

An Unlikely Setting



While there has been some debate about the efficiency and impact of SMEs and their role in supporting national economies, Palestinians in West Bank and Gaza firmly believe that SME support is the solution towards lower unemployment rates and the way towards a stronger economy. Palestine has a great resource, its youth (which represents around 50 percent of the people) and the overall population is well-educated and well-informed.

A special case

Palestine is indeed a special case with many demographic, socio-economic and geopolitical challenges. The economy is dependent on regional influences and connected to a limited and small market with many restrictions on borders, which impede free movement of people and free trade of physical goods. Within this difficult context, Palestinians believe that economic and political development needs to be jointly aligned.

As a result of all these constraints, technology is seen as one of the main doors to access the rest of the globe. Software applications, business services and solutions, mobile technologies and applications, digital Arabic content, online marketing and e-Commerce are just some examples that make the ICT sector Palestine's main economic gateway to the rest of the world. Adapting and learning to use the Internet and the Cloud quickly, to transfer digital productions out of Palestine, has been, and still is key to success.

Entrepreneurship, innovation, technology transfer, business incubators and accelerators are attractive words amongst countries in the Middle East, especially in recent years. Palestine is no different on this respect. The Palestine ICT Incubator (PICTI), established in 2004, with headquarters in Ramallah and a branch in Gaza, was the first ICT-specialised business incubator in Palestine. Since then PICTI has made enormous progress in spreading a technology, entrepreneurship and innovation culture through the area.

Youthful aspirations

Over the last eight years, one of PICTI's main objectives was to attract and motivate Palestinian youth to incubate their business ideas. Hundreds of awareness workshops and training seminars (in cooperation with every university in Palestine) were conducted and attended by thousands of university students and graduates in West Bank and Gaza. Important connections were established with large corporations such as Intel, Google and Microsoft and excellent results were achieved through the GPAL Day, Technology Weeks, the annual business plan contests and the Imagine Cup Competitions. Considering the Palestinian reality, the success of these types of events must be measured, not only in the deal flow they have actually generated, but also in terms of the buzz they have created in a region where the youth needs to be actively challenged to take more risks, and foster an entrepreneurial attitude and mindset.

Through these awareness-raising activities PICTI played a critical role in bridging the gap between academia and the private sector, although recently we realised that a more systemic approach is necessary, and matters cannot be left to a case-by-case basis. That is why recently, with the financial support of the European Investment Bank and the technical support of the European BIC Network, a

huge effort was undertaken to redefine PICTI's business model and to reposition it within the overall innovation ecosystem in Palestine, an ecosystem that comprises many stakeholders, some of which we were not taking fully into consideration in our initial stages of operations.

Recognising that we were players in a larger ecosystem made us rethink all of our relations with our stakeholders and this exercise made us assess our revenue streams (discovering new ones we weren't considering before) and see further value-add for our entrepreneurs. These were issues we had not tackled before and the reassessment has, hopefully, positively impacted our overall business model. For example the acknowledgement of the important role that the Palestinian diaspora can have in stimulating and supporting our local entrepreneurs has been assessed and targeted actions have been implemented to involve successful entrepreneurs who are now living abroad.

These are methodologies that are similar to those described by Wissam Rabadi and Autumn Gorman in their informative article [*"The Untapped Resource"*](#), which appeared in Volume 1, Issue 2 of The Business Incubator magazine.

A new model

As a result of all these changes, with development in both the sector and culture, and with new players on the scene, we have redesigned our business model. A business model compatible with the challenges Palestine is facing and taking into account those requirements that would-be entrepreneurs face every day. This business model is now in line with PICTI's strategic positioning which can be summarized as follows:

- An agent of **economic** change, creating wealth, jobs and added value through the development of the Palestinian ICT sector.
- An agent of **cultural** change, facilitating the transition towards a more entrepreneurial mindset, stimulating job creation through private activities, easing the change of mentality of Palestinian youth and university graduates from a 'safe job' mode to a career-driven and 'risk-taking' mode.
- An agent of **social** change leading to the concept that the incubation processes should be 'open to all' although not subsidised to 100 percent.

In the definition of the business model, we found revenue streams compatible with the cultural-change mission that is part of the agenda. Among the many elements considered, three are probably most worth mentioning:

- **The fee structure:** PICTI provides high-value, and therefore needs to be paid for the services it delivers. Services in the next few years must become an income generating activity. This may contrast with the lower perception of the value that customers might have and their ability to pay for these services. We believe that the only way forward is to ensure the highest possible quality.
- **Grants:** PICTI has been providing 100 percent grants to go through the pre-incubation stage. We have learned the lesson that this is way too high; first of all because it attracts a cross-section of the community that is not necessarily of entrepreneurial capacity. Reducing the grant level will hopefully help in the filtering process and draw out those who have a real entrepreneurial attitude.
- **Lower equities in incubated companies:** The higher the equity share, the higher the chances of a non-transparent relation between the incubator staff and the potential difficulties in buying out shares when a company graduates.

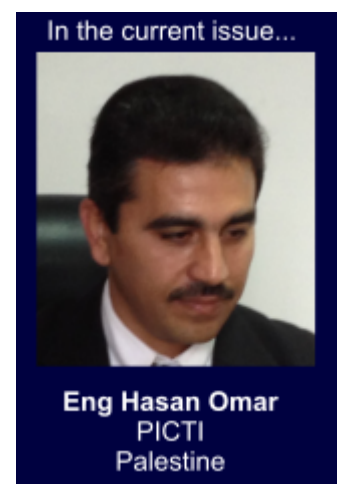
Furthermore, looking at the overall ecosystem in Palestine, it was decided that PICTI would concentrate on the incubation stage, while leaving the pre-incubation support efforts to the Universities, the Centers of Excellence and the Youth Development Resource Centers, present in Jenin, Nablus, Jerusalem, Bethlehem and Hebron. This of course leads to the necessity of

empowering these organisations in order to build their capacities in undertaking this difficult task. We will be supporting them during the first few years, as this will be one of the greatest challenges we need to address. PICTI has developed the 'Palestine Innovation Initiative - PI2' to start the process and is currently seeking funding for this project.

While designing the new business model, all challenges and lessons learned were taken into consideration through an in-depth analysis of all successes and failures within the current and previous contexts. Partnership agreements and MoUs were signed with universities and international mentoring and coaching networks such as Mowgli-UK and the YEN Market Place. A network of local ambassadors was established and a local network of mentors was developed, including Palestinians from the diaspora.

The new model was announced during a special ceremonial conference in June 2012, which we now consider as the new birthday for PICTI, and a milestone in the incubation and innovation industry in Palestine. On that occasion PICTI received the certificate from EBN that certifies the alignment of PICTI to the EC-BIC Quality Mark Criteria.

In conclusion, we can say that our situation is similar to that of most incubation units in the Arab world, the Middle East and the south countries in general. We are aware that we still have a way to go, but we now believe we are on the right track. Certainly, we are still not satisfied with the number of companies established and jobs created, and more work needs to be done. Arab youths are looking for a 'change'. The "Arab Spring" sheds the light on their role in the coming period with all the economic and political implications that drive the eventual success of our efforts.



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