Palestinian Startup Ecosystem- Summary Document

This study was prepared by Startup Genome

Disclaimer:

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State of the Palestinian Startup Ecosystem

A Startup Genome Report, published in collaboration with the IPSD

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Executive Summary

The Palestinian ecosystem is currently in the Early Activation phase, with fewer than 300 tech startups, low early-stage funding, and no high-value scaleups or exits. Key next steps to grow and advance the ecosystem include improving collaboration and knowledge exchange in the local community - Local Connectedness as well as access to global sources of business model and technology expertise - Global Connectedness - and ultimately access to regional or international market opportunity - Global Market Reach.

Startups in Palestine report low sales to foreign markets and few connections to leading ecosystems. In order to create the first few successes, startups must focus more on building locally leading products that can be sold to regional and global markets. The Palestinian startup community is cohesive and supportive, with founders receiving considerable help from the ecosystem. However, the ecosystem remains fragmented, with limited interactions among the different pockets of Palestine.

Early-stage funding continues to remain a key problem in Palestine, with very few seed and no recent Series A rounds reported in the ecosystem. Reduced investor presence and activity in the ecosystem has further exacerbated this problem in recent years. As a priority, focused action should be taken in developing access to seed stage funding including by connecting sources of funding and those entities and startup support programs that can help create high quality deal flow.
Introduction

1. About Startup Genome

Startup Genome works to enhance startup success and ecosystem performance everywhere.

We are a research and advisory company, delivering analytics and advice to policymakers in 50 cities across 30 countries. Beyond our team of serial entrepreneurs, public policy leaders and data scientists, our knowledge network brings together technology and economic development leaders globally. A partnership with us automatically plugs your organization into the globally leading knowledge network of startup ecosystem development.

Our engagements with innovation policy leaders aim to provide clarity and build momentum for focused action in order to achieve maximum impact—increased startup success and faster growing startup ecosystems. We work with regions of all sizes and at every stage of development, from Madrid to the Philippines, and New York City to Tel Aviv. We provide clarity and guidance as to policies and programs that will maximize economic impact.

Together with our partners Global Entrepreneurship Network and Tech Nation (formerly Tech City UK), we deliver holistic, evidence-based strategy frameworks for startup ecosystems across all phases of development. Thanks to partners Crunchbase, Orb Intelligence, and others we build and refine world-leading datasets and analytics methodologies.

Our publications, especially the annual Global Startup Ecosystem Report, are downloaded hundreds of thousands of times each year and covered in more than a thousand media articles each year including in The Economist, The Atlantic, Forbes, TechCrunch, and more.

Unlike top management consulting firms, who approach innovation with processes solely oriented toward corporations, Startup Genome recognizes the need for alternative methods. Our unique frameworks and methodologies are built with quantitative data and qualitative insights from over 50,000 startup executives across the world.

Startup Genome began in 2011 as a project with Steve Blank, recognized Silicon Valley entrepreneur, Chuck Eesley (Stanford University), and Ron Berman (Wharton University) to codify success factors of startups and startup ecosystems. The foundation of our work is the world’s largest research on startups, powered by data covering over a million companies, 300 partners, and thousands of startup executives taking our survey every year.
2. Report on the Palestinian Startup Ecosystem

The production of this comprehensive study of the Palestinian startup ecosystem, was conducted by Startup Genome on behalf of the Innovative Private Sector Development Project.

Using a combination of massive global datasets and survey data collected in the autumn of 2020, we conducted an ecosystem analysis to determine the stage of development of Palestine’s ecosystem stage, identify its strengths, and pinpoint gaps that could be filled to increase the ecosystem’s success. As part of our data collection efforts, Palestinian founders answered more than 200 questions on market reach and ambition, connectedness, funding, founder and team demographics, and their companies’ sales.

This information was supplemented with external data sets from Pitchbook, Crunchbase, and Dealroom, as well as local data sources to provide deeper insights through the use of standardized information on financing rounds and exits in the entire ecosystem.

The project benefited greatly from the contributions of these founders and other ecosystem stakeholders who generously contributed their time and offered insights, particularly in validating our data-based analysis. In total more than 100 founders made their voices heard, making this, in percentage terms, the largest ecosystem assessment ever conducted by Startup Genome.
Current State of the Palestinian Startup Ecosystem

Startup ecosystem development is a complex process. As in ecology, ecosystems go through different stages, each with its own unique characteristics. This “Ecosystem Lifecycle” model makes it possible to compare ecosystems and helps illuminate what measures will help an ecosystem effectively grow and advance.

Palestine is an Early Activation ecosystem with growth potential. However, significant success factor gaps remain. This is typical for ecosystems in this stage; however, the geopolitical situation of Palestine undoubtedly exacerbates a number of these gaps.

Palestine is in the Activation Phase: Few startups and resources
Local Connectedness

Local Connectedness is a multi-variable assessment of an ecosystem’s sense of community, including the relationships and interactions between founders, investors, and experts within that ecosystem. Our global research has identified community as one of the strongest factors correlating with ecosystem success. All other factors being equal a highly connected local community will accelerate the development of a startup ecosystem by a factor of two.

The sense of community within the Palestinian ecosystem is strong. This sense of community can be measured in hours of help received, which shows founders benefit from a great deal of assistance from other ecosystem stakeholders. However, the number of meaningful relationships between founders and other ecosystem stakeholders is limited. While founders receive considerable help, it comes from a limited number of people (e.g. founders, investors, and experts). This may indicate a strong reliance of the ecosystem on few experienced individuals.

Going forward, knowledge needs to be more institutionalized in order to build a deeper capacity for mentorship and peer-to-peer assistance in the ecosystem. In addition, the ecosystem would benefit from stronger connections between different cities of Palestine. This would facilitate broader knowledge sharing than is possible today in Palestine’s multiple but small and somewhat less connected communities.
Ecosystem maps, Palestine-wide events and mentorship communities, and the establishment of an ecosystem Keystone Team are measures that can be taken immediately in order to further develop Local Connectedness and the quality of the Palestinian startup community. Importantly they are quick to implement and don’t require extensive budgets to get started.
Funding

Our research confirms a strong correlation between a sustained supply of funding — measured as a Funding Success Factor score — and ecosystem performance. Funding limitations have a particularly negative effect on younger ecosystems and early-stage startups as they have multiple compound effects on the propensity for entrepreneurship and culture within the ecosystem, as well as the ability for founders to invest in talent and product development.

Funding limitations typically result in founders aiming for revenue prematurely. Forced to rely on Minimal Viable Products and less competitive concepts, founders restrict their growth potential and access to further funding and growth. An overreliance on bootstrapping also disincentivizes potentially talented founders, especially those from lower socioeconomic backgrounds to take the risk of founding a company. Facilitating deal flow between startups and investors is critical. Finding investment opportunities and selecting the best startups to invest in requires a solid understanding of all the relevant actors in the ecosystem. It is crucial to establish close connections between investors and local support programs such as incubators/accelerators, particularly for those ecosystems where the average number of relationships between startups and investors is low (see previous section on Local Connectedness).

Funding levels in the Palestinian ecosystem are remarkably low and have seen a continued decline over the last five years with investor activity plunging dramatically. Crucial early-stage funding remains very low compared to both peer ecosystems and the phase average, and will significantly limit future growth prospects if not addressed decisively. There is very little private early-stage funding (characterized as Angel/Seed, Pre-A and Series A) and funding rounds in general are small. Ibtikar Fund is currently the only major active VC with a local office in the ecosystem. Constrained by limited funding, startup founders are frequently forced to aim for revenue prematurely, resulting in less competitive products than those of their peers operating in ecosystems with deeper funding sources.

Furthermore, local founders do not tap into sizable international markets early enough, likely again as a result of limited funding. This results in products that are less competitive and a lack of funding runway to focus on regional or international market development.
Injecting early-stage capital in the ecosystem is critical to ensuring startups survive and succeed. There is a strong need for angel investors in Palestine, as our experience suggests that establishing Angel and Angel Group Finance is the most effective measure to alleviate seed stage funding issues. Policy frameworks will need to ensure a legal and tax environment that incentivizes angels to invest. As Seed Stage investment in Early Activation ecosystems remains very high risk, a public intervention such as Angel Sidecar Funds is likely required to de-risk and strengthen what today is a nascent Angel and Seed Stage investment environment.
Palestine’s Startup Ecosystem – Summary Document

Global Connectedness

Our primary research with thousands of founders and executives around the world has consistently found that globally connected startup ecosystems grow faster and perform better than less-connected places. Knowledge about innovations and the complexities of disruptive business models are spread by word of mouth between people with quality connections, both local and global. These relationships weave together to create a global fabric of knowledge, ideas, people, and organizations. Being part of this global fabric may increase access to potential customers, which certainly helps startup performance. Productivity and innovation also increase as startups go global — in any given economy, companies with more exposure to foreign markets are the “frontier” firms that drive growth. We estimate that, all other factors being constant, startups with greater Global Connectedness grow more than twice as fast. To measure an ecosystem’s Global Connectedness, we focus especially on connections with the world’s top ecosystems at the nexus of knowledge, ideas, people, and organizations.

Palestinian startups fare relatively lower than their peers in Global Connectedness and since, Global Connectedness brings global know-how into an ecosystem and leads to greater market reach, this low level of Connectedness is reflected in the ecosystem’s low Global Market Reach.

Normally, Global Connectedness is not a critical factor in Early Activation phase ecosystems. However, given the small domestic market and the somewhat isolated position of Palestine, Global Connectedness and ultimately Global Market Reach are far more important for Palestine than for peer ecosystems in other more open geographies.
Startups thrive on relationships and the exchange of ideas. Therefore, establishing more relationships between founders and executives in other parts of the world brings in fresh perspectives and more innovation, resulting in faster startup growth and more vibrant ecosystems. The exchange of this knowledge occurs through personal relationships, so creating and incentivising networking opportunities for Palestinian startups is critical for the ecosystem’s success. With the Pandemic changing the way we initiate and foster relationships, Palestinian entrepreneurs now can more easily tap meet-ups in top ecosystems such as Silicon Valley, New York City, London, Tel Aviv, Boston, Berlin, and Shanghai. Even more importantly, the emergence of virtual mentorship networks opens up new possibilities of tapping high quality mentorship expertise regardless of location.
**Sub-Sector**

Having a particular Sector Focus within an ecosystem builds density and encourages experience and ideas to accumulate. Meanwhile, solving local problems helps startups develop meaningful solutions and tap into local revenue opportunities. Connecting with global tech trends then allows an ecosystem to devise an export strategy for this homegrown expertise.

Except for a handful of Artificial Intelligence and Big Data-based companies, Palestine’s startups are currently concentrated in low global growth verticals. Selecting and targeting sub-sectors or a particular technology focus would help the Palestinian ecosystem grow.

A robust sub-sector strategy would require overlaying traditional industry strengths and local market opportunities with those sub-sectors that are either already large or show strong growth potential (e.g. AgTech). Our research indicates potential for Agtech, Constructech and Tourism Tech-based startups as meeting both, local and global sector criteria. Interest in these sub-sectors could be activated through hackathons, industry partners and open innovation programs as well as with public procurement.

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<tr>
<th>Sub-Sector</th>
<th>Tech Subsector</th>
<th>Global Competitive Landscape</th>
<th>Global Landscape</th>
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<tr>
<td><strong>Agriculture</strong></td>
<td>AgTech and New Food</td>
<td>Niche, no clear leader</td>
<td>High Growth</td>
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<tr>
<td>Agriculture continues to be both the largest sector in the Palestinian economy and one of the fastest growing sub-sectors globally. Developing focused Agtech programs in Palestine can help create local startups that export globally.</td>
<td></td>
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<tr>
<td><strong>Construction, Infrastructure and Energy</strong></td>
<td>Constructech</td>
<td>Niche, no clear leader</td>
<td>High Growth</td>
</tr>
<tr>
<td>Focused programs in the construction space can help startups cater to both national internets and growing regional demand, with the value of current active projects in large neighboring regions pegged at $2.2 trillion.</td>
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<tr>
<td><strong>Tourism</strong></td>
<td>Tourism Tech</td>
<td>Nascent sector, limited competition</td>
<td>Undetermined</td>
</tr>
<tr>
<td>With robust local strengths and the presence of an early success in the sub-sector, there is potential for Palestinian startups to compete regionally within the tourism sector.</td>
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1. Centre for Economic Policy Research
2. World Bank
3. UNDP
4. Palestinian Ministry of Economy
5. Palestinian Investment and Export Promotion Authority
6. UN Women
7. Palestine Green Buzz
8. World Bank
9. UN Women
10. Ministry of Economy
11. Ministry of Tourism
12. Palestinian Investment and Export Promotion Authority
13. Palestine Green Buzz
14. Ministry of Economy
15. Ministry of Tourism
16. Palestinian Investment and Export Promotion Authority
17. Palestine Green Buzz
18. Ministry of Economy
19. Ministry of Tourism
20. Palestinian Investment and Export Promotion Authority
21. Palestine Green Buzz
22. Ministry of Economy
23. Ministry of Tourism
24. Palestinian Investment and Export Promotion Authority
Support Organizations and Programs (SSOPs)

We define SSOPs as entities that offer a spectrum of support services to entrepreneurs and startups at different growth stages to assist with the development of successful and viable businesses. These organisations act as a catalyst for ecosystem development. Being key ecosystem enablers, it is crucial to measure their effectiveness and explore any challenges faced by SSOPs when identifying the key gaps in a nascent startup ecosystem. We identified the key characteristics of SSOPs in Palestine and categorized them into four buckets: curriculum based, co-working spaces, mentorship providers, and other entrepreneurial training institutes.

Even though Palestine has a significant number of SSOPs, only a handful have well-functioning, curriculum-based programs. Most of these organisations haven’t yet had much success in creating scalable startups and remain highly dependent on donor funds to run their operations.

At present, most Palestinian SSOPs are not exclusively focused on technology-based startups and use a one-size fits all approach. The majority do not provide sector-differentiated services. We believe there is potential for more vertical focused SSOPs in the ecosystem to spur innovation in the traditional industries discussed in section seven above. The ecosystem could likewise benefit from an online directory or a matchmaking platform to help entrepreneurs find the most appropriate and relevant SSOP. A focus on attracting mentors with practical entrepreneurship and business experience would also provide benefits.
Vision Palestine 2026

Startups may be small, but they punch above their weight. Thriving startup ecosystems create direct value by means of high-value job creation and tax revenue. They also drive innovation, competitiveness, and efficiency within their industries. Thus, they have much larger than expected effects on the wider economy in which they are embedded. In terms of job creation, for example, our data show that one job created in a startup triggers the creation of an additional four jobs in the wider economy.

The Palestinian startup ecosystem has not yet generated any global or even regional scale-up companies as a result of its small size and funding limitations that inhibit opportunities to develop competitive products. There are currently few widely distributed startups in Palestine. This holds back the creation of a dense, thriving startup ecosystem. However, ambitious but realistic growth scenarios indicate potential for future growth.

Vision 2026 – Impact of Palestine's startup ecosystem on Job Creation

<table>
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<th>Potential Employment Growth driven by Palestine's startup ecosystem</th>
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<td>Startup Output in 2021</td>
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<td>Current Scenario: 2021</td>
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<td>Vision 2026</td>
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In 2026, the Palestine startup ecosystem can generate ~3,800 jobs if the ecosystem grows like its Activation peers

As noted previously, driving further startup creation in Palestine requires bridging the early-stage funding gap in the ecosystem. That can be done by strengthening the investment policy framework to encourage early-stage investments and creating a larger investment fund, organised as a Public Private Partnership, to cover capital requirements for grants, Angel and Early-Stage VC investment. By combining funding solutions with improvements in support organizations, it is possible to create deal flow into qualified and investable startups, increase startup output and drive overall job growth.

1 Scale-ups refer to companies with a valuation greater than or equal to USD 100M
Conclusion

Startup ecosystems take time to develop. While the key strength of the Palestinian startup ecosystem is the presence of talent, there are certain internal and external challenges holding back its growth.

Startups in Palestine report low sales to foreign markets and fewer connections to leading ecosystems. As per Startup Genome’s research, startups that sell more to global markets grow their revenues twice as fast as those that sell mostly to domestic markets. Therefore, to foster greater startup success and ecosystem growth, Palestinian startups must focus on building competitive products that can be sold to regional or even international markets.

The MENA region possesses a great market opportunity for Palestinian startups with their rich pool of talent fluent in both Arabic and English. The Palestinian ecosystem has the potential to develop a substantial tech ecosystem that serves the technology needs of its region provided that it’s able to overcome the gaps and challenges highlighted in this report.

Way Forward –

The IPSD project, is designed to directly address several of the identified ecosystem gaps in Palestine through multiple interventions, namely a) Improving market linkages and access of Palestinian startups and SMEs to regional and global entrepreneurship ecosystems, b) developing a dynamic startup finance ecosystem with a core focus on organized angel investing, technical assistance and early stage financing support to promising innovative firms g, c) a reformed, automated company registration system, d) a framework to formalize the home-based businesses sector, and e) provision of working capital to struggling firms to help them survive the pandemic pressures on the market in the short term. All of these interventions look to shape and support the Palestinian market and provide for a robust, sustainable ecosystem.

With IPSD’s continuous initiatives and planned interventions, we believe the Palestine startup ecosystem is on the path to overcome most of the gaps identified in this report.

| Overview | The Palestine startup ecosystem is currently in the early-Activation phase, with fewer than 300 tech startups, low early-stage funding, and no high-value scaleups or exits. |
| Next Steps for the Ecosystem | Address key gaps to grow and advance ecosystem to late-Activation Improve Enabling Factors and Success Factors to drive initial successes |

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<th>Success Factors</th>
<th>Gaps</th>
<th>IPSD Intervention</th>
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<tr>
<td>1 Global Connectedness and Market Reach</td>
<td>Startups in Palestine report low sales to foreign markets and fewer connections to leading ecosystems. In order to create the first few successes, startups must focus more on building globally-relevant products that can be sold to regional and global markets.</td>
<td>As a part of its Market Linkage Program, IPSD plans to organize events, raise awareness and provide market access services to Palestinian entrepreneurs to support the implementation of linkage opportunities.</td>
</tr>
<tr>
<td>2 Local Connectedness</td>
<td>The Palestine startup community is cohesive and supportive, with founders reporting that they receive considerable help from the ecosystem. However, ecosystem connectedness remains fragmented, with limited interactions within the different pockets of Palestine.</td>
<td>Within the Market Linkage Program (discussed above), IPSD will organize B2B networking events aimed at relationship building between investors and entrepreneurs. They will also create a database to identify partnership opportunities based on the crossmatch of available opportunities and relevant entrepreneurs’ capabilities.</td>
</tr>
<tr>
<td>3 Early-Stage Funding</td>
<td>Early-Stage Funding remains a key problem in Palestine, with very few seed and/or series A rounds reported in the ecosystem. Reduced investor activity and presence in the ecosystem has further exacerbated this problem in recent years.</td>
<td>IPSD plans to enhance early-stage funding through: 1) The IGNITE program to help firms become investment-ready, 2) Co-investment grants to help close funding rounds, and 3) The Angel Network Initiative to help angel investors coalesce into active groups.</td>
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