



OVERVIEW

CO- INVESTMENT GRANTS PROGRAM

A Project of:



Ministry of National Economy

Funded By:



Implemented By:





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About the Innovative Private Sector Development II Project

IPSD II is a project for the benefit of the Palestinian Ministry of National Economy (MoNE), funded by the World Bank and the EU, and implemented by DAI.

The IPSD II project aims to **improve economic opportunities for tech-enabled startups and innovative small and medium-sized enterprises (SMEs), and individuals in the digital economy in the West Bank and Gaza (WB&G)**. For the purposes of this project, economic opportunities include access to the following resources: (i) early-stage finance, (ii) market access activities, (iii) mentorship, (iv) skills enhancement training, (v) employment matchmaking, and (vi) streamlined formal business registration. It will support reforms to create an environment where private sector investment and jobs can grow. The project's components are aligned to major Bank and Government objectives of: (i) increasing ties to regional markets; (ii) building skills for the private sector's labor market needs; and (iii) reforming business environment.

IPSD II will provide support through three mutually reinforcing components. These components address key gaps in the ecosystem to create a supportive environment for tech and tech-enabled startups and innovative SMEs in the WB&G. Component 1, the "Entrepreneurship Ecosystem Development,". Component 2, "Building an Outsourcing Hub in Gaza and the West Bank,". And component 3, "Project Management and Implementation Support," will finance project management costs and capacity building for the MoNE.

Component 1. has the following subcomponents: (i) Subcomponent 1.1 focuses on improving market linkages to Arab communities in regional entrepreneurship ecosystems (NEXUS); (ii) **Subcomponent 1.2: focuses on developing a dynamic startup finance ecosystem including building angel group networks, investment readiness advisory and catalytic funding grants (Pre-Investment and Co-Investment grants)**, and (iii) Subcomponent 1.3: focuses on the broader business environment, such as further enhancements to the Automated Business Registry System (ABRS).

Developing a Dynamic Startup Finance Ecosystem:

The project will address the weaknesses in the ecosystem through the following interventions: (i) angel investor group building, (ii) investment readiness advisory, and (iii) catalytic funding. Moreover, it is envisioned that facilitating and de-risking early-stage financing investments will provide a demonstration effect that will help grow interest and trust in the entrepreneurial financing ecosystem and influence the

government and other stakeholders to improve the enabling policy environments for entrepreneurial finance.

- **Initiative 1: Angel group/network building.** This initiative will promote and support (through an assistance package) the development of organized angel investing in the WB&G, targeting the formation and development of two to three active angel groups.


- **Initiative 2: Investment readiness advisory services (IRAS).** To assist in strengthening the deal flow, the project will aim to work with a few intermediaries such as incubators, accelerators, and advisory firms to address entrepreneur investment readiness and investor engagement deficiencies.

- **Initiative 3: Catalytic funding grants.** Through a facility managed by the PIA, catalytic funding grants will be provided to startups and innovative SMEs that help stimulate private investment by angels and early-stage VCs and encourage investment syndication between seasoned and less experienced investors.

a) **Pre-investment grants** in the amount up to US\$50,000 per startup, will involve grant funding to enterprises that show business and investment promise but are still not considered “investment ready” by investors. The purpose of the pre-investment (PI) grants will be to (i) bridge the early commercialization funding gap to investment, (ii) provide funding for firms to address shortcomings identified by investors or early-stage investment experts, including under the IGNITE program, and (iii) improve the likelihood that firms can subsequently secure seed stage (angel, e.g.) investment within a short time frame (targeting 6–12 months).

b) **Co-investment grants** aim to help stimulate investment by early-stage private investors, including syndication between seasoned investors and encouraging first-time angel investors. Co-investment (CI) grants will provide supplementary funding to firms that are able to raise investment from approved early-stage private investors. The CI grants will provide additional funding—beyond what investors are willing to make—to help early-stage firms develop and grow. The grants will also help lower the risk perception of investors by better capitalizing the enterprises, thereby providing a longer “runway” to achieve business development milestones that lead to stronger businesses. In addition, CI funding could encourage investors to spread capital across more investments (portfolio strategy), thereby leading to more Palestinian firms receiving the benefits of angel and other investors as partners. Co-investment grants will provide up to 50 percent of the financing round as a match to private investment, with grants up to US\$100,000 and up to 33 percent of the financing round for grants from US\$100,000 to US\$350,000.

Through investment readiness advisory services, catalytic funding, and the mobilization of angel investors, IPSD II interventions are expected to contribute towards improving funding availability for early-stage enterprises, as well as investment



pipeline building of start-ups and high growth potential businesses ready for investment - also referred to as the “last mile” of deal flow.

Co-Investment Grants Program

Overview:

The Co-Investment Grants Program aims to help stimulate private investment by early stage private investors, including syndication between investors and encouraging first-time angel investors.

The Co-Investment (CI) grants will provide additional funding beyond what investors are willing to invest to help early-stage firms develop and grow. The grants will help by better capitalizing the enterprises, thereby providing a longer ‘runway’ to achieve business development milestones that improve the odds of success and lead to stronger businesses. In addition, CI funding could encourage investors to spread capital across more investments (portfolio strategy), thereby leading to more firms receiving the benefits of angel and other investors as partners.

Target beneficiaries:

IPSD II’s Co-Investment Grants program will be working with innovative, technology-driven, technology-enabled, and high growth startups as well as innovative SMEs across a range of sectors except of industrial or manufacturing (in accordance with the project’s Environmental and Social Management Manual guidelines) from all over West Bank and Gaza.

Women owned/ led businesses are encouraged to apply.

Financing:

The Co-Investment Grants program will provide grants as a match to private investment up to (i) a maximum 50% of the total amount of funding rounds up to \$300k, with a maximum grant size of \$100K, or (ii) a maximum of 33% of the total amount of funding rounds exceeding \$300k, with a maximum grant size of \$350K. The maximum amount of Co-Investment Grants that can be awarded for one company is \$350k cumulatively under IPSD and IPSD II.

Co-Investment Matching Allowances *(a financing round includes both the grant and investment capital)*

Total Financing Round Amount^	CI Grant % of Financing Round	Co-investment Grant Ceiling	Private Investment Amount
Up to \$300K	Up to 50%	\$100K	Up to \$200K
Above \$300K	Up to 33%	\$350K	Above \$200K

A minimum of \$50,000 private investment is required to qualify for a Co-Investment Grant. The private investment must be structured as equity or quasi-equity (e.g., convertible notes). 70% of the CI grant funds must be used/dispensed in West Bank and Gaza.

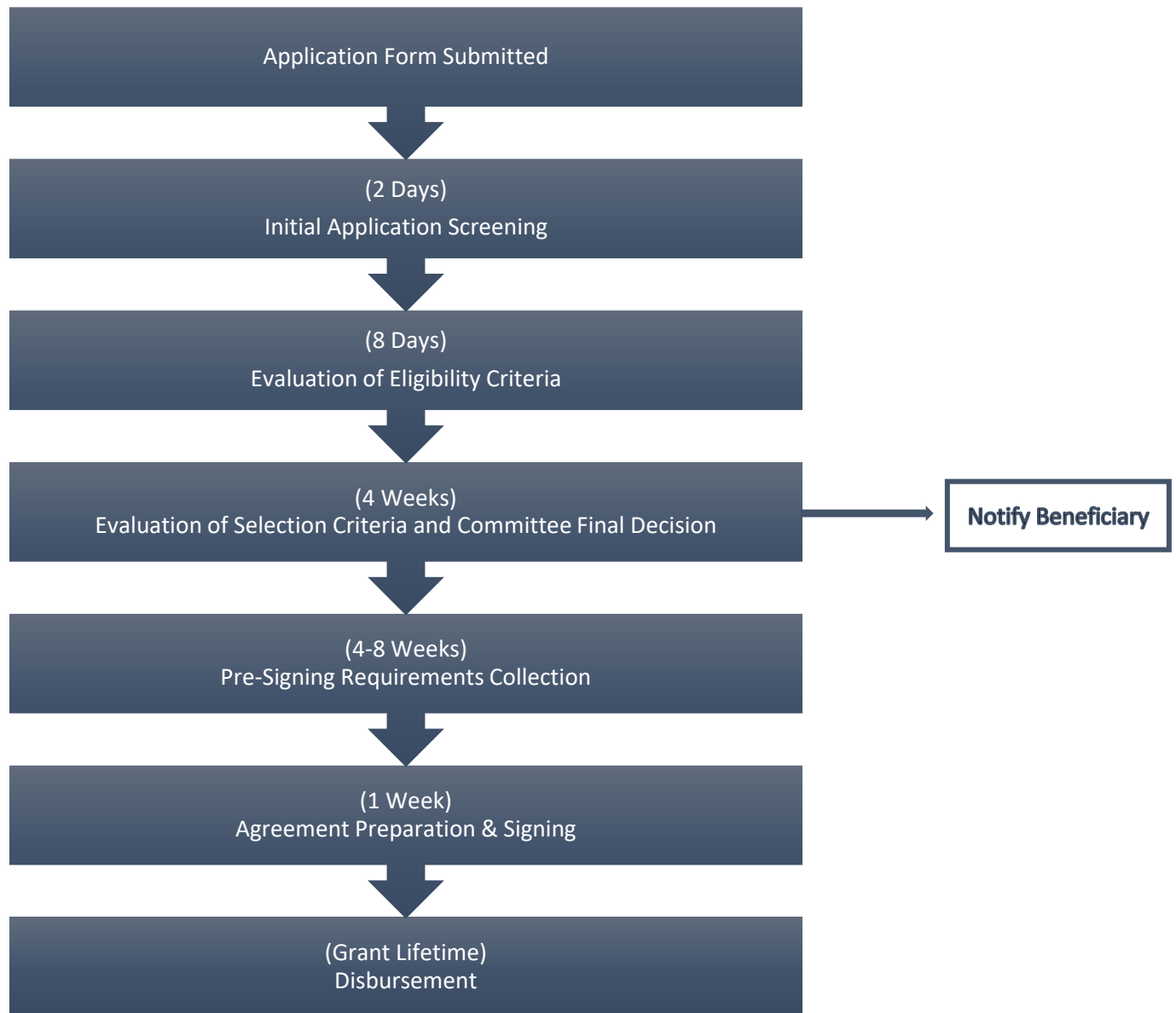
Selection Process Overview:

Selection of beneficiaries will be on a competitive basis through an application process with requirements that efficiently capture the necessary information. Applications are reviewed on a rolling, first-come, first-served basis, subject to the availability of funding.

For the comprehensive application process, see the figure below. It is anticipated that four to six weeks will be required to perform an initial application screening, assess completed applications or ask for clarifications and receive additional documentation, review, and approve an application, with an additional four to nine weeks for contract preparation and grant processing.

Please note: While these timelines provide an estimated timeframe, actual processing times may vary. Depending on the complexity of the application and the volume of submissions, the process may take shorter or longer than anticipated.

Co-Investment Grant Application & Review Process



The Co-Investment Grants Committee will assess the application and based on that assessment approve or reject the application.

Only clear and verifiable activities will be approved, and all expenditures related to the grant funds will be tracked and must relate back to the agreed use of funds within the project proposal and budget.

Application Process Overview

Firms applying for Co-Investment Grants must submit an application and include the following set of materials:

- Entrepreneur application questionnaire.
- Business registration forms (articles of incorporation, e.g.).
- List of existing shareholders and their percentage ownership (capitalization table).
- Management resumes and organizational chart.
- Investor deck or /and Business plan
- Project proposal and budget (general use of funds).
- Financial statements for the recent operating periods, up to two years for more established firms and at least three months for early-stage firms.
- Pro forma financial projections for two years.
- Term sheet from investor(s)

In addition, investors must provide supplemental information separately, to include:

- Individual investor / firm information
- Due diligence report or investment memo (provided by lead investor)
- Term sheet and any other supporting documents

The company and investors will be required to provide signed investment documents (Stock Purchase Agreement, Investment Agreement, Shareholders Agreement, etc.) before the grant signature. All investors participating in the round and providing investment that will be matched by the Co-Investment Grant must provide information to confirm eligibility and investment agreements must include signatures of all participating investors. Only the lead investor needs to provide the due diligence summary or investment memo.

Eligibility:

The Co-Investment Grants are designed to assist firms in capital raising efforts and are intended to attract private investors. As such, while the funding will go directly to the Beneficiary firm, both the firm and investors must meet established eligibility criteria.

Firm Eligibility

Each firm applying for a Co-Investment Grant must meet the following eligibility criteria:

- ➔ Be a company operating in the West Bank and Gaza, that is legally registered or in the process of legal registration or committed to register with the Ministry of National Economy before grant agreement signature.
- ➔ Be operational for at least 6 months prior to applying to the program.
- ➔ The firm's activities shall have moderate to low or minimal environmental impacts.
- ➔ The beneficiary firm must commit to spending at least 70% of CI grant funds in West Bank and Gaza and any funds spent outside West Bank and Gaza must be spent on expenses directly related to driving the company's growth.

Note 1: A firm already benefiting/benefited from a CI Grant (if they have not received the full award ceiling of \$350K) can apply for an additional grant (if eligible) only if the round for which they are applying for matching has a new lead investor.

Note 2: A Firm can apply for a CI grant for the first time with an existing investor as lead investor, if such investor has not previously invested more than \$50,000 into this startup.

Note 3: IPSD II will consider applications from companies that raised investment rounds during the period of March 2023 - December 2024 for retroactive matching when IPSD was between programs and CI Grants were unavailable, provided the investment and investor meet eligibility and selection requirements and a strong co-investment case is presented.

Note 4: The grant agreement will be signed only after the start-ups, including foreign start-ups, register with MoNE and open a tax file. The CI grant will have a window of technical assistance to support grant recipients to comply with project prerequisites (if needed) before grant signature, such as E&S measures, fulfil company registration with MoNE and tax file opening at the MoF.

Investor Eligibility

Eligible private investors may include individual angel investors, angel groups, venture capital funds and other private institutional investors.

Lead investors may only be eligible co-investors for one grant award per firm. A firm already benefiting/benefited from a CI Grant (if they have not received the full award ceiling of \$350K) can apply for an additional grant (if eligible) only if the round for which they are applying for matching has a new lead investor.

An existing investor into a firm applying for first time for a CI Grant can be lead investor only if such investor has not invested more than \$50,000 into the firm.

All investors participating in a round of funding for which a firm seeks to secure Co-Investment Grant funding must submit a separate application online, including all required documents, be approved by IPSD II, and must be signatories to investment documents.

Evaluation of Eligibility Criteria

An initial review of applications will be conducted to confirm the requisite information and materials have been provided in full – as well as the general eligibility of the firm and investor(s).

Applications that are deemed eligible will undergo an initial evaluation to identify the Environmental and Social risks to ensure that proposed activities have minimum or non-existent environmental impacts and set the appropriate mitigation measures for project activities if needed.

Selection Criteria

The selection criteria to be fulfilled are the following:

- (i) Applicant firm has secured a term sheet for an investment by one or more eligible private investors.
- (ii) Investor submitted the due diligence report and/or investment memorandum.
- (iii) Applicant firm is a startup, or an innovative SME as evidenced by the firm demonstrating one or more of the following types of innovation:
 - a. **Product innovation:** the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This

includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovation can utilize new knowledge or technologies or can be based on new uses or combinations of existing knowledge or technologies.

- b. **Process innovation:** the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovation can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.
- c. **Marketing innovation:** is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing firm's sales.
- d. **Organizational innovation:** the implementation of a new organizational method in the firm's business practices, workplace, organization, or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradeable assets (such as codified external knowledge) or reducing costs of supplies.

While IPSP II requires the applicant firm to complete a grant application, the lead investor will need to provide supplementary materials, such as a due diligence summary or investment memorandum as confirmation that due diligence has been undertaken and to present an investment case to the Co-Investment Grants Committee.

The role of the committee is to determine:

- An application fulfils the selection criteria.
- The investors are;
 - 1. Credible (as demonstrated by their experience and understanding of the risks associate with the investment).
 - 2. Have done satisfactory due diligence (as demonstrated by the presentation of an investment memo/due diligence report and any additional information requested, as needed).
- That the investment terms are reasonable / consistent with market / international standards.
- That the proposed use of funds is appropriate.

The Co-Investment Grants Committee will confirm applicants meet requirements and will consider if key company/business areas and risks have been evaluated by investors (in the due diligence summary or investment memo, e.g.), which may include:

- Assessment of the viability, scalability and prospects of the company and its business model.
- Assessment of the attractiveness of the company as an investment proposition (i.e., the investment thesis).
- Review of management credentials and list of key employees with backgrounds.
- An understanding of the level of customer engagement by the company.
- Review of market positioning, go-to-market and sales strategy.
- Assessment of the competition and competitive advantages.
- Consideration of how the uses of funds increase the firm's growth prospects, reach strategic business development goals and/or raise investment from other private investors.

Eligible Expenses - Use of Funds

Funds should be used for the purposes identified in the business plan provided by the Applicant Firm and agreed on with the investor(s). The financial support will be governed by a CI Grant Agreement with specific terms and conditions. Upon determining the terms of the grant for the Applicant Firm.

The following is a representative list of acceptable uses of funds that takes into consideration working capital needs:

- **Team/Labor costs (salaries):** associated with delivery and execution of ongoing operations and business functions.
- **Business development:** Including, but not limited to costs:
 - a. Relevant to expanding customer acquisition and entering new markets, as well as market research and testing.
 - b. Associated with building relationships with key suppliers or customers.
 - c. Hiring of consultants/experts to improve accounting and financial statements, company structure, strategy, etc.
- **Sales and marketing activities:** Cost of visibility actions aimed at increasing potential customer base.

- **Product development:** Developing and testing of products, purchasing of materials, technology and/or equipment relevant to improving product or service, product diversification/expansion, product/service innovation and development, and research and development planning. Allowable costs under this category must be in compliance with the ESMM manual.
- **Quality and environmental systems improvements.**
- **Implementation of IT solutions** (e-commerce and multimedia, e.g.).
- **IP protection:** Including application for patents, costs related to IP protection process, hiring of consultants and/or legal expertise.
- **Organizational development:** including capacity building or technical assistance.

Non-Eligible Expenses - Use of Funds

Co-Investment Grants will include conditions that prevent the misuse of grant funds and shall be used solely for identified and approved projects and expenses. The Co-Investment Grants will **NOT** support expenses in relation to:

- Retroactive payments (i.e., payments in arrears).
- Any dividends or bonus payments to staff, management, shareholders or consultants.
- Repayment of funds loaned to the company by related parties, including the founder/entrepreneurs, other individuals or financial institutions.
- Any revenue share or royalty payments cannot be paid with any Beneficiary funds during the term of the Co-Investment Grant.
- Payments to cover fees levied by investors or pay any advisory or placement fees or bonuses to external advisers.
- Purchasing land, commodities, futures, shares, securities, or other financial instruments.
- Projects or activities that are classified under Category A and B in accordance with the exclusion list provided by the Environmental and Social Management Manual. The IPSD II project under direct and co-financing will exclude such activities.
- Industrial related or construction activities, or any other activities that entail pollution generation, in accordance with the exclusion list provided by the Environmental and Social
- Any of the following projects or activities:
 - Tobacco production, processing, storage.
 - Alcohol, wine, spirits.
 - Projects within nature reserves or other such designated areas and that involve alteration to rivers or other natural environments.
 - Mining Projects.

- Logging Projects.
- Adult Entertainment Projects.
- Gambling Projects.
- Property Development.

IPSD II may during the Co-Investment funding grants administration period determine other activities to be ineligible for support.

Termination of Grant Agreements and Funding

A grant may be terminated, and a grant Beneficiary required to repay part of the grant or in full under the following circumstances:

- a. Where the grant Beneficiary uses the grant funds in contravention to the purposes stated in the grant agreement.
- b. Where the grant Beneficiary uses the grant funds to pay for expenses listed in the non-Eligible expenses.
- c. Where the grant Beneficiary uses the grant funds to fund ineligible projects.
- d. Where the grantee is using the grant proceeds for salary payments for staff members whose salary is already covered from other funding sources.
- e. Where the grant Beneficiary has deliberately made false or incomplete information to obtain the grant, or at any time during the lifetime of the grant, or fails to provide the information on any institutional or investment changes at any time during the lifetime of the Grant within 5 days of such change.
- f. Where the grant Beneficiary fails to cooperate and provide the necessary Monitoring & Evaluation information as requested by IPSD II.
- g. Where the grant Beneficiary fails to cooperate with IPSD II or WB auditors would audit deemed necessary in the Grant Agreement.
- h. Where the grant Beneficiary violates any of the Environmental & Social Safeguards stated in IPSD II Grant Agreement
- i. Where the grant Beneficiary violates the terms of the agreement, including by violating procurement and/or payment rules.
- j. Where the IPSD II project is terminated for any reason by the MoNE or WB, in this case repayment of spent grant fund is not required.

In the case where an investor backs out or withdraws on future instalments such as in a tranching investment schedule, IPSD II will halt disbursement pending review of the

case to determine next steps, which may include termination or modification of the grant.

Accounting, Technical and Financial Checks

Beneficiaries of the grants shall keep accurate and regular accounts of the implementation of IPSD II funds using an appropriate accounting system. These systems may either be an integrated part of the beneficiary's regular system or an adjunct to that system. This system shall be run in accordance with the accepted standards of accounting and bookkeeping policies and rules. Accounts and expenditures relating to the grant must be easily identifiable and verifiable. This can be done by using separate accounts for the grant concerned or by ensuring that expenditure can be easily identified and traced within the Beneficiary's accounting and bookkeeping systems.

Beneficiaries shall prepare and keep appropriate reconciliations, supporting schedules, analyses, breakdowns, and any other relevant documents for inspection and verification.

The Beneficiary will allow the PIA, The World Bank, and any external auditor carrying out verifications as required during the lifetime of the grant and up to one year after use of funds.

Fraud and Corruption

IPSD II will require beneficiaries to adhere to the highest ethical standards. In pursuance of this policy, the following practices as defined by the world bank below, shall not be tolerated and shall lead to termination of the grant agreement:

- a) "Corrupt practice" is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence the actions of another party;
- b) "Fraudulent practice" is an act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation;
- c) "Collusive practices" is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- d) "Coercive practices" is impairing or harming, or threatening to impair or harm, directly or indirectly, persons or their property to influence their participation in a procurement process, or affect the execution of a contract;
- e) "Obstructive practice"
 - a) Deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a World Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening,

- harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
- b) Acts intended to materially impede the exercise of the World Bank's inspection and audit rights.

Monitoring

All program beneficiaries are expected to follow regular monitoring processes. The aim is to strengthen self-assessments of progress, improve documentation of the implementation processes, and facilitate timely modifications as needed. In addition, field visits may be conducted, to allow IPSD II to strengthen direct monitoring and technical assistance to the Beneficiaries.

Reporting

For the Co-Investment Grant Beneficiaries, reports will include Quarterly Financial and Progress reports. The required reporting period will be 24 months after signing of the CI Grant Agreement, in addition to the required reporting mentioned above, beneficiaries shall provide IPSD II with copies of all reports submitted to their investors.


As part of grant administration, the PIA will maintain information on the performance of Beneficiaries. Follow-up on individual beneficiaries will be performed if deemed necessary. The PIA will also require beneficiaries to provide the information annually, and the PAI will utilize and evaluate this information to continually improve and adapt its environmental policies and management and will be aggregated into IPSD II annual report.

IPSD II is a development impact project and required by the World Bank and Ministry of National Economy to report on key results indicators on annual basis. Therefore, all CI grant recipients are required to cooperate and provide necessary M&E data bi-annually for key indicators related to this program. Those include growth in employment, revenue, new markets, new products, and new investments and invertors.

Communications & Outreach

The beneficiaries under this agreement agree to comply with the following terms related to project's communications and branding guidelines:

- o Recognize that the Grant support is provided by the IPSD II Project, which is a project funded by the World Bank and the European Union (EU) and implemented by DAI.

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- Notify and coordinate with PIA as early as possible, and no less than 7 days prior to engaging in any public event/forum/interview/news/radio or any other forum related to activities/funding supported by this agreement;
 - Ensure and coordinate actions related to visibility of IPSD II, Ministry of National Economy and World Bank in any public or recorded events and ensure inclusion of approved logos/branding in all written communications (brochures, publications, banners, press releases, reports, websites etc.). The PIA will provide the beneficiary with approved promotional materials per each event, and beneficiaries are only allowed to use approved materials.
 - The Grantee authorize the PIA to publish the following information in any form:
The Grantee's names • the subject and purpose of the grant • the amount granted
 - The Grantee allow IPSD II, to use the grantee's approved logo/s and name in any advertising communications or marketing literature utilized by IPSD II to promote IPSD II activities. IPSD II will communicate the use of the Grantee's logo/s and name, prior to any public communications.