An-Najah National University
Faculty of Graduate Studies

# Strategic Framework for a Successful E-commerce in Palestine

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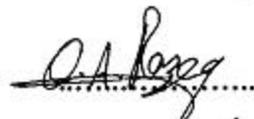
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# Dedication

*I dedicate this thesis to my beloved family; without their care, support, and encouragement, this thesis would have never been completed.*

# Acknowledgment

*"No one who achieves success does so without acknowledging the help of others."*

*Alfred North whitehead*

*I cannot find the words to express my special gratitude to all the people who have generously supported me throughout the stages of writing this thesis.*

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الإقرار

أنا الموقعة أدناه مقدم الرسالة التي تحمل العنوان:

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# Strategic Framework for a Successful e-commerce in Palestine

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# الإطار الإستراتيجي لتجارة إلكترونية ناجحة في فلسطين

أقر بأن ما اشتملت عليه هذه الرسالة إنما هي نتاج جهدي الخاص، باستثناء ما تمت الإشارة إليه حيثما ورد، وإن هذه الرسالة ككل، أو أي جزء منها لم يقدم من قبل لنيل درجة أو لقب علمي أو بحثي لدى أية مؤسسة تعليمية أو بحثية أخرى.

</div>

## DECLARATION

The work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

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|---|---|
| **Name Student's:** | اسم الطالبة: |
| **Signature:** | التوقيع: |
| **Date:** | التاريخ: |

# List of Abbreviations/Acronyms

| 2G | Second Generation |
|---|---|
| 3G | Third Generation |
| ACH | Automated Clearance House |
| ADNI | Arab Developer Network Initiative |
| ADSL | Asymmetric Digital Subscriber Line |
| ASREN | Arab States Research and Education Network |
| ATM | Automated Teller Machine |
| B2B | Business to Business |
| B2C | Business to Customer |
| BOP | Bank Of Palestine |
| BSA | Bit Stream Access |
| C2B | Customer to Business |
| C2C | Customer to Customer |
| COD | Cash On Delivery |
| DIC | Dubai Internet City |
| DSL | Digital Subscriber Line |
| EDGE | Enhanced Data Rates for GSM Evolution |
| EDI | Electronic Data Interchange |
| EDPI | Enterprise Development Initiative Program |
| EFT | Electronic Fund Transfer |
| ESA | Economic and Statistics Administration |
| ESCWA | Economic Social Commission for Western Asia |
| FCC | Federal Communications Commission |
| GCC | Gulf Cooperation Council |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GNP | Gross National Product |
| GSM | Global System for Mobile Communications |
| ICDL | International Computer Driving License |
| ICT | Information and Communications Technology |
| IMRG | Interactive Media in Retail Group |
| IPO | Initial Public Offering |
| ISEF | Scientific and Engineering Fair |
| ISIC | International Standard Industrial Certification |
| ISP | Internet Service Providers |
| IT | Information Technology |
| ITU | International Telecommunication Union |
| JTC | Joint Technical Committee |
| KSA | Kingdom of Saudi Arabia |

| MCIT | Ministry of Communications and Information Technology |
|------|------|
| MEHE | Ministry of Education and Higher Education |
| MENA | Middle East and North Africa |
| MENASA | Middle East and North Africa and South Asia |
| MMORPG | Massively Multiplayer Online Role-Playing Games |
| MNE | Ministry of Economy |
| MOE | Ministry Of Education |
| MOHE | Ministry Of Higher Education |
| MOICT | Ministry Of Information and Communication Technology |
| NGO | Non Governmental Organization |
| NIS | National ICT Strategy |
| NRI | Network Readiness Index |
| NTIA | National Telecommunications and Information Administration |
| OECD | Organization for Economic Cooperation and Development |
| PalTel | Palestinian Telecommunications Company |
| PBC | Palestine Banking Cooperation |
| PC | Personal Computer |
| PCBS | Palestinian Central Bureau of Statistics |
| PEI | Palestinian Education Initiative |
| PEX | Palestine Exchange |
| PICTI | Palestinian Information and Communication Technology Incubator |
| PIPA | Palestinian Investment Promotion Agency |
| PITA | Palestinian Information and Technology Association |
| PMA | Palestinian Monetary Authority |
| PNDP | Palestinian National Development Plan |
| PNINA | Palestinian National Internet Naming Authority |
| POS | Point Of Sales |
| PRDP | Palestinian Reform and Development Plan |
| PSI | Palestinian Standards Institute |
| PTRA | Palestinian Telecommunications Regulatory Authority |
| SAMA | Saudi Arabian Monetary Agency |
| SHDSL | Single High Digital Speed Line |
| SME | Small and Medium Enterprises |
| SWOT | Strengths, Weaknesses, Opportunities, and Threats |
| TRA | Telecommunications Regulatory Authority |
| TRC | Telecommunications Regulatory Commission |
| UAE | United Arab Emirates |
| UNDP|PAPP | United Nation Development Program | Program of Assistance to the Palestinian People |

| UPU | Universal Postal Union |
|---|---|
| USA | The United States of America |
| USPS | United States Postal Services |
| USTDA | U.S Trade Development Agency |
| VOIP | Voice Over IP |
| WEF | World Economic Forum |
| WTO | World Trade Organization |
| WWW | World Wide Web |

# List of Definitions

- **Second Generation (2G):** it is digital wireless technology for cell phones. It started with data transmission of SMS text messages. It is characterized by slow speed data transmissions (Garg, 2002).

- **Third Generation (3G):** it is a cell phone technology which is characterized by fast speed data transmissions. It is used in multimedia phones such as smart phones (Garg, 2002).

- **Asymmetric DSL (ADSL):** it is type of DSL technology, allocating more bandwidth for downloading than uploading files. Its maximum speed for downloading is 8-10 Kbps, and its maximum speed for uploading is 1Mbps (ITU, 2012).

- **Automated Teller Machine (ATM):** it is a computerized device which enables a bank's client to perform financial transfer, such as cash withdrawal, and access his bank account to check his balance (Erne and Nelson, 2013).

- **Bit Stream Access (BSA):** it is an open access for internet, allowing third parties to use the existing internet infrastructure, retailing broadband services for ISPs (ITU, 2012).

- **Digital Subscriber Line (DSL):** it provides internet access, using the fixed line infrastructure to include data transmission (ITU, 2012).

- **Enhanced Data Rate for GSM Evolution (EDGE):** The result of 2G enhancement, EDGE increases capacity, and performance. The highest speed for EDGE is 1 Mbps, and the typical speed reaches 400Kbps (Garg, 2002).

- **Global System for Mobile (GSM):** it is a global standard for digital cellular network (Garg, 2002).

- **Internet Broadband:** it is a new technology to access internet, using fixed line technology, offering faster speed for downloading and uploading files through internet. The speed starts from 256Kbps (ITU, 2012).

- **Payment Gateway:** it is software solution which authorizes credit cards or other forms of e-payment, transmits client's data through secured link between the merchant account, and the payment processor. It plays the role of a middle man between the client and the merchant (Erne and Nelson, 2013).

- **Point Of Sales (POS):** it is the place where a retail transaction is completed; the customers pay the merchants through POS machine in exchange for goods or services (Erne and Nelson, 2013).

- **Single Pair High Speed DSL (SHDSL):** it is like DSL technology but with one exception. It uses a copper pair for sending and receiving data through two separate bandwidths to increase the internet speed, the same speed for downloading and uploading: 2.3 Mbps (ITU, 2012).

- **Virtual Currencies**: it is virtual money that is purchased by real money to enable internet user to buy virtual or real goods and services for online gaming or for real. It cannot be exchanged back for real money (European Cank, 2012)**.**

- **Worldwide Interoperability for Microwave Access (WiMax):** This allows access to internet through the air (PC-Encyclopedia, 2012).

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# Abstract

E-commerce is a global trend in the new digital economy, where selling or buying products or services, is conducted through the internet. It is considered one of the main tools for developing trade activities given its flexibility and efficiency to improve business productivity and effectiveness. Developing countries, including those in the Middle East and North Africa (MENA), realized the advantages of e-commerce quite late, as opposed to developed countries that have been focusing on e-commerce for the last decade. However, serious efforts have been made recently in the developing countries to advance Information and Communications Technology (ICT) infrastructure, modernize legal framework, and introduce effective and reliable logistics services, and secured e-payment systems, in order to have successful e-commerce.

Palestine, one of the developing countries in the MENA region, has a modest ICT sector that places it in a good position among neighboring countries, thus indicating a potential for further growth. E-commerce is one of the tools to support this development and sustain its growth.

The aim of this research is to suggest strategies that would facilitate the development of e-commerce in the Palestinian market, and formulate a strategic framework for successful e-commerce activities. To these two

ends, this research benefited from the international and regional e-commerce experience by exploring the critical factors for a successful e-commerce. Then, a strategic analysis of the Palestinian market's current situation was made, by considering the critical factors for e-commerce adoption. The analysis was based on collected data from the private and public sector reports and documents, as well as on interviews with key figures in several relevant sectors. Subsequently, a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis was performed to identify the strengths, weaknesses, opportunities, and threats facing the Palestinian market. This analysis was made in order to formulate e-commerce's vision, mission, and strategic short- and long-term objectives. The strategic framework was summarized through a SWOT matrix, which suggested feasible strategic solutions for e-commerce by capitalizing on the Palestinian strengths and opportunities to minimize threats and weaknesses thus achieving the suggested strategic goals.

The main suggested strategies focus on modernization of the Palestinian legal framework to create an attractive business environment, utilization of ICT technology in the industrial sector to enhance its productivity and efficiency, the speeding up of the implementation of e-government and its e-services, and the improvement of the management and ICT skills of the Palestinian people. The research concludes with some recommendations to get the strategic plan implemented properly. It recommends establishment of a special governmental unit to be fully in charge of regulating and supervising e-commerce in Palestine.

# Chapter One

# Introduction

# Chapter One
# Introduction

## 1.1 Background

Globalization and competition are blooming fast, and are transferring the world to a small village by opening the physical borders and building business relations among different nations. Under these conditions, all the new and innovative ideas should be able to face the growing competition and to remain competitive throughout the world.

In the last decade, the internet was one of the most innovative ways that had a huge effect on the global electronic economy by allowing business transactions through the World Wide Web, the exchange of goods and services, reduction of costs, enhancement of global productivity, customer participation, and mass customization. It has also allowed people all over the world to communicate and share their knowledge and all kinds of information. E-learning, e-health, and e-government are all results of internet applications. This is in addition to e-commerce which includes buying and selling through the web and altering and improving the ways of doing business.

A considerable number of large companies in the United States, Japan and Western Europe and other developed countries as well realized early the benefits of the internet economy so they started implementing various types of e-commerce applications in order to offer their goods and services through the web. For example, in 2010, around 80% of USA

households had access to the internet (United States Census Bureau, 2010). In 2010, from the online wholesale, companies earned around $1,422 billion, and from e-retail sales, they earned almost $169 billion (United States Census Bureau, 2010). In the United Kingdom, in 2010, about 77% of households had internet access, and the value of the e-wholesale was valued at £37.5 billion (US $61 billion), and e-retail sales topped £12.8 billion (US $21 billion) (Office for National Statistics, 2011).

The developing countries, in contrast, are still in the preliminary stage of the internet usage in general and e-commerce activities in particular. For example, the Middle East and North Africa (MENA) countries realized the advantages of the internet quite late and lagged behind the developed countries. However, between 2000 and 2011, the Middle East countries showed a high penetration rate of 35.6% as opposed to 13.5% in the North African countries. This fast diffusion is a good sign of a big market for e-commerce transactions in the coming years.

The Palestinian market the MENA regional markets, has had a huge leap in the Information and Communication Technology (ICT) sector. The ICT sector started in the early 1990s with modest individual experiences but later emerged to become a strong fully fledged internet sector with well equipped infrastructure. The Palestinian Telecommunications Company (PalTel) Group enabled Palestine to have more than 1.5 million Internet users in 2011, or a 40% penetration rate (PCBS, 2011; Miniwatts Marketing Group, 2012).

However, there are many obstacles and constraints facing e-commerce growth, and making it difficult to maximize its benefits. These constraints have forced the MENA countries to perform a continuous monitoring of market's trends, which is critical for e-commerce business, and develop new policies pinpointing different issues such as global and local competition, licensing, and universal access. These measures were taken to support the new economy and encourage more investments in their local infrastructures (ESCWA, 2009). Despite all the efforts in the MENA region to establish a successful e-commerce business, e-commerce is still immature and is lagging behind the developed countries.

The future of the Arab countries might be bright, but it is still unable to compete with the developed countries. Durability and competitiveness are difficult in the e-commerce businesses. They need a competitive technology and extra efforts in planning and development. Therefore, this study explores the e-commerce in the MENA market in general, and the Palestinian market in particular to facilitate the progress of e-commerce business. It offers a recommendation for several strategies that suit the Palestinian market.

## 1.2 Aims and Objectives

This study aims at developing a strategic framework that would accelerate e-commerce adoption, and facilitate its activities in Palestine. To these two ends, the study has formulated the following objectives:

1. Defining the most important factors that affect e-commerce implementation.

2. Reviewing e-commerce experiences in the MENA region based on the success factors that have affected e-commerce business in it.

3. Analyzing the Palestinian market based on e-commerce success factors.

4. Identifying the strategic framework components that maximize e-commerce benefits.

5. Formulating a strategic framework for successful e-commerce in Palestine.

## 1.3 Methodology

1. Collecting data about e-commerce market from the following primary sources:

   - Results of surveys conducted recently in the MENA region.

   - Annual and periodic reports.

   - Semi-structured interviews with Palestinian key figures.

2. Exploring the USA market as an international experience, and the markets of selected countries from MENA region (Egypt, UAE, KSA, Bahrain, and Jordan), and highlighting the following areas:

   - ICT Infrastructure such as internet technology, penetration, speed, and quality.

- Regulations and policies in terms of strategies, competition, licensing, and universal access.

- People in terms of their education, and confidence in telecommunication systems.

- Supportive services such as online payment gateways, security, and postal services.

- Enterprise strategies such as acquisition, expansion, merger, and cooperation to increase the market share and revenues.

3. Studying and analyzing the Palestinian market based on e-commerce success factors, and benchmarking Palestine, in comparison with the previous selected markets according to the main indicators, and highlighting the obstacles and constraints facing this kind of e-business.

4. Identifying the components of the strategic framework which can be obtained from the above analysis, thus facilitating e-commerce businesses that suit Palestinian market conditions.

5. Formulating a strategic framework for a successful e-commerce business in Palestine.

## 1.4 Content of the Study

In addition to this chapter, this study has six other chapters:

Chapter 2 was devoted to the review of literature in the field. It introduces e-commerce concept, types of e-commerce, and the e-commerce adoption factors based on previous studies and research on e-commerce.

Chapter 3 examined e-commerce in the USA as an example of an international experience. The researcher looked at the current situation of USA market, and explored some e-commerce websites as examples.

Chapter 4 reviewed experiences with e-commerce in the MENA region and explored the current situation of e-commerce in selected countries such as KSA, Bahrain, UAE, Jordan, and Egypt.

Chapter 5 was an analysis of e-commerce in Palestine. The researcher showed the Palestinian economic current status and studied the current situation of the Palestinian market based on e-commerce adoption factors. The chapter also includes SWOT analysis.

Chapter 6 was devoted to the development of a strategic framework for a successful e-commerce in Palestine. It includes a roadmap for the implementation of a strategic framework for e-commerce in Palestine. This framework includes Palestinian e-commerce vision, mission and strategic goals. The chapter ends with the results of SWOT Matrix which present several suggested feasible strategies to achieve these goals.

Chapter 7 presents a summary of the main results, draws some conclusions, and suggests some recommendations.

# Chapter Two

# Literature Review

# Chapter Two
# Literature Review

## 2.1 E-commerce Overview

E-commerce has been given many definitions in the past two decades. It is more than selling goods and services via the internet. The Organization for Economic Cooperation and Development (OECD) defined e-commerce "as an electronic transaction to purchase or sell goods or services or any kind of information whether between businesses, customers, governments, and other public or private enterprises" (OECD, 2002). In 2009, the OECD countries reviewed this definition and introduced some details to the definition. These details were pertinent to some payment and delivery activities that could be conducted online or offline. They also explained that the method of e-commerce transaction could be done through the web, intranet, or the extranet excluding the orders that are made through faxes, telephone lines, and e-mails (OECD, 2011).

In 1991, Internet was made available to the public, making electronic commerce possible by relying on the previous technology of the Electronic Fund Transfer (EFT) and the Electronic Data Interchange (EDI), but it became well known to the public in 1994. The internet was distinguished by its fast diffusion; after 1998, it was advanced to have a secure connection and its speed of exchanging data became more constant, using the Digital Subscriber Line (DSL) and the Asymmetric Digital Subscriber Line (ADSL) technology.

The fast development of the internet has made many businesses transform their work from traditional processes to e-commerce business, allowing them to lower their operational cost, and improve their customer service and productivity.

Between 2000 and 2001, internet faced some problems that forced some e-commerce businesses to close. This was termed the Dot-Com Collapse. Due to the benefits that people can get from using e-commerce, many businesses returned to e-commerce and began to pay more attention to the development of their websites and learn from their previous mistakes. Of the benefits that companies can get from using e-commerce the following are the most important (Ecommerce Land, 2004):

- Allowing the e-retailers to offer their services and goods online, thus reaching global markets with a little and inexpensive effort.

- Enabling their customers to search easily through their goods and compare prices to select the best product at the lowest price.

- Integrating with the global supply chain.

- Improving work efficiency.

## 2.2 E-commerce Types

As Figure 2.1 shows, e-commerce has different types, e-commerce infrastructure and e-payment systems are the basis of e-commerce types.

**Figure (2.1): Types of E-commerce Activities**
**Source: Intelligent Techniques in E-Commerce (Sun and Finnie, 2004).**

E-commerce is usually conducted on goods and services in addition to virtual items and data. It has been divided into four types depending on the parties performing the transaction; it could be business to business B2B, business to customer B2C, customer to business C2B, and customer to customer C2C, using the same infrastructure which works to present products online and facilitate the financial data transaction and the payment online if it is needed.

These types in brief are the following (EServGlobal.com, 1997):

- Business to Business (B2B): This is the most common model in use to make the business process more efficient and effective; it is made when two businesses exchange products, services, or information. At the beginning, it was conducted by exchanging forms through EDI on a direct link between them. Because of that, it is the first layer after e-commerce infrastructure.

- Business to Customer (B2C): This type of e-commerce is conducted when products, services, and information are sold to the customer.

Examples of this type are: online bookstore, online travel services and online banking, in addition to online health services.

- Customer to Business (C2B): This type of e-commerce is concluded when the customer sells a service to business and the business decides to buy it.

- Customer to Customer (C2C): This is conducted between consumers who do business online (re-sales). E-Bay.com is a case in point. It is an online auction which includes this model as individuals sell their items to other customers online.

## 2.3 E-commerce Adoption Factors

Information society is increasing and internet adoption is becoming faster. This diffusion of the internet varies widely across countries depending on several factors that have a direct impact on e-commerce adoption. One such factor is the Information Technology (IT) infrastructure: e-commerce application base. Some of these factors have been discussed in "Internet Diffusion Paper" which was prepared for the Internet Encyclopedia (Bidgoli, 2003). Factors impacting e-commerce adoption are the following:

- Economic factors: These factors, which include the Gross National Income (GNI), and Gross Domestic Product (GDP), influence the way of using the internet in the region. For instance, high GDP per capita impacts internet penetration and increases it.

- Socio-cultural factors: These include the values related to the education of people and their skills; these usually affect internet usage and its application types significantly. This is in addition to culture which influences the degree of internet acceptance.

- Geopolitical factors: The governmental support is an important factor that can affect internet usage by modifying policies and regulations to support internet and e-commerce.

- Global organizations: These include, inter alia, Non- Governmental Organizations (NGO), and World Trade Organization (WTO); these types of organizations can support internet development and accelerate its diffusion.

Sherif (2006) in his book "Electronic Business in Developing Countries: Opportunities and Challenges" summarized the factors by putting them in a causal loop and clarifying the cause and effect of each factor. He also grouped them into two main groups: the infrastructure enablers and the socioeconomic variables.

The infrastructure enablers have a significant effect on e-commerce adoption since it's the output of the ICT sector; this group includes the following (Sridhar and Sridhar, 2006):

- Internet penetration usage and internet connection quality which have a critical impact on e-commerce adoption.

- Government ICT regulations and deregulation policies that are a major issue for all developing countries in order to encourage competition, so consumers will have internet bandwidth at low prices, thus encouraging the e-commerce adoption.

- Legal framework with a security infrastructure, which will decrease online fraud and build the customers' trust by retailing their needs.

- Complementary infrastructure for logistics system such as good roads, postal services, and electricity, thus facilitating the delivery process of physical items without causing any damage and offering different services for online customers such as tracking goods online which would improve the effectiveness of supply chain for any businesses and increase the customers' satisfaction.

- Good customer services with a clear mechanism to solve any problem that could face online customers.

- A reliable e-payment system which will encourage customers to adopt e-commerce activities.

The second group, called the socioeconomic variables, includes the following:

- Maturity and diffusion of the IT literacy among people.

- Demographic and cultural factors. These have been crucial in research and studies of consumer behavior. Many people in the developing

countries still do not believe in credit cards, and they are not satisfied without face- to- face interaction.

- Disposable income and GDP per capita. These are critical factors that determine the accessibility to Personal Computers (PCs), internet infrastructure, and the level of education of the population.

- Governments' incentives to promote e-commerce such as tax-holiday offers, and free trade agreements.

- Prices and types of goods and services. These are important since the virtual items such as CDs, books, and air lines tickets are easier to deliver.

Some researchers have studied some of these factors in details. For example, they studied the cultural factors in different countries such as Iran and the United Arab Emirates (Dehkordi, Shahnazari, and Noroozi, 2011), in "A Study of the Factors that Influence the Acceptance of E-commerce in Developing Countries: A Comparative Survey between Iran and United Arab Emirates". They found that the cultural factors had different impacts on attitudes towards e-commerce depending on variables of gender, government's control, internet infrastructure and previous experiences.

Customers' knowledge and education level are also factors that affect e-commerce adoption. Many studies have found out a relationship between these factors and e-commerce, as in "Electronic Commerce Adoption in the Arab Countries – An Empirical Study" (Nathan, 2008).

Nathan (2008) found that there was a strong relationship between knowledgeable customers, risk, and confidence in e-commerce adoption. Internet skills allow knowledgeable customers to use internet proficiently, thus making them confident while using online transactions.

The perceived risk of online transactions and e-commerce systems, also have a major impact on determining the customers' behavior to adopt e-commerce which was discussed in "The Effect of Perceived Risk on the Intention to Use E-commerce: The Case of Algeria", (Belkhamza and Wafa, 2009). In this research, it was found the perceived risk would increase the uncertainty and reduce the trust in using online transactions, which in turn would reduce the e-commerce adoption. To avoid that, the researchers suggested that organizations should identify the risks and uncertainty that accompany e-commerce systems and try to improve the customers' perception of e-commerce adoption so they can succeed in their e-business. They suggested developing their internet skills, and offering training courses that increase digital literacy and make them familiar with e-commerce systems.

Besides the organizations' role in reducing the e-commerce risk and building up the customers' trust, the governments also have a great role in promoting e-commerce adoption and building up the online trust. This role was demonstrated by setting up a new ICT legal framework, as it was explained in "Bridging the Gap: Privatization Policy, Internet and E-commerce in Jordan" (Donini, 2006). In this study, the researcher

identified the relationship between customers' trust and the legal framework. The ICT legal framework regulates the e-payment processes, customers' privacy and protection, the online crimes, and customs and taxes. In addition to that, the ICT legal framework gives a value for e-documents, and e-signature and shifts the traditional economy to the new digitalized economy. Consequently, this effort builds the online trust. The researcher studied the Jordanian Electronic Transaction Law and compared it with Tunisian Law and Egyptian Law. He concluded that the first step towards closing the gaps between the traditional economy and the digital economy would begin with the reform of the legislative framework.

In his book entitled "Global E-commerce: Impact of National Environment and Policy", Kreaemer (2006) studied two kinds of forces; the first was the global forces which are associated with firm globalization, and the second was the national policies and regulations for e-commerce. The author agreed with other researchers that the national policies have an impact on e-commerce, but he added that there were enabling policies that have a larger impact on the adoption of e-commerce other than the e-commerce regulations such as the trade and telecom liberalization that make the internet access more affordable, and the promotional efforts encourage partnership between the private and the public sectors.

Kraemer (2006) found that the impact of the global forces was more obvious on Business to Business (B2B) than Business to Customer (B2C). The competitive forces, that put pressure on firms to compete globally and to integrate in the global production and supply chain networks, have a

notable impact on B2B model. In contrast, the B2C model showed less effect of the global forces but more of the local environment that is driven by the national policy and the local variables such as cultural factors, local content, language and legal framework.

For a successful e-commerce experience, the previous factors are important as they are considered the base for a perfect external environment that promotes e-commerce, in addition to the organizations' strategies and the way the firms are managed.

Many researchers have addressed the benefits of e-commerce for the firms to promote e-commerce. They have pinpointed the barriers that could face the Small and Medium Enterprises (SME) and accordingly delay e-commerce adoption as illustrated in Figure2.2 (Stockdale and Standing, 2004). This helps the firms to set up a successful e-commerce strategy.

**External Barriers**

| Lack of understanding of SME needs | No common technology standards | E-competence of industry sector |

⇩       ⇩

**SMEs**

⇧       ⇧

| Identification of benefits | Global trading | Financial constraints | Supply chain integration | Understanding of e-environment |

**Internal Barriers**
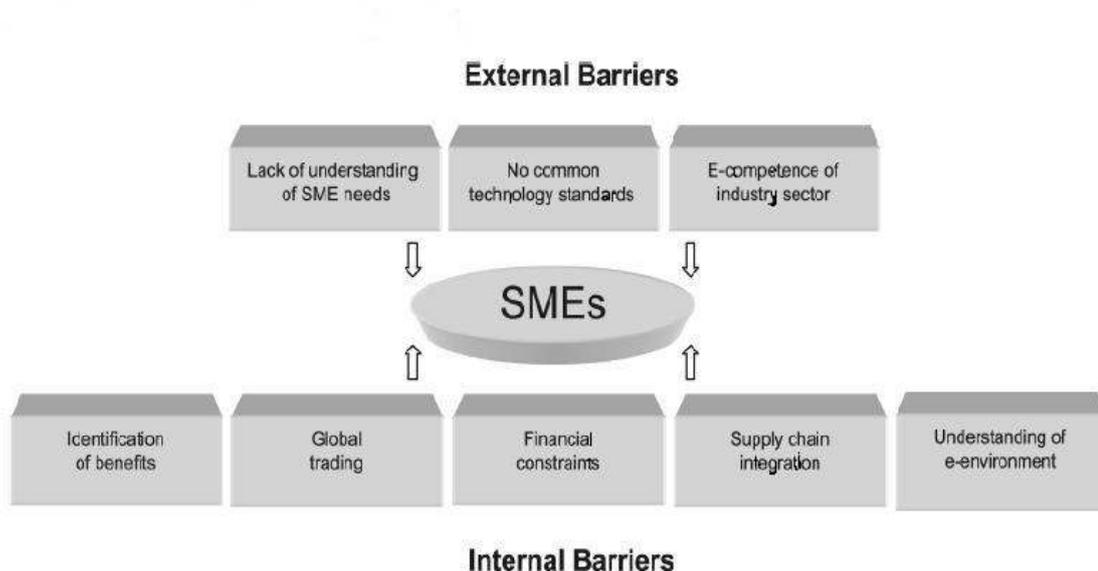
**Figure (2.2): E-marketplace Barriers from SMEs Perspective**

**Source: Benefits and barriers of electronic marketplace participation (Stockdale and Standing, 2004).**

Several papers have discussed the differences between developed and developing countries in an attempt to close the gap between them. It was found that the main differences were in technical, cultural and marketing aspects (Talukder and Yeow, 2006). This is in addition to some analysis of e-business practices in several Arab countries such as KSA, Egypt, and Jordan. These factors have caused slow down of the e-commerce adoption. These countries and others have taken actions, and adopted strategies to improve this kind of business. Boateng, Molla, and Heeks (2009) proposed a successful e-commerce strategic analysis for the factors that affect e-commerce adoption and classified them into two groups: adoption and diffusion, and potentials and constraints. They proposed the implementation of strategies and pinpointed the support factors, as shown in Figure2.3.
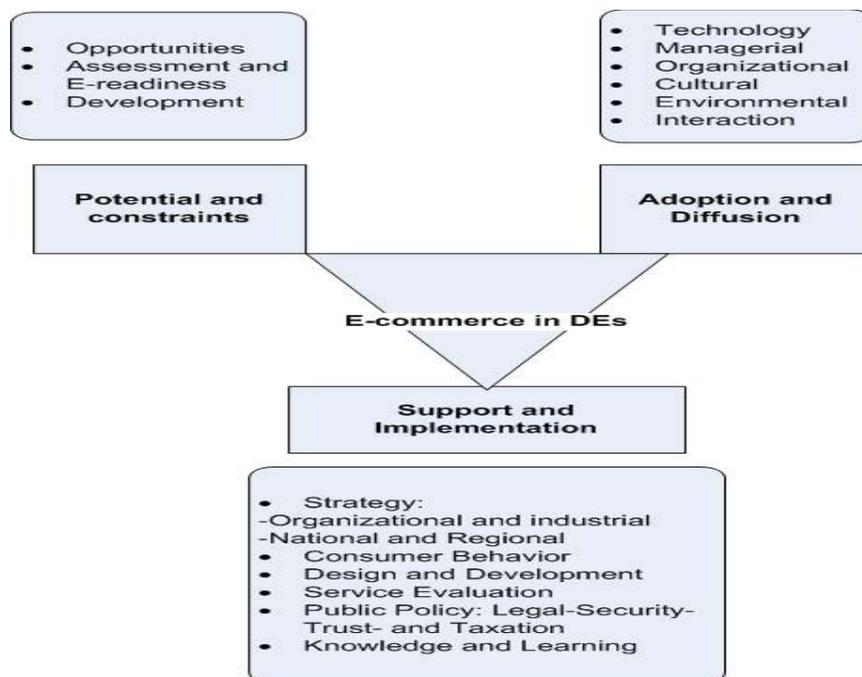


**Figure (2.3): Classification of E-commerce Frameworks**

**Source: E-Commerce in Developing Economies (Boateng, Molla, and Heeks, 2009)**

**2.4 Conclusions**

Based on the previous literature, the e-commerce adoption factors have been identified and could be summarized as follows:

1. Information Technology Infrastructure (ICT) this considers the main ICT indicators: internet penetration rate, and connection quality, in addition to the level of ICT products' utilization in the economic sectors.

2. Governemnt policies and regulations in terms of competition, independent regualtory entity, and the ICT legal framework to build confidence in ICT systems.

3. Logistics companies which complement e-commerce activities.

4. E-payment systems: the existence of secured, reliable e-payment systems encourages e-payment transactions.

These factors are important to encourage and increase internet diffusion and consequently e-commerce activities. Taking these factors into consideration,the USA market, as international expperience, and selected markets from MENA region (KSA, UAE, Bahrain, Jordan, and Egypt), will be studied in chapters 3 and 4. These chapters highlight these factors and include overviews of successful e-commerce experienecs in these markets.

# Chapter Three

# International Experiences E-commerce in the USA

# Chapter Three
# International Experiences: E-commerce in the USA

E-commerce is growing so fast in the global market. This growth can be seen in the increase of the e-commerce total sales: $961 billion in 2011. According to the Interactive Media in Retail Group (IMRG) study, the leader in e-commerce sales was the USA followed by the UK and Japan with an expected growth rate of 10-15 percent a year (Muntaqim, 2012; IMRG, 2012). This chapter is a study of the USA market based on e-commerce adoption factors. Websites such as Yahoo!, Amazon.com, and eBay.com, have been given as examples.

## 3.1 E-commerce in the USA

The USA is considered one of the world's largest e-commerce markets. E-commerce spending in the USA showed a steady and constant growth in the last few years. The average of annual growth rate was 17.9% (United States Census Bureau, 2010).

Figure3.1 shows the growth in e-commerce in the USA during the last three years.
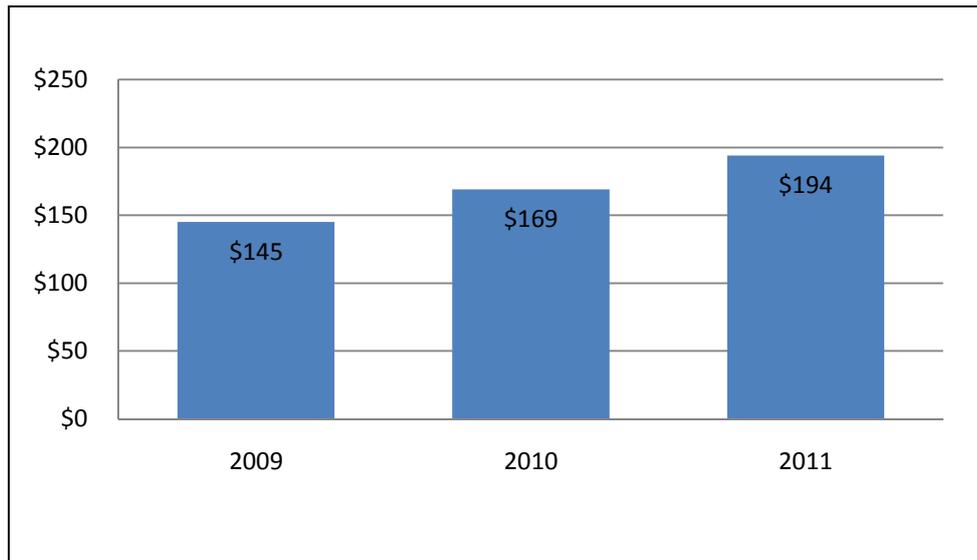
**Figure (3.1): USA E-commerce Sales Growth ($Billions)**

**Source: E-stats: Measuring the E-commerce 2010 (United States Census Bureau, 2010), e-commerce 2011 (United States Census Bureau, 2012)**

In 2011, the Census Bureau of the Commerce Department reported a 16.3% increase in total e-retail or $169 billion and 4.4% share of the total sales (The United States Census Bureau, 2012; Fulgon and Lipsman, 2012).

Fortune 500 Ranking (2012) showed the top five USA companies in the internet industry according to their revenues, as illustrated in the Table3.1.

**Table (3.1): Top Five Companies in the Internet/ Services Industry**

| Internet Services and Industry | Rank | Company | Revenues ($ millions) |
|---|---|---|---|
| 1 | 56 | Amazon.com | 48,077,0 |
| 2 | 73 | Google | 37,905,0 |
| 3 | 228 | eBay | 11,651,7 |
| 4 | 230 | Liberty Interactive | 11,624,0 |
| 5 | 483 | Yahoo! | 4,984,2 |

**Source: CNN Money[1], Fortune 500 Ranking of America's Largest Corporation in Internet Services and Retailing (Fortune 500, 2012)**

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[1] CNN Money: a service of CNN, Fortune, and Money

The USA market is mature and enjoys a number of factors that encourage e-commerce adoption. The following are the most important factors based on previous research:

## 3.2 USA Internet Market

The American ICT sector has grown very fast and its technology has expanded to all sectors of the economy such as health, education, financial services, agriculture, transportation and distribution. It has changed the way the people live, learn and it has also changed the way of managing and controlling work in different establishments, thus decreasing the cost of work and increasing productivity (NTIA, ESA, and U.S Department of Commerce, 2004)[2].

Since 2000, the USA has had a high penetration rate with a 50.5% increase rate for the number of American households.  In 2009, more than 98% of USA schools, universities had access to internet (U.S. State Department Department of State, 2008). The internet in the USA has different internet connection speeds which vary from 256 Mbps to more than 10 Mbp.  The high speed of the internet allows more users to enjoy different broadband services and applications such as cable, satellite, and DSL (International Telecommunication Union ITU, 2011).  In addition, usage of wireless internet has become a popular phenomenon in different places in the USA such as coffee shops, airports, and hotels.

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[2] Broadband Report is performed by National Telecommunications and Information Administration (NTIA), Economic and Statistics Administration (ESA), and the U.S. Department of Commerce, in response to the national goal of establishing affordable access for broadband by the year 2007. (NTIA, ESA, and U.S Department of Commerce, 2004)

Since 2002, the USA security and economy have been dependent on the information technology and its infrastructure. They have been connected to one network that supports all the processes for all sectors, thus raising the need for a regulated ICT sector and a secure internet in order to protect the information, financial transactions, and intellectual properties (USA Federal Government, 2003).

## 3.3 USA ICT Infrastructure and the Regulatory Policies

In the past, the USA broadband market was exclusive to the private sector and it concentrated on developing the urban areas. The USA government found that 35% of households had been without broadband access in their homes and was slow in the broadband development market. According to OECD, the USA ranked 14th between OECD countries (Baker, 2008). However, Akamia[3] reported that the USA ranked 12th in the average broadband speeds topping 6.7Mbps (Lunden, 2012).

The USA government realized that the broadband development was the key to economic growth, global competitiveness, and better way of life; so it had to be treated as a public infrastructure rather than a private communications issue. It tried to create a balanced partnership with the private sector in the broadband investment market in order to be able to compete in the fast growing global economy and to serve all communities in the USA such as schools, hospitals, libraries, and universities (Jensen, 2010).

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[3] Akamia:  An Internet Content Delivery Network headquartered in Cambridge, Massachusetts.

As a result, the Federal Communications Commission (FCC) passed the American Recovery and Reinvestment Act in 2009 through the Broadband National Plan and it tried to start a new broadband policy by dedicating $7.2 billion to build a high bandwidth networks fiber and wireless networks to make sure that all people have access to the broadband facilities anywhere in the United States (FCC, 2009; FCC, 2010).

In addition to the public-private partnership, the government succeeded in passing the tax incentives law which included investment tax credits for buying machinery, and equipment, and not exclusive to ICT companies, to encourage development and upgrading of broadband facilities in the rural areas. In addition to that, the government made steady steps towards technological innovations by responding to the new issues raised by this new technology, and by establishing regulatory framework in order to solve different problems, such as security, and competition, and to manage the emergence of this technology in different sectors: health, education, commerce, and public services (Lusk, 2011).

The most important act was the Telecommunication Act of 1996 that promoted competition, and deregulated the USA telecommunication market, thus removing barriers in doing business, and encouraging the development of internet and interactive computer services (FCC, 1996). In 1998, the government established the National Security Council under the White House leadership to manage cyber security and set strategies in order

to protect the USA economy, security, and its people (USA Federal Government, 2009). The USA keeps improving the internet law to meet internet challenges and protect privacy and data. In 2012, the President passed a new law named Cyber Security Act of 2012 to enhance the security of the ICT infrastructure.

In 2012, according to the World Economic Forum (WEF) report, measuring ICT sectors based on the Networked Readiness Index (NRI), which measures ICT diffusion, and the degree of ICT utilization among individuals, businesses, and governments, the USA ranked number 8 among 142 worldwide countries (WEF, 2013). However, according to the Information Technology Union (ITU), the USA ranked number 15 among 155 worldwide countries based on the ICT Development Index (IDI) that measures the ICT infrastructure, ICT utilization, and skills (ITU, 2012).

## 3.4 Logistics and Complementary Services

Logistics complementary services are important factors for encouragement of e-commerce adoption. These services include roads facilities, electricity and the postal services. These complementary services are considered the backbone of e-commerce and are characterized by efficiency, high speed, and reliability. For example, the United States Postal Services (USPS) ranked number one in the world, with about 168 billions of total pieces, and more than 636 new delivery points (USPS, 2011; Oxford Strategy Consulting, 2011).

## 3.5 E-payment Services

Technology development during the last decade has changed the payment trend in the USA from cash and checks payment to noncash payment using credit, debit, and prepaid cards. The compound annual growth rate amounted to 4.6% from 2006 to 2009. Table3.2 shows the number of e-payment methods (Federal Reserve System, 2010).

**Table (3.2): Number of E-payment Methods (Values in $ billions).**

| | |
|---|---|
| **Checks (Paid)** | 24.5 |
| **Automated Clearance House (ACH)** | 19.1 |
| **Credit Card** | 21.6 |
| **Debit Card** | 37.9 |
| **Prepaid Card** | 6.0 |

**Source: The Federal Reserve Payments Study (Federal Reserve System, 2010)**

The stable growth in the e-sales increased the need for reliable and efficient electronic payment services. In the USA, there are many e-payment systems for e-commerce activities that are globally well known. These include Authorize.net, PayPal, Google Checkout, and Amazon payment. They accept payment on the web, transfer of credit and debit online. Through the e-payment gateway, the financial data is processed securely between the merchants, customers, and banks' accounts.

## 3.6 Examples of USA Websites

There are many well-known companies in the USA that have a very good experience with the internet and services industry, mentioned previously in Table 3.1.

In this study Amazon, Google, Yahoo!, and e-Bay are major are given as examples of companies in e-commerce sector. The following is a brief summary of their businesses and strategies.

## 3.6.1 Yahoo!

Yahoo! Inc. is the fourth largest navigational website in the World Wide Web (w.w.w) after Google, Microsoft, and Facebook. It has the most recognizable brand with the highest traffic of around 700 million individuals each month worldwide. It is headquartered in Sunnyvale, California, and has more than 30 offices in different countries.

Yahoo! was started by Jerry Yang and David Filo who were Ph.D. candidates at Stanford University. They started their web guide in order to keep track of their favorable websites through the World Wide Websites. They made a great success, and had over one million hits at the end of 1994. After that success they started to expand their website from a small site into a big portal with different services.

Currently, Yahoo! is available in more than 45 languages and in more than 60 countries. It offers different kinds of services. Some of them are free of charge while others are based on fees or subscription. This is in addition to the fees collected from listing, displaying, and searching and advertising to generate revenue (Reuters.com, 2012).

### 3.6.1.1 Yahoo! History

Its humble beginning, as a hobby, goes back to 1994. Yang and Filo changed the name of their website from "Jerry and David's Guide to the World Wide Web" to Yahoo! which stands for "Yet Another Hierarchical Officious Oracle" (Casmer, 2007). In 2005, it had more than 1 million hits per day and close to 100,000 visitors (Yahoo! Inc., 2005).

In 1995, the owners incorporated their business with many venture capitalists who agreed to invest in Yahoo! with a $2 million initial fund. When both Yang and Filo realized the success and the potential growth, they decided in 1996 to offer common stocks for public Initial Public Offering (IPO), earning $2.6 million (Casmer, 2007).

Yahoo! has performed and concluded different strategic acquisitions and partnerships with major telecommunication companies and internet providers in order to maintain its position as a leader in providing personalized content and services for small businesses, especially after the internet bubble burst in the early 2000 when their stocks dropped to $8.11, the lowest value in all times (Casmer, 2007).

### 3.6.1.2 Yahoo! Products

Yahoo! has categorized its services based on the type of service and its users. It has allowed vertical search that enables its users to make faster search. This classification of these services has enabled Yahoo! to focus on

managing and developing new services to satisfy its users. These categories are as follows (Reuters.com, 2012):

1. Yahoo's communication and communities: This provides social services and different types of communication by using different devices to both individuals and small businesses, thus enabling users to share knowledge and information through different kinds of devices such as Yahoo! Mail, Yahoo! Messenger, Yahoo! Group, Yahoo! Answers, and Flicker.

2. Yahoo's Search and Marketplaces: Yahoo! Search provides quick search and information that the user needs; it could be either ranked information based on the user's search or a subset of the search result that provides links to paying advertisers' Web Pages. Yahoo! Marketplaces allows users to search products and exchange information or offers from service providers, goods providers, and other parties which have the same interests. These services are Yahoo! Local, Yahoo! Search, which are free to users, and Yahoo! Properties and Affiliate Sites that generate revenue. These include Yahoo! shopping, Yahoo! Travel, Yahoo! Real Estate, Yahoo! Autos, and Yahoo! Small Business.

3. Yahoo's Media: This provides users with a free wide range of online content such as Yahoo! Home Page, Yahoo! Finance, Yahoo! News, Yahoo! Sports, Yahoo! Entertainment and Lifestyles, and My Yahoo!. This is in addition to the Yahoo! Contributor Network which is an

evolution in the social network that enables users to share their videos, content, and pictures with other people.

4. Yahoo! Developer Platform: This is an open source that allows third-party developers to share their experience and develop many applications that work with Yahoo! services. For example, in 2011, more than 20 applications worked on Yahoo! mail.

### 3.6.1.3 Yahoo! Strategies

Yahoo! has tried different strategies, since its establishment, to expand and grow, in response to the strong competition, and in order to maintain its position among the biggest websites. These strategies include the following:

- Yahoo! Expansion: To expand its users' base globally, Yahoo has concluded various kind of partnerships and acquisitions, such as the following:

  o Yahoo! made partnership with Facebook to allow its users to exchange social news and the large content that Yahoo! has (Yahoo! Inc., 2009). In addition to the huge content, it also made partnerships with CNBC, Clear Channel, and Spotify (The New York Times, 2012).

  o Yahoo made partnership with Alibaba website in China to expand in Asia. This was in addition to other relationships with local successful websites (Yahoo! Inc., 2005).

- o Yahoo! acquired Maktoob.com in order to enter the Middle East market (Yahoo! Inc., 2009), and it also acquired the first ranked website in Taiwan and launched other websites in India and Argentina (Yahoo! Inc., 2000).

- Yahoo! supported its position: It made different kinds of partnerships with competitors and several companies to support its position including the following:

- o It made partnerships with different Internet service providers to provide internet services and support Yahoo!'s services, such as SBC, Bt Open World, and Verizon.

- o It established eBay to widen sponsored search and advertising reach through eBay communities and allow Yahoo! users to use PayPal payment system (EBayInc., 2006; Yahoo! Inc., 2006).

- o Microsoft Yahoo! Microsoft Alliance search (Yahoo!, Microsoft, 2012).

- Yahoo! enhancement was introduced to improve its platform, and its performance. It includes the following:

- o It launched Y! OS platform for third party developers and Y! AP in order to create innovative applications and develop a great user experience (Yahoo! Inc., 2008).

- o Yahoo! made an agreement with Google to use Google AdSense program (Google, 2008).

o Yahoo! acquired different companies such as Interclick Inc., which had an innovative platform, to enhance its data capabilities and its advertising performance, and it also acquired IntoNow to enhance Yahoo! media experiences and video programming and to offer its services on IPad, Android, and IPhone devices (Reuters.com, 2012).

o Yahoo! also acquired different websites such as Flicker, and del.icio.us to use their leading technology for Yahoo's social search engine, My Web 2.0, and the beta of Yahoo! Answers, thus allowing people to communicate and organize their content (Yahoo! Inc., 2005).

- Yahoo! products' improvements: To improve its customers' experience and to improve its existing products and develop new ones, Yahoo made different decisions:

o To diversify its products, Yahoo! acquired Rocket Mail and renamed it Yahoo mail, Yoyodynr Entertainment Inc. was called later by Yahoo Messenger; ClassicGames was called Yahoo Games, and GeoCities is called now Yahoo GeoCities (Web Hosting Report, 2009-2012).

o Yahoo! combined Yahoo! Shopping with Yahoo Search to offer full comprehensive comparison-shopping site, enabling customers to find the best product from any merchant online (Yahoo! Media Relations, 2003).

o Yahoo! made lots of enhancement to bring all its products into mobile devices (Yahoo! Inc., 2009).

o Yahoo! introduced the Flicker applications on the Androids devices, thus allowing users to upload photos, share, and edit photos on the run in real time with their friends (Yahoo! Inc., 2011).

### 3.6.2 Amazon

Amazon.com the largest e-commerce and internet business platform, seeks to be the most customer-centric company in the world. In 2011, it had the largest global visitors: more than 282 million unique global users who represented 20.4% of the world internet users (ComScore.com, 2011). Based on its revenue ($48,077 million), Amazon ranked number one among its rival internet services and retailing companies (Fortune 500, 2012).

Amazon was founded in 1994 by Jeff P. Bezos as an online bookseller in Seattle. Bezos was a financial analyst with a degree in computer science and electrical engineering from Princeton. When he started the business, his goal was to make Amazon the only destination for e-commerce, where customers could find or discover anything to buy online (Kotelnikov, 2001).

Bezos achieved his goal by making Amazon.com the biggest online department store, focusing on its customers and offering different

technological innovations to become more convenient and to provide them with a wide range of products at lower prices.

Currently, amazon.com has separate websites in different languages, and offers more than 60 types of products, in addition to the media categories.

### 3.6.2.1 Amazon History

Jeff P. Bezos launched Amazon.com online in 1995, as an online bookstore in his garage, in response to the rapid growth in the internet. He chose Seattle, Washington to be his main headquarters because it had the largest pool of talent, and because it was close to the largest book wholesalers (Kotelnikov, 2001), serving customers in 50 states and 45 countries in its first 30 days of shipping their products from Bezos garage.

In the first five years, Amazon was in a controversial position because of its unprofitable earning reports. Financial analysts were against Bezos's biggest strategy to grow fast. They expected Amazon not to survive among its competitors, Hanauer, an early investor in Amazon, commented, "Few people understood the reason why we did not make money in the first five years, the reason was that we had to make lots of trade off between growing fast and earning money" (Frey and Cook, 2004).

Amazon's strategies had paid off; it made steady profits from more than 152 million active users around the world and more than 2 million

merchants selling on Amazon websites (Amazon.com, 2012), with average of one million users per month (Statista.com and ComScore, 2012).

### 3.6.2.2 Amazon Products

Amazon.com has four types of customers: regular consumers, sellers, enterprises, and content providers. These customers are provided with different services by Amazon, which are including:

- Amazon retail websites: These websites sell different types of products through local and international websites, with Amazon's third-party sellers offering a wide range of products such as books, music, videos, games, electronics, clothing, and household products.

- Amazon e-commerce platform: This allows individual sellers and retailers to sell through Amazon e-commerce platform. This includes different programs to establish business online such as Amazon Webstore, Fulfillment by Amazon, Checkout by Amazon, Amazon Advantage and Sell on Amazon.

- Amazon Web Services (AWS) and also known as Computing Clouding: It allows business to take advantage of Amazon's expertise, and its reliable infrastructure at lower cost. These cloud services are available in Amazon Data centers in different countries offering more than 28 web services, such as Amazon Elastic Compute Cloud (Amazon EC2), Amazon Simple Storage Service (Amazon S3),

Amazon Rational Database Service (Amazon RDS), and Amazon Flexible Payments Service(Amazon FPS) (Amazon.com Inc., 2012).

- Amazon kindle e-reader: Amazon manufactures and sells it. It is considered the web infrastructure for reading books online, and at present, it has the most advanced technology for music, videos, games, applications and web browsing and has a free storage in Amazon cloud.

- Amazon serves authors, independent publishers, and other content creators to publish their work through different services such as Kindle Direct Publishing, Amazon CreateSpace, and Amazon Publishing (Reuters.com, 2012).

### 3.6.2.3 Amazon Strategies

Amazon has adopted several strategies to face market challenges and the continuous growth in the internet industry. The following are some of these strategies:

- Amazon adopted the strategy of "Get big fast", offering customers products at lower price and concentrating on having the biggest market share. In order to achieve this growth, Amazon adopted the following strategies:

  o It expanded its presence internationally by opening outlets in Germany, and the UK (Cummings and Worley, 2009).

  o It acquired Shilfari.com, an online community for sharing books between users; Abebook.com, an online store for rare books (Dignan,

2008), and SnapTell, and Lexcycle software companies to help Amazon in developing new applications for cell phones. (Kharif, 2009). In addition, it acquired Zappos.com, online rental movies, and games retailer to expand its products categories.

- Amazon seeks to be customers' centric company: By responding to the needs of its customers and focusing on creating value for them, Bezos, the founder of Amazon, said: "You can become a bigger part of customer's life by just simply doing a better job for them. It's very simple-minded approach" (Frey and Cook, 2004). Dicker, Amazon.com senior manager, said: "We spend a lot of time looking at what customers are doing and seeing what they are saying" (Ante and Spencer, 2009). This had been done by providing a number of innovated customer–focused informational services, such as: Aamzon.com invested in information systems to enhance the localized information and increase the relevance of the consumer's content and his opinion. It offered different services such as Amazon community. It allowed the rating of a specific product or some of its attributes, personalized shopping for each customer, and Customer's Wish List that permits people to share what they like (Frey and Cook, 2004). This approach has enabled Amazon to know and serve its large customers' base with a wide range of customized services (Kotelnikov, 2001).

- Amazon.com decided to have control of the logistics operations and the shipping processes by developing its own distribution teams to

minimize the risk of delaying delivery or competitors' acquisition of Amazon suppliers (Kha, 2000).

- Amazon changed the way of managing its products by reducing inventory through selling products in other companies' warehouses. Playing the role of the mediator between the seller and the buyer has led to a competition with e-Bay in Amazon Auction. Bezos, Amazon's founder, maintained, "We realized what was most important to the marketplace. Sellers demanded access to prospective buyers. So the idea of the "single store" was to give them a level of access that equals our own, listing their goods alongside ours" (Cummings and Worley, 2009).

- Amazon developed a new technology that was considered the web-infrastructure for many businesses; it allowed the customer to read books online and search for words inside the book.

- Amazon allows access to its platform for developers in order to enhance and develop different applications, thus enabling its products to suit different types of devices.

- Amazon.com depends on its loyal customers and on the spread of the word of mouth to advertize their products (Ante and Spencer, 2009).

- The company changed its management scope by cutting expenses and restructuring its business model. It fired 15% of its workers due to the reorganization plan (Internet-Story.com) in 2001, after the company had the worst annual performance report with loss of $1.4 billion. It

was called "AmazonToast". After introducing many changes, Amazon succeeded in reporting $5 million of revenues in the fourth quarter (Frey and Cook, 2004).

- To continue making profits, Amazon realized that continuous changes had to be done. One such change was the free shipping promotion which passed through several trials in order to have this promotion done until settling on $25 as a minimum order.

### 3.6.3 EBay Inc.

EBay, the dominant largest marketplace in the world, was founded as an auction website in 1995 by Pierre Omidyar at his home. EBay was incorporated in 1996, and had 14,000 global users with a gross merchandise volume of $7.2 million (eBay Inc., 2012).

EBay's major goal is to enable local, national, and international e-commerce through different sets of websites to meet customers' needs, and become the world's biggest online giant.

Its mission is to "develop a global online trading platform that will help anyone buy or sell practically anything" (eBay Inc., 2012). EBay could be described as a facilitator between customers and individual traders, allowing an easy transaction between them by just collecting fees for listing and selling goods.

At present, eBay has the largest global e-commerce platform with more than 100 million active users in the world; its total value of sales

amounted to $68.6 billion of sold goods, selling the value of $2,100 every second (Forbes.com, 2012).  It includes eBay Marketplaces, shopping.com, PayPal, the online payment service, Stub Hub, a ticketing exchange service, Kijiji.com and other classified and advertising websites in different places in the world.

### 3.6.3.1 EBay History

EBay was founded by Pierre Omidyar while he was trying to sell his broken laser pointer on his new website, which was unexpectedly sold for $14.83.  In 1996, the company's revenue topped $10,000 in one month. At the beginning Pierre hired two employees to help him in handling the operations of his new website.  At the end of 1998, eBay went public and its share was worth $18 at the beginning of the day and then it rose to $47 at the end of the day. In 1998, eBay had a gross merchandise volume of $700 million with global registered users of $2.1 million (eBay Inc., 1995).

EBay started to expand its presence to become global, opening different marketplaces in several countries such as Canada, Austria, Taiwan, and France, and making different strategic alliances and acquisitions in order to expand its users' base and to strengthen its presence in front of its competitors. It started the new decade as number one e-commerce site and made more than $22.5 million.

In order to be able to compete, eBay was distinguished by its tools from the very beginning. These tools include "My eBay" tool which allows sellers to personalize their accounts; Application Programming Interface

(API) which allows developers to customize the interface for sellers of small businesses, and the feedback system that enables the buyers and sellers to rate the reliability of each other (eBay Inc., 1995). This was in addition to the other major services such as payment services which enhance e-commerce business. One such payment service is PayPal which allows sellers to pay and get paid online.

### 3.6.3.2 EBay Products

EBay has become more than an auction site; 70% of its products are new items and 65% of sold items have fixed price. EBay has become available for mobile users with its mobile applications (eBay Inc., 2012).

It is considered the largest e-commerce platform that serves local and global customers. It includes several components, such as:

- EBay Market Places: It includes diverse websites in different places. These websites include the following

  o EBay classifieds and Kijiji: These are available in different countries in their local languages. Germany's "mobile.de" and Italy's "eBay Annunci" are cases in point.

  o StubHub.com: This is the largest ticketing marketplace in the world.

  o Shopping.com: This is the largest comparison shopping online.

  o Half.com: This is an online marketplace for used books, music, videos, and games.

o Brands4 friends.com: This is a fashion club for shopping online in Germany.

- Payment systems that include:

o PayPal.com: This has a presence in 190 countries and it is accepted by millions of merchants. With its up–to-date technology, it has the ability to predict risks and uncover fraud online (eBay Inc., 2012).

o Billmelater.com: This is known for its digital payment and stretchy financing programs (eBay Inc., 2012).

- E-commerce systems: These systems provide merchants online business with e-commerce platform and wide services, thus enhancing their businesses. Gsicommerce.com is an interactive e-commerce marketing service that provides advanced technology management support, and customer care, in addition to marketing services for online businesses.

o Platforms and developer networks: These networks allow small businesses and online merchants' developers to customize the platform according to their needs with the help of other eBay developers program, PayPal developers' network, and magneto team. This service includes X.commerce, an open platform community for developers to enable personalization of the platform (eBay Inc., 2012).

### 3.6.3.3 EBay Strategies

EBay's major goal is to establish a diversified business and offer various kinds of products to all kinds of customers in all places. To achieve this goal, eBay has adopted several strategies. From these strategies are the following:

- EBay has made a vast range of acquisitions of big companies in the local and international market in order to expand its presence, offer new services, and increase its customers' base. The following are some of the major acquisitions:

  o Shopping.com for comparison shopping online, GSI online service company to manage e-commerce websites and marketing campaigns, PayPal. In 2012, eBay acquired card.io for its new technology that allows payment by smart phones (The New York Times, 2012).

  o EBay, in 2005, acquired Skype for approximately $2.6 billion in up-front cash and eBay stock. This decision made eBay the leader in the internet economy through the three sectors: payment, communication, and auction.  However, in 2009, eBay sold 65% of its stake in Skype to focus on e-commerce services and give the chance to Skype to compete in the online video and communications services (Reuters, 2009).

  o EBay has made acquisition of some classified businesses such Baazee.com in India, and mark eBay Inc.

- EBay has bought similar businesses in other countries. For example, it bought Alandro.de in Germany and renamed it eBay.de, and China's Each net and renamed it eBay Each net.

- EBay has created eBay express for people who like to buy new stuff without waiting.

- EBay has developed mobile applications to make eBay accessible to mobile users to search the market, buy, sell, and pay by mobile phones.

- EBay has strengthened its brand by providing its customers with a number of services, such as:

- EBay depends on the word of mouth in marketing its products. The products' reviews encourage customers to search and then buy.

- EBay creates communities between customers with similar interests, thus increasing customers' loyalty and their interaction.

- EBay continuously tries to enhance the site features and improve its usability for its customers.  To this end, it bought the Bill Point and the PayPal to enhance the online payment processes between buyers and sellers.

- EBay concluded partnerships with more than 60 websites in order to increase its customer base and diversify its services for local and global customers. These partnerships included the following:

o It adopted an alliance strategy with American Online (AOL) in1999 and Yahoo! in 2006, so eBay has access to AOL and Yahoo! users respectively (Noguchi, 2006).

o In 2007, eBay made an agreement with Yahoo! to allow their users to use their site www.sekaimon.com in Japan, giving eBay an access to Japanese consumers. In addition to that, eBay has tied Yahoo's e-commerce activities business with its payment service PayPal (Negishi, 2007).

## 3.7 Conclusions

USA is the leading developed country that has realized early the importance of ICT sector. The impact of the ICT sector development in the USA was felt after the Recovery Act of 1996 through the broadband development projects, and the full government support. Table3.3 lists the main indicators and the total value of e-commerce spending in 2011.

**Table (3.3): USA Main Indicators for ICT Sector**

| USA ICT Main Indicators | |
|---|---|
| Fixed- Line Subscription | 47% |
| Mobile Subscription | 91% |
| Percentage of Households with Computer | 81% |
| Percentage of Households with Internet at Home | 68% |
| Internet Penetration | 77% |
| GDP per capita | $48,112 |
| Percentage of Literacy[4] | 99% |
| E-commerce Spending in Billions | $194 |

**Source: United States Census Bureau (U.S. Census Bureau, 2012), (ITU, 2011)**

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[4] Literacy is defined by people who are 15 years and over and can write and read (CIA, 2013).

The USA success in developing the digital economy is considered the best practice model to be followed.

# Chapter Four

# Regional Experiences
# E-commerce in MENA Region

# Chapter Four
# Regional Experiences: E-commerce in MENA Region

E-commerce is booming and growing remarkably in the Middle East and North Africa (MENA) region. However, this growth is not significant compared with the developed countries' markets and the USA e-commerce market in particular. In 2012, the region's e-commerce spending figure topped $20 billion, the lowest spending after Latin America which posted $36 billion (Dalakian, 2012).

This chapter studies selected markets from the MENA region: KSA, UAE, Bahrain, Jordan, and Egypt. It highlights e-commerce adoption factors, and identifies the main ICT indicators in order to benchmark Palestinian market in contrast with these markets.

## 4.1 E-commerce in the MENA Region

According to MENA Internet and B2C E-Commerce Report 2012 on e-commerce activities (yStats, 2012), half of the region's internet users had purchased online, and two thirds of them had searched products online before buying. The research found that the most popular products were games online, virtual currencies, computer software, and electronics. The major markets that have a great e-commerce potential in the region were Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE), Jordan, Bahrain, Egypt, and Morocco.

The most active users in e-commerce sector are KSA and the UAE. According to Arab Advisors Group (a specialized research, analysis, and

consulting company focusing on telecom market, media, technology, and financial markets in MENA region), KSA ranked first among Arab countries in e-commerce growth based on its e-commerce transactions, but later, according to a report prepared by Visa, in partnership with Interactive IMRG on the e-commerce in the Gulf Cooperation Council (GCC), KSA ranked the second largest market in the region ($520 million in 2010) after the UAE which recorded $2 billion on shopping online, while Bahrain and Kuwait recorded $175 million, $280 million respectively (Enzer, 2011; IMRG International and Visa Middle East, 2011).

Egypt has made a significant growth in internet penetration rate; it had 23.5 million users in January 2011. About 3% used e-commerce. There are many Egyptian websites that have interests in e-commerce; however only a few have had made a strong presence in this sector (Fakhry, 2011). Based on the Arab Advisors 2009 report, Egyptian internet users spent around $2.1 billion on online transactions and paying bills online (Arab Advisors Group, 2009).

Jordan has showed noticeable growth in e-commerce. Its e-commerce spending jumped from $192 million in 2010 to $370 million in 2011. About 24.4% of all internet users tried e-commerce (Arab Advisors Group, 2012).

## 4.2 Internet in the MENA Region

Internet penetration rate in the MENA region is lagging behind that in the developed countries despite the rapid growth in internet penetration

rate from 37.3% in 2012 to 32.2% in 2010 (Miniwatts Marketting Group, 2011). Table4.1 shows Internet penetration in the MENA region for 2011 and 2012 (Miniwatts Marketting Group, 2012).

**Table (4.1): Internet Usage in Middle East and North Africa (MENA)**

| Year | Region | Internet Users | % of Population | % of World Users |
|------|--------|----------------|-----------------|------------------|
| **2011** | North Africa | 46,296,832 | 27% | 2% |
| | Middle East | 77,020,995 | 35% | 3.4% |
| | MENA | 123,317,827 | 32.2% | 5% |
| **2012** | North Africa | 56,668,275 | 33% | 2% |
| | Middle East | 90,000,455 | 40% | 4% |
| | MENA | 146,668,730 | 37% | 6% |

**Source: Internet World Stats Usage and Penetration (Miniwatts Marketing Group, 2012) and (Miniwatts Marketting Group, 2011)**

Internet in MENA Region has become a necessity in every household and it is characterized by the young age of its users, giving the MENA online market a huge potential. The online activities, however, vary from one country to another depending on several factors such as internet penetration, trust, and the usage of credit cards. These activities include online payment transactions, research, buying online, product rating, games, social networks, and advertising.

## 4.3 MENA ICT Infrastructure and Regulatory Policies

The governments of the MENA countries have taken many initiatives and decisions to support all kinds of e-businesses. To this end, they have created the enablers of this business environment, facilitated the growth of this sector, and enhanced the markets' attractiveness for local and international investors.

Many of these governments started restructuring the ICT sector and reforming their policies in order to increase the sector's contribution to their economies. In addition to their effort in creating a digital awareness among their populations they utilized ICT infrastructure and technology in other sectors such as health, postal network, banking, education and training, research and development, and governmental services.

The following is a brief summary of selected countries in the region which have taken initiatives in ICT infrastructure, and regulation policies:

### 4.3.1 KSA

The number of KSA internet users grew to 50.7% in 2012, from 47.7% in 2011 (Ministry of Communication and Information Technology of KSA, 2012; ITU, 2011). In 2011, the average of internet connection speed was 2,030 Kbps (Akami.com, 2012).

The KSA government was the first country to take several strategic decisions to spread digital literacy among its population, and increase awareness of the new technology to make its economy knowledge based. These decisions are as follows:

- In 2009, the KSA government committed itself to raise computer literacy level among its citizens, thus complementing its IT strategy of 2009. This was done through implementation of the International Computer Driving License (ICDL) Program which is governed and supervised by ICDL Saudi Arabia. It has made certification a criterion for different kinds of jobs (ICDL Saudi Arabia, 2009).

- The government demonstrated a distinguished commitment to e-payment support and encouragement. In 2004, the Saudi Monetary Agency Establishment launched the SADAD Payment System to provide secure financial transactions over the electronic environment (SADAD, 2004).

- In 2007, the government approved the Electronic Transactions Law to regulate online transactions and signatures (Ministry of Communication and Information Technology of KSA, 2012).

According to WEF 2012 report, based on NRI ranking, the KSA ranked fourth among the MENA countries, and number 33 among 142 countries worldwide (WEF, 2013). And according the ITU, based on the IDI ranking, KSA ranked 47 among 155 worldwide countries and number four among the MENA region countries (ITU, 2012).

## 4.3.2 UAE

The UAE had in 2011 the highest internet penetration rate (70%) within the GCC and in the region (ITU, 2011). It is expected to be the leader in the world in terms of broadband penetration (TRA, 2012). It is currently using internet infrastructure's most advanced technology (Malhotra, 2012). The UAE also has the fastest connection speed in the region: 4,798Kbps (Akami.com, 2012).

In 2003, as a result of the UAE Telecommunications Law, the government established the Telecommunication Regulatory Authority

(TRA) to be in charge of the regulation of the ICT sector in the UAE, encourage development and investment in the sector, and facilitate the electronic activities such e-commerce (TRA, 2012).

The government of Dubai has witnessed a potential growth and enjoyed an opportunity in the region at an early stage. It took a number of decisions to promote investment in the sector (BSI- Research Network, 2012). These decisions can be summed up as follows:

- In October 1999, it announced the opening of Dubai Internet City (DIC) as a knowledge-based business model that supports the development of Information and Communication Technology (ICT). One of its main objectives was to the drafting of policies and strategies that support e-commerce business. DIC has been built in a free trade zone, targeting companies that look for growing markets in the neighboring region. It also meant to make Dubai an ICT hub in the region and the center of electronic commerce.

- DIC has the largest and newest infrastructure in ICT. It offers 100% tax-free ownership, strict cyber regulations, and a protection of intellectual property, a starting point for new businesses. It also encourages the big brand companies to open in the Dubai Internet City (Dubai Interent City, 2012).

- The government has spread electronic literacy and has built internet users' trust by encouraging them to pay online, establishing secure environment with central e-payment gateway that allows them to pay

the fees of the government services and traffic fines online (Lowe, 2012; WEF, 2013).

- In 2006, an e-commerce department was established in TRA, based on the Electronic Commerce and Transaction Act, to support, encourage, and create safe environment when performing online businesses (TRA, 2012).

Several research projects and international reports have verified the level of performance of the UAE's ICT sector among global and regional markets. According to WEF, based on the NRI report of 2012, the UAE ranked third among MENA countries and number 30 among 142 countries worldwide (WEF, 2013). According to the ITU report, based on the IDI ranking, the UAE ranked 45 among 155 countries worldwide, and third among the MENA countries (ITU, 2012; TRA, 2012).

### 4.3.3 Bahrain

Bahrain is one of the small Middle East countries but it has a high penetration rate. In 2011, its penetration rate was about 77% (ITU, 2011), and its connection speed was 2,189 Kbps (Akami.com, 2012).

The Bahraini government has been known for its pioneering innovative technological initiatives. It began using computers in business in 1940, satellite communication in 1969, digitalized telephone switches in 1992, and deregulated ICT market in 2004. It also established the

independent entity TRA, and introduced the 3G technology and WiMax network in 2007 (Bahrain Economic Development Board, 2013).

In 2012, based on the NRI, which measures the strength of the ICT infrastructure and its development, Bahrain ranked first among the MENA countries and number 27 among 142 countries worldwide (WEF, 2013). According to ITU Ranking, based on IDI, Bahrain ranked second among the MENA countries after Qatar and number 40 among 155 countries worldwide (ITU, 2012).

The Bahraini government realized early the importance of ICT in developing a sustainable economic growth. It made the development of this sector one of its major priorities. To this end, the government took several initiatives to support ICT growth. Among these initiatives are the following:

- The Bahraini First National Telecommunication Plan (2000-2004): This plan aimed at freeing the telecoms market and ending monopoly in the sector, thus creating an attractive environment for investment. The major initiatives to implement this strategy were the following (United Nations, 2011):

- ✓ Bahrain ICT market was liberalized in 2002 by passing the Telecommunication decree No. 48, and establishing the Telecommunications Regulatory Authority to protect subscribers and promote fair competitions (TRA, 2011).

✓ In 2003, the mobile and internet markets were opened for competition, and were then followed by the fixed line market in 2004.

- In 2007, the government planned to implement e-government project. It began offering most of its services online, allowing citizens to pay for public services online, perform business registration, and apply for tourist visa. This was in addition to online tendering which aimed at improving governance of institutions and performing efficient work (E-goevrnement Authority, 2010).  At the end of 2012, Bahrain e-government program was highly ranked for its notable performance. It received 8 international awards, 10 Arab awards, and 6 GCC awards (E-government Authority, 2012).

- The E-government Authority concluded several strategic partnerships with global companies (E-government Authority, 2012), such these companies are the following:

✓ It cooperated with Cisco to enhance the internet infrastructure, improve the internet connectivity, and reduce the cost of internet as part of the implementation of the Third National ICT Strategy 2013-2016 (Bahrain Economic Development Board, 2013).

✓ It signed a strategic agreement with the United Nations Department for Economic and Social Affairs to implement several projects to enhance and develop digital literacy.  The United Nations considers

Bahrain e-government program as a successful example that could be followed by other developing countries (Bahrain Economic Development Board, 2013).

- The government of Bahrain introduced several improvements to the ICT. These were mostly related to legal framework. For example, the government decreed the E-transactions Law No. 28 of 2002 to secure online transactions (Ministry of Industry and Commerce, 2002), and passed the Cyber Crime Law to ensure that all cyber crime are punished (ESCWA, 2007).

### 4.3.4 Jordan

Jordan is one of the earliest countries that reformed its ICT regulations, policies and strategies. It tried to develop and enhance the ICT sector which is the foundation of e-commerce development (TRC, 2012). This development could be seen in the rapid diffusion of internet. The penetration rate among the Jordanians was 34% in 2011 (ITU, 2012) and the average of internet connection speed was 1,422 Kbps, an average speed in the region (Akami.com, 2012).

In 2012, Jordan ranked number 47, based on NRI, among 142 countries worldwide (WEF, 2013), and based on IDI, it ranked number 75 among 155 countries (ITU, 2012). These government major initiatives include the following:

- In 2002, the government liberalized the ICT sector and founded the Telecommunication Regulatory Commission (TRC) to encourage

competition and public-private partnership, and support investment in the sector (TRC, 2012).

- From 1999 to 2004, Jordan adopted REACH policies. Supervised by King Abdullah II, and directed by the Information and Communication Association of Jordan INT@J, with a yearly time frame. These policies were introduced in order to make significant progress and optimal results. The REACH initiatives stand for and focus on developing the following areas: regulatory framework, an enabling infrastructural environment, advancement programs, capital and finance, and human resources development (Stensgaard, 2003).

- Between 2007- 2011, Jordan continued to reform the National ICT Strategy (NIS), to improve the Jordanians' standard of living, invest in research and development, support the new market, improve the ICT sector, and encourage foreign capital investments. By 2011, Jordan's position changed among its neighboring countries. Its internet penetration rate, and ICT revenue increased and the regulations that hurdled the growth of this sector were also eliminated (Int@j.net, 2012). In 2011, the government reduced the tax on internet to 8% in order to accelerate internet diffusion. After awarding licenses to operate 3G technology, the internet penetration rate increased to 50.5% at the end of 2011 from 38% at the end of 2010 (TRC, 2011).

- The government eased investment in this sector by offering low flat taxation rate on ICT and other services industry. It also exempted

income tax on exports, and allowed 100% foreign ownership (Private Sector Development Program, 2012). This was in addition to the reform of the regulations pertinent to the protection of intellectual property rights.

- The Ministry of Information and Communications Technology (MOICT) has focused on improvement of the ICT education and development of vocational skills. In 2009, MOICT made a partnership with the private sector companies to implement internship program for the new graduates. Around 900 students have so far benefited from this program (MOICT, 2011; Private Sector Development Program, 2012).

**4.3.5 Egypt**

The Egyptian government succeeded in increasing the internet penetration rate by utilizing ICT framework in many sectors such as health and education. In 2011, the internet penetration rate was 37.9% (ITU, 2012) and its average connection speed was 1,079Kbps (Akami.com, 2012).

The government planned to make the country a strategic ICT hub for MENA region and occupy an international command position with its competitive infrastructure. To achieve this goal, the Ministry of Communications and Information Technology (MCIT) adopted a number of strategies and policies that focused on empowering the information

technology sector and making continuous improvements. The following are some of MCIT's efforts:

- The ministry supported the digital literacy diffusion by establishing IT clubs to ensure internet access and training for each local community. In 2011, the number of ICT clubs amounted to 2,193 clubs with computers. Of these, 1,955 clubs had internet access. In addition, the ministry launched the PC 2010- Nation Online initiative that provided access to the internet and personal computer at low cost to every home (MCIT, 2012).

- The government empowered the development of the broadband business in the region through the submarine cable system that passes under the Mediterranean Sea.

- The government has exploited its strategic geographic position, the new ICT technology framework, and the growth of e-commerce activities to create the first free trade zone in the region, and make it the hub for all neighboring countries. This free zone manages many regional supply chains and trade activities, thus supporting the growth of the Egyptian economy and improving Egypt's competitiveness in the region. There are 10 free zones in operation, in addition to the special economic zone. The government allows full foreign ownership in the special economic zone. According to the Special Economic Zone Law 83 of 2002 sales are exempted from income taxes (Bureau of Statistics and Business Affair, 2013).

- The government reformed many relevant regulations and trade rules and restructured different processes and frameworks to alleviate financial transactions, and encourage global and local investments (MCIT, 2012).

However, Egypt still needs to focus its effort on improving ICT infrastructure and utilizing its tools in all sectors. According to NRI, Egypt ranked 79 among 142 countries in 2012 (WEF, 2013), and based on the IDI, it ranked number 83 among 155 countries (ITU, 2012).

## 4.4 Logistics and Complementary Services

Several countries in the region have invested heavily in developing the logistics-related infrastructure to support governments' strategies in enhancing their economic development and supporting different trade activities (Gonzalez, 2009). The major investments were reported in KSA and Dubai; these investments have given logistics companies the opportunity to offer efficient and effective services.

There are several international and local private companies in the region that offer delivery services in the region. These include FedEx, DHL and Aramex. The following is a nutshell of each company:

1. FedEx: One of the largest logistics companies in the world, FedEx offers reliable, effective, and efficient services in more than 220 countries in the world. FedEx offers different supply chain management solutions and integrates its new IT technology with these

services to offer online solutions. FedEx main services include inventory management, return management, transportation management, and fulfillment services, in addition to packaging, tracking, and shipment. FedEx also allows businesses to use its reliable platform through its services: FedExNet, and FedEx e-commerce solutions, using Fedex Web services (FedEx, 2012).

2. DHL: The largest logistics companies in the world covering over 220 countries, DHL offers different logistics services such as freight transportation, warehousing and distribution, and supply chain solutions that could be customized based on business demands (DHL, 2012).

3. Aramex: One of the leaders in the logistics and transportations industry, Aramex aims at facilitating regional and global commerce by offering different services. These services include freight services international and domestic delivery, supply chain managements, including logistics, warehousing, information, and records management, and e-commerce services, e-business solutions and online shopping services.

Aramex has played a key role in e-commerce activities in the region. It is the only logistics company that offers special customized e-commerce services to respond to the region's demand (Kasses, 2012). It has made a number of partnerships with well-established companies in the developed markets such as the USA and the UK, benefiting from their e-commerce experiences and offering different services to support e-commerce growth

in the MENA region (Haq, 2010). The following are some of Aramex e-commerce services:

- Shop and Ship service: This service gives customers in the region a virtual address in the USA, the UK, and China, thus allowing them to buy online from these countries and deliver their products to this virtual address, and then forward these products to their residential addresses.

- Rede! Service: This service enables businesses to sell their products online, by offering them local and regional delivery services, and full supply chain services integrated with the most advanced technology (Aramex, 2012).

- Aramex helps to manage money collection from buyers since most customers tend to choose Cash On Delivery (COD) service as their payment method.

## 4.4.1 KSA

In 2005, KSA invested more than $300 million to improve this sector. It established a logistics and transportation city called "King Abdulazaiz Bin Mosaed Economic City". It was meant to be as a transportation hub in the Middle East, and utilize ICT technology with Saudi Post in order to launch Wasel Post services, and have an electronic address system that works via satellite technology. This new system has improved mail processing, and the quality of residential delivery services. It also helped Saudi Post to create a customer data base and utilize it in

many e-services such as e-government services, and e-commerce activities (Saudi Post, 2012). In 2008, Saudi Post had 470 post offices and 146 branch post offices, with total mail volume of 810 million mails (CITC, 2009).

### 4.4.2 UAE

Emirates Post, with its state-of-art technology, offers a number of services in addition to the traditional postal services. It offers several value-added services such as package tracking, organization of pickup and delivery, financial services, and payment of public utility bills (Emirates Post, 2006). In 2008, the Emirates Post had 90 post offices and 400 postal agencies. Its total mail volume amounted to 321 million mails (Emirates Post, 2008).

Dubai government established Dubai Logistics Economic City to utilize Dubai's geographic position as a logistics hub, connecting MENA and South Asia together (Gonzalez, 2009).

### 4.4.3 Bahrain

Bahrain Post offers local and international mail services, in addition to over-the-counter services such as renewal of driving license, car registration, insurance, and money transfer. As part of e-government strategy, the Ministry of Transportation, in cooperation with the e-government authority, provided full automated tracking systems, allowing users to track their packages through their PCs or their mobile without any

manual supervision. This was in addition to the online mail boxes service renewal and payment (E-government Authority, 2012).

Bahrain Post was voted for by the Universal Postal Union (UPU) as number one in the GCC countries for the good quality of its offered services (Bahrain Post, 2012).

In 2011, Bahrain Post had around 16 post offices across Bahrain, with a total posted parcels of 42,000, outgoing mail of around 4.401 million, and total incoming mail of over 26.660 million (Central Informatics Organization, 2011).

## 4.4.4 Jordan

In the National E-commerce Strategy, the government of Jordan realized the importance of basic postal services in encouraging the e-commerce adoption. To this end, it utilized ICT newest technology, to develop its postal services, and it cooperated with the shipping companies to build reliable and effective delivery systems for e-commerce (MOICT, 2011). In 2011, the total mail volume in the Jordanian Post amounted to 20,571 million mails (TRC, 2011).

## 4.4.5 Egypt

The government has focused on modernization of its postal network to ease the flow of cash, information, and goods, and become a business communication center by utilizing ICT new infrastructure, offering new postal services that support e-business and e-government, and enabling

different kinds of activities such as management of global supply chains, tracking and sorting of mails, and integration of digital and physical communication. In 2011, the Egyptian Post had 3,779 post offices with total mail volume of 8,800 million mails (MCIT, 2012).

## 4.5 E-payment

The MENA region has a cash-oriented economy; people are still using cash and checks as the main payment methods rather than using any online methods, thus hindering the growth of e-commerce.

According to recent statistics, 50% of online customers preferred COD service, which is neither a popular method for merchants, nor applicable for virtual products. In addition to that, customers hesitate to share their financial information online, for fear of e-fraud and identity theft (Wamda TV, 2012).

To overcome this problem, governments and private companies tried to build trust and confidence in online payment systems among people. To that end, they took several initiatives to reduce the risk associated with e-payment systems, and support the diffusion of e-payment methods through the use of special programs and offering different services. These services and programs are the following:

- E-government programs: offering e-payment methods through its services, guiding citizens to pay their utility bills and other governmental fees services online.

- Prepaid cards: enabling customers to pay online without sharing their personal information online. CashU prepaid cards are a case in point

- Cash on delivery (COD): offering cash on delivery service with full cash management to curb the customers' fear of e-payment systems. This could be offered by a logistics company playing the role of a mediator by accepting bill payment when delivering the package.

- Payment gateways: enabling online business to accept several payment methods and allowing efficient management, authorizing client's credit cards through establishing secure links between the payment processor and the bank, and returning the information to merchant and client.

The following payment solutions are available in MENA countries: CashU, Cashna, PayPal, Cashi, and debit cards such as Visa and Master cards. This is in addition to e-payment hub systems. For example, the Gate2play payment hub enables websites to accept most of the e-payment options available in the world.

The usage of payment methods differs from one country to another depending on the ICT infrastructure, digital literacy among people, and the people's confidence in using specific payment methods. The following are some initiatives in selected countries which have encouraged e-payments:

### 4.5.1 KSA

The Saudi Arabian Monetary Agency (SAMA) operates the Saudi Payment Network (SPAN). This network processes all Point Of Sales

(POS), and all banks' Automated Teller Machines (ATM) transactions, increasing payment efficiency and decreasing cost of money settlement across banks. In 2010, KSA had more than 80,000 POSs with 151.15 million transactions, and 10,900 ATM terminals with 1 billion transactions.

In 2004, the KSA government, in cooperation with SAMA, founded SADAD Payment System. This payment system enables customers to pay their bills electronically through all Saudi banks channels (e-banking, ATMs, and bank branches). It also facilitates interbank settlement and clearance by sending payment confirmation to the biller and the customer (Bank for International Settlement, 2012).

## 4.5.2 UAE

E-payment has grown in the UAE; in 2011 it had 4,172 ATMs with 283 million transactions, and 288,088 POSs with around 846,000 transactions (Central Bank of The UAE, 2013).

The Ministry of Finance, in cooperation with the National Bank of Abu Dhabi, issued e-dirham card, which allows the user to pay government and non- governmental fees through different channels such as credit cards, online banking, POS and ATM terminals (E-dirham, 2012).

Dubai e-government has also partnered with Etisalat, the local mobile operator, and established an e-Pay gateway for e-payment. This gateway enables Dubai e-government users to pay governmental services and their utility bills online, in addition to more than 140 other services in Dubai (Dubai Government, 2012).

There are three active merchants' accounts providers who facilitate e-commerce transactions between seller and buyer, allowing merchants to use their e-payment infrastructure. These companies are Mashreq Bank, National Bank of Abu Dhabi, and Network International[5] (Ameinfo, 2012).

## 4.5.3 Bahrain

Bahrain has a considerable number of online payment service providers, who accept different ATMs cards, credit and debit cards. These could be integrated with other payment channels such as online banking and POS. The Benefit Company is the major e-payment service platform in Bahrain. It was established in 2007 in cooperation with 17 commercial banks as a national ATM and POS switch of Bahrain. It has a license to act as a "Provider of Ancillary Services for the Financial Sector"[6]; and has a payment gateway that enables merchants and any kind of businesses to handle online transactions through debit and credit cards (The Benefit Company, 2012).

In 2012, the Benefit Company had more than 300 ATM terminals across the Kingdom of Bahrain with volume transactions of $7.30 million. It operates more than 8,000 POS devices across Bahrain with total transactions of $2 million (The Benefit Company, 2012).

This company is a member in GCCNet Network that connects Gulf Cooperation Council Countries (GCC) countries together, thus allowing users to use their cards through any ATM terminals in the GCC.

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[5] Network International is a payment solution, owned by Abraaj Capital and Emirates National Bank of Abu Dhabi.
[6] License is provided by the Central Bank of Bahrain.

## 4.5.4 Jordan

In 2003, the Jordanian government, in cooperation with Jordan Telecom, launched an e-payment gateway to enable the Jordanian citizens to pay their phone bills, utility bills, and government services fees. This gateway was introduced to enhance e-commerce activities in Jordan, linking different banks with many services' providers and merchants (Stensgaard, 2003). In Jordan, ATM networks were processed through JONET (Banks Community National Switch) in order to decrease clearance and settlement cost, and offer efficient service.

## 4.5.5 Egypt

In 2009, Egypt launched e-finance, an e-payment network and a service collection provider. It links all banks, utilities, and government agencies, through different channels such as ATM networks, POS, e-banking, and banks' branches, enabling customers to pay their bills and other government services fees through these channels (E-Finance, 2012). This e-payment system is part of a national electronic payment hub that would offer services to governments, businesses, and customers to enhance e-payment activities and build people's confidence in these systems by increasing their knowledge of this type of activities system (Al Mashni, 2009). Egypt has 15,000 ATMs and 38, 837 POS terminals (VISA, 2010).

## 4.6 Examples of MENA Region Websites

There are many famous e-commerce websites in the MENA region in the local and regional markets. The Arab Advisors Group has conducted

some analysis of 114 selected e-commerce websites in the MENA region in terms of their location, and their payment methods. In addition to that, these websites were ranked based on their traffic statistics according to Alixa.com worlds' ranking, and Whoismark.com as shown in Table 4.2. The ranking is based on the website traffic illustrating the popularity of the website in the region.

**Table (4.2): Most Popular E-commerce Portals in the Region, With More Than 10,000 Visitors per Day**

| Portal | Whoismark.net[7]<br>Unique visitors per day | Alexa.com[8]<br>World's Traffic Ranking |
|---|---|---|
| Souq.com | 150,284 | 1,931 |
| darendeal.com | 116,572 | 2,890 |
| Markavip.com | 55,472 | 3,856 |
| logta.com | 41,629 | 26,775 |
| Namshi.com | 40,244 | 10,861 |
| mizado.com | 31,074 | 9,050 |
| Sukar.com | 20,108 | 11,561 |
| Neelwafurat.com | 13,880 | 34,706 |
| offerna.com | 13,874 | 14,859 |
| haladeals.com | 12,394 | 28,440 |

**Source: E-commerce Portals in the Arab World (Arab Advisors Group, 2012)**

In this report, the Arab Advisors Group found the following:

- Of the 114 e-commerce websites, there was only one website located in Palestine. The majority were located in the UAE, KSA, and Egypt, as Table 4.3 shows.

- The most accepted payment methods were credit and debit cards, followed by COD service and bank transfers or checks.

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[7] Whoismark.net: It is an online service which provides information about traffic for websites.
[8] Alexa.com: It ranks websites based on the worlds' traffic ranking.

Table (4.**3** shows some of these websites and their location (Arab Advisors Group, 2012). The following sections will explore the most famous websites that have a presence in several countries in the region. They are namely Maktoob.com and Jabbar Group with their websites.

## 4.6.1 Maktoob Group

Maktoob.com, one of the success stories in the Middle East, includes a group of websites such as the Arabic web e-mail with its different services, CashU, an online payment system, Souq.com, and other websites. It is one of the remarkable Arab internet businesses, sold to Yahoo! for $175 million in 2009 (Jabbar Internet Group, 2011).

**Table (4.3): E-commerce Websites in Arab World and their Headquarters**

| Website/Portal | HQ | Website/Portal | HQ |
|---|---|---|---|
| E-stylebh.com | Bahrain | bostany.com | Egypt |
| Bahherbalife.com | Bahrain | jilbabmall.com | Egypt |
| Advantionline.com | Bahrain | appliance-eg.com | Egypt |
| Nefsak.com | Egypt | books.com.eg | Egypt |
| BazaarInEgypt.com | Egypt | cairosalesstores.com | Egypt |
| Gogomool.com | Egypt | samaornaments.com | Egypt |
| AlibabaMall.com | Egypt | egypt4gifts.com | Egypt |
| Egypttalks.com | Egypt | Jelbab.com | Jordan |
| Showtech-eg.com | Egypt | Bashitistores.com | Jordan |
| Egycot.com | Egypt | Bustanbooks.com | Jordan |
| Bogzy.com | Egypt | OtlobWard.com | Jordan |
| Egyptpresents.com | Egypt | Markavip.com | Jordan |
| Xpstores.com | Egypt | khazanti.com | Jordan |
| darendeal.com | Egypt | sallaty.jo | Jordan |
| offerna.com | Egypt | Jamalon.com | Jordan |
| haladeals.com | Egypt | I3zif.com | Jordan |
| radioshackegypt.com | Egypt | Eshtre.com | Jordan |
| brave-designs.com | Egypt | Splstore.com | KSA |

| Website/Portal | HQ | Website/Portal | HQ |
|---|---|---|---|
| 2t-shop.com | KSA | HadayaLebanon.com | Lebanon |
| Perfumes-world.com | KSA | Makhsoom.com | Lebanon |
| Princessmool.com | KSA | Gosawa.com | Lebanon |
| Homy.com.sa | KSA | 1000mazad.com | Palestine |
| saletab.com | KSA | traveltodo.com | Tunisia |
| 3asal-had.com | KSA | dealoo.tn | Tunisia |
| suaralzhb.com | KSA | Souq.com | UAE |
| mikshati.com | KSA | Nahel.com | UAE |
| elaj.net | KSA | Jackys.com | UAE |
| h-journeys.com | KSA | Arabianbazaar.com | UAE |
| elfksa.com | KSA | Kentessa.com | UAE |
| Zahransns.com | KSA | Cellcamshop.com | UAE |
| logta.com | KSA | Damasjewellery.com | UAE |
| Polkalicious.com | Kuwait | Mydamas.com | UAE |
| Lamercato.com | Kuwait | Flowersdubai.com | UAE |
| temple.com.kw | Kuwait | Jennyflowers.com | UAE |
| Maachla.com | Kuwait | Dreamdays.ae | UAE |
| Wonderfuleditions.com | Lebanon | Booksarabia.com | UAE |
| FlowersToLebanon.com | Lebanon | Indiagiftbasket.com | UAE |
| Aldoukan.com | Lebanon | Dubaiitoffers.com | UAE |
| Buylebanese.com | Lebanon | Uaegiftbasket.com | UAE |
| Lebanonmart.com | Lebanon | Flowersuae.com | UAE |
| Getforless.com | Lebanon | Taiba.ae | UAE |
| Alrifai.com | Lebanon | IC4UAE.com | UAE |
| Maliks.com | Lebanon | mizado.com | UAE |
| Castanianuts.com | Lebanon | Namshi.com | UAE |
| Exotica.com.lb | Lebanon | Sukar.com | UAE |
| Neelwafurat.com | Lebanon | Run2sport.com | UAE |

**Source: E-commerce Portals in MENA Region (Arab Advisors Group, 2012)**

### 4.6.1.1 Maktoob history

Maktoob.com was founded in Amman, with a small office in Dubai, by Samih Toukan and Husam Khouri in 1999 as a small business with a private equity. It began as a free Arabic/English web based e-mail service provider, and it grew to integrate more than one company and several

offices and websites in different countries in the MENA region. Maktoob Group in 2009 had 300 employees and 16.5 million users (Dubai Beat, 2009).

Maktoob.com is considered the biggest Arabic portal in the region. It has been ranked the 102$^{nd}$ most visited site globally, among the top 10 of the GCC countries, the 6$^{th}$ most visited web site in KSA, and it is among the top 20 in Egypt (Abraaj Capital, 2007).

Maktoob was attractive to global and regional investors. In 2001, Maktoob received from EFG-Hermes Egyptian Investor Bank $2.5 million as an investment to expand its activities and services. As a result of this investment, Maktoob succeeded in expanding its customer base to 1 million users (Dubai Beat, 2009). The continuous growth of Maktoob's customers base attracted Abraaj Capital (an investment firm specializing in private equity investment in the Middle East, North Africa and South Asia (MENASA)) to purchase 40% stake in the company ($5.2 million) Maktoob equity was around $12.5 million (Andersen, 2005). In 2007, Abraaj Capital sold its stake to Tiger Global Management, an existing shareholder in Maktoob earning an Internal Rate of Return (IRR) of over 75% (Abraaj Capital, 2007).

In 2009, after Yahoo! and Maktoob Group announced the acquisition deal, Maktoob was separated from the group and it was called Yahoo! Maktoob, and the rest of the websites began to be run under a new entity called Jabbar Internet Group, an investment company that invests in other

e-startups. It kept commercial relationships between them, allowing Jabbar to promote its websites on Yahoo! Maktoob in two-year consulting agreements (Toukan, 2010).

## 4.6.1.2 Maktoob Products

Yahoo! Maktoob acquisition enabled Yahoo! to serve the Arab region by providing different services and websites with an Arabic content in addition to Maktoob's original services and websites.

Maktoob has been specialized in different fields such as news, entertainment, and social activities, in addition to the Arabic web mail. The following are the main services that Maktoob currently provides, under the brand new name: Yahoo! Maktoob:

- News: Maktoob offers specialized websites for all kinds of news

  o Yahoo! Maktoob Sports (Maktoob.sports.Yahoo.com): This website provides the users with all kinds of sports news. Before acquisition, it was called Sport4ever.

  o Yahoo! Maktoob Omg (maktoob.Omg.yahoo.com): This websites provides global and local celebrities' news.

  o Yahoo! Maktoob News (Maktoob.news.Yahoo.com): This website provides news from famous news networks such as Reuters and BBC, allowing its users to read and watch local, regional, and global news covering politics, economics, science and technology, arts, and sports.

- Entertainment: Maktoob has specialized websites to entertain their users. These websites include the following:

  o Yahoo! Maktoob Games (Maktoob.games.yahoo.com): This website provides users with games in an Arabic edition, allowing them to play online with groups or alone.

  o Yahoo! Maktoob Shasha (Maktoob.screen.yahoo.com): This website allows users to watch online TV series and episodes for different categories, such as comedy and politics, in addition to different shows for women and society.

- Communications and social: Maktoob has several t websites that allow users to communicate and meet online. These websites are the following:

  o Yahoo! Maktoob Arabic Mail, and yahoo! Maktoob Messenger: These websites allow users to communicate and exchange data online.

  o Maktoob ArabMatrimony.com: This website helps users to meet and find their future soul mates. This website was called Bentelhalal.

  o Yahoo! Maktoob Blog: Yahoo! Maktoob allows its users to open several blogs and discuss different subjects such as travel, cooking women and health care.

- Media: Maktoob offers different services for online marketing. One of these is Yahoo! Maktoob Research Community (arab-eye.com), this

website provides complete research and consultancy for online projects to meet customers' needs and expectations.

- Real Estate Yahoo! Maktoob Propertyfinder.ae: This website is a real estate directory for the UAE, listing residential and commercial properties from reliable agents and brokerages in the UAE, and providing the latest news of the local real estate market.

- Arabic Search Engine Araby.com: This website is a directory for all Arab companies that have websites.

### 4.6.1.3 Maktoob Strategies

Maktoob's founders believed that the most important thing for their success was their realization of the opportunity of the Arab new market on the internet and how it has been fast growing since the beginning, and how they responded quickly to this opportunity and to other changes in the market (Toukan, 2010). The founders' major strategic decisions were the following:

- Strengthening and maintaining their position by continuous studying of the market to be able to compete globally, and search for investors while they are working, and trying to propose and discuss their business cases and their plan in the right way. This strategy was behind their success (Toukan, 2010).

- Expanding their market share, in the first stage of development, Maktoob focused on expanding its customer base more than on gaining

profit. To that end, it acquired 13 small websites to fulfill its customer's needs in order to transfer Maktoob.com from email website to a full portal that has interests in different aspects of life.

## 4.6.2 Jabbar Internet Group

Jabbar Internet Group was founded in 2009, immediately after Maktoob acquisition, by the same founders of Maktoob Group (Toukan, and Khouri), to continue Maktoob's track in the MENA region focusing on e-commerce market, and trying to fill in what this sector was missing, and invest in new opportunities. Jabbar Internet Group's major goal was "To pave the way for consumer e-commerce in the Arab World, by providing the best product and service offering, seamless payment methods and world class customer service and experience" (Jabbar Internet Group, 2011). Jabbar in 2012 had more than 300 employees and offices in the UAE, Jordan, Kuwait, KSA and Egypt and it includes eight websites.

### 4.6.2.1 Jabbar History

After the big deal between Yahoo! and Maktoob Group in 2009, Toukan and his co-founder Khouri decided to include the rest of Maktoob's group portals that were not sold to Yahoo! into a new group called "Jabbar Internet Group". Jabbar Internet Group has invested in the small new businesses in the internet especially in the e-commerce businesses to help them in their startups by sharing their experiences in Maktoob, and offering their well established infrastructure in the web industry, such as the

payment systems, delivery, and advertising services, giving them the chance to succeed as Maktoob did.

### 4.6.2.2 Jabbar Products

Jabbar Internet Group focuses on e-commerce businesses and services; it includes the old portals that were in Maktoob Group, in addition to new ones that Jabbar is investing in. It aims at increasing them to twenty portals in the coming years. Following is an overview of Jabbar's portals:

1. Souq.com: Established in 2005 as Arab auction site, now it is considered the biggest fully integrated e-commerce portal in the Arab region to sell new or old products in various categories, and sell or buy online with Souq Buyer Protection and Souq Safe Pay programs. These provide four safe ways of payment to fulfill the customers' needs (Jabbar Internet Group, 2005). Souq.com has offices in KSA, UAE, Egypt and Jordan and has plans to expand to new markets in the region in order to customize the products and services for the customers in each local market and facilitate the shopping process for them. Souq.com is known as the leader in e-commerce business in the region with 2 million visitors every month and around 500,000 active buyers and sellers. In 2008, it received the 'Small to Medium Business Advisor Award' and the Gold 'UAE Web Award' in the 'Best e-commerce website' category in 2010 by the UAE Web Awards (Jabbar Internet Group, 2011). Souq.com has also acquired Sukar.com (Jabbar Internet Group, 2012), in order to enter the online fashion sector and

expand its market and face its new competitor MarkaVip.com which has over than 2 million users (Nabbout, 2012).

2. CashU.com: In response to customers' needs for a different alternative to paying online and to tackle the fraud and security concerns, CashU.com was established in 2002 in Dubai to provide prepaid internet services.  It encapsulates a payment gateway that includes up-to- date platform to prevent fraud and reduce the risks associated with paying online, and to encourage people to sell or buy online easily and safely.  CashU.com is now considered the most experienced online payment gateway in the MENA region. It is available in 35 countries. CashU.com has concluded several strategic partnerships and carried out promotion campaigns for variety of payment options and refunding of CashU cards. It is looking forward to expanding CashU network to include CashU cardholders, offline and online resellers, and online businesses and merchants (Jabbar Internet Group, 2002).

3. Tahadi.com: Tahadi Games, established in 2008, offers free to play online games in Arabic and in English, in addition to adaptation and publication of the most popular Massively Multiplayer Online Role-Playing Games (MMORPG) with a language and format that suits the Arab culture. It is now the leading online Arabic games publisher in the Middle East (Jabbar Internet Group, 2009).

4. Ikoo.com: Ikoo, an online advertising company, was founded in 2005 to enter the online advertising sector, and it is now the largest network

with 1 billion ads on 120 different Arabic websites in the Middle East, offering the latest online solutions for branding (Jabbar Internet Group, 2011).

5. Sukar.com: Sukar was founded by Yalcin who succeeded in getting an initial funding of $5 million from Jabbar Group (Al-Shagra, 2010). It is a private shopping club in the Middle East, offering more than 700 items from different top designers and brands for every family member at competitive prices in limited period campaigns. Founded in 2010 in Dubai, it is currently operating in GCC countries, Egypt, Jordan, and Lebanon (Jabbar Internet Group, 2010), with a customer base that tripled in 2011 to more than million members. Since its establishment it has reported a 20% growth in revenues monthly (Albawaba, 2011).

6. Cobone.com: Cobone depends on the purchasing power of a group[9] for daily deals of any type of activities at a large amount of discount in different countries in the Middle East such as the UAE, Lebanon, Jordan, KSA, and Egypt. This website was founded in 2010 by the Irish entrepreneur Paul Kenny (Jabbar Internet Group, 2010), with Jabbar Internet Group as a shareholder it. In 2011, Jabbar raised a second undisclosed round of financing to be the only owner of cobone.com with 600,000 registered members and over 600,000 sold coupons and $13 million in savings (Jabbar Internet Group, 2010), (Gaith, 2011).

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[9] Group buying, offering different products or services at lower prices in condition of getting specific number of buyers

7. Joob.com: Joob is a new web site specialized in online travel resources offering travel products and services including flights, hotels, and travel insurance at competitive prices (Jabbar Internet Group, 2011). It was launched in April 2011, after an extensive study of travelers' trends in the UAE to know its customers' needs from the beginning (Jabbar Internet Group, 2011).

8. Run2Sport: Run2Sport is the first shopping platform specialized in sport apparel in the Middle East. It offers different kind of sport products for famous brands at competitive prices. Run2Sport has joined Jabbar Internet Group after Souq.com had acquired the majority stake, investing $2.5 million (Albawaba, 2012).

### 4.6.2.3 Jabbar Group Strategies

Jabbar Group has taken several strategic decisions in order to respond to the new opportunities in the region, face competition, and maintain its position in the market. The following are some of these decisions:

- Expanding its market share: It entered new markets and raised its market share, it also looked for new acquisitions and entered new markets such as Souq.com. It acquired Sukar.com (Jabbar Internet Group, 2012), and cobone.com and it also entered Egypt and KSA markets (Ammari, 2012; Albawaba, 2011).

- Strengthening its position: To this end, it raised its capital by searching for new investors to sell some of its assets or invest in Jabbar Group (Bloomberg Business Week, 2012).

- Monitoring customers' performance: It tracked customers' behavior in Jabbar websites by Ikoo's performance and affiliate network platform. This platform is useful for advertisers, publishers, and website owners. It helped them to increase their customers' base and respond to their interests, and needs (Baldwin, 2012).

## 4.7 Conclusions

In the light of the above review, it can be concluded that e-commerce in the MENA region is lagging behind the USA but it has the potential for growth. To achieve the desired growth, more effort is needed to build capacity and encourage e-commerce activities. Figure4.1 illustrates the total value of e-commerce spending in the above selected countries. UAE and KSA had the highest value of e-commerce spending in 2011 with $1,900 million and $570 million, respectively. These are very small amounts compared with e-commerce spending in the USA which amounted to $194 billion in 2011.
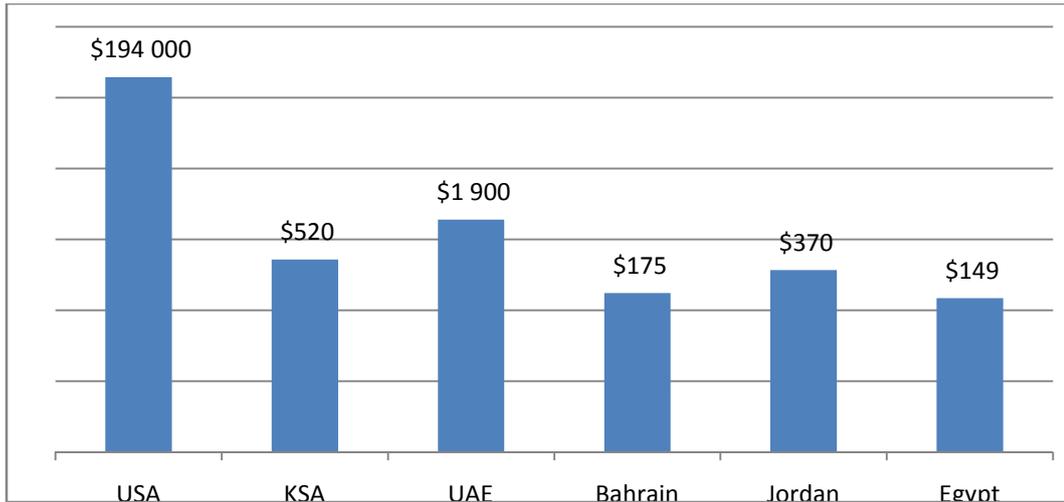
**Figure (4.1): E-commerce Spending in 2011 for Selected Countries**
**(Values in Millions)**

**Source: E-commerce in MENA Region (IMRG International and Visa Middle East, 2011)**

The steady increase in the internet penetration rate in these countries shows the efforts made to improve internet infrastructure. Figure4.2 illustrates internet penetration for these countries. Bahrain and UAE had the highest rates: 77% and 70% respectively. These rates are close to the USA penetration rate.
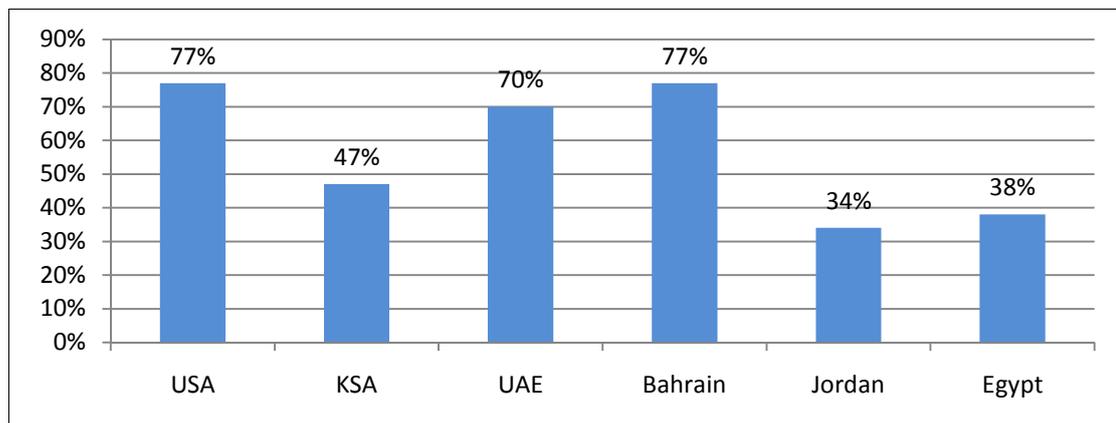


**Figure (4.2): Internet Penetration Rate in 2011**
**Source: Individuals Using Internet (ITU, 2011)**

The governments in these countries made good effort to build their institutions and spread digital literacy. They established e-government programs, thus offering efficient and effective e-services. Egypt and

Jordan need more effort to spread ICT literacy and increase internet penetration and ICT access.

Mobile penetration rates in these countries are high compared with USA, creating a good opportunity for increase of internet access through their 3G mobile networks. Figure4.3 shows penetration rates in these countries.
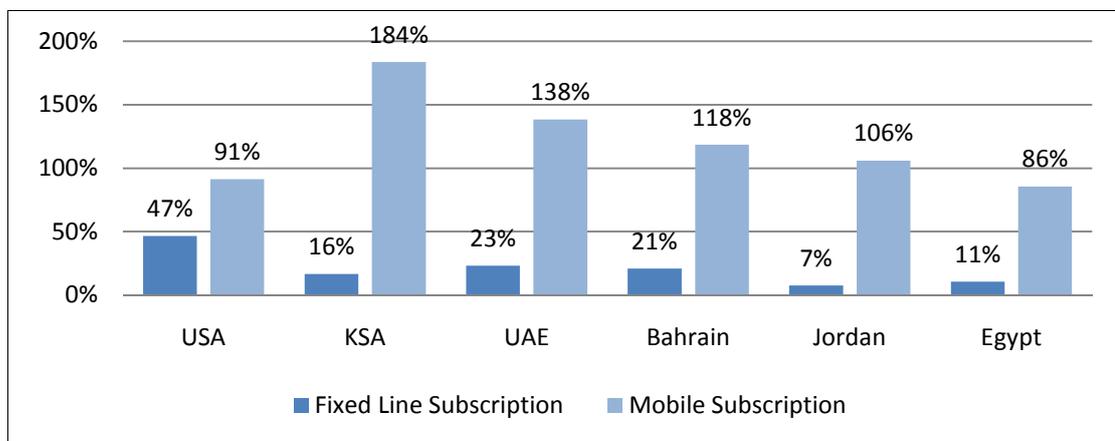


**Figure (4.3): Penetration Rate for Fixed Line and Mobile Subscriptions**
**Source: Fixed Line and Mobile Subscription Penetration Rate 2011-2012 (ITU, 2012)**

According to ICT main indicators, Bahrain is the smallest country in the region, but it has a great potential for growth and building of its knowledge-based economy. According to ESCWA report, Bahrain is in maturity level 4, having full government support and excellent effort to improve its ICT infrastructure and utilize it in all sectors. It has taken several initiatives to reform and build a modern legislative framework in order to encourage investment and e-commerce adoption (ESCWA, 2011).

# Chapter Five

# E-commerce in Palestine

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# E-commerce in Palestine

E-commerce in Palestine is still immature and needs more efforts to make its related activities more recognizable. According to the Palestinian Central Bureau of Statistics (PCBS), only 11.2% of establishments conducted e-commerce transactions and only 0.2% of individuals used the internet for e-commerce activities (PCBS, 2012). Furthermore, only 0.2% of banking and financial services were delivered through e-commerce in 2011 (PCBS, 2011). These percentages of e-commerce activities are low if compared to the global e-commerce activities. Therefore e-commerce in Palestine is not considered relevant when compared to other developed countries and it still has a long way to go to be able to play an effective role in Palestinian economy.

The following sections present a review of the current status of the Palestinian market, explore the Palestinian economy and its main indicators, and examine the current situation of the Palestinian market based on e-commerce adoption factors, whether related to supply (including infrastructure and logistics factors) or demand (including users factors). The presentation is based on collected information from different sources such as reports and scholarly papers, in addition to several interviews that were conducted with economic leaders from different relevant industries such as local banks, Palestinian Information and Technology Association of companies (PITA), logistics companies, and some public institutions.

Based on the collected data, a SWOT analysis was then conducted to identify the strengths and the weaknesses of the Palestinian market and the opportunities and potential risks which face e-commerce implementation. This analysis would facilitate identification of the proper strategies for a successful e-commerce in the Palestinian market.

## 5.1 Status of the Palestinian Economy

The Palestinian economy is characterized by its volatile nature many factors affect its sustainable growth such as the political situation, and dependency on foreign aid. Figure5.1 shows the GDP and GDP per capita between 1994- 2012. GDP is one of the important indicators of economic growth (PCBS, 2011).
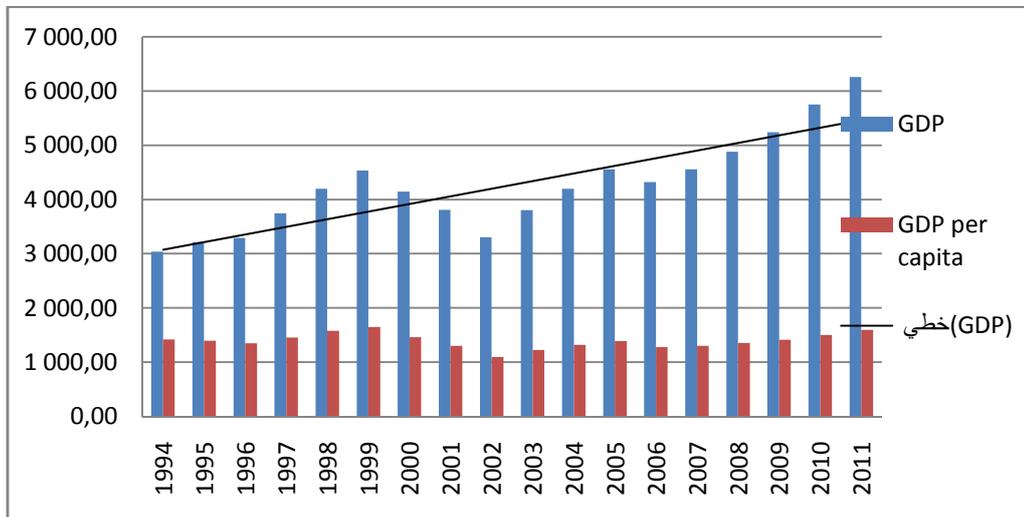


**Figure (5.1): GDP and the GDP per Capita at Constant Prices**
**Source: Major National Accounts Variables for the Years 1994-2011 at Constant Prices: 2004 is the Base Year (PCBS, 2011)**

Figure5.2 shows the GDP change and the volatile characteristics of the Palestinian economic growth, which depends on the political situation, Israeli rigid policies and restrictions, in addition to foreign aid.
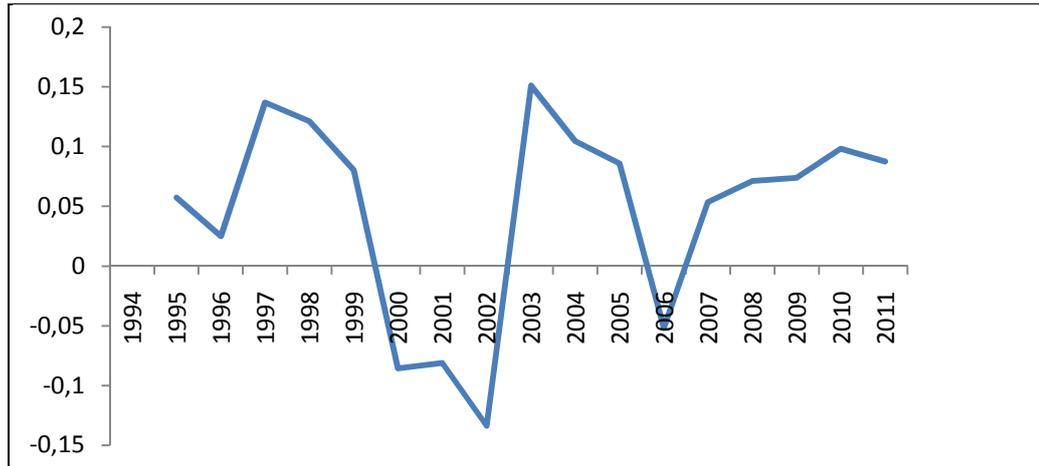
**Figure (5.2): GDP Percentage Change between 1994- 2011**

**Source: Major National Accounts Variables for the Years 1994-2011 at Constant Prices: 2004 is the Base Year (PCBS, 2011)**

The Palestinian GDP grew to its highest level in 1999 but then it declined to its lowest value in 2002 due to the Israeli closure, the wide corruption in governmental institutions, and the beginning of the second Intifada. In 2003, the GDP continued to recover until the year 2006, when an embargo was imposed on the Palestinian government after the 2006 parliament elections which led to deterioration of the economic growth.

## 5.1.1 Palestinian Economic Activities

The main economic activities that make the Palestinian economy are presented in Figure5.3. The figure shows the percentages of their contributions to the GDP by economic activity.
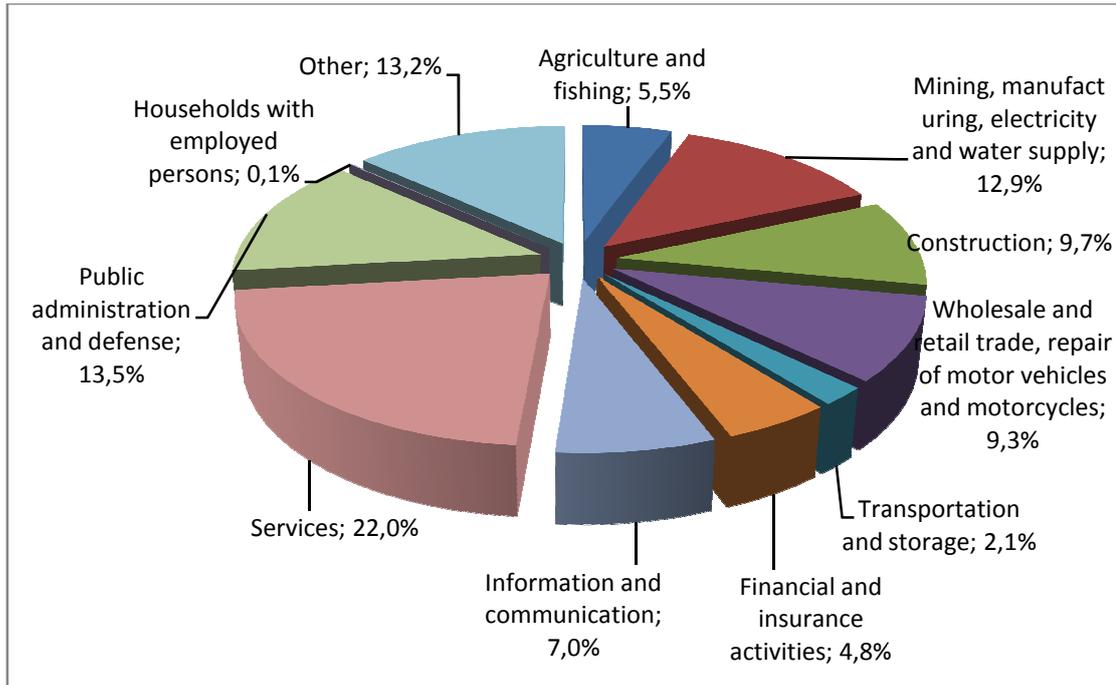
**Figure (5.3): Percentages of Contribution to GDP by Economic Activity for the Year 2011 at Constant Prices**

**Source: Palestine in Figures 2011 (PCBS, 2012)**

In 2011, the major contribution to the Palestinian GDP came from the services activities. Services activities include the following activities: real estate, professional, scientific and technical activities, accommodation and food service activities, education, human health and social work activities, arts, entertainment and recreation and other service activities (PCBS, 2011). This economic activity contributed 22% to the GDP and was followed by the public administration and defense activities. These activities contributed 13% to the GDP (PCBS, 2012).

The industrial sector, which includes mining and manufacturing activities, comes after services activities in terms of its contribution to the Palestinian GDP. It contributed 13% to the GDP. This percentage is considered low, compared to the 20% it contributed in 1999.

The whole and retail trade activities contributed around 9.3% to the GDP. According to the International Standard Industrial Classification (ISIC) of all economic activities, such activities include the final step of selling goods and services without transformation (United Nations, 2013).

The agriculture and fishing activities contributed close to 5.5% to the GDP. This contribution is considered low compared to 9.3% in 1999.

The contribution of these economic activities varied due to the political situation, the donors' financial aid, and the Israeli occupation restrictions on goods movements within Palestine and to Palestine, in addition to the limitations on access to land, raw materials, and natural resources.

## 5.1.2 External Trade

The Palestinian export capacity has declined, owing to the decline of the Palestinian tradable goods sectors' productivity. The exports of Palestinian products are mainly from West Bank due to the restrictions imposed by the Israeli occupation on the Gaza Strip.

Figure5.4 illustrates the characteristics of the Palestinian foreign trade, known for its negative imbalance trade. In 2011, the total imports amounted to $4.221 billion, while the total exports amounted to $719 million, the lowest amount of exports compared to some fast growing economies[10] (The World Bank, 2013). As Figure 5.4 shows, the negative net balance trade increased in 2011 to reach $3.501 billion (PCBS, 2013).

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[10] The World Bank compared the value of Palestinian Exports activities with Malaysia, Vietnam, Chile, Israel, Morocco, Albania, China, and Indonesia (The World Bank, 2013).
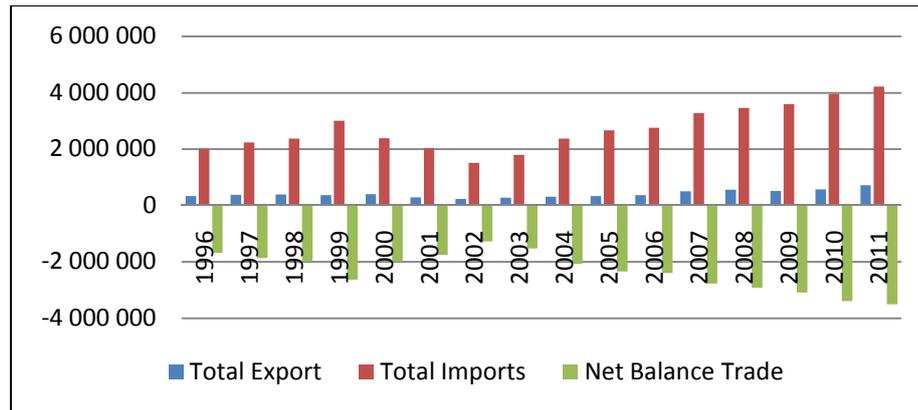
**Figure (5.4): Palestinian Registered Trade (Values in Thousands of $US)**
**Source: Total Value of Registered Palestinian Exports and Imports in 1996-2011 (PCBS, 2013)**

The main trade partner with Palestine is Israel. In 2010, the total imports and exports of goods amounted to 73 percent and 85 percent, respectively. With respect to the total Palestinian imports from Israel, they amounted to $130 million while the total exports of services amounted to $119 million (PCBS, 2012).

## 5.1.3 Trade Agreements

In 1994, the Paris Protocol agreement was signed between the Palestinian government and Israeli government. It was an appendix to the Oslo Accords for a five-year period. The aim of this agreement was to regulate the economic relations, support economic growth of both parties, and enable the Palestinians to have their independent institutions, and follow the Israeli regulations in monetary customs, trade, and taxes. This agreement included different principles to enhance and create an independent Palestinian economy. However, the Israeli government did not implement this agreement as it was agreed upon and it imposed all kinds of restrictions on the Palestinian trade activities, thus increasing the

Palestinian market dependency on the Israeli market (National Economic Dialogue Program, 2011).

This dependency on Israel has been the result of Israeli rigid policies on Palestinian trade activities to hamper the Palestinian economic growth. These policies can be summed up in the following (PalTrade, 2010):

- Israel's constant non-recognition of the trade agreements that Palestinian Authority has signed with it. This has increased procedures, risks, and the economic costs on foreign importers (storage cost, payment of taxes, according to the Israeli tax law, and communication cost), thus forcing the importers to find other trade partner with fewer difficulties.

- Increase of transactions cost on movement of goods due to the Israel's full control of the borders, setting up of several restrictions on goods and people's movement across the borders. This is in addition to the separation between the West Bank and the Gaza Strip, the separation wall, and the difficulties in getting visas for foreign investors.

- The Israeli non-recognition of the Palestinian Certification of Standards, long tests on the Palestinian goods according to Israel Standards, and discrimination against the Palestinian products in all trade procedures.

The Palestinian Authority has signed several trade agreements with countries to reduce the Palestinian dependence on the Israeli market, and

strengthen trade activities and economic growth. The Palestinian governments' strategy was to establish several economic relationships with different countries especially which have trade relations with Israel, in order to minimize the risk, associated with Palestinian trade activities, and to avoid Israeli restrictions (Panza, 2008; MAS, 2008). Unfortunately, these trade agreements have not had required impact, as the dependence on the Israeli market has become deeper. The major trade agreements are summarized in Table 5.1 (UNCTAD, 2011).

**Table (5.1): Palestinian Trade Agreements**

| Trade Agreement | Country | Year | Summary |
|---|---|---|---|
| Paris Protocol on Economic Relations | Israel | 1994 | 1. Regulated the economic relationship between Israel and Palestine.<br>2. Established Quasi-Custom Union between two parties.<br>3. Defined three types of tradable products that should follow the Israeli standards and specified quota to protect Israeli products.<br>4. Allowed free goods movement between the two parties.<br>5. All trade agreements between Israel and other countries are applicable to Palestine. |
| Preferential trade agreement | Egypt | 1994 | 1. Established Quasi-Custom Union between the two parties<br>2. Defined three types of tradable products that should follow the Israeli standards and specified quota to protect Israeli products<br>3. Allowed free goods movement between the two parties |

| Trade Agreement | Country | Year | Summary |
|---|---|---|---|
| Trade Agreement | Jordan | 1995 | 1. All trade agreements between Israel and other countries are applicable to Palestine<br>2. It gave preferential tariffs for Palestinian goods. Removing tariffs trade barriers between two parties.<br>3. Followed the three types of products in Paris Protocol with specified quota protecting Jordanian products. |
| Transport Agreement | Jordan | 2000 | Exempted administrative fees for both parties' trucks. |
| | | 2012 | Signed agreement to cooperate with and support the Palestinian economic development in the area of agriculture, education, industry, health, and social work. |
| Declaration of Free Trade Agreement | USA | 1996 | Duty free agreement on all Palestinian products. |
| Interim Agreement on Trade and Cooperation with the EU | European Union(EU) | 1997 | 1. Provided a framework for economic cooperation and trade, supporting the Palestinian economic development.<br>2. Duty free on specific agricultural products or reduction of tariffs with specified quota.<br>3. Duty free on industrial products following the EU standards. |
| Duty Free-quota Free Agreement | | 2011 | It offered duty free on all agricultural products, processed products, and fisheries. |
| Interim Agreement | European Free Trade Association (EFTA) | 1998 | 1. Duty free on the industrial and fishing products.<br>2. Duty free or reduced tariffs on some agriculture products.<br>3. No quantitative restrictions.<br>4. Agreed on the trade in services and on cooperation to promote investments. |

| Trade Agreement | Country | Year | Summary |
|---|---|---|---|
| Joint Canadian-Palestinian Framework for Economic Cooperation and Trade | Canada | 1999 | 1. Duty free industrial products. 2. Duty exemption or reduction of tariffs on agricultural products with specified quota. 3. Provided a framework for technical assistance, investments and cooperation in science and technology to support economic development and encourage investments. |
| Greater Arab Free Trade Area. | GAFTA | 2002 | 1. Decreased tariffs gradually by 10% every year for all countries signing the agreement. 2. Treated Palestine as the least developed country reducing 16% of tariffs. |
| Interim Free Trade Agreement | Turkey | 2004 | 1. Cooperation between the two parties, encouraging investments and strengthening the trade by joint investments. 2. Gradually reducing tariffs on different products especially agricultural. 3. Elimination of trade restrictions and expansion of trade activities. |
| Free Trade Agreement | Mercosur [11] | 2011 | 1. Elimination of trade barriers on moving goods among parties' cities. 2. Increase of investment opportunities and cooperation to enhance economic development. |

**Source: Trade Agreements between Vision, Implementation, and Impact (PalTrade, 2010)**

## 5.2 Palestinian Market Current Situation Based on E-commerce Adoption Factors

This section presents the Palestinian market current situation based on e-commerce adoption factors, as illustrated hereafter:

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[11] Mercosure includes Brazil, Uruguay, Paraguay and Argentina.

## 5.2.1 Palestinian ICT Infrastructure and Regulatory Policies

The ICT sector is the cornerstone in every economic sector, and it is even engaged in everyday routine. Therefore, it should have a decisive role in developing the Palestinian economy, improving the standards of living, and enabling Palestine to communicate globally despite the occupation obstructions and policies.

The importance of ICT draws the developing countries' attention to the building of the capacity of IC sectors and utilization of its products in different areas in order to develop and enhance their economy. ICT applications vary based on how and where the ICT tools are utilized. Some of the major ICT applications are e-government, e-learning, and e-commerce. These are in their infancy stage in Palestine compared to the MENA region countries. In 2011, according to the Economic Social Commission for Western Asia (ESCWA) which ranks country members on the basis of their maturity level in the role of government and other stakeholders in developing ICT sector, Palestine ranked in maturity level 1, Jordan, Egypt, and KSA ranked in maturity level 3,while the UAE and Bahrain ranked in maturity level 4 as they had the most advanced technology and most effective implementation of their ICT strategy (ESCWA, 2011).

In the early 1980s, Palestine's ICT focused on retail and some wholesale of computers and electronics. However, after Oslo Interim Agreement was signed and the Palestinian National Authority was

established, the demand for ICT products and services increased especially by the Palestinian Authority's institutions, local municipalities, the private sector and the utility companies. The demand was mainly for provision of software solutions such as accounting solutions (MAS, 2012; The Portland Trust, 2012).

In 1997, the Palestinian Telecommunications Company (PalTel) started its operations in the Palestinian market as a fixed line operator. PalTel signed with the Palestinian National Authority two exclusive licenses to develop the telecoms sector. The first was a 10-year exclusive license for the fixed line and the second was a 5-year license for the cellular phone or 120,000 subscribers (MTIT, 1996). This agreement allowed PalTel to invest in the West Bank and the Gaza Strip telecoms infrastructure. A large digital network was installed, offering different services such as standard fixed line services and broadband services (PalTel Group, 2010).

In 1999, the first mobile operator Jawwal was established with 65% stake for PalTel. In 2003, PalTel got full ownership of Jawwal, offering mobile services and providing internet using the Second Generation (2G) Global System for Mobile Communications (GSM), and the Enhanced Data Rates for GSM Evolution (EDGE) technology, known for its slow internet speed and its expensive network compared with the new technology of the third generation (3G) which needs the Israeli approval.

The Palestinian telecoms market was known for its monopoly status until 2006. In 2006, the Palestinian government ended the exclusivity of mobile license and opened the mobile and internet market for competition, promoting fair competition and liberal environment, allowing more services with affordable prices for customers from both the existing operator and the newly licensed one. However, it kept the fixed line services in monopoly status in the hands of PalTel, the fixed line company.

In 2009, a second mobile operator, Wataniya Mobile, entered the market with $354-million license fee, after a delay period of two and a half year waiting Israeli approval to get the required frequency to start its operations (PalTrade, 2010).

Currently, many Internet Service Providers (ISPs) and Voice over Internet Protocol (VOIP) providers are operating in the market, offering different services over the internet at competitive prices. As a result there has been an increase in demand for these kinds of services and for the development of ICT infrastructure including the mobile and the digital network for the internet (Asaad, 2012),

In 1999, owing to the ICT sector's growth, and the increasing number of ICT companies, PITA was established. Its objectives were to work as the ICT ambassador for Palestine globally, set up a command position for the Palestinian ICT industry, become the main representative of the ICT sector in Palestine, and encourage innovation and support building a Palestinian knowledge- based economy (PITA, 2013).

The Palestinian ICT sector, as in many developing countries, still has a room for a wide range of improvements especially in the regulatory environment which is known for its weak governance and regulation.

In 2009, the Palestinian government approved the Telecommunication Law. It decreed the establishment of the Palestinian Telecommunication Regulatory Authority (PTRA) with specific roles in order to regulate the sector and support ICT sector growth. Unfortunately, PTRA still has not been implemented and the ICT sector is still regulated by the Ministry of Telecommunication and Information Technology (MTIT) and it is carrying out all PTRA's duties (MTIT, 2009).

**5.2.1.1 ICT Main Indicators**

Like ICT sectors in other countries, the Palestinian ICT sector is growing, and is achieving an average growth rate of 8% per year (Private Sector Development Program, 2012). According to PCBS, it is making around $422.1 million, contributing 6.7% to the GDP (PCBS, 2012). The Palestinian ICT sector includes many companies that cover a wide range of ICT market needs such as hardware, software, ISPs, telecommunication companies, and ICT training companies (Expotech, 2011; PITA, 2011).

According to the PCBS, the ICT sector reported a remarkable growth in 2011: about 47% of the establishments were using computers, 39% were using internet services and 11% of these establishments carried e-commerce transactions and 4% had websites (PCBS, 2012). This growth shows the increasing demand for ICT products in the business

environment, although the percentage of using ICT services was still low.

Table5.2 shows the main indicators of these establishments.

**Table (5.2): ICT Sector Main Indicators for Establishments**

| ICT Sector Business Indicators | 2009 | 2011 |
| --- | --- | --- |
| **Percentage of establishments using computers** | 29.6 | 47 |
| **Percentage of establishments with access to internet services** | 20.4 | 39 |
| **Percentage of establishments which carried e-commerce transactions** | 4.2 | 11.2 |
| **Percentage of establishments that had websites** | - | 4.8 |

Source: Results of ICT Business Survey for 2011, and for 2009 (PCBS, 2009 and 2012).

Table5.3 shows the main findings of the ICT household survey: 49.2% of households in Palestine had computers in 2009 as opposed to 50.9% in 2011; 28.5% of households had internet access in 2009 as opposed to 30.4% in 2011.  This increase indicates some improvement in the internet infrastructure (PCBS, 2011).

**Table (5.3) ICT Sector Main Indicators for Households**

| ICT Households Main Indicators | 2009 | 2011 |
| --- | --- | --- |
| **Percentage of households with a computer** | 49.2 | 50.9 |
| **Percentage of households with internet** | 28.5 | 30.4 |
| **Percentage of households (at least one member) using mobile** | 92.4 | 95 |
| **Percentage of households with telephone line** | 47.5 | 44 |
| **Percentage of households with mobile line** | 92.4 | 95 |
| **Number of computers per 100 inhabitants** | 9.3 | 10.4 |
| **Percentage of persons 10 years old and above who used internet** | 32.3 | 39.6 |
| **Percentage of persons 10 years and over who had an e-mail account** | 21.3 | 27.5 |

Source: Household Survey on Information and Communications Technology (PCBS, 2011)

The tendency for the use of internet can be seen in percentage of individuals who used the internet. About 32.3% of people used the internet in 2009 and this jumped to 39.6% in 2011. The number of ADSL subscribers topped about 160,000 at the end of 2011 (PCBS, 2011), with an average connection speed of 1,371 Kbps. Figure5.5 shows the Palestinian average connection speed in comparison with selected MENA countries.
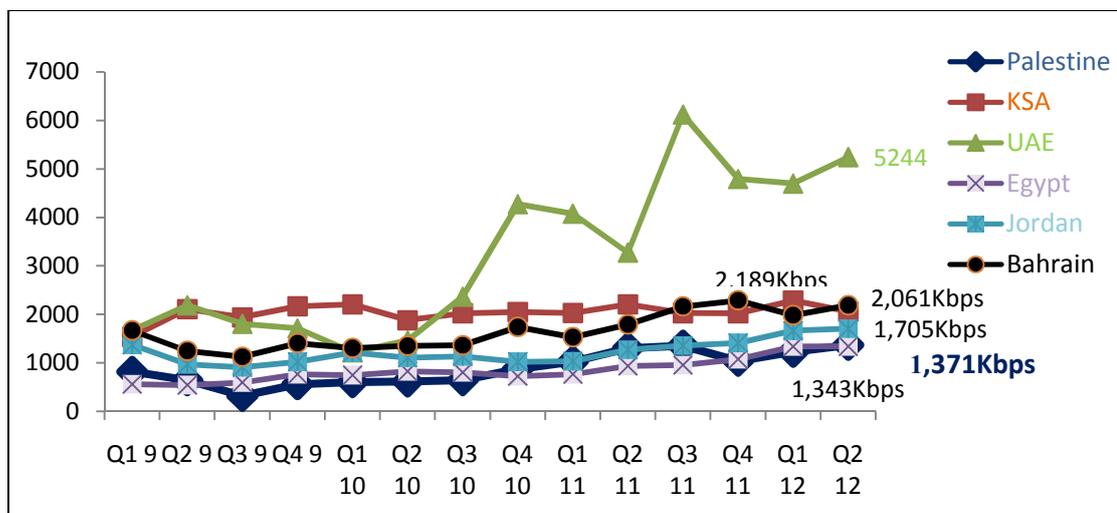


**Figure (5.5): Palestine Average Connection Speed among MENA Countries**
**Source: State of Internet (Akami, 2012)**

Most of the people in Palestine use internet for entertainment and fun and only a small percentage use it for work and e-commerce. Palestine ranked number 62 in using internet social networks, much better than Jordan, which ranked number 68 (The Portland Trust, 2012). PCBS statistics showed that 85.7% of individuals used the internet to access information, 79.3% accessed it for entertainment, 69.1% for communication purposes, 49.3% for studying, and 18% for work. These statistics show lack of knowledge of the benefits of utilization of ICT services in businesses (PCBS, 2011).

## 5.2.2 Palestinian ICT Sector's Major Stakeholders

Palestinian economic growth relies on an effective partnership between the public and the private sector and on continuous support of the international donors, and Non-Governmental Organizations (NGO). This situation is expected to continue until the Palestinians sustain the required economic growth. They have taken a number of initiatives to build and facilitate the Palestinian economic growth and support ICT sector's development, thus recognizing the importance of ICT services for all Palestinian economic activities. The following sections present the roles that were played by those stakeholders in order to support ICT sector development and Palestinian economic growth, and identify the challenges and obstacles that impede their performance.

## 5.2.3 Role of the Public Sector

## 5.2.3.1 Palestinian Government Main Strategies

The Palestinian government has showed significant commitment to establish a state and achieve sustainable economic growth. It has implemented a number of strategies towards achieving this major goal. These strategies are summed up as follows (Palestine National Authority, 2010):

- **Palestinian Reform and Development Plan (PRDP) 2008-2010.** This plan aimed at building confidence in government institutions, improving their accountability and transparency, by establishing good governance

and providing effective management systems, creating a safe and secure environment for living, increasing national wealth, and improving the quality of life (Palestinian National Authority, 2008). According to the PRDP monitoring report, a general assessment, with limited monitoring and evaluation process, was performed through implementation, but this failed to give specific results that would help in identifying their progress. In addition, the assessment identified some obstacles that hampered its implementation. These obstacles were the lack of coordination among sectors' stakeholders and administrative skills of public institutions, reliance on donors for financial support and the restrictions of the Israeli government (Ministry of Planning and Administrative Development, 2008-2009). Despite these obstacles, the strategy had made some achievements in the following areas (The World Bank, 2010; Palestinian National Authority, 2010):

o In 2010, there was a marked improvement in the public financial management. Government expenditures were down by 3.8% below the budget projections.

o An improvement was reported in the public services such as education and health. There was an increase in the number of hospitals and schools, and the enrollment in secondary schools was 20% higher than the average in the middle income countries (The World Bank, 2011).

o Investment environment in the private sector showed positive signs. In 2009, the number of newly registered enterprises increased by more than 38% (The World Bank, 2010).

- **The 13th Government Program 2010-2011:** This program aimed at ending occupation and establishing a state, and completing the implementation of PRDP for 2008-2010. Its major achievement was clear in the government institutions. The investment climate report of the World Bank said that the investment climate in the West Bank and the Gaza Strip relatively improved. The West Bank and the Gaza Strip led Egypt, Jordan, and Lebanon in terms of inclusion of taxation and investor protection, and it performed poorly in closing and starting businesses (The World Bank, 2011). Based on the Global Corruption Barometer Report's results in 2010, 59% of Palestinians who were surveyed said that the percentage of corruption had decreased and the security and justice had notably improved (The Portland Trust, 2011; The World Bank, 2011).

According to the World Bank report (2011), the Palestinian government made significant efforts in building its institutions and building good governance, taking several initiatives, that are still in progress, to improve the public procurement, employment, private sector regulations, and legal framework in order to combat corruption, investigate and prosecute corrupt activities (The World Bank, 2011). Despite these efforts, the Palestinian government failed to achieve a sustainable economic

growth. The economic growth that Palestinian economy had had after the second Intifada was mainly due to the donors' aid and not because of the economic sectors. Hence, in 2011, the economic growth slowed down compared to 2010 due to the decline in foreign aid, and the continuation of the Israeli restrictions which hampered the private sector's growth (The World Bank, 2011). The Palestinian government, therefore, should spend more efforts in building its economy and strengthening the private sector to achieve the required sustainable economic growth.

- **The Palestinian National Development Plan (PNDP) 2011-2013:** This plan was implemented against the background of the achievements and the lessons learned from the implementation of the previous plans. Extensive consultations were made and the implementation of 23 sector strategies included the major sectors' strategies in the PNDP. The PNDP aimed at assuring sustainable social and economic developments, the major elements for establishment of an independent state. It focused on four important areas in each individual sector. Those areas are the following (Palestinian National Authority, 2011):

  o Governance: establishment of a safe environment for business and individuals and continuation of the reform of public institutions.

  o Social: improvement of the standard of Palestinian services such as health and education services, and improvement of the quality of Palestinians' life.

o Economy: commitment to investment and support of economic development.

o Infrastructure: improvement of utility and public services.

According to the latest report of the World Bank (2013) the implementation of the previous strategies, by the Palestinian government showed a significant commitment to the reform and modernization of public institutions in terms of offering efficient and effective services to the Palestinian citizens, rationalizing its operational spending and utilizing ICT tools in all its work operations, improving the level of performance of its administrative revenue system, cash transfer program, and the public procurement system (The World Bank, 2013). However, the continuation of Israeli restrictions and the drop of donors' aid had both created a critical situation for the Palestinian economic growth and weakened the government's effort to continue the reform of government institutions to the extent of making them vulnerable.

- **E-government Strategy 2005-2010** (Palestinian National Authority, 2005): This strategy aimed at providing the Palestinian citizens with better services, improving efficiency, effectiveness, and transparency of the Palestinian institutions. Furthermore, this strategy aimed at increasing civil sector participation, and encouraging business development through extensive use of ICT tools in public institutions. This strategy, the first Palestinian government initiative, was the foundation of all related subsequent strategies, such as those of the

PRDP 2008-2010 and the PNDP 2011-2013. However, the e-government program was not implemented according to the specified plan due to several obstacles which hampered development. These obstacles included the lack of cooperation and coordination among ministries, the political conflict in 2006, the inactive Palestinian Legislative Council, the low usage of ICT tools in the Palestinian government, and the lack of administrative and technical skills. In addition to that, the strategy lacked monitoring and evaluating processes to measure and quantify its achievements (OECD, 2011). At present, the Palestinian government plans to launch the e-government program and will begin with basic services in 2013[12].

- **ICT sector strategy:** This strategy is part of PNDP 2011-2013 and is being developed in cooperation with MTIT and a large number of other sectors' stakeholders: PITA, as a private sector representative, the academic sector, and the civil sector. The ICT sector is considered the main pillar for establishment of the new digital economy. The ICT sector's major objectives are as follows (MTIT, 2011; MTIT, 2010):

    o Regulating the opening of the telecommunication sector through the following:

        ✓ Completion of the implementation of PTRA to regulate the sector and offer fair competition.

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[12] Interview with Mr. Sulaiman Zuhairi, the Deputy Minister of MTIT, 2012

✓ Enabling the new telecommunication operator to enter the market.

o Building and modernizing the legal framework to cope with technological sector development by:

✓ Updating and building laws that support the work of the PTRA.

✓ Completing the draft law for regulation of other related activities such as:

- E-Transactions and Digital Signature Law.

- Personal Data Protection Law.

- Intellectual Property Protection Law.

- Cyber Crime law.

- Law of Freedom and Privacy of Information in Electronic Communication.

o Enhancing the broadband networks to provide advanced services to all citizens at lower prices and encouraging the private sector to invest in the rural area through reduction of taxes or provision of custom exemptions.

o Integrating and utilizing the ICT infrastructure to offer the base for advanced service delivery. This will be done through the following :

- ✓ Providing the government agencies with effective automated governmental services, thus enabling e-transactions among all institutions and citizens, and completing the e-government project.

- ✓ Enhancing cooperation and sharing of information between ministries.

- ✓ Connecting universities and school with high speed internet and with regional and international academic network to encourage scientific research.

o Enabling the ICT sector to be productive and provide advanced services. This could be done through the following:

- ✓ Promoting the Palestinian IT products on the national and international levels in order to access foreign markets.

- ✓ Encouraging direct international cooperation with the Palestinian institutions without dealing with Israeli agents.

- ✓ Implementing and encouraging initiatives that enable e-commerce activities.

o Promoting and supporting investment in ICT technology and attracting foreign investors to invest in the Palestinian market. This could be done through the following measures :

- ✓ Creating a fair competitive environment and adopting clear policies to promote investments. One policy is offering tax incentives.

✓ Implementing the rule of law and fighting corruption in order to work in a transparent environment.

✓ Adopting a clear productive service-export policy to encourage local cooperation and benefit from the preferential agreements with other countries.

o Providing a secure and safe environment to encourage IT usage by introducing state-of-art technology and equipment, thus guaranteeing a secured network and a business environment.

o Developing IT skills through organization of IT training courses and improving academic programs in schools and universities.

o Supporting the Arab content and the Palestinian content in particular to serve the goal of establishing a Palestinian state and enhancing its presence on the internet.

o Providing the web with adequate Palestinian content, and encouraging IT utilization through public institutions to serve the e-government project.

### 5.2.3.2 Palestinian Government Achievements

In the implementation of the previous strategies, the Palestinian government took a number of steps in order to facilitate the development of the new economy and achieve its national strategic goals. The following are some of the steps taken to support the development of the ICT sector (Palestinian National Authority, 2011):

- The government adopted new policies for competition, new price policies, and new standards for ICT services. In 2010, MTIT launched Bit Stream Access (BSA) model, allowing PalTel, the exclusive provider of fixed line services, to sell access to its network to ISPs at specific prices in order to let those ISPs sell the service to customers or to other ISPs with a revenue sharing model (MTIT, 2010). In addition to that, MTIT allowed ISPs to procure broadband bandwidth from local or international suppliers (PalTrade, 2010).

- The government has a draft of E-Transactions and Digital Signature Law. It has been submitted by the Council of Ministers to the Palestinian President and it is waiting his approval.

- The government has connected all government agencies with another 19 public institutions through fiber optic networks, and has also launched the Palestinian Interoperability Framework, ZINNAR, which regulates electronic data transfer between all government institutions (MTIT, 2011; The Palestinian Interoperability Framework, ZINNAR, 2011).

- Palestine has become an observer in the ITU. This would enhance the Palestinian relationship with ITU members and make the country benefit from their best practices, and re-build the Palestinian ICT sector by providing technical assistance and skill development to the Palestinians (ITU, 2010; Palestinian National Authority, 2010).

- Palestine has joined the Arab States Research and Education Network (ASREN) which includes Egypt, Jordan, Syria, Algeria, and Morocco (Palestinian National Authority, 2011). In addition to that, the Ministry of Education and Higher Education (MEHE)[13] has linked the Palestinian universities with the Academic Network to support academic research at local universities. These steps clearly show how much the Palestinian government is aware of the importance of education to move towards the new digital economy.

Other initiatives have been made to build a sustainable economic growth. The following are some of these initiatives:

- Improvement of the investment climate and encouragement of investment. The Palestinian government has announced a package of laws to enhance and encourage investments in Palestine. Some of these laws are in draft stages, while others have been approved by Presidential decrees. These laws include the following:

  o President Abbas has approved amendment to Investment Law which was issued in 1998. This amendment includes changing the tax exemption for ICT sector and making it based on employees' number, granting tax exemption for new sectors and projects such as the real estate sector and the environmental projects, and giving extra tax exemption for specific programs such as health, educational and

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[13] In 2012, Ministry of Education and Higher Education (MEHE) became two ministries: the Ministry of Higher Education (MOHE), and Ministry of Education (MOE).

tourism programs (PIPA, 2011; The World Bank, 2011; The Portland Trust, 2011):

✓ Companies Law: This draft law is waiting to be approved; it has removed the minimum capital requirement.

✓ Competition Law: This draft law is also waiting to be approved; it would establish independent agency to regulate competition and competitive behavior (The World Bank, 2011).

✓ 2010 Anti-Corruption Law: This law calls for the establishment of Anti-Corruption Committee to regulate and investigate corruption practices.

o In the first half of 2011, around 763 new companies were registered with a total capital of $191 million. Of these, 17 were foreign companies with a capital of $27.5 million (The Portland Trust, 2011; Palestinian National Authority, 2011). This increase in the registered companies indicates the improvement in the business environment.

o The government held the Palestinian Investment Conference in 2010. This conference was attended by more than 2,000 investors from 26 countries. It allowed them to learn about investment opportunities in Palestine and to meet Palestinian business people (Palestine National Authority, 2010). This type of conferences could be utilized to exchange experiences and skills, and establish several business relationships with interested investors from different countries.

- The government focused on the National Postal Service. The government has succeeded in making it join the international post code system. The government has also renovated all the postal office centers in Palestine in order to offer innovative, effective, and high quality services, enhancing delivery services and serving the e-government program (Palestine National Authority, 2010).

- The government, through the Ministry of Economy (MNE), is working to improve foreign trade in Palestine. It has applied for an observer status at the WTO as it has many agencies that can offer assistance in developing and improving the Palestinian local, public and legal sectors and increase economic activities in Palestine (Joffe-Walt, 2010).

- Palestine Standards Institute (PSI) has adopted new standards to enhance the quality of products and services and protect consumers. This has enabled the Palestinian products to comply with international standards, compete with foreign products and enter new markets (The World Bank, 2010).

- The MEHE, in partnership with the Palestinian Education Initiative (PEI) has sought to fulfill the Palestinian national strategic goal (the building of a knowledge–base economy) make sure that education is the key driver of economic development. To these ends the ministry has introduced technology education to schools' curricula, and has provided IT training for teachers (Palestinian National Authority, 2005). In 2009, the PEI became more active in promoting the

utilization of ICT products in education by encouraging innovation and enhancing the methods and the quality of learning. Its major achievements were based on the following four tracks:

1. **Improving the quality of learning.** The Belgium Intervention Support contributed about $22 million to build and rehabilitate schools in the West Bank and the Gaza Strip. Nineteen schools had been built by 2012 (MOE and BTC, 2012). The Belgians have also supported e-learning programs, such as interactive learning, in order to encourage critical thinking and innovation among Palestinian students. They also helped in encouraging the use of ICT products in the Palestinian curricula, and implementation of the Palestinian educational portal to be the means of communication and knowledge and information sharing. This portal includes 13,000 educational documents, in addition to many educational programs produced by MEHE or teachers (MOE, 2013). In addition, the MEHE made partnership with Microsoft in 2010 to offer e-mail for each student and teacher using Microsoft Live@Edu Service (WEF, 2011).

2. **Developing and enhancing teachers' and managers' competences by holding training programs**. This initiative, which started in 2008 and extended from 2009 to 2011, was in cooperation with Intel. It aimed at teaching 10,000 teachers in order to get started and continue the training program. It started with the establishment of the Palestinian Exhibition for Science and Technology in 2009-2010 to

encourage creativity and critical thinking and enhance student's skills in doing scientific research. This exhibition produced 396 scientific research projects and creative works done by most of the Palestinian schools. These schools adopted international standards and participated in Intel International Scientific and Engineering Fair (ISEF). Three of these research projects were qualified to enter ISEF contest (WEF, 2011).

3. **Widening the ICT literacy in Palestine** by offering two types of laptops to 37 schools. These laptops were customized for student usage. There was also an upgrading of 1,200 computer labs. They were equipped with computers and printers and were connected with the internal schools' network. In 2011, the MEHE connected 77 of these computer labs with internet (Palestinian National Authority, 2011). This was in addition to the MSN project which aimed at developing and enhancing teacher's ICT skills (WEF, 2011; MEHE, 2013).

4. **Enhancing the technical and vocational skills in educational system** by improving the Palestinian curricula, thus improving students' skills to cope with the work environment (WEF, 2011).

## 5.2.4 Role of the Private Sector

The Palestinian ICT sector includes approximately 250 ICT companies with more than 5,000 employees (PITA, 2011). In 2011, the sector contributed 7% to the Palestinian GDP (PCBS, 2012). According to

Mercy Corpes Report of 2009, it was the most productive sector. The output of a worker in the sector was around $40K as opposed to $17K in other sectors (White, 2009). The most important key players in the Palestinian ICT private sector are the following:

## 1. Palestine Telecommunication Group (PalTel)

PalTel Company, established in 1995, started operation in1997, to provide all kinds of telecommunication services. At the end of 2012, its capital amounted to JD 131.6 million, the largest company in Palestine. It had 36.5% of the total value of shares traded on Palestine Exchange (PEX) and its shareholders base was 7,499 (Sahem Trading and Investment Co., 2012).

In response to the fast development in the telecommunication sector and the global trend of the diverse telecom services, PalTel adopted a new strategy: using a state-of-art technology to be able to compete in the local and the global markets. To this end, it launched the Palestinian Telecommunication Group to enable the company to provide all telecom services for the fixed line, mobile phone, and the internet services. PalTel Group consists of several subsidiaries that offer a variety of telecom services. The following are the major sister companies and their services:

- PalTel, the only fixed line operator in the ICT sector, had in 2011 a customer base for fixed line of 385,000, a 6% increase compared to 2010. The number of ADSL lines was 165,000, a 44.4% increase

compared to 2010. This increase was due to the intensive investment in infrastructure and several promotion offers for its services, such as diversification of services and lowering of prices (Sahem Trading and Investment Co., 2012).

- Palestine mobile operator-Jawwal, the largest company in the telecom sector and the backbone of PalTel Group, has a customer base of 2.42 million subscribers, or 81.8% of the total numbers of PalTel Group's subscribers. Jawwal succeeded in extending its network to cover 98% of the Palestinian territories with a 70% penetration rate (Sahem Trading and Investment Co., 2012).

- Hadara, founded in 2005 as a result of a merger of the largest internet providers in the Palestinian market, provides internet services to more than 54% of the Palestinian market or 75,000 subscribers in 2011, representing an increase of 23% compared to 2010. Hadara offers different value added services via internet, such as the computer data center, enabling it to provide email access, and web hosting (Sahem Trading and Investment Co., 2012).

- Reach, founded in 2009, was the first call center in Palestine. Reach provides university students with their first job experience, and offers employment for people with special needs. In 2011, Reach reported an increase of 33,800 calls in comparison with the number of calls in 2010 (PalTel Group, 2011).  It has the potential to offer its services regionally and locally and conclude different partnerships with other

businesses. For example, Reach has partnership with Bank of Palestine (BOP), Bank of Jordan, and the Palestinian website for hotels booking Yamsafer.me, offering Reach communication services to their customers (PalTel Group, 2013).

PalTel Group has played a major role in building the Palestinian economy. It has contributed over 20% to the Palestinian Gross National GNP (MAS, 2012). It is also considered Palestine's number one employer in the ICT sector. In 2012, it had more than 3,000 employees in the West Bank and the Gaza Strip out of a total of 5,000 employees in the ICT sector (MAS, 2012). It has also made significant contributions to the society in order to build a knowledge- based economy. Its major contributions can be summed up as follows:

- PalTel Group focuses on enhancing its network capacity, its fiber optics network and its fixed line switches to provide better services, and improve the quality of its data services. In 2011, it achieved a 44.5% increase in the ADSL lines over 2010 and increased the speed of internet to offer the maximum speed 8Mbps (PalTel Group, 2011; Sahem Trading and Investment Co., 2012).

- In 2008, in response to social needs, PalTel Group established PalTel Group Foundation to be in charge of supporting social development through enhancement of the educational sector, and participation in diffusing digital literacy in the Palestinian society, thus increasing the

Palestinian e-readiness. Among its initiatives are the following (PalTel Group Foundation, 2011):

o The PC Initiative: This initiative was taken in partnership with NGOs to encourage small businesses to utilize ICT tools in their work and provide them with the required training for full benefit from the program. In 2011, about 1,000 organizations applied for the program. Of these, 43% were from the Gaza Strip. Seventy two organizations participated in the training program. Sixty one percent of the participating companies said that the training program had a positive impact on the development of their work.

o Scholarship_program: This program targets higher education and vocational sector. Since 2009, around 1,462 students have received scholarships from this program. This is in addition to the Palestinian student's loan program which has enabled 1,944 students to join Palestinian universities.

o AbjadNet program with the cooperation with MEHE to enhance the quality of learning and utilizing ICT tools in education, PalTel connected 38 schools to internet, donating 54 computers for school labs, and rehabilitated 7 computer labs.

o NetKetabi program: This program has been implemented in cooperation with the Ministry of Education (MEO), and several international companies to develop electronic material for education

and offer training for teachers and students in order to use NetKetabi PCs. In 2011, around 4,431 PCs were donated, 1,440 students and 146 teachers benefited from training courses and 30,000 educational programs were purchased and customized to adapt the Palestinian curriculum.

o   Palestinian International Award for Excellence and Creativity: This award was created to encourage the Palestinian organizations to improve their performance and develop their employees' skills, and creativity, and offer innovative services (Wamda, 2011). This award offers a financial prize in addition to the follow up of the winner's project and guidance to him through the development process.

## 2.  Wataniya Mobile

Wataniya Mobile, the second mobile operator in the Palestinian telecom market, launched its services commercially in 2009 after a 2- year and a half- delay by the Israeli authorities to release the required frequencies. Its entrance broke the monopoly in the Palestinian ICT sector and opened the choice in mobile telecom services, thus increasing competition, decreasing prices and improving quality of the offered services.

Wataniya Mobile's 15-year license allows it to offer 2G and 3G services, including international gateway in the West Bank and the Gaza Strip. Its network covers 98% of Palestinian territories and had 465,000

subscribers by the end of 2011, with 24% control of the local market. It is planning for future development in the Gaza Strip (Hannoun, 2012; Wataniya Mobile, 2012).

Wataniya Mobile Palestine is distinguished by its partnership with Watania Mobile Group (headquartered in Kuwait and owned by Qatar Telecom (QTel)). It has 57% of capital while the Palestinian Investment Fund (PIF) has 43% (Wataniya Mobile, 2012; Hannoun, 2012). This partnership has given a good impression about the investment climate in Palestine for foreign investors.

PIF, an independent public investment institution, was established in 2003. Its total assets in 2011 amounted to $868 million, and its paid-in capital was $625 million. Its main purpose is to promote national development and build sustainable economic growth in Palestine (PIF, 2011). PIF has implemented many investment programs and projects in the major sectors in Palestine: telecommunications, financial services, SMEs, energy, health and real estate. Its investment has contributed $495 million to the Palestinian economy. It also contributes $52 million (5.5% of total tax revenue) to the Palestinian Authority's coffers (PIF, 2011).

In 2011, Wataniya Mobile offered 15% of its total share capital for public investors in PEX. This offer changed the percentage of ownership in the company: 37% of stake owned by PIF, 48% for Wataniya Group, and 15 percent owned by the public (Hannoun, 2012).

### 3. The Palestinian National Internet Naming Authority (PNINA)

In response to the need for the regulation of ICT sector, the Palestinian National Internet Naming Authority (PNINA) was established in mid-2003. It was the first Palestinian country code Top-Level Domain (ccTLD).ps.

The main aim of PNINA is to enhance the development of the internet in the Palestinian market by regulating, formulating policies for registration, and enhancing the usage of the internet, using all the administrative and management tools to organize the registration, financing, and technical processes of the.ps domains according to the international standards. To support building the knowledge-based economy, it established Palestinian National Internet Center of Excellence to carry out the activities that are not related to the domains registration process which included the implementation of the ICT training program for universities' students (ESCWA, 2007).

By the end of 2011, according to PNINA's statistics, the registration and renewals operation increasing annually. The new registrations and renewals amounted to 3,204 and 3,405 respectively, and the top total domain registrations for.ps were 6,834 (PNINA, 2011).

### 4. Palestinian Information Technology Association of Companies (PITA)

PITA, a non-profit trade organization, currently has more than 100 major companies as members in the ICT sector, and it is considered the

main pillar and the most important ICT reference in Palestine. It was established in 1999 in response to the increasing demand for the organization of the sector, solving the problems the sector is facing, and becoming the representative of the Palestinian ICT private sector in the local and global markets.

PITA has played a major role in enhancing the sector development and creating a suitable environment for investment in the ICT sector through public-private partnerships. These partnerships have helped in reforming and deregulating the sector, holding several public gatherings, exhibitions, and participating in regional forums.

PITA has made several partnerships with foreign organizations to support ICT development and improvement. It has made partnership with the United Nation Development Program| Program of Assistance to the Palestinian People (UNDP|PAPP) to provide support and assistance for economic development in addition to administering Palestinian foreign aid. It had mobilized more than $900 million and another $80 million for ongoing projects (UNDP, 2011).

PITA's current strategic plan main objective is to help the Palestinian ICT sector to be the major tradable sector, in overcoming the physical restrictions on movements of goods and people. The strategic goals of PITA are following (Private Sector Development Program, 2012):

- Strengthening PITA's operation efficiency and effectiveness.

- Enhancing ICT business environment in order to encourage investments by reforming the sector's legislation framework, and the investment laws.

- Promoting the Palestinian ICT market expansions globally by opening access to the global and local markets. PITA plans to encourage creativity and innovation and promote innovative products in the global and regional markets through participation in several exhibitions.

- Improving human resources' skills development in the ICT sector by implementing vocational and technical skills' development programs in partnership with the Palestinian universities.

- Improving the Palestinian organizations' productivity and competitiveness through the building of the capacity of the ICT organizations and opening of new channels for their products.

## 5. Palestinian Information and Communication Technology Incubator (PICTI)

PICTI, PITA's local partner, was established in 2003, in the wake of PITA's support and cooperation with Massar[14] and Palestine Banking Cooperation (PBC) (PITA, 2011). It is a non-profit organization that facilitates and gives support to entrepreneurs, new ICT start-ups, and innovative projects' ideas. It also provides them with management and marketing services, training courses, and the work place if it is needed

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[14] Massar is a Palestinian-based holding company which supports and promotes sustainable economic development in Palestine (Massar.com, 2007).

(PITA, 2003). In addition to that, PICTI offers financing and independent investment links with regional and global markets through PICTI's business relationships (PICTI, 2004). Their strategic partners are PalTel Group, the Palestinian Authority, and PITA (PICTI, 2005). The presence of PICTI is a good opportunity for encouragement of entrepreneurs and innovators.

## 5.2.4.1 International Companies, Donors and Non-Governmental Organizations (NGOs)

The NGOs, donors, and international companies have influenced the Palestinian economic development. They have played a significant role as donors' tools and have been very active in supporting and building the Palestinian economy, offering essential social services and complementing the Palestinian Authority's role. In 2012, there were 1,500 of 2,445 registered NGOs that provided essential social services. The rest of NGOs changed their strategies to support the Palestinian Authority in building the state by reforming its institutions and its legal framework (The World Bank, Social Development Department, 2012).

In order to support the Palestinian government in building the State of Palestine and improve its infrastructure, the NGOs have made several partnerships with the local organizations and have financed new projects. The following are some of their initiatives:

- Enterprise Development Initiative Program (EDPI): Launched by USAID and implemented by CARANA Cooperation, this initiative

aimed at supporting small enterprises with up-to-date technology, improving their production quality and their skills, in addition to supporting their business relationships with international companies. For this purpose, $22 million had been allocated. They made partnerships with USA companies such as Cisco, HP, Microsoft, and salesforce.com. Help was provided to 30 organizations to write business investment proposals. This initiative has succeeded in bringing more than $6 million investment to the private sector. It has also allowed the training of 2,500 software employees in advanced software development and 167 businessmen and women to use ICT technology (USAID, 2011).

- The USA Trade Development Agency (USTDA) has supported the Palestinian public sector and improved the public systems. In 2010, USTDA gave $567,000 to MTIT in order to enhance the ICT infrastructure and increase its capacity. In addition to that support, USTDA has supported the private sector in three projects: support for development of an internet data center, the next generation wireless network, and the ICT plan for Rawabi, the new city north of Ramallah (Consulate General of the United States Jerusalem, 2010).

- In 2008, Cisco made a 3-year commitment to provide $15 million for investment in the ICT sector. This had a remarkable effect on its growth. Cisco, with high tech partners, invested in Palestine during the project more than $78 million. Cisco with the USAID partnership

utilized its global experiences in building the capacity of Palestinian ICT sector's local firms, and encouraged other ICT giants, such as Microsoft, Google, Alcatel-Lucent and HP, to invest and work in Palestine. It also established an investment fund to create the first ICT venture capital fund Sadara, which gives financial support for new startups and enables the investment environment (White, Saul, and Davenport, 2012).

- Mercy Corps, Google.org, and Hope Foundation launched the Arab Developer Network Initiative (ADNI) which aimed at encouraging innovation in the Palestinian ICT sector through investment in new projects and in providing technical and business training (The Portland Trust, 2011).

### 5.2.4.2 The Palestinian ICT Sector Hurdles

Despite the efforts of the government and the private sector to enhance and improve the Palestinian economy; the results were poor due to the many hurdles that have challenged and hampered the Palestinian economic sectors and the ICT sector in particular. These hurdles include the following:

- According to Oslo Agreement, the Palestinian ICT sector had to be regulated by a Joint Technical Committee (JTC) managed by the government of Israel and the Palestinian National Authority. This committee would include technical experts from both sides. It was

agreed that this committee would meet on a regular basis in order to regulate the sector and discuss new issues, and solve any arising problems. Unfortunately, this committee met very few times in the last ten years because of the political situation. As a result, there have been many pending issues waiting to be discussed and solved and these have obstructed the sector's development (PalTrade, 2010). These issues are the following (The Portland Trust, 2012; Zuhairi, 2012):

- The government of Israel has imposed many restrictions on importing ICT equipment and on acquiring the frequencies for the telecom networks, delaying many operations such as systems upgrades, or networks' expansion.

- The Palestinian ICT companies should ask for the Israeli permission when they want to expand or build their networks in area C which is not under the Palestinian National Authority's control. This has affected the availability and coverage of their services.

- The government of Israel has put limitations on the usage of frequencies spectrum and has not allowed the Palestinian operators to use the frequencies that are important for their networks to provide the newest 3G technology services. This has affected the quality and the type of services that Palestinian operators and ISPs provide. These Israeli practices have also deprived them of competing globally.

- Fragmentation of the Palestinian cities, the separation wall, and the siege of the Gaza Strip, have all limited the ability of movements of goods and people. This is in addition to the difficulties in transportations at border crossings and between the Palestinian cities due to the Israeli control of borders and the permanent roadblocks on major roads in the West Bank.

- The illegal and unfair competition between the Palestinian and the Israeli operators.

These hurdles have increased the need to improve the ICT different applications and develop virtual systems to adapt to the challenges and overcome those obstacles. In addition to the Israeli restrictions, there are several obstacles that have also hampered the economic development in Palestine. These obstacles are as follows:

- Absence of investments activities in the sector and the limited access to finance (MAS, 2012).

- Delay of launching e-government services due to the lack of cooperation between the government institutions and lack of administrative skills.

- Non-existence of PTRA to regulate the sector and discuss and solve its problems.

- Paralysis of the Palestinian Legislative Council has hampered the reforming process of legal framework (Zuhairi, 2012). In 2006, the

Palestinian Authority declared a state of emergency after the second Palestinian Legislative Council elections. In the wake of that, President Mahmoud Abbas started to issue legislation in case of necessity in accordance with Article 43 of Palestinian Basic Law.

- Palestinian unstable economic growth has made investments fraught with uncertainty and high risk due to the political situation and the Israeli frequent closures of the Palestinians areas.

- The Israeli failure to respect the Palestinian bilateral trade agreements has made the Palestinian economy depend on donors' aid, and its trade activities have become dependent on the Israeli market (The World Bank, 2012).

-  Gap between the universities' graduates and the current market's needs.

- Lack of management and technical skills in the public and private sector (The World Bank, 2012).

**5.2.5 Logistics and Complementary Services**

The Palestinian Government realized the importance of logistics services' role in serving the new economy, especially through the implementation of e-government.

In 2011, there were 90 post offices covering the Palestinian territories, with total volumes of the international postal transactions of

about 350,000 mails[15] as opposed to local postal transactions of about 2.5 million mails[16] (PCBS, 2011). This size of postal transactions shows how much important the role of the postal sector is in facilitating e-government implementation, and enhancing the efficiency of Palestinian citizens' services. The government has focused on upgrading the postal offices and utilizing ICT tools in its operations to make its services automated and up-to-date. Its major achievements are as follows:

- In 2010, the Palestinian Post joined Euro-Med Postal Organization (Palestinian National Authority, 2011), and was accepted to join the Express Mail Services as an observer member. These are offered by the UPU, the premium operator for exchange of mail among governments and postal stakeholders in the world (Universal Postal Union, 2012; Palestine Post, 2012). This has helped the Palestinian government to reform its post offices, follow the best practices of UPU members and use their successful strategy as a guide in its postal sector's reforming plan.

- The government has started a new project to adopt a modern postal address system for naming and numbering residential and public addresses, adding a new address server in ZINNAR framework in order to unify the addressee's information (The Palestinian Interoperability Framework-ZINNAR, 2011). The new addressing system helps in

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[15] International mail includes receipt and dispatched mail from and to Palestine for Express mail, registered and regular letters, and printed matters.
[16] Internal mail type includes registered and regular letters, telegrams, parcels, small packets, and printed matters.

paving the way for facilitating different services, such as mail delivery (especially for online purchases), and e-government services, and in improving the efficiency of utilities' services and the emergency teams' work such fire rescue team, medical emergency, and police services (PCBS, 2012).

- The government has linked 12 post offices with the central post office, thus connecting them with Single High Digital Speed Line (SHDSL) for efficient transactions and mail tracking.

There are several global and local logistics companies that serve the Palestinian customers. Wassel Logistics Company, the first local provider, was established in 2005 as public shareholding company. Wassel Logistics is part of Wassel Group which has market capitalization of about $9 million and more than 1,000 employees and 16,000 shareholders. Wassel Group offers different services through its 6 subsidiaries (The Portland Trust, 2012). These services include security services through PalSafe Company and event management services through PalExpo Company. At present, Wassel Logistics network, with more than 600 distributers and a fleet of trucks, covers all the West Bank and the Gaza Strip, Jerusalem, and Jordan. It has made several partnerships with global logistics companies such as UPS and TNT Express to improve and enhance its services (The Portland Trust, 2012). It offers different logistics solutions and delivery services and uses up-to-date technology, thus allowing its customers to

enjoy effective and efficient services. Among Wassel Logistics services are the following (Wassel Logistics, 2013):

✓ Domestic Services, offering express and freight services for business owners and residential areas.

✓ International Services, offering express services for document packages and parcels, and express freight for heavy shipments. This is in addition to import services connecting more than 160 countries and providing full control on the import shipment.

✓ Supply Chain management services, offering warehousing, distribution, and inventory services, controlling material sorting, handling, and inventory management and utilizing Wassel advanced systems.

The local companies find it difficult to face the occupation policies given their small size and insufficient resources. They have to get special permits to move easily between the West Bank and the Gaza Strip, or to conclude partnerships with global companies operating in Israel to help them cross the borders. These difficulties have prevented local companies from performing effectively and creating efficient reliable services.

Aramex, the only Arab and global company in the Palestinian market, has a significant role in supporting e-commerce activities, besides its ordinary logistics services in the Palestinian and regional markets mentioned earlier in Chapter 4. This support can be seen in its e-commerce services, special prices for e-commerce shipments, and outsourcing

services for different solutions of the supply chains, collection of payments from customers through cash on delivery, offering of regional and local warehousing for e-commerce products, and handling domestic and international orders and shipments. This company has also introduced the "Shop and Ship Service", to encourage buying online from the USA and the UK. Unfortunately, this service has been stopped in Palestine due to wide misuse/abuse by customers who used stolen credit cards to pay on line. This has forced Aramex to stop this service in Palestine to avoid problems with international companies. It is waiting for a new law to regulate cyber crimes and protect customers from fraud[17].

Aramex has a good position in the global and regional markets, giving it a competitive advantage over its rival companies in Palestine, and enabling it to perform its job efficiently and effectively, and overcome the occupation's harsh policies which face all rival logistics companies in Palestine (Kasses, 2012).

## 5.2.6 E-Payment

E-banking and e-payment are defined by any transaction made with banks or merchants without any physical interaction through several channels such as internet, Automated Teller Machines (ATM), wireless devices, and online banking (Sithi and Bahatia, 2007).

Currently, the main payment method in Palestine is cash, and seconded by checks. The use of e-banking services, such as ATMs, debit

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[17] Interview with Mr. Kasses the Chief Executive Officer of Aramex, Palestine.

and credit cards, is increasing and this shows that there is a good opportunity for the use of electronic payments for different kinds of services. Most of Palestinian banks offer several e-banking services; the most well- known services are provided through the ATM. In 2011, there were more than 330 ATMs, and more than 2,000 POS terminals. This is in addition to the online banking services through websites (PMA, 2011; Oxford Policy Management and Shore Bank International, 2011). At the end of 2011, there were less than 20% of e-banking services out of more than 2 million bank accounts. This percentage included about 364,000 debit/Visa Electron cards, 95,000 ATM cards, and 50,000 credit cards. Table5.4 gives the number of e-payment cards and the volume of transactions.

**Table (5.4): Number of Electronic Cards and the Volume of Transactions at the End of 2011**

| Type of Cards | No of Issued Cards | No. of transactions | Value in US$ |
|---|---|---|---|
| ATM | 95,234 | 5,554,970 | 1,264,350,887 |
| Debit | 363,891 | 79,710 | 4,048,860 |
| Credit | 49,862 | 499,561 | 93,944,745 |

**Source: Palestinian Monetary Authority, (PMA, 2012)**

Palestinian e-payment services are still in the development process, and their development faces a number of challenges. Some of the main challenges that e-payment services face in Palestine are as follows:

- Absence of a national e-payment clearing system. This has led all banks to issue their own cards and develop their own ATM network without

interconnecting with other banks. This has, as a result, increased the cost for banks and consequently for customers (PMA, 2012).

- Insufficient usage of POSs. Due to the Palestinian merchants' culture, customers are always encouraged to pay in cash, preferring cash payment over paying through POSs.

- Lack of trust in sharing personal information through the e-payment different systems and on the web.

There are many local companies and banks which provide e-payment services, encourage online payment and participate in e-payment diffusion. These include the following:

- The Arab Bank: The Arab Bank provides Arabi Online Services. In 2012, it had more than 40,000 users. To encourage paying online, Arab Bank issues Internet cards with lower credit limits, enabling customers to buy online, without the high risk of exposing the client's credit main card to fraud. In 2012, there were around 3,750 active internet cards. The Arab Bank also launches annual campaigns and offers promotions to encourage e-payment (Hifa, 2012).

- Bank of Palestine (POB): This bank provides new payment solution "PalPay" to allow customers to pay their utility bills, phone bills and international call cards electronically, using more than 4,000 POS. Although PalPay is still in the launching phase, it has succeeded in concluding agreements with many companies and it hopes to expand its

presence by offering other kind of services. Among these companies is PalTel. This company allows around 4,000 customers to pay their fixed line bills monthly through PalPay. Jerusalem District Electricity Company (JDECO) has also joined PalPay. It allows its clients to pay their bills through PalPay (Bank of Palestine, 2012; Aker, 2012).

- PalTel offers e-Bill and e-Payment services which allow customers to view their bills and pay online, using various kinds of credit cards (PalTel, 2011). In 2012, the total number of e-Bill's subscribers was around 30,000 with future plans to increase this number by promoting the service through social networks (Ziadni, 2012).

### 5.2.7 E-commerce Palestinian websites

Although e-commerce actual transactions barely exist in Palestine, there are some attempts by individuals to sell their products using regional e-commerce portals that allow merchants to use their platform, or promote their product using Facebook, taking advantage of the popularity of social media among Palestinians. They sell Palestinian handmade products of In'ash El-Usra[18,19] and use Ananasa.com website. This attempt was successful, but it was for short period. Currently, there is a serious effort to establish a website to support Inash Al-Usra products, and promote the selling of Palestinian traditional products worldwide[20].

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[18] Inash Al-Usra, a non-governmental voluntary Palestinian organization, offers cultural and economic services to empower Palestinian women and marginalized producers in the market.
[19] Interview with Mrs. Ruba Masruji, Chief Executive Officer, United Securities Company, 2012.
[20] Ananasa.com, an online marketplace based on Dubai, allows people to sell their handmade products worldwide (Ananasa, 2011).

There are several Palestinian e-commerce endeavors which can be considered as new startups. These include the following:

1.  **Yamsafer.me:** This allows users to book hotels and events online at lower prices. It was launched in beta version and it started in Palestine and Jordan. In 2012, Yamsafer.me received $1 million for an investment from Sadara venture capital which targets ICT new startups in Palestine. It looks forward to enabling Yamsafer to grow fast and cover the Middle East region in the near future. The payment method in this website is handled by PayPal (Daniel, 2012).

2.  **Safqaonline.com and shobeddak.ps:** These classified websites allow online users to display their items for sale. They classify all the advertisements into several groups such as real estates, cars, jobs, and medical and public services (Safqaonline.com, 2009; Shobeddak.com, 2008).

3.  **Al-kahf Gift Shop-online store**: Based in Bethlehem, this store sells Palestinians' traditional hand crafts online. The website sends the bill and the information about the orders by email with the address of the nearest Gift Shop coordinator in order to complete the deal and arrange shipping and payment method with the customer (Diar Consortium, 2009).

4.  **GiftToPalestine.ps**: An e-commerce website based in Ramallah, it targets the Palestinians who are living abroad to give them the chance to purchase gifts and deliver them to their friends, relatives, and

family who are living in Palestine. They are charged a small amount of fees for shipping. The website has three different payment tools: PayPal, Google Checkout, and Money transfer (GiftsToPalestine, 2012).

5. **Canaan Fair Trade Company**: This company aims at supporting the Palestinian agricultural and organic producers (Canaan Fiar Trade Company, 2013). It finishes the products and sells it as a wholesale to the UK, the USA, Canada, and to the rest of the world. It sells the Palestinian products in the USA market through Canaan USA website, and it is used to promote the products worldwide. This website has convinced 16 countries to buy from Canaan Fair Trade Company[21] (Canaan USA, 2013).

Table 5.5 shows Alexa's traffic global ranking of those Palestinian websites, arranging them on the basis of their last three months of traffic. It is crystal clear that that the most visited websites among those Palestinian websites were Safqaonline, and Yamsafer.me respectively.

**Table 0(5.5): Palestinian E-commerce Websites Based on Alexa's Traffic Ranking**

| Website's Name | Alexa's Traffic Ranking |
|---|---|
| Safqaonline.com | 150,197 |
| Yamsafer.me | 1,991,836 |
| Al-Kahf Gift Shop | 14,997,107 |
| GiftsToPalestine.com | 16,443,552 |
| Shobeddak.com | 20,701,065 |

**Source: Alexa Global Ranking (Alexa Internet Inc., 2012)**

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[21] Interview with Mrs. Diane Adkin US Outreach Coordinator, at, Canaan Fair Trade Company, 2013.

## 5.3 Benchmarking Palestinian ICT Sector

The Palestinian government has focused on reforming its public institutions to pave the way for the establishment of a Palestinian state, but it has made limited achievements in the Palestinian economic sectors. To evaluate the Palestinian ICT infrastructure and its access, among MENA region, this section holds a comparison between the Palestinian main indicators and the ICT indicators of KSA, UAE, Bahrain, Jordan, and Egypt.

According to ESCWA's regional ICT profile in 2011, Palestine had the highest percentage of ICT literacy. In 2009, ICT literacy was 94% as opposed to 93% and 77% in Jordan and Egypt respectively. This high percentage indicates the easiness of its people to accept technological change, and the impact of the penetration of ICT usage (ESCWA, 2011).

In addition to the literacy level, the GDP per capita has a great impact on ICT diffusion; it gives good indications about the standard of living in the country. Figure5.6 shows the GDP per capita in these countries.
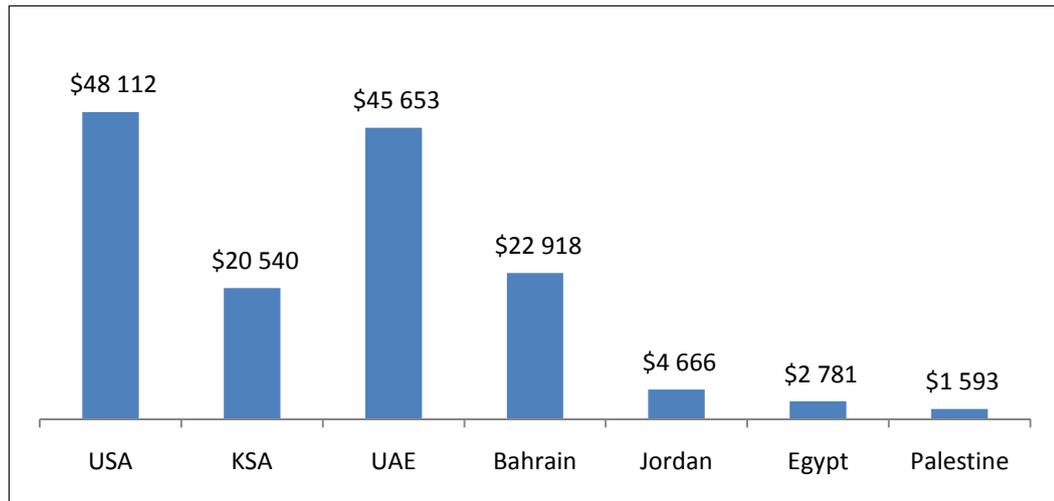
**Figure (5.6): GDP Per Capita in 2011 (Current US$)**

**Source: World Bank National Account Data GDP Per Capita (The World Bank Group, 2012), (PCBS, 2012)**

Palestine had the lowest level after Egypt and Jordan, while the UAE had the highest level, followed by the USA.

One can see the relationship between the GDP per capita and ICT penetration as it is shown in Figure5.7 and Figure5.8. The countries with comparable GDP values have similar penetration rates in fixed line, internet lines, and internet penetration. It can be argued that the higher the GDP is, the higher the ICT penetration will be.
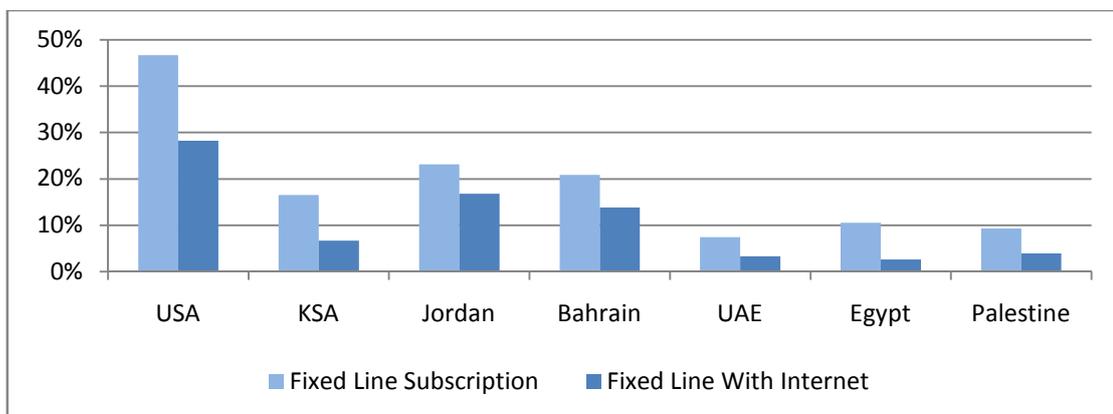


**Figure (5.7): Penetration Rate for Fixed Line and Fixed Line with Internet in 2011**

**Source: ITU Fixed Line and Fixed Broadband Subscription 200-2011 (ITU, 2011), (PalTel Group, 2012)**

In 2011, Palestinian internet penetration rate was in the middle among MENA region countries as shown in Figure5.8. The internet penetration showed significant growth in Palestine. It jumped from 32% in 2009 to 40% in 2011. This growth is still humble compared with the internet growth in the fast developing countries such as the UAE and Bahrain.
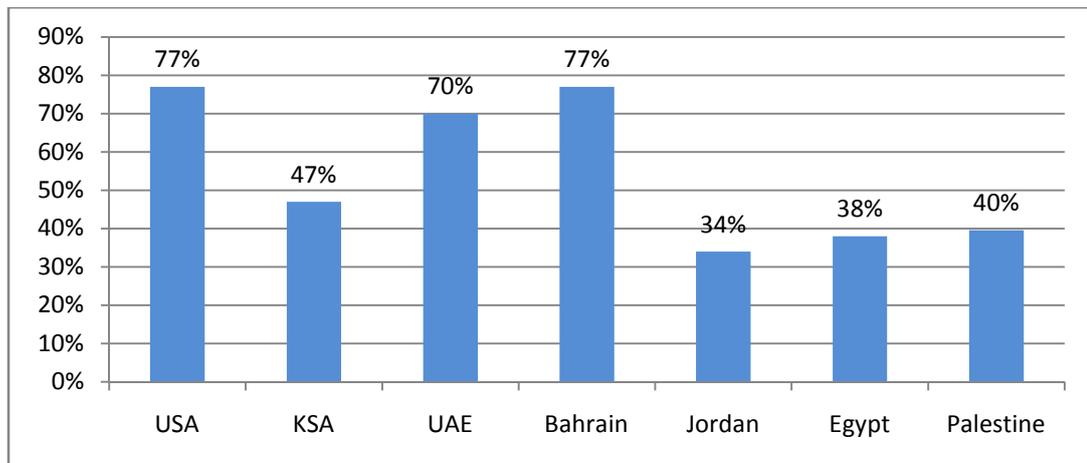


**Figure (5.8): Internet Usage Penetration Rate in 2011**
**Source: Individuals Using the Internet (ITU, 2011)**

Mobile phones with the newest technology, 3G and 4G, increase the internet penetration; they enable the users to access internet broadband with the same quality as the fixed line technology. The penetration rate of mobile phone indicates the potential for new opportunities such as developing new mobile applications for e-commerce and e-payment solutions via mobiles. This is in addition to other innovative applications that could respond to market needs. Figure5.9 shows that the highest penetration rate for mobile was in KSA, the UAE and then Bahrain. Palestinian and Egyptian markets had similar penetration, and were close to Jordan which expects an increase in the internet penetration rate as a result

of introducing 3G technology in its mobile operations.  As stated earlier,
the 3G technology in Palestine is still lacking in the mobile operators due to
the Israeli limitations.
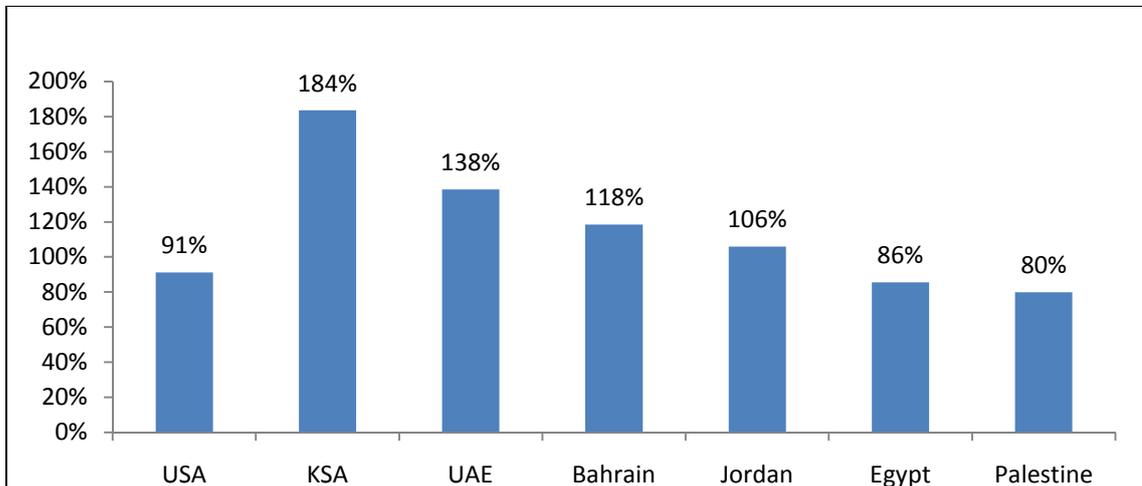


**Figure (5.9): Penetration Rate for Mobile in 2011**

**Source: ITU Mobile-Cellular Subscription 2000-2011 (ITU, 2012)**

In 2011, according to ESCWA ranking of maturity level based on the
ICT sector governance, the level of the implementation for ICT strategy,
and the partnership between all stakeholders, as shown in Figure5.10,
Palestine was in the maturity level 1, which is characterized by limited
implementation of ICT strategy, and a lack of effective cooperation among
all its stakeholders.

| Country | Maturity level 1 | | | Maturity level 2 | | | Maturity level 3 | | | Maturity level 4 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 |
| Bahrain | | | | | | | | | | ✓ | ✓ | ✓ |
| Egypt | | | | | | | ✓ | ✓ | ✓ | | | |
| Iraq | ✓ | ✓ | ✓ | | | | | | | | | |
| Jordan | | | | | | | ✓ | ✓ | ✓ | | | |
| Kuwait | | | | ✓ | | | | ✓ | ✓ | | | |
| Lebanon | | | | ✓ | ✓ | ✓ | | | | | | |
| Oman | | | | ✓ | ✓ | | | | ✓ | | | |
| Palestine | ✓ | ✓ | ✓ | | | | | | | | | |
| Qatar | | | | | | | | | | ✓ | ✓ | ✓ |
| Saudi Arabia | | | | | | | ✓ | ✓ | ✓ | | | |
| The Sudan | | | | | ✓ | ✓ | | | | | | |
| Syrian Arab Republic | | | | ✓ | ✓ | ✓ | | | | | | |
| United Arab Emirates | | | | | | | | | | ✓ | ✓ | ✓ |
| Yemen | ✓ | ✓ | | | | ✓ | | | | | | |

**Figure (5.10): Palestine in ESCWA Ranking by Maturity Level Based on the Role of Government and All Stakeholders**

**Source: Regional Profile of the Information Society in Western Asia (ESCWA, 2011).**

Most of the MENA regional countries have made several steps forward towards liberalizing their markets. For example, they have established an independent entity to regulate competition, and reform the internet legislative framework to build the trust in the ICT systems. Despite the effort to secure privacy and protect data, this area is still in the development stage and more effort is needed. Table5.6 summarizes the achievements of each country in these areas (ESCWA, 2011). As the table shows, Palestine has limited achievement in this regard.

**Table (5.6): ICT Sector Regulatory, Competition, and Internet Laws in Selected Countries**

| Country | ICT Regulatory | Fixed-Line Market | Mobile-Market | E-signature Law | E-transactions Law |
|---|---|---|---|---|---|
| **KSA** | Communications and Information Technology Commission (CITC) | Competitive | Competitive | Yes | Yes |
| **Jordan** | Telecommunications Regulatory Commission (TRC) | Competitive | Competitive | Yes | Yes |
| **Bahrain** | Telecommunications Regulatory Authority (TRA) | Competitive | Competitive | Yes | Yes |
| **UAE** | Telecommunications Regulatory Authority (TRA) | Competitive | Competitive | Yes | Yes |
| **Egypt** | National Telecommunications Regulatory Authority (NTRA) | Monopoly | Competitive | No | Yes |
| **Palestine** | Ministry Of Telecommunications and Information Technology (MTIT) | Monopoly | Competitive | No | No |

**Source: Regional ICT Profile for ICT Society in Western Asia (ESCWA, 2011)**

Palestine has limited strategic achievements, and has scattered efforts on developing the sector, compared to other countries that have focused their efforts on developing their ICT sectors and building their economies.

In e-commerce spending, Palestine has had an insignificant value. In 2011, e-commerce was used by only 0.2% of internet users compared to 24.4% and 22.4% in Jordan and Egypt respectively (Arab Advisors Group, 2012). Figure5.11 shows e-commerce in those MENA selected countries.
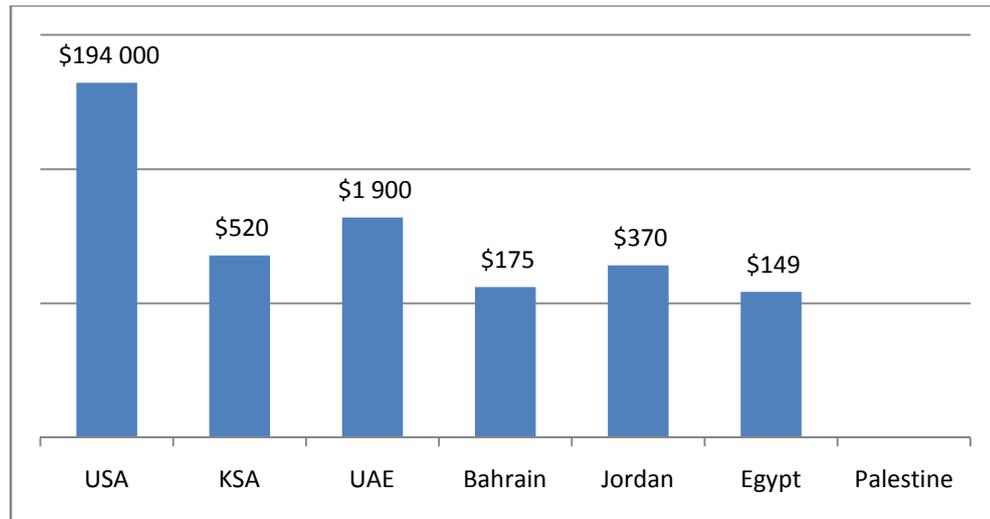
**Figure (5.11): E-commerce Spending in Selected Countries in the MENA Region (Values in Millions)**

**Source: E-commerce in the Gulf Cooperation Council (IMRG International and Visa Middle East, 2011; Arab Advisors Group, 2012)**

## 5.4 Strategic Market and SWOT Analysis of E-commerce in Palestine

After exploring the existence of the adoption factors of e-commerce in Palestine, this section will analyze the present status of the Palestinian market through performing SWOT analysis.

### 5.4.1 SWOT Analysis

SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is one of the planning tools that helps in developing a good strategy, and provides guidance for decision makers to develop an effective strategic plan for any project.

SWOT analysis framework uses the collected information from current situation analysis and compares between the internal strengths and weaknesses inside the sector, and the external opportunities and threats outside the sector. This structure helps the decision makers to focus and

define the sector's competitive advantage in order to establish the direction of the business strategic plan (Ferrell and Hartline, 2011).

The following sections provide SWOT analysis; list the strengths, weaknesses, opportunities and threats in the Palestinian market in order to be able to derive a strategic framework for a successful e-commerce in the country. Table 5.7 presents a summary of the performed SWOT analysis.

**Table (5.7): SWOT Analysis**

| Strengths | Weaknesses | Opportunities | Threats |
|---|---|---|---|
| 1. Ongoing efforts to improve digital literacy and internet infrastructure. | 1. Old legal framework and lack of modern legislation. | 1. International support for diffusion of digital literacy and the Palestinian government's goal to reform and build sustainable economic growth. | 1. Separation between the West Bank and the Gaza Strip and the separation wall between Palestinian communities. |
| 2. Rapid growth in penetration rate for internet, mobile phone, and social networks. | 2. Unsustainable economic growth which depends on the political situation and financial aid. | 2. Presence of global business relationships, and special trade agreements with different global markets. | 2. Israeli government's rigid policies and its security measures and restrictions on movement of goods outside and into Palestine. |
| 3. Presence of e-banking services in banking system in Palestine, and the emergence of different e-payment methods | 3. Declining growth of the Palestinian tradable sectors. | 3. Increasing global needs for ICT skillful expertise, and different types of e-business applications at lower cost. | 3. Paris Protocol agreement allows Israel to control Palestinian customs, taxes and borders. |
| 4. Relatively open market to enhance business relations | 4. Small family own businesses insufficient capital and poor management and technical skills. | 4. Geographical proximity to Jordan, Israel, and Europe for outsourcing services and customized products. | 4. Image of the unsafe Palestinian environment for investments. |
| 5. Presence of educated human capital | 5. Limited access to finance. | 5. Attractiveness of Palestinian products globally. | 5. Limited access of Palestinian mobile operators to frequencies spectrum and the refusal of Israeli government to give Palestinian operators the 3G license. |
| 6. Lower cost labor in comparison with neighboring countries. | 6. Palestinian graduates' lack of vocational and technical skills that fulfill the market's demand. | | 6. Illegal and unfair competitions from Israeli operators in the Palestinian market. |
| 7. Government's commitment to the reform of its institutions and building of a digital economy. | 7. Lack of utilization of ICT products in different sectors. | | 7. Potential migration of the talented pool due to the higher level of wages and the opportunities for this group outside Palestine. |
| 8. Implementation of the new address system | 8. Absence of the PTRA entity in the Palestinian ICT sector | | |
| 9. Good governance of banking systems through PMA. | 9. Lack of mobile broadband services. | | |
| 10. Presence of a specialized call center company "Reach". | 10. Delay in applying e-government across public institutions. | | |
| 11. Presence of global and regional logistics companies | 11. Potential risk of paying online and sharing personal information through the web. | | |
| 12. Presence of PITA as representative of ICT sector and the participation of the government to support building the new economy | 12. Lack of e-payment gateway, and interbank national payment system to facilitate e-payment. | | |
| 13. Presence of PIPA to encourage investment | | | |
| 14. Establishment of the first ICT capital venture fund Sadara. | | | |

**5.4.2 Strengths**

Palestinian e-market enjoys the following strengths:

1. There are ongoing efforts to improve digital literacy and internet infrastructure. This illustrates the total consensus among all stakeholders on the importance of utilizing ICT tools in all Palestinian sectors to develop a sustainable economic growth. These efforts including establishing fiber optic network to increase the internet capacity and cover the rural areas, launching the new BSA model, connecting all government institutions with the internet, and providing schools with ICT tools and internet access through the PEI program. These improvements would enable service providers to diversify and update their electronic services to make them of good quality in order to build the trust in their systems and encourage ICT diffusion and e-commerce adoption.

2. Rapid growth in the penetration rate for internet: 39.6% for internet and 80% for mobile phones in 2011. This was in addition to the spread of social networks among Palestinians. This rapid growth indicates potential channels for e-commerce, and digital marketing services (Ziadni, 2012).

3. Presence of e-banking services in the Palestinian banks, and the emergence of different e-payment methods for payment of utility bills, mobile, and fixed line bills electronically (Oxford Policy Management

and Shore Bank International, 2011; Ziadni, 2012). These services would help in spreading and encouraging e-commerce payment activities.

4.   Relative openness of the Palestinian market. This openness would enhance the establishment of new business relations, thus supporting economic growth.

5.   Abundance of educated human resources. The human capital in Palestine is well educated and young. In 2011, about 95% of Palestinian population was literate, 36.6% were in preparatory schools, 21% were in secondary schools, and 16% attended higher education institutions (PCBS, 2012). This young well-educated population would accept and adopt technological advancement and changes very easily, and support the development of the new economy (The World Bank, 2012).

6.   Lower cost of labor in comparison with neighboring countries, where the Palestinian labor cost is 70% lower than Israel and 75% lower than Europe and the USA (The Portland Trust, 2012).  This gives the Palestinian labor a competitive advantage to enhance the exportation of local services and products to these countries at competitive prices (The World Bank, 2012).

7.   Palestinian government's commitment to the reform and building of a digital economy by implementing the e-government project.  It started with unification of the information and communication systems in its

institutions and it's looking forward to offering e-government services soon (MTIT, 2011).

8. Renovation of the postal offices and modernization of its processes, in addition to the implementation of the new address system. All these would facilitate e-commerce and e-government activities and would make efficient management and packages transfer more reliable (MTIT, 2011).

9. Good governance of the banking system through Palestine Monetary Authority (PMA). In 2012, according to the World Bank report, the Palestinian banking sector performed well and was strongly regulated through PMA (The World Bank, 2012). The banking sector is continuing its reforming and building its infrastructure (PMA, 2010). Good governance in the banking sector is the main pillar to build an attractive environment for investment, decrease cost of investment and protect rights of all stakeholders. In addition to that, it helps in building confidence in the Palestinian banking system, thus encouraging e-payment activities (PMA, 2012).

10. Presence of a specialized call center company called "Reach". This presents a good opportunity for customer services outsourcing, one of the e-commerce enablers.

11. Presence of global logistics companies such as Aramex and FedEx. These companies offer efficient and effective delivery and up-to-date logistics management systems for e-commerce business.

12. Presence of PITA as a representative of the ICT sector and its participation with the government in supporting the building of the new economy.

13. Presence of the Palestinian Investment Promotion Agency (PIPA) to attract local and foreign investors.

14. Establishment of the first ICT capital venture fund Sadara which is looking forward to investing in new ICT startups.

## 5.4.3 Weaknesses

There are several weaknesses that affect e-commerce adoption and e-businesses' practices. These weaknesses include the following:

1. Presence of an old legal framework and lack of modern legislation. The legal framework is old; the laws have become outdated and go back to the periods of Jordanian, and Egyptian rules, and British occupation of Palestine from 1917 to 1948. Internet regulation framework is still missing. Intellectual properties laws, E-transactions laws, competition law, and the laws that regulate financial sector are still lacking (The World Bank, 2012). This legal framework should be reformed and modernized in order to suit the Palestinian economic conditions and to create a healthy conducive environment for investments. In addition to that, it would help in building confidence in internet activities, and this is important for promotion of e-commerce activities (The World Bank, 2012).

2. Unsustainable economic growth which depends on the political situation, and the international financial aid. This would make investments very difficult and would be fraught with high risk (The World Bank, 2012). The Palestinian government has failed to achieve sustainable growth and enhance the private sector to increase its productivity.

3. Decline of the growth of the Palestinian industrial and agricultural sectors and other economic sectors. This is attributed to the absence of investment activities in these sectors as a result of the Israeli restrictions on movement of people and goods, and due to the limited access to natural resources which discourage investments and consequently make the Palestinian sectors lose competitiveness (The World Bank, 2012).

4. Small family-owned businesses. Most of the Palestinian companies are small family businesses which have insufficient capital, poor management and inadequate technical skills to invest in their businesses and start new e-businesses providing innovative products, and allowing entrance of new markets (The World Bank, 2012).

5. Limited access to finance. Access to finance could be through different channels such as banks' lending programs, foreign investors, venture capital, trade financing and informal financing channels such as loan from family, and friends (Private Sector Development Program, 2012). These channels would support the private sector's

growth and encourage new businesses to startup and open new markets for their products (The World Bank, 2012). The Palestinian banks' lending programs are too conservative. Lending to small enterprises and new startup is very risky and needs high level of guarantees.

6. Palestinian graduates' lack of vocational and technical skills to meet market's demand (The World Bank, 2012). Palestinian universities do not follow high tech trends in their curricula, thus creating a gap between the Palestinian graduates' skills and the market requirements (The Portland Trust, 2012). The unemployment rate in 2012 among the Palestinian youth was 35%. This shows the gap between the educational system and the modern new market needs (The World Bank, 2012).

7. Lack of utilization of ICT products in different sectors. This is a basic pillar for the enhancement of productivity and increase of efficiency (MTIT, 2011).

8. Absence of the PTRA entity in the Palestinian ICT sector. The ICT sector needs an independent unit to set up policies and regulate the sector in order to support the development of the digital economy (The World Bank, 2012).

9. Lack of mobile broadband services. These services are important for e-commerce activities because mobile subscribers form a considerable portion of the potential customers for e-commerce (PalTrade, 2010).

10. Delay of applying e-government across public institutions and offering e-services to the Palestinian citizens. E-government would help in spreading digital literacy among Palestinians and building confidence in e-commerce systems (Zuhairi, 2012).

11. Potential risk of paying online, using credit cards and personal information through the web (Hifa, 2012).

12. Lack of secured e-payment gateways that facilitate e-payment through merchants' website, and interbank payment system that connects all banks together and allows ATM and POS terminals to accept all banks' cards.

### 5.4.4 Opportunities

The Palestinian market has several opportunities owing to its geographical position and its economic conditions. These opportunities include the following:

1. International support for the diffusion of digital literacy and the Palestinians government's institutional reforms and interest in building a sustainable economic growth without depending on international aid. This support can be seen in the financial aid, technical skills, training courses, and investment funds. These forms of support would allow the Palestinian ICT sector to grow and utilize its products in different sectors (Nofal, 2012).

2. Presence of global business relationships and special trade agreements with a number of global markets. These good relationships could be utilized to enhance the Palestinian trade activities, including trade in services in the agreements, and developing the required experiences and skills to perform successful e-businesses. More than 50% of ICT companies in 2012 were working with global companies in the USA and Europe, in addition to 32% which were working with Israeli companies (The Portland Trust, 2012).

3. Increasing global needs for ICT skillful expertise and different types of e-business applications at lower cost. This is considered an opportunity for Palestinian skilled ICT labor exporting their services to neighboring countries which have higher labor costs (The World Bank, 2012).

4. Geographical proximity to Jordan, Israel, and Europe. This proximity enhances Palestinians' skills, ICT experiences, and gives the Palestinians cultural awareness of the different cultures around them. This enables the Palestinians to be aware of regional and global needs (The Portland Trust, 2012).

5. Attractiveness of the Palestinian products globally such as olive oil, soaps, sweets and traditional handcrafts artworks. In respond to this popularity, the Palestinians should enhance their productivity of these products to increase exports and benefit the economy of scales production.

**5.4.5 Threats**

The political conditions in Palestine have created many obstacles, thus threatening the development of the digital economy. These threats include the following:

1. The separation between the West Bank and the Gaza Strip and the separation wall between the Palestinian communities have made movement of people and goods so difficult and expensive, thus increasing transportation cost and decreasing the Palestinian product competitiveness (MNE, 2012).

2. The Israeli government's rigid policies and security measures and restrictions on movement of goods outside and into Palestine are very time consuming and costly. The goods should pass security checks, and should be transferred to an Israeli licensed truck or Palestinian licensed truck with a special permit to cross borders (The World Bank, 2012; MNE, 2012).

3. Paris Protocol agreement allows Israel to control customs, taxes, and trade activities of Palestinians, and imposes all Israeli tariffs, taxes, and technical standards on Palestine. This agreement gives the Israeli government the right to control Palestinian trade relations and increase the obstacles on trade activities, thus increasing Palestinian market's reliance on its Israeli counterpart, and leading Palestinian merchants to conclude any type of trade activities through Israeli middlemen in

order to decrease the cost and the risk associated with these activities (The World Bank, 2012).

4. Image of the unsafe Palestinian environment for investments combined with the instability of the political situation.

5. Limited access of Palestinian mobile operators to frequencies spectrum and the refusal of the Israeli government to give them 3G license. This has prevented the Palestinian mobile operators from improving their networks and offering the newest technology with up-to-date services such as 3$^{rd}$ and 4$^{th}$ G, and high speed internet connection. This has affected the quality and the variety of e-services that they are offering to their subscribers (PalTrade, 2010).

6. Presence of illegal and unfair competitions from Israeli operators in the Palestinian market. These operators provide their services at lower prices (PalTrade, 2010).

7. Potential migration of the talented pool due to the higher level of wages and the opportunities for this group outside Palestine.

# Chapter Six

# Strategic Framework for a Successful E-commerce in Palestine

# Chapter Six
# Strategic Framework for a Successful E-commerce in Palestine

Based on the results of SWOT analysis, the strategic framework for a successful e-commerce will be derived, capitalizing on the Palestinian ICT market's strengths, maximizing its opportunities, and trying to minimize the effect of the weaknesses and threats which may hamper its development.

The following sections present the proposed strategic framework for a successful e-commerce in Palestine. It includes the Palestinian e-commerce's vision, mission, and the strategic goals for successful e-commerce activities. Then, based on the SWOT Matrix results, feasible strategies would be set up to achieve these strategic goals.

## 6.1 The Palestinian E-commerce Vision

E-commerce is one of the ways that would contribute to the Palestinian economic development. It would also support the Palestinian National Authority's PNDP to establish an independent state and achieve sustainable growth. It also accelerates economic growth and improves the daily work practices by making them more efficient and effective.

The ICT strategy, in PNDP 2011-2013, did not focus on e-commerce but it facilitated the way to enable e-commerce activities. The proposed Palestinian e-commerce's vision would support PNDP's strategic goals and achieve them by capitalizing on Palestinian's strengths.

Based on the previous SWOT Analysis in this research, the proposed Palestinian vision statement for e-commerce is:

**"The Palestinian State, with a vibrant economy, will be strengthened by e-commerce, thus enhancing the Palestinian economic development and creating efficient and effective business operations".**

## 6.2 The Palestinian E-commerce Mission

The Palestinian e-commerce's mission statement defines the major goal and purpose of e-commerce and sheds light on the way to maintain sustainable economic growth.

Based on the previous SWOT Analysis in this research, the proposed Palestinian mission statement for e-commerce is:

**"Placing e-commerce at the center of all sectors' operations and services in the Palestinian economy to maintain sustainable economic growth, capitalizing on the Palestinian strengths in the ICT sector with its wide universal access, and its young well- educated human capital, considering the best practices of regulations, creating transparent, open, and safe business environment, and performing reliable, effective, and efficient business operations, offering high quality services to be able to compete in the global and local markets, looking forward to establishing an independent Palestinian state in the near future".**

## 6.3 E-commerce Strategic Goals

Based on the previous suggested vision and mission for e-commerce in Palestine, the strategic goals could be inspired from the guidance of the mission statement: turning the vision into real achievements. The following are the e-commerce long-run strategic goals:

1. Raising the Palestinian infrastructure's readiness for e-commerce.

2. Creating an attractive environment for conducting business and e-business in particular.

3. Improving the Palestinian private sector's productivity and efficiency.

## 6.4 Long-Term and Short-Term Objectives

To achieve the long-term objective, short-term objectives have to be set up. A four-year plan can be set for achievement of these goals by 2016. The following are short-term objectives:

**Strategic Goal 1: Raising Palestinian infrastructure's readiness for e-commerce.**

1. Speeding up the spread of digital literacy and internet penetration in the country to increase penetration rate from 41% to 77%. This latter percentage is the current penetration rate in the UAE and the highest penetration in the selected countries (UAE, KSA, Egypt, Jordan, and Bahrain).

2. Speeding up the e-government launch and offering its e-services to citizens. Most of MENA region countries have implemented e-government program and have started to offer their services. Achieving this goal would move Palestine to ESCWA maturity level 4 with clear vision and unified effort among all stakeholders (ESCWA, 2011).

3. Building confidence in the e-payment systems. Since e-payment is one of the major factors that affect e-commerce activities, building confidence in e-payment system would encourage e-commerce activities to accelerate. Currently, the percentage of e-commerce transactions in Palestine is insignificant for individuals: 0.2% (PCBS, 2011), and for institutions and establishments, it is 11% (PCBS, 2012). By achieving this goal, these percentages would increase.

**Strategic goal 2: Creating an attractive environment for conducting business and e-business in particular.**

1. Creating a new legislative framework to encourage investment. The Palestinian government has made unsatisfactory progress in building and reforming legislative frameworks. More serious effort is needed to produce internet related laws, companies' laws, and financing laws, to create a more attractive business environment. The achievement would be measured by the increase in the number and types of investments.

2. Creating a more transparent, reliable, and conducive environment across different government entities, by establishing and enforcing modern anti-corruption laws.

## Strategic Goal 3: Improving Palestinian Private Sector Productivity and Efficiency

The role of the private sector and its contribution to the GDP can be enhanced through the following:

1. Modernizing business operations in the Palestinian companies to improve their business practices. The result would be clear in the operational results and the quality of products.

2. Improving the management skills of the private sector employees to encourage them to take strategic decisions, such as expansion of their business, introduction of new product lines, or entrance of new markets.

3. Opening new markets for Palestinian products and reducing their dependence on the Israeli market. This would eventually open new channels for e-commerce.

### 6.5 SWOT Matrix Result Strategies

E-commerce strategic solutions have been developed, using SWOT Matrix. Table5.7 summarizes the SWOT analysis in terms of the strengths, weaknesses, opportunities, and threats. Table6.1 presents SWOT Matrix's result strategies, the result of combining internal (strengths, and weaknesses) with external factors (opportunities and threats). These types of strategies are the following:

1. S/O strategies that maximize opportunities: In these types of strategies the strengths were used to maximize the opportunities.

2. S/T strategies: In these types of strategies the strengths were used to avoid threats.

3. W/O strategies: To minimize the weaknesses, the opportunities were used in these types of strategies.

4. W/T strategies: These strategies were used to avoid threats and overcome weaknesses.

## 6.6 E-commerce Strategic Solutions

To achieve the previous strategic goals and realize e-commerce's vision, and mission, the SWOT matrix results, illustrated in Table 6.1, can be utilized to derive the proper strategies to achieve the strategic goals.

**Table (6.1): SWOT Matrix's Result Strategies**

| S/O Strategies (to maximize opportunities, using strengths) | W/O Strategies (to minimize weaknesses, using opportunities) |
|---|---|
| 1. Publicizing the existing special trade agreements and the incentives for Palestinian products (S13), (O2). <br> 2. Offering outsourcing services for global and local sectors at lower prices (S6, S10, S14), (O3, O4). <br> 3. Offering training courses to develop management skills of Palestinian human resources (S7, S12), (O1). <br> 4. Investing in the industrial sectors and forging business partnerships (S4, S13), (O1, O5). <br> 5. Reducing government and business operational expenses, using e-commerce (S1, S7), (O1). <br> 6. Promoting Palestinian products and services on the internet (S2, S14), (O1, O5). <br> 7. Increasing awareness of Palestinian companies about the benefits of e-commerce (S1, S5, S7), (O1, O5). <br> 8. Motivating and supporting e-retailer startups, and e-business (S1, S14), (O1, O5). <br> 9. Continuing the corruption fighting efforts to create trustful, honest, safe business environment (S7), (O1). | 1. Reforming the old legal framework and setting internet, legal, financing law framework and other related laws (O1), (W1, W5). <br> 2. Making business partnerships with global companies in the industrial sector (O2, O4), (W2, W3, W5). <br> 3. Improving people's ICT and management skills (O1), (W4, W7). <br> 4. Improving the Palestinian universities', and schools' curricula to embrace the newest technologies and enhance Palestinian graduates' ICT skills (O1), (W6). <br> 5. Making partnership between the academic sector and the private sector to close the gap between graduates' skills and the Palestinian market needs (O1, O2), (W6). <br> 6. Upgrading university labs with equipment for testing (O1, O2, O5), (W3, W4). <br> 7. Supporting wholesale businesses and encouraging them to participate in the global supply chains (O1, O2), (W2, W3). <br> 8. Building confidence in e-transactions and in e-government activities (O1), (W11). <br> 9. Creating a secured e-payment gateway and interbank payment system to facilitate e-payment and decrease money settlement and clearance cost (O1), (W12, W11). <br> 10. Updating and improving the signed trade agreements to include ICT services (O1, O2), (W2, W3). |

| W/T Strategies (to overcome weaknesses and avoid threats) | S/T Strategies (to avoid and reduce threats, using strengths) |
|---|---|
| 1. Speeding up the establishing process of PTRA (W8), (T5,T6) <br> 2. Speeding up the implementation of e-government (W10, W11), (T1, T4) <br> 3. Modernizing the Palestinian legal framework (W1, W5), (T4) <br> 4. Renegotiating Paris Protocol agreement to control and increase trade activities (W2, W3), (T2, T3). | 1. Creating a flexible delivery system (S11), (T1,T2) <br> 2. Holding trade and investment conferences for global and local investors (S4, S13), (T4). <br> 3. Encouraging investment through sharing of success stories, and participating in trade foreign fairs, and conferences (S12, S13), (T4). <br> 4. Exposing the Israeli restrictions on the Palestinian ICT sector, and their effect on the sector's growth (S4, S7), (T5, T6). <br> 5. Encouraging startups and innovations (S7, S14), (T7). |

## 6.7 Strategic Solutions Based on Short-Term Objectives

## 6.7.1 Strategic Goal l: Raising the Palestinian infrastructure readiness for e-commerce

**Goal 1: Speeding the spread of digital literacy**

This goal will be achieved through adoption of the following strategies:

- Improving people' ICT skills by providing training courses for employees, old people, women and students (O1), (W4, W7). This could be done through:

  ✓ Offering these courses for nominal fees for old people, and women in cooperation with PITA, and IT institutions, where IT stakeholders can provide these courses as a voluntary work, thus exploiting their sectors' expertise.

- Improving the Palestinian universities, and schools' curricula to adopt the newest technologies in their academic programs, and enhance Palestinian graduates' ICT skills to cope with the needs of Palestinian market (O1), (W6). This could be done through:

  ✓ Concluding partnership between the private sector and universities to offer vocational and technical skill development programs. One such program is an internship program for fresh graduate. This could be organized with PITA in order to specify the field and the

organization/institution which would suit the education of each student (O1), (W6).

✓ Private sector representatives and MOHE should participate in developing the Palestinian educational curricula, and improve the quality of teaching, to align with markets needs and technological changes, and encourage critical thinking and innovation (O1,O2), (W6).

- Increasing awareness of Palestinian companies about the benefits of e-commerce by holding conferences about the subject and presenting success stories (S1, S5, S7), (O1, O5). This could be done by PIPA in cooperation with PITA and with Paltrade which mainly focuses on export activities.

## Goal 2: Speeding e-government launch and start offering its e-services to citizens

This goal will be achieved through the following strategies:

- Speeding up the implementation of e-government would make digital literacy common and people aware of e-business benefits. Also, it would build confidence in e-transactions activities among its institutions and establish effective and efficient financial management systems, offer governmental services online and allow e-payment for governmental fees services. These include paying taxes and customs, and electricity and water bills (W10, W11), (T1, T4).

- Reducing the government expenses by performing daily work operations through the web and increasing the government supply chain efficiency through ordering, billing, payment, and tracking the shipments online, and giving priority to Palestinian companies which use e-commerce (S1, S7), (O1).

**Goal 3: Building confidence in e-payment systems**

This goal would be achieved through the following strategies:

- Offering e-payment methods in e-government services, thus increasing adoption and confidence in e-payment systems (O1), (W11).

  ✓ E-government services should accept any e-payment methods such as credit and debit cards, mobile phones, internet cards, and e-banking services. To this end, promotional offers on using these methods, such as a 5% discount on paid bills, and reduction of transfer fee charges between banks, if the payment was done online, would encourage customers to use these payment methods.

  ✓ Cooperation of public utility services, and other public institutions to facilitate bill payment online.

  ✓ Cooperation of the banking sector and the government institutions to facilitate e-payment services through an e-government program.

- Creating a secured e-payment gateway and an interbank payment system to facilitate and accept any type of e-payments in co-operation

with national banks and PMA. This would allow ATM, and POS machines to accept different banks' cards, and would connect all the banks together, thus decreasing money settlement and handling of cost and consequently decreasing any charges on customers (W11, W12), (O1).

## 6.7.2 Strategic Goal 2: Creating an attractive environment for conducting business, and e-commerce businesses in particular

An attractive business environment usually enjoys safety, transparency, fairness, openness, and sustainable economic growth. This attractiveness could be measured by the number of new business startups and the size of local and global investments. Establishing an attractive business environment in Palestine could be achieved by adopting the following strategies:

### Goal 1: Reforming and building a new legislative framework

- Reforming the old legal framework to cope with the new economic developments and technological advancements:

  ✓ Setting up an IT legal framework that regulates internet activities to speed up the diffusion of electronic activities. This process includes approval of the Intellectual Properties Law, E-transactions Law, E-signature Law, and the update of related laws that deal with e-commerce activities such as customs and tax laws on electronic purchased items and services (W1, W5), (O1).

✓ Modernizing and reforming the Palestinian legal framework to change the wrong perception the investors have about the Palestinian business environment. This would create an attractive business environment and encourage e-commerce activities (W1, W5), (T4). These laws are the Investment Law, Competition Law, Companies Law, and Financing Law.

• Renegotiating Paris Protocol agreement to have more independence and freedom of movement of goods and people at border crossings, thus decreasing the reliance on Israeli market and facilitating trade activities with other markets (W2, W3), (T2, T3).

• Speeding up the establishment of the PTRA (W8), (T5, T6). PTRA is important for the regulation of telecommunications' sector and enhancement of its development. This would allow services providers to offer up-to-date services and implement different applications for mobile and internet usage, and enable them to compete globally. PTRA's major roles are as follows:

✓ Setting up policies for the regulation of internet services' access prices, and mobile service cost, determining the interconnect price between operators to assure fair competition and protect the Palestinian customers' right.

✓ Encouraging and supporting investments to enhance mobile and internet networks infrastructure, by giving incentives to investment activities. These include exempting taxes on telecom equipment.

✓ Ending the illegal and unfair competition of Israeli services providers, activating the JTC committee established by the Israeli government and the Palestinian government to solve the hanging issues, such as the limited access to frequencies' spectrum and the 3G license for Palestinian mobile operators.

**Goal 2: Creating transparent, trustful, and honest environment across different government entities.**

• The Palestinian government, represented by the Anti-Corruption Commission, has established good governance in the Palestinian institutions and has decreased the percentage of corruption (The World Bank, 2011), but there is still more to be done. The government should continue its corruption fighting efforts through the following steps (S7), (O1):

✓ Enforcing the law among Palestinians' institutions in public and private sectors, investigating corruption activities and taking legal action to eliminate this kind of activities.

✓ Spreading the awareness of anti-corruption effort and enhancing efforts in cooperation with the private and public sectors, and NGOs, in order to build confidence in the Palestinian institutions, and establish an honest and trustful environment.

### 6.7.3 Strategic Goal 3: Enhancing the Palestinian economy by improving the Palestinian private sector productivity and efficiency

There are several strategies which can be adopted to enhance productivity and efficiency of the Palestinian sectors. Those strategies include the following:

**Goal 1: Modernizing and improving business operations in the Palestinian companies to improve their business practices:**

- Holding trade and investing conferences in cooperation with PIPA, Paltrade, PITA, and other private sector's companies to show the successful Palestinian business experiences, thus attracting investors and encouraging innovators to present their new ideas to global and local investors, and encourage investment activities through venture capital fund (S4, S13), (T4).

- Updating and improving the signed trade agreements pertinent to ICT services and products in these agreements in order to overcome Israeli trade restrictions and enhance the Palestinian trade activities. As it is well known, ICT services don't have to cross any borders (W2, W3), (O1, O2).

- Exposing the Israeli restrictions on the Palestinian ICT sector to the global markets and highlighting the effect of these restrictions on the sector's growth. This would allow the sector to win the global support and exercise pressure on Israel to lift these restrictions or ease them and

consequently this would increase ICT sector's productivity (S4, S7), (T5, T6). This could be done through PITA, telecom companies, and MTIT or PTRA.

- Investing in the industrial and IT sectors and concluding business partnerships in cooperation with Paltrade in order to enhance productivity and improve production quality. This in turn would expand the customer base, and open new markets for the Palestinian products and services, and respond to the global demand (S4, S13), (O1, O5), and (W2, W3, W5), (O2, O4). This strategy could be done through the following:

  ✓ Capitalizing on the existing business and cooperation relationships by investing in industrial equipment enhancement which would improve productivity and efficiency.

  ✓ Forging business partnerships to sell the Palestinian products in global markets, taking advantage of the existence of special trade agreements and incentives for the Palestinian products in these markets. These incentives include duty free or low tariffs.

  ✓ Utilizing ICT tools in the industrial sector to improve its operation.

- Upgrading universities' labs and purchasing testing equipment so that they can perform actual testing of several Palestinian products in order to produce high quality products (W3, W4), (O1, O2, O5).

- Offering outsourcing services to global companies by using available and skilled Palestinian human capital responding to the increasing global and local demand for mobile and web applications. This would improve IT sector productivity in serving different businesses in the local and global markets and offer reliable and high quality services at competitive prices (S6, S10, S14), (O3, O4). These services include the following:

  ✓ Call center and customer services for different kind of businesses, utilizing the presence of Reach Company Call Center.

  ✓ Software developments of mobile and web applications.

- Creating flexible delivery systems through utilization of ICT tool services, and trying to cope with the separation between the Palestinian communities and cities, and reduce delivery cost and time (S11), (T1, T2).

**Goal 2: Improving the management skills**

Developing management skills is important to improve the quality of the strategic decisions such as business expansion, production of new products, and entrance of new markets. This could be done through the following strategies:

- Offering training courses to develop management skills of Palestinian human resources through internet or through academic institutions (S7, S12), (O1).

- Encouraging innovation, and new entrepreneurs through support of capital venture fund companies, universities, and MOHE (S7, S14), (T7); introducing programs and products that support startups to setup and run their business; and providing useful information, through reports, and articles, and successful stories in the region that could empower and educate entrepreneurs.

## Goal 3: Improving performance and productivity through e-commerce

This goal could be achieved through the following:

- Promoting Palestinian products and services on the internet by offering them on companies' websites, most popular websites, online catalogs, social networks, and emails (S2, S14), (O1, O5).

- Publicizing the existing special trade agreements and the incentives for Palestinian products. This will encourage and support merchants to improve their trade activities (S13), (O2).

- Supporting and encouraging wholesale businesses to participate in the global supply chains by using e-commerce (O1, O2), (W2, W3). This could be done in cooperation with PITA, to offer its IT assistance, and with Paltrade to promote their business in the global markets.

- Motivating and supporting e-retailer (merchants) and e-business startups to increase their sales and expand their customer base (S1,

S14), (O1, O5). This could be done through providing incentives for any type of e-commerce activities. One such incentive is reduction of company registration fees.

# Chapter Seven

# Conclusions and Recommendations

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# Conclusions and Recommendations

## 7.1 Summary

The Palestinian economy is developing and has the potential for more growth. E-commerce is one of the tools that could support this growth. This study has focused on e-commerce and has formulated a strategic framework for a successful e-commerce in Palestine, using e-commerce's flexibility and efficiency to enhance Palestinian business productivity.

In this study, the researcher made use of several studies, research and academic papers written on e-commerce, and studied the critical factors that affect e-commerce adoption and its success factors. These critical factors were ICT infrastructure, legal framework, logistics services, and e-payment systems. In addition, the researcher examined international and regional experiences in order to learn from their experiences build on them and follow their lead.

A two-step analysis of the Palestinian market was made. First, the Palestinian economy current situation with its major economic activities were explored, studying several trade agreements that were signed between Palestinian Authority and other countries such as Turkey, EU, and Arab countries. Then, the researcher examined Palestinian market based on e-commerce adoption factors, making use of statistical information in PCBS reports, governments' reports, the World Bank reports, and the private

sectors' reports. In addition, the researcher conducted several interviews with ICT business leaders in related sectors from MNE, MTIT, PITA, Aramex, and others. Benchmarking Palestine with selected countries from MENA countries (KSA, UAE, Bahrain, Jordan, and Egypt) was performed to find out where the Palestinian position from those countries was. The second step was conducting strategic analysis using SWOT analysis, addressing strengths and weaknesses of Palestinian market and identifying the opportunities and the threats that could face e-commerce implementation.

As a result, a strategic framework has been proposed. This framework includes a Palestinian e-commerce vision, mission, and strategic goals, classified into long-term and short-term objectives. This framework, if adopted, is expected to achieve a successful e-commerce business in Palestine.

## 7.2 Conclusions

- E-commerce, a global trend in the new digital economy, deserves to be studied and tackled given its obtainable benefits on the nation's economy, and business efficiency and effectiveness. Having a successful e-commerce business is challenging, as it requires the nation to have a well-developed infrastructure, an up-to-date legal framework that copes with technology, an attractive and secured business environment, skilled and talented human capital, access to finance, and effective partnership among all sectors.

- In doing this research, the researcher faced many obstacles. The major obstacles can be summarized as follows:

  ✓ There was inadequate research on this topic in the region.

  ✓ There were no significant e-commerce transactions in Palestine.

  ✓ There was inadequate information about the sectors on which the e-commerce activities depend.

- The result of benchmarking the Palestinian market with the markets of the selected MENA countries can be summed up as follows:

  ✓ Palestinian GDP per capita ($1,593 per annum) is the lowest among the selected countries. This has a significant effect on the use of the internet or other ICT tools.

  ✓ Palestine has a high literacy rate (91%). This is one of the important factors to accelerate internet usage. Although Palestine internet penetration rate is not high (39.6%) compared with other countries like UAE and Bahrain, whose internet penetration rates are 70% and 77% respectively, it gives an indicator of the potential to increase the internet usage penetration.

  ✓ Pertaining to ICT sector governance and the level of implementation of ICT strategy, Palestine ranked in maturity level 1 which is described with the limited implementation of ICT strategy and the lack of a unified effort to develop the sector and build the Palestinian

capacity compared with Bahrain and UAE, which were in maturity level 4 and had excellent strategic implementation and perfect governance of ICT sector.

- The strategic analysis, which includes studying the current situation of the Palestinian market and conducting SWOT analysis, is the base of e-commerce strategic framework formulation. This strategic framework embraces the formulation of e-commerce vision, mission, and the strategic goals to achieve successful e-commerce transactions in Palestine.

- Based on the suggested vision and mission statements, the long-term objectives which Palestine hopes to realize within ten years have been identified and short-term objectives in four years would be defined to achieve those strategic goals.

- Based on the SWOT matrix, and the strategic goals, several strategic solutions were suggested to achieve the short- and long- term objectives. The major strategies could be summed up as follows:

  ✓ Modernizing the legal framework to adapt to the new technical advancement and support the development of the new digital economy, which is important in building an attractive business environment and in encouraging e-transaction activities.

  ✓ Effective partnership between private and public sectors and other key players should be presented to facilitate e-commerce businesses.

This can be through taking several initiatives to encourage and support e-commerce activities.

✓ Enhancement of Palestinian economy to become independent and sustainable could be done through effective partnerships among donors, NGOs and all stakeholders of the Palestinian sectors.

✓ Utilization of ICT products and applications in the Palestinian sectors, such as e-commerce, e-government, would improve the efficiency and effectiveness of the Palestinian sectors, which are playing an immense role in developing the Palestinian economy and maintaining sustainable economic growth.

✓ Investment activities are important to boost the productivity of the industrial and IT sectors, thus enabling them to fulfill the global and local needs and offer high quality products and services at competitive prices.

✓ Speeding up the implementation of e-government, and offering all governmental services through it would encourage e-payment activities and accelerate e-commerce adoption.

✓ Speeding up the establishment of the PTRA would create an opportunity to negotiate on having access to frequency spectrum and the license of 3G, thus enabling operators to offer a variety of internet services and applications through mobile networks.

✓ Renegotiation of Paris economic protocol to overcome Israeli trade restrictions and allow freedom of movements of people and goods in addition to control of customs, taxes, and border crossings.

✓ Improvement of the existing trade agreements to give more incentives in ICT services trade activities, and create new multilateral and bilateral agreements with countries that already have trade relationships with Israel to overcome Israeli obstacles.

- This study with its proposed strategic framework for a successful e-commerce is in harmony with the Palestinian Authority's major goal to build the State of Palestine with a sustainable economic growth and less dependency on foreign financial aid.

## 7.3 Recommendations

After the formulation of a strategic framework for e-commerce in Palestine, the studying of the Palestinian market's current situation, and finding strategic solutions to achieve the strategic goals, the following recommendations are proposed:

- E-commerce success depends on all sectors, so the implementation of e-commerce strategic framework needs a government leadership and an effective unified effort across all the Palestinian sectors with a proper sector's representation and engagement in order to achieve the strategic goals.

- It is recommended that the prepared framework be used to formulate a detailed action plan for each sector (i.e. education, health, service sectors,.. etc), complement the major strategic goals of the main strategy, determine a time line to achieve the strategic goals, and prepare a time schedule to monitor and control the strategy's execution to assure the best performance and excellent results.

- It is highly recommended that a specialized committee for e-commerce be established and should include key stakeholders from all sectors and representatives from related governmental entities and private sector to assume the role of facilitating the adoption of e-commerce, and follow up and monitor the progress of e-commerce strategies.

- It is important to follow common standards in monitoring and measuring e-commerce progress in order to assess such progress and compare it with other countries.

- It is highly recommended that the Paris Protocol agreement be renegotiated to give Palestine more independence in customs and taxes, and freedom in movements of goods and people. This is in addition to updating and creating new trade agreements to include ICT services in these agreements and other Palestinian products. This would increase trade activities and export activities, and decrease the reliance on Israeli market and foreign aid.

- In order to accelerate e-commerce, it is highly recommended that the building and the reform of legal frameworks be sped up to cope with

the new digital economy and accelerate the adoption of e-commerce. The most important laws are the E-transaction and E-signature laws which are waiting for President's approval. This legal framework would offer efficient e-government services and regulate electronic activities. This is in addition to the need for preparation of the Cyber Crime Law to regulate internet usage and encourage e-business activities.

- It is highly recommended that Palestinian National Authority and banks cooperate to encourage e-payment activities through the building of confidence in e-payment systems, improvement of electronic payment infrastructure, and the increase of awareness of e-payment methods' benefits among Palestinians.

- It is important to improve the quality of the Palestinian products and services in order to compete in the global markets and increase exports. This can be done through the following entities:

  ✓ MNE, PIPA, and Paltrade partnerships with the support of NGOs to enhance trade relationships and encourage investments to improve production quality, increase productivity, and open new markets.

  ✓ PITA and NGOs' cooperation to offer technical support to the Palestinian businesses to develop their own website in order to be able to promote their products on the web and integrate in the global supply chains.

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جامعة النجاح الوطنية

كلية الدراسات العليا

# الإطار الإستراتيجي لتجارة الكترونية ناجحة في فلسطين

إعداد

**ديمة وليد غالب قادري**

إشراف

**أ. د. سمير أبو عيشة**

**قدمت هذه الأطروحة استكمالا لمتطلبات الحصول علــى درجــة الماجســتير فــي الإدارة الهندسية من كلية الدراسات العليا في جامعة النجاح الوطنية في نابلس – فلسطين.**

**2013م**

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**الملخص**

التجارة الإلكترونية هي ظاهرة عالمية في الإقتصاد الرقمي الناشئ الجديد. وتعتبر وسيلة أساسية في تطوير النشاطات التجارية من خلال استخدام المرونة والفعالية التي توفرها لتحسين الإنتاجية وتقليل عناصر التكلفة.و قد ركزت الدول المتقدمة كالولايات المتحدة الأمريكية خلال العقد الأخير على التجارة الإلكترونية كعامل أساسي في بناء إقتصادها الحديث مستخدمة الفوائد الجمة لهذه التجارة. و في المقابل، فإن الدول النامية كبلاد الشرق الأوسط وشمال إفريقيا، تنبهت إلى فوائد التجارة الإلكترونية متأخرة، فالتجارة الإلكترونية في هذه البلاد لا زالت في مراحلها الأولية، ولكن هناك جهدا جديا يبذل الآن من أجل بناء بنية معلوماتية وتقنية اتصالات قوية، وبيئة قانونية حديثة، وشبكة لوجيستية قوية، بالإضافة إلى شبكة معاملات إلكترونية آمنة من أجل بناء نموذج ناجح للتجارة الإلكترونية في فلسطين.

وتمتلك فلسطين قطاعا متواضعا للاتصالات وتكنولوجيا المعلومات، لكنه نجح في وضعها في مركز جيد بين دول المنطقة. فالإقتصاد الفلسطيني له الفرصة لينمو نموا مستداما والتجارة الإلكترونية هي عنصر أساسي لدعم واستمرار هذا النمو.

الهدف من هذا البحث هوالمساهمة في تطوير سوق التجارة الإلكترونية في فلسطين وتأسيس إطار إستراتيجي لتجارة إلكترونية ناجحة في فلسطين.

يبدأ هذا البحث بمراجعة تطور التجارة الإلكترونية عالميا وبشكل خاص في الولايات المتحدة الأمريكية، ثم في منطقة الشرق الأوسط وشمال إفريقيا بالتركيز على تعريف العوامل الهامة لنجاح التجارة الإلكترونية، ثم بعد ذلك يعرض نتائج التحليل الإستراتيجي الذي يعتبر

الأساس في صياغة الإطار الإستراتيجي للتجارة الإلكترونية. وهذه العملية كانت مبنية على التحليل الإستراتيجي للوضع الحالي للسوق الفلسطيني بناء على العوامل الهامة لتطبيق التجارة الإلكترونية. وقد تم ذلك من خلال جمع معلومات من تقارير القطاع العام والقطاع الخاص ووثائق ومقابلات لقادة في مختلف القطاعات. وبعد ذلك تم عمل تحليل لمواطن القوة والضعف والفرص والتحديات للسوق الفلسطيني، التي أدت فيما بعد لتطوير الرؤية والمهمة والأهداف الإستراتيجية للتجارة الكترونية ناجحة، والتي من الممكن تحقيقها من خلال الإستراتيجيات المقترحة للإطار العام للتجارة الإلكترونية.

وقد ركزت هذه الاستراتيجيات المقترحة على تحديث الإطار العام القانوني لخلق بيئة استثمارية جذابة، وتشجيع الإستخدام الأمثل للتكنولوجيا في القطاع الصناعي لتحسين كفاءة الإنتاج وفعاليته. كما وأن التسريع في عملية تطبيق الحكومة الإلكترونية والخدمات المربوطة بها وتحسين المهارات الإدارية والتقنية للفلسطينيين يشكلان جزءا من الإستراتيجيات المهمة لتجارة إلكترونية ناجحة في فلسطين.