Startups Legal Limitations in Palestine.

In an ideal ecosystem, laws and policies function as startups enablers and investment attractions. In Palestine, the situation is so far from ideal. Although Palestinian entrepreneurs continue to innovate and inspire, there are some legal limitations that are imposed on them. This article briefly discusses the limiting impact of the Palestinian legal framework on Palestinian startup founders, the alternatives, and the way of moving forward.

The Palestinian political history and political divide have resulted in the existence of two separate legal frameworks applied in two different jurisdictions in the occupied state, one in the West Bank and another one in the Gaza strip. It is worth noting that the law regulating companies applied in the West Bank is the Jordanian Companies law (12) of 1964. Whereas in the Gaza strip, up until 2012, the applied law was the Companies Law of 1929; that was later amended by the Companies law, which the Hamas government adopted in 2012.

Startups are not defined or regulated in any of these laws. The main consequence of this in

definition and lack of regulation is that startups are treated as companies or small businesses. In reality, startups and other forms of companies are different. To illustrate, a startup is "a temporary organization designed to look for a business model that is repeatable and scalable." While a company is "a permanent organization designed to execute a business model that is repeatable and scalable."[1]. This distinction between the nature and the objectives of both organizations means that there is a difference in the regulatory needs of each of them.

[1] Steve Blank, a serial entrepreneur and professor at business schools such as Stanford, Berkeley and Imperial College.

Furthermore, as a result of the outdated applied laws, many areas surrounding the work of startups remain undiscovered and unregulated. Startups are all about innovations and bringing new products/services to life in response to a specifi demand or as creative solutions to today's problems. According to the Genome Global Startup Ecosystem report of 2021, Artificial Intelligence and Big Data is the leading Sub-Sector in the MENA region, with $3 billion invested in early-stage rounds and $8 billion in exit value between January 2018 and June 2020. With legal frameworks that do not recognize the existence of such subsectors and do not offer much protection or stability to startup founders and/or investors it is extremely risky and challenging for founders to establish a startup in Palestine.

Additionally, the applied frameworks impose onerous requirements on startups when they decide to go through the process of registration. Most, if not all startups in Palestine register as Private Shareholding Limited Liability companies. The registration process in the West Bank, which includes both official and legal fees, will approximately cost 1,000 USD. Additionally, for a company to be registered, an amount of 10,000 Jordanian Dinars should be deposited as capital, of which 25% should be deposited upon registration.

Whereas in Gaza, the registration process would also approximately cost 1,000 USD, and an amount of 50,000 Jordanian Dinars should be deposited as capital of which 50% should be deposited upon registration.

The requirements of registration are particularly challenging for startups. In principle, startup founders do not have enough money to bring their idea/ invention to life. In the early stages, they might be able to self-finance their startup, but eventually, they go through several funding that may come from different sources such as angel investors, venture capitalists, etc.

While family and friends may agree to lend money to founders without asking them to be registered, serious investors won't.

Burdening founders with such challenging requirements at such an early stage is yet another consequence of treating startups as any other type of company, not taking into consideration their particular nature and their financial needs.

Alternatively, and as a coping mechanism, many Palestinian startup founders register in other more business-friendly, investor-attractive jurisdictions such as Delaware. Founders would still have to register in Palestine as a branch of a foreign company to be able to do business. Still in all cases, this situation is better than spending lots of money for setting up a company in an unstable jurisdiction with a meager chance of attracting serious investors. Additionally, startups may register two separate companies; one in Palestine and another in another more business attractive jurisdiction.

Palestinian entrepreneurs should not have to rely on alternatives. A profound political and legal reform needs to take place in order to allow the law to act as a business enabler rather than a business limitation. This means that all stakeholders in the ecosystem must collaboratively play an active role to make this happen. Government and state officials should take serious steps to reform and update the applied laws. Lawyers need to understand the specific legal and business needs of startups, and entrepreneurs and startup founders need to be more vocal about the need for change in the legal system.