The Portland Trust

The ICT sector in the Palestinian Territory

The Palestinian ICT sector is gaining more and more recognition both within the Palestinian Territory and around the rest of the world. For a small economy with a young and well-educated population, the sector has the potential to make a strong contribution to balanced sustainable growth. In recent years there has been an increase in the number of companies, as well as inward investment from international names such as Cisco and Intel. This special feature documents this growth, and considers what factors might need to be addressed to help the sector deliver its potential.

Leading Indicators

The Palestinian ICT sector has registered impressive growth over the last few years and recent articles in the New York Times and the Guardian are just two examples of how it is starting to attract broader global interest.[1] Foreign investment and improved competitiveness have all made a difference, as has growth in domestic demand. The Palestinian IT Association of Companies (PITA) estimates that the annual growth of the local IT market is about 25% a year and that it is now worth more than $300m.[2] According to the Palestinian Central Bureau of Statistics (PCBS) the output of the sector was worth $588.9m in 2010.[3] In 2011 the sector contributed 6.4% to Palestinian GDP,[4] up from 0.8% in 2008.[5]

Dr Sabri Saidam, ICT Advisor to President Mahmoud Abbas, believes that ICT's contribution to GDP could be as much as 21%, making it one of the leading sectors in the Palestinian economy.[6] In terms of employment, the number of people who work in the sector increased from 2,200 in 2000 to 6,400 in 2011.[7] While some sources report the number of ICT companies to be above 500, the majority of these are small hardware retailers and Internet cafes. The 124 companies officially registered at PITA constitute the core of the industry.[8] Of these, about 40 are in Gaza while the rest are in the West Bank.[9] ICT is already one of the most efficient and productive industries in the Palestinian Territory on some measures. The output value of a worker in ICT of $40,000 is significantly higher than the average of $17,000.[10] The multiplier ratio is also estimated at about 1 to 3, which means that one new ICT job creates three jobs in other sectors. In 2009 ICT services exports equalled 6.0% of total Palestinian services exports, up from 5.4% in 2008.[11]

Many factors have helped contribute to this growth, not least the well-educated and young population, in addition to investment by leading international companies such as Cisco. Palestinian IT firms often have a low turnover of staff and can offer lower costs than some rivals, while their employees have a wide range of IT software skills.[12] The well-regulated banking system and the relatively investor friendly financial environment have also helped.

However, numerous weaknesses still need to be overcome: the lack of substantial ICT penetration in businesses, education and government; the deficiency in intellectual property rights; the absence of leadership and coordination of private sector groups in private sector coalitions; the limited access to foreign markets for most firms; the small average size of ICT companies; the insufficient domestic credit and capital; the lack of innovation and creativity in the development of products and services; and the limited frequency spectrum allowed by the Israeli authorities.[13]

1 www.guardian.co.uk/world/2012/jul/31/palestinian-tech-startups-hope-economy? and www.nytimes.com/2012/07/30/world/middleeast/palestinians-building-tech-hub-in-west-bank.html?_r=3&emc=eta1
2 www.pita.ps/newweb/etemplate.php?id=64
3 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1838.pdf
4 www.pcbs.gov.ps/Portals/_pcbs/NationalAccounts/Percent2011.htm
5 isper.escwa.un.org/Portals/0/Regional%20Profiles/Regional%20Profile%20 2009-E.pdf
6 Interview with Dr Sabri Saidam
7 PCBS data
8 www.pita.ps/newweb/memberslist.php
9 Interview with Abeer Hazboun, Executive Director of PITA

10 MercyCorps Report (http://outsource2pal.com/userfiles/file/English-Report-2nd-Edition.pdf)
11 World Bank database
12 Mercycorps fact sheet (http://outsource2pal.com/userfiles/file/Pal-ICT-Fact-sheet-2010-v2.pdf)
13 MAS Study 'The ICT Sector in Palestine – current state and potential'

Local demand for IT

In line with global trends, the demand for ICT goods and services has increased significantly in the Palestinian Territory over the last few years as the following table shows:

Figure 1: Percentage of households with IT goods and services

	2004	2011
Computer	26.4	50.9
Internet Connection	9.2	30.4
Satellite Dish	74.4	93.9
Fixed phone line	40.8	44.0
Mobile Phone	72.8	95.0

Source: PCBS[14]

The Palestinian Territory ranks 62nd in the world in terms of Facebook users with 37% of the population using the social networking site.[15] For comparison, Jordan and Lebanon are ranked 68th and 69th with rates of 35% and 35% respectively. Access to information (85.7%), entertainment (79.3%) and communication (69.1%) are the main reasons for the use of internet in the Palestinian Territory, followed by studying (49.3%) and work (18.2%). These figures show that although computers and the internet have widely penetrated households, most job positions still do not require their use.

Clearly, the rapid increase of demand for ICT products at the household level, combined with the fast demographic growth of around 3% a year,[16] presents an important business opportunity for local companies. In 2011 70% of the Palestinian population was below the age of 30, which can help provide both a high local demand for ICT products and services and a vibrant, ambitious workforce for the sector.

There are other factors in the Palestinian Territory that boost demand for ICT goods and services.

The recent PA move towards e-government is one of those, although Tareq Maayah, CEO of Exalt Technologies, believes that government programmes should procure the required goods and services from local businesses to fully take advantage of this.[17]

Dr Saidam also points to the political situation which increases the need for technology to aid virtual communication. For example, the separation between the West Bank and Gaza and the restrictions on movement of people have raised the rates of using video conferencing and other technological solutions to conduct workshops and meetings, training courses, lectures and medical consultations. Students have even defended their theses this way.

Crucially, demand for IT services continues to grow worldwide which means that opportunities for Palestinian companies also lie outside the West Bank and Gaza.

State of the Private Sector

ICT firms emerged in the early 1980s in the West Bank and Gaza, mainly with hardware retailing and other basic services.[18] They then started to supply basic software solutions, such as accounting programmes, to local companies and hospitals. The launch of the Palestine Telecommunications Company (Paltel) in 1997 was a major milestone in the development of the industry.[19] Over the past 15 years, Paltel has evolved into the single most important actor in the Palestinian ICT sector with a market capitalisation of $982m in 2011[20] and employing over 3,000 people.[21] Nowadays the goods and services offered by Palestinian ICT companies range from telecommunications (fixed and mobile phone lines, Internet and broadband services) through software industry solutions and packages (human resources management, projects and sales management, finance and accounting, education-related solutions, management information and systems and children education and entertainment) to web products (web development, e-businesses, web portals development, ICT consultancy, training and office automations). Palestinian companies have also been successful in developing mobile phone applications and animations.

In many ways the ICT sector is well placed to succeed. First and foremost, the Palestinian economy is in possession of rich human capital, which is the most important input for the ICT industry. As mentioned above, the Palestinian population is generally young and well-educated, both at the regional and global level. The relative openness of the Palestinian people, in comparison with other Arab nations, is of crucial importance in building business relations with foreign customers and partners, according to Abeer Hazboun, Executive Director of PITA. Karl Schembri, Media and Communications Officer at Oxfam GB, emphasises not only the competence of Palestinian youth and specialists but also the flexibility of Palestinian ICT entrepreneurs and workers, which allows for customer-tailored products.[22] Additionally, in his opinion the obstacles created by the blockade on Gaza have contributed to the development of a very innovative, creative, problem-solving population there, particularly among the youth.

Another comparative advantage of the Palestinian Territory regarding ICT is the relatively cheap labour force within the sector. For example, Palestinian labour costs

14 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1809.pdf
15 www.socialbakers.com/facebook-statistics/?orderBy=penetration
16 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palpeople2010_E.pdf and www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palestineEnd2011E.pdf
17 Interview with Tareq Maayah

18 siteresources.worldbank.org/INTWESTBANKGAZA/Resources/ChallengesFacingICTPalestine.pdf
19 www.pita.ps/newweb/etemplate.php?id=49
20 Bulletin 66, March 2012.
21 MAS study 'The ICT Sector in Palestine – current state and potential'
22 Interview with Karl Schembri

are 75% lower than in Western Europe and the US, 70% lower than in Israel, 25% lower than in India and similar to those in China. The Palestinian Territory also benefits from the geographical proximity, language skills and cultural awareness of Israel, Europe, the MENA region and North America.

Many of the ICT firms have relationships with others outside the Palestinian Territory. Around 32% work with Israeli firms in a number of ways, while 50% of companies have external relationships beyond Israel. The US, the UK and the UAE are some of the major foreign markets. Outsourcing has become a key activity, partially owing to the geographical and cultural proximity to Europe, the Arab world and Israel.[23]

Two of the factors driving growth in the ICT sector have been the presence of multinational companies and the steady inflow of international aid. Together, they have assisted both in the size expansion of the sector and in improvements in the proficiency of companies and the quality of products. For example, in December 2010, the US Secretary of State announced the launch of the Palestinian Information Communications Technology Capacity Building Initiative (PITI).[24] The initiative is designed to enhance the economic capacity of the Palestinian ICT sector by facilitating partnerships between Palestinian companies and US multinational companies, especially those operating in the West Bank, Gaza, Israel, Jordan and the rest of the Middle East. The programme aims to help Palestinians foster innovation and gain advanced skills in marketing and project management, in addition to improving the long-term investment climate.

A striking element of this has been the $15m investment by Cisco in the Palestinian ICT sector since 2008. Part of the Cisco investment has been to encourage R&D groups within Cisco globally to have outsourcing relationships with Palestinian partners. A huge sign of the progress that has been made is the fact that these relationships have remained despite the work being no longer subsidised by Cisco's corporate affairs budget.[25]

Other international companies that have been involved in the Palestinian market include Google, CISCO, Intel, Microsoft and HP. As the first venture capital fund targeting the Palestinian IT sector, Sadara Ventures which was launched last year with international backing, is another indication of growing outside interest in the market.[26]

A.T. Kearney produces an index which ranks the top 50 countries worldwide as the best destinations for providing outsourcing activities, including IT services and support, contact centres and bank-office support.[27] The 2011 report notes that, 'Middle East and North Africa have become increasingly attractive because of their proximity to Europe and vast talent pool.' This is reflected in the fact that the UAE (15th), Jordan (22nd), Tunisia (23rd) and Morocco (37th) are all ranked in the top 50 this year, suggesting the potential for the Palestinian Territory.[28]

Regulatory and Institutional Environment

A good regulatory and institutional framework is an important prerequisite for the development of a well-functioning ICT sector. The PA has committed itself to constructing a knowledge-based economy, and is working towards achieving that.[29] In 2009 the PA approved the telecommunications law, including the establishment of the Palestinian Telecommunications Regulatory Authority (PTRA) with the goal of advancing consumer interests, settling market disputes, separating the role of referee in the market from politics and providing a fair and impartial environment to foreign and domestic investors.[30] However the telecommunications legislation has still not been passed and the PTRA has yet to be established, meaning that the Ministry of Telecommunications and Information Technology remains the sole regulator of the telecommunications industry and is responsible for all pricing, licensing and operational issues.

The PA has taken important steps in recent years towards liberalising the telecommunications market by ending the monopoly in mobile and landline networks. In 2006, as Paltel's ten-year exclusive rights for the provision of fixed telephony and cellular services expired, the PA issued an additional mobile operator license and ten broadband licenses to several Internet service providers.[31] Wataniya Mobile, the second Palestinian mobile operator, launched in November 2009, has grown dramatically since then accumulating 450,000 subscribers by the end of last year.[32] The PA is now preparing a bidding process for a new fixed line provider to provide competition to Paltel.[33]

An additional incentive to the sector is that the Palestinian Investment Promotion Agency (PIPA) now grants tax exemptions to ICT firms based on the number of employees rather than on the size of the capital input, in an attempt to encourage employment. However, there is still more that can be done, as is shown below.

23 MercyCorps Report (http://outsource2pal.com/userfiles/file/English-Report-2nd-Edition.pdf)
24 www.state.gov/r/pa/prs/ps/2010/12/153103.htm
25 Mission Measurement Report, 'Cisco Pioneers Market Development Approach in Palestine'
26 Bulletin 55, April 2011.
27 www.atkearney.com/index.php/Publications/global-services-location-index-gsli.html#
28 Egypt is ranked at 4, but the 2011 index was produced before the recent political unrest began.
29 PA Palestinian Reform and Development Plan 2008-2010
30 PNA Statement of National Telecommunications Policy, 2010
31 MAS Report 'The ICT Sector in Palestine – current state and potential'
32 www.sahem-inv.com/reports/researches/en/2011027105251.pdf
33 www.maannews.net/eng/ViewDetails.aspx?ID=491630

Persisting Challenges to the Development of the ICT Sector

Despite the growth in ICT, several obstacles remain which hinder the expansion of the sector.

Dr Sabri Saidam and Abeer Hazboun both emphasise that the restrictions imposed by the Israeli authorities on access to 3G and other transmission frequencies have a very negative impact on the ability of Palestinian companies, mobile operators and Internet providers to function normally and become competitive globally.

Another problem stemming from the political situation is the very limited ability to travel and move goods across borders, especially in Gaza because of the ongoing blockade.[34] Although the ICT sector does not require much mobility, it is still important to have free access to equipment, clients and investors. Abeer Hazboun underlines the importance of building professional connections and personal trust in any business, in addition to receiving qualitative training and exchanging ideas. However this is difficult for businesses in the West Bank and nearly impossible for those in Gaza.

A further difficulty is what Dr Saidam calls 'a telecommunication chaos' as four Israeli mobile providers operate within the Palestinian Territory without a license.

Despite the fact that some progress has been made, there are still weaknesses in the legal and regulatory framework.[35] Dr Saidam and Abeer Hazboun believe that more work is needed to assure intellectual property rights in addition to regulating the price of infrastructure, the use of digital signatures, e-commerce and telecommunications.

Finally, many point out the need to reform the Palestinian education system. Although Palestinians are one of the most highly educated and literate populations in the Middle East and about 1,000 ICT students graduate from the university system each year, the skills which they receive at schools and universities do not necessarily correspond to the market needs. According to a recent study, hiring managers at Palestinian tech firms have reported that Palestinian universities do not employ the latest technology or keep pace with high tech trends. PITA and others are looking to address this.[36]

Tareq Maayah recommends a serious reorganisation of the educational sector, especially at the tertiary level, to consolidate specialisations available in different universities. Abeer Hazboun emphasises the need for further developing both the technical and soft skills of Palestinian graduates. While technical skills can be improved with on-the-job training, which only a few companies have the capacity and resources to do, the educational curriculum needs to be reformed in order to promote critical thinking, entrepreneurial drive, marketing abilities and innovation. Dr Saidam and Abeer Hazboun estimate that only about a third of graduates in specialities related to ICT succeed in finding employment. In addition, according to Dr Saidam, while the best graduates in terms of final grades are female, female ICT graduates face higher unemployment rates than males.

Conclusion

The outlook for the Palestinian tech sector is promising. According to a recent survey, international buyers of outsourcing ICT services report a 50% increase in the number of Palestinian ICT firms with which they have worked since 2008, and, importantly, 67% of these buyers report that they are likely to return for further business.[37] A look at neighbouring Jordan indicates what might be possible: there the sector employs 35,000 and contributes 14% to GDP.[38] Zika Abzuk from Cisco has said, 'the Palestinian ICT sector is on the verge of developing into an innovative high tech industry and has the potential to become the engine of the Palestinian economy.'

34 Interview with Karl Schembri
35 Interview with Tareq Maayah

36 Mission Measurement Report, 'Cisco Pioneers Market Development Approach in Palestine'
37 ibid
38 www.intaj.net/node/62