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iGRAVITY

Summary

Supporting the tech start-up ecosystem in the occupied Palestinian territory (oPt)

2021

INTRODUCTION

Marked by its political volatility and economic distress, the occupied Palestinian Territory (hence referred to as '*Palestine*') struggles to provide long-term job opportunities, especially for its youth. Despite remarkable progress in basic and higher education, in 2019 almost one in four Palestinian among the labour force still remained unemployed. As stated by the UN, the lack of decent jobs hinders sustainable economic growth and has a high risk of damaging social cohesion and environmental sustainability. Motivated by the objective to generate employment opportunities for women and youth in Palestine, a recent study conducted on behalf of the **Swiss Development Cooperation (SDC)** indicated that the Palestinian ICT startup sector holds underutilized potential to create jobs, especially for youth and women.

Taking into consideration this context, the SDC - which has a longstanding presence in the occupied Palestine territory (oPt) - mandated the advisory firm iGravity to conduct a feasibility study and identify how the agency can contribute to generating employment opportunities for women and youth in Palestine through tech-based innovation and entrepreneurship. Specifically, the mandate covers the investigation of two components:

- 1.** Supporting the development of a sustainable **demand for start-ups and acceleration** (including skills and capacity building for entrepreneurs and support structures) through linking Palestinian universities and support structures with Swiss experts and service providers, and
- 2.** Stimulating private sector investments through showcases by providing **seed and acceleration funding** to young entrepreneurs in tech sectors.



As such, the overarching objective of the project is to create jobs for women and youth in the occupied Palestine territory. Needless to say, there are several ways to contribute to this objective¹. Based on the research on the challenges and opportunities of the Palestinian innovation system and digital economy², which identified ICT start-ups as an underutilized source for job-creation, the project will aim to generate job opportunities specifically through supporting the tech entrepreneurship ecosystem.

Based on a wide range of interviews with relevant ecosystem actors in Gaza, the West Bank and East Jerusalem, the report concludes that there is a crucial need for building capacities as well as reinforcing connections and productive collaborations between actors. It proposes a three-pronged approach intervening both at the actor and systems level to improve the pipeline as well as attract private capital. The three recommendations developed in the following pages were elaborated in dialogue with both SDC and ecosystem actors in Palestine as well as Switzerland to ensure their relevance.

¹ OECD, 2014: Effective local strategies to boost quality job creation, employment, and participation

² Palestine Economic Policy Research Institute, 2018: Palestinian Innovation System and Digital Economy: Challenges and Opportunities.

Definitions of an Entrepreneurship Ecosystem and the ICT sector

Based on a synthesis of definitions found in the literature, OECD defines an entrepreneurship ecosystem as:

“A set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment.”

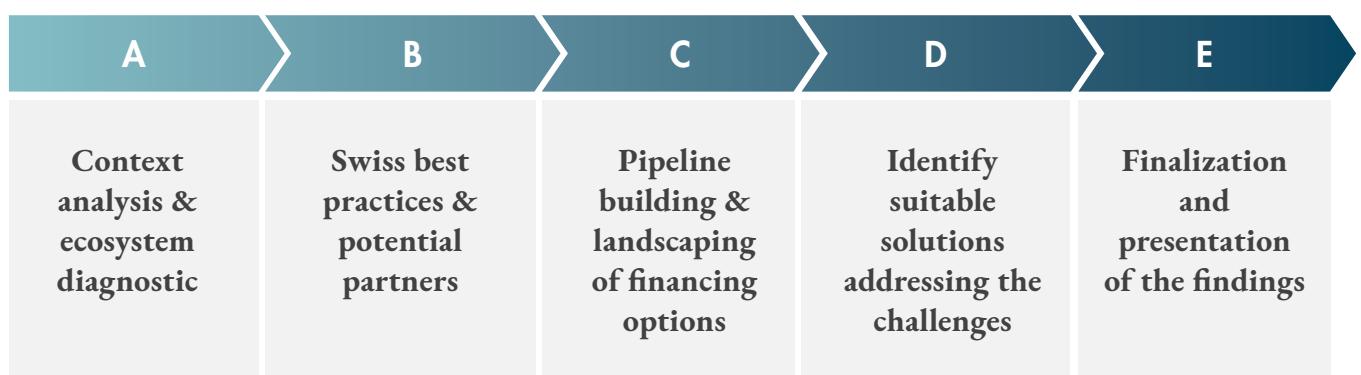
The ICT sector spans over a wide range of companies (from tech-enabled companies providing products and services through the use of technologies to tech-based companies providing technologies as a product or service). Moreover, while there is no universally accepted definition, **the term ‘ICT’ covers:**



Devices, networks, mobiles, services and applications, including: the internet, wireless networks, cell phones, computers, software, middleware, video-conferencing, social networking, and other media applications and services enabling users to access, retrieve, store, transmit, and manipulate information in a digital form³.

Box 1: Definitions of an Entrepreneurship Ecosystem and the ICT sector

The project plan consisted of five modules. The modules were conducted in parallel and sometimes overlapped, allowing for an iterative approach and constructive feedback loops with a group of experts, including SDC, as well as Palestinian and Swiss ecosystem actors.



The context analysis combined the Ecosystem Dimensions approach and the Social Network approach as per below.

³ FAO, 2016: E-Agriculture Strategy Guide

Key Elements of a Successful Entrepreneurship Ecosystem

Ecosystem Dimensions

The Ecosystem Dimensions approach is based on what is said to be one of the most frequently used models to describe and understand entrepreneurial ecosystems coined by Daniel Isenberg⁴ and is utilized by numerous ecosystem actors and ecosystem enablers globally (including OECD⁵ and GIZ⁶). The framework introduces between six and eight dimensions depending on its application. iGravity focused on the following:

DIMENSIONS	Culture	Support	Human Capital	Finance	Visibility	Markets	Policy	Ecosystem Enablers
	<ul style="list-style-type: none">MotivationTraditionRole modelsEducational focus and curriculumStereotypes and power-relations	<ul style="list-style-type: none">Legal assistanceTechnical assistanceBusiness development serviceMentoring	<ul style="list-style-type: none">Educational focus and curriculumBusiness acumenProfessional experienceCo-foundersEarly hires	<ul style="list-style-type: none">BootstrappingFamily, friends, foolsSmart capitalSeed fundingGrowth funding (series A and B)	<ul style="list-style-type: none">Media focusEventsNavigating relevant actorsExposure to potential partners, clients and investors	<ul style="list-style-type: none">Prototype marketsScale marketsCompetitorsValue chains	<ul style="list-style-type: none">Legal framework (e.g. ease of starting a business)Infrastructure (such as access to stable internet)	<ul style="list-style-type: none">Input and activities of external actors with the objective of increasing the effect of an actor or the ecosystem
ACTORS	Universities	Incubators/ Accelerators	Mentors	Networks	Financing sources	Media	Industry networks and actors	Government and public institutions Donors, foundations etc.

The Ecosystem Dimension approach sheds light on whether all relevant ecosystem dimensions are present within the ecosystem - i.e. can the needs of entrepreneurs be met throughout the entrepreneurial journey. Moreover, due to the seemingly significant activities of external ecosystem enablers (such as donors, development agencies, foundations etc.) we include an assessment of the external ecosystem enablers in the sense of coordinated efforts to catalyse local ecosystem actors.

Ecosystem Social Networks

The Social Network approach builds on research of the Kauffman Foundation⁷ and has - among others - been applied by Swisscontact⁸. It supplements the Ecosystem Dimensions approach insofar as the approach investigates the relationship and connections between the identified actors of the ecosystem dimensions (Entrepreneurship and Ecosystem Support Organisations, ESOs) based on the indicators listed below.

Density

How dense is the ecosystem network? How well are the ecosystem players connected, both horizontally (e.g. incubators with incubators) and vertically (incubators with accelerators, financial players, business networks etc.)?

Fluidity

How are the services offered by ESOs accessed by entrepreneurs? How inclusive is the ecosystem across the various types of entrepreneurs?

Diversity

How diverse are the services offered by ESOs? Are all-important services available and are there signs of specialization among ESOs?

Collaboration

How much collaboration exists between the various ESOs? Do ESOs embrace coopetition or do they prefer to offer all types of support service on their own?

⁴ Daniel Isenberg, 2011: The entrepreneurship ecosystem strategy as a new paradigm for economic policy: principles for cultivating entrepreneurship.

⁵ OECD, 2014: entrepreneurial ecosystems and growth oriented entrepreneurship

⁶ GIZ, 2018: Guide for Mapping the Entrepreneurial Ecosystem

⁷ Kauffman Foundation, 2015: Measuring an entrepreneurial ecosystem

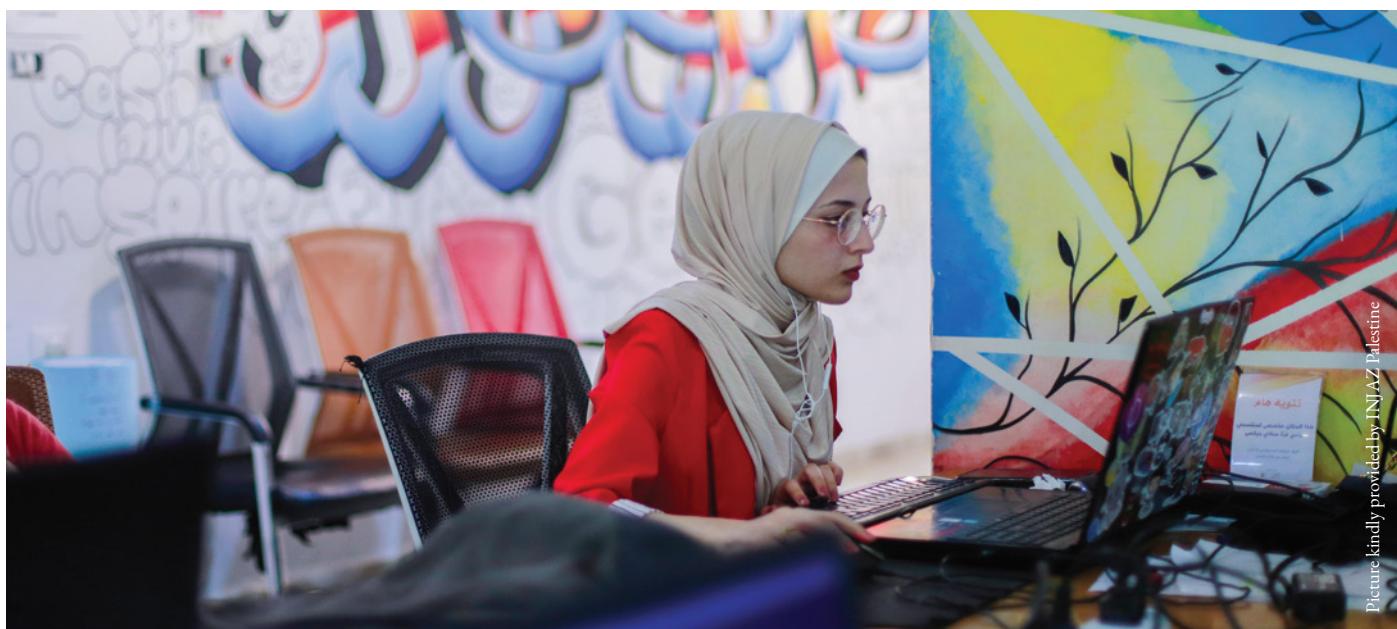
⁸ Swisscontact, 2019: Understanding entrepreneurial ecosystems through social network analysis (SNA)

FINDINGS

During the first round of interviews in Palestine, iGravity (virtually) met with a range of universities (including the university driven incubators), support structures, investors, and other actors across Gaza, the West Bank and East Jerusalem to discuss their barriers, challenges, and needs related to motivating, educating, and supporting more students and young graduates to become entrepreneurs. We returned to these and additional actors several times to follow up on the conversations as well as receive feedback on ideas. Approximately 40% of the interview participants throughout the process were women.

Universities and university incubators

Most of the universities interviewed are exploring and maturing their entrepreneurship efforts: they have a more or less formal entrepreneurship strategy, they have (some) dedicated resources for entrepreneurship, run at least one introductory course, and have a dedicated support structure at the university campus. However, most of the curriculum and teaching implemented are very theoretical and taught by teachers with no or very limited prior experience in entrepreneurship. Moreover, most of the activities and programmes of these dedicated support structures are both donor-funded and -initiated, and the incubation services (such as business development trainings) are to a great extent contracted and financed by donors.



Picture kindly provided by INJAZ Palestine

KEY TAKE-AWAYS FROM CONVERSATIONS WITH UNIVERSITIES:

- I Varying capacity of university staff to integrate and teach entrepreneurship** and a general need to build more capacities (due to the limited entrepreneurial expertise within the ecosystem in general).
- II Lack of coordinated efforts** means that even if universities and university incubators are successful in motivating and supporting entrepreneurs, there are no clear next steps bringing the entrepreneurs, start-ups and/or innovations to market.
- III Limited sustainability and continuity of services and programmes** provided through the university incubators as they rely highly on donor-funding and receive limited support from the university itself (on average less than or around one FTE).

Support structures

While there is a large number of incubators and accelerators in Palestine, they are not yet succeeding in adequately supporting start-ups throughout the entrepreneurial journey. The majority of the incubators and accelerators rely on donor-funding and are running programmes based on donor -initiatives. Combined with limited coordination and synergies among donors, this leads to repetition of similar types of activities, little consistency in terms of recurring activities and limited synergies between activities targeted entrepreneurs and start-ups at different stages of the journey.



Picture kindly provided by INJAZ Palestine

KEY TAKE-AWAYS FROM CONVERSATIONS WITH SUPPORT STRUCTURES:

- I Lack of expertise, specialisation and diversification due to replication of (often donor-funded) programmes and activities at the same stages of the entrepreneurial journey (e.g. significant gap in support after both pre-seed and seed-funding).**
- II Lack of connections and collaborations between actors providing services to start-ups,** meaning that the pipeline is 'leaking' as the output of one actor does not match the input of the next actor because the entrepreneurial journey and pipeline is not organised holistically.
- III Limited sustainability of services and activities hosted by support structures** on the one hand because most actors rely on temporary grants, and on the other hand, because few entrepreneurs and investors are in a position to remunerate the services delivered.

Financing sources

Palestinian start-ups experience a significant need for growth and smart capital. Since the investor landscape is still nascent and there is a high risk perception in general, there is a particular need for finance at the earlier stages of the pipeline (i.e. pre-seed and seed stage) to allow more start-ups to test and validate their ideas on the market and thereby access (inter)national funding at later stages.



KEY TAKE-AWAYS FROM CONVERSATIONS WITH FINANCING SOURCES:

- I Limited availability of pre-seed, seed and growth funding, including lack of organisation among existing sources of capital.** There remains only one institutional venture capital fund and there are only a few HNWIs making angel investments, most of which are informal/unorganised. Therefore, funding is scarce.
- II Pipeline does not meet investors' requirements** as most potential investors are not familiar with the digital technologies developed and entrepreneurs lack consistent and quality support ensuring product-market fit and early validation of the technology and/or business idea.
- III** Even in cases of successful investments, the current Palestinian legal framework is filled with barriers for entrepreneurs, meaning that **investors and founders register the companies abroad** where they will find more friendly legal framework to operate under and easier access to follow-up investments.

In conclusion, there is a crucial need for building the capacities of individual actors as well as reinforcing connections and productive collaborations between actors - while taking precautions to avoid adding to the complexity of the ecosystem. Therefore, SDC should seek to strengthen the ecosystem **by reinforcing and amplifying the efforts and effects of existing local actors** as well as other development organisations and implementing agencies on two levels: i) **Making existing actors more effective** by intervening at the actor level, and ii) **Improving crucial relations between actors** by intervening at a systems level.

Therefore, a three-pronged approach intervening both at the actor and systems level to improve the pipeline as well as attract private capital was developed. The three recommendations were formed and elaborated in dialogue with both SDC and ecosystem actors in Palestine as well as Switzerland to ensure their relevance. The three recommendations are elaborated in the following sections.

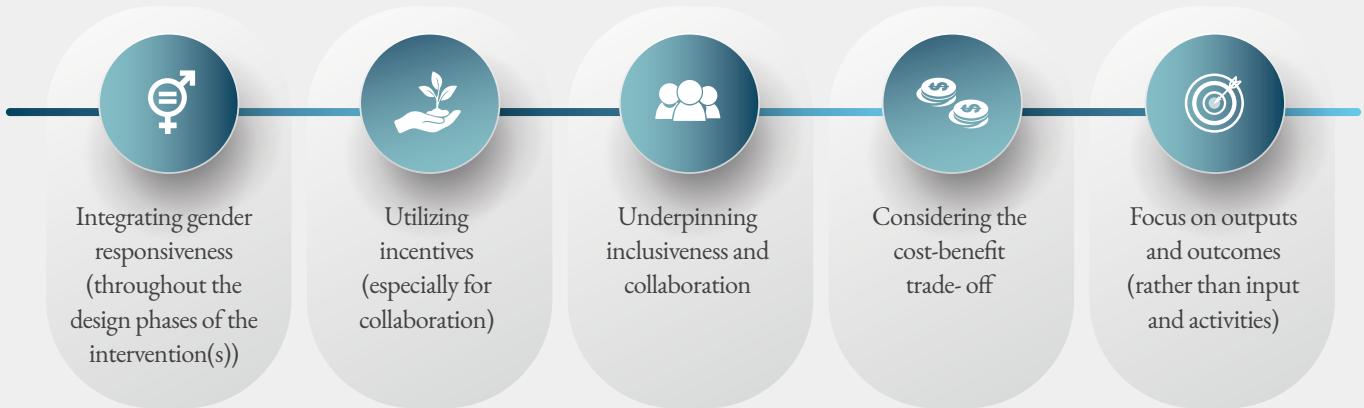
Key findings, guiding principles and recommendations

KEY FINDINGS



GUIDING PRINCIPLES

Making existing actors more effective by **intervening at the actor level**
Improving crucial relations between actors by **intervening at a systems level**



RECOMMENDATIONS



Figure 1: Summary of key findings, guiding principles and recommendations. Own figure

RECOMMENDATIONS



Co-design processes for strategy and community building

A co-designed process can facilitate the development of a shared strategy and action plan of the ecosystem.

The process can facilitate meetings and collaborations between Palestinian and Swiss actors.



Grant challenge for collaboration and capacity building

The grant challenge can fund projects that are formulated and owned by the community.

The projects could be selected based on their expected ability to increase collaboration between actors and increase the capacity of the ecosystem in supporting start-ups, including the sustainability of the project and the degree of private sector leverage.



Pre-seed and seed funding for market validation

The funding facility can make finance available for entrepreneurs and early stage start-ups to develop prototypes and bring minimally viable products (MVPs) to market for proof of concept and market validation.

Thereby the fund could contribute to an increased number of Palestinian start-ups being investable by private actors at later stages (Series A onwards).

Together the three recommendations can contribute to strengthening the ecosystem's ability to support start-ups (i.e. improving the pipeline of start-ups) and making strategic investments that improve the investability of the start-ups (i.e. attract private capital).

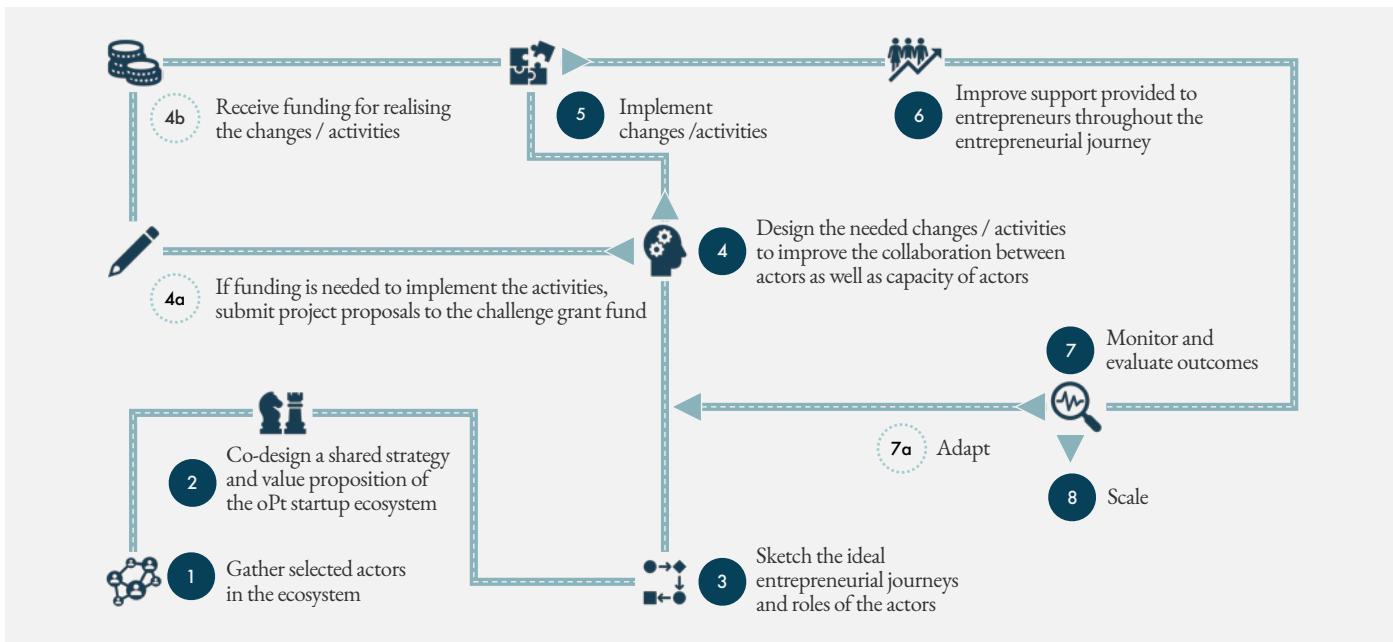
⁹ Ashoka (2020). Stories of Co-Creation

¹⁰ See for example: RICHES, the European Union, Design Kit or Butterfly Works method toolkit.

Co-design process

Co-creation is a form of collaborative innovation in which ideas are shared and improved upon together, rather than kept to oneself. Different stakeholders and experts come together to use co-creation as a collaborative tool to reach solutions which are beneficial to all actors. While the process can be used in many areas and sectors, it has become especially prominent in the start-up ecosystem. Networks such as Ashoka advocated for this new form of collaborative development of ideas⁹. Co-creation requires the involvement of people in team; is a process that is enhanced through well designed activities which aim at unleashing individual creativity in a meaningful sharing, sense-making, and decision-making collective experience.

There are many ways of fostering a co-creation process¹⁰. While the exact set-up and process steps of the recommendation will need to be elaborated further, the graph below shows a simple sequence of what the co-creation process to empower the Palestinian tech start-up ecosystem could look like:



While steps 1-4 follow more or less commonly agreed upon steps of a co-creation process, after step 4 there are two possibilities: either the implementation of the co-created idea, or an activity would need funding (e.g. a national initiative to promote the ‘entrepreneurship in residence concept’) and, the project proposal could be submitted to the grant challenge (which will be explained in recommendation 2). If the developed idea or activity does not need (too much) funding (such as the implementation of regular ecosystem network exchanges), it can be implemented right away. It is important to mention that the co-creation process does not stop there, but that the activities need to be monitored and evaluated and if successful should be scaled or adapted. As such, the sustainability of the co-design process lies in the strategy, collaborations, and initiatives emerging from the process (and not in the process itself). Likewise, while it will be possible to measure some outputs and outcomes of the process itself, the significant results to monitor will be the initiatives developed among eco-system actors.

As it can be seen from the process steps, a co-creation process is not a rapid solution to a problem, but rather a methodology to be applied over the course of several months at least. However, research and examples suggest that processes like the co-creation process, when done right, can lead to commonly agreed solutions, innovative ideas and disrupting solutions, with higher sustainability potential. The key conditions for success include: effective facilitation of the process, involvement of key stakeholders, shared understanding of desired outcomes between stakeholders, and equal and respectful engagements.

It is important to mention that the co-creation process should be a time-limited exercise, based on a clear theory of change and shall be ceased once results have been reported and positive outputs measured.

⁹ Ashoka (2020). Stories of Co-Creation.

¹⁰ See for example: RICHES, the European Union, Design Kit or Butterfly Works method toolkit.

Grant Challenge Fund for Collaboration and Capacity Building

A challenge fund is - in its essence - a funding competition that allows applicants to design and develop appropriate solutions to pre-defined challenges. Challenge funds might or might not require applicants to commit financial or in-kind resources.

The challenge fund concept is an innovative, bottom-up and potentially cost-effective means of development cooperation. However, they can be administratively demanding to design and manage, and as such, there should be clear advantages for setting up a challenge fund compared to other modes of donor support to justify the costs implied in it. More specifically, three levels of additionality should be considered:



Input additionality: The contribution of the challenge Fund (financial and potentially technical assistance) should be additional to resources already accessible on the market (i.e. it should be clear that the effect of the committed assistance would not have happened as a result of, for example, market forces and/or commercial financing).



Output additionality: If the successful applicants of the challenge fund do receive the (additional) assistance, then (logically) they should be able to extend and/or improve their products and services, and thereby their impact.



Ecosystem additionality: If the successful applicants can successfully demonstrate that they have increased their impact through extending and/or improving their products and services, then there is a potential for spill-over effects among likeminded actors.

Challenge funds can take several forms depending on the overall objective, initiating actor, and specific context¹¹. The basic premise of the proposed Grant Challenge Fund for Collaboration and Capacity Building is that the Palestinian startup ecosystem and support structures have the potential to encourage and sustain (tech) start-ups which will be successful in generating decent work opportunities for women and youth. However, three challenges impede the further utilization of the entrepreneurship ecosystem to this objective:

- uncoordinated and hard-to-find entrepreneurial support (lack of shared strategy),
- limited expertise, specialization, and diversification of support structures (lack of actor-initiated but internationally supported activities), and
- a mismatch between investors' expectations and start-ups (lack of finance for market validation).

¹¹ See for example: the Girls' Education Challenge which aims to increase girls' enrolment in and completion of school, the Innovations Against Poverty (AIP) which challenges the private sector to contribute to the fight against poverty, and the Inclusive Entrepreneurship Challenge that increase and improve the entrepreneurship support delivered to minority entrepreneurs in the Chicago area.

If support structures were to increasingly coordinate and collaborate on their efforts to support Palestinian entrepreneurs and startups, they would both improve the quality of the products and services delivered to the entrepreneurs and ease the transition / progression throughout the entrepreneurial journey. This would improve both the quality and quantity of services and products delivered, ultimately, leading to an increased number and success of Palestinian start-ups providing decent job opportunities for women and youth.

While the exact set-up and process steps of the recommendation will need to be elaborated further, the graph below illustrates the potential sequence of the Grant Challenge Fund for Collaboration and Capacity Building:

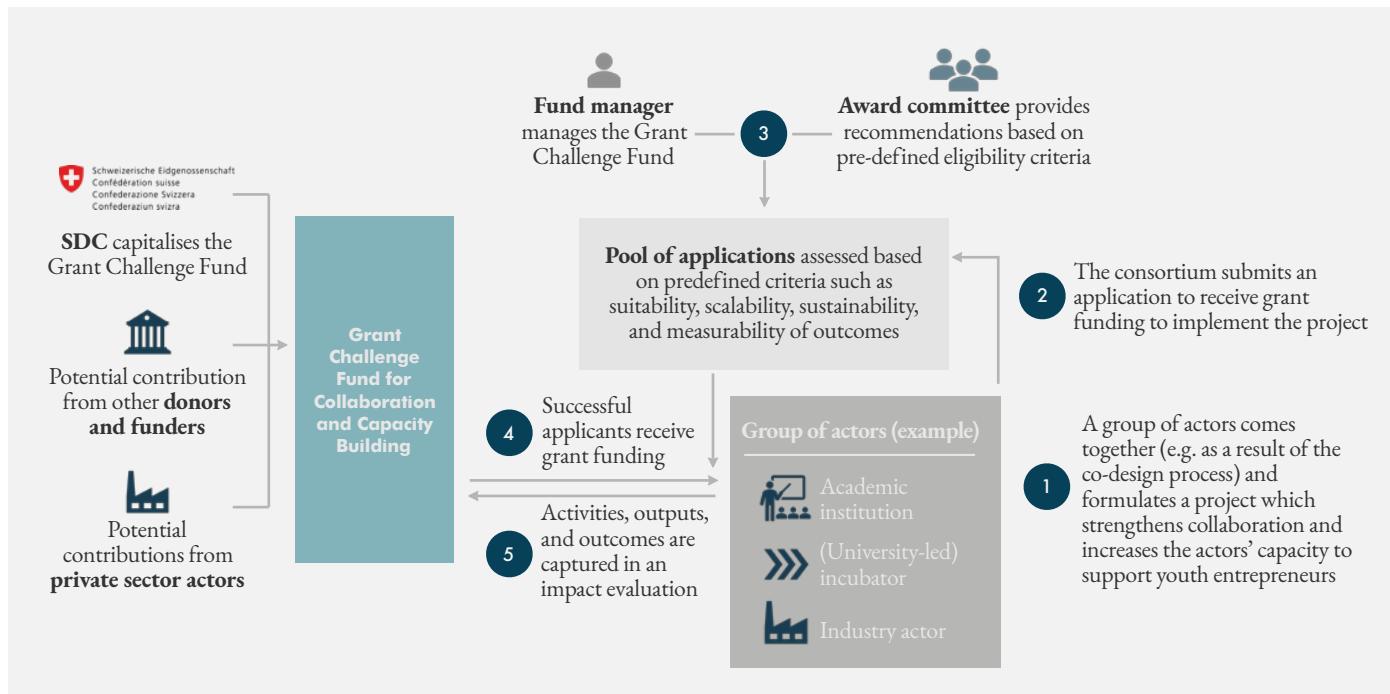


Figure 3: Challenge Fund for Collaboration and Capacity Building. Own figure



Seed Finance Facility

Venture capital involves long term investments in risky, young companies, often with unproven management teams addressing new technologies in uncertain markets. Venture capital investment has been found to be remarkably effective at stimulating innovation and job growth ¹².

While government policy plays an important part, one of the key success factors in creating an ecosystem in which start-ups and innovation can thrive is the access to adequate financing. As is well known, young innovative firms everywhere struggle accessing seed and early-stage financing, and even more in Palestine. Local banks are not really willing to provide loans to start-ups and young firms without any collateral and there are only a few venture capital firms (and even these focus on later stage investments), while the network of local and regional angel investors is still weak. As a result, there is a real need in the ecosystem to address this financing gap and perceived market failures by supporting the seed and early stage market as documented throughout the project and complementing the other two proposed interventions.

The overall objective of launching the proposed Seed Finance Facility would be to support promising tech start-ups in Palestine with capital to catalyse their growth and cover what has been identified as a large gap in the local market. In doing so the Facility could also showcase the potential of investing in local start-ups in order to mobilize additional financing from the region. As a result, it would be important for the Facility to focus on investment opportunities that are visible to the broader community and could provide opportunities to celebrate progress. Ideally, the Facility would start as a pilot and then within 3 years attract more funding from both donors as well as local and regional investors to become a permanent funding vehicle.

The Facility could adopt a venture capital like approach including a disciplined and competitive selection process, support only selected high potential enterprises, build a diversified portfolio to diversify risks, as well as provide hands-on support following an investment ¹³.

When it comes to the design of the Seed Finance Facility, the ultimate features will be defined in the implementation, however, below provides an indicative illustration based on international best practices as well as feedback from local stakeholders.

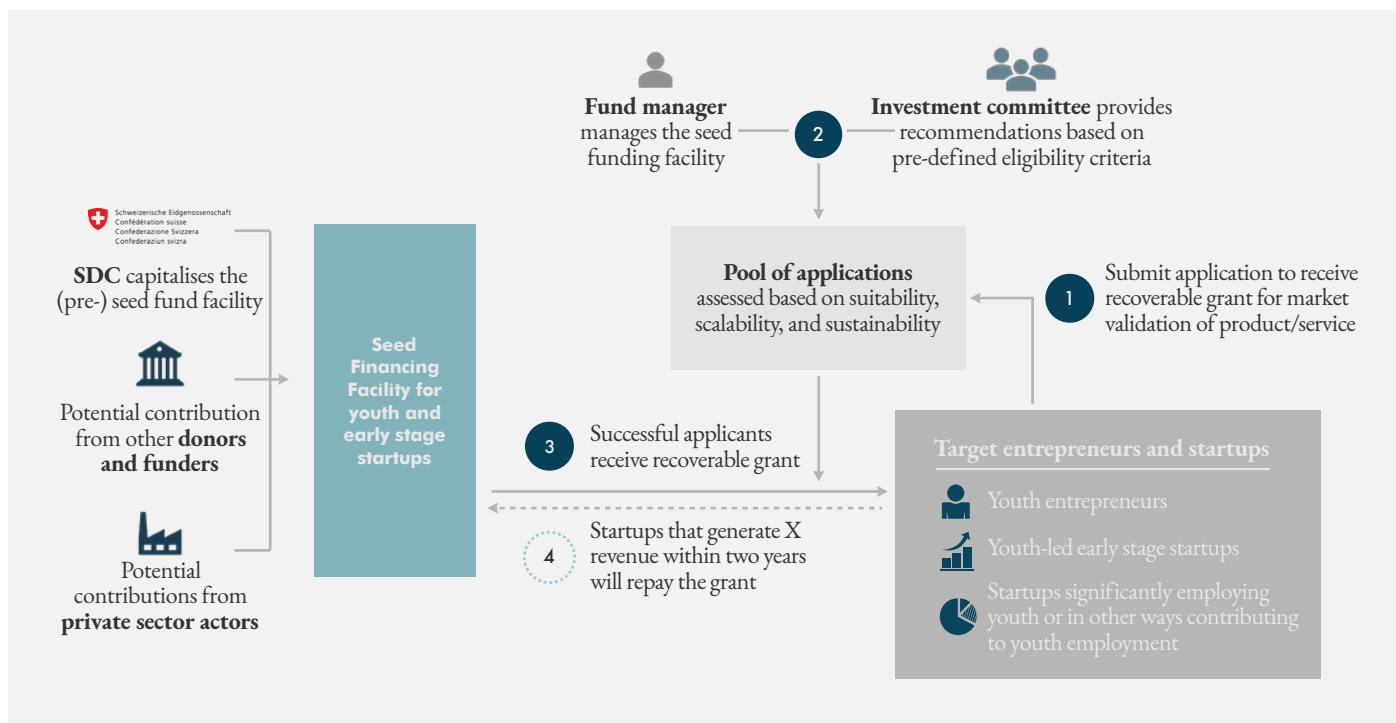


Figure 4: Pre-seed and seed funding facility, highlight. Own figure

12 <https://publications.iadb.org/publications/english/document/Best-Practices-in-Creating-a-Venture-Capital-Ecosystem.pdf>

13 Interesting examples include: UNICEF Venture Fund, EPFL Ignition Grant and Micro Grant.

Combined theories of change

Below the suggested overall and combined theory of change is introduced, illustrating how the three recommended approaches target distinct ecosystem challenges while mutually reinforcing each other.

A CO-DESIGN PROCESS FOR COMMUNITY AND STRATEGY BUILDING		B GRANT CHALLENGE FOR COLLABORATION AND CAPACITY BUILDING		C SEED FUNDING FACILITY SUPPORTING YOUTH AND EARLY STAGE STARTUP	
Impact Gaps	Increasing the sense of community and building a shared vision for the Palestinian startup ecosystem	Building entrepreneurial capacities through collaboration between Palestinian and Swiss actors	Attract private capital by showcasing the business case of investing in youth startups		
Input	Uncoordinated and hard-to-find entrepreneurial support	Limited expertise, specialization and diversification of support structures	Limited risk-taking finance available for early stage startups		
Activities	Grant-funding Expertise on facilitation Palestinian and Swiss actors and expertise on entrepreneurship ecosystems and support	Grant-funding Palestinian and Swiss actors and expertise on entrepreneurship ecosystems and support	Grant-funding Technical assistance facility		
Outputs	Facilitate the coordination and collaboration among support structures, including academia, industry actors and financingsources	Provide grant-funding to project proposals that contribute to improved collaboration among actors as well as increased expertise, specialisation and diversification of support provided to entrepreneurs	Provide pre-seed and seed finance to early stage startups that can attract private capital at later stages		
Outcomes	Shared strategy of the Palestinian Entrepreneurship Ecosystem Ideas for partnerships and initiatives	Formalised partnerships between actors (academia, industry, support structures) within Palestine and between Palestinian and Swiss actors Training – or similar capacity building activities – provided to ecosystem actors	Increased number of youth entrepreneurs with access to early stage finance		
Impact	Increased understanding of own and others' value propositions Implemented partnerships and initiatives	Increased and improved collaboration between actors Increased capacity of Palestinian actors to meet the needs of entrepreneurs	Increased market validation of startup		
	Holistic and dynamic ecosystem with...	...improved suitability and quality of support delivered to Palestinian startups and...	...increased investment- readiness of startups/pipeline		





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About the authors

This study was completed by iGravity between March and October 2020. iGravity is an advisory firm specialised in impact investment and innovative finance solutions established in March 2017 and committed to accelerating the transition to a sustainable and equitable world. We are a fast-growing company managed by experienced people with a bold vision of making development cooperation more effective and impact investments accessible to everyone.

For this assignment, the team of iGravity is honoured to have collaborated with two local consultants, namely:

Abdel-Razzak Natsheh has over 10 years of international academic, technical and executive management experience in leading highly prioritized and critical programs/projects and teams in various fields especially in education and software product development for the private sector.

Fatima Botmeh has over 19 years of experience working in development in Palestine and the Arab region. She is a gender and organizational development specialist, with extensive experience working on gender mainstreaming, women and youth economic empowerment, at the policy, programme, capacities, procedures and the organizational culture.

In addition, the team wishes to express its deepest gratitude to all actors interviewed and involved throughout the process. Their contributions have been invaluable in throughout the entire project process.