geographic and demographic diversity, containing great potential for linking assets. In addition, it excels in entrepreneurship required for promoting regional innovation. However **without developing high quality human capital in each these areas and creatively combining different regional assets, regional innovation will not be achieved.**

Box 2: The Regional Lab in Beit Shemesh and Mateh Yehuda – the ‘Slow Life’ Region

Local leadership in the Beit Shemesh and Mateh Yehuda region has identified unique regional assets such as the landscape, the biblical heritage, its convenient geographic location between Tel Aviv and Jerusalem, as well as existing initiatives in the region – boutique wineries, ethnic restaurants, bicycle trails and artist workshops – as the region’s unique and global potential.⁸⁸

The process mapped regional assets and combined them to create a regional story that includes themes of ‘a balanced life’ and ‘a harbinger of peace’. This story reflects the relaxed and slow lifestyle the region offers, which corresponds with the global trend of slow regions and slow food.⁸⁹ The slow movement emerged as a response against the hectic materialistic life, and thus promotes the production of local products, living in small communities, and environmental awareness.

Regional Mobilization for Global Competitiveness

57. **Regional mobilization is designed to bring together a number of local authorities, organizations, entrepreneurs and stakeholders within a defined geographic area around regional assets with the aim of creating a unique story that can compete globally and facilitate leapfrogging.** Such mobilization termed a “micro-region” by the OECD and defined as a union of local authorities that seek to promote shared development objectives. One example of this is the Emilia Romagna region in northeast Italy that focuses on various aspects of culture through joint festivals, attractions and art exhibitions. This enhanced coordination has contributed to an increase in local productivity.⁹⁰

⁸⁷ See: the website of [Alga-Tech Company](#). Another case study is Germany, which developed a new branch of built-in electrical devices that combines expertise in two industries: the manufacturing of electrical home appliances and home furnishings. **Clusters and Competition**, p. 241.

⁸⁸ For additional information, see: the website of [Regional Leapfrogging in Bet Shemesh and Mateh Yehuda Region](#). (in Hebrew)

⁸⁹ For additional information, see: the website of [The Slow Movement](#); And also: the website of the [movement to promote Slow Food](#).

⁹⁰ See: **One Economics**, p. 108; also: **Building Competitive Regions**, pp. 100, 103.

- **Regional mobilization does not require the merging of local authorities; it is a voluntary and relatively flexible structure** based on the commitment to promote a shared story. Over time, provided that local interests change, actors can form a new regional framework that would be more relevant to their needs.⁹¹
- **Existing collaborations may often form the basis for regional mobilization** based on a prior provision of shared services or goods. In addition, existing collaborations give rise to regional innovation and competitiveness.⁹²
- **Regional mobilization may require preliminary local processes** – Local authorities that are economically or politically weaker need to attain a level of internal ripeness before they can form part of a successful process of regional mobilization. In some cases, a preliminary process of cultivating local leadership and community mobilization is required to allow a given community to become more cohesive and therefore better prepared to take part in the regional story. These local processes are ongoing and should accordingly be reinforced on a regular basis.⁹³

58. **Regional mobilization has two main goals:**

- **To indicate the region’s potential expertise to the government as well as to domestic and foreign markets;**
- **To promote regional innovation by creatively combining regional assets and bringing together various individuals and communities residing in the region.** In this manner, regional mobilization may cause activities in one field to boost the value of those in another, resulting in a new comparative advantage for the region.⁹⁴

⁹¹ See: **Building Competitive Regions**, p. 108.

⁹² For example, in Wadi Ara in Northern Israel, the Sikkuy NGO initiated cooperation between Jewish and Arab local authorities. See: **An Outline for Jewish-Arab Cooperation between Municipal Authorities**, 2009.

⁹³ For example, the establishment of vacation cabins in Bet Jan required preliminary community work. Based on a conversation with Ido Shelem, CEO and Founder of [the Bridge to the Future](#) NGO (May 20, 2010).

⁹⁴ See: **The Innovation Driven Economic Development Model**, p. 11.

Box 3: The Human Technology Region

The Jyväskylä region in central Finland is a prime example of regional mobilization that coalesced around a new regional story: the Human Technology Region.⁹⁵

In the 1990s, Finland experienced a deep economic recession that led to the closure of many businesses, a loss of 9,000 jobs and a steady rise in unemployment rates. This recession led to a structural change in the region and accelerated its transition to a knowledge economy.⁹⁶

In 1996, five local authorities in central Finland, led by Jyväskylä, formed a regional corporation for business development with the aim of fostering an environment supportive of businesses and designed to implement an economic regional development policy. In 2000, the University of Jyväskylä also initiated an integrative strategy which focused on the region's unique assets, primarily the high-tech industry and its associated human capital.

The objective was to create a global brand that would allow local companies to achieve global recognition and transform Jyväskylä into a global competitive region supportive of human technology companies.

This specific case of regional mobilization – named The Human Technology Region – combines information technologies with a human perspective. In other words, it aspires to make technology an inseparable part of the lives of local people. For example, the region includes companies that are examining how to adapt technologies to the needs of the elderly, as well as companies specializing in real-time communication between parents in the workplace and their children at school.

The regional corporation for business development was later joined by representatives of all the relevant stakeholders (entrepreneurs, institutions of higher education, international consortia, and centers of employment and economic development) reflected in a strong public-private partnership. **The initiative contributed to an increase in regional growth rates and transformed the region into a global success story.**

⁹⁵ See: S. Kaikkonen, **The Human Technology Region**, (Jyväskylä Regional Development Company 2000) (hereinafter: **The Human Technology Region**); And also: the website of [The Human Technology Region](#).

⁹⁶ See: J. Goddard, H. Etzkowitz, J. Puukka & I. Virtanen, [Supporting the Contribution of Higher Education Institutions to Regional Development: The Jyväskylä Region of Finland](#), (OECD, 2006), p. 14.

Guidelines for Regional Mobilization

59. **These aforementioned pilot projects and international cases suggest that regional mobilization requires a number of steps.** While these steps are presented in a linear fashion, in reality the process of regional mobilization occurs in an interconnected, dynamic manner. The proposed steps are the result of accumulated experience lasting two years which involved pilot projects in Israel and the study of global approaches to regional development.

Identifying Assets and Relevant Stakeholders

60. **Public discourse should focus on identifying regional assets, rather than solely focusing on socio-economic gaps.**⁹⁷ Identifying and leveraging these assets may depend on collaboration that does not yet exist, or on sources of burdens in the region. For example, the Ariel Sharon Park project managed to transform the Hiriya garbage dump into a green space which hosts a recycling plant.⁹⁸
61. **Shifting the discourse requires assembling regional stakeholders,** in either a physical or virtual space.⁹⁹ This assembly should include business, social, and environmental entrepreneurs, as well as institutions and local authorities that either shape the new regional story or are influenced by it.

Formulating a Regional and Global Story

62. **The regional story should serve as the overarching regional vision and a source of inspiration for local entrepreneurship.** Through the integration of regional assets, this vision will define priorities, prevent the dispersal of resources, and serve as a common thread and a link between the various initiatives in the region. Ideally, it will eventually become the regional brand.
63. **Developing the regional story requires identifying the right coalition in order to compete globally –** On the one hand, regional development must include a critical mass of companies and local authorities. On the other hand, it should remain small enough to preserve an intimate network based on personal

⁹⁷ This type of mapping process is performed in projects led by the Reut Institute, Partnership 2000, and the Praxis Institute in the Bet Shemesh and Mateh Yehuda region and in the Acre and Mateh Asher region. See: [Regional Leapfrogging in an Integrative Approach](#) (in Hebrew). For additional information, see: **The Innovation Driven Economic Development Model**, pp. 27-28, 31.

⁹⁸ See: the [Ariel Sharon Park](#) Website.

⁹⁹ Currently no single, fixed method exists as the process should evolve naturally as part of the regional context. For example, the Sikkuy NGO's project in Wadi Ara began with mobilizing mayors in the region, while the project of Partnership 2000, the Praxis Institute, and the Reut Institute in the Bet Shemesh region began with mobilizing local entrepreneurs. See: **An Outline for Jewish-Arab Cooperation between Municipal Authorities**, pp. 19-20. For additional information, see: the Reut Institute concept [Local Partnerships](#) (in Hebrew).

relationships.¹⁰⁰ Thus, the optimal size of a coalition in a given region is likely to vary in accordance with regional assets and other considerations.

64. **The story's range of influence determines the region's boundaries**¹⁰¹ – The region will include local authorities, communities, organizations, and businesses whose assets and expertise are consistent with the spirit of the regional story. For example, while the Western Galilee cluster does not currently include Karmiel and Misgav, its regional story, partially based on the high-tech industry, demands their inclusion. This is because Misgav is characterized by high-quality human capital, and Karmiel is home to the ORT-Braude College.
65. **A regional story requires the inclusion of most of the populations in the region** – The regional story must bridge the diversity between different communities and, to the extent possible, take into consideration their various interests so that the fruits of regional development will reach the majority of the population and improve everyone's quality of life. It is important to note that in the periphery regions, a regional story must include non-Jewish sectors as well.
- Furthermore, bringing together different populations in itself may lead to regional innovation** because a significant part of the knowledge regarding regional assets is implicit and embedded in the regular activities of local individuals and communities. Excluding various sectors, particularly in the periphery, hinders the ability to leverage regional assets.¹⁰² **Therefore, a shift in mindset is crucial for the ultimate transformation of demographic diversity into an engine of regional innovation.**
66. **The regional story should be continuously updated in accordance with global trends** – Formulating the regional story is an ongoing process which requires a periodic examination of the changing reality,¹⁰³ in order to ensure that it stays relevant in the context of emerging global trends. Therefore, we recommend conducting an in-depth re-examination of the regional actors and assets at sufficiently regular intervals.

¹⁰⁰ See: **The Innovation Driven Economic Development Model**, p. 8; **Building Competitive Regions**, p. 100; **One Economics**, p. 111.

¹⁰¹ For example, in the reform of “The Special Regions” in Japan, the boundaries of the range of influence of the identified obstacles were defined. See: **Building Competitive Regions**, p. 23.

¹⁰² For additional information, see: **New Growth Theory**, p. 19; and also a conversation with Pezzini M., Deputy Director, Local and Economic Development – LEED, Organization for Cooperation and Economic Development, (November 2, 2009).

¹⁰³ For example, the “Forum of Confrontation Line Communities” is now examining whether this shared framework is still relevant for its members. Based on a conversation with Sivan Yechieli, head of the Kfar Vradim local council (March 23, 2010).

Branding the Regional Story

67. **Branding is one of the final stages in creating the regional story**¹⁰⁴ – A successful branding process will focus on the regional story and market it locally, nationally and globally.

Sustainable branding rests on a preliminary process designed to formulate a long-term vision for the region.¹⁰⁵ This process will likely contribute to the brand's durability over time and reduce the chances of it becoming a meaningless slogan.¹⁰⁶

Gathering the Regional Steering Committee

68. **Regional mobilization should be institutionalized via 'the regional steering committee.'**¹⁰⁷ This forum unites and leads a coalition of committed partners towards investing resources of time, thought, and money. It should facilitate regional development and address opposition by fostering cooperation.¹⁰⁸

- **The steering committee promotes a systemic and multi-dimensional view (addressing economic, societal and environmental issues)** – The committee's wide composition, which reflects most communities, is conducive to holistic policy choices and synergies between the activities in the region. For example, the committee will have to map links between various activities that fall under the regional story, as well as the relationship between those activities and other aspects such as infrastructure, culture, or education.

¹⁰⁴ Branding is a marketing strategy aimed at encouraging consumers to prefer one product over its competitors by creating a unique identity which distinguishes the product from other competitors in the market. Regions, cities, and states make broad use of branding in an effort to gain a competitive advantage in the global world and to attract human capital and investments.

¹⁰⁵ For example, the city of Holon first formulated its vision and only years later hired an advertising firm. Based on a conversation with Hana Hertsman, director-general of the Holon Municipality (November 29, 2009).

¹⁰⁶ In light of the growing popularity of branding processes, some Israeli mayors are choosing random fields to lead the branding in their cities – for example, the city of Yehud brands itself as the sister city of Lugano, Switzerland. See: Rappaport, M. “What’s Good for Lugano is Good for Yehud (and its Mayor)” [Haaretz](#) (July 1, 2006). (in Hebrew)

¹⁰⁷ The regional entity has different names in different places: In central Finland, it is a limited corporation; in the Western Galilee, the association is called a “cluster”; and in projects carried out by Partnership 2000, the Praxis Institute and the Reut Institute, this body is called a “regional steering committee.” The committee can adopt various measures to institutionalize its activity, such as appointing a permanent directorate for the region, scheduling or encouraging formal or informal meetings, forming permanent frameworks for promoting the regional story (such as subcommittees), and mobilizing resources for ensuring the continuation of the project.

¹⁰⁸ Since the regional development process entails a commitment to some shared organizing idea, no activities that undermine this idea should be allowed. For example, if the primary asset in the region is a nature reserve, a business offering tours for off-road vehicles within the reserve is liable to harm efforts invested in developing the region.

- **The initiator of the committee varies according to the regional context** – The initiator of the process can be any of the stakeholders in the region. For example, in central Finland, the initiative for the new regional story came from a public institution (the local university). In Acre and Mateh Asher, as well as in the Judean plains regions, the initiators were Partnership 2000 and the Reut Institute, while in the Western Galilee cluster the initiative came from the local mayors, and was supported by the JDC Israel-ELKA and by the ministries of Interior and Finance.
- **An external factor may sometimes encourage the formation of the committee** – An external entity or constraint (such as a grant or security threat) can be the factor that drives the main actors to reach consensus on regional development.¹⁰⁹

Two Objectives of the Regional Steering Committee

69. **Objective 1: The regional steering committee should link local entrepreneurs and the government** – The committee should be the place where the regional story is formulated and communicated to local communities, businesses, and organizations on the one hand, and to the government on the other hand.
- **Vis-à-vis local actors: setting priorities** – The regional steering committee should prioritize various areas of activity, services, and industries that are consistent with the regional story and necessary for the sake of transparency. In so doing, it reduces uncertainty and encourages regional entrepreneurship.
 - **Vis-à-vis the government: identifying bottlenecks** – The regional steering committee should show the government the value in offering incentives for regional cooperation. In addition, it should address areas that are overlooked and thus hinder development. These might ones that are not receiving sufficient attention.
70. **Objective 2: Promoting regional innovation** – Beyond identifying assets, the regional steering committee must encourage regional innovation by combining regional assets with relevant human capital. This should be based on the following principles:
- **Networking between businesses, organizations, service providers, employees, professional training and research institutions**, in the defined geographic area. A network contributes to the rapid dissemination of information that allows its members to quickly adjust and respond to the changing needs of their clients and boosts the potential for innovation.¹¹⁰

¹⁰⁹ This is one of the declared roles of the European Cohesion Fund. Based on a conversation with Muijzers Guus, Desk Officer – Netherlands, Directorate-General for Regional Policy, European Commission (October 27, 2009).

¹¹⁰ See: **The Innovation Driven Economic Development Model**, pp. 16-18, 29; **Building Competitive Regions**, pp. 9, 26, 28; **Clusters and Competition**, pp. 250, 225-227; **Competitive**

- **Connecting research and professional training institutions to the regional story** – Institutions of research and professional training are a significant component in fostering regional innovation.¹¹¹ R&D institutions contribute to the development of the theoretical knowledge that complements experience from the field, thus nurturing the process of innovation. Professional training institutions cultivate human capital, thereby enhancing productivity and competitiveness.
- **Supporting small businesses as an engine for regional innovation** – Programs for developing the periphery are usually anchored around building large factories. Small businesses, on the other hand, have a greater ability to adapt and respond to new demands and needs. Therefore, the regional steering committee, which possesses an intimate knowledge of the ground, should channel financial resources to relevant businesses by providing access to government funds for those businesses whose activity is beneficial to the regional story.
- **Creating infrastructure for regional ‘coopetition’**¹¹² – Regional innovation flourishes in places where competition exists alongside coordination between companies, service providers, and institutions. Internal competition requires all actors to improve and offer a higher value to their clients. Coordination enables them to combine forces and surmount obstacles they all have in common and impede their development.¹¹³
- **Promoting tolerance as a precondition for integrating sectors** – Creativity blossoms in places that encourage risk-taking, show tolerance for mistakes, and demonstrate openness to people from different sectors and backgrounds.¹¹⁴ These cultural conditions create the necessary climate to cultivate a region that is competitive on the global level. Accordingly, excluding certain sectors creates a lack of trust and alienation, which consequently affect the profitability of investment in the region.¹¹⁵

Regional Clusters (OECD, 2007). See also the Reut Institute concept [Economic Cluster](#). While it is customary to describe this phenomenon as contributing only to economic activity, one can see how the same conditions allow social workers, educators, and others to better address the needs of their communities and to improve the quality of life in these communities.

¹¹¹ See: **Building Competitive Regions**, pp. 40-50.

¹¹² 'Coopetition' (cooperation + competition) is a term coined by Ray Noorda, the founder of the Novell Corporation. For additional information on the subject of 'coopetition,' see: the Reut Institute concept [Economic Cluster](#).

¹¹³ For example, schools can compete for specializations, quality of instruction, and educational activities, while at the same time collaborating to establish a joint laboratory complex for science studies. This example exists at the [Hemda](#) campus in Tel Aviv.

¹¹⁴ See: Florida R. **The Rise of the Creative Class** (New York: Basic Books, 2002), pp. 223, 226-227. And also: **The Innovation Driven Economic Development Model**, p. 29.

¹¹⁵ Based on a conversation with Prof. Rassem Khamaisi, Department of Geography, University of Haifa (June 3, 2010).

- **Cultivating social capital in order to leverage regional assets** – Social capital (see the Concepts section) paves the way for an effective leverage of regional assets. Evidence indicates that there is a direct correlation between robust social capital, more accessible municipal services and vibrant economic activity. For example, a study focusing on industrial areas in northern Italy determined that the relative success of small businesses which possessed local both expertise and a global market reach was dependent on the existence of social networks and a high level of information sharing.¹¹⁶

Box 4: The Western Galilee Cluster

The “Western Galilee Cluster” is a multi-authority corporation formed by nine Jewish, Arab, and Druze local authorities and supported by the Ministry of the Interior.¹¹⁷ These local authorities collaborate and jointly contribute resources with the aim of improving both the standard of living and quality of life in the region. It is important to note that this activity does not come at the expense of their local sovereignty.

The Western Galilee Cluster aims to provide long term, strategic guidance for the region on the one hand, and focus on practical projects on the other. In addition, the cluster helps to match government initiatives that seek a local framework for implementation, with local initiatives that require government guidance. For example, a joint industrial zone in Kisra-Sumei and Peki'in¹¹⁸ was put into use by mediating between the prosperous Tefen industrial park, and the Kasra-Samia and Peki'in Druze Councils. It was ultimately decided that Tefen would be manage operations, while Kasra-Semia and Peki'in would receive tax revenues generated by the industrial zone.

In addition, the cluster links various entities operating in the region, such as industry, research institutions, and entrepreneurs – in order to encourage regional innovation. Currently, the cluster is focusing its activity on regional economic development, which seeks to leverage the region's unique assets ('The Multidisciplinary Space'). The first stage of the plan includes the establishment of an 'industrial incubator'¹¹⁹ to support innovative technological initiatives in cooperation with the region's existing industries and research institutions.

The cluster operates in the fields of tourism, culture and recreation, education, athletics and environmental issues.

¹¹⁶ For additional information, see: **New Growth Theory**, p. 19.

¹¹⁷ This association, which includes the local authorities of Ma'alot-Tarshiha, Shlomi, Hurfeish, Kfar Vradim, Kisra-Sumei, Peki'in, Mateh Asher, Ma'ale Yosef, Beit Jan, and Migdal Tefen, received statutory status from the Ministries of the Interior and Justice in December 2009. Based on a conversation with Attorney Erik Moyal, director-general of the Western Galilee Cluster (March 23, 2010).

¹¹⁸ The project was initiated by the Ministry of Industry, Trade, and Labor.

¹¹⁹ The project is part of the Industrial Incubators Program, at the Chief Scientist's Office in the Ministry of Industry, Trade, and Labor.

Chapter 3: Leapfrogging Regionally, Leapfrogging Nationally

71. **The leveraging of several regions' assets may generate the sustainable and inclusive growth necessary for a national leapfrog** – In this chapter, we contend that for Israel to grow in a sustainable fashion several of its regions must leverage their assets. Leveraging regional assets will create sustainable economic growth: the fruits of growth will be distributed more equally, the government will be able to enact policies more effectively, and Israel's periphery will be able to attract more residents.
72. **Growth: Regional mobilization will generate economic growth in Israel** –
- **Regional specialization will enlarge the national pie** – The formation of several regions that specialize in unique industries and services will advance the realization of the ISRAEL 15 Vision. Regional growth is not a zero-sum game. In other words, growth in these regions will boost national GDP without negatively affecting growth in other regions.
 - **Regional innovation will improve the general economy's ability to adapt to global trends** – Promoting innovation at a regional level will re-organize underutilized ideas, knowledge and technology and thus increase competitiveness and generate economic growth. Such innovation will also allow for more rapid changes in the composition of the economy and enhance the economy's overall ability to adapt to global trends.¹²⁰
 - **Industries based on regional assets will bolster economic resilience** – Industries based on regional assets are more likely to survive times of crisis because they cannot easily move. In addition, these industries are more likely to employ local expertise thus significantly improving the region's overall resilience.¹²¹
 - **More broadly, regional specialization will increase the diversity of Israel's economy and thus lower its exposure to economic crises** – Recent studies have shown that Israel's famous high-tech sector cannot continue to drive the entire economy.¹²² Instead, regional development can offer new engines of growth that can spread the risk across more industries and regions and thereby boost overall resilience.

¹²⁰ See: [Economic Growth](#), p. 2; [Growth Report](#), p. 6.

¹²¹ During the 2008 economic crisis in Ireland, MNC left the country which resulted in the Irish Government reconsidering whether to reinvest in the country's long-standing food industry. Based on a conversation with Collins Robert, Director, Irish Regions Delegation to the Committee of the Regions. See also: [How Regions Grow: Trends and Analysis](#), (OECD, 2009), p.107.

¹²² See: Bentur, A. et al., "[The Future of the Israeli Growth Engine](#)," (Jerusalem: The Israel Democracy Institute, 2009); And also: "[We've Exhausted the Sources of Growth that Have Accompanied Us Since the 1990s](#)," NRG, January 19, 2009. (in Hebrew)

73. **Governability: Regional mobilization may increase the effectiveness of both local and national governance in Israel –**

- **Regional mobilization may increase the effectiveness of local government** – For example, local authorities can cooperate on a wider economic development strategy that takes advantages of scale otherwise unavailable to each municipality alone. However such cooperation should not harm the fabric of each local community.¹²³
- **Regional mobilization may increase the effectiveness of the national government by:**
 - **Making the implementation of national policy easier** – Regional mobilizations may provide an additional address for the government to implement certain policies more efficiently, and will sometimes allow it to interact with fewer municipalities. For example, regional mobilization may ease implementation of shared projects such as regional industrial zones.
 - **Providing crucial guidance to the government on which problems to tackle** – Identifying the obstacles that impede regional growth can help guide national funding of local governments towards the most important issues. For example, in one region the government might earmark part of the local development budget to establishing a professional training center. In another, it might earmark this budget to developing physical infrastructure.¹²⁴ By ascertaining local feedback, the government can respond more precisely and effectively.
 - **Strengthening the legitimacy of national policy at a local level** – Regional mobilization may encourage a shared understanding on the necessary steps for development between the central government and regional actors. It can thus strengthen the legitimacy of the government as it carries out these often complex steps.

74. **Inclusiveness: Regional mobilization can contribute to a more balanced distribution of the fruits of growth by:**

- **Addressing sectoral as well as regional obstacles** – Because minority sectors face obstacles that are both region-dependent and unique to the sector both cases must be addressed. For example, regional mobilization in the Galilee should address the obstacles specifically facing Israel's Arab sector, such as the lack of day-care centers, as well as addressing regional issues, such as the lack of professional training centers.

¹²³ See: **Building Competitive Regions**, p.14, And also: **The Innovation Driven Economic Development Model**, p. 19.

¹²⁴ Denmark possesses an assistance policy that varies by region. Based on a conversation with Kondrup Claus, Principal Administrator, Directorate-General for Regional Policy, and Judit Torokne Rozsa Head of Unit - Denmark, Lithuania and Sweden, Directorate-General for Regional Policy, European Commission. (October 29, 2009).

- **Reinforcing a shared identity that is likely to moderate the tendency toward separatism** – Rather than a policy which solely focuses on the disparities and differences among the populations, regional mobilization will be more effective in including various sectors. This is because it is likely to create “regional awareness” through which individuals, groups, and organizations will feel a sense of belonging to the region. This awareness may alleviate a sectoral tendency to alienation and separation from the state.¹²⁵
- **Including weak communities and local authorities** – Regional collaboration is an effective tool in strengthening weak local authorities. Therefore, such collaboration can create a more balanced distribution of the fruits of growth.¹²⁶ A good example is the new agreement being formulated regarding the Kasra-Samia industrial zone, which determines that the relatively socio-economically strong Tefen industrial council will manage the industrial park, while the less developed Kasra-Samia local council will benefit from local tax revenues generated by it.

75. **Population distribution: Leveraging regional assets will attract people and companies based on 'quality of place'** – 'quality of place' is a term referring to components in quality of life which relate to regional assets, such as environmental conditions, quality of education, natural assets and community.¹²⁷ According to Prof. Florida, regions that succeed in attracting creative people are those that offer a combination of these components.¹²⁸ A policy emphasizing regional assets will transform the periphery into a source of attraction for companies and people which relate to the regional story. This could mitigate the trend of negative immigration and reduce the need for government subsidies.¹²⁹

¹²⁵ Dr. Ben-Elia Nahum elaborates on the social dynamics of structuring regional awareness based on assets such as: a rooted culture, history and nationalism, or economic assets. See: [The Missing Link](#), p. 15; An example of this is the municipal cooperation project between Arab and Jewish local authorities in Wadi Ara, initiated by the Sikkuy NGO. See: **An Outline for Jewish-Arab Cooperation between Municipal Authorities**.

¹²⁶ See: **Building Competitive Regions**, p.100.

¹²⁷ Beyond the generic components that every person in the state enjoys, such as stability of government, property rights, and so on.

¹²⁸ According to Florida, members of the creative class – engineers, members of academia, artists, designers, public opinion makers, etc. – are the engine for innovation. The uniqueness of a region is expressed in historic buildings, music scene, alternative culture, and more. See: **Building Competitive Regions**, pp. 20, 50; **The Rise of the Creative Class**, p. 231.

¹²⁹ As noted, one of the central motives for migration to the periphery is quality of life, which is expressed in community life, education, open spaces and landscape, a unique style of life, or self-fulfillment through ideology. See: the **Makov Report**, p. 29. (in Hebrew)

Chapter 4: Recommendations

Guidelines for Government

The policy challenge for regional development stems from the unique challenges and obstacles that each region contends with. Therefore, advancing competitiveness requires a different set of policy tools for each region.¹³⁰

Nonetheless, governments around the world encourage regional mobilization as a central instrument for advancing regional development.¹³¹ The main objective is to identify a region's needs and global potential.

76. For this purpose, the government should consider adopting the above approach in its broader development strategy through one of the relevant ministries, such as the Ministry of Industry, Trade, and Labor, the Ministry for Development of the Negev and the Galilee, or the Ministry of Finance.

- **During the first stage, an initial survey should be conducted to map regions in Israel** – The mapping conducted by this survey could serve as a reference point for continued implementation of a unique and global regional development policy. A list of such regions is likely to include the Western Galilee, the Eastern Galilee, the Arava, the Crater's Region (near Mitzpe Ramon), the Northwestern Negev, and the Eilat region.
- **Subsequently, two or three regions should be selected to serve as pilots for continued design and implementation of the new strategy.** In these pilots, the new regional development framework should continue to evolve to the point at which it can be further advanced through government legislation, regulation, incentives, etc.

In our view, **the Western Galilee and the Judean plains regions are well positioned to serve as government pilots due to the existence of considerable investments and operating implementation mechanisms in both.** For example, in both areas, regional stories have been identified. In addition, in both areas the Jewish Agency's Partnership 2000 and JDC Israel-ELKA have undertaken significant steps working with local authorities to implement the vision.

- **A committee of director-generals chaired by the director-general of the Prime Minister's Office should be responsible for operations relating to**

¹³⁰ The OECD emphasizes three main tools: economic clusters, industrial parks, and synergy between academia and industry. See: **Building Competitive Regions**, pp. 26-50.

¹³¹ In Japan, government encourages local actors to identify the location-based obstacles that require government inputs for treatment. For the same purpose, in Holland "Regional Specialization Centers" were formed. See also: **Building Competitive Regions**, pp. 23, 120. For additional information, See: Todtling, F. and Trippel, M., "One Size Fits All? Towards a Differentiated Regional Approach," **Research Policy** No 34, 2005.

these pilots. The committee should liaise with representatives of regional pilots and coordinate among different government ministries on budgetary issues and on removing bureaucratic obstacles. An initial list of government ministries that should be represented includes the Ministry for Development of the Negev and the Galilee; the Ministry of Industry, Trade, and Labor; the Ministry of Finance; the Ministry of National Infrastructure; the Ministry of Interior; the Ministry of Transportation; the Ministry of Environmental Protection; and the Prime Minister's Office.

77. **The government's regional development strategy, as outlined above, should adhere to a number of conditions that include:**

- **A regional story based on a shared vision** that is centered on regional assets with global potential and defined boundaries.
- **Coalescence of a regional mobilization**, which should include representatives of relevant local authorities, the business sector, civil society, and communities in the region.
- **The creation of a strategic business plan for developing the region**, which highlights the economic value and the conditions for realizing it.

78. **The following are a number of policy actions that the government can take in order to encourage the emergence of regional mobilizations:**

- **Finance regional mobilization**, even by allocating a small preliminary sum to get the process started as exemplified by the Ministry of Interior's initial allocation of NIS 300,000 for the Western Galilee cluster. The funding can be conditioned on having the region raise a similar sum (via the local authorities or another entity on the regional steering committee).
- **Incentivize participation of weak local authorities** – Regional mobilizations have been demonstrated worldwide to be an effective tool in strengthening weak local authorities. The government can obligate the inclusion of such local authorities by providing incentives which can be graded. The larger the number of weak local authorities, the greater the assistance it will receive.
- **Condition funding from central government on demonstrated success in regional mobilization** – The government can condition part of its development budgets, such as for infrastructure, on demonstrating asset-centered regional collaboration. A similar policy underlies the strategy of European Union cohesion funds. The concept is that the added value of funds lies in their ability to obligate local actors to work towards a common regional vision.¹³²

¹³² Based on a conversation with Guus Muijzers, Desk Officer – Netherlands, Directorate-General for Regional Policy, European Commission (October 27, 2009). And also, remarks presented at a conference on regional development held to mark the fifth anniversary of Poland joining the European Union (November 3, 2009).

- **Provide incentives for local authorities to mobilize around a regional story** – The Ministry of Interior can increase the basic budget granted to local authorities that demonstrate regional cooperation. Conversely, the Ministry can deny certain grants (for example, balancing grants) to local authorities that repeatedly refuse to cooperate with regional frameworks.¹³³
 - **Provide professional guidance for local authorities** – Leading regional steering committees require regional leadership that will promote “bottom up” processes. In order to achieve this, the government should encourage local leadership to specialize in economic development – for example, via a pool of advisors subsidized by the government.¹³⁴
 - **Integrate regional steering committee representatives in national decision-making pertaining to the region**, especially in the fields of infrastructure, planning, higher education and professional training.¹³⁵
 - **Allocate specific budgets via a regional development fund** which will be jointly managed by the government and the regional steering committee, and will invest in regional projects that fall between the areas of responsibility of specific government ministries.
79. **The following are a number of policy actions that the government can take in order to encourage regional innovation through adjusting them based on the region's unique context:**
- **Establish economic clusters** – The Makov Report, which conducted an in-depth study on the tools to promote innovation, emphasizes the importance of forming clusters.¹³⁶ An effective policy of encouraging regional innovation should reinforce mechanisms for the dissemination of information, regional networking, and “coopetition.”¹³⁷ Such mechanisms may include:
 - **Establishing regional innovation centers** that provide consultancy services and professional training to companies in the region; organizing technology fairs; and encouraging delegations to attend relevant international exhibitions and conferences;

¹³³ Based on a conversation with Prof. Rassem Khamaisi, Department of Geography, University of Haifa (June 3, 2010).

¹³⁴ Such as the [Maf'amim Program](#) operated by the Ministry of Interior. For additional information, see the [Ministry of Interior](#)'s website. (in Hebrew)

¹³⁵ See: Bar-El, R. et al., “[Summary Report of the Work of the Regional Team – The Public Council](#),” **The Israel Democracy Institute**, 2008. (in Hebrew)

¹³⁶ Report of the subcommittee on attracting multinational corporations in the Makov Report; For additional information on economic clusters, see: the Reut Institute concept [Economic Cluster](#). And also: **Building Competitive Regions**, pp. 32-39.

¹³⁷ See: **Building Competitive Regions**, p.30.

- **Creating a 'regional knowledge network'** that encourages pooling business or technological databases, and sharing information about research proposals and funding opportunities;
- **Connecting small/medium-sized suppliers to large customers in the region as an alternative to outsourcing.**¹³⁸

Currently, the government is working to develop a framework for establishing regional consortiums of firms which can operate in the spirit of these recommendations. These consortiums should be based on the principles of regional development outlined in this document and should specifically address the challenge of leveraging regional assets.

- **Develop regional specialization through industrial parks by linking them to the regional story.** This idea is congruent with the policy of the Ministry of Industry, Trade, and Labor which encourages establishment of regional industrial zones shared by a number of local authorities.¹³⁹ This approach can also be applied to the Foreign Trade Administration or the Export Institute when approaching companies to invest in the periphery.¹⁴⁰
- **Encourage Research and Development to focus on regional needs –** Publicly supported research organizations (R&D centers, business incubators) should be encouraged to specialize in regional assets.¹⁴¹ **In this context, we recommend the following actions:**
 - **Strengthening and developing regional R&D centers which are operated by the Ministry of Science should be**¹⁴²
 - **Adding regional criteria to the R&D Law.** Regional criteria should be considered by the Chief Scientist's Office in the Ministry of Industry, Trade, and Labor when granting support to high-tech companies;
 - **Forming joint research frameworks** for academia and R&D centers in industry which are focused on developing regional assets and upgrading regional expertise;

¹³⁸ See: Bar-El, R. and Schwartz, D., [Economic Measures for Developing the Negev and the Galilee](#)," in **TAMA 35**, Volume of Policy Measures, pp. 129-131 (in Hebrew); the regional R&D centers on the website of the [Ministry of Science](#); [Putting the North in the Center – A Plan for Developing the North](#), (Tzafona, 2008), pp. 35, 38. (in Hebrew)

¹³⁹ [Criteria for Supporting Regional Industrial Zones](#), Ministry of Industry, Trade and Labor, 2007 (in Hebrew).

¹⁴⁰ See: Bar-El, R. and Schwartz, D., [Economic Measures for Developing the Negev and the Galilee](#)," in **TAMA 35**, Volume of Policy Measures, p. 170. (in Hebrew)

¹⁴¹ The Israel 2028 Report generically recommends strengthening ties between academia and industry, and strengthening regional R&D centers in particular. In addition, it recommends reassessing the policy of neutral support for R&D without identifying the fields of concentration. See: **Israel 2028**, pp. 82, 86, 92. (in Hebrew)

¹⁴² See: the regional R&D centers in [Ministry of Science](#) website.

- **Establishing “centers of entrepreneurship” in regional academic institutions.** These centers can serve as 'one-stop-shops' to companies interested in investing in the region and link them to existing business initiatives.¹⁴³
- **Encourage regional specialization in regional training centers –** Economic clusters must constantly maintain, upgrade and attract human capital.¹⁴⁴ For this purpose, regional colleges and training centers can be encouraged to specialize in fields related to the regional assets that have been identified. For example, Tel Hai College offers specialized training in trauma situations, and Ben-Gurion University of the Negev (Sde Boker campus) houses a national center for solar energy.
- **Create special programs for small businesses in the spirit of the regional story –** The small and medium business sector is essential for economic growth.¹⁴⁵ In Israel, where the culture of business and social entrepreneurship is particularly developed, this sector is vital. In the context of regional development policy, there is a need to provide incentives for small and medium-sized businesses to focus on the regional story. This can be done by implementing region-oriented technologies,¹⁴⁶ linking these businesses to R&D centers, or by improving access to funding. The MATI centers are a possible mechanism which can link these businesses to the regional story.¹⁴⁷
- **Expand funding sources for regional development –** The government can lay the regulatory groundwork in order to facilitate investment by private entrepreneurs and institutional investors. **An existing example of this is the British South West Ventures Fund which functions as a regional venture capital fund.**¹⁴⁸

In the medium term, the existing budget should be examined from a regional perspective – The Ministry

¹⁴³ See: Sigan, S., “A Cluster Instead of Competition,” **Globes** (December 15, 2009). (in Hebrew)

¹⁴⁴ See: Andonian A., Loos C., Pires L., "[Building an Innovation Nation](#)," **What Matters**, (McKinsey & Company, 2009).

¹⁴⁵ 96% of the 405,000 businesses in Israel are defined as small businesses (up to 50 employees). See: Friedman, R., [Data Summary on Small and Medium-Sized Businesses in Israel](#) (The Authority for Small and Medium-Sized Businesses – Innovation in Information and Technology, 2005). (in Hebrew)

¹⁴⁶ This can be done, for example, by creating indices such as the Israel Bed & Breakfast (IBB) rating system that was recently introduced in the North. For additional information on this project (led by the Galilee Development Authority, non-profit tourism organizations, the Ministry of Tourism, and the Moshavim Movement) See: the [GO Galilee](#) website. (in Hebrew)

¹⁴⁷ Some of the MATI centers have already been specializing in specific services and sectors. For example, MATI Ra'anana specializes in consultancy services to high-tech initiatives, while MATI Hadera specializes in 'green' initiatives, and MATI Western Galilee specializes in alternative medicine. See: the [Authority for Small and Medium-Sized Businesses](#) website. (in Hebrew)

¹⁴⁸ See: the [South West Ventures Fund](#) website.

of Finance can break down the current budget by regional allocation. The regional segmentation will enable the relevant authorities to examine how budgets can be effectively adapted to the regional needs.¹⁴⁹

In the long term, the government should issue regional bonds – After a significant regional mobilization takes place, and a steady cash flow to the new structure is ensured, the government should enable regional structures to raise funds by issuing regional bonds.¹⁵⁰

Fostering innovation based on regional assets is not a substitute for addressing growth impediments on a national level – A regional and global development policy is designed to remove obstacles that delay the development of regional assets. This process complements but does not replace the need to confront obstacles at the national level, such as land ownership, businesses registration, and transportation. However, these issues do not fall within the scope of this work.

Guidelines for Local Authorities

80. **Local authorities are essential for the realization of regional leapfrogging.** International experience shows that **a common denominator exists between the actions of those local authorities that were involved in this socio-economic phenomenon:**
- **Formulation of a long-term vision that extends beyond municipal borders** – Local authorities have the tendency to focus their vision to areas within their jurisdiction. This type of vision is liable to miss the potential of regional assets and to perpetuate a zero-sum game between the authorities.
 - **Leveraging of existing resources** – One of the crucial factors contributing to the ability of local authorities to develop is their ability to mobilize entrepreneurs, non-profit organizations, and community leaders in a creative way.¹⁵¹ In Britain, for example, the local authorities succeeded in mobilizing entrepreneurs by including them in the process of strategy formulation. An additional example is France, where local authorities subsidized

¹⁴⁹ Today, it is difficult to obtain precise data on regional allocations: Based on a conversation with Shamay Assif, head of the Planning Administration at the Ministry of Interior (May 5, 2010) and with Itzik Bachar, Senior Economist and Project Director at Portland Trust and the Koret Fund (May 9, 2010).

¹⁵⁰ See Financial Innovations for Economic Recovery and Development in Northern Israel, **The Milken Institute**, 2007.

¹⁵¹ For additional information, see: Aizencang-Kane, P., “[Urban Creativity: Effective Management and Democratic Openness](#),” **The Institute for Technology and Society**, Faculty of Management, Tel Aviv University, 2009. (in Hebrew)

collaborations between training centers and small and medium businesses in the region.¹⁵²

- **Establishment of regional cooperation mechanisms** – In southern Finland, for example, a regional council was established to disseminate information, share experience, and pool resources, in order to promote regional cooperation.¹⁵³ In Israel, a prominent existing example can be seen in the Western Galilee cluster, where local authorities formed ad-hoc teams to address specific regional issues.¹⁵⁴

Guidelines for Non Profit Organizations

81. **Non profit organization's unique added value: Becoming a catalyst for regional development** – International experience shows that non-profit organizations can play a unique role in accelerating regional leapfrogging. First and foremost, such leapfrogging requires a 'trial and error' approach by institutions, entrepreneurs and local leaders. In contributing to this approach, non-profit organizations can:

- **Take risks that are too high for the private sector and too small or complex for the public sector** – For example, in the regional laboratory in the Western Galilee, Partnership 2000, the Praxis Institute, and the Reut Institute identified regional potential that can now serve as a basis for a large-scale pilot involving government ministries;
- **Cultivate leadership capabilities among local authorities** – Local authorities that are weaker – whether economically, politically or socially – need to attain a level of internal ripeness before they can be part of a successful process of regional mobilization. In most cases this entails ongoing community work which needs to be maintained on a regular basis.¹⁵⁵
- **Mobilize local regional actors among:**
 - **Local authorities** – Non-profit organizations can work to remove obstacles such as struggles for recognition or political power. For

¹⁵² See: **Building Competitive Regions**, pp. 115, 118.

¹⁵³ For additional information, see: [The Regional Councils of Itä-Uusimaa](#) website.

¹⁵⁴ For example, in the “Western Galilee Cluster,” task forces were formed on issues such as employment, environmental quality, culture, and tourism. See: **Work Plan for the Year 2010**, Western Galilee Cluster – The Regional Association for Developing and Promoting the Western Galilee. (in Hebrew)

¹⁵⁵ For example, JDC Israel-ELKA is working in Ofakim with local community leaders, municipality officials and non-profit organizations as part of the city's strategic planning process. In Beit Jan local organizations undertook preliminary community work prior to establishing bed and breakfasts in the town. Taken from on a conversation with Ido Shelem, CEO and Founder of the Bridge for the Future non-profit organization (May 20, 2010). For more information, see: **Building Competitive Regions**, pp. 125, 126.

example, Partnership 2000 advanced the cooperation between the Yokneam Municipality and the Megiddo Regional Council. Similarly, JDC-ELKA initiated the mayors' forum in the Bedouin sector.

- **Communities** – Non-profit organizations can help strengthen social capital in the region. This can be done, for example, by encouraging public participation processes, and the inclusion of underrepresented sectors of society in the regional discourse.
- **Synchronize existing and future projects** – Regional leapfrogging will not result from increasing the number of projects in a given region. What is necessary is to focus, coordinate and integrate existing projects within the context of the regional story. This was the case in East Manchester in Britain, where, in order to deal with the severe economic downturn due to the decline of its heavy industry sector, the region implemented several integrated projects in areas such as employment, housing, health and education.¹⁵⁶
- **Apply international experience** – In many cases, Non-profit organizations are exposed to best practices from around the world. Therefore, their contribution to regional development is crucial. For example, the OECD's LEED organization had significant impact on regional development policy in Hungary.¹⁵⁷ Another example is the contribution of the Jewish community in South Africa to the development of wineries in the Beit Shemesh and Mateh Yehuda region of Israel.
- **Promote regional projects** – Non-profit organizations have the ability to catalyze planning and implementation of regional projects based on regional assets. We believe that the implementation of this strategy by additional organizations in additional regions will enhance this approach to the point where it is adopted throughout Israel.

End.

¹⁵⁶ See: [Regional Policy, An Integrated Approach – A 360° View](#), European Union Regional Policy Panorama Inforegio No 34, 2010, p. 9.

¹⁵⁷ See: L. Ravn and W. Petersen, [Clusters Development in Hungary](#), (TekSam, Roskilde University, 2005), p. 30.

Appendices

Appendix A: The Reut Institute Team

- **Amit Granek** (30) leads the socio-economic team that developed the conceptual framework for leapfrogging the periphery, as part of the ISRAEL 15 Vision. Amit holds a MSc. in International Public Policy from University College London (2007), and was awarded the 2007 Chevening Scholarship by the British Government. He received a BA in Economics and Political Science with honors from Tel Aviv University (2005) and worked as an analyst in a consultancy firm, specializing in funding solutions for high-tech companies.
- **Noa Ecker-Amrani** (31) holds a BA with honors in Philosophy, Economics and Political Science and an MA with honors in Public Policy, both from the Hebrew University, where she participated in the Amirim program for outstanding students. Before joining the Reut Institute, she worked as a research assistant at the Smokler Center for Health Policy Research at the Brookdale Institute. Noa served as a research officer in the Research Division in IDF Military Intelligence.
- **Abed Assli** (25) holds a BA with honors in Economics and Business Administration from the University of Haifa and is completing an MA in Economics. Before joining the Reut Institute, Abed completed two years of specialization in economic policy as a Koret-Milken Institute Fellow, focusing on economic development through financial innovation in northern Israel. In parallel, Abed served as an economics advisor to MK Nadia Hilou.
- **Anat Horowitz-Harel** (31) holds a bachelor's degree with honors in Architecture from the Technion. Before joining the Reut Institute, Anat worked at the Kaplan Planners firm and in the Planning Department at the Israel Union for Environmental Defense. In these positions, Anat was a member of planning teams for urban and regional projects, and formulated policy documents in the areas of planning and the environment.

Other partners in research and writing:

- **Gidi Grinstein** (40) is the founder and president of the Reut Institute. Prior to founding the institute, Gidi served in Prime Minister Ehud Barak's office and bureau as secretary of Israel's negotiation team for talks on a permanent status accord between Israel and the PLO (1999-2000). Gidi is a graduate of the Kennedy School of Government at Harvard as a Wexner Fellow (2002) and holds a BA in Economics and Law from Tel Aviv University.
- **Omri Dagan** (36) is the vice president of the Reut Institute and is responsible for its overall management. Omri previously managed and developed education and training methodologies for the IDF (including Training Camp 1, the Air Force, and the Border Police), and guided facilitators and defined workshop content for the officers corps. Omri holds an MA in Conflict Research, Management and Resolution, and a BA in Political Science and Middle East Studies. He received both degrees with honors from the Hebrew University (1999-2003).

- **Omri Zegen** (33) leads the Reut Institute team on the ISRAEL 15 Vision. Omri holds a BA in Economics and History and an MA with honors in History, both from Tel Aviv University. Omri served as a research assistant and teaching assistant at the Open University and Tel Aviv University. As a student, he participated in an Arab-Jewish leadership and cooperation project. Omri served in the IDF as a commander and officer in the Nahal infantry brigade, with the rank of first lieutenant.
- **Yuval Holzman** (37) is an analyst at the Reut Institute and a member of the Socio-Economic Team. Yuval holds a BA in Psychology from the University of Haifa and is currently completing an MA in Organizational-Applied Sociology, also at the University of Haifa. Yuval was certified as a group facilitator by the External Studies Unit of Bar-Ilan University. In addition, Yuval has guided and directed facilitators in the Michael Method (Fulfilling Individual Potential to Attain Excellence).
- We also thank **Gaddy Weissman**, formerly the leader of the Socio-Economic Team at the Reut Institute and currently at the Ministry of Industry, Trade and Labor, and **Dotan Shapira-Gal**, formerly an analyst on the team.

Appendix B: Partners

Partnership 2000 of the Jewish Agency

- Ms. **Andrea Arbel**, Director of Partnerships Division in Israel
- Ms. **Ornit Reshef**, Director of the Central Region, Partnership 2000
- Mr. **Daimon Rose**, Director of the Northern Region, Partnership 2000
- Ms. **Li-at Cohen**, Director of Partnership 2000, Western Galilee
- Ms. **Dalia Fayerman**, Partnership 2000 Co-chair, Western Galilee
- Mr. **Yehuda Ben Simon**, Co-Chair of the Regional Development Team, Partnership 2000, Western Galilee
- Ms. **Bracha Zuriel**, Representative of the Central Area Consortium (U.S.)
- Ms. **Noa Fridman-Epstein**, Arts and Regional Development Coordinator, Partnership 2000, Western Galilee
- Mr. **Gideon Vennor**, Director of Partnership 2000, Beit Shemesh – Mateh Yehuda
- Mr. **Danny Taragan**, Partnership 2000 Co-Chair, Beit Shemesh – Mateh Yehuda
- Mr. **Ilan Geal-Dor**, Partnership 2000 Co-Chair, Beit Shemesh – Mateh Yehuda
- Ms. **Brenda Ganot**, Economic and Community Development Director, Partnership 2000, Beit Shemesh – Mateh Yehuda

JDC Israel-ELKA

- Dr. **Michal Hemo Lotem**, Executive Director ELKA and director of Voluntarism, Philanthropy & Leadership Division
- Mr. **Yonatan Oren**, Director of the municipal – regional team
- Ms. **Ifat Linder**, Director, municipal programs – Israeli North regions
- Ms. **Ayala Vlodavsky**, Director of knowledge development (today a member of the Reut Institute team)
- Ms. **Noa Shamir-Ronen**, Acting Director of the Matov program in the North, municipal sector
- JDC Israel-ELKA Facilitators in the North: Ms. **Rachel Moran**, Ms. **Aline Kafri**, Ms. **Hadas Dickman**, Ms. **Tami Hendekman Ben Shimon**, Ms. **Avital Biler Dagan**
- Ms. **Yonit Smolash**, Municipal leadership development, Programs Manager
- Ms. **Tikva Evron**, Facilitator and Organizational Consultant, Israeli Southern region

The Praxis Institute

- Dr. **Zvi Lanir**, Founder
- Mr. **Boaz Israeli**, CEO
- Ms. **Tamir Lanir**

Appendix C: Experts

While writing this paper, we met with dozens of experts from Israel and abroad. We wish to thank the following people and organizations for their contribution to this document (in alphabetical order):

Government ministries and government agencies

- **Amitai, Michal**, Planning Administration, Ministry of Interior.
- **Arman, Riki**, Budgets Division, Ministry of Finance.
- **Asban, Abraham**, Negev and Galilee Development Center, Ministry of Industry, Trade and Labor.
- **Assif, Shamay**, head of the Planning Administration, Ministry of Interior
- **Blumenblatt, Haim**, formerly CEO of the Daroma-Idan Hanegev Company, currently director-general of the Ministry of Strategic Affairs.
- **Dagan, Sagi**, senior economist, National Economics Council, Prime Minister's Office.
- **Dahan, Roie**, Negev and Galilee Development Center, Ministry of Industry, Trade and Labor.
- **Eizenberg, Ran**, Ministry of Interior.
- **Epstein, Natasha**, Budgets Division, Ministry of Finance.
- **Attorney Feldman, Avi**, director of the Negev and Galilee Development Center, Ministry of Industry, Trade and Labor.
- **Gabbay, Uri**, senior economist, National Economics Council, Prime Minister's Office.
- **Gielchinsky, Sima**, Ministry of Science and Technology.
- **Gutman-Chen, Natalie**, Commercial Affairs Mission of Israel to the EU, Ministry of Industry, Trade and Labor.
- **Hayut, Zeev**, formerly director of the Tzafona non-profit organization.
- **Kandel, Eugene**, head of the National Economics Council, Prime Minister's Office.
- **Kedmi, Sharon**, director-general of the Ministry of Industry, Trade and Labor.
- **Kogan, Reuven**, Budgets Division, Ministry of Finance.
- **Mann, Yariv**, advisor to the director-general of the Ministry of Social Affairs and Social Services.
- **Finchi, Ranny**, director of the Local Government Administration, Ministry of Interior.
- **Rahman, Sigalit**, Ministry of Environmental Protection.

- **Saida, Asaf**, Negev Development Authority, the Ministry for Development of the Negev and the Galilee.
- **Sorek, Yishai**, Ministry for Development of the Negev and the Galilee.
- **Weissman, Gaddy**, Foreign Trade Administration, Ministry of Industry, Trade and Labor.
- **Yostman, Ehud**, director of the Local and Detailed Master Plans Division, Ministry of Interior.

Local authorities

- **Agmon, Yaakov**, director-general of the Union of Local Authorities.
- **Alon, Nili**, Mateh Asher Regional Council.
- **Barnir, Yael**, spokesperson for the Megiddo Regional Council.
- **Erez, Hanan**, head of the Megiddo Regional Council.
- **Hertsman, Hana**, director-general of the Holon Municipality.
- **Lifshitz, Micky**, director of the 'Eretz Ahavati' non-profit organization and coordinator of environment and sustainability, Regional Councils Center.
- **Matzliah, Aryeh**, director of the Economics and Information Unit, Union of Local Authorities.
- Attorney **Moyal, Erik**, CEO of the Western Galilee Cluster Association.
- **Partok, Hillel**, spokesman of the Tel Aviv Municipality.
- **Flut, Oded**, director of the Strategic Planning Unit, Sha'ar Hanegev Regional Council.
- **Shuster, Alon**, head of the Sha'ar Hanegev Regional Council.
- Dr. **Weber, Uri**, director of the Strategic Planning Unit, Mateh Asher Regional Council.
- **Yechieli, Sivan**, head of the Kfar Vradim local council.

Research institutes and academia

- Dr. **Ben-Elia, Nahum**.
- Prof. **Czamanski, Daniel**, Faculty of Architecture and Town Planning, Technion.
- Prof. **Felsenstein, Daniel**, head of the Institute of Urban and Regional Studies, The Hebrew University of Jerusalem
- Dr. **Gofen, Anat**, School of Public Policy, Hebrew University.
- Prof. **Hasson, Shlomo**, Department of Geography, The Hebrew University of Jerusalem and Floersheimer Institute for Policy Studies.
- Prof. **Khamaisi, Rassem**, Department of Geography and Environmental Studies, University of Haifa.

- Dr. **Lanir, Zvi**, Praxis Institute.
- Prof. **Razin, Eran**, Department of Geography and the Institute for Urban and Regional Studies, Hebrew University; head of the Floersheimer Institute for Policy Studies.
- Prof. **Schwartz, Dafna**, Ben-Gurion University.
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Appendix D: Comparison to the Tzafona and Daroma Strategic Plans

| | Daroma ¹⁵⁸ | Tzafona ¹⁵⁹ | Reut Institute |
|--|--|--|---|
| What is the product? | A strategic plan for the southern region prepared for the Government of Israel and approved as a government decision in November 2005. | A strategic plan for the northern region, prepared following a government decision in August 2005. | A conceptual framework for the development of the 'periphery' in Israel. The model focuses on bringing together sectors, such as local authorities, small and medium-sized businesses, and non-profit organizations. The proposed framework can serve as a basis for strategic plans in the future. |
| What is the problem? | Insufficient investment in the periphery, bureaucracy, a lack of information on existing potential, and a lack of focus of government efforts. | | In addition to problems such as scarcity of resources, there is a conceptual gap that leads to overlooking potential for creating economic and social added value for the periphery and for the country as a whole |
| What is the region? What are its borders? | The region selected by the authors of the plan is the area south of the Sderot-Beit Kama - Arad line. | The region selected by the authors of the plan is the northern district, based on the official administrative division of the Ministry of Interior. | The periphery includes a number of distinct regions that have global potential. According to an initial assessment, there are about 12 such regions in Israel, which derive from geographic, historical, and economic logic (for example, the region of the Western Galilee). |
| What are the suggested principles for action? | Simultaneous work in a number of areas, for example: economic development, infrastructure, housing, community leadership, and education. | Focus on economic development as an engine for change. This focus will generate change in other areas, such as transportation, health, and employment. | Simultaneous work in a number of fields <i>after</i> regional assets are identified and a regional story with the potential for being globally competitive is formulated. |

¹⁵⁸ See: Daroma: [A Strategic National Plan for Developing the Negev](#), 2005 (in Hebrew).

¹⁵⁹ See: Tzafona: [Putting the North in the Center – A Plan for Developing the North, Shaping a Vision for the Northern Region of Israel](#), 2008 (in Hebrew).

| | | | |
|---|---|--|---|
| What are the economic engines of growth? | Transferring IDF bases to the Negev; leveraging of human capital that exists at Ben-Gurion University; promoting high-tech and chemical industries; leveraging the Negev's tourism potential. | Developing the high-tech industry; change-generating projects (such as the medical school); and investment in physical and human infrastructure. | Combining regional assets local economic, social and environmental qualities that cannot easily be moved and connecting them to a strong global trend. For example, focusing existing qualities in the Western Galilee in order to compete in the global wellness industry. |
| What is the role of the government? | The government funds and executes the plan. | The government funds and executes the plan. It is responsible for coordinating between the various government ministries. | The government should conduct a survey examining regional potential in Israel; encouraging regional mobilization; focusing on promoting regional innovation. |
| What is the mechanism of implementation? | An entity outside the government should be formed with the purpose of overseeing detailed planning, coordination between the government ministries and the implementation of the plan. | | The regional steering committee (local entrepreneurs, local authorities, representatives of government ministries and non-profit organizations, etc.) should serve as a permanent channel for facilitating regional development. |

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