

DIAGNOSTIC STUDY | PALESTINE

EXPORT READINESS & POTENTIAL OF SERVICES SECTORS



Sustainable solutions for a sustainable relationship



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LIST OF ACRONYMS

ABP	Association of Banks in Palestine	IFC	International Finance Corporation
ADSL	Asymmetric Digital Subscriber Line	IPR	Intellectual Property Right
AHA	Arab Hotel Association	ISDN	Integrated Services Digital Network
AMAL	Affordable Mortgage Loan Corporation	ISP	Internet Service Providers
AML	Anti-Money Laundering	ITC	International Trade Center
ATPIC	Al-Takaful Palestinian Insurance Co.	ITO	Information Technology Outsourcing
BPO	Business Process Outsourcing	JD	Jordanian Dinar
BRICS	Brazil, Russia, India, China and South Africa	JTB	Jordan Tourism Board
CFT	Combating the Financing of Terrorism	KBE	Knowledge-Based Economy
DFID	Department for International Development	KIS	Knowledge-Intensive Services
ESAF	Enhanced Structural Adjustment Facility	MAS	Palestine Economic Policy Research Institute
ESCWA	United Nations Regional Economic and Social Development Commission in Western Asia	MENA	Middle East and North Africa
EU	European Union	MoEHE	Ministry of Education and Higher Education
FFU	Financial Follow-up Unit	MoNE	Ministry of National Economy
GATS	General Agreement of Trade in Services	MOTA	Ministry of Tourism and Antiquities
GDP	Gross Domestic Products	MTIT	Ministry of Telecommunication and Information Technology
GIS	Geospatial Information Systems	MOU	Memorandum of Understanding
GIZ	Deutsche Gesellschaft Für Internationale Zusammenarbeit	NAICS	North American Industrial Classification System for Information Communications Technology
HILTOA	Holy Land Incoming Tour Operators Association	NGO	Non-Government Organisations
HRM	Human Resource Management	NIS	New Israeli Shekel
ICT	Information and Communications Technology	OECD	Organisation for Economic Co-operation and Development
		OPIC	Overseas Private Investment Corporation

OPT	Occupied Palestinian Territory	PTRA	Palestinian Telecommunications Regulatory Authority
OS	Operating System	STR	Suspicious Transaction Reports
PADICO	Palestine Investment and Development Holding Company	SWOT	Strengths, Weaknesses, Opportunities and Threats
PALTEL	Palestine Telecommunications Company	UAE	United Arab Emirates
PalTrade	Palestine Trade Center	UN	United Nations
PCBS	Palestine Central Bureau of Statistics	UNCTAD	United Nations Conference on Trade and Development
PCMA	Palestinian Capital Markets Authority	USAID	United States Agency for International Development
PEX	Palestine Stock Exchange	VAR	Value Added Reseller
PHFC	Palestine Housing Finance Corporation	VOIP	Voice over Internet Protocol
PICTI	Palestine Information and Communications Technology Incubator	WTO	World Trade Organisation
PIF	Palestinian Insurance Federation		
PIFBS	Palestine Institute for Financial and Banking Studies		
PIPA	Palestinian Investment Promotion Agency		
PITA	Palestinian Information Technology Association of Companies		
PITO	Palestinian Incoming Tour Operators (PITO)		
PLO	Palestinian Liberation Organisation		
PMA	Palestinian Monetary Authority		
PMHC	Palestinian Mortgage and Housing Company		
PMIF	Palestine Mortgage Insurance Fund		
PNA	Palestinian National Authority		
PP	Paris Protocol		
PR	Public Relations		

I. EXECUTIVE SUMMARY

This report represents the final consolidated report outlining the findings of the study to understand and analyse the export readiness of potential service sectors in Palestine. The report covers four specific service sectors namely financial services, Information and communications technology (ICT), tourism and business and related professional services. The data and analysis contained in this report represents the results of extensive desk research supported by consultations with key stakeholders and sector-based focus groups.

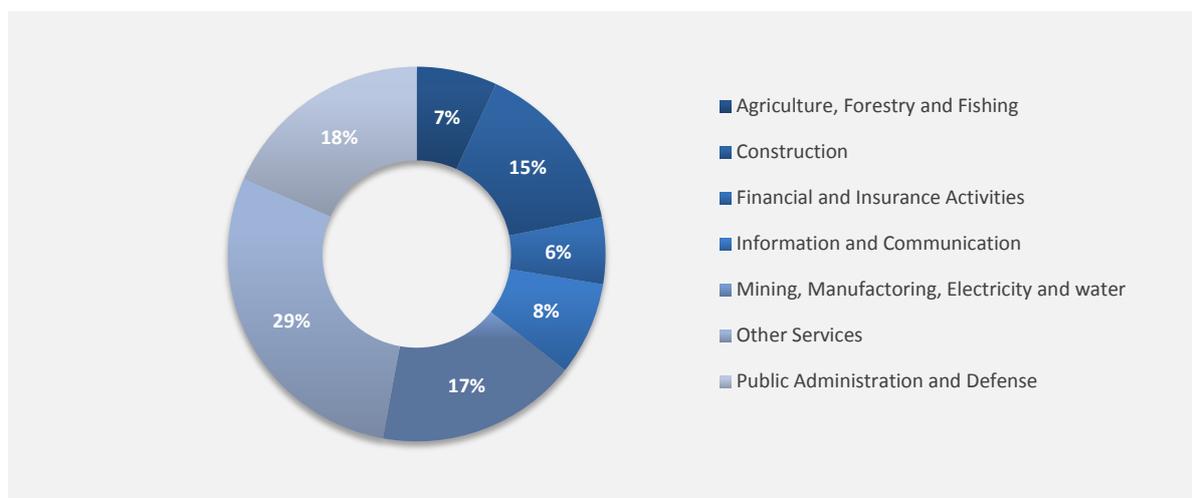
It should be noted at the outset that this project has encountered certain challenges which have limited the outputs in certain areas. Firstly, the interviews were restricted to 50 companies and the universe has proven too small to fully represent the sub-sectors. The report has thus had to rely on data provided by associations. Not every sub-sector is organised and not every association is well represented and this has limited the depth and value of the inputs obtained from these sources. Secondly, data collected by the different public institutions in Palestine is not compiled into a single database. There is no cross-referencing and data is not readily available for all sub-sectors. More importantly, there is no regular schedule for data collection impeding periodicity and the identification of potential sub-sectors. This has limited a comprehensive analysis of services. Lastly, there are low levels of cooperation between companies and it is common for local companies to compete directly with each other. The most important limitation of this factor is in collecting data on export markets which companies are not willing to provide. The result is a poor export market overview. This is heightened by the fact that exporting companies understate their exports of services as they are afraid of revealing information in case they face government retribution.

THE SERVICES SECTOR

The services sector is the largest contributor to the Palestinian economy accounting for almost 80% of GDP in 2011. The importance of the services sector to an economy with an unemployment rate of 20.9% is that it represents potential for significant growth and therefore employment. Services are further exportable remotely which greatly reduces the limitations around physical access and exit faced by Palestine. Given the limited size of the local market, this growth and development needs to stem from increased activity in international markets.

As shown in the chart below, major service sub-sectors include construction, information and communication technology, financial and professional services and the wholesale and retail trade.

FIGURE 1 COMPOSITION OF PALESTINIAN GDP (2011)



SOURCES | PALESTINE INVESTMENT PROMOTION AGENCY

FINANCIAL SERVICES

There has been remarkable development in the financial services industry in Palestine during the past fifteen years. Currently there are 19 local and international banks, 10 insurance companies, 350 Bureau d'Change, 10 securities companies in addition to the Palestine Stock Exchange, 7 financial leasing companies, and 2 mortgage-lending companies. The microfinance industry is also showing strong development.

The public sector remains very involved in the banking and loan sectors specifically and as a result directly influences growth. The 2012 strikes sparked by a financial crisis within the Palestinian National Authority (PNA) and the resultant changes to economic policy stand as a warning for the financial sector which cannot afford to be linked to the financial sustainability issues of the PNA. During 2013 it is expected that financial institutions will shift their target market to the private sector in an effort to become less dependent on the government and government changes in policy.

The sector is regulated by the Palestinian Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA) and is supported by two associations namely the Association of Banks (ABA) in Palestine and the Palestinian Insurance Federation (PIF). The influence of these bodies is limited and they are unable to enforce legislation and actively monitor the financial sector. This remains a challenge for the development of the sector.

It has become apparent that very few financial services are being exported by Palestinian companies. The banking and insurance sectors, which are the two largest financial services sectors, are only minimally familiar with the concept of trade in financial services. The interviews with banks and insurance companies have revealed that most banks and insurance companies are interested in further developing the local market rather than focusing on international opportunities. Existing exports are

primarily related to the Palestine Stock Exchange and to private bonds being sold by PADICO Holdings¹.

The consultations have revealed that there are good opportunities outside of the two major sub-sectors of banking and insurance that can be developed further. The opportunities arise from developments surrounding the Palestinian securities and the issuance by PADICO Holding of corporate bonds which are sold to local and foreign investors and which are being traded through a special investment arrangement with the London Stock Exchange.

A further opportunity has been identified in developing financial products targeted directly at the Palestinian Diaspora. These could include the provision of mortgaging services with the potential for payment through local banks at the place of residence in cooperation with Palestinian banks.

Outside of the Diaspora, key export markets for financial services would be other countries within the gulf region specifically Jordan and Kuwait, Europe, specifically the United Kingdom and North America.

The key strengths of the sector relate to the quality and cost of the services, the level of education of the workforce and the unique expertise that the sector is able to offer. Weaknesses include a lack of specialisation, limited brand identification, a lack of innovation and technological leadership. This translates into the sector having a competitive advantage by way of solid quality standards and banking regulation, a good financial infrastructure and the existence of advantageous trade agreements. The comparative advantages of the sector include the quality to price ratio and unique expertise.

One of the key challenges around the internationalisation of the financial services sector is the legal system which has not kept pace with the rapid developments in the financial services sector. The general legal framework of Palestine is a mosaic of various laws and legislations including Ottoman, British, Egyptian and Jordanian laws alongside Israeli military orders which are applicable in the West Bank and Gaza. Sharia and customary laws are also part of this legal mosaic. More recently, the PNA has added its own layer of laws and regulations. Although efforts are being made to unify and modernize the Palestinian legal system, judicial laws remain relatively underdeveloped regarding financial and commercial transactions.

Other identified barriers to exporting include the difficulty that firms face in establishing themselves as credible suppliers in the international market, difficulty in meeting international requirements, a lack of market information and contacts in foreign markets and trade barriers in international markets.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

The information and communications technology (ICT) industry, which includes telecommunications operators, computer and software developers and electronic equipment manufacturers and resellers, plays an important role in the overall

¹The Palestine Investment and Development Holding Company is a limited public shareholding company traded on the Palestine Exchange (PEX) whose mission has been to develop and strengthen the Palestinian economy by investing in key economic sectors.

economy of Palestine. There are currently about 250 ICT companies in Palestine employing over 5 000 people in the private sector. ICT sector revenue is quoted at figures of anywhere between US\$1 billion² and US\$500 million. More conservative commentators place the figure at around US\$350 million which is probably more realistic.

The sector has shown remarkable growth expanding from 0.8% of GDP to 5% of total global GDP between 2003 and 2008. The sector currently accounts for 7% of GDP. This growth is expected to continue in the medium term. [m1]

Leadership and representation within the Private ICT sector is problematic. Tucker (2010) has argued that the Palestinian ICT sector is fragmented, disconnected and often inert; many Palestinian firms struggle to establish themselves in the local context, let alone in a regional or international one. He further maintains that without the vested financial and institutional interest of the government, as seen in cases in most other emerging economies the ICT sector is left leaderless at a time at which it most needs direction and propulsion [m2]. The Private sector is represented by the Palestinian Information Technology Association (PITA). The Association has limited membership in relation to the universe of ICT companies in Palestine (~~60~~ about 150 members out of approximately 250 members or just ~~under 25~~ 60%) and this impedes a real knowledge and understanding of the sector and sectoral issues and advocacy issues are limited to members interests.

An assessment of the sector carried out by USAID in 2006 revealed that the sector's market in software and hardware was mainly local, with some software products exported regionally to the United Arab Emirates, Saudi Arabia, Yemen, Iraq, and Jordan. At the time of the USAID assessment, ICT exports were estimated to have grown from US\$3 million in 2001 to approximately US\$10 million in 2005. Key product strengths identified at that time were management or financial/accounting solutions, and management information systems.

The sectors expertise and reach has expanded since 2006 and currently Palestinian ICT companies are involved in the provision of back office support; data cleaning; consulting; geospatial information systems (GIS); provision of training; turnkey solutions; mobile applications; and quality assurance and testing. There is an opportunity to expand these services further into the international market. A CISCO survey carried out at the end of 2010 revealed that of the 22 companies surveyed, 57% per cent reported that they had expanded business outside of Palestine since the beginning of 2010. The survey also revealed that companies are starting to move away from traditional export markets in the Gulf Region and moving into new markets in North America and Western Europe. There are also a few Palestinian companies that have started to work with large international IT companies such as CISCO, Hewlett-Packard, Intel, Oracle and EMC. As a result of these contracts, company credibility is increased and these companies find they are starting to get contracts from other international players.

Stakeholders and companies see a number of opportunities for development of the sector. The presence of multinational firms in domestic ICT initiatives provides local

²The Palestinian ICT Private Sector 3-Year Strategy and Development Plan published by GIZ

companies with direct access to international markets. The presence of a large Palestinian Diaspora and the country's cultural and geographic proximity to Arab and European markets respectively provides a good outsourcing opportunity. Certain technology and market developments provide positive prospects including the development of e-commerce and e-government and the expansion of multi-lingual digital content and mobile software technology. Specific threats to the sector have been identified as the deteriorating political environment, the segregated relationship between Gaza and the West Bank, the loss of skilled staff abroad, the low prioritisation of the development of a knowledge economy by government and increasing competition from companies in countries such as Sri Lanka and Bangladesh.

Key export markets for ICT exports identified by companies and stakeholders are West Africa specifically Togo, Nigeria, Gabon and Cameroon, the USA and Canada, Europe specifically Malta, Germany, Netherlands, Cyprus, Norway, Italy, France and the United Kingdom and countries within the MENA region specifically Saudi Arabia, Jordan, Egypt, Iraq, Israel, Oman, Libya, Morocco, UAE (Dubai), Lebanon and Algeria.

The key strengths of the Palestinian ICT sector are the well-educated population with a high literacy rate and proficient language skills, the steady growth in the supply-side of the market in recent years, the existence of a core group of local companies with real access to the external market and the willingness of these companies to cooperate with other local suppliers, the government's commitment to the liberalisation of the telecommunications market and MTITs support of the ICT sectors' priorities. The ICT sector is further low cost based compared to other regional players. Weaknesses include a relatively low level of ICT penetration in Palestine, an absence of leadership and coordination in the private sector, limited policy and advocacy development within PITA, a shortage of specialist skills and insufficient organic growth in the local market.

Competitive advantages of the sector are the language skills of the engineers and software developers, a time zone aligned to the Middle East and Europe, solid infrastructure and the existence of home-grown award winning software. Comparative advantages are the fact that labour costs in Palestine are lower than those in Israel, the USA and Europe and neutrality of the Arabic accent which is of benefit to the call center industry.

Despite the strengths and competitive advantages of the Palestinian ICT sector, there are a number of constraints to developing exports further including security issues and the fluid political climate and allied to this, the challenges faced in getting international travel documents, difficulty in establishing credibility as a supplier in the international market, a lack of knowledge around international markets and how to identify suitable partners in these markets, trade barriers in international markets, limited availability of risk and venture investment and working capital and difficulty in attracting the skilled employees to the sector.

TOURISM

Tourism in Palestine has seen something of a turnaround over the last five year and currently tourism accounts for around 14% of GDP³. There are currently 93 hotels in the West Bank and 12 in Gaza in addition to some 70 guest houses in the West bank and Jerusalem. There were some 3.5 million visits to tourist sites in Palestine between January to August 2012. Palestinians residing in Israel made up the largest number of inbound visitors with 35%, followed by 12% from Russia, 5% each from the United States, Italy and Poland, and 3% each from Germany and Indonesia.

Since the Palestinian Central Bureau of Statistics (PCBS) does not provide the full range of statistics required to complete a full data analysis, some estimations were made by local experts to arrive as close as possible to accurate figures. The number of tourists and whether they represented domestic or foreign the revenue have been used to estimate the impact on un-reported tourism services such as restaurants, construction for tourism purposes and income from guides and souvenirs.

Some work has been done around defining what "Destination Palestine" has to offer to the international traveller and this can be summarised as follows:

- Historical sites: Religious holy sites and historical and archaeological sites;
- Culture: Sites, events, costumes, and performances linked to language and religion;
- Flora and fauna: Wild life and environment, biblical gardens, botanical diversity, bird watching;
- Events: Trade fairs, cultural fairs, musical and theatre events, business and Diaspora congresses;
- Landscape and Resorts: Summer and winter resorts;
- Other: Advocacy and political tours, solidarity activities, medical tourism;

Despite the work done around defining the offer, promotional activities around what Palestine can offer as a destination remain extremely weak and this impedes the country's ability to present a diversified offering in the international market.

Tourism is considered a service export and is most often bundled with other goods and value added customised services. What makes Tourism a special service export mode is that it is delivered at in the home country, at a local place of service and cannot be transported cross-border to clients.

The tourism industry is seen to be ideally positioned within the religious and heritage tourism market where the numerous religious sites provide the country with a comparative advantage. Developing this sector of the market provides a solid opportunity for Palestine. There are also opportunities to develop new tourism products such as eco-tourism, cultural tourism and solidarity tourism in a market where investment is still reasonably priced. A hotel classification system has been developed and this will be implemented in 2013. This will greatly improve the quality

³ Estimation for more accurate contribution was done by the Tourism expert for the Minister of tourism during the years 2009- 2011 based on PCBS and MOTA numbers of Tourists and tourism expenditure and once published through the Christmas message of her Excellency Khould Deibes.

perception of accommodation in Palestine and provides an opportunity to entice visitors to stay in Palestine given that the great majority of visitors currently stay in Israel or only spend a single night in Palestine. The threats to realising these opportunities are the continued political instability and the lack of Palestinian control over border posts and points of entry and exit. These issues make competitive tourism markets in Israel and Jordan more attractive to international visitors.

Key target markets for tourism have been identified by stakeholders as the Diaspora, the Muslim Market and the new emerging markets of Brazil, Russia, India, China, Korea, and South Africa.

Stakeholders and companies have identified the strengths of the tourism sector as the richness of religiously significant religious sites, unique natural features such as the Dead Sea, cultural diversity and a culture of warm hospitality. Weaknesses have been identified as a lack of a National Tourism Development Strategy, a lack of resources (financial and human) to manage, develop and promote the destination, high leakage of tourism remittances to Israel, the seasonality of the existing markets, limited diversification of the tourism offering and run down tourism infrastructure.

These weaknesses and hence barriers to development of the tourism sector can be categorised into four areas that require specific attention: deficiency in tourism skills despite the numerous tourism and hospitality courses on offer, an unregulated sector, limited infrastructure and a limited tourism offering and limited accessibility to Palestine. These can be addressed through capacity building, the development of a specific identity for the sector, the widening of the current tourism offer and the creation of linkages between different sub-sector (for example, walking in Jesus' footsteps links pilgrimages and hiking activities) and cooperation between the public and private sector specifically between tourism operators, educational institutions and the Ministry of Education.

BUSINESS RELATED AND PROFESSIONAL SERVICES

Business related and professional services are a very wide category and for the purposes of this study, only those sub-sectors with high potential for export have been included. These are legal services, engineering services, design services, education and training services, marketing and advertising, writing, editing, and translation services, market research and public polling services, management and business consulting, telephone answering services, urban planning and landscape architecture. Although number of companies within some of the abovementioned sub-sector is very limited, the capability of such small number of companies is significant and thus its export potential is high.

Unfortunately there are very few meaningful statistics on this sector making it very difficult to gauge its size or importance. The PCBS does not break down this specific sub-sector and there are no representative business associations in the sector. Growth of exports from the sub-sector will require co-ordination and cooperation at both a public and private sector level to address this issue. The lack of representation further impedes any advocacy efforts to improve the operating environment for companies operating in this sector.

The biggest export market for these services is seen to be multinationals operating in Palestine and this is where the bulk of current exports are directed. This market can be segmented into three distinct target groups: international donor organisations working in Palestine, international companies operating in Palestine and international companies specifically developing a market penetration strategy for Palestine. Exports to markets outside Palestine appear to be ad-hoc and non-strategic. Countries to which companies report doing business with include France, Italy, Egypt, Libya, Saudi Arabia, Tunisia, United Arab Emirates, Iraq, Malaysia, Switzerland, Afghanistan, Turkey, Jordan, Bahrain, and Qatar.

The biggest opportunity for developing exports is the Arab Spring. Countries such as Libya and Egypt provide excellent opportunities as demand for business related and professional services will be very high as the reconstruction and economic development process begins to take shape. A further opportunity exists to piggy-back on Palestinian companies already active in international markets. There are a few issues that need to be addressed if these opportunities are to be realistic and these are the legal framework around recognition of credentials, the lack of specialisation within the sector, the absence of government policy and strategy for the sector and, allied to this, the lack of solid, representative business associations as mentioned above. The lack of standards for the sector is also an issue and creates unfair competition with international companies adhering to international standards. This issue is exacerbated by the fact that the majority of operators in this sector in Palestine are individual consultants operating without the protection of a company structure.

Stakeholders and companies have identified the strengths of the sector as the existence of an educated workforce which provides the basis for skills development, envisioned leadership at a company level within the sector, a culture of cooperation amongst companies and experience in the local and international market. Weaknesses have been identified as the nature of the sector which is dominated by small firms with limited financial resources and with limited competitive advantages in regional and international markets, the lack of differentiation and value added services, the lack of marketing and markets penetration strategies at both the sector and company level and the shortage of adequately skilled staff.

Specific barriers to developing exports have been identified as the volatile political situation and travel restrictions specifically on consultants from Gaza, difficulty establishing companies as credible suppliers, a lack of information of foreign markets and difficulty in identifying international partners, difficulty obtaining finance for business development, the unreliable electricity supply in Gaza, difficulty getting credentials recognised in foreign markets, a lack of quality standards and regulations for services by the Palestinian Standards Institute, the procurement practices of donors and government which lead to unfair competition and a focus on prices regardless of the quality of the service, and the fact that legal services are not permitted by law to undertake any marketing activities.

II. INTRODUCTION AND METHODOLOGY

THE DIAGNOSTIC STUDY IN CONTEXT OF THE TRADE IN SERVICES PROJECT AND A SERVICES TRADE POLICY

Trade in services is a crucial component of the Palestinian economy and hence its trade policy. Palestine, its services sectors and its trade policy makers, however, face the challenge to fully penetrate the potential of international trade in services, to assess and harness the export potential of Palestinian services, to develop a clear vision of national trade policy interests in relation to services and to approach, prepare, manage and conclude negotiations on trade in services agreements with Palestine's trading partners.

To address these challenges, PalTrade and the Ministry of National Economy are spearheading a national effort to build a strong, future-looking national capacity to foster and manage Palestine's future trade in services. Funded by the European Union, the 2-year project titled "Trade in Services" aims to build sustainable national capacity in both the government and the private sector to realize business potential, develop national services export strategies and to successfully negotiate trade in services agreements in GAFTA, EuroMed, the WTO and other fora.

The Diagnostic Study is a key pillar in this effort. It is a part and parcel of wider processes that build on each other to formulate a Palestinian services policy on the one hand and to enhance the export potential of Palestinian services and service providers on the other hand. The findings and recommendations of the Diagnostic Study will contribute to defining Palestinian offensive interests in selected export markets. These findings will also contribute to developing services strategies including export strategies which in turn will be instrumental in providing export support for Palestinian services and service providers not least through organizing road shows in potential export markets. Finally, the generation of the Diagnostic Study involved various consultations among stakeholders. These consultations form the basis for developing a long lasting consultative mechanism for stakeholders to consider pertinent issues related to services trade and services trade policy.

This diagnostic study aimed specifically at assessing the export readiness and export potential of four priority services sectors in Palestine has taken place across a period of six months from August 2012 through to January 2013. The four priority sectors of focus included in this study are tourism, information and communication technologies, financial services, and business-related professional services. Details on the specific services included in these sub-sectors are provided in Annex A.

The overall objectives of the project were to:

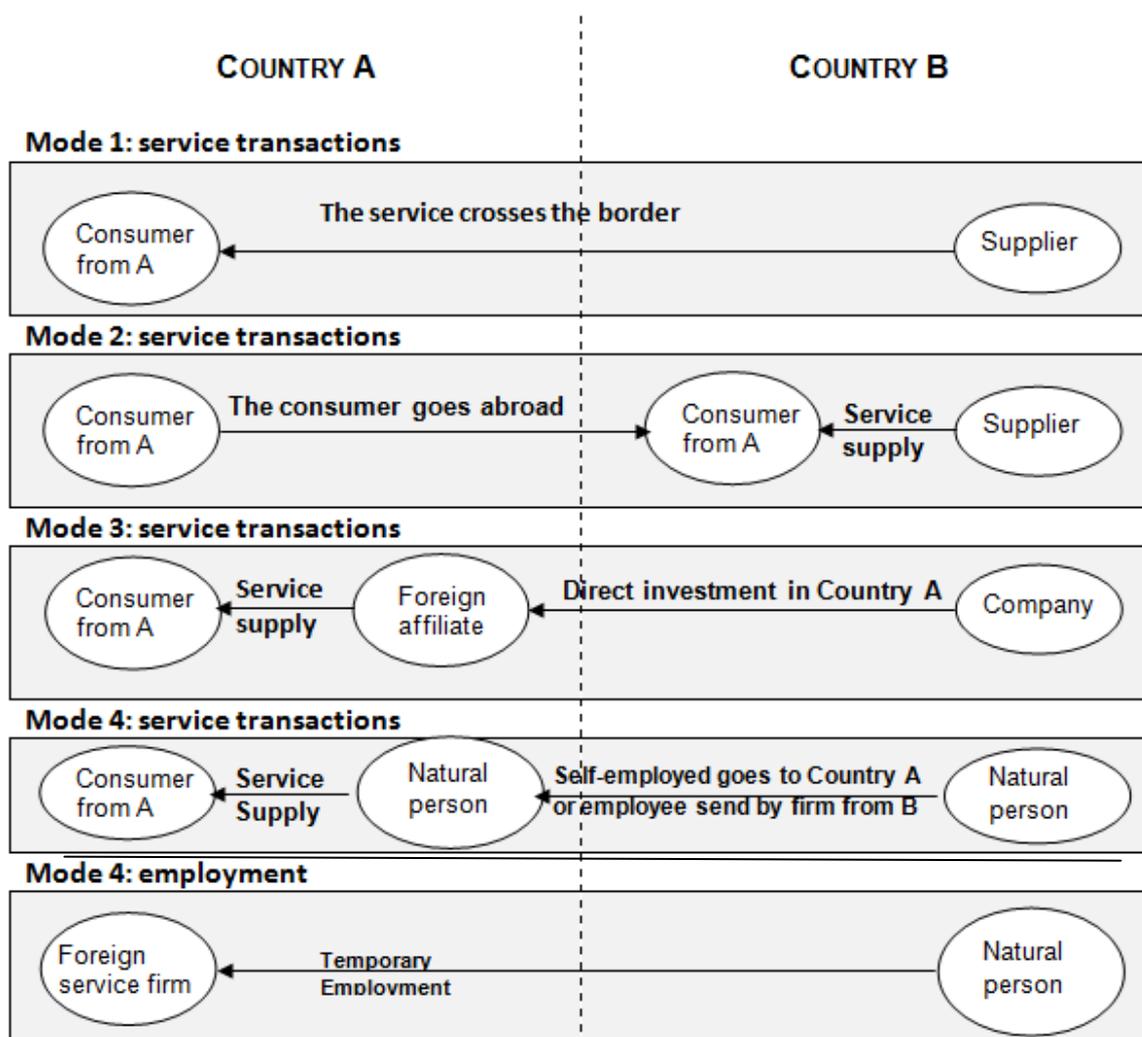
- Identify the interests, challenges, obstacles and needs of the four priority sectors, to be reflected in future trade policies and negotiations;
- Contribute to developing negotiating positions and strategies for trade in services negotiations;

- Guide future policy decisions and possible directions on how to strengthen the participation of SME service providers in global trade in services (and goods);
- Assess the export readiness and export potential of the four priority sectors;
- Analyse the capacity, demand and export market opportunities for the four priority sectors and the 50 service companies, as a representing sample in those sectors;
- Identify capacity building and improvement strategies for the four priority sectors and the 50 service companies, in order to be able to compete in liberalised markets;
- Inform future support to service providers by Government, PalTrade and professional associations;
- Provide a key basis for the design of a Services Export Strategy for the four sectors; and
- Serve as the basis for the design and direction of the services road show.

Before outlining the role of this report in Palestine's broader export framework, it is important to briefly outline how services are exported. The World Trade Organisation's General Agreement on Tariffs and Trade (GATS) provides a definition of services trade according to four specific modes of supply that depend on the territorial presence of the supplier and the consumer at the time of the transaction⁴. The graphic below illustrates the four modes.

⁴ WTO GATS TRAINING MODULE: CHAPTER 1, Basic Purpose and Concepts, Definition of Services Trade and Modes of Supply, www.wto.org (February 2013)

FIGURE 2: THE FOUR MODES OF SUPPLY UNDER THE GENERAL AGREEMENT ON TRADE IN SERVICES



Mode 1 or cross-border represents services that are sold by someone in a country to someone abroad, with only the service crossing the border – e.g., architectural drawings sent by courier, a consultant report sent by e-mail, etc.

Mode 2 or consumption abroad represents services sold in a country to foreigners in the country. This includes all services sold to foreign firms, whether in the domestic economy or the offshore sector, services sold to offices of international organisations or individual foreigners visiting the country (e.g., tourists, trainees, and persons seeking medical treatment).

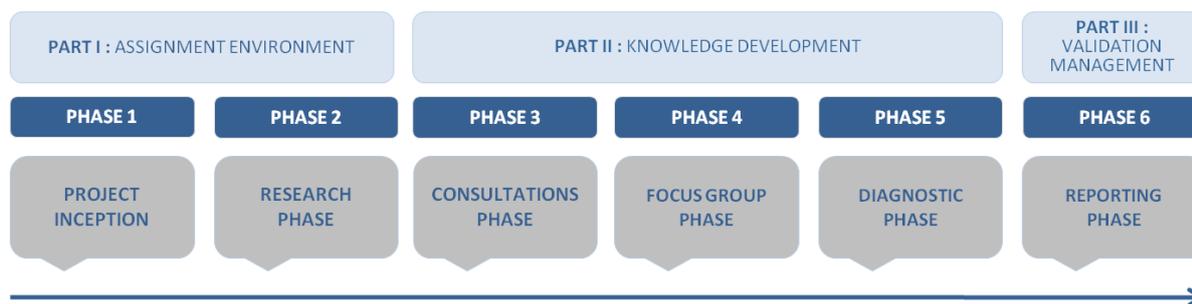
Mode 3 or commercial presence refers to national firms established abroad selling services in a foreign market.

Mode 4 or temporary movement refers to services that are sold or delivered through the presence of the service provider temporarily in a foreign market.

SOURCE | ITC TRADE IN SERVICES BRIEF, 2005

METHODOLOGY

This project has taken place in 6 phases as illustrated below



PHASE 1: PROJECT INCEPTION

The project inception mission was conducted by Emmanuel Barreto from 27th to 31st August 2012. The key elements of the inception mission were to:

- Confirm the scope and objectives of the study;
- Explain methods, tools and materials used in the process;
- Collect institutional memory;
- Agree on the implementation and project timelines;
- Decide on the national team of consultants;
- Discuss project work plan;

PHASE 2: RESEARCH PHASE

The research, consultation, focus group and diagnostic phases were undertaken by a team of seven national consultants covering each of the four specific service sectors under investigation. Each sector was allocated a team of two consultants (a team leader and support) except for the tourism sector where there was only a team leader. The national consultants were required to provide local content and to ensure targeted and effective interventions. An initial twelve consultant candidates from 21 applicants were selected and these individuals were interviewed by the international expert prior to the inception mission. From these, seven consultants were engaged to cover the field work in the West Bank as well as in the Gaza Strip. The criteria used to select the national consultants were:

1. Technical knowledge of the subject - practical and theoretical experience;
2. Research skills;
 - a. Investigation;
 - b. Interviewing;
 - c. Analysis;
 - d. Presentation;
3. Financial proposal;

4. Market potential;

The seven consultants attended a three day training course on trade in services, research methodologies and interview techniques. The training sessions were further utilised to design the various research tools to be used in subsequent phases.

Following the training workshop, the consultants undertook an extensive desk research exercise which brought together data on the industry available in the public domain. The research brief required the consultants to address the following specific objectives:

- Analysis of sector performance;
- Analysis of the different market segments on both the supply and demand side. On the supply side a product assessment will be undertaken;
- Identification and mapping of the different sectors value chains links and identification of points where most value is added locally;
- Identification of actors and stakeholders along the value chain;
- Analysis of the economic impact of services on the local communities through employment, micro and small enterprises, and poverty;
- Analysis of linkages among service sectors and leakages suffered by Palestine;
- Identification of locally produced goods and services with potential for supply to the services market;
- Assessment of the enabling environment i.e. policy, regulatory and institutional frameworks, human resources and business support services, infrastructure;
- Identification of bottlenecks to increased local value addition and participation;
- Recommendation of interventions to increase value addition, improve linkages and increase local participation in the value chain. Success stories of countries where similar interventions have been applied should be highlighted for lessons;

PHASE 3: CONSULTATION PHASE

In parallel to the desk research, a series of consultations were held with various representatives in the four sectors. The consultants used the questionnaires and interview guides developed at the training workshop to guide this process. Overall, the consultants interviewed 72 companies and private and public sector stakeholders. The breakdown across the four sectors is as follows:

- Financial sector: 18
- Tourism: 15
- ICT: 20
- Business-related services: 19

PHASE 4: FOCUS GROUP PHASE

In the process of conducting the research and the interviews various themes and common issues emerged which then constituted the framework for a series of focus group discussions. Focus groups were organised on a sector-basis and the four groups were hosted during November. The platform was utilised by the consultants to draw out recommendations to address specific issues raised during the consultation phase. The focus groups comprised of national consultants, Trade in Services Unit members, selected companies and public institutions.

PHASE 5: DIAGNOSTIC PHASE

Once the research, interviews and focus group discussions were complete, the consultants analysed and distilled the outcomes to provide a landscape of the capabilities of the four priority sectors. Specific attention was paid to identifying synergies and areas of commonality between companies that could be leveraged to provide a more complete and holistic Palestinian offering in the international market and to classifying major impediments to company development, job creation and export growth.

PHASE 6: REPORTING PHASE

The final phase of the project has been the development of recommendations for interventions to increase value-addition, improve linkages and increase local participation in the four priority sectors value chains.

III. FINANCIAL SERVICES

3.1 STRUCTURE AND CHARACTERISTICS OF THE SECTOR

After the war in 1948 and up to 1967, the Palestinian financial sector operated in a harsh environment. There were only a limited number of functioning banks, including Egyptian and Jordanian banks in the West Bank and Gaza, and one Palestinian bank that was established in Gaza in 1960.

After the 1967 war, the Israeli occupation terminated the function of all financial services institutions in the West Bank and Gaza, including all Palestinian commercial banks and their branches along with other Palestinian financial institutions such as the Agricultural Credit Corporation and the Industrial Development Bank. Palestinian bank accounts were frozen, documents removed and cash transferred to the Central Bank of Israel as deposits accounts in the bank's name (UNCTAD, 1989)⁵.

After the signing of the Oslo Agreement and the Paris Protocol on Economic Relations, the West Bank and Gaza witnessed the re-emergence of the financial services sector. Despite the political and economic instability in the Occupied Palestinian Territory (OPT), the financial sector showed positive growth between 2000 and 2012. The formal financial sector has benefited the most from this growth through the establishment of a well-functioning and developed banking sector including commercial and Islamic Banks. Additionally the informal financial sectors such as micro-finance, foreign exchange and stock brokerage have also flourished with potential for growth and an outlook of meeting market demands. The growth in the financial sector is reflected in the security and confidence show by Palestinian citizens as total residents' deposits in banks have increased significantly.

It is worth mentioning that the financial sector was the least impaired sector by Occupier measures compared to other sectors including agriculture and industry, which suffered harshly as result of occupation measures during 2001 and 2002. Today the financial sector in Palestine can be grouped into three sections: financial institutions and a financial market.

TABLE 1: PROFILE OF THE FINANCIAL SERVICES SECTOR 2011 (VALUES IN 1000 US\$)

INDICATOR	FINANCIAL INSTITUTIONS	INSURANCE CORPORATIONS	TOTAL
Number of enterprises	38	10	48
Number of persons engaged	5,754	1,192	6,946
Compensation of employees	131,210.70	21,052.60	152,263.30
Output	382,888.20	50,280.40	433,168.60
Intermediate consumption	70,718.80	21,290.00	92,008.80
Gross value added	26,102.30	1,904.40	28,006.70
Taxes on production less subsidies	312,169.40	28,990.40	341,159.80
Depreciation of assets	22,337.00	1,914.70	24,251.70
Operating surplus	38,835.40	3,897.60	42,733.00

SOURCE | PCBS FINANCE AND INSURANCE SURVEY IN THE PALESTINIAN TERRITORY, 2011

⁵ UNCTAD (1989) Palestinian Financial Sector Under Israeli Occupation, New York: United Nations.

There has been remarkable development in financial services sector in Palestine during the past fifteen years. Currently there are 17 local and international banks, 9 insurance companies, 350-Bureau d'Change, 8 securities companies in addition to the Palestine Stock Exchange, 6 financial leasing companies, and two mortgage-lending companies. The microfinance industry has also developed in Palestine. The growth and development of the financial services in Palestine has been realised under the supervision and monitoring of the Palestinian Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA), with orientation from the Association of Banks in Palestine (ABP) and the Palestinian Insurance Federation (PIF)⁶.

TABLE 2: MAIN ECONOMIC INDICATORS FOR FINANCIAL SERVICES IN PALESTINE, 2004 – 2011
(VALUE IN 1000 US\$)

INDICATOR	YEAR							
	2004	2005	2006	2007	2008	2009	2010	2011
Number enterprises	45	46	47	48	50	49	48	48
Number of persons engaged	4,484	4,700	5,431	5,406	6,221	6,469	6,618	6,946
Compensation of employees	65,193.60	66,767.30	89,659.90	102,567.20	113,790.00	130,189.20	140,310.60	152,263.30
Output	194,293.00	299,342.50	298,638.70	386,507.30	420,882.10	344,728.30	403,727.50	433,168.60
Intermediate consumption	44,095.60	42,120.60	44,053.10	58,421.00	78,710.80	73,907.50	96,358.80	92,008.80
Gross fixed capital formation	7,503.40	34,480.00	34,794.30	23,536.10	24,978.40	36,975.70	27,499.00	28,006.70
Gross value added	150,197.40	257,221.90	254,585.60	328,086.30	342,171.30	270,820.80	307,368.70	341,159.80
Intermediate consumption	44,095.60	42,120.60	44,053.10	58,421.00	78,710.80	73,907.50	96,358.80	92,008.80
Gross fixed capital formation	7,503.40	34,480.00	34,794.30	23,536.10	24,978.40	36,975.70	27,499.00	28,006.70
Gross value added	150,197.40	257,221.90	254,585.60	328,086.30	342,171.30	270,820.80	307,368.70	341,159.80

SOURCE | PCBS FINANCE AND INSURANCE SURVEY IN THE PALESTINIAN TERRITORY, 2011

These institutions provide various financial services. Banks provide deposit, lending, and other banking services. The insurance companies provide a number of services including compulsory insurances such as car and labour insurance and optional insurance including life, health, accidents, fire, theft, and other insurance services. Bureau du changes are allowed to change currencies. Lending institutions give small and medium size loans to individuals and businesses. The banking sector had until December 31, 2009 managed US\$8.1 billion of banking assets and provided US\$2.4 billion in banking facilities to institutions and individuals. Total insurance premiums reached approximately US\$104 million. According to data, the financial sector is headed towards further financial growth in the next few years.⁷

The modern banking and insurance institutions operating in Palestine provide a large variety of services throughout more than 232 bank branches and 11 working insurance companies and a number of insurance agents in 2012 (PCMA 2012)⁸.

⁶ Amwaly. Financial Sector Public Awareness Campaign accessed at www.amwaly.ps/english.htm

⁷ Amwaly. Financial Sector Public Awareness Campaign accessed at www.amwaly.ps/english.htm

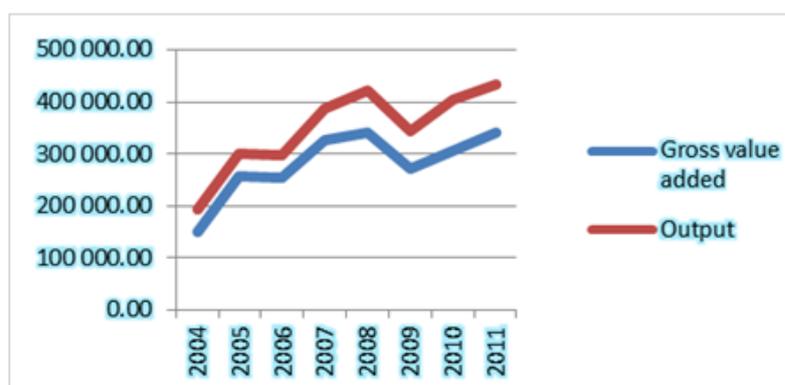
⁸ Ibid

With 2.5% of the financial sector's assets, insurance companies do not play the same role as those in other countries as important institutional investors. The contribution of insurance premiums to GDP was only 1.6% in 2006 while the spending on insurance per capita was about US\$18 compared to the average of 2.7% and US\$60 in developing countries.

TABLE 3: FINANCIAL INTERMEDIATION SERVICES IN PALESTINE 2008 TO 2010 (VALUE IN US\$ '000)

INDICATOR	2008	2009	2010
Number of Establishments	50	49	48
Number of Employees	6,221	6,469	6,618
Compensation of Employees	113,790.0	130,189.2	140,310.6
Output	420,882.1	344,728.3	403,727.5
Intermediate Consumption	78,710.8	73,907.5	96,358.8
Value Added	342,171.3	270,820.8	307,368.7
Gross Fixed Capital Formation	24,978.4	36,975.7	27,499.0

SOURCE | PALESTINE IN NUMBERS 2011 – PALESTINIAN CENTRAL BUREAU OF STATISTICS MAY 2011



SOURCE | PALESTINE IN NUMBERS 2011 – PALESTINIAN CENTRAL BUREAU OF STATISTICS MAY 2011

3.1.1 THE BANKING SUB-SECTOR

The banking sub-sector offers different banking services including granting loans and other credit facilities, accepting customers' deposits, processing checks and transfer funds among other services, through three types of banks, including commercial banks, Islamic banks and investments banks. The investment banks includes three banks with very small capital of US\$30 million and very limited share in the credit system, but with only one advantage which is offering medium and long term loans. The Islamic banks also have small share of activities including value of deposits. All Islamic banks are newly established Palestinian banks with small shares in investments.

The commercial banks are the main section of banking business in Palestine and include Palestinian, Arab and foreign banks. They operate under national public corporations for the Palestinian banks and under foreign corporations for the foreign and Arab banks.

BANKS OPERATING IN PALESTINE – DEC. 2012	
LOCAL COMMERCIAL BANKS	<ul style="list-style-type: none"> • Bank of Palestine P.L.C • Palestine Investment Bank • Palestine Commercial Bank • Al Quds Bank • The National Bank • Arab Palestinian Investment Bank
LOCAL ISLAMIC BANK	<ul style="list-style-type: none"> • Arab Islamic Bank • Palestine Islamic Bank
FOREIGN COMMERCIAL BANK	<ul style="list-style-type: none"> • Cairo Amman Bank – Jordan • Arab Bank – Jordan • Jordan Kuwait Bank – Jordan • Jordan Ahli Bank – Jordan • Bank of Jordan – Jordan • HSBC Bank Middle East Limited – Hong Kong • Egyptian Arab Land Bank – Egypt • Union Bank – Jordan • The Housing Bank for Trade & Finance – Jordan • Jordan Commercial Bank – Jordan

SOURCE | PMA – 2013 – www.pma.ps

They operate under supervision of the Palestinian Monetary Authority as well as other central banks in the case of the Arab and foreign banks. The Banks in Palestine use to work based on the Jordanian laws, up to 2002, when they adopted bank law No. 2 of 2002. The newly adopted law covers aspects of control activities and measures, management and financial aspects and the requirements of establishing new banks.

Other issues are dealt with through banks include money laundering. The money laundering phenomenon has been under spot light for as long as the PMA has strived to develop regulations and procedures tackling this issue. The 2007 Money Laundering Law emphasises transparency, management control and verification of the identity of parties to any transfer. Banks advise customers on how to avoid falling foul of money-laundering regulations and the PMA emphasises that legitimate business activities are consistent with the regulations.

3.1.2 THE INSURANCE SUB-SECTOR

Insurance activities in Palestine were very limited up until 1994. There was only one Palestinian insurance company, which was established in 1975, with a capital of US\$1 million which was involved in general insurance activities with reinsurance secured in London. In addition, there were about 50 insurance agents located in most major cities. Insurance activities were conducted under the Jordan Insurance Law of 1965. The main activity of insurance was limited and related to compulsory automobile insurance that accounted for nearly 60% of the insurance premium. However, since 1994 the Palestinian National Authority (PNA) has been supervising the insurance sector and its geographical scope in this sector expanded in 1995.

INSURANCE COMPANIES OPERATING IN PALESTINE

- Arab Company for Life & Accident Insurance
- Al Mashriq Insurance
- Palestine Insurance
- American Life Insurance
- National Insurance.
- Trust International Insurance
- Ahliea Insurance Group
- Al-Takaful Palestinian Insurance
- Global United Insurance

SOURCE | PCMA, 2013 – http://www.pcma.ps/ia/licensees_docs/2012.pdf

By virtue of the agreement of transfer of powers, the PNA has become the authorised body and supervisor of the insurance sector in Palestine thereby granting licenses to insurers and insurance agents and supervising their activities.

This sector suffered for a long time from the absence of a Palestinian Insurance Law and weak regulation. This chaotic situation came to an end with the establishment of the PCMA in 2004. The PCMA is the authorised body to supervise, control and organise all business related to the insurance sector. Likewise, according to the PCMA website, the issuance of Insurance law No. (20) for the year 2005, has instated a legal basis for the operation where many local and regulation of insurance services. Since the adoption of the law, the number of working insurance companies have increased to reach (11) companies in 2012 operating in the various types of insurance. There remain many management issues in operative insurance companies that need to be addressed. A solution would be staff training and management courses.

The most popular type of general insurance is still automobile insurance (which is compulsory), followed by health insurance and labour accidents. Out of total insurance, 75% of the value of insurance premiums comes from automobile insurance, 5% from health insurance, 4% from insurance against fire, 5% from maritime insurance, 5% from life insurance and 6% from other types of insurance. Of the above types of insurance, maritime insurance is considered as the most profitable activity based on the financial statements of the Palestinian insurance companies. The second group is related to life insurance that provides protection against any financial loss that may happen as a result of the death of a spouse that will result in the sudden loss of family income. The third group is offering insurance to cover the granted loans in the housing sector. Due to the important of automobile insurance, the PNA has established a special fund regarding road accidents.

From amongst the local licensed insurance companies, there are ten companies including two branches of Jordanian companies in the West Bank and Gaza. One company has a 25% share of the market and the top three companies account for 57% of the market. Most insurance other than motor vehicle and medical insurance is general insurance²⁹ with one year policies. Minimum capital for a company that underwrites both life and non-life insurance is US\$8 million and US\$5 million for only one broad class of insurance.

Other models of insurance include the Islamic insurance model, which is important to the Palestinian financial insurance sector. There are many Islamic insurance companies such as the Al-Takaful Palestinian Insurance Co. (ATPIC), which is a public shareholding national insurance company established in March 2007 that aims to serve the growing need for Islamic Insurance solutions by offering a comprehensive range of products and services. ATPIC, similar to other Islamic insurance companies, assures to avoid forbidden Riba-based transactions, and acts in accordance Shariah law and with the concept of "Takaful " which is approved by the scholars of Islamic law and Fiqeh as an alternative product "for commercial insurance". As the "Takaful" is based primarily on the principle of mutual solidarity and the cooperation by policyholders establishing a Takaful Fund through contributions (premiums), who then compensate those who are exposed, to an accidental loss from this fund. Cover offered by Islamic insurance companies includes marine insurance (airfreight and inland transit), property insurance (fire, allied perils and all risks), comprehensive household insurance; burglary

insurance; fidelity guarantees insurance and other types of insurance (PIC, 2010)⁹. The Islamic insurance system is not regulated and thus there is a need for a regulatory framework that ensures fair competition between the Islamic model and other available models offered through the financial sector.

With respect to financial soundness, no West Bank and Gaza insurance company is currently rated by the three prominent insurance rating agencies and solvency and loss ratios are not currently reported to PCMA. One foreign company recently exited the market due to financial difficulties and two are troubled. One troubled company should be supported by a foreign parent and the condition of the other, which accounts for 6% of the market, is being evaluated for PCMA to determine appropriate remedial action. Other weaknesses in the insurance sector include the lack of development and the introduction of new insurance products into the Palestinian market. There is a need to create awareness of the insurance products and the ways in which they are offered.

The insurance portfolio increased by 21% in 2010 compared to 2009, with a total value of \$126 million, while total paid up value of claims reached \$66.5 million in 2010 compared to \$56 million in 2009. The current estimated insurance market sized is estimated at \$132million. The PCMA, in its endeavour to improve conditions and to reduce the risks in the insurance sector, has conducted an actuarial study with the help of external actuaries. It is expected by the completion of this exercise that insurance companies will be called upon to rectify their positions accordingly (PCMA, 2011)¹⁰.

It is crucial for the development of insurance services to assure a high level of awareness and education of insurance practices in Palestine. Students must be aware of the financial sector developments to be able to enter the workforce with the needed skills for a successful career in financial services. Currently, there is no insurance specialisation at Palestinian universities. There is however training for students offered by PIF. The PIF offers training courses on insurance for the students of the Young Women's Christian Association (YWCA) (PIF, 2013)¹¹.

3.1.3 FINANCIAL LEASING SUB-SECTOR

This sub-sector is nascent in Palestine, with the leasing law being adopted by the Council of Minister in September 2011. There are currently 8 licensed companies in Financial Leasing. Very little data is available on this very young sector, to the point that it only started to be considered under financial services by the PCBS no earlier than 2011.

FINANCIAL LEASING COMPANIES

- Palestine Automobile Company, Ltd
- Al-Mashreq Mortgage Co., Ltd
- Ritz Leasing Co., Ltd
- Arab Motor Trade Co.
- Pal Lease Leasing & Renting Services
- Good Luck Co. for Car Rental & Leasing, Ltd
- Palestine Motor Co., Ltd
- Al-Jawwal for Lease and Financial Leasing Co., Ltd

SOURCE | PCMA – 2013 – WWW.PCMA.PS

⁹ Palestine Investment Conference (PIC, 2010).Retrieved from: <http://www.pic-palestine.ps/etemplate.php?id=121>

¹⁰ Palestine Capital Market Authority (PCMA, 2011).Retrieved from: <http://www.pcma.ps/portal/english/IA/Pages/Sector-Overview.aspx>

¹¹ Palestine Insurance Federation (PIF, 2013).Retrieved from: <http://www.pif.org.ps/etemplate.php?id=54>

It is expected that the sub-sector will contribute tremendously to the growth of the economy in the future, pending finalization of regulations. This sub-sector provides the means of increasing local investment in the economy without requiring heavy collateral requirements or long-term credits. Since financial leasing is built on the basis that profit comes from the use of assets not their acquisition, as well as the ability to achieve cash flows resulting from the asset's operation, leasing becomes of particular importance in small and medium-sized industrial enterprises.

Until now, the financial leasing sector has not been regulated and there is no export of financial leasing services from Palestine. In discussions with the various companies that currently operate in this sector, it is clear that the majority deal with automotive vehicles and some agricultural and construction equipment. The potential for export of financial leasing services in the next five years is very limited given that the sector is so small and new.

3.1.4 PALESTINE STOCK EXCHANGE

The Palestine Stock Exchange (PEX) was incorporated as a private shareholding company in early 1995, with the Palestine Development & Investment Company (PADICO) as its major investor. PEX became a public shareholding company in February 2010 and was listed on the 4th of April 2011. PEX operates under the supervision of the PCMA.

After the PNA approved a PADICO-sponsored design and work plan in July 1995, a project team was put together by the PEX and entrusted to establish a fully electronic exchange and depository. By August 1996 the Exchange was fully operational, and on November 7 of that year PEX signed an operating agreement with the PNA, allowing for the licensing and qualification of brokerage firms to take place. On February 18, 1997, PEX conducted its first trading session.

PEX is very appealing in terms of market capitalisation, it is assumed to be financially sound, and well capitalized to maintain a steady business in a volatile business environment, as it passed with the minimum level of impact of the global financial crisis compared to other MENA Exchanges.

As of 3 July 2012 there were 48 listed companies on PEX with a total market capitalisation of about US\$2.8 billion in five main areas: financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in US Dollars. Currently, only stocks are traded on the exchange; however PEX is open to including other securities in the future. In 2009, PEX ranked thirty third amongst the worldwide security markets, and regionally comes in second in terms of investor protection as indicated in the Global Economic Intersection publication on international stock exchanges, 2009. About half of PEX's investment comes from Palestine, with the other half coming from overseas.

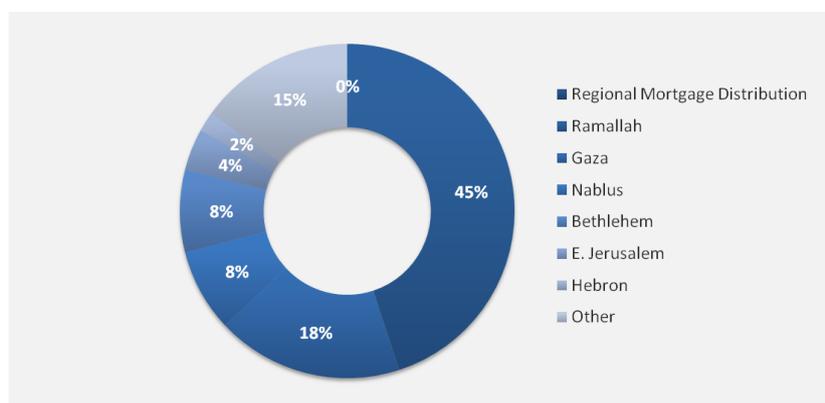
The Exchange launched an e-trading portal on April 24, 2007, to allow investors to buy and sell stocks over the Internet. Stocks traded within the exchange are the only clearly identifiable exports of financial services out of Palestine, since this trade requires that the residence of the buyer has to be identified in order for the

transaction to take place. Within the concept of trade in financial services, the buyer's place of residence, and the place where the funds are transferred from, are the indicator whether the transaction is a cross border transaction or not. Nevertheless, the cost of investing in the securities exchange market in Palestine is higher than other markets since the new Palestinian VAT and Tax Law requires that VAT is charged on the transactions while this is not the case in most of other countries.

3.1.5 MORTGAGE LENDING SERVICES

Mortgage Lending in Palestine is a US\$ 451 million business, which has witnessed a 10% growth in 2011. There are two main bodies providing long term mortgaging and mortgage insurance services to the public through existing banks and financial institutions. Mortgaging services are mostly provided to Ramallah with 45% of the total mortgages. The mortgage sector is still new and not well regulated so far. Thus, there's a need for a regulatory framework that aims at developing the sector.

FIGURE 3: REGIONAL DISTRIBUTION OF MORTGAGES



3.1.5.1 PALESTINE MORTGAGE AND HOUSING CORPORATION (PMHC)

PMHC was established in 1997 by an initiative from the PNA and a number of big Palestinian and international economic institutions, and it is considered to be one of the first mortgage companies that are specialised in financing the housing sector in the area.

INVESTORS IN PMHC

1. MASSAR Group International
2. The National Bank (TNB)
3. Consolidated Contractors Company (CCC)
4. Palestine Real Estate Investment Company (PRICO)
5. Arab Bank plc.

PMHC re-finances mortgage loans that are financed by its partner banks through its first subsidiary; Palestine Housing Finance Corporation, in addition the company insures against mortgage credit risk through its other subsidiary; Palestine Mortgage Insurance Fund. The PMHC provides long-term funding that enables individuals to borrow for periods up to 25 years.

The company provides insurance to banks in case of borrowers' default, thus reducing the credit risk of lending institutions, which encourages them to finance the housing sector. It is worth mentioning that Palestine Mortgage Insurance Fund provides insurance coverage by up to 70% of net loss against defaulting.

The mother company; Palestine Mortgage and Housing Corporation has an authorized capital of US\$20 million divided into 20 million shares with a nominal value of (1.00) one dollar per share distributed as follows:

1. Palestine Housing Finance Corporation (PHFC) has a capital of US\$15 million divided into (15) million shares with a nominal value of (1.00) US \$ per share.
2. Palestine Mortgage Insurance Fund (PMIF) has a capital of US\$5 million divided into (5) million shares with a nominal value (1.00) US \$ per share.

3.1.5.2 AFFORDABLE MORTGAGE LOAN CORPORATION (AMAL)

AMAL is said to be the first affordable home mortgage finance company in Palestine. "AMAL", (meaning 'hope' in Arabic), currently provides nearly US\$150 million in long-term, affordable mortgage loan funding to leading local Palestinian financial institutions, which will double the number of Palestinian families who are able to purchase a home. AMAL partners include the Bank of Palestine; Cairo Amman Bank; CHF International; the International Finance Corporation (IFC); the U.S. Overseas Private Investment Corporation (OPIC); the Palestine Affordable Housing Association (SAKAN), a Palestinian non-governmental organisation designed to support affordable housing in Palestine; the PIF; the U.K. Department for International Development (DFID) and the United Nations Human Settlements Program (UN HABITAT).

The program offers fixed-rate and variable-rate mortgage loans of up to 25 years. Funding for the company comes from OPIC, which will provide \$241 million to the program; IFC, which will provide US\$72 million; PIF, which will provide US\$72 million; the Bank of Palestine and Cairo Amman Bank, which will collectively provide US\$100 million; and DFID, which will provide US\$20 million in financing to support the mortgage lending program.

AMAL, which was incorporated in Palestine directs and administers the mortgage lending. The banks assume all origination and servicing efforts and are the point of contact with the borrowers. Although AMAL relies on a network of financial institutions to market the fixed-rate mortgage product to prospective homebuyers, the company will establish minimum standards for underwriting and documenting the mortgage loans

The goal of the AMAL project is to develop a sustainable Palestinian mortgage finance marketplace, including (1) fully capable financial service providers with the origination, underwriting and servicing skills necessary to profitably manage mortgage finance operations; and (2) adequate market-based funding for mortgage finance through development of mortgage finance-based opportunities in local and regional capital markets. In addition, the mortgage finance program aims to support the further development of the Palestinian financial services sector through technical assistance programs that will be sponsored by the World Bank, IFC and the United States Agency for International Development. Homebuyers will also be exposed to financial education so that they fully understand the impact of the monthly payment of their family's finances.

3.2 GOVERNMENT STRATEGY AND POLICY PERTAINING TO THE SECTOR

The Palestinian Monetary Authority, (PMA) was initially established in 1994 by presidential decree as an independent institution and later by an act of the Palestine Legislative Council. The PMA Law Number (2) of 1997 outlined the full authority and autonomy of the PMA, and mandated it to be the governmental body regulating and monitoring the banking service sector in Palestine. The PMA, which is the embodiment of the strategic approach of the Palestinian Government to the banking services, whereby the goal is to stabilize the sector, to ensure that depositors are protected, and to provide access to finance for economic development.

The PCMA was established in 2004 to become the authorised body to supervise, control and regulate all businesses related to the non-banking financial sector. Any government strategy that is initiated, developed and/or implemented for the financial sector is channelled through these two institutions. These government strategies are mentioned in the following sections.

3.2.1 PALESTINIAN MONETARY AUTHORITY (PMA)

The PMA promotes transparency, consumer literacy and protection and competition among banks. The PMA is the main legislative body that works on regulating banking services in Palestine in cooperation with private sector institutions such as the Palestinian Banking Association. All government strategy and plans such as the establishment of deposit insurance or credit ratings and a credit bureau, as well as the implementation of consumer protection mechanisms, among many others, are being developed. The PMA vision is to achieve financial and monetary stability in order to create sustainable economic growth in Palestine. While PMA mission is to ensure continuing domestic and international confidence in the Palestinian monetary and financial system.

Since there is no Palestinian central bank – although the PMA is being restructured to be transformed to be the central bank in the near future – or an independent monetary system, the PMA's development of the financial sector has been concentrated at a management and legislative level. On the management level, the PMA aims to make the financial sector more reliable and credible with the aim to introduce new procedure and services according to international standards and best practices. At a legislative level, the PMA has introduced new rules and regulations that guarantee a more transparent system.

According to the PMA's Web Site (www.pma.ps), the PMA has initiated a fundamental restructuring aimed at transforming the institution into a modern central bank. Building on existing functions, the PMA's Strategic Plan spells out the development of needed institutional capabilities and incorporates governance features in line with best international standards.

In the new structure, the Board of Directors remains the primary decision-making body while the Governor will continue to serve as the Chairperson. The Board will decide on broad strategies and policy issues and oversee the work of the PMA.

3.2.2 PALESTINE CAPITAL MARKET AUTHORITY (PCMA)

The PCMA was established as an autonomous agency by law No.(13) of the year (2004). It is governed by a Board of Directors composed of seven members, with a jurisdiction that encompasses securities, insurance, financial mortgage and financial leasing sectors, along with any other non-banking financial institutions. In the past years the PCMA chaired the National Committee for Corporate Governance in Palestine.

During 2010 the PCMA embarked on a number of projects aimed at improving the internal working environment as well as enhancing the dissemination of information to the public. It has prepared the standard operating procedures (SOP's) within the PCMA and has upgraded its dynamic website to include more relevant and up-to-date information. Moreover, the PCMA has signed a Memorandum of Understanding with the PMA to enhance cooperation and coordination that leads to lower risks in the financial market. Meanwhile scores of staff members have been receiving high level training in their respective field of operation.

Within its strategic vision, the PCMA aims at 5 general objectives:

1. Strengthening the legal and regulatory structure in accordance with international standards and best business practices.
2. Ensuring investor access to complete, accurate, and transparent financial information on Palestinian enterprises.
3. Protecting the interests of investors by developing the internal capacity for risk-based regulation and market monitoring practices.
4. Implementing regional initiatives in coordination with relevant stakeholders to attract foreign investment in Palestine.
5. Establish cooperation mechanism with the Palestine Monetary Authority to support the market development.

The PMA's organisational and operational structure is composed of 4 general directorates with specific objectives as follows:

1. SECURITIES DIRECTORATE

- Strengthening the role of market intermediaries (brokers) by reducing unnecessary regulatory and fiscal barriers, to improve the quality and effectiveness of brokerage services to investors.
- Promoting market growth by enforcing existing legislation, and encouraging enterprise financing through the Palestinian Stock Exchange.
- Improving market liquidity through initiatives to promote private investment in local enterprises.
- Improving internal systems and technology, and develop automated interfaces to enhance information services to investors.

2. *INSURANCE DIRECTORATE*

- Developing the legal framework governing the Palestinian Road Accident Victims Compensation Funds (PRAVCF), including guaranteeing the rights of the companies, the insured and beneficiaries.
- Ensuring that the insurance companies meet their obligations towards the insured and beneficiaries.
- Strengthening the legal basis for obligatory enforcement of disciplinary decisions.
- Providing support to develop all professions related to the insurance sector.
- Expanding the provision of insurance services to cover wider economic activity.

3. *MORTGAGE DIRECTORATE*

- Drafting the needed laws and regulations harmonized with other related Authorities' existing laws and regulations
- Designing, developing, and implementing educational training courses and certification programs to increase the capacities of mortgage lenders, appraisers, etc.
- Issuing clear licensing instructions, defining benchmarks and on-going monitoring and evaluation systems consistent with international best practices
- Designing and implementing effective awareness campaigns with key stakeholders.

4. *LEASING DIRECTORATE*

- Drafting, Proposing, enacting and enforcing the leasing law and related regulations
- Designing and launching a comprehensive public awareness campaign in coordination with relevant stakeholders to improve level of public awareness on leasing
- Designing and implementing a specialised leasing professional training program
- Adhering to instruction on implementation of all other related legislation (i.e. taxation, assets registration)

3.3 REGULATORY ENVIRONMENT

The general legal framework of Palestine is a mosaic of various laws and legislations; Ottoman, British, Egyptian, Jordanian laws and Israeli military orders are applicable in the West Bank and Gaza. Sharia and customary laws are part of this legal mosaic. More recently, the PNA laws and regulations came as an additional layer. In the aftermath of the Oslo Agreements and the establishment of the National Palestinian Authority,

efforts are taking place to unify and modernise the Palestinian legal system. The current legal framework is weak in terms of application and enforcement, which hinders even more the weak judicial system from settling cases in a short period of time. The estimated time for settling a case involving financial services is 10 years. The latter emphasises the need for a viable legal framework that assures an effective dispute settlement mechanism

The Paris Economic Protocol has provided for some space in the area of financial services, especially within the monetary / banking area, which, with the exception of clearance between Palestinian and Israeli banks, and the monitoring of the stability of the NIS circulated, leaves Palestinian banking to be rather independent from Israeli regulation. The insurance sector followed suit, and the Paris protocol leaves the relationship between Palestine and Israel to be somewhat standard as a relationship between any two independent countries, especially with the demand for the highway accident fund. The issue of export or trade in financial services is not covered within the Paris Protocol –with the exception of allowing banks of both sides to operate in the other side, and giving the respective authority to regulate the presence of these banks in each side – and hence regulation is related to the functions of the Palestinian regulatory bodies.

Judicial laws are relatively underdeveloped regarding financial and commercial transactions. The Law of Evidence in Civil and Commercial Matters, and the Law of Civil and Commercial Procedures have not kept pace with rapid developments in financial sector transactions. An example of this is the negotiability of financial transactions and the admissibility of these instruments into the court under this law. Another example is the lack of reliable mediation and arbitration enforcement mechanisms within these laws that would serve to reduce the time and expense burdens upon presentation of disputes in the area of financial services.

It is worth mentioning that according to the banking law in Palestine, any financial system should provide four essential sets of services. The first is a stable monetary framework, which is reflected by low and stable inflation and stable exchange rates. The second is an efficient payment system in both domestic and international trade. The third is a system of financial intermediation, which encourages savings and productive investment, as well as an efficient allocation of capital. Fourth and finally, there should be efficient distribution of risk throughout the economy by, for instance, providing insurance on deposits.

According to the World Bank Report, the cooperation of the PMA with other the West Bank and Gaza regulatory agencies as well as foreign banking supervisors should be expanded. The PMA signed a MOU with the Jordanian Central Bank in February 2008 but until recently there were no regular meetings at the operational level between supervisors and during the last 10 years only one Jordanian inspection has been carried out in the West Bank and Gaza. The establishment of an MOU with the Central Bank of Egypt would also be appropriate since there are 8 branches of Egyptian banks in the West Bank and Gaza. With regard to national cooperation, the PMA Governor is currently a member of the CMA board of directors, which should ensure some cooperation between both regulators. However, closer cooperation would be necessary at that stage of the the West Bank and Gaza's financial development.

The Palestinian National Authority has been supervising the insurance sector in Palestine since 1994 and its geographical scope in this sector has expanded since then.

By virtue of the agreement of transfer of powers, the Palestinian National Authority has become the authorized body and supervisor of the insurance sector in Palestine, thus, granting licenses to insurers and insurance agents and supervising their activities.

This sector has suffered for a long time from the absence of a Palestinian Insurance law. This chaotic situation reached its end with the establishment of the Palestinian Capital Market Authority (PCMA) in 2004 becoming the authorized body to supervise, control and organize all businesses related to the insurance sector. Likewise, the issuance of the Insurance law No (20) for the year 2005, where many local and foreign insurance companies have operated in Palestine, The number of working insurance companies has increased to ten companies in 2010 operating in the various types of insurance.

The insurance portfolio increased by 21% in 2010 compared to 2009, with a total value of US\$126 million, while total paid up value of claims reached US\$66.5 million in 2010 compared to US\$56 million in 2009. The PCMA, in its endeavour to improve conditions and to reduce the risks in the insurance sector, has conducted an actuarial study with the help of external actuaries. It is expected by the completion of this exercise that insurance companies will be called upon to rectify their positions accordingly.

With regard to AML/CFT, a modern law covering financial and non-financial institutions was adopted at the end of 2007. The Financial Follow up Unit (FFU) (acting as Financial Intelligence Unit), which was set up in 2004, now reports to a National Committee composed of the main stakeholders (notably the PMA, the CMA, the Ministry of Justice, the Ministry of Interior and a legal expert). This FFU, composed of 5 persons, monitors remittances (transactions above USD 10,000 must be reported, which represents 300 transactions per day) and analyses suspicious transaction reports (STRs). Since 2004, the FFU has processed very few STRs (14 of which 3 were transmitted to the Attorney General for possible prosecution). So far, only banks report to the FFU since the CMA has not enacted yet any regulation on the topic. Insurance companies, housing finance companies, financial leasing companies and securities companies should also be covered. The PMA also plans to include moneychangers, which are being licensed and regulated by the PMA.

In order to strengthen the insurance sector, the World Bank report advises the government to issue AML and CFT regulations to be administered by the CMA. Additionally, it is important to strengthen companies' operations to enable them to qualify for high international ratings and for reinsurance of a major portion of their liabilities by highly rated reinsurance companies. And finally to develop consumer education program by the CMA.

3.4 SKILLS AVAILABILITY

Palestine Institute for Financial and Banking Studies (PIFBS) was established in 1999 by the PMA in cooperation with Banks operating in Palestine according to PMA Law (No. 2/1997) and Banking Law (No. 2/2002), as a non-profit institution. The PCMA has joined the institute as a member since 2007. Since its establishment, PIFBS has been

able to train 12 632 employees of financial and banking institutions through presenting 812 training courses. It has included, with the trust and support of the PMA, all of banks in Palestine, and its board of directors. The institute has all of the facilities in holding training programs either at its headquarters in Ramallah or in its branch in Gaza. Its programs are also presented in all of the country's provinces.¹²

In addition, and since the services provided by the financial sector in Palestine is developing, most of the skills and knowledge needed are being provided by the normal education system with the addition of introductory training provided by the banks/insurance company. The PCMA recognises the need for enhancing financial analysis and actuarial skills for the insurance industry and its personnel especially for managers and directors.

It is essential for the development of the financial sectors in Palestine, to expand the depth and breadth of specific skills within the financial services sector. Additional, specific skills will add value and specialisation to the sector, thereby increasing the competitive capacity and the Palestinian trade in services offer in, and expanding the export potential. Some of the specialised training fields which are required range from the analysis of due diligence in loan applications to conducting actuarial studies of specific markets. Therefore, it has become imperative to provide comprehensive training to personnel working in the financial services sector in Palestine. Building financial sectors requires professional and competent employees with the needed skills.

Increasing the specialisation and capacity for service provision, for example requires that banks have a minimum (self-regulation) level of mandatory training requirements for bank staff. Although the ABP and the PIFBS offer training courses in all aspects of banking, these courses are not identified as pre-requisites for working in banks. In addition, each bank has its own internal training plan consisting of on-the-job training and regular training and capacity building sessions for staff before they can serve customers. This is an internal bank initiative, and does not represent a regulatory requirement. If the minimum training programs can be included as part of the continuing education/on the job training requirements, then the level of knowledge within human resources in the financial services sector will increase, thereby increasing attractiveness of the sector for export of services.

To date, for example, any consumer protection training is purely incidental. This situation may change as banks implement the Fair Credit Instructions. On the other hand, insurance sector has no industry-wide training initiative in the West Bank. However, both the PCMA and the Insurance Federation indicate plans to establish a specialised training program for the insurance companies' staff, brokers and agents. It is not clear whether this training program will include consumer protection courses. The Insurance Law stipulates that the PCMA may put in place conditions for the licensing of insurance agents, brokers, and insurance experts, including required skills. The law also requires that agents and brokers have a minimum educational level and relevant experience, and they must pass an exam given by the PCMA. The PCMA then publishes the names of agents and brokers that pass the exam.

¹²<http://www.pifbs.com/etemplate.php?id=118>

3.5 PRIVATE SECTOR REPRESENTATIVE ORGANISATIONS

Currently there are 2 private sector representative institutions that are functioning within the financial services sector, the Association of Banks in Palestine (ABP) and the Palestinian Insurance Federation (PIF). The institutions work towards building the capacity of their members and representing them in advocacy of their interests in dealing with the government in general and the Palestinian Monetary Authority and the Palestinian Capital Markets Authority in particular.

3.5.1 ASSOCIATION OF BANKS OF PALESTINE (ABP)

The ABP was established in 1998 as a not-for-profit institution registered under the NGO law at the Ministry of Interior. The ABP has a membership of 7 local and 11 international banks and is recognised by the Palestinian Government as the legal representative of the Private Sector Banking sub-sector in Palestine. The ABP represents its member in dealing with other private sector organisations, as well as the government, including the Palestinian Monetary Authority, responsible for the regulation of the banking industry

The ABP has established several goals, which it aims to work on within its operations in as declared in its annual report for 2012 (translated from Arabic). These goals are:

1. Strengthen cooperation with the PMA, especially for the implementation of schemes of monetary policy and banking, and to give input and private sector perspective about these schemes, when necessary, through full coordination and consultation with the PMA.
2. Work to settle disputes between members or between members and others upon the request of parties to the dispute.
3. Consolidate the concepts of banking, customary practices, and follow through towards standardisation of systems and procedures for this purpose.

During 2012, the work of the ABP is focused on four main themes, and achievements can be summarized as follows:

1. Advocacy activities representing the banking industry took place on 10 specific regulatory and representational issues affecting the banking sub-sector in Palestine.
2. Conferences and workshops held during the year focused on 54 diverse topics related to industry practices both locally and internationally.
3. Performed 7 studies on specific issues affecting the banking sector, and held discussions of these studies with stakeholders.

Published 13 issues of "Banking in Palestine" newsletter which presents the view, events, activities and interests of the banking sector in Palestine.

3.5.2 PALESTINIAN INSURANCE FEDERATION (PIF)

The PIF was founded and has been operating since 1997 as a not-for-profit organisation that has its own independent legal personality. The PIF has a workforce of 15'000 employees and it was recognised as the legal representative of the Insurance industry in Palestine under the insurance law no. (20) for year (2005), according to article 131 of chapter 15. The PIF aims to represent its 10 members and to reinforce the trust in the insurance industry and to increase cooperation with all official and regulatory bodies and all stakeholders in the Insurance sector both locally and internationally.

The PIF has adopted the following as its core operations goals:

1. Adopting the best practices and rules, increasing compliance of members with these practices, and monitoring their commitment to work ethics.
2. Spread awareness of insurance and raise the perceived value of the working in the insurance industry.
3. Consolidate and develop the professional basis of standard insurance contracts, and specify minimum price indicators for all the optional insurance services, taking into consideration the risk degree and the technical prices.
4. Settle the recoveries and compensation cases and develop mechanisms for settling accounts between members.
5. Create insurance technical pools, according to the needs of the Palestinian market, after the approval of the PCMA.
6. Coordinate between the insurance companies in the market, and resolve disputes that may arise between them, and put controls and regulations necessary to achieve this.
7. Form committees of inquiry, arbitration and follow-up, and adopt the principles of its practices and its procedures.
8. Reinforce the trust in the insurance industry and increase cooperation with all official related bodies and all who have a relation with insurance sector locally and internationally.
9. Arrange trainings, workshops and professional conferences, and conduct scientific researches and prepared statistics and issuing periodic bulletins containing data and information about the Palestinian insurance market and that would serve the insurance sector.
10. Cooperate with the official authorities in preparation the insurance legislations to help issuing laws, regulations and decisions that ensure the stability, ascent and development of the insurance market.
11. Participating in the Arab and regional and international insurance associations, as well as other related bodies, and work on organizing administrative, technical, legal and financial meetings in Palestine.

12. Subscribe and cooperate with the Directorate General of Insurance in the (PCMA) and other related institutions to establish a specialised insurance institution according to the provisions of law.

3.6 OPPORTUNITIES AND THREATS

The following is a listing of the opportunities and threats that face the financial services sector in Palestine.

3.6.1 BANKING

1. **Consumer protection in financial services is an important component of financial sector development.** Consumers of financial services have less information than providers and are therefore at a disadvantage in the market. Consumer protection regulation attempts to correct that market disparity through improved transparency and market discipline. To achieve the correct balance between consumers' rights and the cost of regulation, market regulators need to understand both sides.
2. **In the West Bank today, consumers have no advocate or organisation to represent them.** Regulators therefore have insufficient information about consumers to ensure regulation strikes the correct balance between the rights of consumers and the needs of the industry. Additional constraints to improving consumer protection include: a legal basis that does not explicitly cover financial services; uneven regulation across the different parts of the financial services industry; codes of conduct that are not implemented or enforced; a civil code that makes it difficult for Consumers to use the judicial system for redress.
3. **Banking customers enjoy the best consumer protection in the West Bank** due to the recent Fair Credit Instructions issued by the PMA. These Instructions require banks to act as advisors to their customers and provide them with sufficient information to select the most suitable product or service, ensure the products are affordable for the customer, and provide a mechanism for customer complaints. However, the instructions fall short in certain areas such as: requiring a uniform calculation of interest rate; disclosing the PMA as the regulator; and providing a simple "Key Facts" sheet. The Instructions were issued in April 2009, and implementation is not yet uniform across providers. The Code of Conduct of the Association of Banks in Palestine could fill in some gaps in consumer protection, but it is not implemented by banks or enforced.
4. **There is no specific protection for depositors.** The exceptionally high deposit rates seen in the West Bank are more a reflection of the high degree of remittances and aid funding than individual deposits. The low level of bank accounts compared with other countries in the region rather indicates that customer cannot or choose not to use the deposit services of banks.
5. **Insurance regulations are not being enforced.** A statutory code of conduct exists for the insurance industry that addresses some of the critical

consumer protection issues such as: ensuring products are suitable for customers; claims handling; and renewals. However, the PCMA is not currently enforcing the Code of Conduct. There are no specific provisions regarding complaints handling or redress.

6. **The most vulnerable consumers have the least protection from providers seeking to use their information advantage.** As more vulnerable consumers enter the expanding market for financial services, they are likely to be served by unregulated microfinance institutions. The draft microfinance law would establish the PMA or PCMA as regulator, but it is unclear when the law will be passed and instructions written. In the meantime, consumers rely on the good will of the microfinance institutions to ensure protection against abusive practices. There is no third party to whom microfinance customers can complain or seek redress.

7. **Up until now, the PNA does not have its own national currency;** instead, it has a system with four co-existing currencies of Euro, Jordanian Dinar, NIS, and US dollar, as indicated in the table to the right published by the PMA in 2012. The

CURRENCY IN MILLIONS	2008	2009	2010	2011
US Dollar	1,804.84	1,945.32	2,193.16	2,743
Jordanian Dinar	614.04	532.42	579.54	915
NIS Shaqel	5,706.20	5,554.51	6,688.29	8,001
Euro	143.35	71.23	107.50	235

PMA has been, through monitoring of the currency and redemption flows to estimate the amount of currency floating within the market. The PMA estimates (see table above) the values of the Jordanian Dinar to be up to the equivalent to 915 million ID, and 8.001 billion in NIS. U.S. Dollars circulating the economy are equal to US\$2.7 billion, while the Euro reached around 235 million in 2011. The problem of finding the share of each of these currencies circulated in the Palestinian economy is complicated. Each of the four currencies has different functions and associated with different businesses. For example, the majority of deposits in banks operating in Palestine is in Dollars or JD, and may be in Euro, while very small share is in NIS. The majority of loans are in US\$ or JD, while the majority of overdrafts loans is in NIS. In addition, the Palestinian budget is prepared in both dollar and NIS. The payment system also for daily transactions is different based on types of goods and assets. For example trading in land and durable goods occurs in JD or dollar, while trading in glossary and consumables occurs in NIS.

3.6.2 INSURANCE

1. **Re-insurance issue:** The insurance corporations operating in Palestine are supposed to reinsure issued policies in international reinsurance corporations, especially in case of some types of insurance, and based on the value of the insurance premiums and total compensation, in order to share in compensations in case of costly insurance accidents. However, there is no enough supervision on this issue regarding the details of agreements, the class of the reinsured company, and the percentage of the reinsured amount.

2. **The commitment of insurance companies towards their clients regarding paying compensation:** Due to weakness of the legal system in Palestine, insurance companies may not meet their commitments as should be, accordingly, a substantial part of insurance cases end in courts. The PNA decided to get deposits from insurance companies to be deposited for the account of the ministry of finance, but such deposits may not be adequate to force insurance corporations to pay the due compensations.
3. **The legal and supervision framework:** The new securities market law requires that the insurance firms be under supervision body, but such law is not implemented yet, accordingly, there is a legal vacuum. In addition the new released law deals insurance activities as financial markets.
4. **The minimum low level of capital required** from insurance companies working in Palestine, which is set at US\$5 million; moreover, the foreign insurance companies did not even meet this stated minimum level of capital. Accordingly, there is a need to increase the minimum requirements for both national and foreign insurance companies and to monitor the compliance of those companies through ensuring that minimum required level of capital is paid up.

3.6.3 OPPORTUNITIES IN RELATED SUB-SECTORS

Currently, there are good opportunities, which need to be developed further in the area of financial services that do not fall under the coverage of the two major sub-sectors of banking and insurance. The opportunities arise from the developments surrounding the Palestinian securities market, which consists of the PSE, which is the most active player in trade in financial services in Palestine, with around 40% of the value and 35% of the number of shares traded on the exchange are by foreign buyers.

Other opportunities are related to the issuance by PADICO Holding of corporate bonds which were sold to local and foreign investors, and which are being traded through a special investment arrangement with the London Stock Exchange. The bonds experience by PADICO was a very successful one, and opens the door for further development in this area.

Owing to the very large Palestinian Diaspora that has tremendous interest in investment in Palestine, especially in the area of real estate, there is an opportunity for developing financial services especially tailored to the Diaspora, which would open the door for high potentials. Provision of mortgaging services to the Diaspora, and with potential for payment through their local banks at their place of residence in cooperation with Palestinian banks is one such opportunity.

3.7 CURRENT LEVEL OF EXPORTS

3.7.1 LEVEL OF EXPORTS

Upon researching existing levels of exports in financial services, it became apparent that very few financial services are being actually exported by Palestinian companies. The banking and insurance sectors, which are the two largest financial services sectors,

are minimally familiar with the concept of trade in financial services. The banking sector performs routine export activities such as letters of credit, currency transfers and foreign deposits in local banks, but these formulate a very rudimentary level of export of services. The Bank of Palestine is working towards establishing a presence in Chile to provide banking services, but this is just starting and there is no way to measure the level of exports as yet.

Upon conducting interviews with banks and insurance companies to further explore the exports and potentials that exist, it became clear that at the current level of development, size and extent of services, most banks and insurance companies are more interested in developing the local market better than they are interested in export of their services to other markets. The current existing exports are mostly related to the PEX and the Private Bonds being sold by PADICO Holding.

On February 22, 2012, the New York Times published an article entitled “Palestine Securities Exchange a Bright Spot in Equities” which stated that in 2008, as the financial crisis unfolded, the Al Quds index of 12 leading shares of Palestinian companies dropped only 16 per cent, compared to 55 per cent losses in the Morgan Stanley index of Arab markets and 54 per cent losses in the Morgan Stanley index of emerging markets, according to data from the Portland Trust, a British organisation that promotes peace and stability between Palestinians and Israelis through economic development. The article continued by adding that in 2005 the Palestinian exchange ranked as the best performing market in the world, with its Al Quds 12 rising more than 300 per cent in spite of regional instability. According to data available from the PSE, the overall trading in Palestinian securities by international companies in 2011 is the equivalent of US\$300 million¹³.

PADICO Holding was able in 2011 to sell around US\$22 million in bonds, mostly to international buyers through a number of road shows to market these bonds. An agreement was reached with a broker on the London Stock Exchange to sell PADICO bonds.

Massar Associates is the operator of a local investment and equity fund, which has expanded internationally, by setting up equity and Venture Capital funding programs in Serbia and Egypt. Very little information is available on the work that they do, and they have refrained from accepting to be interviewed for this work.

3.7.2 MODE OF EXPORTS

As far as the research was able to determine, the mode of delivery of trade in financial services is mode one, and more specifically, the delivery of the service over the internet. Extending from the fact that most of the financial services being exported from Palestine are securities, it becomes clear that these securities are being sold/traded online, and therefore fall under mode 1 of delivery. The Bank of Palestine is the only financial institution that has some semblance of foreign presence, after several attempts to establish a branch in Jordan and failing due to regulatory / political problems.

¹³ Comparative data for previous years is not available

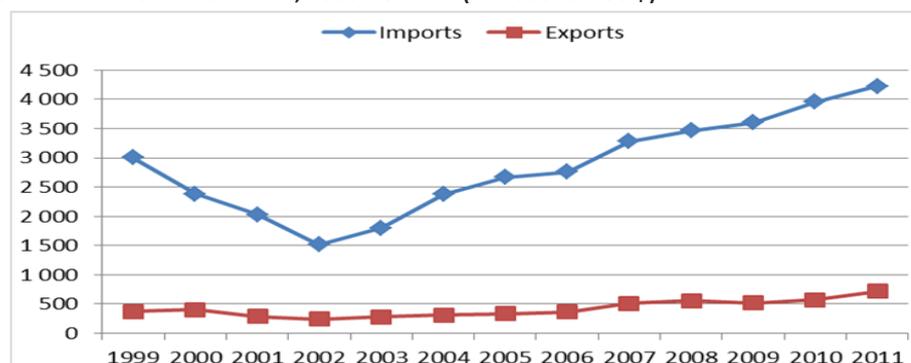
From all the banks interviewed, only the Bank of Palestine and the Al-Quds Bank indicated interest in starting operations utilizing mode 3. Their existing markets, where they claim they are providing services through local banks, are Kuwait, Saudi Arabia and Jordan. There is no way to measure the numbers involved, or the type of services provided, but some examples are transfer services, loan payment, and collateralization. The Bank of Palestine has indicated interest and demonstrated action in opening an operation in Chile through the Palestinian Consulate in Santiago, to meet the needs of the Palestinian Diaspora there.

Even though a thorough questionnaire was conducted for a number of services providers, the responses did not project any insight into the modes of export, since in reality there is almost no documented trade in financial services, with the exception of the examples mentioned above.

3.7.3 TRADE AND THE PALESTINIAN ECONOMY

Palestine is confronted with a significantly large deficit on its trade balance. Furthermore this deficit is on an increasing trend since the mid-nineties. The chart below illustrates the gap between imports and exports. The coverage ratio of exports to imports fluctuates around 20%. A decline in the terms of trade implies an income loss on behalf of the country's residents.

FIGURE 4: PALESTINE'S TRADE, 1999 TO 2011 (IN 1000' OF US \$)



SOURCE | PCBS – FOREIGN TRADE STATISTICS

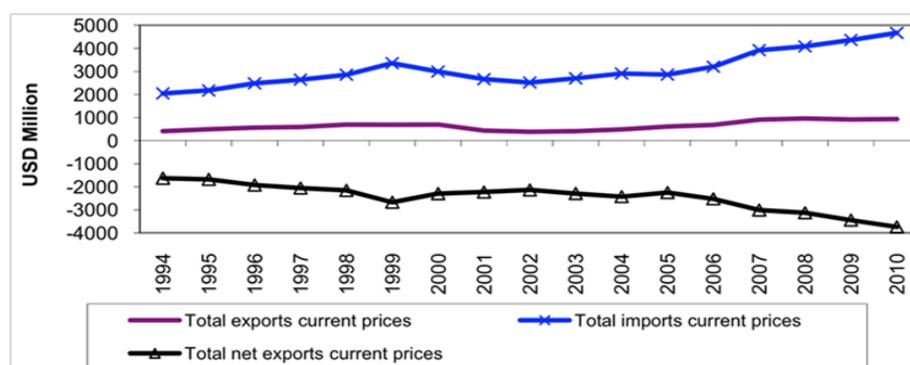
In general, Israeli control and unpredictable closures of Palestinian borders have impeded the regular flow of Palestinian exports and imports and led to higher transaction costs. The Palestinian private sector is struggling to cope with the severe pressure that political instability has added to the already difficult challenge of developing the competitiveness of its production processes. Small and medium-sized enterprises carry a large part of this burden as they constitute the bulk of Palestinian economic establishments and their structure has been severely distorted by the Israeli Occupation. At the same time, economists and development experts stress the vital role of Palestinian Small and Medium Enterprises (SMEs) in rehabilitating the economy and as an engine for long-term and sustainable growth.

Many obstacles hinder the level of Palestinian exports; many are results of the Israeli Occupation measures in Palestine. The obstacles include weakness in the structure and preparation of the product; limited access to technology due to lack of money and

skilled employees; high costs associated with the exports; ineffective trade promotion institutions; high transportation costs; lack of professional experience in international trade; lack of information related to international markets and export; high custom duties and taxes and many other reasons.

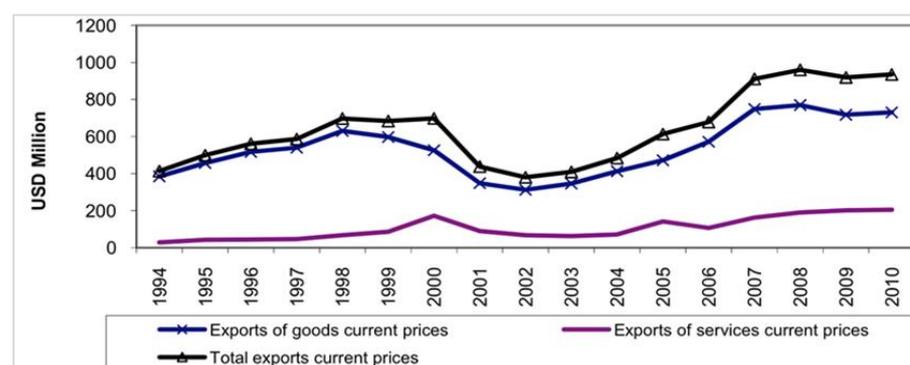
An assessment of the importance and impact of trade on the Palestinian economy is imperative in order to identify the significance of potential trade in financial services on the economy and the potential for exports, as part of a National Trade in Financial Services Export Strategy. The analysis will be based on annual data obtained from the national accounts obtained from PCBS and the PMA. Figure 1 shows total exports and imports in current prices and the net balance between them (net exports). The data shows a significantly large deficit on the trade balance. Furthermore this deficit shows an increasing trend since the mid – nineties, and is even strengthening in the most recent years, due to a positive trend in total imports as compared to total exports.

FIGURE 5: TOTAL EXPORTS AND IMPORTS (CURRENT PRICES IN MILLION US\$)



SOURCE | PCBS AND THE PMA

FIGURE 6: COMPOSITION OF TOTAL EXPORTS (CURRENT PRICES IN MILLIONS US\$)



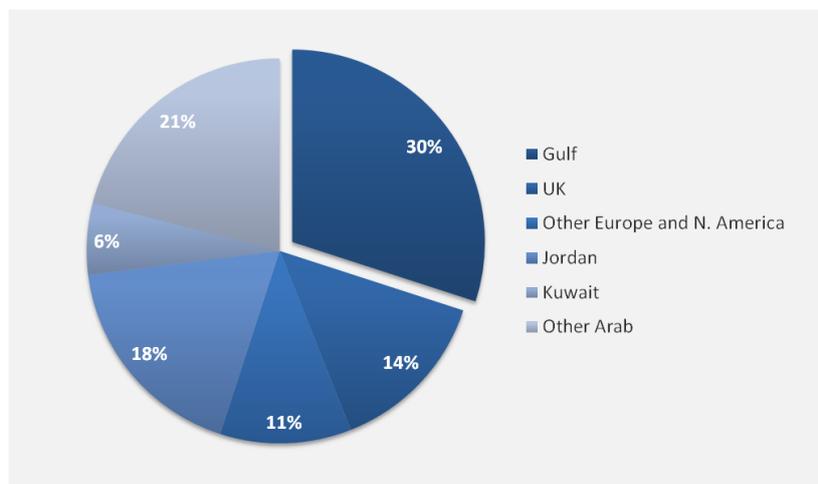
SOURCE | PCBS AND THE PMA

Hence, even if it is a slow process, services exports are growing and formulating a larger part of Palestinian exports. Efforts should therefore be made to expand this potential in order to ensure higher potentials of trade development.

3.7.4 KEY EXPORT MARKETS

In a series of 19 structured interviews with financial services providers, regulators and industry representative institutions, the following were the markets that were identified as key markets for the export of financial services.

FIGURE 7: PERCENTAGE OF INTERNATIONAL SALES BY MARKET



Further exploration shows that most sales of financial services, with the exception of the UK appear to be investments by the Diaspora. This, therefore, appears to be a significantly important market to target and work on expanding sales to, thereby potentially focusing the road show on a selection of these markets, where the Diaspora is residing.

3.8 KEY COMPETITORS

Taking the aforementioned into consideration, there is very little competition to Palestinian Financial Services due to the fact that most of this business is conducted with the Diaspora, who choose local financial service providers because they are the only ones providing the required services.

The two banks, within banking sub-sector who are interested in exporting their services, identified Lebanon, UAE and Bahrain as key competitor countries for their export capacity, with the exception of where it is related to the Palestinian Diaspora. They however, identified 2 banks from Lebanon which may formulate a model to emulate in providing services to the Diaspora. The Palestinian banks also indicated that they are currently facing competition from Jordanian banks, and especially the Arab Bank, which is originally and internationally known as a bank with Palestinian origin, even though it is currently based in Jordan, and which focuses on providing services to the Diaspora, and is also internationally well-known with branches all over the world.

3.9 VALUE CHAIN ANALYSIS

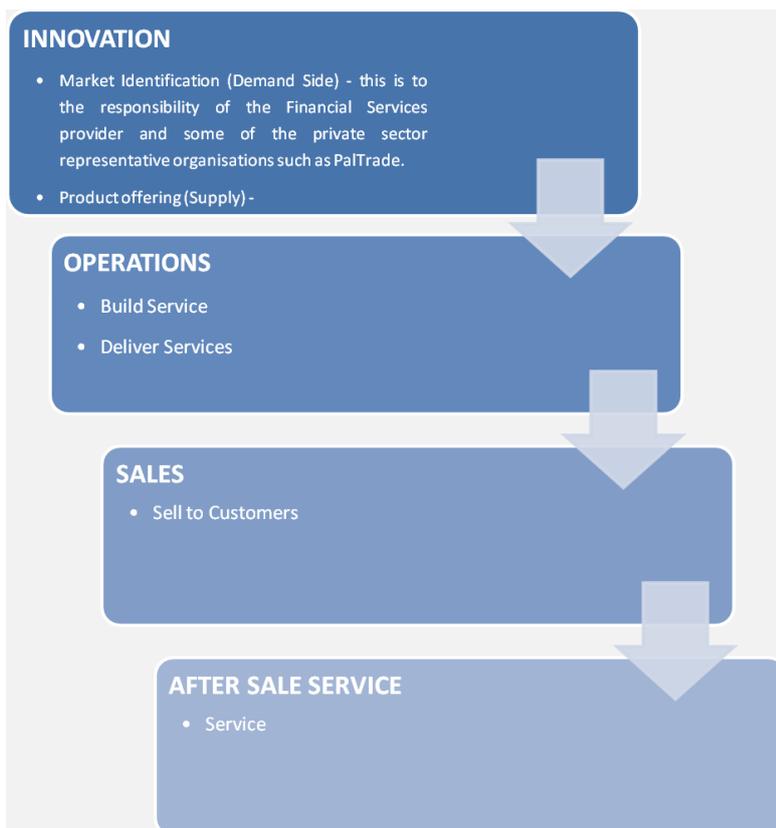
While banking and financial services are key intermediary inputs or embedded services in nearly all manufactured outputs in some form or another, financial services

compose a value chain on their own account. A financial services value chain is based entirely around the production of services. In this industry, the "raw materials" are lenders and borrowers (individuals and corporations) that appear at both the beginning and the end of the chain.

As shown in Figure below, the financial "products" provided by this services value chain are divided between credit intermediaries and financial intermediaries. These institutions primarily collect funds through deposits and lend funds by issuing loans, but, the clear functions of commercial banks and investment banks and other financial services institutions is becoming very blurry and, commercial banks also conduct investment banking, consumer lending... Etc. Moreover, the banking transaction does not represent the end of the relationship between the lender and the borrower. Financial services, generally include the establishment of a relationship between the two, and develop beyond that clear delineation of activities and as a result, firms perform a variety of activities before and after the sale of a product.

An analysis of the value chain for Financial Services in Palestine provides with the following results, which are again a reflection of the existing services being exported:

FIGURE 8: VALUE CHAIN FOR FINANCIAL SERVICES IN PALESTINE

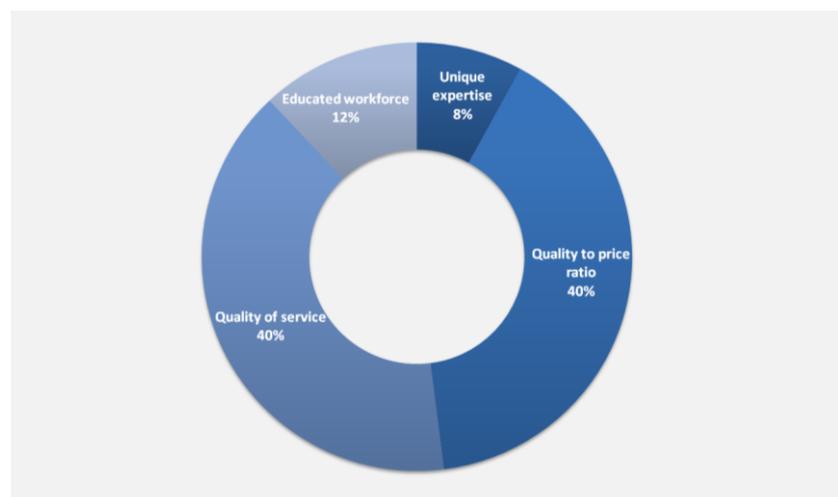


3.10 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Within the Interviews which were conducted with the various stakeholders, and in an attempt to identify the **Strengths** of the Financial Services sub-sector in Palestine, the following were identified as the major areas of strength.

1. The quality to price ratio was identified as the key area where the financial services sector excelled, upon probing what this means, it became clear that those (40% of the total interviewees) interviewed believed that the price/cost of the services provided is an advantage as compared to the quality of the service, hence, the second strength identified of equal value, is;
2. The quality of service provided, which is indicative that those interviewed (40% of those interviewed) that the quality of the service provided in Palestine is high, and formulates a serious advantage.
3. An educated workforce was also identified as an important component by the interviewees. 12% of those interviewed believed that Palestine has an educated workforce that can be an advantage.
4. Some of the interviewees (8%) stated that another strength in the financial services sector is a level of unique expertise that financial services have obtained through interaction with the Israeli and other financial services providers and systems, and the ability to the system to function under the pressure of the occupation, which has given them the ability to adjust and be flexible at all times to deal with problems or issues they face.

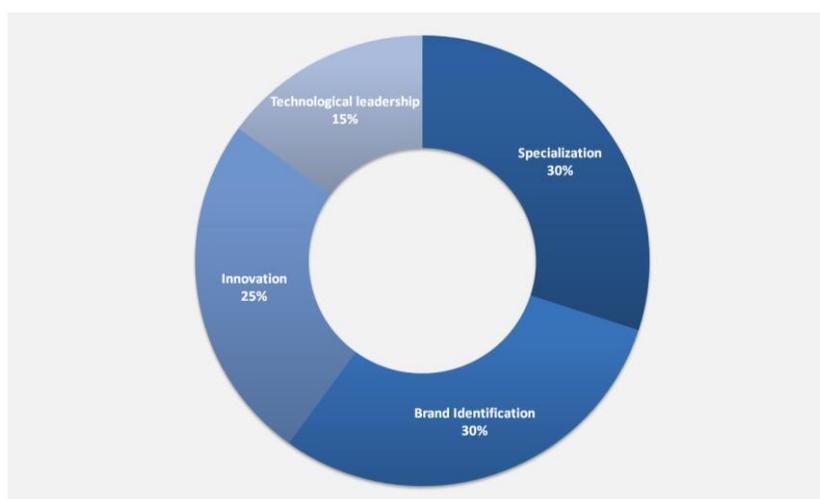
FIGURE 9: STRENGTHS OF THE FINANCIAL SERVICES SECTOR



In the same interview process, the research team attempted to identify what the stakeholders and professionals in the field identify as **weaknesses** in the financial services sector in Palestine. The following are the results that were obtained from the interviews:

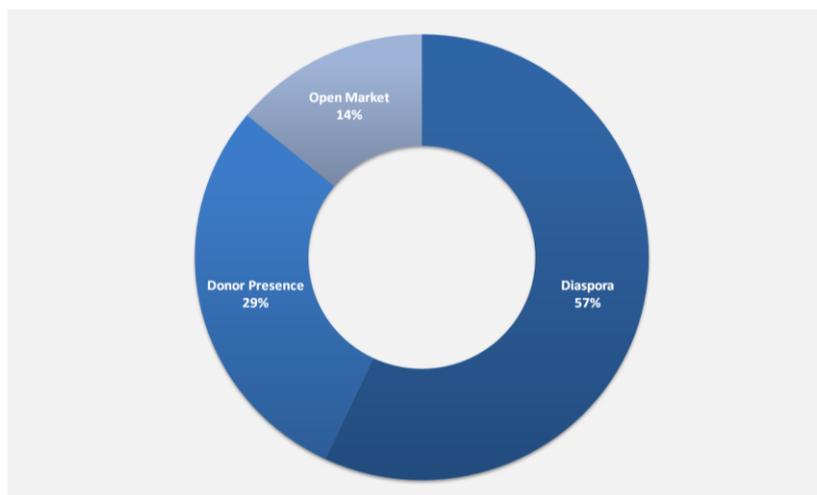
The interviewees identified that there is a lack of specialisation in the financial services sector, and gave the example that all banks work as both commercial as well as lending institutions, and they also provide credit. This conclusion can be extended, according to the interviewees to most financial services companies. The other major point of weakness was identified as the lack of identifiable brands with clearly identified benefits from these brands. It was perceived that with the exception of the Arab Bank, for example, most other banks are the same and that there is no perceived advantage in changing from one to the other. The lack of innovation in service provision was identified as another point of weakness. The financial services “menu” does not include creative value added services which would attract clients and increase competition in this area. Most financial services providers compete on the same services and not on new ones. Technological leadership was another point of weakness, whereby it is perceived that the legal/regulatory system not only does not encourage, but actually suppresses technological innovation. An example of this is the lack of an E-Payment gateway for Palestinian e-commerce, and therefore e-customers have to rely on international payment gateways, thus losing a significant level of business.

FIGURE 10: WEAKNESSES OF THE FINANCIAL SERVICES SECTOR



The interviewees identified three major **opportunities**, which could open the door for further growth in the financial services sector. The most prominent of which is the potential created by the existence of a well-to-do Diaspora, which open the door for both exposure to international standards of financial services, as well as a potential to benefit from “ambassadors” all over the world for Palestine. The second opportunity identified is the existence of an open market with already operating foreign financial services operators that open the door for growth in international transactions, thereby increasing the opportunity for growth outside the local market. The third opportunity is the presence of an abundance of international aid agencies and donors, which allows for a consistent in-flow of money that utilizes local financial services.

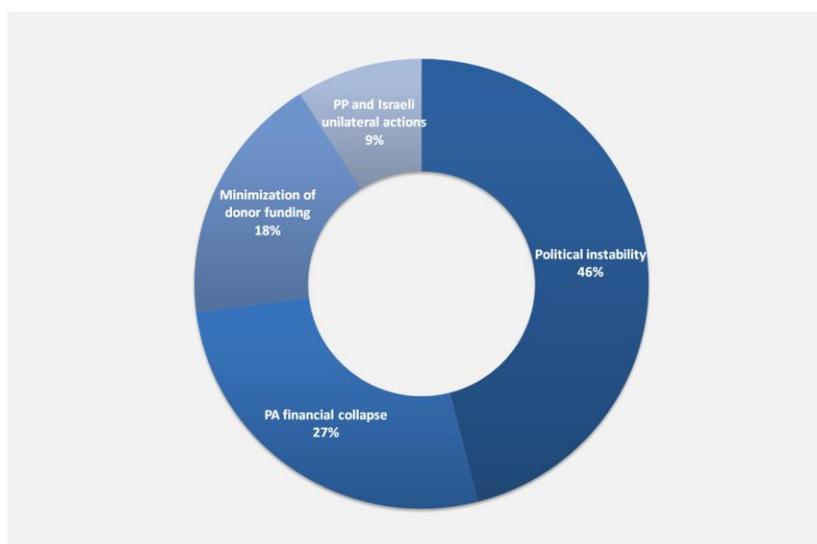
FIGURE 11: OPPORTUNITIES FOR THE FINANCIAL SERVICES SECTOR



A major issue which was not brought out in the interviews, but which is apparent in the analysis of the sector's weaknesses, is the lack of regulation in the sector, especially in the area of implementing regulations to the existing laws. This area will require serious effort in order to put these regulations in place to ensure that the sector functions well.

The interviewees identified 5 major **threats** that the financial services face in Palestine, most prominent of which is political instability, which is a problem that affects the viability of the Palestinian economy. The second threat identified is danger of the financial collapse of the Palestinian government, which is a major threat to all financial institutions, due to the large number of government employees and their impact on the economic cycle. Interviewees also identified the sensitivity of the market to donor funding, which if reduced or stopped, would cause an economic collapse and would affect the economic prospects in the market. Another threat that was identified was the impact of the Palestinian – Israeli economic agreement (Paris Protocol) on the economy through the sensitivity of the financial services sector to Israeli economic decisions, or restrictions which could take place.

FIGURE 12: THREATS TO THE FINANCIAL SERVICES SECTOR



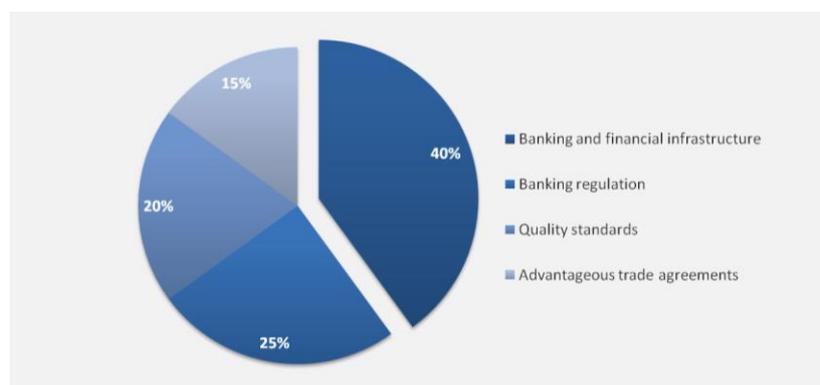
3.10.1 CROSS SECTORAL OPPORTUNITIES

SECTOR: FINANCIAL SERVICES	CLUSTERING OPPORTUNITIES	MARKETING OPPORTUNITIES	OBSTACLES HINDERING PRODUCT DEVELOPMENT
ICT	<ol style="list-style-type: none"> 1. Creation of financial software in Arabic for local and export use 2. Creation of an online e-purchasing system – e-transactions portal 	<ol style="list-style-type: none"> 1. Marketing of financial services online 2. Creating of web portals and web pages for financial services companies 3. Jointly marketing financial services software 	<ol style="list-style-type: none"> 1. Lines of communications between service providers needs to be developed 2. Start of Joint Product development 3. Regulatory framework for e-transactions
Tourism Sector	<ol style="list-style-type: none"> 1. Creating an online reservations and purchasing system for hotels and other tourist facilities 	<ol style="list-style-type: none"> 1. Tourist related insurance packages 	<ol style="list-style-type: none"> 1. Regulatory framework for e-transactions
Business related	<ol style="list-style-type: none"> 1. Creation of due diligence/application processing businesses jointly with Auditors and Accountants 2. Joint services packages to include financial services and accounting services 		

3.11 COMPETITIVE AND COMPARATIVE ADVANTAGE

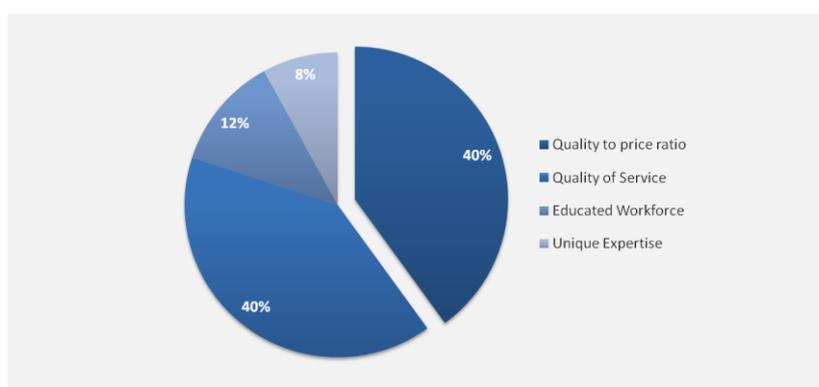
In the questionnaire conducted, the interviewees identified a number of highly competitive areas of the financial services within the Palestinian economy. These highly competitive areas included a good banking and financial infrastructure, whereby the legal and regulatory framework managed and monitored by the PMA and the PCMA is found to be quite sound and dependable and provides for a good opportunity for financial services. The continuation of that is the identification of current banking regulations as positive and provides for a good environment for the growth of financial services. Following in the same direction, interviewees also identified the existence of high quality operations standards in the sector as being highly competitive. Advantageous trade agreements were identified as another highly competitive area, with the understanding that financial services are not only a tradable commodity, but are also a major part of the functioning of the economy with a high level of trade potential created by these agreements.

FIGURE 13: HIGHLY COMPETITIVE AREAS OF FINANCIAL SERVICE



In the questionnaire/interviews conducted, the following were the major comparative advantage areas identified by the interviewees: Quality to price ratio of services is considered a comparative advantage since it is a reflection of the fact that the cost of good-quality labour in Palestine, which is a built in result of the economic situation, actually opens up the potential for high quality services at lower costs than the competition. Again this is reflected in the belief that Palestinian services are of high quality and therefore provide for a comparative advantage. The view of an educated workforce as a comparative advantage is also a continuation of the concept that there is a strong comparative advantage in the financial services in Palestine which results from a good educational system, as well as a drive for education which is one of the highest levels in the region.

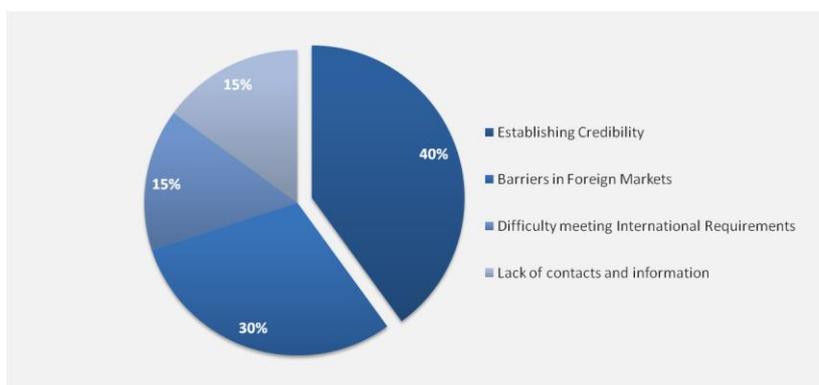
FIGURE 14: AREAS OF COMPARATIVE ADVANTAGE FOR FINANCIAL SERVICES



3.12 BARRIERS AND CONSTRAINTS TO EXPORTING

Interviewees all expressed difficulty in the area of establishing credibility in foreign markets, due to the bad image that Palestine has. The other issue identified is the existence of barriers in external markets, such as the inability of Palestinian financial institutions to register or open operations in other targeted markets. The stakeholders identified the difficulty of meeting international market entry requirements as another area that formulates a serious barrier to being able to export their services to outside markets, and the lack of contacts and information about potential markets as the another constraint.

FIGURE 15: BARRIERS AND CONSTRAINTS TO THE EXPORT OF FINANCIAL SERVICES



3.13 POTENTIAL AREAS OF INTERVENTION TO ADDRESS BARRIERS AND CONSTRAINTS

In the interviews, the following were identified as the 5 most important constraints and barriers to export of financial services in descending order of magnitude:

1. Lack of export knowledge;
2. Labour costs;
3. Difficulty obtaining travel documents to visit and serve foreign markets and clients;
4. Lack of market information;
5. Insufficient commercial trade contacts;

Taking these constraints and barriers into account, it becomes clear that they can be amalgamated into 3 areas:

1. Market knowledge, contacts and information, which is something that needs to be dealt with through programs to develop knowledge of the markets, by private sector institutions such as PalTrade and others.
2. Cost of labour as a production input, and this seems to be somewhat of a problem, and it must be dealt with by the private sector and the government, including providing incentives for exporters of financial services through reduction of taxes, thereby reducing the cost of operations.
3. Movement and access restrictions are an issue that needs to be dealt with in negotiations with the Israeli government and other governments.

Taking these into consideration, the following are basic interventions that need to be undertaken in order to open the door for more potential to export financial services.

1. **Increase knowledge of service providers** in the area of trade in financial services, and work to identify potential markets and products to export to these markets through organised programs for market entry, training, as well as specific capacity building programs.
2. **Work with educational institutions** to ensure that the capacity of graduates is built up to meet market requirements, as well as to increase efficiency, including the government and private sector associations.
3. The **government needs to be informed** by the private sector on target markets that need to be negotiated with for improved market access which would facilitate the movement of people in order to increase contact with markets.

3.14 CASE STUDY OF A SUCCESSFUL SERVICE EXPORTER

As indicated earlier, there is very little export of financial services in Palestine, but the most successful case to be studied is the case of PADICO, which was able to issue and market private bonds through several brokerage companies in the Gulf and Europe.

The attempt was a considerably small one, but a fresh milestone for the Palestinian economy, after PADICO Holding became the first Palestinian company to successfully raise capital by issuing corporate bonds. The five-year bonds, at a value of US\$70 million, are to be privately placed with a group of 14 Palestinian and Jordanian banks. The offer was oversubscribed from the beginning, with investors placing orders for about US\$90million.

PADICO plans to use the proceeds to help finance two long-term investment projects in Palestine – a large new entertainment and real estate property complex near Jericho, and a \$300m new power generation plant in the north of the West Bank. It will also use some of the fresh capital to reduce bank loans, which are more expensive.

The move into corporate bonds marks an important shift for Palestinian companies, which have so far had to rely exclusively on bank loans. What are available in the market are short and medium-term loans. The secured bonds will not be listed or traded, removing the need for a credit rating. PADICO's bonds will have an annual fixed interest rate of 5% for the first 30 months, after which they will pay variable interest linked to US Libor, but within a band of 5 to 6.5%.

Maher al-Masri, the chairman of the Palestine Capital Markets Authority, says the PADICO bonds will “diversify the financing options available to the private sector”.

PADICO is the largest privately owned company in Palestine, with subsidiaries and stakes in sectors ranging from telecoms and plastics to hotels and real estate. The group made a net profit of US\$38.1 million in 2010.

IV. INFORMATION AND COMMUNICATIONS TECHNOLOGY

4.1 STRUCTURE AND CHARACTERISTICS OF THE SECTOR

The information and communications technology (ICT) industry, which includes telecommunications operators, computer and software developers and electronic equipment manufacturers and resellers, can play an important role for Palestine. The ICT sector in Palestine grew from a scant 0.8%¹⁴ to approximately 5% of total global GDP between 2003 and 2008 and to over 5% of GDP in 2010¹⁵. This growth is a dramatic change in the trend away from traditional industry. This has resulted in development agencies such as the GIZ and the United States Agency for International Development (USAID) to take note of ICT as an official sector of the economy for the first time ever. This can signal continuous exponential growth in the sector.

ICT represented 5.4% of world's GDP in 2008 and that share is expected to reach 8.7% by 2020. The growing importance of technology for the future is now reflected in the market capitalisation of the largest firms in the world. At the start of this new decade, 8 of the 50 largest firms as measured by market capitalisation are technology firms: Microsoft, Google, Apple, IBM, Cisco, Oracle, HP, and Intel. Clearly a shift is occurring away from the traditional growth-driving sectors such as energy and automotive, to the new economy and toward technology-intensive sectors. The market capitalisation of the top five technology firms is close to that of the top five from the oil and energy sector.¹⁶

Globally and regionally, a robust ICT sector is now transitioning to become a cornerstone of national economy and its social development. Technology infrastructure enables economic growth by broadening the reach of broadband Internet, mobile applications, and software. By expanding this technology infrastructure, it also creates growth. The fact that technologies make it easier for people to interact and make workers more productive creates additional benefits in other sectors of the economy.¹⁷ Research has shown that ICT productivity gains in developing countries are mainly generated via the activities of the ICT sector, rather than through ICT use.¹⁸ These gains are realised primarily through increased labour productivity, growth in sectors that provide inputs into ICT production, but most significantly through multifactor productivity growth and efficiency gains throughout the economy. The creation of an ICT sector has a multiplier effect on employment. In addition to direct employment in the sector itself, there is also increased employment in adjacent and supporting industries sometime the ratio is said that for one direct job in ICT creates up to 2-4 indirect supporting jobs in the economy such as in India and

¹⁴UN ESCWA (2010). Regional Profile 2009

¹⁵Carana (2011). Partnerships for Palestinian ICT

¹⁶World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009 – 2010: ICT for Sustainability.

¹⁷World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009 – 2010: ICT for Sustainability.

¹⁸UNCTAD (2011). Measuring the Impacts of Information and Communication Technology for Development.

Philippines.¹⁹ This sector is also gender biased towards women where 65% of employees are women in the Philippines.

The role of ICT in enabling economic growth has become even more significant as governments act to stem the effects of the global financial crisis. The ICT sector has done well in these difficult times globally and locally. While some economic sectors have suffered because of decreased consumer demand, or Israeli impediments on physical exports, most segments of the ICT sector have continued to thrive. The ICT sector in some developing countries such as in Central and Eastern Europe expanded as firms, even in struggling sectors of the economy, turned to technology to increase automation levels and reduce costs. The continued growth of social networking and Web 2.0 companies along with the growing popularity of smart phones and innovative applications will continue to drive the growth of the industry where the mobile networks constitute the largest distribution platform.

Over the past few decades, developing countries around the world have improved their capacity to use the ICT sector as a vehicle for economic growth, the rates of which have equalled and, in many cases, exceeded that of developed countries. A great deal of consideration (and GDP expenditure for that matter) is appropriated to ICT investment, in the context of long-term economic growth and stability, as states look to develop and then employ human capital as a reproductive source of economic output.

The proficient use of human capital has enabled developing countries, such as India and Vietnam, to improve the quality of life for large segments of their respective domestic communities. Converting Palestine's region-leading levels of education into high value-added ICT labour is not a straightforward exercise that would allow for both the circumvention of economic barriers, and the acceleration of private and public sector growth despite said barriers. The advancement of software development, Business Process Outsourcing (BPO) / Information Technology Outsourcing (ITO) and telecommunications technology is not wholly limited by the physical movement of goods or people, and is a progression that has already begun in Palestine with names like Google, Intel, Cisco and HP currently invested in ICT sector growth initiatives²⁰. The challenge remains in how to scale such success stories.

The Palestine ICT Cluster Assessment May 2006 - Industry Report published by USAID provides a great brief background and history about the Information and Communications Technology (ICT) sector in Palestine.

According to the report, the ICT related activities started in the West Bank and Gaza in early 1980s with a handful of companies selling computers and electronics. These companies were mostly sub-agents to Israeli dealers and had limited experience in services. Furthermore, the handful of software companies focused on accounting-related packages to serve the local market and came about as a necessity to have a non-Israeli product.

At the beginning of the 1990s the demand for ICT services increased with the demand coming mainly from the private sector, universities and the local governments. During

¹⁹Key findings in the IC4D 2009 report on accessibility, mobile networks, Internet users, IT services, IT-related jobs, convergence, government transformation, and ICT country performance measures.

²⁰MAS Report 2012

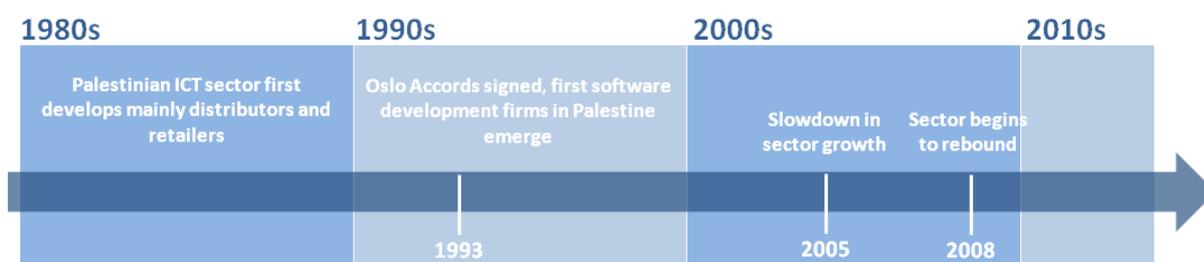
the occupation, Israel fully controlled the telecommunication sector, and it was only after the Oslo agreements in 1993 that ICT activities started to grow. The first Palestinian Internet Service Providers (ISP) was created, and Internet became commercially accessible to individuals, companies and universities.

After the establishment of the NPA and the arrival in Palestine of Non-Government Organisations (NGOs), banks and new companies, the ICT cluster started to show further significant growth by the end of 1995. Today, the NPA is the biggest end-user of technology products and services, followed closely by municipalities and large companies. Utility companies such as the Jerusalem Water and Electricity Companies are also consumers of ICT products and services in Palestine. By 1997, the Palestinian telecom sector was 100% privatised with the creation of the Palestine Telecommunications Company (PALTEL). PALTEL, with an exclusivity license, has a complete digital network connecting the West Bank and Gaza and offers a wide range of services such as standard fixed telephone lines, leased lines, and ISDN connections. It has over 382,700 subscribers for its fixed lines, with a 9% penetration and 156,000 ADSL lines. Jawwal, the cellular operator, has grown in number of subscribers from 821,800 in 2006 to over 2.9 Million mobile subscribers in 2012.

The cluster's 2003 revenues were estimated at US\$87 million and suffered a sharp decline from its 2000 benchmark of US\$120 million. In 2000, the average annual growth rate for ICT companies was estimated at 25%. However, the decline has occurred in 2003 due to political unrest and the eruption of the second Intifada in 2001.

The below illustration is a visual of the Palestinian sector ICT development timeline.

FIGURE 16: PALESTINIAN ICT SECTOR DEVELOPMENT TIMELINE

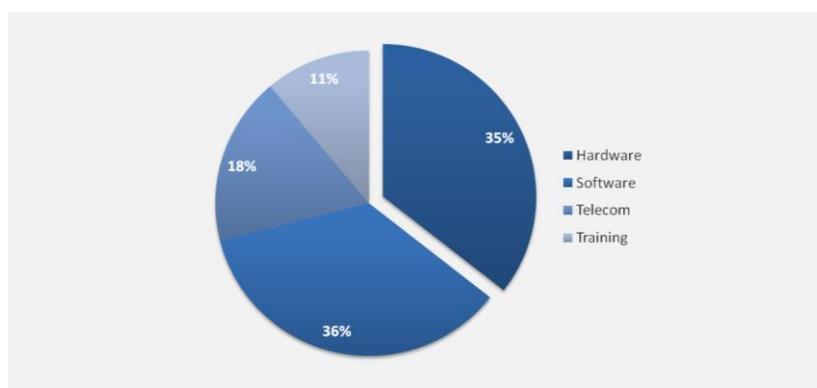


The ICT cluster and market demand is concentrated in Ramallah, Jerusalem and Gaza areas. A wide range of Palestinian ICT companies sell hardware products (direct agents or PC assemblers), software development, enterprise consultancy and Internet services and office automation equipment. As of the end of 2005, there were approximately 100 ICT companies, 150 small computer stores and more than 150 Internet Cafés in the West Bank and Gaza. A number of international companies including HP, IDS, Timex, and Siemens had opened offices or established direct sales operations in Palestine. All of these companies closed down their activities as a result of the conditions caused by the recent conflict, except for Siemens, which is now represented by Exalt.

Based on a 2003 survey of the members of the Palestinian IT Association (PITA), to which 69 companies responded, respondents listed 149 products and services. 29% of these companies are engaged in software development and 28% in hardware sales, and only 5% in product manufacturing. The products and services listed by companies were categorised according to the North American Industrial Classification System for Information Communications Technology (NAICS). A majority of the companies (40%) specialise in a single category of business, but there are a few companies that have diversified offerings like Internet services, software development and hardware sales.

In 2010, the PITA Annual Report presented an increased membership in the area of software development as per the below illustration:

FIGURE 17: PITA MEMBERS – DOMAIN OF ACTIVITIES



SOURCE | PITA ANNUAL REPORT 2010/2011

Before a market can be built, this infrastructure must be in place, or someone must be willing to invest in its creation. In order to build an ICT market, there must first be ICT-readiness. The basic infrastructure of computers, broadband, software, and maintenance must be in place before any industry building can occur or benefits realised. Palestine not only has this infrastructure with an Internet user penetration rate of 37% and mobile penetration in 2009 at 45.7% and growing (unfortunately, not without limitation on online and mobile payment transactions), but it has had a steady emerging ICT industry for over three decades.²¹

4.2 GOVERNMENT STRATEGY AND POLICY PERTAINING TO THE SECTOR

There is no chance of the PNA realising the importance of the ICT sector towards developing the country. One of the most promising opportunities to create an economy that is self-reliant is in the advancement of ICT solutions, as a means of creating a Knowledge-Based Economy (KBE). For example, in the National Development Plan 2011 – 2013 which planned the country towards statehood, the NPA expressed a vision that is relevant to the ICT sector being a major pillar of “... a

²¹ UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region. And http://www.pcbs.gov.ps/Portals/_pcbs/ICT/ict5.htm

state with a strong, knowledge-based economy propelled forward by a pioneering private sector....”²²

The Ministry of Telecommunication and Information Technology (MTIT) has launched the following in both telecom and IT sectors:

1. April 2010 Statement of National Telecommunications Policy.
2. 2011 The Palestinian Interoperability Framework—ZINNAR
3. 2005 the e-government strategic plan.
4. Action Plan for the implementing of e-government medium term 2009–2011.
5. The Palestinian e-Government Academy Training courses
6. The address server is mail addressing system contain all the addressing information including building numbers, street names, postcodes, and regions.
7. Interconnection guideline approved by Council of Ministers resolution No. 81 for the year 2007.
8. Competition directives in the telecommunications sector No. 1 for the year 2011.
9. e-Gov Estonian Project (2010—2013) consist of three phases
10. Electronic licensing system “Tarakhees”.
11. National Team for System and Information Security (NTSIS)
12. Government, Academic and schools Network.
13. Internet Exchange Point (IXP)
14. USTDA Project and KOICA's Project.
15. 2011 Palestine internet exchange.
16. Government Computer Center services
17. E-Readiness report
18. ICT Training Center

²²<http://www.apis.ps/up/1332062906.pdf>

Furthermore, the Ministry of telecommunications and information technology (MTIT) has launched in 2005²³ 'The National Strategy of Telecommunications and Information Technology 2005-2008'. The Strategy included six pillars of growth: Government Role, Infrastructure Development, HR Development, Encouraging Innovation, Attention of the Palestinian Content Industry and ICT and Informatics as a Means to Economic and Social Development. The table below highlights the main headers of the six pillars.

TABLE 4: ICT NATIONAL STRATEGY PILLARS

1 ST PILLAR: GOVERNMENT ROLE	2 ND PILLAR: INFRASTRUCTURE DEVELOPMENT	3 RD AND 4 TH PILLAR: HR DEVELOPMENT AND ENCOURAGING INNOVATION	5 TH PILLAR: ATTENTION OF THE PALESTINIAN CONTENT INDUSTRY	6 TH PILLAR: ICT AND INFORMATICS AS A MEANS TO ECONOMIC AND SOCIAL DEVELOPMENT
<ul style="list-style-type: none"> • Institutionalizing the role of government as a pioneer for ICT development plan and facilitating the enabling environment • Creating a supporting legislative and organizational environment for the sector • The Legislative framework • Launching the electronic government project • Building a comprehensive national database • Liberation of the Palestinian information space 	<ul style="list-style-type: none"> • Creation of a competitive environment in the ICT sector • Network and Services • The Internet 	<ul style="list-style-type: none"> • Bringing basic ICT education to a higher level • Increasing quantity, quality, and skills of qualified ICT specialists • Updating applied scientific research fields, development, and technology transfer • Development of eLearning and Distance Learning • Promoting education and technical training • Bridging the gap between male and female access to skills and ICT Education 	<ul style="list-style-type: none"> • Setting out a well-defined plan aimed at promoting a Palestinian national content and online presence • Putting accent on content resources required in the target field, tools, defining standards and indicators of measurement ascribed in content building • Adopting lingual, ethical, and cultural preferentiality that governs harmony between content and the Palestinian national culture • Paying attention to the building of human element empowered to produce content in accordance with these requirements • Defining controls and margin of freedom of content industry and its dissemination • Launching a national campaign aimed at documenting the Palestinian identity and history 	<ul style="list-style-type: none"> • Building ICT as a Production Sector • Backing up The e-government Initiative • Leaning towards software development and innovation • Setting out a financial policy that serves the previous directions

SOURCE | MTIT 2005 ICT NATIONAL STRATEGY PILLARS

In the year 2011, MTIT has updated the strategy for 2011 - 2013²⁴ to align with the National Development Plan. The Strategy was a participatory effort with members of the community. This Strategy has focused on the Postal Service, the Telecommunication Sector, Automating the Government Services and the IT Sector.

²³<http://www.pmtit.ps/ar/cp/plugins/spaw/uploads/files/strategy%20document%202005.pdf>

²⁴<http://www.pmtit.ps/ar/cp/plugins/spaw/uploads/files/strategy%20final.pdf>

The SWOT Analysis has identifies the e-government project as a threat due to the lack of coordination amongst the ministries and the political rift between the West

1ST PILLAR: TELECOMMUNICATION	2ND PILLAR: IT	3RD PILLAR: POSTAL
<ul style="list-style-type: none"> • Increase Competition and Market Liberalization • Establish the Palestine Telecommunication Regulatory Authority • Telecommunication Accounting Procedures • Negotiate over the Spectrum, Country Telephone Gateway • Liberating Palestinian Market from Israeli Piracy and Illegal Commercial Activity • Promote Investment and Conducive Business Environment • Provide Telephony and Internet Services to Rural Areas • Improve Broadband Infrastructure • Link All Ministries on the Government National Network • Link All Higher Education Institution on the National Academic Network • Advocate for Palestine’s Independence at UN and International Organizations 	<ul style="list-style-type: none"> • Implement e-Government Plan • Develop a Vibrant IT Sector as a Main Economic Sector contributing to the GDP • Establish a Conducive Legal Environment to Invest and do Business in IT • Establish a Regulatory Environment for the IT Sector • Develop Capacity Building Program promoting Innovation and Creativity • Develop Programs for Technology Transfer and Research and Development • Promote Palestinian Online Content • Conduct Public Awareness Campaigns about IT 	<ul style="list-style-type: none"> • Postal System Rehabilitation • Develop the Legal Environment for the Postal Service • Recognize the Postal Offices as One Stop Shops for the e-Government Services

SOURCE | MTIT

There are many challenges facing the MTIT to execute its strategy plan of action. The ICT Sector Strategy developed by the government is encouraging in converting the ICT sector from consuming telecommunication services to becoming productive in information technology.

Accordingly, the MTIT has been more focused on establishing the legal regulatory environment and in establishing the telecommunication regulatory authority. Despite all the efforts exerted to push this file, the PTRA is still not a functioning body.

The regulation of telecommunications industry in Gaza and the West Bank is a task that is currently carried out, entirely, by MTIT. ~~The MTIT has been left to deal with pricing, licensing and operational issues. While in normal setting, with market liberalisation initiatives, an independent telecommunications regulatory authority (PTRA) would have been in accordance with international protocols to advance consumer interests, settle market disputes, “separate the role of referee in the market from politics” and provide a fair and impartial environment attractive to investors, both foreign and domestic. (PNA Statement of National Telecommunications Policy, 2010, pp.4).~~

The objectives of the MTIT telecommunication policy statements (no IT related policy statements were identified) include²⁵:

1. Establish the New Regulatory Authority
2. Create a comprehensive legal framework
3. Establish a sound interconnection and access pricing regime
4. Introduce Wholesale broadband access services
5. Implement accounting separation and cost accounting for the telecom operators
6. Regulate cost-oriented retail prices of dominant operators

As such, the MTIT has taken important steps in recent years towards liberalising the telecommunications market by ending the monopoly in mobile and landline networks. In 2006, as PALTEL's ten-year exclusive rights for the provision of fixed telephony and cellular services expired, the MTIT issued an additional mobile operator license ~~and ten broadband licenses to several Internet service providers.~~ Wataniya Mobile, the second Palestinian mobile operator, launched in November 2009, has grown dramatically since then accumulating 450,000 subscribers by the end of 2011.

The GIZ published ICT strategy with PITA advised that there have been many efforts by the MTIT to increase competition in the telecom market including liberalisation efforts, the government network, and the academic network. This resulted in improved competition including the introduction of more Internet service providers to the local market. However, the incumbent operator's de facto monopoly is still impeding more effective competition. Because of the restriction from the Israeli side on releasing frequency, entering new equipment, Palestinian international gateway, installation in the area C and the restriction on the numbering, this is resulting in high connectivity cost and issues with the network, quality of service, low speeds, and connectivity reliability. MTIT is assuming the role of telecom regulator until the telecom law of 2009 is approved and the regulator is established. It is worth noting that the Palestinian government does not own any shares in the private telecom companies.

The MTIT Strategy, if implemented in its entirety for the development of the telecom and IT Pillar, will provide an e-government initiative that will be bound to arrive at a mature stage where it can produce market opportunities such as providing the local private sector with tangible growth opportunities as a result of sales opportunities or tenders implementation or knowledge transfer.

Further desk research solidifies this view. In 2012, the Palestine Economic Policy Research Institute (MAS) published a report on "The ICT sector in Palestine Current State and Potentials" authored by Tremaine Tucker (www.mas.ps/2012/node/355). The objective of this MAS research analysis was to offer an updated look at the ICT sector in Palestine, through both quantitative and qualitative research methods. Much of the current literature provides rigid data on market performance, employment and

²⁵<http://www.pmtit.ps/ar/cp/plugins/spaw/uploads/files/Sector%20Policy%20and%20Roadmap%20Palestine-internal%20draft%5B1%5D.pdf>

growth without examining the sustainability and trajectory of expansions in ICT markets in Palestine.

Tucker (2012) cites that in other countries' ICT growth initiatives, once telecom technology allows for a certain degree of access, availability and, thus, penetration, sector-wide progression tends in other directions towards long-term targets in software and hardware development, Research and Development R&D, innovation and technological entrepreneurship. However, low degrees of penetration, with regard to 'readiness', a measure of the capacity for ICT connectivity, ensure that the quasi-monopoly that is PALTEL and its subsidiaries (JAWWAL, Hadara and the rest) will most probably continue their high-rates of annual growth and revenue. Nonetheless, the ICT sector cannot continue to bask in the glory of recently liberalised, telecom-led growth, but rather must commit to long-term (10-20yrs), organic initiatives in ICT advancement.^[m4]

Tucker (2012) advises that the demand for ICT products and services in Palestine, as is the case with most other countries around the world, has inclined steadily since the 1990s. Originating first in the public sector, increased demand for ICT solutions has continued to diffuse through the rest of the market. Creating demand and avenues of accessibility for ICT goods and services among local consumers is an embryonic stage in the development of an ICT industry, and it is in this stage that the Palestinian economy stagnates. Hence, the e-government projects originating from the NPA should be geared towards increasing the demand for local ICT solutions.

The MAS report advises that the Palestine's national ICT strategy must therefore be focused and precise in its promotion of economic growth, in both the domestic economy and with regard to its interaction with external markets. This is a Strategy Pillar that is largely supported by MTIT and the government and requires more funding from donor countries.

4.3 REGULATORY ENVIRONMENT

The Portland Trust Bulletin in August, 2012²⁶ identifies that a good regulatory and institutional framework is an important prerequisite for the development of a well-functioning ICT sector.

The MAS report identifies that the telecommunications legislation, intellectual property rights laws, the governance of financial institutions, corporate and investment tax policy along with installations of regulatory bodies and sector coalitions constitute the framework, or 'info structure', in which ICT industry is comprised.

As indicated in the previous section, MTIT activities have concentrated on the ~~PTRA~~ and telecommunication legislation.

The below section ~~with will~~ diagnose the IT relevant regulatory environment needed to grow the IT sector and they include, but not limited to:

TAXATION

²⁶www.portlandtrust.org/sites/default/files/.../ict_special_aug_2012.pdf

The tax structure, in comparison to other developed countries is relatively simple and the rates are low, generally speaking. The corporate tax is now at 20% increased from 15% due to financial crises that the NPA is facing in 2012/2013. Furthermore, there are incentives for investment the IT sector (eliminating the tax for a number of years) following the Presidential Decree of January 2011. However, a pending issue is the "double taxation" -- where the investors are charged tax in the US (or wherever they're from) and also in Palestine. Capital Gains in the stock market are also double taxes as income tax. Capital Gains taxes are not conducive to nurturing venture capital industry either.

An additional incentive to the sector is that the Palestinian Investment Promotion Agency (PIPA) now grants tax exemptions to ICT firms based on the number of employees rather than on the size of the capital investment, also in an attempt to encourage employment in the sector.

Yet, tax breaks for start-ups early years of operations are needed. Free zones exemplified in technology parks are necessary infrastructure to promote clusters of technology companies and attracting multinational companies.

INTELLECTUAL PROPERTY RIGHTS

The Trade-Related Aspects of Intellectual Property Rights (TRIPS) is the international standard as Palestine is currently preparing itself to become an observing member of the World Trade Organisation (WTO). The laws in Palestine are somewhat outdated since the Jordanian era mostly inherited from the British mandate. This hinders the attraction of multinationals and foreign direct investments. Nevertheless, the other real problem is one of enforcement of IPR for the IT issues as well as capacity at the judicial system to be able to resolve dispute in judging cases.

SOURCES OF FUNDS

Equity based investment funds are more suitable to high-growth technology companies than traditional micro-financing or debt-based loans from banks. Normally, venture capital tends to request policymakers to clarify existing legal rules governing foreign ownership and explicitly eliminates percentage limits on foreign ownership. Pending regulations governing domestic sources of capital such as pension funds should allow for investment in venture capital funds.

COMPANY REGISTRATION STRUCTURE AND CONTRACT

Palestinian law offers freedom in contracting. As such, parties are free to enter into contract clauses as they deem necessary. That means that the various parts of a venture capital contract (preferred equity, minority rights etc.) are all allowed if the parties agree to them (that is, they are NOT prohibited). However, new company structure laws should strongly reaffirm minority rights for preferred equity holders such as seed and angel investors or venture capital. Contract enforcement through a commercial court system should be a priority for policymakers.

As shown in the table below, Palestine ranks low on the indices of ease of doing business, or starting a business, or resolving insolvency. In other words the process of

registering a company is neither simple nor economical to technology start-up entrepreneurs. As a matter of fact, this does not encourage entrepreneurial venture to transition from informal to formal status.

Licensing requirements (registry with the companies' controller) seems to be arduous in Palestine. There is a requirement that 10,000 dinars of capital to be secured in order to register and 25% of that must be in the bank. Plus there are significant costs associated with registering in the first place (between US\$1,000 and US\$5,000). And there is a requirement that 10% of all profits be set aside as a mandatory reserve. All of these requirements slow down the ability for new companies to form.

TABLE 6: EASE OF DOING BUSINESS RANKING

	EGYPT	JORDAN	PALESTINE	SINGAPOUR
Ease of doing business	110	96	131	1
Starting a business	21	95	177	4
Resolving insolvency	137	104	183	2

SOURCE | GIZ ICT STRATEGY PUBLICATION CITING DOING BUSINESS REPORT 2012 – WORLD BANK

LABOUR MOBILITY

There are no-compete clauses in Palestinian contracts and, in fact, they are increasingly common in the IT sector. Such clauses inhibit labour mobility between companies to enable them to transfer knowledge and limit their ability to start their own entrepreneurial ventures. Because there is freedom of contracting under Palestinian law, if the parties agree, then there can be a no-compete clause. Palestinian labour law should prohibit no-compete clauses (e.g. Silicon Valley where such clauses are unenforceable in California courts).

BANKRUPTCY

Liberal bankruptcy laws enable entrepreneurs to start-over (repeatedly if necessary) until they achieve their goals, while bankruptcy is exceedingly uncommon in Palestine and the status of the existing law remains unclear.

EXITS

There is a stock market (PEX) and it is my understanding that any profits realised by investors on the IPO will be taxed like normal income -- i.e. at a maximum 20% rate. Other voices in the community are calling for Class B stock market to accommodate.

AFFECTING CHANGE TO ENABLE THE EXPANSION OF THE ICT SECTOR

Further literature review in the MAS Report identifies that there are three categories in which governmental institutions can affect change that can enable the expansion of the ICT sector, towards the construction of a KBE. In education, the regulatory and

fiscal environment and long-term sector strategy, making the necessary policy adjustments can allow human capital in Palestine to attain a far greater productive value.

- 1- Reforming education in a qualitative sense, so as to improve critical-thinking, creativity and problem-solving at all levels of learning.
- 2- Create a more accommodative fiscal and regulatory environment in ICT, through the implementation of Intellectual Property Rights legislation, increased market competition and improvements in the provision of domestic credit.
- 3- Identify specific plans for long-term sector development, with clearly defined targets for output and capacity, to make the development of a KBE a permanent part of governmental fiscal and policy strategy.

Furthermore, as indicated in the table below, Palestine has the maturity of Level 1 out of 4 levels in establishing an enabling environment. These are all signs of urgent upgrade, reform as well as development plan of the regulatory environment.

TABLE 7: RANKING OF ESCWA MEMBER COUNTRIES BY MATURITY LEVEL IN ESTABLISHING AN ENABLING ENVIRONMENT²⁷_[m5]

COUNTRY OR TERRITORY	MATURITY LEVEL 1			MATURITY LEVEL 2			MATURITY LEVEL 3			MATURITY LEVEL 4		
	2007	2009	2011	2007	2009	2011	2007	2009	2011	2007	2009	2011
Bahrein							√	√	√			
Egypt							√	√	√			
Iraq	√	√	√									
Jordan							√	√	√			
Kuweit				√	√	√						
Lebanon				√	√	√						
Oman				√	√				√			
Palestine	√	√	√									
Qatar				√				√				√
Saudi Arabia				√				√	√			
The Sudan*		√				√						
Syrian Arab Republic	√				√	√						
United Arab Emirates							√				√	√
Yemen	√	√	√									

KEY:

1. Maturity level 1: Iraq, Palestine, the Sudan and Yemen

ESCWA members at this maturity level have outdated legal and regulatory frameworks that are inadequate for the ICT sector and consumer needs, as well as poor enforcement of existing laws. They are still experiencing very high software piracy rates, and lack initiatives for ICT standardisation. In addition, investment funds and entrepreneurship support are not found.

2. Maturity level 2: Kuwait, Lebanon, Oman and Syrian Arab Republic

Countries at this maturity level have signed a fair number of international agreements or treaties related to IPR and patents. They have few laws regulating cyberspace, with modest progress achieved in the enforcement of cyber laws. High software piracy rate is common. Some initiatives for standardisation, the attraction of investments and promotion of entrepreneurship are visible.

²⁷<http://isper.escwa.un.org/Default.aspx?TabId=65&item=24>

3. Maturity level 3: Bahrain, Egypt, Jordan, Qatar and Saudi Arabia

These countries have signed a relatively large number of international agreements and treaties on IPR and patents, and have made considerable progress in adapting ICT-related laws and regulations. They have lowered software piracy rates and have had success with initiatives for ICT standardisation, attraction of investments and the promotion of entrepreneurship.

4. Maturity level 4: United Arab Emirates

This level indicates sustainable maturity in ICT-related laws and regulations. Countries at this level participate in most international agreements and treaties on IPR and patents, have low piracy rates in software, and have adopted either international or national standards related to ICTs. Initiatives for attracting investments and the promotion of entrepreneurship are widely available. The United Arab Emirates has been placed at this level owing to the maturity level of Dubai in providing an enabling environment which is conducive to the establishment of the information society. However, this maturity level is not present in the other Emirates of that country

4.4 SKILLS AVAILABILITY

Tucker (2012) in the MAS report argues that skills availability remains the single most important input in both ICT production and the realization of the knowledge economy more broadly. Furthermore, it must be stated that this investigation is an exploration of how conditions in educational institutions in Palestine are facilitating, or deterring, the development of a socioeconomic environment in which knowledge capital is the main propulsive force.

Although it is becoming apparent that the Palestinian universities are graduating a sufficient numbers of IT graduates (number vary between 1600 – 2000 graduate per annum), there is an urgent need to have more adequate and better quality, rather than large numbers. This capacity building can be achieved by improving universities' curricula, co-op programs, internships, apprentice programs and post-graduate studies specialised in the various fields of the ICT sector²⁸.

The particular conditions in educative institutions in the Palestinian context, and shared elsewhere in the Arab world, that create, what is referred to as, the 'digital divide' are certainly in need of reform if this gap is to be bridged and the knowledge economy enabled.

In spite of the implementation of a new curriculum, in the Ministry of Education and Higher Education (MoEHE's) strategic development plan, secondary and tertiary education still possess infrastructural design flaws that suffocate integrative growth in ICT and, thus, hinder the expansion of the knowledge economy (Tucker, 2012).^[m6]

Furthermore, the Palestinian ICT Private Sector 3-Year Strategy and Development Plan sponsored by GIZ provides analysis that highlights the considerable gap between fresh graduates and the requirements of the job market. This manifested itself in two areas:

1. The gap between fresh graduates' skills level and practical hands-on

²⁸The Palestinian ICT Private Sector 3-Year Strategy and Development Plan published by GIZ

experience requirements of the job market.

2. Lack of specialisations required by the job market, e.g. digital content application development. In other words, those graduates require additional training to become job –ready.

The Portland Trust Newsletter Bulletin in August 2012 also cites that many point out the need to reform the Palestinian education system. Although Palestinians are one of the most highly educated and literate populations in the Middle East and about 2,000 ICT students graduate from the university system each year, the skills which they receive at schools and universities do not necessarily correspond to the market needs. According to a recent study interviews and discussions conducted with Palestinian tech firms, the company owners shared their concern that Palestinian universities do not employ the latest technology or keep pace with high tech trends. At a recent discussion with Mr. Mohammed Musleh he said that PITA and others are ~~is~~-looking to address this (see Consultative Interviews section).

In the MAS report (Tucker, 2012), Mr. Tareq Maayah recommends a serious reorganisation of the educational sector, especially at the tertiary level, to consolidate specialisations available in different universities. Furthermore, in the same report, the Executive Director of PITA, Ms. Abeer Hazboun emphasised the need for further developing both the technical and soft skills of Palestinian graduates. While technical skills can be improved with on-the-job training, which only a few companies have the capacity and resources to do, the educational curriculum needs to be reformed in order to promote critical thinking, entrepreneurial drive, marketing abilities and innovation. In the MAS report (Tucker, 2012), Dr Saidam and Abeer Hazboun estimated that only about a third of graduates in specialties related to ICT succeed in finding employment. In addition, according to Dr Saidam, while the best graduates in terms of final grades are female, female ICT graduates face higher unemployment rates than males.

During Laith Kassis's tenure as the CEO of PITA, ICT member companies shared their point of view on the perception of having a higher cost of recruiting females associated with their transition from being single to marital status including maternity leave absence cost and perceived lower productivity once they have children. Yet, despite this, women in the ICT industry remain to earn less than the male peers internationally²⁹ and the gender pay gap also exist locally but is not yet empirically evidenced. Furthermore, any female ICT absorption in Palestine will require favourable legislation to businesses to hire more women such as more tax breaks, insurance cost, working from home schemes, etc.

Employment in the Palestinian ICT sector and ICT jobs in other branches of the economy are estimated at about 15,267 of which about 5,200 jobs are direct ICT sector employment³⁰. It has been shown above that each job opportunity created in the ICT sector is matched by 3 jobs on average in other branches of the economy. Furthermore, it has been shown that a US\$1 million export opportunity by CISCO Corporate Social Responsibility program generated 40 new job opportunities in

²⁹http://ec.europa.eu/information_society/activities/itgirls/doc/women_ict_report.pdf

³⁰The Palestinian ICT Sector ... A three-year outlook Based on economic indicators (May 2009)

Palestine³¹. Likewise, the Wataniya Telecommunication as the second cellular operator has also provided job opportunities in the ICT sector.

Benchmarking Jordan, the Jordanian ICT sector employment has been growing over the past 5 years at a rate that averaged about 7% annually, which is something that the Palestinian ICT sector is not able to do so and reach similar numbers of employment growth.

Based on recent development and ICT sector growth in Jordan it would be reasonable to assume that the Palestinian ICT sector employment could grow in the range of 3-4 per cent annually which translates to 150-200 new jobs opportunities in the ICT sector annually. These will also generate additional 400-600 new jobs in the economy as a whole. As such, the ability of the ICT sector and other economic sectors to absorb new ICT graduates is still lagging and it depends largely on economic growth and new demand for ICT solutions on the local level either from the private sector or public sector or the NGO sector. Further, as most of the ICT business requires high degree of training, it is not expected that most of these graduates will have a chance to be absorbed by the ICT sector unless they receive the proper training and placement assistance. It is essential to develop programs that would target new graduates to be attractive for private sector employment³².

The research "Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region 2nd Edition" conducted by Nicholas White in 2010 and sponsored by Mercy Corps identified the key technology capabilities present in Palestinian companies and therefore available to the outsourcing market. The results showed that the most popular technologies were present in a wide range of organisations.

The most prevalent platforms among Palestinian ICT companies were Microsoft based, but both Java and UNIX and Linux were well represented. A wide range of software platforms were also present among Palestinian companies, again with a focus on Internet as well as other programming environments. The mobile phone languages and platforms present in Palestinian ICT companies are more fragmented, with the market still in relatively early stages of development (as compared to the Internet languages). Additionally, with the growth of Smartphones, traditionally web-based software development tools are becoming even stronger in the mobile phone space. Although not as well represented, there are considerable skills in the mobile area in Palestine. Java, in the form of J2ME, is an important language in this area, and open systems in the form of Android are developing; based upon Linux, this operating system uses Java. Windows Mobile, Palm OS, Symbian OS and iPhone OS are other operating systems that support mobile application development. Many Palestinian companies that responded to the survey questions had years of experience in using the relevant technologies as well as demonstrating experience of the newer ones such as mobile applications³³.

³¹CISCO and PITA

³²The Palestinian ICT Sector ... A three-year outlook Based on economic indicators (May 2009)

³³"Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region 2nd Edition" conducted by Nicholas White (2010)

An important element of remaining viable as a location for outsourcing is to ensure that the engineers keep up-to-date with new technologies. Palestinian companies that participated in the research reported the following expectations for skills trends:

1. Software Development, Web Application Development and Network Services would remain important over the next few years;
2. Managed Services, Mobile Applications and VOIP are expected to become more important over the next few years;
3. Software support, database development and hardware technical support are expected to become less important.
4. Overall, these responses reflected recognition of changes in the market and a need to skill-up in these areas to meet market changes and develop opportunities for higher value service offerings.

The educational level of staff is also important in an outsourcing environment. The Mercy Corps sponsored research³⁴ showed that staff composition in Palestinian companies reflects adequate tertiary education levels to meet the needs of this market. Additionally, many of the senior managers have experience outside of Palestine, many in the USA, bringing important skills to their companies. As the industry grows, more home-grown managers will be required and use of Diaspora would be explored.

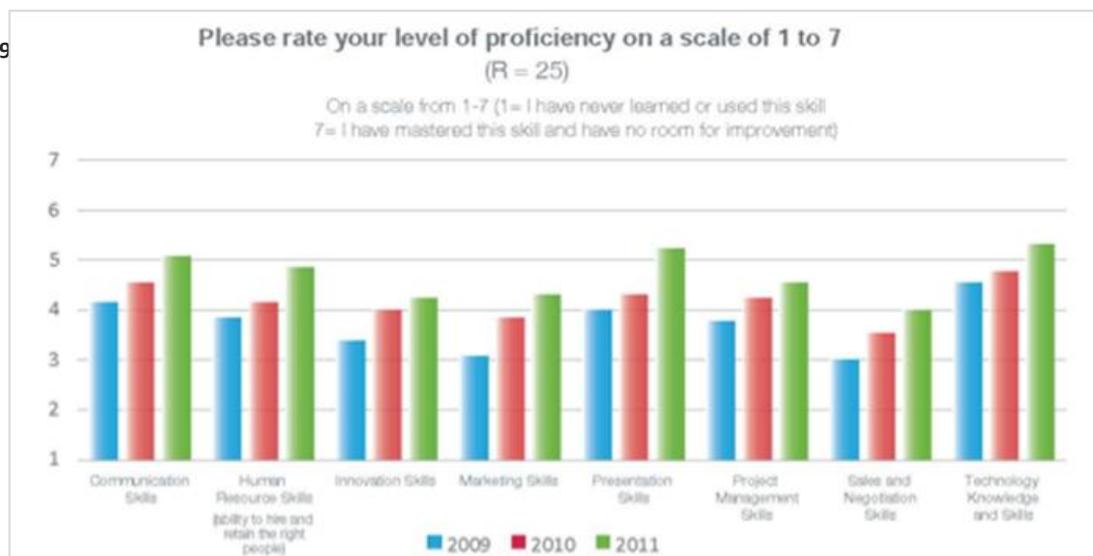
White (2010) has identified that one of the key advantages for Palestine is the low cost environment. However, the recent PalTrade Diagnostic survey revealed that Palestinian companies couldn't compete on price alone against countries such as Bangladesh and Sri Lanka. Therefore, Palestinian companies also needs to recognise that technical, business and project management skills will be the most important factor in customers' final buying decisions, out-stripping the importance of low cost (White, 2010).

FIGURE 18: IMPROVEMENT IN MANAGEMENT AND LEADERSHIP SKILLS



SOURCE | CISCO PIONEERS MARKET DEVELOPMENT APPROACH IN PALESTINE CONDUCTED BY MISSION MEASUREMENT (2012)

FIGURE 19



SOURCE | CISCO PIONEERS MARKET DEVELOPMENT APPROACH IN PALESTINE CONDUCTED BY MISSION MEASUREMENT (2012)

4.5 PRIVATE SECTOR REPRESENTATIVE ORGANISATIONS

The private sector has recently been at the forefront of development initiatives in the Palestinian economy. With names like Cisco, Google, HP and Intel in collaborations with private Palestinian firms (organised in a US State Department Initiative), the potential for rapid economic growth, via ICT initiatives, has garnered a good deal of political attention, domestically and abroad³⁵ and have supplemented the expansion and improvements in proficiency of a core but too few group of Palestinian companies (Tucker, 2010).

However, the question of whether these private sector firms have the capacity, motivation and environment needed to foster long-term organic growth often goes unasked. While the glamorous presence of multinational IT companies certainly should not be understated, a deeper look at the current performance and future trajectory of the sector, as a whole, can draw our attention back to the prospects for long-term growth (Tucker, 2012).

The organisation that has been lobbying for more international exposure is the private sector representative PITA.

With over 140 member companies employing over 5000 people in direct employment in 2012 and with a contribution of over 6% to GDP^[m8], PITA will certainly become an association with political and economic clout. While its supervisory scope has

³⁵<http://www.state.gov/r/pa/prs/ps/2010/12/153103.htm>

increased exponentially, so too will its responsibilities to bring more attention and business to the sector. Their self-asserted goals, according to its role in the development of the sector, are thought by many to be applied superficially and without real substance. Their objectives are aligned as follows:

To promote and defend the private ICT sector through:

1. Advocating business- enabling policies, mechanisms and environment through public-private partnership.
2. Promoting the Palestinian ICT sector locally and internationally through facilitating access to markets for the benefit of PITA members.
3. Engaging the technical and non-technical ICT human resources and related institutions in-order to expand qualified pool of qualified ICT sector personnel and uphold the level of its professional standards. (<http://www.pita.ps/newweb/etemplate.php?id=17>)

FIGURE 20: THE 4 PILLARS OF THE ICT SECTOR IN PALESTINE AS ANALYZED BY CISCO



It is not clear why the MAS Report (Tucker, 2012) has been extremely critical of PITA, perhaps unjustifiable, in terms of its role in growing the ICT sector.

Even though Tucker (2012) argues that the Palestinian Private ICT sector is fragmented, disconnected and often inert; PITA remains the vanguard to many Palestinian firms to establish them in the local, regional or international market context. However, without further vested financial and institutional interest of the PNA government, as seen in cases in most other emerging economies (see Singapore, Jordan, and Estonia etc.) the ICT sector can be at risk of not finding its direction and propulsion.

4.5.1 THE MARKET SIZE AND CONTRIBUTION TO GDP

Numerous reports that the ICT private sector has been cited to have a market size as large as US\$500million in 2008/2009, however, that number is also often more conservatively figured at US\$350million. What is more likely is that the real market value of private sector production is nearer to the former figure (depending on how the private sector is defined). With around 250 ICT companies, and over 5000 private sector employees currently contained in the market, and currently representing approximately 10.5% of GDP^[m9], the continued increases in the volume in the sector are undeniable – reaching US\$1 billion in 2012 according to PCBS – but the qualitative substance of said increases bears questioning³⁶.

The figures on private sector size and output must be examined in relation to the sizeable contribution of the PALTEL Group as such, to both output and employment. Of the 5,000 employees employed in the ICT private sector an estimated 3,000³⁷ are employed at PALTEL group of companies. With increases in market growth projected at 8-10% in 2011, PALTEL_alone experienced 11% growth. Total market size was reported at US\$500 million in 2010 of which PALTEL alone constituted US\$340 million (PEX Annual Preliminary Disclosure, 2011). The PALTEL group makes up 29% of Palestine's GNP³⁸ and contributes about 12% to GDP and accounts for 50% of PEX. The condition of the private sector is the de facto condition of PALTEL. This is not to [m10]understate the contribution of the rest of the private IT firms in the sector, but rather it is a means of understanding each variable in an equation to make proper sense of its solution (Tucker, 2012). Furthermore, it highlights the fact that the ICT sector is heavy on consuming telecommunication services and not on producing information technology output³⁹.

Further literature reading of MAS report is analysed to often adhering to a positivist trend that relies primarily on quantitative analysis, which results in anonymous, unspecific results that fail to accurately diagnose local economic contexts. In various research initiatives and economic overviews, the Palestinian ICT industry is often advertised as a budding sector on a path characterised by sustained growth rates. Increases in its share in GDP and in the degree of sector penetration are often cited as indications of the upward growth of the industry. In addition, the market environment is frequently described as a potentially attractive destination for low-cost, high value-added services and products to be exchanged and created in the worldwide ICT market. The common analytical blueprint, in which emerging market economies are able to capture windfalls from international ICT markets, through broad liberalisations in their own domestic economies, has been applied in the Palestinian context more times than not. However, the application of this particular analytical trend is often shallow and absent a pragmatically critical understanding of both the domestic constraints in the ICT industry, as well as the potential for broader economic progression. The Brazilian, Indian and even Vietnamese experiences regarding ICT-led economic growth are not roadmaps that can be directly extrapolated to inform the Palestinian context. While these major emerging market economies are certainly

³⁶<http://www.expotech.ps/2011/pal-ict>

³⁷<http://www.pic-palestine.ps/etemplate.php?id=92>

³⁸<http://engageyourmind.wordpress.com> as indicated in the MAS Report by Tucker (2012)

³⁹<http://www.pecdar.ps/userfiles/file/ITInPalestine.pdf>

informative examples, 'the frontier market' that is Palestine requires an entirely different approach concerning the way forward for the ICT industry and the economy more broadly.

Nonetheless, properly evaluating market conditions is an essential point of departure in an introspective examination of the growth potential for ICT.

When examining the quantitative indicators over the past 5 - 10 years, it can be surmised that the ICT sector in Palestine is growing at a feverish rate. High levels of penetration are often thought to cause disproportionate increases in the output of an economy, as stated in the World Economic Forum report on ICT-led economic growth, and thus the outlook for growth in the Palestinian context is frequently considered to be very promising. (World Economic Forum, 2009, pp.3)

With regards to predominant ICT goods, i.e. computers, internet subscriptions and mobile phones, across-the-board increases suggest higher levels of industry penetration amongst local populations, and thus a growing consumer demand for high-value added ICT equipment. However, a more critical examination of these figures and the conclusions often drawn from them leads to a different perception on the trajectory of the ICT industry in Palestine.

The PCBS⁴⁰ shows the shallow extent to which ICT sector penetration has actually occurred in the Palestinian economy. With less than 20% of those surveyed by PCBS are using the Internet for work purposes, less than 5% for both financial services and e-commerce, and almost 80% are using the Internet for entertainment purposes. Computer usage, even in 2011, is largely limited to social exercises, with marginal levels of intra-sector and professional penetration. One of the more telling figures regards e-commerce, in which only 3.4% of those surveyed reported using the Internet for e-commerce.

As in the MAS report⁴¹, it puts this in its proper context benchmarking Jordan where in the 12 months between September 2009 and September 2010, e-commerce transactions totalled US\$192m, with over 15% of internet users engaged in e-commerce, while the entirety of IT sector sales in Palestinian was estimated in 2009 to be approximately US\$250m⁴².

The MAS report (Tucker, 2012) argues that so long as a large percentage of households lack the means and motivation to maximize the gains in technological products and services, the quantitative expansion in the sector will occur inefficiently and without direction.

The broad expansion of ICT in any economic environment occurs in its necessary diffusion into other market sectors, via the exchange of goods, services and information. However, as the figures indicate, this has yet to happen in the Palestinian economy. The MAS report correctly realises that the quality and frequency of the use of ICT solutions in the private sector and in consumer markets is currently very limited, with the sector comprised, in large part, by the exchange of basic hardware products,

⁴⁰ PCBS 'Press Release on the Main Findings of Household Survey on ICT, 2011, pg. 19 and 24 http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HouseholdICT2011_E.pdf

⁴¹ "The ICT sector in Palestine Current State and Potentials" on this link www.mas.ps/2012/node/355 authored by Tremaine Tucker

⁴² <http://www.ameinfo.com/242414.html>

which can be more aptly termed as ‘complacent consumption’ or ‘unreflective commoditization’ concluding that it is often suggested that the consumer market is a reflection of the business environment; in the Palestinian context this is not, however, a wholly accurate diagnosis of private sector performance in ICT.

4.5.2 ACCESS TO FINANCING

The Palestinian ICT Private Sector 3-Year Strategy and Development Plan published by the GIZ indicated that Palestinian ICT SMEs have very limited access to early stage funding and banking sector finance. Like Egypt and Jordan venture capital is available, however, these funds have established their operations only recently in Palestine. Despite the fact that the below table from the Financial Access report used does not cover Egypt and Palestine yet, however, Jordan's numbers provide general indications on the overall situation in the region.

TABLE 8: FINANCIAL ACCESS RANKING

	EGYPT	JORDAN	PALESTINE	SINGAPOUR
SME lending (value of loans (% of GDP))	N/A	10.18%	N/A	14.96
SME lending (amount – billion)	N/A	\$ 2.85	N/A	\$ 33.36
Access to financing rank *	10.6	12.6	N/A	6.3

*rank is according to the Global Competitiveness Report 2011-2012 (percentage of respondents that identified access to finance as problematic for doing business in their respective countries)

SOURCE | FINANCIAL ACCESS REPORT 2010 – WORLD BANK.

Access to Finance Conclusions made by the GIZ sponsored Plan:⁴³

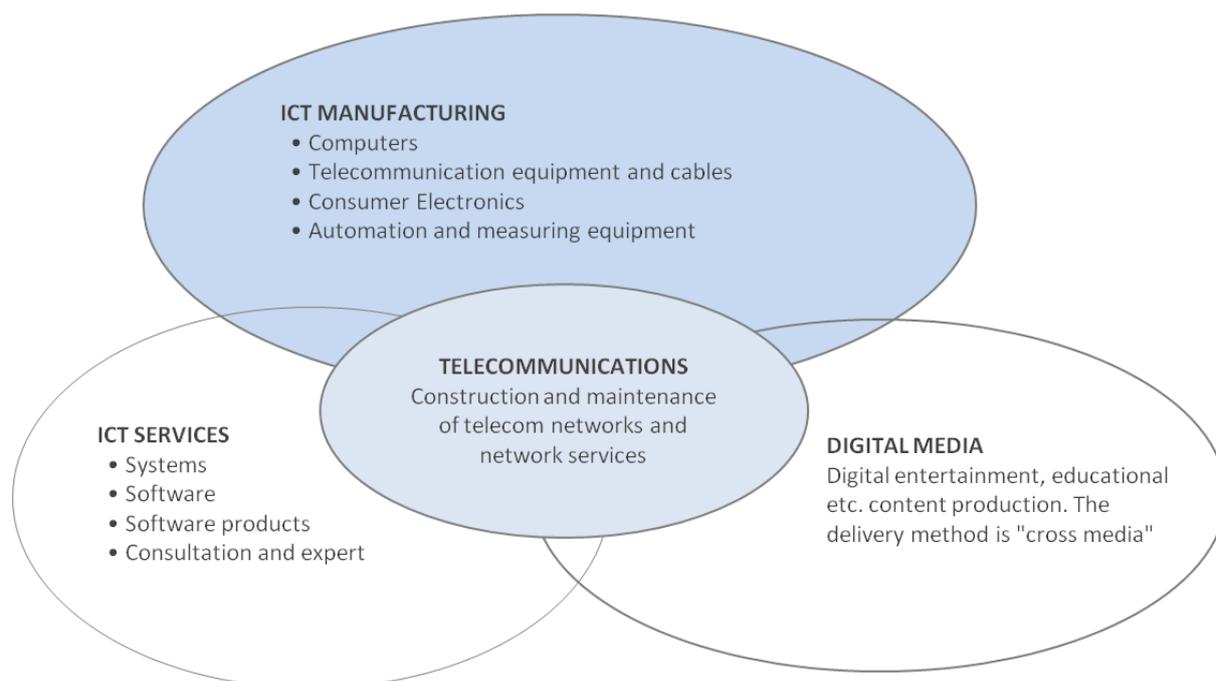
1. Government/ Donor programs can be effective at bridging the gap. However care should be taken that they do not 'crowd-out' more efficient financing by private-sector institutions which may lower overall finance availability to Small Medium Enterprises (SMEs)
2. Coordination with the banking sector is important to increase its level of understanding of ICT SMEs' dynamics, and build capacity as it relates to assessing loan requests based on service/product offering merit (such as being able to properly evaluate Intellectual Property)
3. Consider other successful models for offering early stage funding, e.g. Oasis 500 as a business accelerator incubator model that provides seed financing.

4.6 CURRENT ISSUES AND OPPORTUNITIES

The definition of the ICT sector, which is used in this report, follows the lines of the OECD definition (OECD 2000). Accordingly, the ICT sector consists of ICT manufacturing, ICT services, telecommunications and content production. In the field of content production, only the digital media is included to the ICT sector. The below figure illustrates the definition of the ICT sector developed and used in the ICT Skills 2010 project and it describes the products and services of each of these four sub-branches.

⁴³ The Palestinian ICT Private Sector 3-Year Strategy and Development Plan published by the GIZ http://www.lacs.ps/documentsShow.aspx?ATT_ID=5644

FIGURE 21: THE DEFINITION OF THE ICT SECTOR FROM THE CONSUMER'S POINT OF VIEW

SOURCE | CITED BY (TUCKER, 2012)⁴⁴

The MAS report (Tucker, 2012) provides a good situational analysis and a recipe how to further grow. Tucker (2012) also recognised that the ICT industry in Palestine is currently, in both its figurative and practical composition, defined primarily by the development and distribution of telecommunications services and hardware—a working definition that has lasted the better part of two decades. In the conceptual map of ICT industry below, the various elements of production are depicted in the context of their relative size and interactivity, to demonstrate how ICT industry is generally defined. We see the productive aspect of ICT, primary ICT services, ICT in innovative media and, lastly, the telecommunications networks binding all these elements together. In the process of redefinition, the blueprint for ICT production must be adapted to fit the realities of the Palestinian context. How, then, can this diagram be reconstructed to be more applicable to current local contexts?

The necessities in the domestic market, both long-term and short-term, and the trajectory of broader international markets should be combined to form a new understanding of ICT industry, through which both rhetoric and policy implementation can be constructed. The self-critical redefinition of ICT in Palestine is a process applicable to all sector agents—public sector, private sector and [civil society](#)—and is an important qualitative step in the movement towards a KBE (Tucker, 2012).

It is a way in which knowledge capital, generated domestically, can be applied to domestic markets and, thus, further domestic human development. Lastly, the linking of ICT production and domestic demand is precisely the way that knowledge capital can create the knowledge economy. Bridging the 'digital divide' between the domestic

⁴⁴ Graphic can be found here <http://is2.lse.ac.uk/asp/aspectis/20040092.pdf>

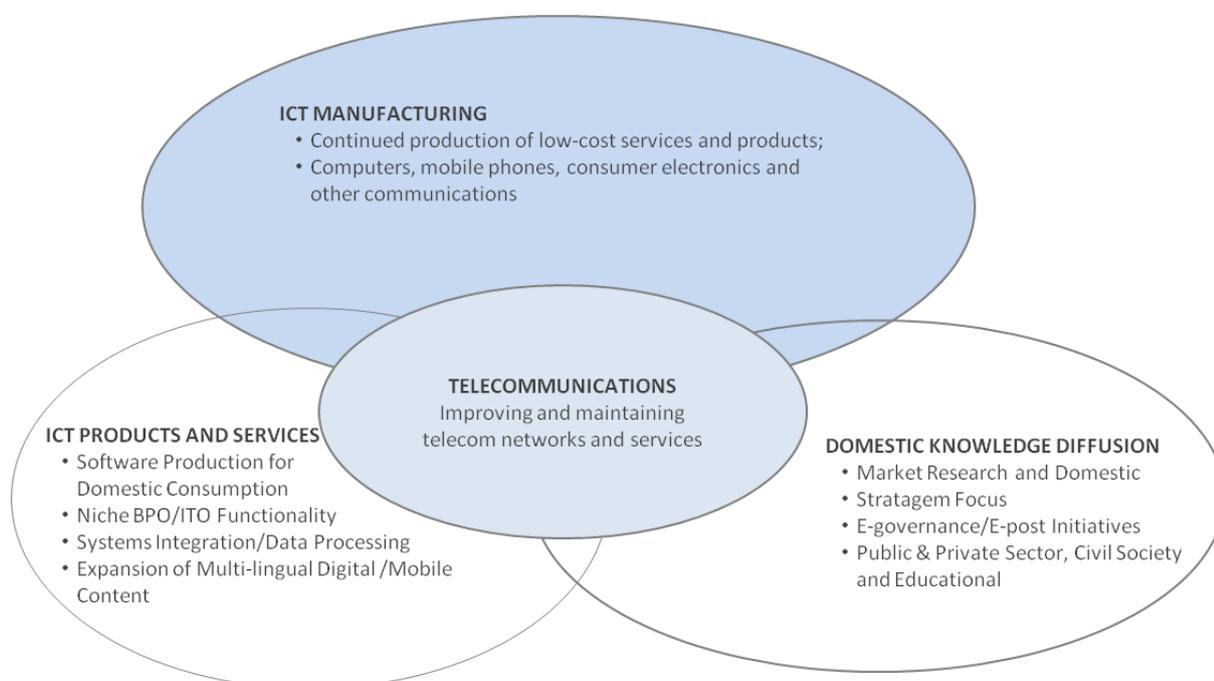
community and external ICT markets occurs through the bridging of the divide between the private sector and its respective consumer market. As private sector production becomes more advanced, a reciprocal relationship with Palestinian consumers will allow the market as a whole to develop more efficiently towards the knowledge economy.

The new definition of ICT is one that includes those processes of production with the highest value added, with innovations in mobile software, e-governance and service delivery constituting a more advanced sector. The redefinition of ICT is not merely a theoretical exercise; it is a practical step towards designing an environment in which the Palestinian economy can create, and benefit from, advancements in information. It is one of a series of steps towards the 'indigenization' of the knowledge economy. The next step in the process is in the creation of the legal and institutional backbone for ICT industry, where standards and regulations can implant the conditions necessary to ensure long-term stability for the sector.

Tucker (2012) provides the re-imagination of the concept of ICT industry in Palestine to more accurately represent domestic development objectives, in the context of contemporary market tendencies. Thus, separating telecommunications and information technology in their strategic development and in their functionality within the sector is an important step in the maturation of the knowledge economy in Palestine.

Therefore, according to MAS analysis (Tucker, 2012), the above OECD diagram be reconstructed to be more applicable to current local contexts as follows:

FIGURE 22: RE-IMAGINATION OF THE CONCEPT OF ICT INDUSTRY IN PALESTINE)



SOURCE | MAS REPORT (TUCKER, 2012)

According to White (2010) International contracts are often, but not always, for outsourcing. While outsourcing is a strong element in the sector, many companies are successfully developing other services and products. Firms completing the Mercy Corps 2011 survey reported current engagement in contract work in the following additional areas: back office support; data cleaning; consulting; geospatial information systems (GIS); provision of training; turnkey solutions; mobile applications; and quality assurance and testing. Some of these other areas of operations could offer new opportunities for strengthening capacities and relationships in Palestinian ICT firms, which would in turn increase resilience and economic benefits from this sectoral ecosystem.

4.6.1 OPPORTUNITIES FOR CROSS-SECTORAL LINKAGES

The strength of the ICT sector is that it is also an enabler to other economic service sector. It can also increase the efficiency and effectiveness of their performance and competitiveness.

The below section is what has been identified as opportunities from the point of view of the IT Sector to be validated by other consultants:

Target Sector Linkages	Sector Pain in the Value Chain	Clustering Opportunities	Marketing Opportunities	IT Solution	Obstacles Hindering Product Development
e-Government (Ministries and Municipalities)	<p>1. Network Connectivity between Ministries Infrastructure</p> <p>2.1. e-Services Applications – Web and Mobile</p> <p>3.2. Content + Content Management Systems (Arabic – English)</p> <p>4.3. Online Payment – Infrastructure</p> <p>5.4. Enterprise Resource Planning for Postal Services</p> <p>6.5. ERP for MTIT Services</p>	<p>1. E-Government and e-Services can be clustered on the “Cloud” to reduce overhead and service delivery cost whereby municipalities would share the information technology resources used to deliver its e-services as an example</p>	<p>1. N/A</p>	<p>1. Broadband Internet Connectivity’s</p> <p>2. Payment Gateways</p> <p>3. e-Services Applications (Mobiles and Web)</p> <p>4. ERP Solutions Customization for MTIT Services e.g. Postal, Telecommunications, Document Management System, Client Relationship Management, Self-Service, etc.</p> <p>5. Mobile Payment Solutions</p>	<p>1. Political Driver to Outsource to Local IT Companies</p> <p>2. Assigning Budget to Buy Locally</p> <p>3. Realising the Government Procurement for IT can be for Consultancy Services, IT Infrastructure and Applications</p>
Tourism	<p>1. No Direct Contacts with Foreign Markets</p>	<p>1. Content Providers from the Professional</p>	<p>1. Online Promotion and Selling</p>	<p>1. Online Payment Gateways</p> <p>2. Serious Upgrade of</p>	<p>1. High Investment Cost</p> <p>2. Low Return on Investment in the</p>

Target Sector Linkages	Sector Pain in the Value Chain	Clustering Opportunities	Marketing Opportunities	IT Solution	Obstacles Hindering Product Development
	<ol style="list-style-type: none"> 2. No Ability to Arrange for Online Bookings 3. No Ability to Manage the Quality of Staff to ensure quality service provided 4. No Management of After Sale Service 5. No Social Networks and Media Strategies and Activities 6. No Promotion of Events 7. Seasonality of Tourism 8. Tourist cannot Roam on their Israeli mobile operators with Jawwal and Wataniya which needs to be negotiated 	<p>Services with Tourism Sector to improve the online content delivery and IT Vendors to develop the IT Solutions and Systems Integrators</p> <ol style="list-style-type: none"> 2. IT and Financial Institutions to develop online payment solutions and systems integration with international gateways 	<ol style="list-style-type: none"> 2. Online Reservation Systems 3. Online Calendar of Events for Palestine 	<p>Websites for Hotels, Tour Operators and Guides and other Service Providers linked to Social Media e.g. Facebook, YouTube channels, etc.</p> <ol style="list-style-type: none"> 3. Mobile Applications for Tourism about the holy sites and alternative tourism 4. Systems Integration for ERP capabilities and Client Relationship Functionality 	<ol style="list-style-type: none"> 3. Instability of Political Situation 4. Small Sized Companies have little funding capability to pay for solutions individually 5. Israeli practices in the value chain and restricting roaming with Palestinian telecommunication companies
Finance and Insurance	<ol style="list-style-type: none"> 1. Automation and Reporting 2. Bonds Management 	<ol style="list-style-type: none"> 1. Software for Islamic Insurance and Islamic 	<ol style="list-style-type: none"> 3. N/A 	<ol style="list-style-type: none"> 1. Business Process Automation such as for the process of 	<ol style="list-style-type: none"> 1. Most banks are originally Jordanian and their

Target Sector Linkages	Sector Pain in the Value Chain	Clustering Opportunities	Marketing Opportunities	IT Solution	Obstacles Hindering Product Development
	<p>3. Stock Market Software</p> <p>4. Brokerage Software to comply with Regulator</p>	<p>Banking that supports the business process</p> <p>2. Also, the IT Sector is not receiving customized financial loan products to finance their operational cash flow in the event of an export deal is signed or where an IT project has been won from competitive bidding.</p>		<p>loans due diligence and transitioning from simple Excel sheets and Access database.</p> <p>2. ERP Solutions</p>	<p>procurement decision process is done centrally in Amman, Jordan. Hence, there is minimal impact by these banks in demanding ICT services from Palestinian companies. This has to be changed through negotiations as a change of policy and advocacy with the Palestine Monetary Authority is needed.</p>
Accounting Professional Sector	1. Software for Enterprise Resource Planning	1. TBD	1. TBD	<p>1. ERP</p> <p>2. Access to Trade Information and Business Opportunities in Foreign Markets</p>	<p>1. High Investment Cost</p> <p>2. Low Return on Investment in the near future</p> <p>3. Instability of Political Situation</p> <p>4. Small Sized Companies have little</p>

Target Sector Linkages	Sector Pain in the Value Chain	Clustering Opportunities	Marketing Opportunities	IT Solution	Obstacles Hindering Product Development
					funding capability to pay for solutions individually
Legal Professional Sector	<ol style="list-style-type: none"> 1. Software for Enterprise Resource Planning 2. Document Management System 3. Speech to Text conversion software tools 	<ol style="list-style-type: none"> 1. TBD 	<ol style="list-style-type: none"> 1. TBD 	<ol style="list-style-type: none"> 1. Linkages with IT Audit Experts 2. Access to Trade Information and Business Opportunities in Foreign Markets 	<ol style="list-style-type: none"> 1. As Above
Auditors	<ol style="list-style-type: none"> 1. Lack of Access to Trade Information and Business Opportunities in Foreign Markets 	<ol style="list-style-type: none"> 1. Can branch into IT Audit services with IT Consultants 2. Subscription Access to Databases Collectively 	<ol style="list-style-type: none"> 1. Not Clear Yet 	<ol style="list-style-type: none"> 1. Not Clear Yet 	<ol style="list-style-type: none"> 1. As Above
Design Houses and Engineers	<ol style="list-style-type: none"> 1. Lack of Access to Trade Information and Business Opportunities in Foreign Markets 	<ol style="list-style-type: none"> 1. Subscription Access to Databases Collectively 	<ol style="list-style-type: none"> 1. Not Clear Yet 	<ol style="list-style-type: none"> 1. Not Clear Yet 	<ol style="list-style-type: none"> 1. As Above
Consulting Firms	<ol style="list-style-type: none"> 1. Lack of Access to Trade Information 	<ol style="list-style-type: none"> 1. Subscription Access to 	<ol style="list-style-type: none"> 1. Not Clear Yet 	<ol style="list-style-type: none"> 1. Content Development for Tourism and 	<ol style="list-style-type: none"> 1. As Above

Target Sector Linkages	Sector Pain in the Value Chain	Clustering Opportunities	Marketing Opportunities	IT Solution	Obstacles Hindering Product Development
	and Business Opportunities in Foreign Markets	Databases Collectively		Government Sector Websites and Portal 2.	
Advertising and PR	1. Lack of Access to Trade Information and Business Opportunities in Foreign Markets	1. Subscription Access to Databases Collectively	2. Not Clear Yet	1. Not Clear Yet	1. As Above
Public Polling	1. Survey Informatics, Data Collection and Analysis 2. Lack of Access to Trade Information and Business Opportunities in Foreign Markets	1. Subscription Access to Databases Collectively	1. Not Clear Yet	1. Mobile Apps 2. Access to Trade Information and Business Opportunities in Foreign Markets	1. As Above

4.7 CURRENT LEVEL OF EXPORTS

4.7.1 LEVEL OF EXPORTS

Information presented in this section, unless otherwise noted, draws on The Palestinian ICT Cluster Assessment Report produced through that collaboration. While the assessment and report target elements of interest for potential USAID-funded activities, the findings provide a useful perspective across the sector as a whole, including elements of interest for Cisco in terms of CSR and business activities.

At the time of USAID's 2006 assessment, the Palestinian ICT sector's market in software and hardware was mainly local, with some software products exported regionally, including the United Arab Emirates, Saudi Arabia, Yemen, Iraq, and Jordan. Exports were estimated to have grown from US\$3 million in 2001 to approximately US\$10 million in 2005, with overall revenues for the ICT cluster estimated at US\$87 million in 2003. Key product strengths in the local market were management or financial/accounting solutions, and management information systems. Furthermore, according to the 2010 PITA Annual Report, 32% of its 100 members are software developers compared to 29% of its total of 69 members back in 2003.

The analysis published by GIZ in the Palestinian ICT Private Sector 3-Year Strategy and Development Plan in 2012 clearly reflects that all sectors in the strategic group do not have end-to-end regional/global market penetration programs that would tend to include:

1. Capacity building for companies for business skills such as marketing and business development, as well as quality requirements for products and services.
2. Robust export promotion policies that address local sector 'market reach' and 'small scale' gaps.

Nevertheless, ICT Sector Revenues in 2012 have recently reached the US\$ 1 billion mark. It is not clear what percentage of this revenue is attributable to exports.

TABLE 9: ICT SECTOR REVENUE (2012)

	EGYPT	JORDAN	PALESTINE	SINGAPOUR
ICT Sector Revenue (billion)	\$ 7	\$ 2	\$ 1	\$ 70.4
ICT Sector Exports (billion)	\$ 1.1	\$ 0.202	\$ 0.015 (2008)	\$ 46.6

SOURCE | GIZ PUBLICATIONS CITING MINISTRY OF CTI, EGYPT, MINISTRY OF ICT, JORDAN, IDA, SINGAPORE, PALESTINE CENTRAL BUREAU OF STATISTICS

Conclusions made by the Palestinian ICT Private Sector 3-Year Strategy and Development Plan published by the GIZ:

1. Export promotion efforts must be the result of sectorial policy that

is put forth and implemented under the supervision of a council that consists of public, private sector, and union's representation.

2. This council must have power, sufficient funding, flexibility in hiring and retaining skilled staff, strong political commitment, a flat organisation structure, a strong network with other agencies and, most importantly, the quality of leadership through selection of trusted individuals for key positions.

While there are no statistics regarding the current level of IT exports, there has been increased promotion of Palestinian ICT services, which includes:

1. The US State Department event held in Washington D.C. in December 2010 with the support and presence of Under Secretary Hillary Clinton.
2. According to direct interviews with the CISCO survey participants there were fewer investments by the companies in 2008/2009 in public relation and marketing campaigns compared to 2010. In the CISCO Survey, a considerable 65% of respondent indicated that they have started – or continued from a previous quarter - any public relations or marketing campaigns. Thus indicating additional local initiative in marketing and business exposure.
3. Another indicator includes the company Exalt, which has an application available in the iPhone store.
4. ASAL representation in Germany.
5. Further CISCO indicator tracks the number of supported companies that have established new contracts with international companies for R&D work. This is an important aspect of the “demand” side of building the ecosystem. In terms of contracts with international companies, ASAL and Exalt starting with CISCO, now have contracts with additional international ICT companies (Hewlett-Packard, Intel, Nuvoton, Mellanox and Liveperson).
6. Through the CISCO survey, comparable firms in the Palestinian ICT ecosystem reported that they have new contracts (since the beginning of 2010) with Oracle, EMC, and other regional and international companies.
7. 57% per cent of companies surveyed by CISCO reported that they have expanded business outside of Palestine since the beginning of 2010. The total number of contracts among the 22 companies that responded to the survey is 71 – the median number of international contracts per responding company companies is 2.5. A follow-up interview with all surveyed companies revealed that 14 of the 22 companies had much lower number of business contracts in 2008 and 2009, being 13 and 17 respectively.
8. In addition to traditional export markets for Palestinian ICT companies in the Gulf Region and MENA markets, the CISCO Survey

in 2010 indicated identifying new geographical markets in North America and Western Europe for at least four new companies.

4.7.2 MODE OF EXPORTS

Two of the factors driving growth in the ICT sector have been the presence of multinational companies and the steady inflow of international aid. Together, they have assisted both in the size expansion of the sector and in improvements in the proficiency of companies and the quality of products. For example, in December 2010, the US Secretary of State announced the launch of the Palestinian Information Communications Technology Capacity Building Initiative (PICTI)⁴⁵. The initiative is designed to enhance the economic capacity of the Palestinian ICT sector by facilitating partnerships between Palestinian companies and US multinational companies, especially those operating in the West Bank, Gaza, Israel, Jordan and the rest of the Middle East. The program aims to help Palestinians foster innovation and gain advanced skills in marketing and project management, in addition to improving the long-term investment climate.

A striking element of this has been the US\$15m investment by Cisco in the Palestinian ICT sector since 2008. Part of the Cisco investment has been to encourage R&D groups within Cisco globally to have outsourcing relationships with Palestinian partners. A huge sign of the progress that has been made is the fact that these relationships have remained despite the work being no longer subsidized by Cisco's corporate affairs budget.⁴⁶

Other international companies that have been involved in the Palestinian market include Google, CISCO, Intel, Microsoft and HP. As the first venture capital fund targeting the Palestinian IT sector, Sadara Ventures which was launched in 2011 with international backing, is another indication of growing outside interest in the market.⁴⁷

A.T. Kearney produces an index which ranks the top 50 countries worldwide as the best destinations for providing outsourcing activities, including IT services and support, contact centers and bank-office support.⁴⁸ The 2011 report notes that, 'Middle East and North Africa has become increasingly attractive because of their proximity to Europe and vast talent pool.' This is reflected in the fact that the UAE (15th), Jordan (22nd), Tunisia (23rd) and Morocco (37th) are all ranked in the top 50 this year, suggesting the potential for the Palestinian Territory.⁴⁹

One can conclude that information technology exports can be broken into two main categories:

⁴⁵<http://www.state.gov/r/pa/prs/ps/2010/12/153103.htm>

⁴⁶ Mission Measurement Report, 'Cisco Pioneers Market Development Approach in Palestine'

⁴⁷ Portland Trust Bulletin 55, April 2011

⁴⁸ www.atkearney.com/index.php/Publications/global-services-location-indexgsl.html#

⁴⁹ Egypt is ranked at 4, but the 2011 index was produced before the recent political unrest began.

1. Packaged Products that are exported to clients characterised as being government agencies, SME's or large businesses that have a compelling reason to buy the Palestinian product.
2. Services such as outsourcing services that are exported to technology multinationals including CISCO and Intel or used by these multinationals such as the case in the GSSI. Most Palestinian software development houses are engaged in export initiatives due to the limited market size in Palestine.

Any chances of growth have to come from marketing and selling regionally. Luckily, the ICT sector has demonstrated that it is more resilient to Israeli blockage and restrictive practices on imports and exports of goods. Therefore, the vast majority of the software houses have at least one or more experiences in selling abroad.

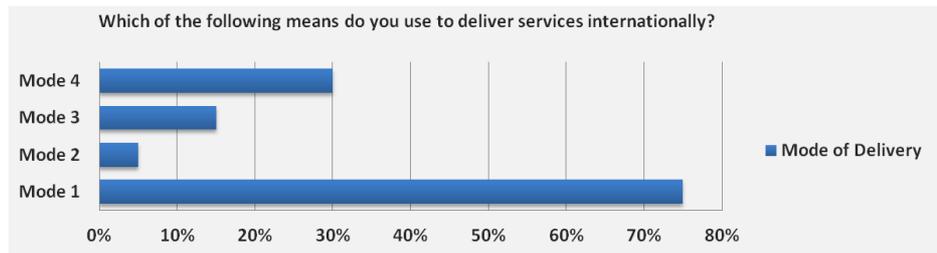
Based on the Palestinian ICT Sector – Three Year Outlook 2009 report,

1. Selling technology is based on people relationship and networking as assurances of product viability. This is very important in the case of using Diaspora
2. Sustaining the interest of existing clients abroad compete with growth strategies due to the limited resources available to companies and that the business model of complimenting a Palestine based operation with an offshore one is resource demanding
3. More sector branding is needed to support the marketing effort of the companies
4. More industry certification is required to develop trust with the clients
5. More technical assistance in developing market channels and business leads
6. Innovative financial instruments based on equity e.g. venture capital

According to the responses received from the Diagnostic study that PalTrade⁵⁰ has conducted, the below two tables illustrate the export mode by these responding companies:

⁵⁰ PalTrade has conducted a quick survey, as part of this Diagnostic Study Report, with 20 selected PITA companies such as Exalt, 2i, ProGineer, Jaffa.Net, UltimatIT and Manarahnet, Cool Net and Mada Al Arab, NMotion, Dragon FX and Dimensions Studio, Bisan, Trusted Systems, Isra' and Data Set. Companies from Gaza representing these sectors included Nepras for Media, Unit One that also develops mobile applications similar to Exalt, Link Information Technology, Al Tariq Systems and Smart Soft.

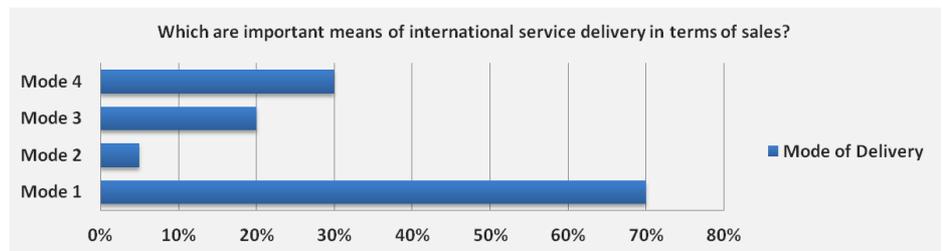
WHICH OF THE FOLLOWING MEANS DO YOU USE TO DELIVER SERVICES INTERNATIONALLY?



Note: People may select more than one checkbox, so percentages may add up to more than 100

1. Service is delivered electronically, or by other means (such as courier), to foreign customers/clients located abroad.
15 responses 88%
2. Service is delivered in your country to foreign customers/clients located in your country.
1 response 6%
3. Service is delivered abroad via branch or subsidiary established abroad.
3 responses 18%
4. Service is delivered via professionals to foreign customers/clients located abroad.
6 responses 35%

WHICH ARE IMPORTANT MEANS OF INTERNATIONAL SERVICE DELIVERY IN TERMS OF SALES?



Note: People may select more than one checkbox, so percentages may add up to more than 100

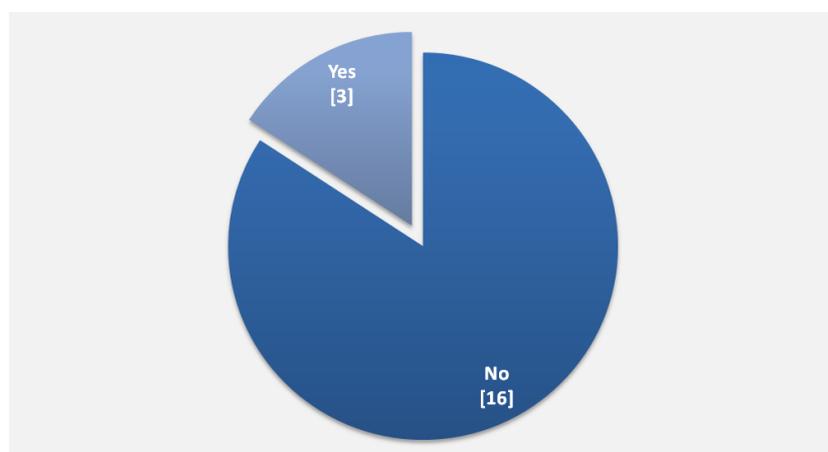
1. Service is delivered electronically, or by other means (such as courier), to foreign customers/clients located abroad.
14 responses 82%.
2. Service is delivered in your country to foreign customers/clients located in your country.
1 response 6%
3. Service is delivered abroad via branch or subsidiary established abroad.
4 responses 24%
4. Service is delivered via professionals to foreign customers/clients located abroad. 6 responses 35%
6 responses 35%

As per the table below, the PalTrade Diagnostic Survey with 20 companies revealed that Palestinian companies believe their competitiveness is due to their geographic location, common business language, low input costs, labour costs and innovation. Surveyed companies were neutral about time zone, exchange rate, quality standards, labour legislation and quality of labour, turnaround time, advantageous trade agreements and design and development competencies. Surveyed companies believe that they are not competitive for the lack of political alignments, lack of IP protection and disadvantaged at logistics.

HOW COMPETITIVE DO YOU THINK PALESTINIAN COMPANIES ARE IN THE EXPORT OF ICT SERVICES?

	1 - VERY COMPETITIVE	2	3	4	5 - NOT AT ALL COMPETITIVE
Geographic location	35%	15%	20%	5%	15%
Time zone	30%	15%	35%	0%	10%
Exchange rate	15%	20%	25%	15%	15%
Banking & financial infrastructure	15%	20%	15%	20%	15%
Political alignments	5%	10%	5%	10%	55%
IP Protection	5%	0%	20%	35%	25%
Quality standards	15%	15%	35%	20%	5%
Common business language	30%	25%	20%	10%	0%
Input costs	10%	35%	20%	15%	10%
Labour costs	15%	35%	25%	15%	0%
Labour legislation	5%	25%	40%	15%	5%
Quality of labour	20%	15%	35%	15%	5%
Logistics	0%	25%	10%	20%	30%
Turnaround time	5%	20%	30%	10%	15%
Innovation	10%	45%	20%	15%	0%
Advantageous trade agreements	0%	10%	40%	25%	10%
Design & development competencies	15%	30%	40%	5%	0%

DO YOU COLLABORATE WITH ANY OTHER PALESTINIAN COMPANIES IN THE INTERNATIONAL MARKET?

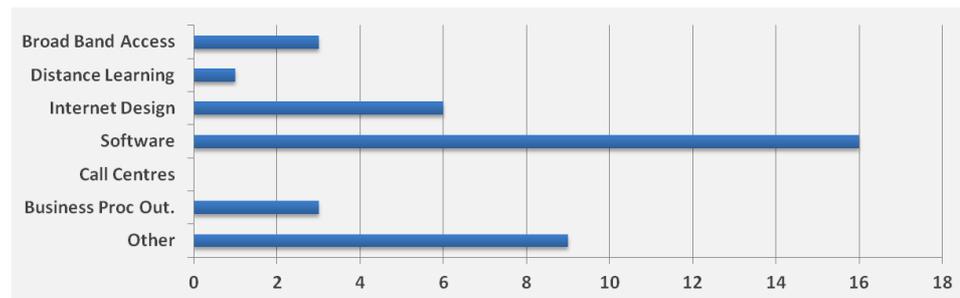


Those that have responded with yes, advised that the team up on certain projects.

4.7.3 KEY EXPORT MARKETS

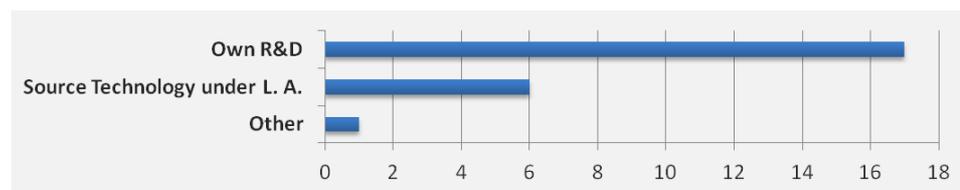
PalTrade has conducted a quick survey, as part of this Diagnostic Study Report, with 20 selected PITA companies: 15 in the West Bank and 5 in the Gaza Strip where 80% of the survey participants are in the business of software development such as Exalt, 2i, ProGineer, Jaffa.Net, UltimatIT and Manarahnet. Nevertheless, the survey also probed Internet Service Providers for ICT services such as Cool Net and Mada Al Arab. Animation companies included NMotion, Dragon FX and Dimensions Studio. Moreover, there was another sub-group of companies selling Accounting and Financial ERP packages including Bisan, Trusted Systems, Isra' and Data Set. Companies from Gaza representing these sectors included Nepras for Media, Unit One that also develops mobile applications similar to Exalt, Link Information Technology, Al Tariq Systems and Smart Soft.

FIGURE 23: PROFILE OF PALTRADE RESPONDENTS



According to the survey, 85% of respondents own their own R&D [m11]

FIGURE 24: RESPONDENTS ACCESS TO R&D



Based on turnover of these companies, the percentage of sales, if any, for international customers has varied tremendously from 5% - 100%. This demonstrates that a few companies are entirely reliant on international customers, while others are unable to attract more than 5% of their sales from abroad.

The types of international companies that the 20 respondent companies sell to include: Market Research, Telecom Operators, Software Industry, Media (Advertising Agencies), Contracting, Non-profit, Financial Services, Value Added Re-sellers (VAR), Educational, Healthcare, and Integrated Services Chip Manufacturers.

These 20 respondent companies export to different geographic international locations:

- Africa: Togo, Nigeria, Gabon, Cameroon
- Canada and USA: Chicago, Atlanta
- Europe: Malta, Germany, Netherlands, Cyprus, Norway, Italy, France, UK, Israel
- MENA: Saudi, Jordan, Egypt, Iraq, Oman, Libya, Morocco, UAE (Dubai), Lebanon, Algeria

The other countries that the 20 respondents mentioned that they want / would like to export to that are not mentioned in the above list are Yemen, Kuwait and other Gulf Countries.

Some of these companies have expressed losing their export accounts for different reasons such as: Can't run the business in the current situation (due to political changes), No more demand for new projects from clients abroad after completing the project, Absence of disciplined marketing and sales activities, Requires local office to represent and do local marketing efforts. This PalTrade questionnaire and study also identifies a gap in connecting ICT companies with other companies to improve international exposure and product offering such as clustering of companies to provide a solution for a vertical market.

The table below is a detailed analysis of the main target markets that the 20 surveyed companies and their main products being exported as well as the main type of buyers in the target market.

TABLE 10: TARGET MARKETS BASED ON EXPORTED PRODUCTS AND MAIN TYPE OF BUYERS

MAIN TARGET MARKETS	MAIN PRODUCTS EXPORTED	MAIN TYPE OF BUYERS IN TARGET MARKETS
1. N. America: • Canada and USA	1. Business Intelligence Reporting	<ul style="list-style-type: none"> Market Research Company Health Sector
	2. Mobile Applications	<ul style="list-style-type: none"> ICT Companies
	3. Software	<ul style="list-style-type: none"> Integrated Services Chip Manufacturers Telecom equipment manufacturers Telecommunication Operators
2. Europe • Germany and Netherlands	1. Software for Telecommunication	<ul style="list-style-type: none"> Telecom equipment manufacturers Software Companies
	2. Mobile Applications	<ul style="list-style-type: none"> ICT Companies
	3. Software Accounting / ERP	<ul style="list-style-type: none"> Non-profits Contracting Financial Services
3. MENA: • Jordan, Dubai, Algeria, Iraq	1. Hotel Management / Restaurants – Client Relationship Management	<ul style="list-style-type: none"> Software Houses Services Companies
	2. ISP Services	<ul style="list-style-type: none"> Health Care Sector Telecommunication Operators
	3. Multimedia and Animation	<ul style="list-style-type: none"> Media Companies Advertising Companies
	4. Software Accounting / ERP	<ul style="list-style-type: none"> Trade Industry / Utility Companies Microfinance Organisations
	5. Web Services / Products	<ul style="list-style-type: none"> Educational NGOs
4. Africa	1. ISP Services	<ul style="list-style-type: none"> Telecom Operators
	2. Software Accounting / ERP	<ul style="list-style-type: none"> Trade Industry Microfinance Organisations
5. Israel	1. Software for Telecommunication	<ul style="list-style-type: none"> Telecom equipment manufacturers

The above table provides many insights. The first is that Palestinian IT companies are able to sell to global markets. Hence, they can compete in different geographic areas. Second, Palestinian companies are exporting their Accounting / ERP packages and ISP/Web Services in MENA and African countries, while exporting their software outsourcing to North America, USA and Israel. These are two different business models and each would have a unique value chain in terms of distribution channels.

Moreover, Palestine was not successful in attracting foreign direct investment in the IT sector. For example, there are no legal presence of multinational companies such as Intel, Oracle, Microsoft and CISCO in Palestine. Yet, such possibility can grow the IT sector immensely. As an example, the presence of multinationals since early 1990 assisted Israel or Ireland to become exporters of IT products and services. It also nurtured more innovation to be generated from those two countries. Likewise, India is now in the process of transitioning from being perceived as an inexpensive outsourcing destination to one that exports innovative technology. The lesson learnt here is that the IT sector is a global sector and the Palestinian IT sector has to find its niche and be able to capture a percentage of the global market. This requires a different approach to the traditional path of assisting existing products developed by Palestinian

companies to be exported.

There is no one-size fits all for exporting IT services. Growing the IT sector is a multi-pronged strategy such as:

1. Developing local markets whether in e-government or linkages with other economic pillars such in tourism or professional services whereby IT is an enabler to other economic sectors increasing effectiveness and efficiencies for better value chain performance.
2. Assisting companies to export their value proposition, whether products or services through value-added resellers and other types of channels.
3. Leverage the Internet for e-commerce whether locally or regionally.
4. Develop mobile applications uploaded on Google and Apple application markets. In this strategy, companies would be leveraging a new channel to reach end users.
5. Attracting multinationals and foreign direct investments to invest in Palestine. This is a very challenging strategy to accomplish. Furthermore, it is perceived as a threat to the local companies as they advocate for protection policies against foreign companies.
6. Develop joint Research and Development initiatives with European or Mediterranean counterparts.
7. Understanding the global market trends and dynamics to capture global buyers' request for services as outsourcing.

Further consultation at a brainstorming workshop to discuss market trends held at PalTrade offices in December 2012. The participants at the workshop included PalTrade Team Leaders and International Consultant have determined alignment with certain countries to be of fit as target markets to be a component of a national export strategy for exports.

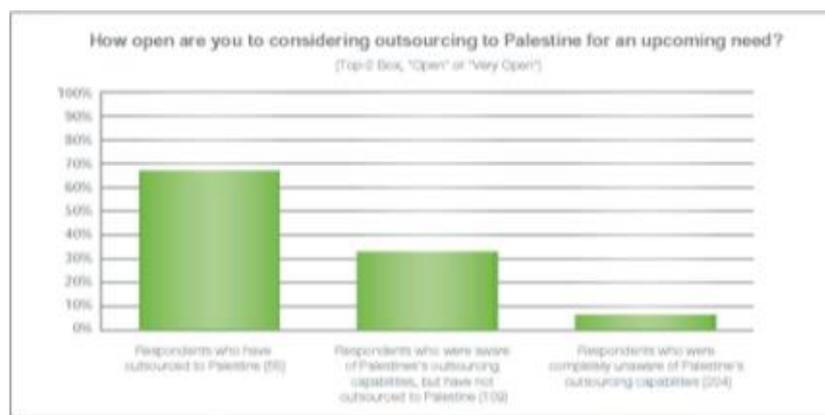
Contrary to what target markets that the IT companies are currently exporting to, the participants discussed country market demand opportunities categorised under neighbouring, nearby and future markets. The target markets were classified as short-term, medium-term and long-term based on how realistic it is to meet the buyers' requirements. The country buying requirement criteria has also been identified. The below detailed table summarizes the output of the discussion:

TABLE 11: TARGET MARKETS BASED ON COUNTRY NEEDS AND REQUIREMENT CRITERIA

STRATEGY TIME FRAME	SHORT TERM TARGET MARKET				MEDIUM TERM TARGET MARKET			LONG TERM TARGET MARKET			
GEOGRAPHIC LOCATION	NEIGHBOUR		NEARBY		NEARBY			NEIGHBOUR	NEARBY	FUTURE	FUTURE
COUNTRY	Jordan	Israel	Libya	Sudan	Gulf countries	Europe	Iraq	Egypt	Algeria	N. America	S. America
THE COUNTRIES REQUIREMENT CRITERIA	<ul style="list-style-type: none"> • Geographical location • Common business environment • Clustering opportunities • Mutual recognition • Pro-active diaspora 	<ul style="list-style-type: none"> • Geographical location • Familiar business environment • Clustering opportunities • Quality-price ratio • Local linkages with arab-israeli 	<ul style="list-style-type: none"> • Common business language • Innovation and specialisation • Delivery package • Political alignment • Technology application 	<ul style="list-style-type: none"> • Common business language • Innovation and specialisation • Delivery package • Political alignment • Technology application 	<ul style="list-style-type: none"> • Common business culture • Clustering opportunities • Specialisation • Pro-active diaspora • Quality-price ratio 	<ul style="list-style-type: none"> • Political alignment • Clustering opportunities • Specialisation • Familiar business environment • Conducive trade environment 	<ul style="list-style-type: none"> • Common business language • Innovation and specialisation • Delivery package • Political alignment • Quality-price ratio 	<ul style="list-style-type: none"> • Common business language • Political alignment • Clustering opportunities • Familiar business environment • Services trade agreements 	<ul style="list-style-type: none"> • Political alignment • Innovation and specialisation • Quality-price ratio • Common business language • Delivery package 	<ul style="list-style-type: none"> • Political alignment • Clustering opportunities • Quality-price ratio • Familiar business environment • Market access 	<ul style="list-style-type: none"> • Pro-active diaspora • Political alignment • Quality-price ratio • Specialisation • Clustering opportunities

Based on the CISCO Report of March 2012, CISCO has moved from a Palestinian team to another in India (not sure why not to another Palestinian company) in order to free the Palestinian firm's time for more challenging, higher-value add project. This Palestinian team also works directly with CISCO headquarters in San Jose. The CISCO Report cites Mr. Tareq Maayah saying that "there actually are not that many barriers to doing business with US companies. If you are interesting and competent they don't care where you are from." According to CISCO Report and Survey, most buyers of services from Palestinian firms are open to repeat purchases as shown below:

FIGURE 25: MAJORITY OF BUYERS OPEN TO REPEAT PURCHASES FROM PALESTINIAN ICT COMPANIES

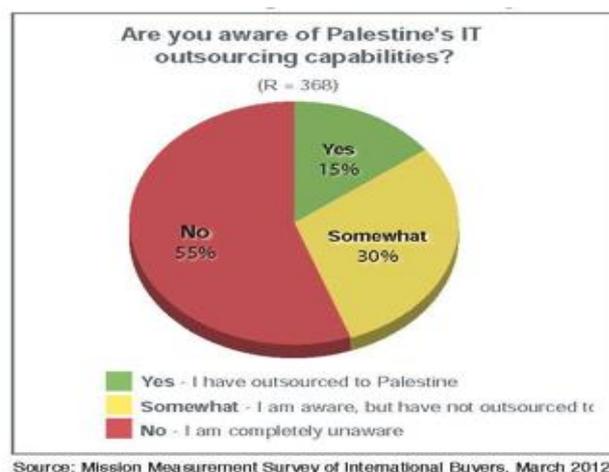


Source: Mission Measurement Survey of International Buyers, March 2012.

The key message is that the Palestinian ICT sector can change the perception about its capability with international buyers, if given the opportunity. Awareness and branding is key steps towards developing a level of trust in initiating and doing business.

The CISCO Report proves that there is an opportunity for PalTrade / PITA to do more on the front of awareness and branding as per the below illustration.

FIGURE 26: AWARENESS AMONG INTERNATIONAL BUYERS

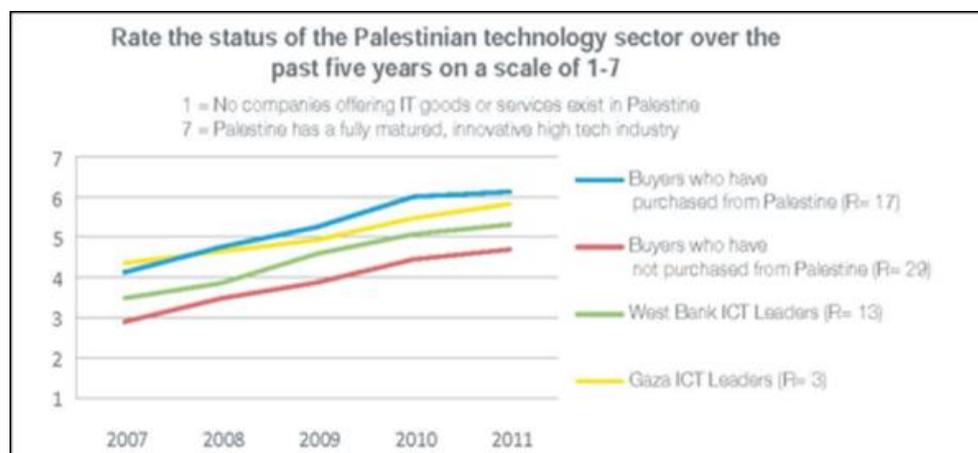


Source: Mission Measurement Survey of International Buyers, March 2012.

What is remarkable is that 45% of the 368 respondents in the international buyers survey have responded positively to being aware of Palestine's IT outsourcing capabilities.

Nevertheless, there is change of perception about the ICT sector in Palestine. The below chart from the CISCO report also tracks the level of change in the perception about Palestinian ICT companies over the past five years.

FIGURE 27: STATUS OF THE PALESTINIAN ICT SECTOR OVER THE PAST FIVE YEARS



SOURCE | CISCO REPORT, MARCH 2012

The Palestinian ICT Cluster: Assessment Report 2006, published by DAI/USAID, provides the following interesting statistics on which to benchmark development of the ICT Sector.

1. The ICT workforce contributes to less than 1% of national employment.
2. The cluster's 2003 revenues were estimated at US\$87 million.
3. The average annual growth rate for ICT companies was estimated at 25% in 2001.
4. In a 2003 survey of the members of the PITA, to which 69 companies listed 149 products and services. 29% of these 69 companies are engaged in software development.
5. Some companies have succeeded in exporting software products and have established business partnerships in the regional markets, including UAE, Saudi Arabia, Yemen, Iraq and Jordan. Some other companies are engaged in the development of niche products serving customers in the United States and Europe as their back end operations. Nevertheless, the local market is still the main market for the Palestinian ICT companies in software or hardware. The key strengths of the Palestinian ICT products and services are in the areas of financial and accounting solutions, education and information management solutions, and management information systems (MIS).
6. Exports have grown from US\$3 million in 2001 to US\$10 million in 2005.
7. It is safe to say that in 2006 there was no equity based investment vehicles such as venture capital or private equity to invest in the IT sector.

In 2010/2011 CISCO survey and the PITA Annual Report, we can contrast that:

1. PITA Annual Report in 2010 indicates that 32% of its 100 members are software developers compared to 29% in 2003.
2. In addition to the development agency funds such as USAID and DFID, CISCO has committed US\$11 million in 2 Private Equity Funds and 1 Venture Capital Fund to be invested in the technology sector. Such funds were not available before. Hence, assisting in accessing finance for Palestinian ICT entrepreneurs.
3. New markets are growing in the CISCO surveyed companies as they have reported that these contracts are held with companies in regions across the globe, including:
 - a. Middle East/North Africa
 - b. Gulf Region as in 2003 Survey
 - c. North America (representing new geographic market expansion) also evidenced in the 2012 PalTrade Diagnostic Survey as a continuation of this trend.
 - d. Western Europe (representing new geographic market expansion) also evidenced in the 2012 PalTrade Diagnostic Survey as a continuation of this trend.
4. Compared to 2003, in addition to R&D languages used in the industry, a new set of skills is being developed in outsourcing, in particular for mobile applications.
5. There was little focus and reporting on the companies' ability to generate business plan in the Cluster Report, while the CISCO 2010 Survey, the majority of respondents 16 of the 23 have indicated that they have produced one.
6. One trend as in 2003 that has not changed is that the industry-university joint R&D projects are still marginal.
7. CISCO Survey in 2010, 18 of the 23 respondents collectively reported 71 new contracts (of which 22 of them are for outsourcing services) that have been established outside of Palestine. Even though the Survey does not measure the value of these contracts, if we benchmark that in 2001 it was US\$3 million and that in 2005 exports were at US\$10 million, it is our best judgment that there is continued indication of growth in exports in 2010 for the IT cluster. For example, in 2010, the CISCO Outsourcing contract represents 50% of the entire annual exports in 2001.
8. CISCO Survey indicated that the 12 out of the 23 respondents have developed 73 contract products or services for international clients while in comparison of 69 PITA companies listing 149 products and services in 2003.

4.8 KEY COMPETITORS

4.8.1 COUNTRIES

The PalTrade Diagnostic Survey with 20 Companies respondents has identified key competitive countries as follows:

Which countries are your biggest competitors in the international market?

- 1 MENA: Jordan, Egypt, Israel, UAE (Dubai), Syria and Lebanon
- 2 Europe and East Europe: UK, Ukraine, Poland, Romania and Serbia
- 3 Asia: India, Bangladesh
- 4 USA

The rationale for responses includes:

- 1 Jordan: easy access, attractive investment environment, proximity of borders to Gulf and a large number of emerging companies with the same type of work.
- 2 Egypt: Huge number of skilled workers, access to foreign markets, low input costs, education, availability of skilled workers.
- 3 East Europe: Quality and geographic proximity to Europe.
- 4 India: cheaper labour, less geographic problems, high quality, low cost, delivery time.
- 5 UAE: The country attracts professional from all over the world to work in Dubai.

4.8.2 COMPANIES

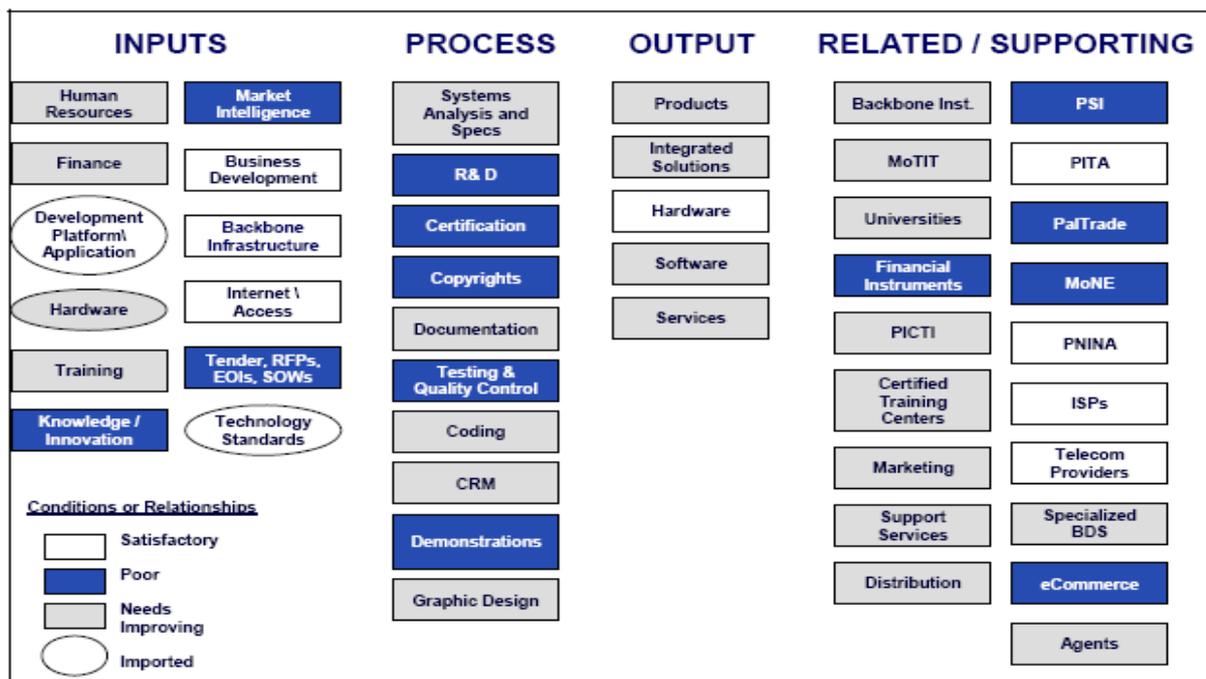
Palestinian companies have identified several competitors in the international market and include Israeli, Egyptian and Jordanian companies such as: MADENTY (www.madenty.net), Bezek, Bynet, ECI, Netcom, Aroma (Egypt), Kharabeesh (Jordan), Robican and Stone Studio. One respondent identified large Indian and Bangladesh companies as the biggest competitors to his business.

These companies have better marketing skills and public relations. International competitors have better ability to launch and do creative work on individual projects due to strong financial position; high-quality production; innovation; capacity (large number of highly skilled workers).

4.9 VALUE CHAIN ANALYSIS

Based on the Palestine ICT Cluster Assessment Report, an extensive research and consultation with the members of the cluster working group, an industry cluster map was developed for the Palestinian ICT cluster in 2006. In addition, the cluster working group also identified the cluster's value chain on the basis of aggregate cost. Given the clear distinction between the hardware and the software sectors, two separate value chains were developed. The cluster map and the value chains are presented below.

FIGURE 28: ICT SECTOR VALUE CHAIN ANALYSIS



SOURCE | PALESTINE ICT CLUSTER ASSESSMENT MAY 2006.

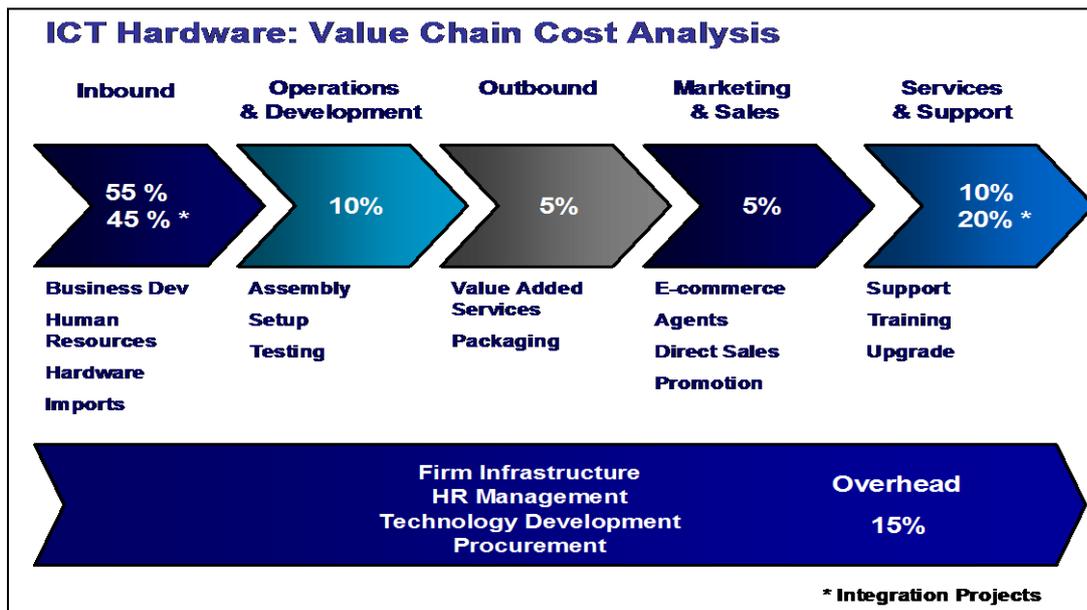
As can be seen in the cluster map and analysing the current status of the IT sector, not many changes to the sector have taken place since 2006. ~~This is due to the limited financial assistance and limited national planning that this sector is receiving including the regulatory and fiscal policy support needed.~~

As indicated in the above illustration many parts of the cluster’s inputs, processes and supporting institutions are either satisfactory or they are existent with some needs for improvement. Innovation based on research and development is minimal. The cluster also suffers from low levels of market intelligence regarding technology and business opportunities. In addition, lack of enforcement of intellectual property rights and lack of certification and quality systems prove to be major weaknesses in the cluster. This dynamic cluster certainly will benefit from increased engagement of financial institutions, trade promotions and development of e-commerce. Hence, the recent review of the 2006 Value Chain did not materialize many differences to the current status-quo in 2012. The only new changes noticed are that the modes of exports and channels to markets have even diversified more. For example, Apple and Google stores for mobile applications are new channels that were not earlier identified in the value chain. Furthermore, outsourcing as near shoring to IT multinational in Israel was not a valid business model to export IT.

The schematics below from the Palestine ICT Cluster Assessment Report 2006 capture the cluster’s value chain. The hardware value chain clearly exposes the cluster’s over-reliance on imports. The operations segment captures only 10% of total cost, indicating the cluster’s focus on assembly. In contrast, the software sector’s operation and development segment captures a bigger share, indicating higher degree of value-

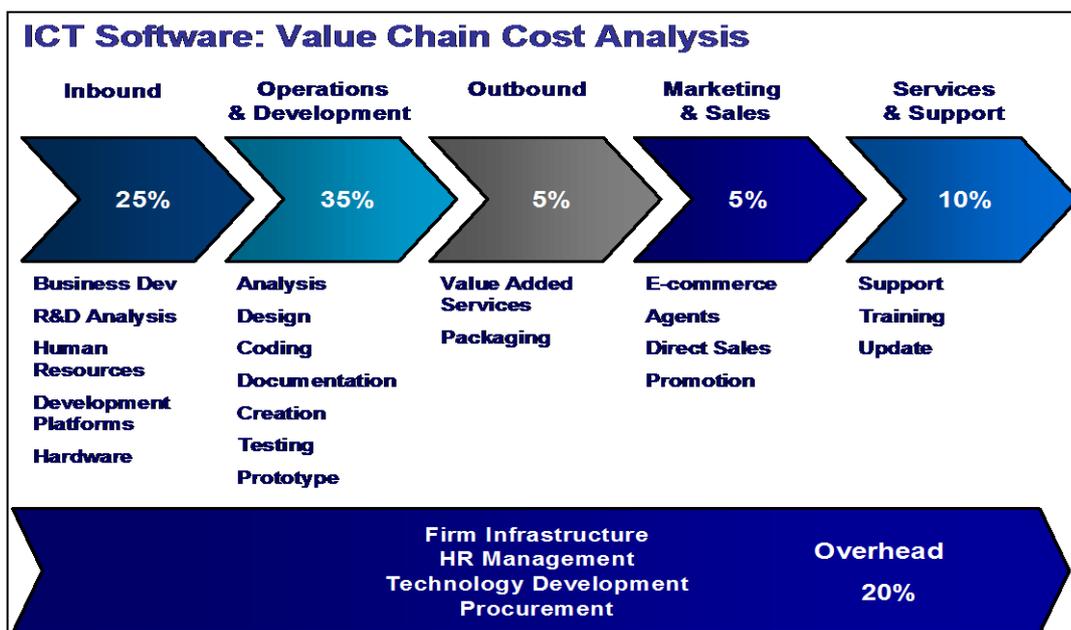
added as compared to the hardware sector. Such higher value-added for software has not diminished nor changed compared to the hardware sector until this date.

FIGURE 29: ICT HARDWARE VALUE CHAIN – COST ANALYSIS



SOURCE | PALESTINE ICT CLUSTER ASSESSMENT MAY 2006

FIGURE 30: ICT SOFTWARE VALUE CHAIN – COST ANALYSIS



SOURCE | PALESTINE ICT CLUSTER ASSESSMENT MAY 2006

Going forward in developing a national export strategy, it may be required that PalTrade develops a specific value chain analysis for each of the 5 segments in the ICT sector that have export potential including: multimedia and gaming, mobile application development, software outsourcing, ERP/Financial Planning packages, and the ITO/BPO such as Call Centers and ISP.

4.10 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Based on White (2010) and Tucker (2012) the below is a comprehensive SWOT Analysis for the ICT Sector

TABLE 12: SWOT ANALYSIS FOR THE ICT SECTOR

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Well-educated population with high literacy rate and proficient language skills • Availability of relatively large labour force entrant pool (approx. 2000/yr.) • Steady growth in supply-side market in ICT in recent years • Inclination towards solidarity and cooperation between private sector firms • Core group of leading companies with 'real'/external market access • Diminishment of government-induced monopoly in telecom and increase in competition • Increasing rate of penetration of ICT products and services (via the provision of low-cost, low-spec computers, internet and mobile devices) • Low cost base • Consumer responsiveness to changing trends in contemporary ICT markets • Governmental commitment to the liberalisation of telecommunications industry • MTIT's pursuance of ICT sector priorities • Well-regulated banking system • Investor-friendly financial environment • High achievement levels in education in relation to the MENA region (at basic and secondary levels) • Strong impetus in public sector, private sector and civil society agents to achieve the knowledge economy • Language skills 	<ul style="list-style-type: none"> • No substantial ICT penetration in business, education & government Functions • Lack of professional readiness in labour force entrants • Absence of leadership and coordination in private sector • Shortcomings in advocacy and policy development • Only a small fraction of firms involved in large scale growth • Limited access to 'real'/external markets for most ICT firms • Insufficient organic growth—i.e. the production of ICT goods and services according to the specific needs of the domestic market in Palestine • Weak financial and organisational connections between the public and private sector • Lack of capacity for the MTIT to affect change • Low level of commitment of ICT initiatives in most ministries • Outdated conceptualization of ICT in practice and rhetoric for many sector organisations and actors • Underdeveloped legal and regulatory structures in telecommunications and IT markets—e.g. absence of Intellectual Property Rights and Corporate legislation • Insufficiencies in innovation and creativity in the development of ICT products and services • Inadequate infrastructure conditions and encouragement of critical-thinking, problem-solving and high-order learning in basic, secondary and tertiary education • Inability to attract high-quality teachers and professors in secondary and tertiary education • Limited commercial experience/contacts in the international markets and lack of sales channels • High infrastructure costs • Lack of investment into the market; • Lack of formal quality and project management processes; • Limited available skill range, e.g. limited numbers of project managers, team leaders

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Presence of multinational firms in domestic ICT initiatives • Utilization of the Palestinian Diaspora • Continued financial interest of the international donor community • Current economic climate suggests firms will be looking to lower their cost base • Cultural and geographic proximity to Arab and European markets creates potential for outsourcing • Initiation of e-commerce, e-governance and e-post initiatives via the domestic private sector • Expansion of multi-lingual digital content and mobile software technology • Development of educational, governmental, civil society and private partnerships to generate links that improve efficiency in ICT production. 	<ul style="list-style-type: none"> • Deteriorating political environment—restrictions of movement of goods and people, decreases in foreign investment, geographical discontinuity etc. • Segregated relationship between the West Bank and Gaza (in the exchange of ICT goods, services and information and in infrastructural cooperation) • Continued unlicensed operation of Israeli mobile operators in the West Bank • Israeli control of telecommunications infrastructure, e.g. 3G access, international gateways) • Loss of highly-qualified individuals to markets abroad, i.e. 'brain drain' • Low prioritization of the creation of the knowledge economy by governmental bodies • Continued disparity between educational output and human development needs in Palestine • Regional competition from Arab and Easter European countries • International competition from countries such as Sri Lanka and Bangladesh • Lack of support for required infrastructure developments • Brain Drain

3.11 COMPETITIVE AND COMPARATIVE ADVANTAGE

AT Kearney's Global and Gartner's Frameworks for Assessment of Locations for IT Services and IT-Enabled Services⁵¹ include the below criteria:

AT Kearney's Global Services measures

1. People and skills availability: Remote service sector experience and quality ratings, Labour force availability, Education and language, Attrition risk
2. Financial attractiveness: Compensation costs, Infrastructure costs, Tax and regulatory costs
3. Business environment: Country environment, Infrastructure, Cultural exposure, Security of intellectual property

Gartner's criteria measures:

1. e-Infrastructure: Power, Telecommunications, Transport
2. Labour pool: Quality, Quantity, Scalability, Work conditions
3. Educational system: Quality, Number of institutions, New grads in IT
4. Cost: Labour, Real estate, Infrastructure, Telecom
5. Political and economic: environment, Stability of government, Corruption, Geopolitical risks, Financial stability, Language
6. Government support: Promotional, Institutional, Education
7. Cultural compatibility: Cultural attributes, Adaptability, Proximity, Ease of

⁵¹http://siteresources.worldbank.org/EXTIC4D/Resources/IC4D_IT_Services_103_122.pdf

travel, Global and legal maturity, Data and intellectual property security and privacy

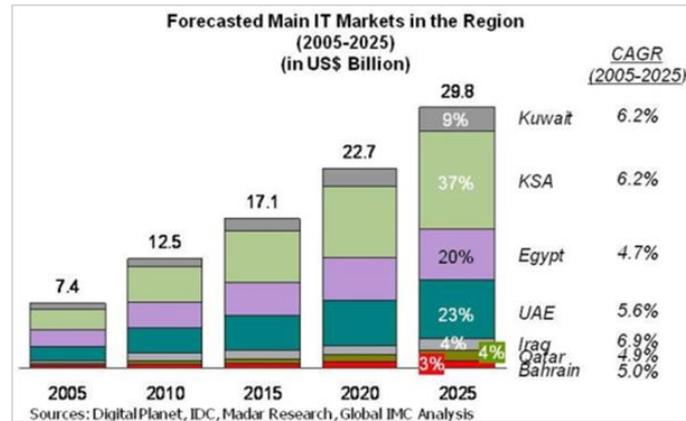
According to the PITA PowerPoint presentation delivered during the trade mission in Washington D.C in 2010, the ICT Sector value proposition there are many competitive and comparative advantages to signal and promote globally, which include:

- Lower labour cost than Israel, US and Western European countries, while geographically being very close to Europe and Israel. Hence, there is the element of convenience of meeting face-to-face Palestinian development teams and Israeli clients in lieu of having to travel or rely on Internet based communication tools. According to PITA presentations, the hourly professional rates (+5 years' experience) for ICT services are estimated at 75% below professional service rates in neighbouring countries.
- In 2007 the value-added and compensation per paid employee in computer and related industries in Palestine was US\$31,770 and US\$7,192, respectively, indicating a high profitability in the ICT sector.
- Delivery of award-winning products and services such as Bisan Software Services
- 50% of ICT companies have business relationships outside of Palestine (sales, installing applications, services and distributorships)
- 32% of Palestine ICT companies work directly with Israeli companies
- In-depth knowledge and compatibility in language and culture
- Abundance of ICT graduates and diversity of ICT workforce specialisations
- Language skills in Arabic, English, some French and Hebrew for engineers and software developers.
- Project management skills for executives and senior managers
- Time zone
- Innovative employees (think outside the box)
- Resilience and crisis management abilities
- Staff's ethics and loyalty towards employer, with low attrition rate
- Arabic accent is neutral, which is of benefit to the call center industry

Unlike market trends in most of the neighbouring Arab countries, Palestinian ICT companies:

- Have success stories in locally developed products meeting local market needs (Product Based) such as Bisan Systems.
- Enjoy recent success in conducting major joint R&D projects (CISCO, Intel, Microsoft and SIEMENS) which can be capitalized on to attract further contracts.

FIGURE 31: FORECASTED MAIN IT MARKETS IN THE REGION



- Geographic proximity to an emerging IT market in the Middle East, where Palestinian ICT companies can fit in a wider eco-system to support multinationals such as SAP, Oracle and Microsoft to better deploy their solutions in such Arab market due to geographic proximity of the location, similar language and cultural understanding; such advantages that other outsourcing regions do not always deliver. This knowledge and experience to interface between Western and Middle East countries is particularly valuable when working in MENA countries, especially where it addresses Arabic culture, language and norms
- More than 90% of Palestine households have mobile telephone service and highest DSL subscriptions as percentage of population across the Emerging Markets.

FIGURE 32: ELEMENTS OF THE COMPETITIVE AND COMPARATIVE ADVANTAGES



SOURCE | PITA PRESENTATION

Furthermore, Palestine has a favourable investment and business environment:

- Investment Promotion Law provides effectively a zero tax rate for new IT projects for 5-7 years, thus encouraging cost effective initiatives.
- Tax on corporate profits is now 20%
- Maximum rate of personal income tax is 20%
- HR development and training costs are now treated as capital investment

for the IT industry

- Low cost training and certification compared to the region
- Fees for Palestinian labour will be paid as “Professional Fees” applicable to the VAT

As per the table below, the PalTrade Diagnostic Survey with 20 Companies collected responses on the importance of certain issues in terms of competitive advantage. Issues such as specialisation, brand identification, quality of service, innovation, educated workforce, unique expertise, cost position, best quality-to-price ration, responsiveness to enquiries, technological leadership, and provision of ancillary services provide companies with a competitive edge internationally. Interestingly, companies were neutral about the quality of labour playing a role in their competitive edge internationally.

TABLE 13: COMPETITIVE ADVANTAGES IDENTIFIED BY RESPONDENTS IN THE ICT SECTOR

	1 - VERY IMPORTANT	2	3	4	5 - NOT AT ALL IMPORTANT
Specialisation	75%	25%	0%	0%	0%
Brand identification	30%	35%	25%	5%	0%
Quality of service	90%	10%	0%	0%	0%
Innovation	55%	35%	5%	0%	0%
Educated workforce	50%	25%	15%	5%	0%
Unique expertise	45%	30%	15%	5%	0%
Cost position	30%	40%	30%	0%	0%
Best quality-to-price ratio	50%	30%	15%	0%	0%
Responsiveness to enquiries	45%	50%	0%	0%	0%
Technological leadership	45%	45%	5%	5%	0%
Provision of ancillary services	30%	30%	30%	5%	0%
Quality of labour	20%	15%	35%	15%	5%

4.12 BARRIERS AND CONSTRAINTS TO EXPORTING

Based on the Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region 2nd Edition (White, 2010), most companies in the survey recognised the challenges of providing “offshore” services, with the main concerns falling into three areas:

- Security issues: these relate to a number of factors, the first being the political situation in the region which gives cause for concern and could be seen to impact on continuity and security of services and data. The data and server security issue can be resolved by offshoring the data storage and servers, if required. Additionally, there were concerns about the security situation making travel difficult, therefore impacting on business development.
- Commercial issues: The relative isolation of Palestine presents challenges in finding external partners or customers. Many of the successful companies that sell externally have built contacts whilst their management was located in other countries or have sales people who can travel easily. In addition,

due to the nature of the Palestinian market, limited sales and marketing resources have been needed. Much of the business comes from the public sector where relationships and networks are most important.

- Financial issues: concern was expressed about the availability of risk and venture investment and working capital as Palestinian companies seek to grow.

As per the table below, The PalTrade Diagnostic Survey with 20 Companies collected responses on the extent to which companies agreed or disagreed that certain criteria presented a constraint that impeded their ability to export. Criteria included inability to obtain adequate financing, difficulty attracting professionally skilled employees, lack of availability of skills, difficulty establishing credibility as a competitive supplier, market access barriers in foreign markets, insufficient commercial trade contacts, lack of market information, lack of export knowledge, difficulty identifying suitable local partner in foreign markets, and the difficulty obtaining travel documents to visit and serve foreign markets and clients.

The companies disagree that labour cost or difficulty managing client payments from abroad or insufficient market demand is impeding their ability to export. In other words, companies believe that there is sufficient market demand but they don't know about them as indicated earlier.

Companies were neutral that unreliable electricity, telecommunication tariff, regulatory barriers in home country, or meeting international quality requirement is impeding their ability to export.

TABLE 14: CONSTRAINTS TO EXPORTING IN THE ICT SECTOR

	1 – STRONGLY AGREE	2	3	4	5 – STRONGLY DISAGREE
Inability to obtain adequate financing	25%	35%	20%	5%	5%
Difficulty attracting professionally skilled employees	20%	30%	20%	20%	5%
Lack of availability of skills	20%	35%	15%	25%	0%
Labour costs	5%	25%	25%	40%	0%
Difficulty establishing credibility as a competitive supplier	25%	35%	15%	5%	15%
Difficulty managing client payments from abroad	5%	25%	25%	30%	10%
Unreliable electricity supply	5%	20%	35%	20%	15%
High cost of telecommunications services	15%	15%	35%	25%	5%
Regulatory barriers in home country	20%	20%	30%	25%	0%
Market access barriers in foreign markets	15%	45%	15%	15%	0%
Difficulty meeting international quality requirements	10%	15%	30%	30%	10%
Insufficient market demand	5%	15%	20%	50%	5%
Insufficient commercial trade contacts	15%	55%	20%	5%	0%
Lack of market information	25%	55%	10%	5%	0%
Lack of export knowledge	40%	25%	10%	10%	5%
Difficulty identifying suitable local partner in foreign markets	35%	40%	15%	5%	0%
Difficulty obtaining travel documents to visit and serve foreign markets and clients	35%	15%	25%	10%	10%

4.13 POTENTIAL AREAS OF INTERVENTION TO ADDRESS BARRIERS AND CONSTRAINTS

The specific measures that government could undertake to address specific barriers or constraints as collected from the 20 PalTrade ICT Diagnostic Survey respondents. As in the table below, it is a normal result to observe that companies' main interest is in marketing missions and market entry strategies as the most needed interventions to address barriers and constraints.

TABLE 15: IDENTIFIED MEASURES TO ADDRESS BARRIERS AND CONSTRAINTS TO EXPORTING IN THE ICT SECTOR

COMPANIES' AREAS OF INTEREST TO ADDRESS BARRIERS AND CONSTRAINTS	NUMBER OF RESPONDENTS	SHARE
Guidance on better commercial use of the Internet	5	28%
Equal treatment of services exporters relative to goods exporters in export assistance	5	28%
Other	5	28%
Financing strategies	6	33%
Management & skills training	6	33%
Technical assistance in designing quality assurance systems for the service firm	7	39%
Improvement of media profile with interviews, newspaper articles, success stories	7	39%
Training in the development of services export plans	8	44%
Streamlining of regulatory procedures	8	44%
Equal treatment of services exporters in export assistance irrespective of their size	8	44%
Instruction in industry market analysis	9	50%
Introduction to trade contacts and potential commercial partners	9	50%
Training in marketing skills	10	56%
Increased transparency in domestic regulation	10	56%
Publication of laws, regulations and administrative guidelines affecting sector	10	56%
Participation in services marketing missions	13	72%
Assistance with development of market entry strategies	16	89%

4.14 WORKSHOPS AND CONSULTATIVE INTERVIEWS

4.14.1 CONSULTATIVE INTERVIEWS

Consultative interviews with Mr. Ibrahim Abu Kteish, the General Director of Najjad Zeenni Center of Excellence, Mr. Hasan Omar, Palestine Information and Communications Technology Incubator (PICTI) Manager and Mr. Mohamed Musleh, Business Development Manager of PITA have taken place as part of this Diagnostic Study.

During the interview with Mr. Mohamed Musleh, the Business Development Manager at PITA, Mr. Musleh advised that the majority of students are not passionate about what they study and they graduate with below market standards that do not fit the need. PITA, Mr. Musleh advised, is currently working on developing a Task Force for the Human Talent Development Initiative that is sponsored by Google and other donors with the Academic Sector to pilot a project that will produce better market-ready resources through two main activities: 1- Intensive Training with four main tracks, one is about soft skills and the remaining three tracks will all be technical based

on the study to be conducted with members. The second main activity of the Task Force is to influence the curriculum at the universities with these new four topics. Mr. Musleh advised that the Policy issues that should be addressed to promote exports are the ones that would impact the human talent development, allows for foreign multinationals and investors to come and invest in Palestine including IPR, that will grant more exposure including better and easier registration to do business in Palestine, and policies that would promote innovation. Mr. Musleh cited the Oracle company example of buying a major technology from Israeli company that also justified their presence and operations in the country. Mr. Musleh is optimistic that a Palestinian innovation will lead to attracting investment in the key sub-sectors of software outsourcing and R&D as evolving niche sub-sectors. There is also developed knowledge in the ISP sector that can be exported. BPO and ITO services can also be exported. The realistic key export markets for the private sector is currently under examination by PITA as they have just launched two major market penetration studies, one for regional and one for international markets. The regional market study is expected to be ready by January 2013, while the international one will be ready by the second quarter of 2013. These two studies will shed more light on the top three markets in the region and three markets globally that are closely aligned to Palestinian company's capabilities. The latter international market study will pin-point niche opportunities based on market needs. The latter international market study will also have an impact on the best way to increase the size of the local market for the same niche opportunities and needed solutions by examining the five sub-sectors that PITA companies can service. This will also be mixed with a branding campaign to change perceptions about the ICT industry.

From Mr. Musleh's own personal observations, local representation is the best channels especially if it is complimented with technical resources that can interact and capture client needs and requirements. Mr. Musleh presented the model of Infinite Tiers Company in Nablus where they have a marketing arm through a physical presence in the USA and this channel provides pro-active sales leads and closes contracts for Palestinian development. Mr. Musleh also believes that the online sales channel on the Internet is another viable option, but this option lacks the personal interaction that the ICT industry demands and it cannot but underestimated. Mr. Musleh believes that it is important to have a representative office in the Silicon Valley to channel software outsourcing opportunities to the Palestinian ICT companies that have successfully undertaken outsourcing business with the likes of CISCO, Microsoft, HP and other multinationals. This should help the ICT sector to scale. Mr. Musleh also advised that if a representative office is to be open in Germany it is preferred to have German staff working in it. Also, that it makes more sense to have a representation office in the Gulf region especially Saudi Arabia in order to be able to access business and sales leads. Local market dynamics are unique to every market and understanding how it works enables one to penetrate it. Mr. Musleh also believes that every country is a competitor to Palestine. However, in the case of Jordan, they can be seen as a potential ally especially on large scale projects. The main competitive and comparative advantages internationally include the location being very close to Europe and emerging markets in MENA region, language skills in English and Arabic and the creative nature of Palestinian to also learn and adapt to different working environments. Furthermore, Mr. Musleh advised that, in the point of view of PITA, the

major barrier and constraint is to find technical resources in abundance that would enable an export oriented industry. Israeli restrictions on the import and export of technology hardware are also another impediment. The third barrier and constrain is the lack of exposure to international markets and the perception about Palestine being a conflict zone that works against the companies when wanting to do international business. Mr. Musleh concluded that policies related to attracting foreign direct investment, IPR, easing up corporate registration and telecommunication regulatory authority are on the agenda. Furthermore, PITA is launching a capacity building program for its members to evolve the workforce technical skills. PITA is also engaged with Diaspora to develop new business channels in addition to the market penetration studies.

From the point of view of Mr. Hasan Omar, PICTI Manager, it has not been realistic to export the products and services of start-ups in an efficient way and on a large scale as they don't have international business models and they often cater to the local market, but without properly understanding the need of the local market and no proven products and services. Mr. Omar advised that PICTI is currently pushing for new industry hoping to grow local SME by finding them new market opportunities such as i-mobility initiative that focuses on ICT solutions in the transportation industry and logistics. Mr. Hasan advised that the current level of skills of graduates is not conducive to export ICT. They at least need one year of practical internship after their graduation before they can become productive. Graduates tend to have good level of general education, but no specialised knowledge that is ready to export. Mr. Omar was not entirely sure what the priority policy issues are that would need immediate attention as often it is an issue of perception due to lack of awareness if the legal framework is sufficient or whether the reality of the situation demands a new set of legislation. Nevertheless, according to Mr. Omar, the IPR issues are high on the list of attention as it relates to promoting innovation and entrepreneurship. Yet, as important as policy is, the lack of enabling infrastructure such as an online payment gateway whereby one PICTI start-up has had to use alternative solutions such as 2CO to process direct online payments, but is proving not be a straight forward process. Mr. Hasan advised that the best start-ups that can export are those of consultancy in niche technology and functional areas such as SAP and Microsoft SharePoint solutions, mobile applications, content in the Arabic language, software outsourcing and animation. According to Mr. Omar, the best way to increase the size of the local market for start-ups is through linkages and diffusion between the ICT and other sectors including building teams from different backgrounds and expertise. For example, PICTI's Palestine Innovation Initiative (PI2) that is sponsored by Oxfam and USAID target all segments of societies such as students, academics and business owners to cluster amongst themselves. Furthermore, Mr. Omar advised that the best channels that can assist to reach export markets include: Diaspora, network of friends, offices in Amman and elsewhere, direct channels through the Internet, through trade promotion organisations such as PalTrade such as signing agreements with other Associations in other countries to build a relationship and cooperation for trade in services. Such Agreements can be signed with regional emerging markets such as Algiers and Libya. Last but not least, another example of channels is to develop [joint](#) ventures with Jordanian companies whom have better access to regional markets. Mr. Omar advised that since IT is a global industry, Palestine is competing with the world. Furthermore, it is not

entirely clear yet how the competitive and comparative advantages are translated into a successful value proposition. Hence, we are not clear on what is working and can be scaled to constitute a sub-industry and hence, we are not yet known to be specialised in any specific area. For example, there are many testimonials about companies having successful stories in software outsourcing, but does this really mean that we now can generalize that we have a software outsourcing industry, hardly the case!

Some of the barriers and constraints that inhibits exporting include: lack of linkages to global markets, quality assurance is often time compromised, and when it comes to exporting hardware, it is almost impossible to do so for start-ups such as the educational school kits developed by Ibtaker and in software, we still don't know where our market is and who would be willing to buy and pay for our services. Funny enough, our entrepreneurs have not been taking advantage of the Apple and Google stores and there is not much Palestinian developed application on these channels.

From the point of view of Mr. Ibrahim Abu Kteish, the General Director of Najjad Zeenni Center of Excellence at Birzeit University, the below represents the academic point of view:

General skills of graduates are available, however, for specific projects and technologies tailored made training courses of up to 3 months should be sufficient to cover the gap where the graduates could start as junior developers. Mr. Abu Kteish advises that he has a different point of view regarding working with multinationals such as CISCO and Microsoft. In his opinion, a realistic key export markets for our ICT private sector are SMEs around the world – not big companies. Mr. Abu Kteish aligns with many of the 20 company survey respondents that key competitors to our companies are outsourcing companies in Jordan and companies in Asia and east Europe. Our donors such as USAID sometime give the ICT companies a competitive and comparative advantage internationally by subsidizing some of the private sector cost and expenses. The main barriers and constraints to exporting ICT include the Israeli occupation, regulations, brain drain, and the lack of expertise in all fields. Universities with their students are the main flow of qualified workforce into the market, most of these graduates have a very general knowledge, and universities could play a major role in qualifying more specialised experts with the help of private sector. For example, the Center is currently planning to launch SAP Academy to bridge the gap with specialised expertise in certain industries such as Client Relationship Management, Supply Chain Management and Enterprise Resource Planning.

4.14.2 ICT WORKSHOP

The cross-cutting issues revealed throughout the research and the interview phases were analysed. These constituted the questions posed in the context of a focus group discussion. The ICT Focus Group met separately on November 11, 2012 and extensively debated the issues.

Fifteen participants from outsourcing, call-center and software companies were represented; including the sector association PITA, two senior officials from the Ministry of Telecommunications and a prominent legal expert on ICTs. Participation was managed to balance public and private sector involvement including educational institutions, sector associations, Ministries with a direct interest in the sector and

other relevant public institutions. It is important to note that the Trade in Services Unit at the Ministry of National Economy was invited and encouraged to attend all meetings (as they were for interviews). The overall discussion was very good and allowed the team to come up with important recommendations. Below are the outcomes per issue discussed. This one-day focus group discussion drew out recommendations to address the issues. Below are the major points drawn from the discussions and specific recommendations.

ISSUE 1 – BRAND/MARKETING	ISSUE 3 – INFRASTRUCTURE
<p><u>Issues Discussed</u></p> <ol style="list-style-type: none"> 1. Outsourcing enjoy some reputation but most is done through a personal contact; otherwise it is a political choice 1. Negative perception is a big issue 2. Diaspora is a possible network being built by PITA 3. There is no brand; positioning is a clustering issue 4. Competitive advantage not yet identified 5. Target markets have not been identified 6. There is no integration; little collective efforts <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. Identify areas in which the country can be competitive 2. Build concentrated efforts 3. Design a branding strategy in one direction 4. Organize targeted trade missions (focus) 	<p><u>Issues Discussed</u></p> <ol style="list-style-type: none"> 1. It is not an impediment but could be improved 2. No control over the gateway 3. Cost of connectivity has mixed feelings 4. Quality of connectivity is also an issue 5. Electricity is certainly costly 6. Major cities are well connected compared to rural areas <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. It is not a major issue; depending on the product 2. There is nothing major that can be done 3. There is one project already looking at alternatives (€5 million)
ISSUE 2 – LEGAL FRAMEWORK	ISSUE 4 – SKILLS CAPACITY
<p><u>Issues Discussed</u></p> <ol style="list-style-type: none"> 1. Legislations stops on the basics 2. Sophistication of legal experts and judges impedes efficiency 3. Enforcement (arbitration - third party required) 4. Despite legal issues, success exist among large companies 5. Intellectual property to cover software is non-existent 6. Legislation stopped in 2006 7. Lack of trust is a problem <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. Identify ICT services/products that legislations are absent/detrimental 2. Research alternatives to regulations and regulatory procedures 3. Advocate starting with agreements among concerning actors 4. Educate legislators 	<p><u>Issues Discussed</u></p> <ol style="list-style-type: none"> 1. Marketing is simplistic and naive 2. CISCO provided a management and marketing course widely appreciated, which showed the level of the problem 3. Skills is a big problem; investment needed to re-train people (recycle skills) 4. Coordination between companies and universities is non-existent 5. There is no room for technical schools 6. Companies are built around technical skills; few have commercial skills 7. Lacking qualified people; subject matter skills 8. Low turnover rate; in a high unemployment rate <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. Offer classes on management and marketing 2. Build a platform to link academia with the private sector 3. Integrate marketing courses at universities 4. Documentation, technical skills writing are missing

4.15 SUCCESSFUL ICT SERVICE EXPORTER

The below list as presented in the Outsource2Pal Website⁵² provides ample short success stories as case studies on ICT service exports:

1. ProGineer and PDF Solutions ProGineer (www.progineer.net) is a well-established Palestinian software outsourcing company working with PDF Solutions (www.pdf.com), a NASADQ registered company based in Silicon Valley, California.
2. Saudi Arabia School, Madina District and Jaffa.Net Jaffa.Net was contracted to develop the school management and portal system for 10 schools in Madina Educational District in Saudi Arabia.
3. Nuvoton and ASAL. Nuvoton, the multibillion dollar semiconductor company, appointed ASAL to provide full design verification and testing for Nuvoton microcontrollers and super I/O boards.
4. EXALT is working as part of the mainstream development team of the Cisco Service Control Engine (SCE), which is a network element designed to provide carrier-grade stateful application and session based classification and control of application level IP traffic per subscriber. Scope includes development for the management agents, development testing (automated test generation), "Deep Packet Inspection" (DPI) and L7 application signatures.

The same Outsource2Pal resource provides the below two case studies:

4.15.1 CISCO - ASAL CASE STUDY⁵³

BACKGROUND

In 2008 Cisco decided to offer eight development projects to companies in Palestine. The projects were to be managed by Cisco's Israeli office and formed part of a commitment made by John Chambers to invest £10million over three years into helping to develop the Palestinian ICT industry. Despite the social angle involved in the programme each project was of significant importance to Cisco's business and had to result in economic benefits for the company.

Cisco Systems is a global ICT company that designs and sells networking and communications technology and services under four brands: Cisco, Linksys, WebEx and Scientific Atlanta. Cisco's market coverage ranges from selling Enterprise and Service Provider solutions to addressing customer needs in many other segments including Small Consumer and Commercial.

Asal Technologies is a software and IT services outsourcing house established in Ramallah, Palestine in 2000 and is a part of the Massar International, multinational group. ASAL was one of a number of companies that submitted proposals and won two projects both relating to Cisco's Active Network Abstraction system (ANA).

⁵²<http://www.outsource2pal.com/einside.php?id=12&page=1>

⁵³<http://www.outsource2pal.com/etemplate.php?id=80>

Cisco Active Network Abstraction (ANA) is a powerful, next-generation network resource management solution. Its virtual nature provides users with a strong and reliable platform for service activation, service assurance and network management. It also provides a flexible, vendor-neutral resource management system that supports both a multiservice network environment along with the management capabilities required to sustain reliable, converged voice, video and data networks.

PROJECTS

ASAL was chosen for the two projects based on a number of factors including its experience in the JAVA programming language, its proven reputation in developing high quality software for other clients and its access to high quality engineers with experience to manage and successfully complete major projects. The project kicked-off in early 2009.

Specifically the projects addressed two elements of ANA: first was to overcome some limitations of the reporting tool in the product; the second was to improve the existing Simulator to cover all ANA testing needs related to network devices.

REPORTING TOOL

The current ANA solution needed an improved reporting environment. The existing framework was based on the Jasper reporting tool, which had a number of limitations. ASAL's task was to build a new tool to replace this and add missing reporting functionality. There are many reporting tools options in the market and ASAL had to review these and agree the ones with the best functionalities and performance for the job.

From these reviews ASAL proposed Business Intelligence and Reporting Technology (BIRT) to CISCO. ASAL chose BITRT technology because it is an open source application with functionality that cannot be found in other technologies like Jasper and Crystal reports. BIRT also offers an extremely strong charting engine. Overall the final solution was to use and integrate several technologies including: Eclipse Ganymede, JAVA, JDK, Oracle database, BIRT reports, Jasper reports, Crystal and JFree reports.

The specific services being provided by ASAL are the investigation and development of reporting technologies, systems development and testing and Quality Assurance (QA).

ANA NETWORK DEVICE SIMULATOR

The ANA Network Device Simulator started as Sheer simulator, a tool for testing Active Network Abstraction system with large numbers of virtual network devices. A network device is 'recorded' using the Recorder component of the simulator. The resulting image is used by the Player component to simulate the device. With this tool, an arbitrary number of recorded devices can be simulated and used to test ANA.

The Sheer Recorder was rewritten to provide a better, user friendly experience. The new Padma Recorder sports a very accessible and friendly GUI, multithreading improvements, and a multitude of new features that integrate the recorder with the new Padma Manager vision.

The project is a good example of ASAL's ability to stay up to date with technology and work with the latest and most popular technologies available worldwide; the

technologies used in the project were Java (1.6), Eclipse, IDE and Network Protocols (SNMP, Tenet, SSH, etc.)

ASAL team is providing Cisco with the following services:

1. Finding creative solutions to current Simulator limitations
2. Design and Development of new features
3. Design and develop implementations Code restructuring.
4. Interface design and development
5. Testing
6. Documentation

Benefits The benefits of the projects to both Cisco and ASAL are:

1. Timeline reduction, through CISCO and ASAL working on the projects Cisco will be able to get the developments to market faster hence increasing revenues and market share,
2. Cost saving, the partnership will cut operational costs by more than 50%,
3. A more complete product for Cisco that address the demands of the market,
4. The co-location means ASAL can complete critical work and send it to Cisco the next day; this enables the work to be completed much faster.
5. ASAL has gained experience from working with CISCO which is a leading company in networking and software development. ASAL team will also profit from the training and knowledge development courses,

THE CLIENT VIEW

Both projects have been successful and have seen extensions. Yossi Shani R&D manager said "Asal team are highly motivated, working hard and achieve the goals and deadlines set for the project"

4.15.2 ALCATEL-LUCENT AND EXALT CASE STUDY⁵⁴

BACKGROUND

Alcatel-Lucent Application Software Group (ASG), is a business unit in the Alcatel Lucent Company, responsible for the Genesys call center software product range. About three years ago the company was looking to outsource various aspects of its software development. After reviewing a number of locations and companies it chose to appoint EXALT, with whom it had experience of working with on a number of small and highly successful projects. In the following two and half years the relationship has grown to the extent that the EXALT developers are now seen as part of the ASG team and have delivered and are continuing to deliver multiple projects.

The specific Alcatel-Lucent unit with which EXALT works is the Applications Software Group. It is responsible for the Genesys product range, which provides applications

⁵⁴<http://www.outsource2pal.com/etemplate.php?id=90>

software, including contact center software, IMS applications, and operations support systems and business support systems software.

Genesys software is a very important product within the call center market; it directs more than 100 million customer interactions every day for 4,000 companies and government agencies in 80 countries.

EXALT Technologies Ltd. is a software development company based in Ramallah, in the Palestine. Established in 1997, EXALT helped lead the software outsourcing industry in Palestine with customers such as Siemens, Alcatel Lucent and Cisco. The company provides complete development cycle services, delivered by team of highly experienced engineers covering such technologies as Java based services, web enabled applications and mobile technologies.

Alcatel-Lucent provides solutions that enable service providers, enterprises and governments worldwide, to deliver voice, data and video communication services to end-users. As a leader in fixed, mobile and converged broadband access, carrier and enterprise IP technologies, applications, and services, Alcatel-Lucent offers the end-to-end solutions that enable compelling communications services for people at home, at work and on the move.

PROJECTS

EXALT is responsible for multiple projects for ASG, the majority focussed on the development and maintenance of the Genesys call center solution. An important aspect of the relationship relates to the method of working, which is to ensure the teams from ASG and EXALT work closely together, in many cases operating as one unit whilst providing ASG with the flexibility and access to expertise as it requires. The projects include:

Mobile Advisor Description: The Mobile Advisor application allows personnel to view Contact Center Advisor's data through a pre-installed application on their iPhone, Blackberry and Android mobile devices. It allows users to monitor all key performance statistics in real-time, chart different metrics and view different Call Centers' alerts.

Objectives: • Develop the iPhone Mobile Advisor application and views, • Managed user preferences in an iPhone local database, • Built the entire back-end system, • Port the application to Blackberry and Android. Technologies: • iPhone Version (XCode SDK / Objective-C), Blackberry touch and non-touch versions (Blackberry JDK), Android, Java EE, Restlet Framework, Xerces parser. Time frame: January 2009 – On-going.

Call Center Action and Alert Management Description: The project consists of different modules that allow end-users to create Action Management Reports for an Alert within a Call Center. It gives the ability to view a summary of all active and expired Alerts. Alerts and Key Actions can be configured from an administration page.

Objectives: • Built the GUI for each type of report, • Built an administration page to manage Alerts and Key Actions taken, • Connect the GUI with the backend services using RPC. Technologies: • GWT (Google web toolkit), TML / CSS, MS SQL Server. Time Frame: Nov 2007- Nov 2008.

Call Center Historic Analyser Description: The Historical Option provides the capability to investigate historical call data from Informiam Contact Center Advisor, as well as support off-line reporting and investigative analysis. Objective: • Front-end / Backend Development in addition to implementing new features. Technologies: • XUL, Oracle, Flex, JAVA/JSP/Servlet. Time Frame: Sep 2007 - March 2009.

Dynamic Call System Management Description: The Dynamic Contact Center (DCC) is an extension of the Call Analyzer dashboard that allows the user to manipulate the Genesys configuration and resolve issues in real-time without the need to switch to another application. Objectives: • Built the different UI (User Interface) modules, • Integrated the user Interface with the back-end services. Technologies: • GWT (Google web toolkit), GWT RPC Service, Restlet, MS SQLServer, Flex/ActionScript. Time Frame: January 2009 - May 2009.

Charting Module Description: The charting module is a reusable component, built in Flex, which allows rendering live and historical data coming from Call Centers. The Component was used in 3 different projects. Objectives: • Development of the charting module • Integration with other products. Technologies: • Adobe Flex / Action script 3, JAVA + JSP. Time Frame: April 2009 – August 2009.

Call Center Customer Interactions Portal Description: The Genesys Customer Interaction Portal is a Web-based solution that enables managed service providers to “on demand” contact center offerings including traditional touchtone and speech-enabled self-service applications. Objective: • Development of new features and modules. Technologies: • Oracle & MySQL, JAVA/JSP/JSTL/Servlet. Time Frame: January 2009 –on-going

IT Operations (Ticketing System) Description: Web based ticketing system which allows to monitor the availability of IT environment and provide feedback and reporting to the management. Objective: • Development of new features and support of the ticketing system. Technologies: • MS SQL Server, JAVA/JSP, Servlet. Time Frame: February 2008-Ongoing.

Call Analyzer and Workforce Utilization Description: A contact center suite designed to monitor performance statistics, agent behaviours and exceptions in real time. It provides alerts for performance deviations and determines where those deviations are occurring. Objective: • To add new features and enhancements to the Dashboards. Technologies: • Flex/Flash, MS SQLServer, JAVA, Restlet. Time Frame: January 2009-On-going.

Platform I18n/L10n Project Description: To Internationalize and localize a full suite of eight call center related applications to all European languages. Objectives: • Established development guidelines for internationalizing/localizing new products, • Developed an internationalisation/localization utility that generates string bundles (properties, xml) files from spread sheets and vice versa. Technologies: • Flash, Flex/ActionScript, JavaScript, XML, Mockikit, Java/JSP, XUL, GWT. Timeframe: March 2008 – November 2008.

Why EXALT? ASG’s motivations to outsource some of its software development were to reduce costs, gain access to specialist resources, both technical and managerial, and

be able to balance work flows. In particular it was seeking web development skills as well as more general software skills. In the past ASG had found that outsourcing was not only cost efficient but generates higher quality results.

The relationship needed to be based on quality and trust between the two organisations and between the development teams. Exalt has years of experience and competency in the field of R&D, and had proved it is capable of sharing the knowledge and expertise of its developers by providing outsourcing services to other medium and large businesses based on the latest technologies.

Additionally Exalt, in line with other Palestinian outsourcing companies, offers extremely good value for money, which provides ASG with a real cost advantage in its development work.

However, Exalt was primarily chosen for its experience in the software R&D business. In addition to its business philosophy of flexibility, it provides very good engineers with experience in the latest technologies supported by sound software management processes. Its young management and modern spirit provided an innovative approach and the company was seeking to build long term business relationships based on high quality standards and mutual benefits, which matched ASG's requirements.

Services Provided. The technologies and services provided by Exalt include: - Maintenance for existing Alcatel Lucent solutions, - Development of new features for existing products, - Development of new products based on customer requirements, - Porting their existing desktop application to hand-held devices. ASG now rely on EXALT for their User Interface work, having decided to keep the expertise for all aspects of these developments with EXALT, rather than maintaining in-house resources.

Outcomes The overall outcome is that Exalt and ASG have a very close working relationship whereby the EXALT developers are considered to be part of the clients team. EXALT team have built up many areas of expertise and in one area, User Interfaces, are the experts for the group which demonstrates great trust in the company and the relationship. There have been specific benefits for both organisations:

Benefits for Alcatel Lucent: They receive high quality services and outputs, - The projects are highly cost effective and ensure the best value from R&D budgets and have a positive impact on the profits from the product group, - Timely delivery allows products and enhancements to be brought to market in less time, - It provides ASG with access to relevant experience and latest technology experience without having to build the capability in-house.

Benefits for EXALT: The relationship creates growth and high standard career opportunities for employees, - It supports the maintenance of a highly qualified team with hands on experience of the latest technologies, - It supports the development of increased international business by working with multinational organisations, - It expands knowledge, develops strong communication skills and competent technical experience, - It adds to the overall experience of the Palestinian outsourcing business.

THE CLIENT VIEW

The following are quotes from the Clients at Alcatel-Lucent.

“Working with Exalt has been a great experience for my team and me personally. When we first started working with Exalt, we were hesitant about the direction in which to proceed since we did not know the capabilities of the individual developers and were not sure which parts of the product suite they would be able to work on. However, as time has gone by, I have seen Exalt really step up to the plate time and time again. The developers are always willing to learn new software development practices and technologies and tackle challenging problems, and they work very well with the local development team in terms of collaboration and knowledge sharing. We have therefore developed a very strong relationship with them and the Exalt management team to the point where we consider them to be an extension of our local team. As an example of this unique relationship, I now consider the team to be the UI experts and lean heavily on them for any dashboard development that needs to be done or questions that need to be answered; at this stage, we don’t have any developer on the local team working on the UI for this very reason. The work ethic and processes of the Exalt team is commendable; I get frequent updates from the developers about what they are working on and issues they are facing, which in turn allows me to plan projects more efficiently and address problems before they get out of hand. Overall, I am very happy to be working with the Exalt team.”

Pratik Bang

Development Manager, Performance Management Suite Genesys

“I have had the pleasure of working with Exalt on a number of products, and have found the relationship very professional, efficient, and productive. Exalt and particularly Sari has consistently delivered quality code, ahead of timing expectations. Exalt has been thorough in thinking through use and edge cases during requirements reviews, allowing the team to get ahead of detailed issues early in the cycles. As a result, projects as a whole run smoother and deliver to field and market expectations. Exalt is a strong asset to any software development organisation.”

Craig Farquharson

Senior Product Manager Genesys, an Alcatel-Lucent Company

V. TOURISM

The aim of this diagnostic study is to look at the export readiness of the tourism services sector and to understand better its potential. It is meant to analyse the current export focus of the tourism sector, the capabilities of local companies and the barriers and constraints to further development of export activities. The results of the project will help in enhancing the services offered by PalTrade and the Ministry of the National Economy to the professional and business-related services sector and will support international activity in the future.

Between 2007 and 2012 Palestine experienced a substantial turnaround in tourism service exports with the sector breaking previous performance records. Over the past 5 years, tourism in Palestine has increased from 9% to 14% of GDP.⁵⁵

At the end of 2011 Palestinian tourism indicators and Ministry of Tourism and Antiquities (MOTA) calculations showed a decrease in Tourism revenues of about 1-2%. The number of tourist arrival fell almost same percentages while domestic tourism stayed almost the same.

Today the tourism industry comprises 93 hotels in West Bank with 6 200 rooms (Gaza 12 and 1183 bed 627 rooms) plus and estimated 40-70 guest houses in the West Bank and Jerusalem (uncounted for by official statistics).

DESTINATION PALESTINE

In addition to the infrastructure of Palestine and its tourism service providers, the Destination offer can be outlined as follows:

- Historical sites: Religious holy sites and historical and archaeological sites;
- Culture: Sites, events, costumes, performances, language and religion;
- Flora and fauna: Wild life and environment, biblical gardens, botanical, bird watching;
- Events: Trade fairs, cultural fairs, musical and theatre events, business and Diaspora congresses;
- Landscape and Resorts: Summer and winter resorts;
- Other: Advocacy and political tours, solidarity activities, medical tourism;

CONCLUSION

The SWOT analysis right after the end of the second intifada and SWOT in this study in 2012 will shed the light on new challenges and opportunities while diminishing old weaknesses such as torn down premises.

With statistical data presented here and in the attached appendixes and the in-depth analysis made in this diagnostic study, it is clear that Tourism service exports and

⁵⁵ Palestinian tourism reaches new heights
<http://www.maannews.net/eng/ViewDetails.aspx?ID=338147>

inventory hit records while the impact is still both undervalued and potential underutilised:

1. Undervalued: at the level of national interest and appreciation (budgets, planning, marketing, expertise and skills, etc.)
2. Underutilised: too many gaps (seasons and areas with very low occupancy. Widening offers and markets. Not yet targeted or developed to produce larger supply etc.)

There are many initiatives but these have yet to convert into higher occupancy rates, area wise as well as seasons. Some of the on-going initiatives will help answer to these gaps and some other are yet to be explored.

Looking for remedies through field visits and a focus group and having weighed the identified weaknesses and constraints to exporting, the findings can be summarised as follows:

BARRIERS AND CONSTRAINTS

1. Deficiency in tourism skills at almost all levels.
2. An unregulated sector with outdated laws and rule of law in some cases.
3. Limited infrastructure and offerings that catering to other markets that can fill gaps during off season.
4. Issues of accessibility

REMEDIES ADDRESSING THE ABOVE CONSTRAINTS AND BARRIERS INCLUDE

1. Widening the offer to different markets: New offer techniques , infrastructural suggestions and potential markets
2. Proposals to tourism skill capacity building
3. Treating tourism destinations with identity
4. Private public and cross sectoral cooperation strategies and regulations

5.1 STRUCTURE AND CHARACTERISTICS OF THE SECTOR

Tourism is the country's major service export and GDP contributor with up to 14 % in its best performance and current capacities. Palestine as a destination is rich in resources including historical and religiously significant sites and a rich cultural heritage complimented by a moderate potentiality of service providers. However, without being an independent state with full control of its resources and borders, Palestine remains dependent on Israel to some extent.

In 2011, 3.4 million tourists visited Israel, half a million of which were one-day tourists mainly from Russia, Poland, and the Ukraine. In 2011 the Israeli economy saw record

[tourism-related] revenues of NIS 35 billion [US\$ 9.1 billion] – a 2% increase from the previous year.⁵⁶

Israel is currently enjoying a record year for tourism. By mid-2012, more than 2 million visitors had come to Israel, representing a 7% increase over 2011 and a 5% more than in 2010, the previous record year. Of the 2 million visitors arriving in 2012, approximately 1.7 million were tourists (many of the rest were business travellers), 3% more than the same period in 2011 and 7% more than the previous year.⁵⁷

These indicators provide a promising picture of a tourism cycle that is on the rise. With rooms rates increase as noticed in the last 5 years and occupancy improvement while more hotels are being built or renovated this indicates need for more capacity as both private and public sectors are convinced today

The Palestinian economy is by de facto service based. Tourism by nature is also a service based industry where the product offered is the actual destination which is composed of many services and products which, when integrated and carefully combined, form the tourism package.

5.1.1 CHARACTERISTICS OF THE TOURISM SERVICE INDUSTRY

The general characteristics of the Palestinian tourism industry, like in many other destinations, governs and has an effect on the nature of the overall product and more specifically has a direct influence the design of any development or promotional plan.

INFLEXIBILITY

When looking at the tourism industry in terms of capacity, it is to some extent inflexible. In other words, the number of beds in a hotel or seats on a bus is fixed and hence it is not possible to meet sudden upsurges in demand. At the same time having a high capacity will backfire in times of low demand such as the low seasons. In addition the capacity has fluctuated for the past 20 years within the same range. For example, the number of hotels is between 80 and 100, the number of guides did not exceed 300 general guides and local Palestinian tourist buses did not exceed 500.

PERISHABLE

An unused hotel bed or facilities represents an immediate loss of that service as a means of earning profit.

LARGE FINANCIAL INVESTMENT

In most cases, a modern tourist establishment and facility requires relatively large investments and, most frequently, over a long period of time.

SEASONALITY OF THE INDUSTRY

The tourism industry is highly seasonal and time-skewed. For service providers within the industry, having an unsteady demand makes management issues much harder and more complicated to handle. Resort visitors for example tend to be concentrated in a few months rather than year round. A restaurant may get more business on weekdays

⁵⁶Ministry of Tourism Israel; <http://www.israelifrontline.com/2012/01/34-million-tourists-visited-israel-in.html>

⁵⁷ <http://www.travelagentcentral.com/israel/israels-hotels-bring-back-star-rating-system-36673>

than on weekends. The pilgrim market specifically has a fluctuating high season between March and April and October through November. Hence demand drops dramatically in the low season and organisations are often burdened with staff that are not performing. In many cases, the various players within the tourism industry try to maintain a steady demand (or at least increase demand in the low season) by offering differential pricing during the off-peak times (hotels & travel agents) and by anticipating off peak hours and seasons by requiring reservations and giving employees more flexible work shifts (restaurants for example).

5.1.2 TOURISM INVENTORY IN PALESTINE

At first one would count all direct tourism service providers but at some stage the value chain of this industry and the variety of connected services present us with more input and thus become potential contributors to the industry. The following table gives the overall picture of the Tourism industry components at 2010 including number of employees and inputs.

TABLE 16: MAIN ECONOMIC INDICATORS FOR THE TOURISM ENTERPRISES IN THE TOURISM TERRITORY

TOURISM ACTIVITY	NO. OF ENT.	NO. OF EMPLOYED PERSONS	COMPENSATION OF EMPLOYEES	OUTPUT	INTERMEDIATE CONSUMPTION	GROSS VALUE ADDED
Manufacture of Wooden Antiques	196	600	2015.90	6422.10	1973.20	4448.90
Retail sale of Souvenirs, Craftwork and religious activities	1325	3470	15089.40	59302.30	16852.80	42449.50
Short Term Accommodation activities	82	1974	20821.10	76397.50	17650.00	58747.50
Restaurants	2869	8049	16582.40	193582.40	83267.40	109987.90
Passenger Road Transport by Scheduled Long-distance Bus Services	66	325	1975.70	12531.30	2520.70	10010.40
Travel Agencies	131	511	5185.40	25941.90	7031.20	18910.70
Provision Visitor Assistance Services	66	233	403.70	3056.60	956.90	2099.70
Haj and Omra Operator Activities	0	0	0.00	0.00	0.00	0.00
TOTAL	4735	15162.00	62073.60	377234.10	130252.20	246654.60

SOURCE: | PCBS

5.1.3 CURRENT TOURISM CAPACITY

Further to the inventory presented by the PCBS in 2010 there has been an increase across all sub-sectors in the past two years and much more sub-sectors not covered for reasons beyond the bureau or other related institutions. Sometimes accessing data in East Jerusalem is not possible and since major Tourism firms exist in Jerusalem, the statistics presented by the PCBS are to some extent incomplete.

As an example, the latest survey done in co-operation with the Arab Hotel Association (AHA) showed that there are 93 hotels in West Bank, 6 200 rooms (Gaza 12 and 1 183 bed 627 rooms) plus an estimated 40-70 guest houses in the West bank and Jerusalem⁵⁸.

Other observations in this sector shows.

- Almost all hotels in East Jerusalem publish their rack rates (very few in the West Bank)
- Over 80% of hotels have their own websites

⁵⁸Yusef Daher and Raed Khatib 2012

- None with automatic reservation system
- In addition there are about 40 religious guest houses and another 50 other unclassified accommodation facilities

Further in this report the most up to date statistics of the industry are indicated.

Total number of general guides reached 300 lately. Only 40 of them are west bankers and who can obtain permits from time to time to guide groups within Israel.

Bus companies have grown from 12 -20 with total fleet of around 500 buses. Most of them are older than 4 years.

Tour operators registered at their Holy Land Incoming Tour Operators Association (HLITOA) do not number over 43. The rest, around 220, are travel agents, selling airline tickets, outgoing packages and some incoming tours and Haj packages. This subsector is yet to be organised. There are so many unlicensed businesses who are selling outgoing packages and some others bring in incoming tourists. When a souvenir shop or a restaurant or a bus company does this the whole concept of professional serving is at risk

Regardless, Palestine is considered one of the richest spots on earth with historical, religious and natural sites. A comprehensive list of sites is available on the tourism portal www.visitpalestine.ps.

The following table provides the latest tourism inventory of Palestine:

TABLE 17: PALESTINE TOURISM INVENTORY 2012

		WEST BANK , GAZA AND E. JERUSALEM	JERUSALEM	WEST BANK	GAZA
Accommodation	Hotels	93	27	66	12
	Rooms	6400	1870	4530	610
	Guest Houses	70	40	25	5
	Rooms	2000			
Tour Operators	Licensed T.O	43			
	Travel Agents	220			
Tourist Bus Companies		12	10	2	
	Bus fleet	500	476	24	
Tourist Restaurants	Published at TWIP	200	41	144	15
Museums		19	7	11	1
Car Rental companies		17	7	6	4
Taxi Companies		36	15	17	4
Cultural Centers		121	26	83	12

There are some sub-sectors which are not covered by the above given a lack of accurate information, studies and surveys. Some of the unregulated sub-sectors included care rental agencies and tourist restaurants.

5.2 GOVERNMENT STRATEGY AND POLICY PERTAINING TO THE SECTOR

MOTA has led the industry since the establishment of the NPA. It has been to some extent positively responsive to the existing market and the private sector and NGO initiatives but is not innovative or proactive. Bethlehem 2000 was one of the major initiatives for Bethlehem and with the cooperation of both the private and public sector it managed to make the necessary changes at that time. Other planning and strategies at MOTA level such as the Kendel study in 2005 reflected the regulatory system and put forward some initiatives that were not taken effectively for some reasons. Some of the existing laws and regulations go back to the Jordan Laws of the past four decades.

5.2.1 POLICY REFORM & INDUSTRY REGULATIONS

At the Policy making and Regulatory levels, there are various public / private / Civil initiatives underway.

One of the main activities was some good work to establish the Palestine Tourism Board in the form of a public/private partnership which will lead the marketing and promotion of destination Palestine. In depth analysis shows that the blame for delays in activating such a coordination body can be shared by both the public and private sectors while currently there is a feeling that blocks are being built towards this establishment. At some stage the staff at certain MOTA offices felt this body might jeopardize their jobs and at other times the private and public sector played the blame game of the other being not serious enough. At all times both parties were waiting for a donor to come on board with this but it was not the case even though private public partnership was on every tourism strategy since 2005 at least!

The Palestine Tourism Board (PTB) initially was proposed to be the marketing arm, the development stimulator, and the tourism think-tank of Palestine. Back in 2010 it was proposed that such a semi-Governmental organisation would have a marketing department, development and planning, and an advocacy department in addition to the other administrative functions.

With the New Tourism Minister and shuffling in the different directorates, some restructuring and new directorates are being considered specifically on the level of tourism professions department.

MOTA has recently (2012) announced the re-establishment of an advisory board by a Presidential decree and still developments on this level need to be evaluated.

5.3 REGULATORY ENVIRONMENT

MOTA is working at renewing its tourism law. The basic law of 1968 with its modifications and instructions will have to adapt to current challenges and needs. At the level of the tourism professions, the law will identify the variety of accommodations and agents, restaurants and other facilities. It will also indicate a

general structure for the public private joint leading council that will carry responsibilities in marketing and development.

A new hotel classification system is underway and expected to have all hotel in Palestine classified between 1-5 stars by end of July or August 2013. An ad-hoc joint committee was established for this purpose. Other initiatives are also underway on the level of tourism signage, tourism education, rehabilitation of sites and other

Enforcement of law and order is the main concern of almost all levels of society and as such all economic sectors too.

5.4 SKILLS AVAILABILITY

One of the main recommendations of a recent tourism workshop organised by the OECD held with the private sector was that employers must develop strategies to remain competitive with a smaller but better trained workforce.⁵⁹

In Palestine, most of the firms interviewed, especially tour operators when describing service at hotels, have shown concern of the gap between line level tourism staff and management. Hotels also admit this to some extent. The supervisory level is either missing or sometimes undervalued and thus very weak.

Training and educational institutions in this sector are available but the preparatory and gradual introduction in the market is not really adequate. In a way, training graduates in the field are not readily available and the culture of accommodating new comers is a bit complex.

Bethlehem University offers a Bachelor degree in Hotel Management and Diploma in Tourism. In September 2013 they will start their master's degree course in Tourism based on an EU Tempus project that took place 2005-2006. The institution offers the following course of study in this field:

- A Baccalaureate degree in Hotel Management,
- Diploma degree in Hotel Management, after successful completion of a two-year program,
- A Diploma in Travel Agency Management and the International Air Transport Association (IATA) Foundation Course Diploma, after successful completion of a two-year program,
- A Diploma for Tour Guides after the successful completion of a three-semester program.

Notre Dame Center has a school for hotel management and Tourism too. They run programs for about 100 students each year in different levels. The best chefs come from these two colleges.

These contributors to the industry prepare the graduates educationally with some additional soft skills such as communication, accounting and management in addition

⁵⁹Policy Approaches to Skills Development in Tourism - OECD The Organisation for Economic Co-operation and Development...

to the major courses of culinary, front office and travel agency for incoming and outgoing tourism.

The American University in Jenin also has a school of tourism and recently one can experience some of their graduates.

In almost all interviews with private sector tourism firms they affirmed the inadequate skill availability. The deficiency is almost at all levels. Guests complain from not being attended to timeously and many line level staff do nothing before they are called to attention.

From the year 2003 onwards the average number of graduates from the various institutions is as follows:⁶⁰

BETHLEHEM UNIVERSITY:

- Bsc. in Hotel Management 40-45 each year
- Diploma in Hotel Management 20 - 25 a year
- Diploma in travel agency management 25 each year (IATA)
- High Diploma in Tour guiding 10 each year

NOTRE DAME:

- Rooms Division management a two year diploma average 25 each year
- Catering and Restaurant management a two year diploma 20-25

TALITHA QUMI:

- Community college 2 year certificate in hotel management average 20 every year
- Catering and Restaurant management a two year certificate 15
- Cooking course a nine month certificate 15 each year

DAR ALKALIMA COLLEGE:

- Cooking course a one year certificate 35 students - began in 2011

5.5 PRIVATE SECTOR REPRESENTATIVE ORGANISATIONS

5.5.1 THE ARAB HOTEL ASSOCIATION

The Arab Hotel Association (AHA) is non-profit, officially registered organisation representing Palestinian hotels throughout the Holy Land and assisting other related tourism associations in Palestine.

AHA was established in Jerusalem in 1962 and currently has 56 members with well over 3709 guest rooms. The expanding role of the hotel industry in the Palestinian economy provides the AHA with many new challenges. Through restructuring planned process the current association includes hotels in Palestine under its umbrella ensuring

⁶⁰By Mr. Nabil Mufdi – Dean of Hotel management and tourism department at Bethlehem university

decentralized representation through its four regions in Palestine. Eventually AHA will represent more than 70 members with more than 5,000 rooms.

AHA vision is to be the Leading partner in developing a competitive Palestinian tourism product and, Our mission is to represent Palestinian member hotels, and open opportunities based on strategic priorities of the hospitality industry in the fields of finance, technical assistance, policy management, and marketing services.

While AHA covers almost all hotels in Palestine except for Gaza now, some hotels are still not formally enrolled due to not paying membership or undecided or hiding under being a guest house rather than a hotel. This is to be fixed with the current efforts of regulating licensing and classification at this sector⁶¹

5.5.2 THE HOLY LAND INCOMING TOUR OPERATORS ASSOCIATION

The Holy Land Incoming Tour Operators Association was established in the summer of 2005. HLITOA comprises 43 member Tour Operators working in the (inbound) incoming tourism. 80% of them are working from east Jerusalem as their head offices. The HLITOA members are the main source of tourism in general and pilgrimage in specific, which as well plays as an active private sector pillar for the Palestinian economy bringing in foreign currency, and directing business to other tourism service providers such as hotels, transport companies, guides, etc.; and creating major employment opportunities. There are many travel agents in Palestine who sell airline tickets (outbound); however, these are not eligible to become members of HLITOA. Only incoming tour operators are eligible for membership.

The HLITOA Board has defined the Vision, Mission as follows:

- Vision: For the Holy Land Incoming Tour Operator Association (HLITOA) to be a key player and major catalyst in developing the Palestinian Tourism Industry so that it grows as the major economic sector in Palestine, and for this sector to contribute towards an independent, viable and sustainable Palestinian economy.
- Mission: The Holy Land Incoming Tour Operator Association (HLITOA) aims to support and strengthen the Palestinian Incoming Tour Operators (PITO) in the Holy Land; and represent them in participating in and contributing to the development of sustainable incoming tourism in the Holy Land.

5.5.3 OTHER INSTITUTIONS

Other institutions being governmental or non-governmental also play important roles in tourism including the Municipalities and Chambers of Commerce or cultural and religious institutions. Other players also include publishing agencies such as “This Week in Palestine” and business consultants such as ABS Tourism and its tourism Portal “Visit Palestine.”

Other overseas agencies with private sector intentions also are interested and have initiatives on the ground.

⁶¹Arab Hotel Association -<http://palestinehotels.com/>

As we see, it is well recognised that tourism is the country's flagship service and thus every sector has the responsibility to promote Palestine as a destination. With The co-operation of the MOTA, Palestine is represented at the major tourism trade fairs in Milan, London, Berlin, Madrid, Warsaw and Istanbul almost on a yearly basis. Other international venues get less attention at the level of national strategy primarily due to a long tradition of being politically visible in these major events.

5.6 CURRENT ISSUES AND OPPORTUNITIES

Looking at the previous SWOT analysis undertaken on the tourism sector which was the result of several studies conducted after the end of the second intifada (produced around 2009)⁶², it is evident that there has been some change and that certain issues have improved and others have deteriorated. The pilot targeted within this study will show how much this has changed. At the end of this study in 2012/2013 and based on interviews and analysis, some issues have been modified or added.

STRENGTHS

- Rich in religious significant historical sites: Jerusalem, Bethlehem, Jericho, etc.
- Unique natural features such as the Dead Sea and the Jordan River
- Cultural and heritage sites and activities
- Palestinian Hospitality: Pleasant climate
- Centrally located
- Palestine is equally rich in its landscape and wildlife

WEAKNESSES

- Lack of a clear National Tourism Development Strategy
- Lack of resources (financial and human) to manage, develop and promote the destination
- High leakage of tourism remittances to Israel
- Seasonality of the existing markets limit occupancy, secured jobs, and utilization of services
- Insufficient data to conduct reliable planning
- Limited diversification in tourism offering
- Run down and destroyed tourism infrastructure
- Limited systematic coordination between the Public and Private sector

⁶²Tourism Sector Profile – ABS Tourism Sami Khoury and Yusef Daher for MOTA strategy

OPPORTUNITIES

- Ideally positioned to access established religious markets
- Increase in worldwide cultural heritage driven tourism (Bethlehem as World Heritage)
- Prospects of peaceful or stable periods
- Potentiality in new tourism products (Ecotourism, Cultural and Solidarity, etc.)
- Investment still at low cost plus incentives
- Rebound of the Tourism arrivals and new markets

THREATS

- Political instability and unpredictability
- No control over borders, points of entry/ exit
- Competitive destinations with favorable tourist environment namely Israel and Jordan
- Tarnished Image

One of the major deficiencies in this sector is lack of proper information.

In general there is crucial lack of proper information and statistics. PCBS is not a reliable source since most of their figures are not accurate when it comes to areas such as Jerusalem and they are also not up-to date.

PCBS does not have frequent dialogue with the Private sector and thus does not have the sense of its needs. On markets for example, there is no input by PCBS or any surveys carried out abroad. In certain fields such as length of stay the indicators are given up until 2009 and there is nothing thereafter. This means that in some cases it is impossible to measure the development in this sector. Very traditional basic data is given.

5.6.1 OPPORTUNITIES FOR CROSS-SECTORAL LINKAGES

On cross sector interventions the tourism sector can defines the following areas between the four sectors:

	ICT	FINANCIAL SERVICES	BUSINESS RELATED
Opportunities	• Accounting, reservations, sales programs.	• Credit Payment mechanism unavailable at Palestinian and Arab Banks existing in Palestine	• Translations, Legal support, contracting, Polling and research
Marketing	• Marketing portals and tourism guides and smart phone applications		• Research, designing, marketing branding and strategies
Challenges	• Low demand and small market makes it unfeasible to develop needed programs	• Financial system difficulties	• Feasibility and absence of information about what capabilities in this sector

5.7 CURRENT LEVELS OF TOURISM SERVICES EXPORTS

On the occasion of the World Tourism Day on 27 September 2012, PCBS issued a special press release indicating 3.5 million visits to tourist sites between January to August 2012. (Appendix B).⁶³

Palestinians residing in Israel made up the largest number of inbound visitors with 35%, followed by 12% from Russia, 5% each from the United States, Italy and Poland, and 3% each from Germany and Indonesia.

Palestinians from inside Israel have been considered a reliable market that also helps cover not only peak seasons and pilgrimage destinations. This market helps stabilize the accommodation sector in particular when they overnight in cities such as Jericho, Bethlehem and Jerusalem. One can also note that new emerging markets have very little share in Palestine namely Brazil, China, India, Korea and South Africa.

There were 274 000 hotel guests during the first half of 2012; an increase of 3% compared with the first half of 2011. Of these, 14% were Palestinians, 38% were from European Union countries, and 9% were from Asia.

There were 98 hotels in the Palestinian Territory in June 2012, comprising 5 454 rooms with 12 303 beds. There were 2 672 hotel employees, of whom 583 were female.

Lastly, room occupancy in the Palestinian Territory was 31% in 2012; which is relatively low number to such a rich destination. The problem lies in seasonality where most of the traffic falls around Easter holidays mainly and then around September and October where Israel is already flooding with tourists.

⁶³Palestinian Central Bureau of Statistics (PCBS)

TABLE 18: DISTRIBUTION OF ROOM OCCUPANCY IN THE PALESTINIAN TERRITORY 2012

REGION/QUARTER	NO. OF HOTELS*	AVERAGE NO. OF ROOMS	AVERAGE NO. OF BEDS	NO. OF GUESTS**	NO. OF NIGHTS**	AVERAGE LENGTH OF STAY (NIGHT)	ROOM OCCUPANCY		NO. OF GUEST NIGHTS	
							AVERAGE OCCUPANCY	%	AVERAGE OCCUPANCY	%
Palestinian Territory	103	5,528	11,689	510,435	1,254,496	2.5	1,440.6	26.1	3,437.0	29.4
I	101	5,256	11,030	134,244	297,993	2.2	1,583.9	30.1	3,311.0	30.0
II	99	5,388	11,227	131,975	340,573	2.6	1,375.3	25.5	3,742.6	33.3
III	99	5,707	12,016	106,786	254,313	2.4	1,251.2	21.9	2,764.3	23.0
IV	103	5,758	12,481	137,430	361,617	2.6	1,554.1	27.0	3,930.6	31.5
North of West Bank	8	185	508	14,807	22,870	1.5	38.4	20.8	62.7	12.3
I	7	175	418	2,731	4,533	1.7	32.7	18.7	50.4	12.0
II	6	166	463	3,887	6,030	1.6	40.5	24.4	66.3	14.3
III	6	179	518	3,680	5,580	1.5	36.3	20.3	60.7	11.7
IV	8	219	633	4,509	6,727	1.5	44.2	20.2	73.1	11.6
Middle of West Bank	27	1,279	2,776	82,932	220,362	2.7	446.3	34.9	603.7	21.8
I	26	1,272	2,599	16,752	41,148	2.5	361.9	28.4	457.2	17.6
II	26	1,194	2,422	21,229	59,696	2.8	477.9	40.0	656.0	27.1
III	26	1,298	2,903	21,098	57,997	2.7	471.1	36.3	630.4	21.7
IV	27	1,352	3,179	23,853	61,521	2.6	472.7	35.0	668.7	21.0
Jerusalem	28	1,478	3,079	184,469	432,636	2.3	617.3	41.8	1,185.3	38.5
I	30	1,467	3,195	58,125	111,913	1.9	862.7	58.8	1,243.5	38.9
II	27	1,445	3,033	55,818	133,116	2.4	561.4	38.8	1,462.8	48.2
III	28	1,539	3,015	29,134	73,242	2.5	437.5	28.4	796.1	26.4
IV	28	1,461	3,073	41,392	114,365	2.8	612.4	41.9	1,243.1	40.5
South of West Bank	28	2,050	4,341	225,164	569,641	2.5	315.0	15.4	1,560.7	36.0
I	28	1,944	4,104	55,935	138,902	2.5	312.4	16.1	1,543.4	37.6
II	28	2,091	4,449	50,402	140,336	2.8	280.4	13.4	1,542.2	34.7
III	27	2,065	4,397	51,976	115,095	2.2	281.9	13.7	1,251.0	28.4
IV	28	2,099	4,412	66,851	175,308	2.6	384.6	18.3	1,905.5	43.2
Gaza Strip	12	536	985	3,063	8,987	2.9	23.5	6.1	0.1	0.6
I	10	399	713	701	1,497	2.1	14.3	3.6	16.	2.3
II	12	492	861	639	1,395	2.2	15.2	3.1	15.3	1.8
III	12	627	1,183	898	2,399	2.7	24.5	3.9	26.1	2.2
IV	12	627	1,183	825	3,696	4.5	40.1	6.4	40.2	3.4

** At the end of the quarter

*** Represents the total of quarter months

With the above occupancy rates one can tell that the market is pretty much dependent on certain seasons for certain destinations. In Bethlehem (South west Bank) the December Christmas season shows increased occupancy and same can be said about Jerusalem during the Easter season. Of course above numbers do not tell us much about the active accommodation firms that enjoy higher occupancy rates during these seasons but it does tell us that all hotels lack business during the rest of the year. These indicators reflect the level of businesses at the tour operators' level as well as other services and subsectors.

5.7.1 LEVEL OF ECONOMIC CONTRIBUTION

TOURISM CONTRIBUTION TO NATIONAL INCOME ESTIMATES

Based on MOTA input and PCBS economic statistics for two or three quarters in 2011 as available, the yearly total tourism income for Palestine can be estimated bringing a contribution rate higher than the PCBS number when they calculate only hotels among few other items from the national income.⁶⁴

In our estimates, as an example, we produce income amounts for tour guides (based on an average sized groups derived from total tourist numbers), also income from tourism restaurants (same), second homes (as internal tourism such as in Jericho), tour operators income, and partial transportation (depending on foreign tourist statistics). Income generated from tourism projects and construction is also estimated. Other estimations that are valid but sometimes difficult to attain are destination development aid from aid agencies contributing to Palestine tourism.

Income from shopping by foreign tourists is estimated based on foreign tourist expenditures earlier produced by PCBS in past years.

When using past calculations for certain inputs we estimate Increase or decrease as per the change number of tourist; but this year 2011 as an example and due to increase of cost of living we kept the estimates at same values.

⁶⁴ Y.Daher calculations for Minister of Tourism for Christmas Press release. Based on PCBS and MOTA figures with estimations from input by active tour operators and hotels.

TABLE 19: ESTIMATED TOURISM INCOME FOR THE WEST BANK (INCLUDING EAST JERUSALEM), 2011

ESTIMATED TOURISM INCOME 2011 (WEST BANK INCL. EAST JERUSALEM)				
Incoming visitors	1'900'000.00	MOTA		
Domestic	2'704'089.60		Assumption	
NOTES				
Hotels	\$ 89'900'000.00		1'550'000 MOTA	\$ 58.00
Huest house	\$ 29'667'000.00		400'000 one third	
Restaurants	\$ 204'000'000.00		\$ 17.00 at 3 days x 4 million	
Guides	\$ 36'000'000.00		calculation	2010
Transport	\$ 18'648'000.00		\$ 380.00 per day	-1% 2010
Tour packages				
Shopping (souvenirs plus)	\$ 228'000'000.00		\$ 120.00 pcbs expenditure/tourist	
Tour operators	\$ 29'799'000.00		from 2010 decrease	1%
Travel agents	\$ 3'548'160.00		from 2010 decrease	1%
Second home (Jericho)	\$ 17'500'000.00			
Beverages	\$ 13'305'600.00		from 2010 decrease	1%
Tipping	\$ 13'305'600.00		from 2010 decrease	1%
Tourism establishment construction	\$ 70'000'000.00			PEDICO
Domestic tourism	\$ 108'000'000.00		estimated per year	meter
Events	\$ 8'232'000.00		Expenditure \$ 40.00 pp excluding meals	
TOTAL	\$ 869'905'360.00	total tourism income		
2010	\$ 885'356'212.60			
From 2010	0.982548434			
From GDP	\$ 6'315'200'000.00	0.13775		

KEY INDICATORS AT THE END OF 2011

- 2011 tourism indicators and MOTA calculations shows a decrease in tourism revenues of about 1-2 %.
- The number of tourist arrival fell almost same percentages.
- This year tourism Income calculations include second homes and tourism establishment construction cost amounting to US\$87 million.
- Estimated value of GDP this year predicts a 10% increase.
- As such tourism contribution to GDP reached 13,8 per cent , almost more than 1 % decline from 2010

OTHER OBSERVATIONS IN 2011

- 86 hotels in West Bank with 10 017 beds and 4 891 rooms (Gaza 12 and 1 183 bed 627 rooms plus guest houses estimated at 40 in West bank and Jerusalem)
- Domestic tourists estimated same as 2010

- Incoming tourists decrease of 1 % at least from 2010
- Decrease in tourism Income between 1-2 %

For comparison check on what was presented at the end of 2010, please see Appendix C.

OBSERVATIONS 2010

- 9 new hotels increased from 2009 (81) 2010(90)
- Incoming tourists increased by 80% from 2009
- Domestic tourists increased by 105%
- Tourism contribution from GDP is 15% in 2010
- Increase in tourism Income 60% from 2009

OBSERVATIONS 2009

- 10 new hotels increased from 2008
- Tourism income increased by 53% from 2008
- Estimated 2 million tourist visited Palestine
- Decrease in number of nights and guests at hotels substituted by increase in prices
- Domestic tourism income increased by 80%

In general this gives the impression of an emerging industry.

5.7.2 MODES AND TRENDS

This recovery of visitor flow to Palestine began around 2005 and steadily continued reaching a record numbers of foreign visitors and overnight stays. This growth and raise in visitors demand is being met with a constant increase and upgrade of the tourism infrastructure. New hotels, restaurants, and cultural centers, museums and resorts are opening up across the West Bank and East Jerusalem. Agents started chartering flights, and new trails are being explored (Abraham path, Umayyad, Nativity trails, and other cultural trails). Tourism fairs and cultural events are becoming more organised and attracting more visitors. The October fest in Taybeh attracted 20,000 this year.

Both the public and private sector are investing millions in developing, restoring and upgrading the industry. The overall tourism offer in Palestine has diversified and expanded its offering. Hotels have been upgraded and new hotels have opened and continue to open. Recreational parks and resorts, restaurants, cultural centers, new transportation fleets are all among the key investment over the past 5 years.

More and more we see new investors drawn to the market. Franchisees and consultants in the field are looking for investors to allow them to explore new opportunities in the hope that existing levels of tourist traffic are maintained and not disrupted by political development in the region that will scare tourist movement away from Palestine.

Based on this study and the interviews conducted, an up-to-date picture of the modes and trends in this export sector was obtained. The table below highlights the source of clients for the various tourism operators.

TABLE 20: SOURCE OF CLIENTS FOR PALESTINIAN TOURISM OPERATORS

COMPANY/ CLIENT*	INTERNATIONAL /PILGRIMS	LOCALS	CORPORATE	GOVERNMENT
JR	50%	25%	25%	
JP	70%		15%	15%
JIC	70%		15%	15%
GP	10%	40%	25%	25%
DT	50%		50%	
RH	90%		10%	
HL	95%	5%		
TELF	40%	60%		
L	97%	3%		
GW	90%		10%	
	66%	13%	15%	6%

*Note: Companies were given codes for privacy promised by the questionnaires

While the majority of companies are selling to international clients, almost 50% of this market was considered to be religiously driven as most of respondents answered. The rest (25%) was for leisure and another 25% on MICE (i.e. events). Of course looking closer to the respondents we can see that respondents in Jericho and Ramallah gave the input more clearly to leisure and events thus differentiation between destination becomes more obvious in a way indicating that destinations as Bethlehem and Jerusalem are Pilgrims destinations , while Ramallah is more of a Business destination and Jericho a leisure / resort area.

When asked about the means of delivering services, the respondents in general agreed that their tourist services are delivered mainly via local agents either locally or abroad. Some 10% of the respondents indicated that they also use electronic means to sell between 5-10% of their services. 1 out of 15 respondents advised that they are using a branch office agent abroad for exporting.

5.7.3 KEY TOURIST MARKETS

For another consecutive year⁶⁵, the tourism industry has continued to show full signs of recovery and growth. 2011 witnessed a 5% increase in visitor arrivals to Palestine and a 12% increase in overnight stays with over 1.5 million overnight recorded across Palestine.

⁶⁵<http://travelpalestine.files.wordpress.com/2012/01/2011-tourism-industry-overview-final.pdf>

Russia, the US and Italy were among the top 5 market for visitors to Palestine. Also, Russia, Poland and Italy were the top three source destination for overnight stays to Palestine.

In addition to the other traditional markets such as Germany, Spain, France and UK, Palestine continues to see an increase in visitors from new markets such as Indonesia, India and Brazil.

According to the main Palestinian Tourism portal, Visit Palestine, the different tourism offers can be presented in 6 categories. The following is how this site describes the components of each category as part of the interest in each market⁶⁶.

CHRISTIAN PILGRIMAGES

Churches, monasteries, convents, festivals, holidays, pilgrimage routes

ISLAMIC HERITAGE

Al Aqsa & Dome of the Rock, Nabi Musa, Ibrahim Mosque, holidays, sample Haj itineraries

FOR THE BUSINESS TRAVELER

Practical economic information, recreational activities, communication and Internet, dining out, working hours, banking, publishing

NATURE & ECO-TOURISM

Natural wonders of Palestine. Hiking in Wadi Quilt, bird watching in Jericho, olive tree terraces

CULTURAL & ALTERNATIVE

Meet the living stone, music festivals, cultural centers, fairs and events, off the beaten track country side

LIVING PALESTINE

Restaurants, cultural centers, exhibitions, maps, learning experiences

This list covers almost the entire existing offer in a traditional manner. It remains in this study how and where to locate new offers or building combinations

Within this study the respondents to the questionnaire advised with which International customer markets they work:

- 80% of the firms have European customers from Scandinavia, Italy, UK, and Germany mainly. The same firms indicated that the Spanish and Greek customers were lost due to the Economic crisis at their countries
- 20% of the firms have customers from South east Asia,
- 40% have from the Americas. (namely the US , Canada and Columbia) ,
- 10% of them work with Russians and East Europe.

⁶⁶<http://travelpalestine.files.wordpress.com/2012/01/2011-tourism-industry-overview-final.pdf>

When asked about their awareness of the new markets they named the Diaspora, the Muslim Market and the BRICS (Brazil, Russia, India, China and South Africa). It became apparent that very little has been done in penetrating these markets directly.

5.8 KEY COMPETITORS

5.8.1 COUNTRIES

As much as these countries present the competition for Palestine as a destination, they can also be considered feeder or complimentary destinations. There is not an itinerary that includes Palestine that does not include one of these countries and vice versa. Since Palestine does not have control on its borders, Israel and Jordan to some extent are entry points.

ISRAEL

Israel is still showing upward movement in the tourism industry. In September 2012 Israel figures showed some 3.5 million visitors arrived in Israel in the past 12 months of Hebrew year 5772, 3% more than in year 5771. Of this number, about 3 million are tourists who stayed more than one night in Israel (2% increase compared to last year).⁶⁷ The greatest increase was registered during the Hebrew month of Passover, with 354 000 visitors. The fact that Year 5772 was a record year for incoming tourism is a great achievement given the severity of the global economic crisis (especially in Europe, which is the source of the largest countries providing tourism into Israel) and in light of the problematic geopolitical situation in the region. Once again, tourism has proved itself to be an engine for positive economic growth this year. Revenue from incoming tourism stands at NIS 18 billion (about US\$4.6 billion), an increase of 10% and NIS 2 billion (US\$500 million) on last year. The hotel industry has also enjoyed a significant awakening this last year. This year, the Tourism Ministry allocated grants for the construction of 18 new hotels that will add another 2 119 hotel rooms to the room supply around the country.

JORDAN

In 2010, Jordan had one of its most profitable years ever for tourism – 2.5 billion dinar, or about US\$3.5 billion. But in 2011, tourism to Jordan dropped 16 per cent – a reality many here assign to fears surrounding the current unrest across the Middle East. In a country where on average, about US\$3 billion comes from tourism every year – which directly accounts for more than 7 per cent of the country's gross domestic product – a dip that significant can put thousands of jobs at risk.

Their targeted markets are defined in the Jordan Tourism Board (JTB) focus programs are⁶⁸: Austria, Benelux, Brazil, France, Germany, Russia, United Kingdom, Switzerland, Italy, Spain, India, Levant, and North America.

The JTB still focused in 2011 is on promoting the Kingdom's religious tourism sites

⁶⁷ Sep 2012 <http://www.israeliconsulatela.org/index.php/en/latest-news/item/5772-is-israel-s-best-tourism-year-ever>

⁶⁸ <http://visitjordan.com>

OTHERS

All other Arab destinations in the region where at least hit more than Jordan in the past few years. Egypt, Syria and Lebanon namely almost stopped receiving tourists especially during the Arab Spring. For Palestine this indicates that Palestine and Israel to some extent are becoming being perceived as more distant from the region by the potential tourists. For some reason the considerations start to identify Israel as part of another region more connected to Europe and thus Palestine falls under this perception since Israel has control over the border and entry points. When surrounding countries complain about a sharp drop in tourism due to unrest in these countries and their neighbours, Palestine and Israel are still getting moderate number of arrivals. For example, Syria received over 8 million visitors in 2010 and this dropped to nil in 2012.

5.8.2 COMPANIES

One Palestinian tour operator who is penetrating markets already established by the Israeli tour operators thinks he has learned enough to have part of the market. From Visas to packaging pricing to competitive edges he found his way and was able to some extent distract loyal clients of Israeli Tour operators to come through his agency. He says we can all do it if we know the game and the rules.

There are certain keys to how one can get the business. Go directly to the decision makers, they are ordinary people and business people who can turn to another supplier once you make them see they can make more profit only by switching. Be generous especially in the beginning. If visas are an obstacle do it with a lawyer or use your charm! Then your package will seem very fitting and start to get the business. This being said you have to be prepared that your package is even better or at least as good as your competitors. Hitting Indonesian market you need Indonesian speaking agent and guides, etc. In this study we learn that some successful penetration was possible by placing own agents at country of commencement (market).

Difficulties sometimes come from access issues. You need to have your way in getting visas for your visitors when necessary. Take your lawyer with you for the first one or two visits to the Ministry of Interior. Then your cases will be taken seriously.

Hotels are more accurate when it comes to identifying their competitors. They name their competitors based on location and equal standards. The problem lies in the prices. There the outsider does not make the difference especially in certain destinations where they can all follow the trends of diving down with prices in order to get business, any business. For the client the price becomes misleading since no proper or adequate standards levels are visible since deregulation took place. Now a new hotel classification system is being adopted and as such hotels are hopeful this will fix the problem. The classification system has been adopted in Jordan and now in Israel and Palestine is being approved.

Food is more authentic at our premises so we do not have a problem here. Guiding and human recourses we will have deficiencies compared to our competitors as a destination but we still have the natural smile and hospitable reception that gives us an edge. We need to develop much in this area.

5.9 VALUE CHAIN ANALYSIS

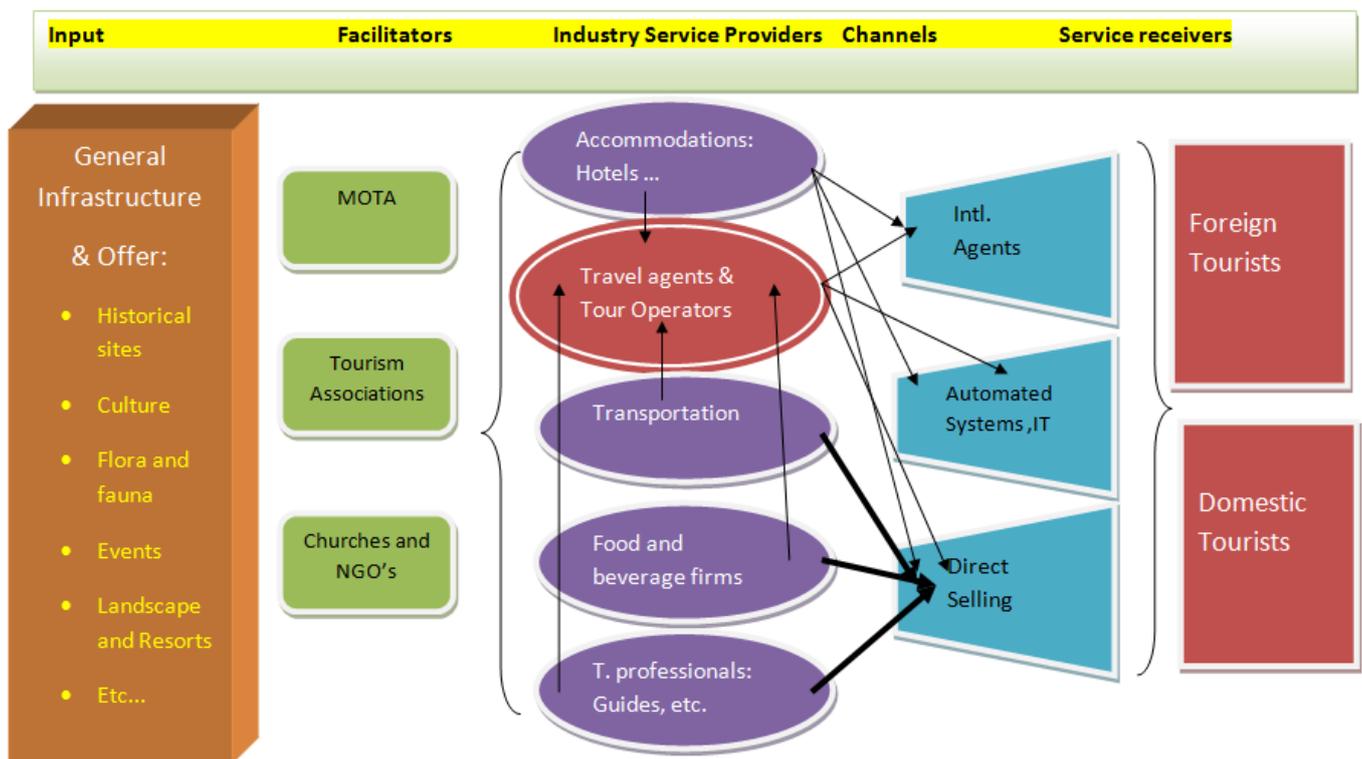
Tourism is a service based industry where the product offered is the actual destination which is composed of many services and products. When integrated and carefully combined they form the perfect package to be exported while not leaving the destination.

In the survey of firms it was well established that the core business chain is somehow centralized to the larger extent at the tour operators’ levels. When asked about the means of sale, tour operators locally or international made the largest hits. This is true specifically at hotel levels as well as other services. Other connections are also there in the market and growing.

At a markets’ level, since 1948 Palestinian areas are considered largely as foreign market other words as Tourism services export receivers and their share of the market is growing.

Subsequently the following diagram shows the value chain for Palestine in this respect:

FIGURE 33: TOURISM SERVICE CHAIN – DESTINATION (PALESTINE)



As such and within the framework of the Value Chain illustrated in this diagram, tourism services in Palestine takes the following sequence:

IDENTIFYING TOURISM MARKETS

Palestinian tour operators who spend all their time trying to answer requests and some of their time connecting with new markets, usually follow on their Israeli counterparts steps. Israeli agents penetrate new markets and then Palestinian agents

follow to get a piece of the cake. In this study it is obvious that the stakeholders know some potential markets and some try to engage but originally the eye opener is where Israeli counterparts are successful. Other markets are yet to be discovered as we will see further in this study. Other markets that can be potential for the tourism service export industry. Some come with constraints and some are easy and attainable but yet not discovered!

CREATING THE TOURISM PACKAGE

In most cases, it is the local tour operators that together with his/her international counterpart builds the program / itinerary and combines all the variables (accommodation, guides, meals, transportation, shopping and visits) into the final package. In this area Tour operators are still following old and traditional trends as they believe it makes up over 80 % of the market namely, religious programs. Very few are innovative in creating other offers although they respond to other kinds of requests. While this is almost the only and traditional technique, some experts and some stakeholders have shown a positive response to new techniques such as packaging two type of tourism, or widening the offer sometimes in order to get new business or business during off seasons. But this stays in a very limited number of cases.

BUILDING THE SERVICE

On the general trend it is 1+1 =2. Accommodation availability, transportation and guides then the rest will come. Sometimes there are shortages in high seasons. On the level of individual service providers the wish to have business in other seasons keeps to be a wish without trying to do something about it. Here is when the facilitators of the industry come in good role such as MOTA, Tourism Associations and others. Here is where the interest in more contribution and better distribution may lead to equilibrium in the sectors demand and supply.

SELLING THE SERVICE

Either direct to clients such as individuals or groups, or through International foreign tour operators. Very few tourism services are sold directly through electronic channels.

DELIVERING THE SERVICE

Tourism services are delivered through the service providers, from Hotels to transport companies, guides and others. Tourism is an experience and if any of these service providers give good or bad service it may be received as the total experience was good or bad. The bundling of the package is very important in this respect. The skills availability and capacities play major role in getting the desired outcome from delivering the service thus ensuring business repetition.

SERVICE THE CUSTOMER

In tourism, service providers are considered the service. This is the service that the tourist will have at the end of his/her trip. The target is to have repeat business but the service providers are often unaware of how the whole package /experience have come through. Many agents visit their visiting groups on the first day but very few visit them on the last day! Knowing the impact and outcome of each visit is a learning experience.

5.10 STRENGTHS WEAKNESSES, OPPORTUNITIES AND THREATS

Within this study, about 15 interviews were conducted with tourism firms and organisations. The results of the specific section on identifying strengths, weaknesses opportunities and threats are shown below and include a cross check with the latest MOTA SWOT analysis⁶⁹. The items reflecting a change from the previous SWOT of 2009 are marked in bold:

STRENGTHS

- Rich in religious, Historical sites: Jerusalem, Bethlehem, Jericho, etc.
- Unique Natural features such as the Dead sea and the Jordan River Besides
- Cultural and heritage sites and activities (More events more organised and with greater impact. Last Taybeh festival brought 20,000 to the Ramallah/Taybeh area)
- Palestinian Hospitality: The smile and warm welcome is still there but....
- Pleasant Climate
- Centrally located
- Palestine is equally rich in its landscape and Wildlife

WEAKNESSES

- Lack of a clear National Tourism Development Strategy and Urban planning (Tourism zoning)
- Limited and inadequate service skills almost at all levels.
- Limited accessibility due to no control on borders
- Severe price competition
- Lack of resources (financial and human) to manage, develop and promote the destination
- High leakage of tourism remittances to Israel
- Seasonality of the existing markets limit occupancy, secured jobs, and utilization of services
- Insufficient data to conduct reliable planning
- Limited diversification in tourism offering (vertical and horizontal – Sites with wider geographical coverage - and activities during off season)
- Limited systematic coordination between the Public and Private sector

⁶⁹MOTA strategy 2011-2013

OPPORTUNITIES

- Ideally positioned to access established religious markets
- Governments and Church promotional endeavors: The NPA after Islamic markets, Israel investment in promoting the destination and the Churches calls for come and see.
- Increase in worldwide cultural heritage driven tourism (Bethlehem as World Heritage)
- Prospects of Peaceful or Stable periods
- Potentiality in new tourism products (Ecotourism, Cultural and Solidarity, etc.)
- Investment still at medium range cost plus incentives
- Rebound of the Tourism arrivals and new markets

THREATS

- Political instability and unpredictability
- No control over borders, access, visas, points of entry/ exit
- Competitive destinations with favorable tourist environment namely Israel and Jordan.
- Radicalism and fanaticism mood growing in the region

5.11 COMPETITIVE AND COMPARATIVE ADVANTAGE

The survey conducted for this study further revealed the following:

To a large extent Palestine was seen as competitive due to its geographical location, natural endowments, and religious significance. To a lesser extent the country is seen to be competitively priced. Respondents were not sure about their political alignment and logistics and legislation. Respondents felt the industry is not competitive in terms of quality of service and staff.

The richness of Palestine with its historic and religiously significant sites is the main attraction besides its natural endowments. Thereafter, the lower cost in general makes Palestine a competitive destination among regional competitors. Cultural experiences come thereafter.

Tour operators, being the central player at business entry level in the value chain, hold the direct responsibility of approaching new markets. Within the survey in this study, all of them showed awareness to the potential markets such as the Diaspora , Muslim Market and the BRICS where they know that these markets can fill in the gap in the seasonality complex and fill in the empty beds during off season.

Promotion costs are a barrier when it comes to individual firms and the competition by the Israeli and Jordanian counterparts is a weakness. In this respect Palestinian tourism firms need to cooperate together and with the public sector and other supporting

parties to enable access to these markets. A marketing strategy should be in place with all these efforts to enable Palestinian market directly accessing these markets. This partnership is now a must more than any time before.

On the level of other services like hotels, guides and tourist transport, some of these firms get their business from Israeli agents and this is maybe why we do not see real co-operation in the private sector to put joint efforts to get to these new markets.

On certain markets Palestinian firms have a competitive edge that is under-utilized. For example, within the Muslim and Diaspora markets there have been very few initiatives to communicate with these markets. From the 15 firms this study covered only one in fifteen has made some initiative in either direction.

5.12 BARRIERS AND CONSTRAINTS TO EXPORTING

With this diagnostic study, the tourism private sector have identified at least four common areas of deficiency

1. DEFICIENCY IN TOURISM SKILLS

Almost all agree that the available tourism human resources are not sufficient and not adequate to the volume and level of capacity and demand. The skills of our employees are still not matching the expectations. Most of the respondent identified the deficiency more in the supervisory level and management rather than line level. The deficiency on the upper levels is reflecting negatively on the lower levels that are the direct servers to clients!

Not enough schools and no adequate training.

Another problem is the culture of business - we run in Palestine as some have said. The tourism firms are usually family owned and even with other types, the owners still do not appreciate expertise and higher management skills. They think they can do it best themselves. Sometimes it is true but most of the time, investing in expertise makes greater returns.

Of course there is some change in this respect and we can feel this in demand for more analytical and consulting studies and with the growing demand for international chains and franchise to manage tourism businesses and also though success stories.

On top of all that, we see tourism projects and huge investments that do not make sense sometimes. Gigantic projects with millions of dollars spent on structures or facilities that are not currently in use or in full capacity even in high seasons! Sometimes feasibility studies are not sufficient and most of the time some finishing touches are the missing magic key to profitability. Yes some of such projects were established just before the 2nd Intifada started but also some were established more recently with the high level of expertise in establishment but the key still is with the mechanisms used to run those projects. Many components are still missing. It takes it all as a package to do it, but some of these projects are made to succeed with just some little final efforts. It is like building a hotel and not marketing it but waiting for the customer to enter from the door. Or a tourism premises with thousands of square meters that are empty and waiting for an activity to fill it in!

2. UNREGULATED SECTOR

Since Palestine is still operating according to Jordanian old laws this is by itself is a crime for the industry but there are ongoing initiatives to renew the laws and regulations. It has been the request from both the private and public sectors and there is some kind of drive towards cooperation in this respect. Hotel classification is one initiative that is seeing the light and the tourism board is another that has been long on the waiting list.

Government support is limited. During this study it was discovered that the MOTA did not afford going to the WTM (Tourism Fair in London). Most of the testimonies were comparing Israel as the main country competitor and how efficient they are on marketing on supporting the industry and subsidizing strategic projects and initiatives.

The public sector have done some good work in Bethlehem since 2000 with the help of foreign agencies but other destinations have been neglected from tourism perspective. Jericho as one is totally neglected. The focus on Hisham Palace has driven the focus off other aspects and much more important sites in Jericho. An overall urban planning as a historic destination is just not there and thus so many opportunities are missed.

The existing urban planning neglects the tourism aspect of the city where authorities allow unrelated businesses to establish inside tourism future zones. It has turned Jericho into residential areas for second home owners who visit rarely!

3. LIMITED INFRASTRUCTURE AND OFFER AT MARKET

“Seasonality is killing us”. Others said “yes we have dead season not low season”. Although we have full occupancy for few weeks and months in the year but we have most of the year empty. We look now at certain markets that do not require the usual seasons and we go for it: South Africa, Brazil, and Russia are good remedies.

With no evening activities in Bethlehem and Jerusalem how can we offer clients a full stay here. Industry leaders keep saying we need to extend the stay of tourists in our cities but actually very little is done to diversify and expand the offer in order to extend the stay.

Also geographical distribution is a concern. Limited activities and events just contribute to the weakness of this sector in not filling the gaps.

Other initiatives were looking in the right direction. Leaving the Pilgrimage market for its seasons and trying to widen offer on other interests to grab the markets that can fill in the dead season. But still limited to a few players in the market and without a national plan it will not be well grounded and fruitful in the foreseen future.

Many individual tourists are lost due to the lack of adequate electronic mechanism to market and sell services. In this respect, online reservation systems are needed with proper and secured online payment mechanisms. This should be addressed cross sectorally maybe between IT, financial bodies and the tourism sector.

4. ACCESSIBILITY

If we do not have control on our borders we cannot control our potential tourism market inside. As an obvious example: Muslims from all over the world and especially

the Arab nations will immediately make a huge incoming market as soon as they feel they are coming into independent Palestine.

This was left at the end of the barriers and constraints list while it is obviously on the top when it comes to fixing the problem from its roots. Unfortunately this was deferred in the negotiations between Israel and the Palestinians and thus has to wait! If this was fixed, many aspects of tourism would change. The huge anticipated market will make other types of tourism, except the existing pilgrims market, and seem insignificant.

In addition, the separation of **Jerusalem and Bethlehem** is a total setback for the whole tourism industry ...Many groups were told or not necessarily told that Bethlehem is off limits. Although it is totally safe but for the terminal between the two cities and because Israel does not allow Israelis (guides and drivers) inside the West Bank, it has been a day most tour operators would skip in their program.

Jericho is another example. After the year 2000 the traditional road of Galilee Jerusalem passing through Jericho was close and remains so. This deviated almost 75% of the daily traffic through Jericho.

On the other hand and when looking at incoming markets from abroad such as the Muslim and to some extent the Diaspora market, the barrier is the access to Israel first since all the borders are in Israeli Control. Many nationalities have no means of obtaining visas, such as Syrians, Iranians, Lebanese, etc. Other markets also have difficulty in obtaining visas. On an individual basis there is no means one can obtain an Israeli visa or permit to enter. Only group visas are allowed application and in most cases either the permits come very late or comes with some names taken of the manifest thus burdening the tour operators with some losses. This includes countries like India, Indonesia, Cuba, etc.

Gaza is another region totally off limits for tourists coming directly from the West Bank or from inside Israel.

5.13 POTENTIAL AREAS OF INTERVENTION TO ADDRESS BARRIERS AND CONSTRAINTS

Looking for remedies after weighing up the weaknesses in this sector, the findings can be summarised as follows:

TOURISM SKILLS AND CAPABILITIES

Besides the Palestinian smile, efficiency is very important to fulfill the experience and expectations of the guest. How much private tourism sector companies invest in skills development is an important area of concern. Since most of the companies are family owned and run this particular component is often overlooked and undervalued.

- a. Since supervisory and top management staff are on request by the industry, our schools of tourism should be going for higher education degrees. Bethlehem University is applying next year the master's program in tourism and Bachelor in hotel management. The culture of getting the job done by the experts should start prevailing in this competitive market.

- b. **In-house training projects** and initiatives should be planted. A project where group of hotels join forces in one or two destination can come up with a training hotel center where they train their staff and get new comers at the same time in one place. This can prove cost efficient as models in other countries have proven to be. It is estimated that cost for training can come down to 50% and thus hotels will be in for a joint profitable venture from the training hotel.
- c. **Leakage of qualifying skills** to other competitive destination should be dealt with through higher costs and security regulations. Laws and regulations in this field should secure the rights of the employees and better minimum wages while at the same time being sensitive not to over secure employment in a way that the company becomes burdened with unqualified personnel because of strict regulations for terminating working contracts and staffing. This has been a concern at some firms in certain areas such as Bethlehem and Jerusalem.
- d. **Incentives** as a drive to improving service. Tips are customary in the tourism sector and it has become taken for granted. It is either 10% at restaurants or designated amount per visitor already reserved even before the guest is in the country! If staff take it for granted and the amount is the same every time they will never make another effort unless there is another kind of incentive. If we abolish the pre-calculation of tips and make it voluntarily they might not get it if they keep being lazy while some might make a fortune.

On the other hand commissions sometimes just spoil the service and the mood of the staff might turn ugly. Share the tips and work as a team is another scheme. Positive competition would also work while it is still not a tradition among our firms.

Employee of the month is one good example of personalising service as well as encouraging creativeness among employees.

Cooperation between companies can be one way of starting some of these initiatives. Cross expertise exchange is a good example.

WIDEN THE OFFER AND PREPARE THE INFRASTRUCTURE FOR STRATEGIC MARKETING

Often in a destination such as Palestine, stakeholders take it for granted that Palestine with its Religious and historical significance is self-selling and thus the offer is there. To some extent this has been the case in the past for the limited capacity Palestinian tourism firms used to have. Now it is totally different and stakeholders are complaining from low seasons which they call dead season. If the season dies and then resurrect during Easter and some other months, it means it is revivable and thus the very is building up the offer in addition to what we have already

Widening the offer is the necessary step that is missing. While the sector thinks marketing and hitting new markets or competing with the regional competitors is the way for getting more business, they miss the point of their own potential in having unique and special offers within the destination

Even on marketing there is no real innovative effort in getting potential markets that are most logical and at the same time accessible. The Diaspora Palestinians is one very promising and in many occasions they expressed it and in many instances they pass by unrecognised. If this market was well catered for it would be one good pillar in incoming tourism

Here are some guidelines of remedies for barriers and constraints discussed earlier:

a. **Go for other types of tourism**

i. **Cultural tourism : Learning experiences**

Many initiatives but very little impact and thus it makes it somehow not convincing. At certain cases it is even resisted by the tourism stakeholder not because they see it as competitive but just because they don't have faith in other than what they have already and used to.

Some markets would go for learning experiences. After all, in tourism we sell an experience. One agent tried this and it worked because the match was right. They tried promoting learning the culture and language is one example and it worked. It was well received by the Scandinavian rich market.

ii. **Medical tourism**

It is happening under our nose and above our noses! Yes, many of our Diaspora Palestinians know we have the best dentists that are more budget sensitive than the ones in the nations they come from. Many come for their treatment and thus visit. If such service was well organised and bundled with the offer of Palestine it would make real good at potential market in off seasons.

iii. **Sports**

Lately sports revived in Palestine to some extent. We receive visitors but the general public is not really involved and the tourism stakeholders are even not aware. Tournaments make good domestic tourism but aiming at more of international championships in Palestine should also be in our blue prints for the next tourism strategy planning. Cooperation between Ministries and municipalities as much as also the connections with our Diaspora can be a good start. Ask the man behind the latest revival he might shed good light. General Jbril Rjoub

iv. **Leisure destinations**

Identifying our destinations with clear identity, infrastructure and vision is the ingredient for success in such market. Jointly between private and public sector the destination should make sense: where and how to promote the destination as a resort or leisure destination. Jericho and Gaza are two major attractions in the area. Jericho with its winter special warm weather is unique and Gaza is just the sister of Haifa and Beirut if the ingredients were well mixed

right there. We have the nature's base but the planning needs to set the destinations as such if not the whole city then designate zones for it. These cities can be hubs for existing pilgrimages but most importantly these destinations can be independent resorts.

v. Bundling and packaging tourism

Build a new offer and package it with a traditional existing product. Bundle two destinations in one offer. As an example, offer Jericho as the hub for the American market while they are on pilgrimage tour. This way you keep space in Jerusalem and Bethlehem, and you give the Americans the leisure time they ask for after touring and you can compete and skip their stay in Tiberias on regular tours. You can extend the 1 night visit to 7 nights at a resort hotel and destination. One can also look at auxiliary services to be provided after hours in the destination itself such as a camel ride or a tour by bicycle or a night life strip.

b. Events and activities

When you have guests and you want them to stay longer you will have to entertain them. Very simple equation and for Arabs it is well known. So in order to extend the tourism stay or attract them in certain seasons the sector needs to plan and perform a calendar of events.

Entertainment in a way can both widen the offer and extend the stay of existing markets. When the main tourism market is pilgrimages that are set on a fixed program that generally includes their meals and accommodation and tours, the entertainment activities might be applicable to this market but its potentiality lies in attracting other markets and thus developing an offer. Such markets are the business market, the foreign individual market, domestic and the other future targeted markets set in this study.

Entertainment tourist activities can be a very wide range of activities from folkloric to simple dining and tournaments or festivals and even religious and solidarity events.

Trade fairs in Business destinations, Folkloric events in historical destinations, religious processions and events in Holy cities and each village in Palestine has its special offer and special dish to serve. Reorganize the offer within a plan and support it with basic infrastructure and coordination so they all sing together at different times to fill in off season and to increase period of stay thus increase total tourism revenue.

c. Modify the offer

When a hotel wants to increase the number of nights at their premises some would pray but others would produce a scheme to attract more stays by guest and tour operators thus introducing special reduced rates for more nights as minimum stay.

Hotels should match their markets. When hotels are built they have markets in mind. Match their needs and nature. If you build a 4 stars hotel and you target

business people from a certain sector make sure their per diem pays for the room, transportation, and boarding. It is good to know that few hotels really are sensitive as such.

Events at hotels and building ball rooms or areas for events should come also after good research. Just spending millions on predictions won't make business profitable.

i. Infrastructure:

All the above recommendation for widening the offer contains an infrastructural component that needs to be met. At certain cases and destinations in particular some private sector infrastructure should complement what is offered there. Some destinations are not afraid of more hotels where the offer if widened will entail higher demand than supply offered

In this respect, urban planning should encourage introduction of necessary infrastructure projects. Foreign aid should also commit to aid according to urban planning by the two sectors together and this diagnostic study should make a proper guideline.

Increase in infrastructure is both vertical and horizontal .Sometimes you do not need both. For example: Professional assessors of the tourism industry in Palestine do not see any need for 5 star hotels.

d. Target Markets

Besides the markets discussed earlier that are offer driven, foreign markets should be addressed in order to make the matching and export. Though the interviews and focus group the following markets emerged as high potential market for Palestine:

- **BRICS** – Brazil, Russia, India, China, and South Africa and what we can call their surroundings.
- **Muslim market:** for now if we can target those with better accessibility which means they have better chances in getting visas and this may include Muslims with European or other nationalities who do not need visas to enter Israel then follows the other nationalities that have easier requirements for visa application.
- **Diaspora:** Potential market that is neglected. They can be visitors as well as partners.

REGULATION, COOPERATION AND PLANNING

Within the framework of this study, the tourism focus group identified several areas of intervention towards adequate regulatory system that can contribute to developing the tourism export service sector. A comprehensive national strategy in this respect has become a must aiming at first developing a culture of ethically respecting rights and duties of every player in this sector including the service receivers. Reinforcement of laws and regulations is one of the main concerns that should find the adequate

attention and action by the Public sector on the highest levels and the full cooperation of the private sector. With these two pillars in place the following areas are to be considered as part and parcel of development needed in this area:

a. **Treat Tourism destinations with identity:**

Each city should have its unique identity and as such planning and governing this city by its identity will make it a special destination.

i. **Jerusalem: Holy City**

A Holy City for the three Abrahamic faiths. It is undervalued by the Authorities. Israel treats it as an exclusive Holy City for one faith and the NPA have little to do since they have no political presence and thus no administrative intervention. The sole responsibility then lies at the private sector institutions and firms.

Foreign aid to East Jerusalem should resume on strategic pace to ensure the sustainability of this Holy destination with the Universality of its identity. EU should present itself as partner and not only as a supporter.

ii. **Bethlehem: Religious City**

Beat your regional competitors and cater for the churches better than your competitors. Make the match; if you know what they want besides price do it and you can get the business. This is what strategy would focus on for a well-established religious destination such as Bethlehem.

Signage in Bethlehem looks to be appropriate and such example should follow in other cities. Jericho is also as well.

More to keep the visitors entertained is the goal the sector needs to respond to. In this respect innovative activities should start in Bethlehem yesterday. Number of hotels is growing rapidly while nothing yet is done to deal with the chronic problem of with seasonality: Evening and night life, daily tours for individual traveler, etc.

iii. **Jericho: Historical City of Leisure**

Historical identity is under presented in this unique city. The City of the Moon needs to look as such; to be a light in the wilderness. When you cross the last curve as you approach Jericho you should see a paradise lit like Las Vegas, with or without a casino.

In the past, domestic tourist and visitors used to enjoy certain areas that are now almost dead. Certain areas down town would be better kept green, with bicycles and no cars. That was the case in the past this must be again the case.

Certain strips can be touristic zones and thus have very special specifications under licensing and urban planning.

iv. Others

Other cities can as well be treated similarly. Being a business tourist destination such as Ramallah, Nablus or Hebron other governmental authorities can have a say not only MOTA. This being said the urban planning for such cities should be built on a sustainable vision. What is being experienced today is not understandable from tourism point of view.

Stop littering cities with abnormal signage. Stop building everywhere in order to make profit, leave something for the future.

b. Tourism law defining and regulating each tourism professional sector

It is an ongoing effort by MOTA with consultations with the private sector representatives. One aspect that is valued by the private sector institutions is that the new regulations will make it mandatory for all professionals to be enrolled with their respective associations and union. This will help regulate and organize each sector starting with hotels and tour operators at the moment.

In simple terms, the tourism industry in Palestine needs a full set of laws, rules and regulations to govern the development and maintaining of this sector. In general, the existing regulatory framework for tourism in Palestine is not consistent with tourism development needs and international standards in regulating the tourism industry.

The following list was the outcome of a meeting with MOTA staff to indicate the laws that need to be developed:

- Tourism Law;
- Tourism Licensing Law;
- Tourism Development Corporation Law;
- Hotels & Restaurants Law;
- Travel Agents & Tour Operators Law;
- Tourist Guides Law;
- Handicrafts & Souvenirs Law;
- National Parks Law;
- Museum Law.

There is an inherent requirement to establish laws that establish the powers and responsibilities of MOTA, as well as conditions for licensing the various tourism enterprises. At the same time, there is a requirement to update the existing hotel classification system that is currently based on the Jordanian system of 40 years ago.

In addition, the report Codes of Conduct for tourism stakeholders and tourist may apply.

Having received a copy of the drafts prepared in 1997, Peter Kendal recommendations made at that time concerning the proposed organisation of the tourism sector said that such laws will need to be redrafted to reflect this situation.

Under the Short Midterm MOTAs the following recommendations were announced:

- All licensed tourism facilities and services should have to provide MOTAs with such statistical and other information as may be required in order that the sector may be planned, promoted, regulated and monitored effectively;
- All tourism restaurants should be licensed;
- All tourist transportation related businesses/ companies should be licensed;
- A law needs to be drafted setting out the powers and functions of the PTB;
- A new law needs to be drafted concerning the classification of tourist accommodation and tourist restaurants.

c. Regulating licensing and classification

The current hotel classification system is seen by both the private and public sector as an organisational initiative that will benefit both the clients as well as the sector and individual firms. It is also becoming a drive for proper licensing. Such an initiative we need to build on not only at this subsector for all other sectors. This ensures proper positioning of facilities and service compared to price it ensures best quality to price and limit severe negative completion that entails bad branding.

d. Increase marketing and development budget:

As much as it is a government duty it is also a private sector responsibility. Here we urge outside funders to strictly apply supporting aid to the tourism industry according to up-to-date plans and analysis as such.

e. Private public sector leadership

Many have seen this as the real remedy for better planning and development together. Both sectors should go side by side on mutual understanding and jointly planning. For destinations to be fit, for infrastructure to be adequate, and for national income to reflect prosperity all above recommendations should be considered within a joint leadership platform. Lots of talk took place earlier about establishing some kind of a PPP council or board or committee. Today we see change but slow. Both sectors should believe in working together and seeing the best for Palestine as a destination of destinations.

The basic aims of this partnership can be summarized as follows:

Palestine Tourism Board (PTB): A Public Private Partnership towards competitive tourism destination.

The fundamental objectives and aims of this concept paper is to define the next steps and the areas that needs to be handled by the PTB.

PTB will be the marketing arm, the development stimulator, and the tourism think tank of Palestine.

The above remedies can also be a guide for focused International cooperation and as the basis for the future economic negotiations.

5.14 CASE STUDY OF A SUCCESSFUL SERVICE EXPORTER

The Golden Walls Hotel is a family-owned business managed by the Pilgrims Palace Hotels Ltd. The Golden Walls Hotel was built in 1964 and run by the late Dr. Rasheed Nashashibi till 1983. It was then known as the Pilgrims Palace Hotel. The Hotel has undergone major renovations over the last 10 years. It was expanded twice. A new building was added to the existing to bring the total number of rooms to 120.

On their website they clearly state their Mission, vision and objectives. In addition they also present their guests with a variety of facilities and activities. All published and based on real experiences as we will see in this case study.



PURPOSE

- To satisfy our guests at all times.
- To achieve sound, continuous and sustainable economic growth thus satisfying the needs and aspirations of our staff members and owners.
- To develop, market and expand the hotel industry in the Holy Land as an outstanding, internationally recognised destination.
- To make sure that tourism has a positive impact on those who pay money to enjoy it and a better life for those who are making money.

MISSION

- To exceed the expectations of the Golden Walls Hotel's guests by providing a specific authentic product and professional services.
- To raise the environmental awareness within our establishment and community.
- To ensure environmental standards become a part of the workforce's normal habits and behaviour.
- To confirm that tourism can be a tool to preserve the community's natural and cultural heritage.

VISION

To make the Golden Walls Hotel the focal point of the visitors experience to the Holy Land thus bringing special benefits and economic prosperity to the peoples of Jerusalem.

ARTISTIC/CULTURAL FLAVOURS

The Golden Walls has plenty of original lanterns dating back to past centuries in addition to modern colourful paintings. The mixture between old and new gives our guests a feeling of deep tradition and valued culture while enjoying the facilities of a modern hotel.

ROOMS

We offer comfortable, renovated and air conditioned accommodation. We are adapted to suit the modern traveller with a classic, middle-eastern touch and hospitality. Our 113 recently renovated guest rooms have the following facilities:

FACILITIES

- The Lantern Dining serves the traditional middle-eastern specialties and international cuisine.
- The Sultan Suleiman Snacks and Lounge offers a selected menu in the spacious and relaxing lobby.
- The Seven Gates Bar serves refreshing drinks and cocktails.
- The Roof Garden has a fabulous view of the old city walls.
- Assembly meeting facilities for 20 to 140 persons.
- The Golden Walls provides safe and free bicycle and motorbike parking to encourage guests to use less fuel as a small contribution to help save the environment.

THE ASSEMBLY MEETING FACILITIES

Decorated with original murals with lively colours, the Assembly meeting room offers a suitable state-of-art venue for after-dinner meetings, special parties, conventions, private and public occasions. It has the seating capacity of 120 in theatre style, seated tables: 70 persons and cocktail style: 140 persons.

THE ROOF GARDEN

The dazzling view from our Roof Garden is most amazing. Our guests can watch Jerusalem's life passing-by while enjoying a refreshing drink, an ice cream or a quick bite.

FESTIVE NIGHTS AT THE GOLDEN WALLS HOTEL:

"Candle light" ambiance and B.B.Q. festivities on the Roof Garden overlooking Jerusalem.

You can feast on an exquisite set menu of choice cuisine or open buffet during "Lailat Sultan". Our food is prepared by professional chefs on all occasions. You can enjoy our

CASE STUDY OBSERVATION

Tulip Inn - Jerusalem Golden Walls Hotel is part of the World Wide Hospitality of Golden Tulip Hotels. The Jerusalem Golden Walls Hotel is located in the center of the Holy City just outside the northern city walls, between Damascus and Herod's Gates, within walking distance from the most religious, historic and cultural centers.

The Golden Walls hotel was chosen as a case study since it proved innovation and wise decision in keeping the place up-to-date even in worst times keep the business and even establish market that are both reliable and well fit to the low season which market one major weakness as described by the industry.

The Golden Walls Hotel now receives 10% of clients from the business market and 90 % from the Pilgrimage market, of which 11% come from the local market and 89% International. The portion from the local market is unprecedented in the City of Jerusalem as it is a main Pilgrimage destination. At a closer look one will discover that the Hotel is well maintained and two brothers share the job of managing the hotel in two shifts within a role distribution organised framework. Some of the staff are as old as the hotel can remember. They all made a bigger family. After getting a franchise in place for better business and more sales, sales dropped dramatically and went to zero not due to the franchise but due to the political situation that emerged after September 2000. The Intifada just threw many of the efforts of keeping the business out of the window overlooking the city walls.

Palestinians in 1948 areas started visiting Jerusalem for prayers in big numbers during the Intifada starting in 2000. They came and went the same day. The hotel kept skeleton staff but the loyal staff and management had many plans. They kept the hotel running, keeping open doors of the rooms, saving energy and efforts. As they looked every day from the windows as they drink tea every morning, they thought of doing something instead of staying lazy without work. They printed a map of Jerusalem where the mosque and the hotel and their bus stop are marked. Inviting them to "Come, pray and stay". It worked and this market now makes 11% of the total turnover of their pilgrimage market when in all hotels of Jerusalem the local guest and domestic tourist do not make 2-5 %.

Another attempt to keep the guests entertained in the city and the hotel itself they introduced the roof Garden and the Sultan festive dinner on certain days of the week.

The Golden Walls Hotel is now considered one of the most active and profitable businesses in the city.

LESSONS LEARNED

- This case study is an authentic example of how skilled and loyal labour can be a great asset.
- How the family business can exceed the immediate family and above all how to think out of the box and try potential new markets with sense of matching and packaging.
- The map resembled the both the matching and bundling the prayers at the mosque and the trip they make away from home.
- Here comes a place to rest, be entertained for an affordable matching budget.
- Thus the impossible e possible during short run but a real solid market on the long run and in difficult times.
- It solved the problem of seasonality by targeting a new market and widening the offer of the firm.

RECOMMENDED ADVICE

- Never underestimate any market or the loyalty of your skilled staff.
- Keep your place open even in the lowest seasons but keep it active and up-to-date.
- Once you get a new market don't let go for another fragile market.
- Innovation makes success.
- A family like atmosphere keeps the management. The staff and the guests feel home.

CASES STUDIED

Below is a list of cases studied and questioned during individual interview. The cases was chosen based on criteria of strong business base, sufficient company resources, geographical distribution, sound business planning and execution besides mainly high quality service and marketing locally and internationally:

HOTELS:

- Jacir Palace Inter-Continental Hotel Bethlehem
- Inter-Continental Jericho
- Ambassador Hotel Jerusalem
- Grand park Ramallah
- Al Yasmeeen Hotel Nablus
- Arcmed Al Mashtal Hotel –Gaza
- Al Deera hotel – Gaza

TOUR OPERATORS

- Gemm Travel – Jerusalem
- Crown Tours – Bethlehem

TRAVEL AGENTS

- Daher Travel

OTHER TOURISM SERVICES:

- Al Kheima restaurant – Beit Sahour
- Teleferique – Jericho
- Abu Eita – Souvenir Shops
- Nabil Mufdi – Dean of Hotel Management department at Bethlehem University

VI. BUSINESS RELATED AND PROFESSIONAL SERVICES

6.1 STRUCTURE AND CHARACTERISTICS OF THE SECTOR

The services sector is the largest contributor to the Palestinian economy, nearly 80%⁷⁰, and offers significant growth potential due to the educated workforce. Some of the major subsectors include transport, construction, information technology, engineering, design, communications, software, financial and professional services, wholesale and retail trade, and tourism. The service sector is particularly important to women as many of the areas can be done from home and do not require travel. Also, services have been able to grow during occupation due to the fact that most services do not require the same level of movement as goods. Nonetheless, the movement of people is important to this sector and the current restrictions imposed due to permits and restricted access and closures limit the potential⁷¹.

This study is targeting the Business Related and Professional Services, it is the largest service sector in terms of its constituency and this sector consists of different sub-sectors including:

1. Legal Services
2. Credit reporting services
3. Invoicing and collection services
4. Architectural services
5. Engineering Services
6. Specialty design services
7. Integrated engineering services
8. Education and training services
9. Marketing and advertising services
10. Writing, editing and translation services
11. Accounting, auditing and bookkeeping
12. Mailing list compilation and mailing services
13. Market research and public opinion polling
14. Management consulting
15. Business consulting
16. Telephone answering services

⁷⁰BizCLIR for the Palestinian Economy, United States Agency for International Development, March 2010

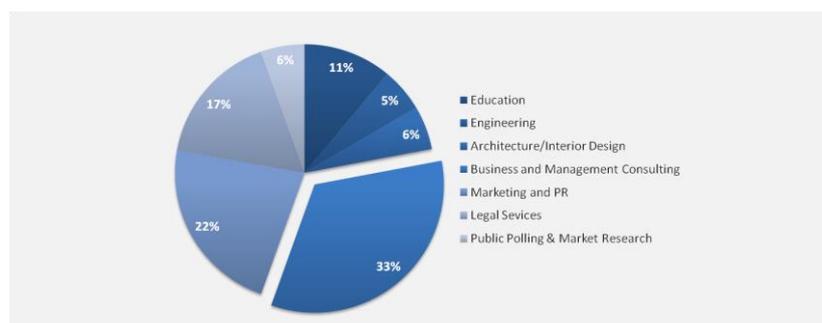
⁷¹Ibid

17. Urban planning and landscape architecture
18. Printing and publishing
19. Human Resources management

It worth mentioning that this study will focus on those sub-sectors with high potential for exporting of services, those sub-sectors will be identified during the course of conducting the diagnostic study. However, the initial desk review has identified certain sub-sectors with high export potential such as legal services, engineering services, design services, education and training services, marketing and advertising, writing, editing, & translation services, market research and public polling services, management and business consulting, telephone answering services, urban planning and landscape architecture. Although number of companies within some of the abovementioned sub-sector is very limited, the capability of such small number of companies is significant and thus its export potential is high.

For the purpose of conducting the diagnostic study of business related and professional services, 13 companies were interviewed in the West Bank and 5 companies in Gaza. The following diagram shows the distribution of interviewed companies over different sub-sectors of the business related sector.

FIGURE 34: DISTRIBUTION OF INTERVIEWED COMPANIES ACCORDING TO THEIR CORE SERVICES OVER THE BUSINESS RELATED SUB-SECTORS



Most of the interviewed companies are considered small businesses. More than 70% of the service firms employ less than 10 employees. The turnover of most of those firms is less than US\$1 million, including exports. It was also noted that most of the companies are young in terms of its period of operations; most of them was established during the previous 15 years.

6.1.1 SECTOR CONTRIBUTION

As mentioned earlier, the services sector contribution to the GDP is very high, its contribution is in excess of 80%, this includes the contribution of various public and private services including education, health and other services provided by the government as well. However, the contribution of the service sector provided by the private sector is still high in comparison to the contribution of other sectors such as agriculture and manufacturing, where the contribution of both sectors to the GDP is less than 20%.

The contribution of the business related and professional services is not clear as there are different sub-sectors classified under the business related and professional services which are not clearly classified in the PCBS statistical classification.

The following table provides some information of various service sector activities in the West Bank and Gaza including number of enterprises, employed persons, and some other economic indicators.

TABLE 21: NUMBER OF ENTERPRISES AND EMPLOYED PERSONS AND MAIN ECONOMIC INDICATORS IN THE WEST BANK BY ECONOMIC ACTIVITY, 2011

ECONOMIC ACTIVITY	NO. OF ENTERPRISES	NO. OF EMPLOYEES	OUTPUT *	GROSS VALUE ADDED *
Industrial Activities	13465	57898	2389674.9	1087800.3
Construction Activities	358	5608	303816.9	115572.4
Internal Trade Activities	48770	98720	2292053.2	1966261.8
Transport an Storage Activities	408	3445	89832.9	54597.6
Information & Communications Activities	143	4506	668980.0	585487.6
Services Activities	20499	59396	944085.5	690203.0

* (Value is Thousand US\$)

SOURCE | PCBS, ECONOMIC SURVEYS SERIES 2011, VOLUME 17, OCTOBER 2012.

TABLE 22: NUMBER OF ENTERPRISES AND EMPLOYED PERSONS AND MAIN ECONOMIC INDICATORS IN GAZA BY ECONOMIC ACTIVITY, 2011

ECONOMIC ACTIVITY	NO. OF ENTERPRISES	NO. OF EMPLOYEES	OUTPUT *	GROSS VALUE ADDED *
Industrial Activities	3625	14124	429677.9	201285.7
Construction Activities	229	1614	88229.9	45166.8
Internal Trade Activities	19525	34436	330942.2	248171.4
Transport an Storage Activities	105	811	16987.7	9434.1
Information & Communications Activities	357	912	12718.7	7755.6
Services Activities	9455	33456	358022.3	256393.7

* (Value is Thousand US\$)

SOURCE | PCBS, ECONOMIC SURVEYS SERIES 2011, VOLUME 17, OCTOBER 2012.

Breakdown of some available information concerning the business related and professional services is provided in table below.

TABLE 23: BREAKDOWN OF BUSINESS RELATED SERVICES SUB-SECTORS INDICATORS IN THE WEST BANK, 2011

SERVICE ACTIVITY	NO. OF ENTERPRISES	NO. OF EMPLOYEES	OUTPUT *	GROSS VALUE ADDED *
Civil Engineering	29	666	70781.7	34542.9
Publishing Activities	4	148	2098.4	1490.1
Legal and Accounting Services	1109	2523	15514.6	12246.7
Activities of head offices; management consultancy activities	17	114	1611.0	1340.2
Architectural and engineering activities; technical testing and analysis	524	1999	37263.5	27535.2
Advertising and market research	342	1109	42972.6	16128.3
Other professional, scientific and technical activities	462	1085	5956.4	3289.0

* (Value is Thousand US\$)

SOURCE | PCBS, ECONOMIC SURVEYS SERIES 2011, VOLUME 17, OCTOBER 2012.

6.2 GOVERNMENT STRATEGY AND POLICY PERTAINING TO THE SECTOR

Generally speaking, the Palestinian economy is relatively small, and lacks natural resources. Its development and growth is inevitably hinges on its ability to access the necessary inputs on time i.e. subject to external conditions, and the utilisation of its human resource. Recognising that the Palestinians have been investing heavily in education in the last few decades; the legacies of the occupation and the distortions in the economy together with the Israeli control of the limited natural resources such as land, electricity and water have to a large extent restricted the scope and magnitude of economic development. This has restricted the economic absorption capacity of the growing labour force, especially the growing number of educated work force. As a result exporting labour has become one of the main features of the economy.

The Palestinian economy is characterised by the dominance of the service sector, where its contribution to GDP is in excess of 80%. Social services (education, health) and commerce (retailing) are striking features. This implies that this, as well as the relatively young population influences the type of skills and education needed. To this extent the economic development and growth, and the overall prosperity of the country are to a large extent dependent on the human resource development and its skill base, flexibility, and mobility.

Since the establishment of the PNA, the economy was subjected to sever cyclical conditions, which have adversely impacted on its performance. "Having scored the highest growth rate in the world in 1999, economic indicators rapidly deteriorated following the outbreak of the second Intifada in the 2000 fourth quarter. Over 2001-2, GDP dropped dramatically and unemployment attained highest levels, leading to large reduction and deterioration in all components of the Palestinian economy, including on the macro and micro performance levels. Damages sustained by agriculture, industry, construction, trade and investment sectors also caused a decline of economic

indicators and trade in an unprecedented manner. As a result, negative reliance of the Palestine's economy on Israel's has exacerbated"⁷².

The cyclical conditions that the Palestinian Economy has faced during the previous two decades has impacted the ability of the PNA to develop or implement specific strategies and policies corresponding to the structure and characteristics of the various economic sectors. The PNA Economic Development Strategy for the years 2011-2013 was formulated to support the economic development in general but not at sectoral level, the following section is quoted from the government strategy document for economic development.

"Vision: A free, competitive and sovereign economy, which is consistent with principles, laws and agreements of the multiple commercial system. The Palestinian economy will be capable of attaining sustainable economic and social development and contribute to achieving prosperity. It is based on knowledge and scientific research and relies on pioneering, competitive sectors on the local, regional and international level through an enabling business and investment environment.

Strategic Objectives and Policies:

1. *Terminate dependence on and hegemony of Israel's economy on Palestine's*
 - a. *Restructure productive sectors*
 - b. *Diversify trade and find alternative markets for Palestinian goods and services*
 - c. *Increase labour capacity*
2. *Develop an enabling business and investment environment in Palestine*
 - a. *Devise a competitive, legal and regulatory framework*
 - b. *Develop an enabling investment infrastructure*
3. *Build public and private sector bodies so that they will be capable of management the State economy in line with the best international practice*
 - a. *Enhance institutional performance in accordance with strategic requirements*
 - b. *Institutionalize and improve performance of corporations*⁷³

Although some of the services sectors such as ICT and Financial Services have developed specific strategic plans for these sectors in line with the government economic development sector, there is no evidence of a certain strategy of policies pertaining to business related services. In a meeting with the Ministry of National Economy (MoNE) staff members, it was clear that there is no specific strategy and policy for this sector. The new Minister of National Economy has stated in an official meeting for the MoNE senior staff that he will focus on industrial (manufacturing) development. In this respect, the PNA has concluded several trade agreements with different countries and regions in the world since 1994, all of those agreements are

⁷² Palestinian National Plan 2011-2013, Economic Development Strategy, 2011

⁷³Ibid

focusing on trade on goods including facilitating movement of good cross borders as well as organizing the customs and taxes regulations on each other's products.

6.3 REGULATORY ENVIRONMENT

Article 21 of the Amended Basic Law for the year 2003 of the PNA stated that the Palestinian Economic System is completely based on the principles of the free market, the freedom of economic activity is guaranteed and the law shall organise its boundaries and supervising rules. Unfortunately, the Palestinian legal framework in general is not completely in compliance with the Basic Law principle in which the principle of free market requires an effective competition and consumer protection regime which creates the opportunity to advance economic efficiency, consumer choice, and welfare. No competition law exists and the consumer protection law, enacted in 2005, has not been substantially implemented.

Trade in service in general, and business related and professional services in particular, are not exclusively addressed by a certain ministry or governmental body to look after the sector and its development in terms of legal framework development. Many ministries are involved and cover the various service sectors. A coordination unit does not even exist at the MoNE to ensure consistency of laws and regulations when it comes to legal environment impacting the service sector.

Some of the sub-sectors within the service sector are governed by specific law, e.g. engineering services, legal services, accounting and auditing services, and education and training services. Laws and regulations covering other sub-sectors are still lacking. Most of the existing laws and regulations focus on accreditation and firms licensing issues. This is clear when it comes to the engineering, auditing, and legal services. However, the accreditation and licensing of other sub-sectors' firms and practitioners such as management and business consulting, marketing and advertising, is not covered in any specific law directly corresponding to the need of organising such sub-sectors.

The biggest gap in the legal framework is the standardisation, where the Palestinian Standards Institute is only focusing on goods. Standards for services are completely lacking in Palestine.

An effective regulatory environment that allows market flexibility and reduces uncertainty is completely lacking for business related and professional services. This should be linked to a government strategy and policies to support the sector and encourage exports activities. None of the signed trade agreements with various countries has mentioned trade in services or achieving any mutual recognition of the accreditation of various practitioners such as lawyers, auditors, and engineers.

6.4 SKILLS AVAILABILITY

The service sector in general and business related and professional services in particular is also known as Knowledge-Intensive Services (KIS). It relies completely on skills, knowledge, and competencies of the specialised human resources working in this sector. Generally speaking, the business related and professional services sector is

suffering from weak specialisation and concrete skills that can drive the sector into innovation and differentiation. Business related and professional services are usually competing with international organisations to retain skilled and experienced human resources. This has led to either a limited number of available skilled resources or increased cost of having experienced and skilled labour.

As stated earlier, Palestinians have heavily invested in education during the past few decades as this was one of the very limited opportunities available for people living under occupation. The educated workforce does not however translate into availability of skills to serve the sector. The availability of required skills requires not only education and knowledge, although it is important, but also more of a focus on training and skills development programs. Such skills development is important to supplement the sector with the required skills and competencies as one of the competitive advantages enabling the sector to compete in international markets. Further elaboration on this issue will be concluded as a result of the interviews with companies and associations related to the sector.

6.5 PRIVATE SECTOR REPRESENTATIVE ORGANISATIONS

Specialised private sector representative associations do not exist. There are some accreditation bodies such as the Bar Association, Engineers Association, and Public Accountant and Audit Association but these associations are more individual associations and mostly allow individual practitioners membership instead of firm's membership. It is mandatory for individual professionals to be members prior to practicing the profession. This limit the scope of such associations into accreditation and issue of practice permits for members of these associations instead of focusing on development strategies, policy advocacy, and thus export promotion.

The Bar Association Law does not yet recognise legal firms, and thus legal firms are not allowed to enjoy membership at the Bar Association, only individual lawyers can be members at the association and all of the association activities are directed toward its individual members and accreditation services. This is not the case when it comes to the Engineers Association and Public Accountants, although firms in these two sub-sectors can enjoy membership. The services and activities of these associations are limited to the accreditation and licensing of individuals and firms but not related to the development strategies of the sector.

Alternatively, business related and professional services companies can get membership status at any of other private sector organisations such as Chambers of Commerce and Industry, Palestine Trade Center(PalTrade), and Palestinian Industrial Associations which provide some general services to members. Specific sector development services and activities of business related services is completely lacking through private sector associations or organisations.

6.6 CURRENT ISSUES AND OPPORTUNITIES

List of issues and opportunities is provided below, more elaboration on issues and opportunities will be discussed in different sections of this report later.

ISSUES

1. Legal framework; credential process of companies within various sub-sectors.
2. Limited availability of relevant skills.
3. Lack of specialisation.
4. Weak governmental strategies and policies pertaining to the sector.
5. Mostly small companies with limited competitive advantages in regional and international markets.
6. Weak representation and technical support provided to the sector through specialised business associations.

OPPORTUNITIES

1. Educated workforce in Palestine, it's very important for such a Knowledge Intensive Sector. Knowledge versus skills association should be created to improve the levels of competitiveness.
2. Some companies have already existence in some regional markets; their experience in service exporting is an asset to the sector.
3. Companies are willing to collaborate to improve their competitive advantage in the international markets.
4. The Arab Spring is providing great opportunities as the demand on such services in those countries will be very high in the reconstruction and economic development process of those Arab Countries.

6.6.1 OPPORTUNITIES FOR CROSS-SECTORAL LINKAGES

Business Related and Professional Services Sector can integrate and associate with other service sectors to strengthen their export opportunities. The following highlights some areas of interventions between the sectors:

1. The diagnostic studies of the other three sectors highlighted the importance of improving and developing relevant skills in other sectors to be able to compete in international markets. The Business Related and Professional Services can play major role in skills development and education and training of employees of the other three sectors.
2. As stated in the diagnostic report, the size and capabilities of the services sectors are limited. Therefore, there is an opportunity for several sub-sectors to strengthen their capabilities through establishing joint ventures to penetrate other target markets in the region and international markets. This can be done through joint efforts of consulting businesses, advertising and PR, training services, legal services, and strong ICT service providers to offer comprehensive solutions for clients in the target markets.
3. Development of market penetration strategies was one of the burdens to all service sectors, Business Related and Professional Services (mainly Business and Management Consulting and PR Sub-Sectors) can work closely with the

services sectors to develop their market penetration strategies in target markets.

4. Different sectors, in cooperation with PalTrade and MoNE, can work together to establish a market research entity. The market research entity will be responsible to study target and potential markets and provide information to all service sectors concerning their target markets.
5. There are many services that can be provided online within the Business Related and Professional Services. Integration with ICT service providers will be a great idea to establish a cloud service delivery center for Palestinian companies. Such a center can help all service companies to target their clients online through an integrated and well established service center. PalTrade and MoNE can also support the establishment of such a center. This center can be an income generating project as the participating companies should pay fees for the provided services.

6.7 CURRENT LEVEL OF EXPORT

6.7.1 LEVEL OF EXPORT

Statistics concerning the export of business related and professional services are not available. The PCBS only focuses on good statistics when it comes to export information as it relies on information provided by the Chambers of Commerce based on certificates of origin. Exports of services do not need certificates of origin and therefore service export statistics are not provided by any organisation in Palestine. The PCBS usually publish the level of service export with Israel only, where the level of service export to Israel was in 2010 US\$119 million, while the service imports from Israel for the same year estimated at US\$131 million.

The table below shows the level of service exports and imports to and from Israel for the years 2008 and 2009 according to the main category of service according to the PCBS classification.

TABLE 24: TOTAL VALUE OF IMPORTS, EXPORTS IN SERVICES IN THE PALESTINIAN TERRITORY* WITH ISRAEL BY MAIN CATEGORIES OF SERVICE, 2008 – 2009

CATEGORY	EXPORTS		IMPORTS	
	2008	2009	2008	2009
Transportation Services	6,688	8,579	20,960	30,442
Travel Services	300	501	474	768
Telecommunication Services	26,271	34,215	43,929	42,815
Construction Services	25,130	21,016	3,503	5,061
Insurance Services	69	47	50	19
Finance Services	-	0	2	6
Computer and Information Services	533	266	1,741	1,426
Franchising and Licensing Duties Services	3	1	900	203
Other Business Services	66,444	55,652	21,458	47,796
Cultural and Entertainment Services	1,123	2,679	2,087	2,616

* (Value is Thousand USD)

SOURCE | PCBS, REGISTERED FOREIGN TRADE STATISTICS 2009, MAIN RESULTS, MARCH 2011.

It is important to note that the level of export of the interviewed firms using export modes 1, 3, and 4 is limited; the percentage of total exports of the interviewed companies using the three modes of export does not exceed 20% of its annual turnover. However, the percentage of sales to international companies and organisations in Palestine (mode 2) was estimated at 40% of the total annual turnover.

6.7.2 MODE OF EXPORTS

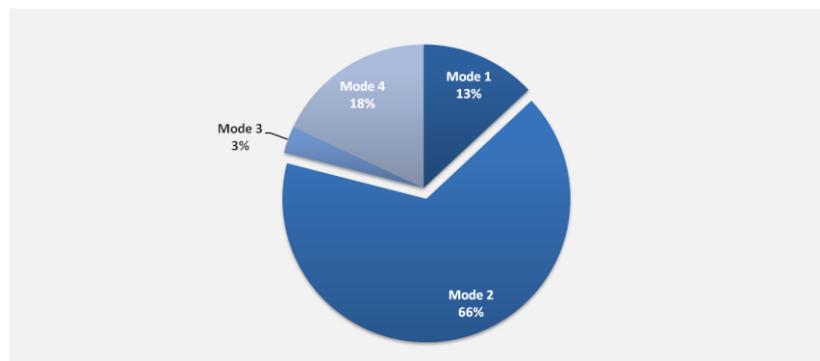
As mentioned earlier, information regarding export of services is lacking in Palestine. Most of the information and statistical providers are goods oriented and focus on the statistics reflecting the export of goods. From the interviews we learnt that most of the interviewed companies are not aware of the modes of service exports. They thought that export means sending your products or services to clients in another country. Most of the companies were shocked when they learnt that selling your services to foreign companies or organisation in Palestine is one mode of service exports.

Based on the collected data and discussions with the service firms in Palestine, we can conclude that most of the exports of services can be classified under mode 2. The sector also uses the other 3 modes to export their services to foreign clients outside Palestine. A limited number of companies have a presence in other markets and only a few of the interviewed companies have branch offices in other countries such as An-Nasher in Jordan, Dimensions in UAE, and Career in Bahrain and the UAE. It was also noted from the interviews that many companies are hoping to establish their presence in other markets but this requires heavy investment in those markets and the companies are not yet willing to take such risk due to weak financial capabilities to support such an investment.

Other companies mostly rely on sub-contracting with established firms in the target market to provide services to clients in those markets. Other foreign companies also sub-contract Palestinian firms to provide services to their clients. This is especially the case when it comes to research and studies of the Palestinian market to provide the international clients with market information on Palestine.

Some of the firms have used mode 4 where professional staff of the Palestinian firms physically moved to those markets to deliver the service and execute the contracts for foreign clients.

We can classify the means of international service delivery according to its importance in terms of sales and based on the analysis of the collected data from participating companies. Mode 2 is the most important channel for service exports with more than 60% of sales concluded through selling services to foreign clients in Palestine. This includes international donor organisations, foreign companies interested in penetrating into the Palestinian market, and international companies that are already operating and selling their products in Palestine. The remaining 40% of exports can be distributed across the other three export modes with a little more focus on modes 1 and 4. The following diagram shows the estimated percentage of sales over the four export modes of services.

FIGURE 35: DISTRIBUTION OF SALES ACCORDING TO THE MODE OF EXPORT*

***Mode 1:**Service is delivered electronically, or by other means (such as courier), to foreign customers/clients located abroad

Mode 2:Service is delivered in your country to foreign customers/clients located in your country

Mode 3:Service is delivered abroad via branch or subsidiary established abroad.

Mode 4: Service is delivered via professionals to foreign customers/clients located abroad

6.7.3 KEY EXPORT MARKETS

It is clear from the diagram above that the key export market of business related and professional services is Palestine itself, where most of the sector's turnover is generating through selling the services to international firms and organisations operating in Palestine. Those clients can be classified into three main categories as follows:

1. International donor organisations working in the Palestinian market to provide support to local organisations and businesses. Those organisations were established mostly after 1995 when the PLO and Israel signed the Oslo Agreement and the Palestinian National Authority was established accordingly. There are many organisations under this category with different nationalities such as United States of America, European Organisations, Arab and Islamic Organisations, UN Agencies, etc.
2. International companies operating in Palestine. These companies are buying services from Palestinian companies mainly in the marketing and PR sector to support their operations and implement their outreach and marketing strategies.
3. International firms who are interested in the local market as part of their market penetration strategy. These companies mainly buy market research services to assess the market and develop their strategies accordingly.

For those markets outside Palestine, it was not easy to identify key export markets. We found that most of the exports to other markets were not organised and was not a result of a marketing and export strategy of Palestinian firms. Most of the exports can be identified as individual deals for one time only, where the Palestinian company offered its services once to an international organisation or firm operating in other market. Individual relations or previous experience of the foreign company was the

main reason to sign such contracts. Most of the interviewed companies claimed that they have been approached by the international client to provide the service due to previous relation or work experience in the local market with such international client. It is not possible to classify those contracts as key export markets, as the Palestinian companies provided their services only once for those markets and they never have an export or marketing strategy targeting those market in an organised and professional way. Many markets can be mentioned under this category such as France, Italy, Egypt, Libya, Saudi Arabia, Tunisia, UAE, Iraq, Malaysia, Switzerland, Afghanistan, and Turkey.

The third category of key export markets are those directly targeted by the Palestinian companies whether through direct presence in the market or through subcontracting agreement with established firms in such markets, those markets are mainly located in the Middle East Region such as Jordan, UAE, Saudi Arabia, Bahrain, and Qatar. Some of the Palestinian firms have their branch offices in those markets or providing their services through subcontracts with local or international firms operating and established in those markets.

The Arab Spring Countries are considered by most of the service firms in Palestine as high potential markets. Many of the companies are targeting Libya at the time being due to the political changes in the country and therefore, the expected demand on services such as business consulting, management, consulting, engineering, design, PR & marketing, and legal services. Many Palestinian firms in those sub-sectors are focusing on opportunities in the Libyan market, however, none of the interviewed companies has yet developed a professional penetration strategy for Libya and they are looking at this market as high potential and waiting other firms or clients to approach them to provide services in this market. Other markets are also considered of high potential for many firms such as Tunisia, Egypt, Jordan, and Gulf countries.

6.8 KEY COMPETITORS

Palestinian firms in various sub-sectors are looking at Jordan and Lebanon as the main source of competition with the Palestinian firms in target and key export markets. Offering high levels of service quality and service delivery standards, Jordanian and Lebanese service firms have a better competitive advantage and can therefore obtain higher market share and compete with Palestinian firms in those markets.

In terms of competition at firm level, the competition is really tough not only from firms in those two countries, but also from firms operating in the target markets. Palestinian firms were not able to identify specific competitors at the firm level due to the lack of information and lack of export strategies by Palestinian firms which has prevented the firms to identifying their direct competitors.

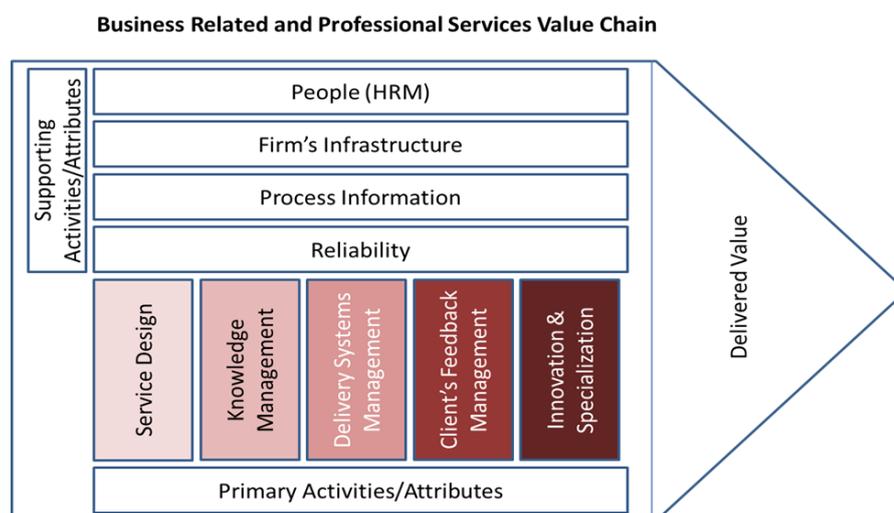
6.9 VALUE CHAIN ANALYSIS

The idea of a value chain was first suggested by Michael Porter (1985) to depict how customer value accumulates along a chain of activities that lead to an end product or service. Porter describes the value chain as the internal processes or an activity a company performs “to design, produce, market, deliver and support its product”. He

further states that “a firm’s value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves”. Porter describes two major categories of business activities: primary activities and support activities. Primary activities are directly involved in transforming inputs into outputs and in delivery and after-sales support. Support activities support primary activities and other support activities. They are handled by the firm’s staff functions such as procurement, technology development, human resource management, and firm’s infrastructure⁷⁴.

Based on Porter’s value chain analysis, we can develop the business related and professional services sector value chain. First, it is important to identify the supporting activities or attributes and the primary activities/attributes of the business related and professional services in Palestine.

FIGURE 36: VALUE CHAIN OF BUSINESS RELATED AND PROFESSIONAL SERVICES.



SUPPORTING ACTIVITIES/ATTRIBUTES

1. **People (HRM):** the creation of value in service industries is highly dependent on people, this requires a deep understanding by the business related service providers on their contribution to the quality of provided services to meet customers’ expectations and avoid any possible perception gap by them.
2. **Firm’s Infrastructure:** this includes both physical aspects and supporting systems of the firm such as customer service, marketing tools, ICT system, internal management system, procurement, etc.
3. **Process Information:** as service is intangible and customers cannot see it, it is important to build customers’ confidence through information provided to the customers about the creation/generation process of the service; this can be addressed through development of proper communication strategy to ensure customers receive information on the process of service production and delivery.

⁷⁴Porter, Michael E. 1990, *The Competitive Advantage of Nations*, New York, Free Press.

4. Reliability: it is an important attribute associated with the quality of service; service provider should be punctual on service delivery system, as well as delivering what has been promised to the customer. Reliability therefore, has a significant bearing in the value of provided services by the customer.

PRIMARY ACTIVITIES/ATTRIBUTES

1. Service Design: designing a service is a very critical factor of service delivery as it is the first step in identifying the value of the service. Therefore, firms should be aware of the customers' needs to be able to design their services accordingly and meet or even exceed their expectations. In order to design a customized customer oriented service, it is therefore important to consider the nature of the target market and conduct market research for better understanding of the target markets needs and requirements given that the product lifecycle of the service is vastly change.
2. Knowledge Management: Kotler suggests that service provider should study and understand what he called "Buyer Black Box"⁷⁵.It means service providers should build proper customer knowledge through knowing their needs and psychological dynamics of their decision making process to be able to meet their expectations and satisfy their needs. On the other hand, customers should also be aware of their needs in terms of type of service that can bridge the existing gap within their operations. Service providers should match between the customers' needs and their services to turn such needs into demand.
3. Delivery Systems Management: the service delivery system is perceived by customers as part of the quality attributes of the service, this should lead the service providers to identify the best service delivery channel more convenient to the client leading to better perceived value of the service.
4. Customer's Feedback Management: the moment when the service is delivered to the client leaves either positive or negative impression on the client's mind. This moment can enhance or destroy trust and confidence in the mind of clients; this should be properly managed by the service provider as it will be the word-of-mouth advertising in later stage.
5. Innovation: the most important competitive advantage of service providers is innovation and specialisation. Service providers should be alerted of the availability of other choices to the clients, therefore, innovation and specialisation can enable service provider to manage service quality and thus gain more competitive advantages over other rivals.

6.10 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Analysing the consulted firms feedback and data collected through questionnaires, focus group, and interviews, we can highlight the main strengths, weaknesses,

⁷⁵ Kotler P, 2000, Marketing Management, London: Prentice Hall International.

opportunities and threats facing the sector. The following matrix summarizes the SWOT analysis of the business related and professional services.

TABLE 25: SWOT ANALYSIS OF BUSINESS RELATED AND PROFESSIONAL SERVICES

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Educated workforce which provides bases for skills development relevant to the provided services • Existence of envisioning leadership of the sector and at the firm level with possibility to adopt new approaches and support innovation • Cooperation amongst companies is welcomed, improving the opportunity of market penetration in the region • Although small return, experience of local firms in the regional and international markets in providing different services 	<ul style="list-style-type: none"> • Small firms, limited financial resources, and small market impacting the innovation and specialisation of service providers • Lack of marketing and markets penetration strategies at both the sector as well as the firm levels • Inadequate availability of skills and skilled workforce relevant to the needs of the sector • Lack of innovation • Lack of differentiation and value added services • Lack of specialised business associations to support the sector and developing strategies and policies • Weak legal framework and standardisation
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increasing demand on business related services in the region due to political changes in different countries in the Middle East and North Africa (MENA) • Existence of bilateral agreements with various countries in the region and around the world, which can be activated and utilized for the benefit of local companies (example, mutual recognition of professionals) • Government willingness to develop strategies and policies pertaining to the sector recently 	<ul style="list-style-type: none"> • Uncertainty of return in the local market as well as export markets • Weak recognition of the importance and viability of business related services by local private sector • Economic and financial difficulties of the local market impacting the affordability of such services by local businesses in different target markets including local market • Highly dependence on donors' demand instead of creating the demand of local organisations

6.11 COMPETITIVE AND COMPARATIVE ADVANTAGE

Comparative advantage is the advantage of some nations or regions to produce goods better and more cheaply than less favoured nations or regions. This comparative advantage leads to trade, as nations exchange those goods which they can produce more easily for goods not readily produced at home. The advantage is usually seen in resources of raw materials and labour, but very often the competitive performance of producers is based on better marketing, delivery, reliability, and quality control.

This is an important concept in understanding regional specialisation, through which all regions actually benefit from exchanging the products they make best, even if each is capable of supplying all its own needs. The system will only work properly if free trade is permitted. The danger of regional specialisation is, of course, overdependence⁷⁶.

Competitive advantage, on the other hand, is an advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or greater customer

⁷⁶Oxford Dictionary of Geography.

retention than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

Based on the interviews with local firms in different sub-sectors within the business related and professional services sector, the educated workforce in Palestine is the main comparative advantage of Palestine where the percentage of educated people in the nation can be considered one of the highest in the region if not the world. Although there is a concern for the companies in terms of the quality of education and the linkage between the education system and the market needs.

Other comparative advantages, as seen in the table below are not really impacting the capabilities and possibilities of local firms to improve their export readiness. These factors include time zone, geographic location, exchange rate, IPR protection, political alignment, and financial services infrastructure.

The quality of provided services seems to be the strongest factor providing Palestinian companies with a competitive edge as claimed by most of the interviewed companies. More than 80% of the interviewed companies believe that their value proposition is a mix between the quality of the services they provide and the price of these services when compared to prices of similar international companies operating in the target markets. Cost of inputs and labour cost are also important when it comes to the current competitive advantages of Palestinian firms in various sub-sectors. The following table summarizes the responses of the interviewed companies concerning competitiveness factors in the export professional and business related services.

TABLE 26: COMPETITIVENESS OF PALESTINIAN COMPANIES IN EXPORT MARKETS

	1 - VERY COMPETITIVE	2	3	4	5 - NOT AT ALL COMPETITIVE
Geographic location	0.0%	16.7%	38.9%	27.8%	16.7%
Time zone	5.6%	27.8%	27.8%	22.2%	16.7%
Exchange rate	0.0%	0.0%	0.0%	16.7%	83.3%
Banking & financial infrastructure	5.6%	16.7%	38.9%	27.8%	11.1%
Political alignments	16.7%	27.8%	27.8%	11.1%	16.7%
IPR Protection	0.0%	0.0%	22.2%	38.9%	38.9%
Quality standards	5.6%	16.7%	16.7%	55.6%	5.6%
Common business language	27.8%	33.3%	16.7%	22.2%	0.0%
Input costs	27.8%	38.9%	27.8%	5.6%	0.0%
Labour costs	27.8%	38.9%	27.8%	5.6%	0.0%
Labour legislation	22.2%	16.7%	27.8%	27.8%	5.6%
Quality of labour	0.0%	0.0%	16.7%	38.9%	44.4%
Logistics	27.8%	16.7%	27.8%	27.8%	0.0%
Innovation	0.0%	0.0%	11.1%	44.4%	44.4%
Advantageous trade agreements	0.0%	0.0%	0.0%	44.4%	55.6%

It is obvious from the above table that competitive advantages of the Palestinian companies need to be improved and built when it comes to their ability to penetrate into regional and international markets. Palestinian companies at the time being are missing important competitive and comparative factors that would contribute to their export readiness, these factors include innovation, advantageous trade agreements, quality of labour (skills development), IPR protection, and standardisation of services.

The interviewed firms are aware of the needed support and factors that would benefit them in the export market and development of their export strategies (at the firm level). When the companies were asked to rate the importance of several related factors/issues, they responded openly and claimed that these factors will strengthen their position in future market penetration efforts. Such factors include quality of services, best quality to price ratio, responsiveness to inquiries, innovation, unique expertise, innovation, etc. The following table represents the responses of the interviewed companies against specific competitiveness factors.

TABLE 27: LEVEL OF IMPORTANCE OF CERTAIN FACTORS IMPACTING THE ABILITY OF COMPANIES TO EXPORT

	1 - VERY IMPORTANT	2 - IMPORTANT	3 - NEITHER IMPORTANT NOR UNIMPORTANT	4 - NOT VERY IMPORTANT	5 - NOT AT ALL IMPORTANT
Specialisation	55.6%	16.7%	11.1%	16.7%	0.0%
Brand identification	11.1%	22.2%	38.9%	16.7%	11.1%
Quality of service	83.3%	16.7%	0.0%	0.0%	0.0%
Innovation	66.7%	22.2%	11.1%	0.0%	0.0%
Educated workforce	22.2%	33.3%	22.2%	22.2%	0.0%
Unique expertise	33.3%	50.0%	5.6%	5.6%	5.6%
Cost position	27.8%	27.8%	16.7%	22.2%	5.6%
Best quality-to-price ratio	94.4%	5.6%	0.0%	0.0%	0.0%
Responsiveness to enquiries	77.8%	16.7%	5.6%	0.0%	0.0%
Technological leadership	22.2%	22.2%	27.8%	11.1%	16.7%
Provision of ancillary services	50.0%	27.8%	0.0%	11.1%	11.1%

6.12 BARRIERS AND CONSTRAINTS TO EXPORTING

The impediments and constraints to export of services varies from place to place and from one sub-sector to another. The following section highlights the impediments and constraints to export in both West Bank and Gaza Strip.

6.12.1 BARRIERS AND CONSTRAINTS / WEST BANK

IMPEDIMENTS TO TRADE

- Restrictions on physical movements into other countries, issuing visas and work permits are usually require long time for most of the countries around the world. This impediment is facing most of the sub-sectors. The impact of such restrictions vary from one firm to another as some firms have

employees with other citizenship and can thus move more freely than others.

- Legal and accounting professionals are facing an issue concerning mutual recognition of their credentials. Palestinian professionals usually need representatives from the other country to be able to provide the service.
- It is not an easy task for a Palestinian firm to establish a branch office in many countries in the region. This requires national owners of the business in such countries. A Palestinian individual cannot register a firm in Jordan as it should be registered under a Jordanian individual ownership. In some Gulf countries this requires formation of joint venture with a national company or citizen to be able to register the firm.
- Nationalisation policies in the Gulf countries may consider an impediment of a Palestinian firm to establish its presence in such markets; this may increase the operational cost and expenses.

SERVICE EXPORT CONSTRAINTS

- Access to information: Market research is usually expensive and local firms cannot afford conducting market research for all target markets to get appropriate information and be aware of opportunities. Business associations or government bodies can establish information centers and provide information to local firms concerning opportunities in export markets.
- Access to financing associated with uncertainty of returns: Despite the possibility of getting bank financing once collaterals are available, companies are hesitant to get such financing due to economic situation and uncertainty.
- Skilled labour is not sufficiently available in the market leading to increased cost to get skilled people in specific areas such as business and management consulting, design, and PR.
- Due to the financial and economic situation, the private sector suffers before they get paid for the services provided to public sector.
- Procurement practices of donors and government lead to unfair competition and focus the competition on price only regardless of the quality of services.
- Lack of quality standards and regulations by the Palestinian Standards Institute. More focus is given to tangible products.
- Legal services are not allowed by law to undertake any marketing activities. Any law firm will be punished if they conduct marketing activities.
- Weak marketing and export strategies development capabilities by companies due to both high cost and skills availability.
- Lack of government policies and strategies pertaining to the sector to support export activities and trade in services with other countries.

- The innovation and specialisation culture is not very prevalent in Palestine. Companies have indicated that price competition in the market is one reason for not encouraging innovation as the cost of innovation takes a very long time to be recovered.
- Lack of development oriented business associations to support sector promotion and develop strategies and advocacy of its interests.
- A product oriented, service export was never a priority for either the government or private sector institutions such as PalTrade.

6.12.2 BARRIERS AND CONSTRAINTS / GAZA STRIP

TRAVEL RESTRICTIONS

Gaza based companies had hard time getting outside Gaza due to the blockade imposed since 2006. It is very hard to travel to West Bank due to restrictions imposed by Israel. Only companies who are sponsored by international organisations can apply for permits.

Travel through Rafah terminal is not easy and needs prior coordination with Egyptian authorities. Obtaining visas for Arab countries, Europe, and North America is very difficult.

Any company who is capable of export their services has to have smooth travel in order to respond to deadlines, attend meetings, etc. For the time being, firms rely on Skype conversation or video-conferencing.

REGISTRATION AND LICENSES

The companies who are considering opening branch offices abroad have to have a partner from that country that has more than 50% of the ownership.

ACCESS TO FINANCING

Most of firms are classified as micro-business with small capital. Companies do not have enough capital to invest to expand their operations abroad. Also, most of them cannot accommodate the financial risk of losing their investment by identifying and exploring regional and international markets. Most of them requested financial assistance that includes covering the travel cost and participation in conferences.

CUSTOMERS' PERCEPTION

Most of the regional and international customers perceive Gaza as one of the most suffering place. It is hard to convince them that a place such as Gaza has high-calibre professionals with international credentials.

COMPETITION

The competition in the regional and international market is severe. Local companies have limited capacity to penetrate regional markets.

VOLATILE POLITICAL SITUATION

The political and security situation in Gaza is very volatile and fragile. The repeated cycles of violence strangled the ability of companies to work and to meet the deadlines. The latest war in Gaza is a clear example where all activities stopped. The companies who were working on international contracts could not function during and after the war for a while.

LACK OF MARKET INFORMATION

Companies believe that the Arab Gulf region is a potential market for their work, but they do not have reliable information regarding the demand and requirements of the market.

IDENTIFYING LOCAL PARTNER

Companies are looking for assistance in identifying reliable and credible local partner who is eager to facilitate accessing the market.

MANAGING INTERNATIONAL CONTRACTS

Many companies do not have experience managing international contracts.

UNRELIABLE ELECTRICITY SUPPLY

In Gaza, electricity supply is intermittent. The black-outs occur on a daily basis and range from 8 to 12 hours. Companies rely on generators that increase the operational cost. Also, fuel is not available as needed. In many cases, companies close their offices due to lack of electricity.

The following table summarizes the responses of interviewed companies in regard to barriers and constraints to export.

TABLE 28: CONSTRAINS IMPEDING COMPANIES ABILITY TO EXPORT

	1 – STRONGLY AGREE	2 - AGREE	3 – NEITHER / NOR	4 - DISAGREE	5 – STRONGLY DISAGREE
Difficulty attracting professionally skilled employees	83.3%	16.7%	0.0%	0.0%	0.0%
Lack of availability of skills	50.0%	16.7%	16.7%	16.7%	0.0%
Labour costs	22.2%	22.2%	11.1%	27.8%	16.7%
Difficulty establishing credibility as a competitive supplier	0.0%	11.1%	27.8%	44.4%	16.7%
Unreliable electricity supply	22.2%	5.6%	0.0%	5.6%	66.7%
High cost of telecommunications services	11.1%	5.6%	0.0%	22.2%	61.1%
Regulatory barriers in home country	0.0%	27.8%	27.8%	22.2%	22.2%
Market access barriers in foreign markets	38.9%	44.4%	0.0%	16.7%	0.0%
Difficulty meeting international requirements	0.0%	11.1%	33.3%	44.4%	11.1%
Insufficient market demand	0.0%	0.0%	77.8%	22.2%	0.0%
Insufficient commercial trade contacts	33.3%	33.3%	11.1%	16.7%	5.6%
Lack of market information	77.8%	22.2%	0.0%	0.0%	0.0%
Lack of export knowledge	22.2%	16.7%	22.2%	22.2%	16.7%
Difficulty identifying suitable local partner in foreign markets	66.7%	27.8%	0.0%	0.0%	0.0%
Difficulty obtaining travel documents to visit and serve foreign markets and clients	0.0%	16.7%	11.1%	44.4%	27.8%

6.13 POTENTIAL AREAS OF INTERVENTION TO ADDRESS BARRIERS AND CONSTRAINTS

- Companies have indicated the importance of innovation and specialisation within the service sector, however, the market size does not allow them to innovate and specialise in the previous years. They requested development of sector promotion policies to be able to expand and penetrate other markets to enable them invest in innovation and focus more on specialisation. Creating a fund for innovation is one important recommended action by the companies.
- The need for legal framework to organize different sub-sectors was one of the requirements of business consulting, management consulting, PR & marketing, and other sub-sectors. Legal services and accounting are already regulated sectors but still need some more focus on developing the regulatory framework to support and promote these sectors.
- Quality standards are not in place for most of the sub-sectors, this need more focus by the government and business associations to develop such quality standards based on international practices.
- Due to the limitations when it comes to knowledge and skills, work on this area to improve knowledge and skills and talent of people in this sector. Development of appropriate training models to identify needs and meet the needs of skills and knowledge improvement of the sector.
- Support the establishment of specialised business association to promote the sector, some activities can be carried out by such business associations are:
 - Develop sector strategies and policies as a vehicle for promoting the sector.
 - Provide information and dissemination on target markets and opportunities outside Palestine.
 - Promote collaboration between sector's firms and expertise in the market to encourage innovation and provide customized solutions to specific problems facing local businesses and organisations.
 - Provide information to the market about the services offered by its members and create awareness of the importance of such services.
 - Offset the perceived high price of the service offered to the needs of the market and the ability of the services firms to convey the proper solutions to specific issues and customised solutions.
 - Assist in training and talent development of people that support the sector operations and needs of skills.
 - Documentation of success stories and dissemination of information to promote the sector ability to correspond to the needs of market development and offering customized solutions.

6.14 CASE STUDY OF A SUCCESSFUL SERVICE EXPORTER

As mentioned earlier, and through the conducted survey, some success stories of service export have been identified. Although such success stories exist, most of companies have exported their services accidentally. It was clear that none of the interviewed companies has its own export strategy or market penetration plans of certain target markets. Sustainable and successful exports require the development of export strategies considering the competitiveness factors and constraints impeding the abilities of the companies to export. Throughout the survey, two case studies were identified as success stories and the following section summarizes these two cases.

6.14.1 DIMENSIONS BANKS' CREDIT OFFICERS TRAINING IN JORDAN

Dimensions Consulting is a business and management consulting firm founded in 2007 in Ramallah. Dimensions work stands on two foundations: a strong analytical approach, and a close understanding for the goals of stakeholders.

The experienced consulting team members of Dimensions have backgrounds in accounting, finance, government, private organisations, IT, trade, and training. Dimensions bring a deep understanding of a wide range of business environments and issues, and ability to share and apply knowledge of organisational planning, development, and monitoring to its clients.

Dimensions Consulting Company uses industry standard methodologies to bring clients innovative, reliable, cost effective and time-saving solutions. The company is devoted to providing thorough, in-depth, and complete analysis while continuing to innovate and offer new perspectives on the industry. Dimensions team brings deep industry experience, rigorous analytical capabilities, and a pragmatic mind-set to its clients' most complex business problems.

Dimensions Consulting was contracted by CHF International based on the experience of Dimensions with the organisation in the local market. The organisation approached Dimensions to provide training service in Jordan for a project being implemented by the organisation in Jordan. Dimensions has designed a training program fit the requirements and needs of credit facilities officers in Jordanian banks and deliver the training successfully for the officers.

The success of Dimensions with its client in the local market has led the international organisation to approach Dimensions to get its services for its project in Jordan. This is a very important aspect for exporting companies to ensure growth and success in the local market before approaching export markets.

Dimensions Consulting should work on product development approach to develop such program and sell it to other clients in different countries, it should not wait the same organisation to implement the project in other countries and approach Dimensions to get such important services and successful program. The feedback of trainees in Jordan is an indicator of a successful program, where most of the trainees as indicated by the company CEO were fully satisfied of the training program and have gained new knowledge and skills based on the provided training.

6.14.2 CORE ASSOCIATES; IRAQ PREPARATION FOR WTO ACCESSION

Core Associates is a specialised provider of high-end professional services in economic and trade policy, international trade, planning and business development services. Core Associates combines a core team of practitioners with academic and consulting capacity drawn in particular from top level education and experience in the areas of specialisation. The firm's associates are capable world class experts in their fields, and have held key positions in both government and private sector.

Core Associates has implemented a successful project in Iraq. The project aimed at assisting the Iraqi Ministry of Economy to prepare for the succession of Iraq into the WTO membership, this requires preparation of the regulatory framework of the country and compliance with all the requirements of the WTO. The project scope was to support the efforts of the Ministry and provide training to relevant staff members of the Ministry to be able to prepare for the succession regime into the WTO.

Core Associates has faced strong competition from different regional and international companies during the bidding process, the unique expertise, common business language, and previous experience of Core Associates in this field were the core competitive advantages that enable the firm to win the bid.

Core Associates has assisted the company in widen the knowledge of its employees in the WTO requirements, assisted the country in assessing the various requirements and recommending changes to its legal framework, and supported the ministry in preparing the application for the WTO membership.

VII. KEY FINDINGS AND RECOMMENDATION

The services sector in Palestine has grown and developed organically in the absence of a services sector export strategy. Out of necessity growth has therefore been around specific sub-sector silos and there is very little communication or cooperation across sub-sectors. There is a great opportunity for linkages and partnerships across sub-sectors for example, successful training and ICT companies could work together to create new products and thus diversify the market. This in turn would help overcome the challenge of obtaining international travel documents in that training could be offered electronically to an international market.

The absence of relevant and disaggregated sectorial services data is the most important finding in this report. It indicates the level of knowledge and understanding Palestine public institutions have in relation to services. This translates equally into a poorly regulated market that sometimes benefits foreigners to the detriment of national firms. For instance, Jordanian lawyers are allowed to practice in Palestine courts but the opposite is not true. And this is not because of an expertise gap in the local market, but simply of unfair or non-existent trade agreements.

The private sector has also demonstrated limited knowledge and understanding of the sector. Interviews with Palestinian service providers have shown a great limitation in their understanding of what constitutes trade in services and how services are traded (modes of supply). Consultants working on this project for example, did not realise that by selling their services to projects funded by the EU in Palestine they are in fact exporting their services by mode 2 (consumption abroad).

The Diagnostic Study therefore, served not only the objective of analysing the services sector and making macro-level recommendations, but it also became a remedy in itself by building the capacity of national consultants on modes of supply and service exports, as well as on raising the awareness of government institutions about the potential (in terms of income generation and employment creation) of an invisible sector. The methodology applied by the study included training of national consultants as they would in turn be responsible for facilitating a learning curve for domestic decision-makers.

In order to build a thriving services market, Palestine will need to accelerate its learning curve by understanding the prerogatives of its service providers internally and externally. There is a need to educate the people at large on the potential that services bring for Palestine's economy as a sector that is able to bypass the strangling financial situation imposed by occupation. There is no easy or one-size-fits-all solution. It simply requires a paradigm shift in focus from physical goods to the intangible. It further requires a commitment from the public as well as the private sector to work together. Poor cooperation and collaboration has been another key finding from the study and an impeding factor to the development of the services sector.

Very little collaboration among service firms has been identified. The few examples that exist of collaboration tend to be around specific consortium development in order to bid for a specific project. These collaborations have no strategic objective such as to

build economies of scale or to pursue a common market-entry approach. Among private and public institutions collaboration is even harder. For example, hotels in Palestine must train hospitality graduates from local universities to fulfil a job position. The Ministry of Higher Education, to remain relevant, must take a proactive role and consult with the private sector in the adaptation of curricula to the required job skills. The lowest level of collaboration identified is however among public institutions. Services do not work in silos and to succeed they must work together. The sectorial linkages section indicates some of these potential areas for collaboration.

Recommendations provided in the subsequent section are a compilation of ideas to resolve some of the immediate and short-term issues. These have been validated and take into consideration the country's business structure and environment. It also includes suggestions to improve cross border trade and create a level-playing-field for Palestinian service providers. These recommendations are not an exhaustive list and don't constitute an export strategy. They have been revealed from analysis of desk research, during interviews, from discussions held at focus group meetings and from informal consultations. They will require in-depth analysis to identify steps to make them viable and develop an action plan. These must also be put into context according to markets defined as exporting targets. While a diagnosis has been conducted and remedies identified, the actual treatment is still to be developed.

Whilst the four sub-sectors examined in this report are unique, an examination of the barriers and constraints to exporting provided by stakeholders in each sector can be grouped into categories common across all four sub-sectors. The table below highlights the key areas of constraint and provides the blueprint for actions that need to be taken to address these constraints and thereby unlock greater service exports.

TABLE 29: SUMMARY OF KEY AREAS OF EXPORT CONSTRAINT ACROSS THE FOUR SECTORS OF STUDY

	FINANCIAL SERVICES	ICT	TOURISM	BUSINESS SERVICES
Access to finance				
Barriers in foreign markets				
Difficulty attracting skilled staff / Lack of skilled staff				
Difficulty meeting international standards and requirements				
Difficulty obtaining international travel documents and market accessibility				
Establishing credibility				
Lack of export knowledge				
Lack of international contacts and information on foreign markets				
Lack of sector regulation				
Limited infrastructure				
Mutual recognition of credentials				
Weak business associations				

Required remedies to address these constraints can be summarised as follows:

- The services sector is crying out for a service sector export strategy that has the support of both the public and private sector and which is housed within an institution that has the capacity to implement and monitor the strategy.
- The overall national strategy needs to be taken and developed at a sub-sector level to ensure that the activities of the sub-sector benefit from promotion at a national level and that sectoral activity dovetails with national growth and development priorities.
- Development of the various sub-sectors and the creation of an export culture would be greatly enhanced by strong sub-sector associations. In certain sub-sectors there are associations of this nature but in others, these are sadly lacking. A strong sector association would assist with basic data and statistical collation for the sector along with an understanding of the potential opportunities and areas of concern for the sector. The association would further be a valuable partner in sector strategy development and implementation, sectoral promotion locally, regionally and internationally, education and training, standards development and advocacy on behalf of members and associates. The sector association in collaboration with PalTrade could also assist with information, advice and contacts in foreign markets.
- Addressing the lack of skilled staff in the specific sectors. This research has found that in certain cases, even though there are a number of training courses on offer, the sector is not producing the correct skills to meet market demand. There needs to be far greater collaboration between the various sub-sectors and the educational institutions to ensure the correct skills sets are available.
- Closely allied to skills training is training in export readiness, marketing and project management and implementation. This is traditionally a function of either a Chamber of Commerce or an industry association in conjunction with an educational institution.
- Barriers in foreign markets and recognition of credentials have to be addressed directly by government with counterparts in foreign countries. Before this can be done a great deal of detail needs to be provided by the sub-sectors on exactly what these barriers are and in which specific target countries they are affected the most. In sectors where there is already a strong association this could be addressed relatively quickly.
- The most difficult issue to address is that of credibility in the international market. Palestinian companies have a doubly difficult task in this regard as they have to not only establish their credibility as a company, but they also have to combat the often negative perceptions about the country of Palestine in terms of its ability to provide appropriate levels of service. Establishing a company as a credible supplier can be addressed through training and the development of appropriate marketing collateral at a company level. At a sub-sector level, the association can provide a great

deal of support through the development of specific marketing material that positions the sub-sector as a solid and credible source. The tourism sub-sector is a good example of a sector where the association can actively promote tourism to Palestine through brochures, trade fairs, advertorial and targeted campaigns with travel agents. Overall, the national credibility can only be addressed through promotional activities that educate the international business community as to the actual nature of the Palestinian services sector.

7.1 ICT SECTOR

ISSUE	FINDING
Access to finance	<ul style="list-style-type: none"> • ICT sector is better known for equity-based type of financing vehicles rather than debt-based. Examples of these equity based financing vehicles include the venture capital and private equity funds. Furthermore, supporting high-growth start-up requires accessing seed funding and angel financing, especially at pre-revenue and early stages of the venture life-cycle. Palestine has recently witnessed the operation of its first venture capital fund in 2011. The ICT sector still lacks professional structures of seed funds and there are no business angels' networks to organize for angel investments. • Moreover, the current financial regulations is not conducive for registering venture capital funds in Palestine nor start-up companies that are being invested in by seed and venture capital funds as well as angel investors as they look to protect their minority shares in the start-up business through preferred equity, which are not catered for in the Palestinian company registration law. • Moreover, there are no export banks that are willing to finance exports and contracts with loans as they banks tend to ask for collaterals that are beyond the capability of IT companies whom are not known for high capital expenditures. Yes, export banks do not exist in Palestine. These are the banks that give discounted rates for the purpose of promoting country exports.
Barriers in foreign markets	<ul style="list-style-type: none"> • As a cross border economy, Palestinian IT companies to export through mode 1 of exports where services are delivered through electronic means to foreign clients located abroad. • It is difficult for Palestinian to register branch offices in other countries due to barriers in the foreign markets to allow them to register such legal entities. Hence, mode 3 to export IT is not what the Palestinian companies are well known for as it is costly for the companies as well. • Moreover, since Palestine is not well known as a global target for IT investment, the country hardly receives IT business delegations that intent to invest in the country. Hence, Palestinian companies hardly export through mode 2, which is delivering service in Palestine to foreign customers located in Palestine. The only exception in this is the development agencies who consume IT products and solutions for their funded programs. These development agencies are mostly

ISSUE	FINDING
	<p>located in Palestine for humanitarian and economic development.</p> <ul style="list-style-type: none"> Exporting IT service through mode 4, which is Palestinian entrepreneurs, executives and IT professionals traveling abroad to provide services at that location. The barriers for this mode are explained more in the “Difficulty obtaining international travel documents and market accessibility” Section.
Difficulty attracting skilled staff / Lack of skilled staff	<ul style="list-style-type: none"> The sector faces a shortage of qualified employees with IT and IT management skills due to a shortage of technical experience of newly trained students and the financial difficulty of enterprise to provide the training. Indeed from the 1600 – 2000 annual graduates, only the best 5% of the class end up being employed in the IT sector, not necessarily in IT companies, but also in the public and NGO sectors as an example. There are no follow-up or statistics what happens to the vast majority of graduates whether they stay in-country or take-up non-IT jobs in the economy. Ministry of Planning, Ministry of Labour and Ministry of Telecommunication and IT need to orchestrate better with the Ministry of Education and Higher Education on the number of students that should be admitted at Palestinian Universities and focus on quality programs for these enrolled students including an industry-driven internships to be arranged for them. Even the best graduates that are selected from universities for entry-level jobs still lack the technical skilled desired to be productive. Now, this is normal case. The issue here is who should carry the cost of bridging this gap, the private sector companies who already suffer lack of financial resources or the universities whom only focus on the curriculum completion – curriculum that needs to be brought closer to industry needs and up-to-date with technology trends.
Difficulty meeting international standards and requirements	<ul style="list-style-type: none"> With few company exception, the outsourcing ones in particular, the majority of the companies especially the ones who offer enterprise resource planning and accounting software have difficulty to provide ready-made high quality products meeting the requirements of international markets as global competition in such products is fierce.
Difficulty obtaining international travel documents and market accessibility	<ul style="list-style-type: none"> Palestine has been suffering for many years, and still is, of Israeli military occupation that has kept the occupied Palestinian territory, and its people, isolated to a large extent physically and mentally, from traveling and exposure to global trade-in-service opportunities. There are many travel restrictions faced by Palestinians in their recent history as a nation. Palestinians are still not allowed to use the Israeli airport at Lod to travel; this privilege is only restricted to the holders of the Businessmen cards issued by Israel. Hence, traveling out of the country has become a mental blockade for many years as the only outlet to travel is from Amman, airport. Furthermore, the perception about Palestine in the daily news as a conflict area has kept business people shy from doing business in Palestine and there are very limited business delegations visiting Palestine – until this date. With the establishment of the NPA, Palestinians have been issued with Palestinian

ISSUE	FINDING
	<p>travel documents that allowed them movability through the Amman airport in Jordan to travel. Nevertheless, Palestinians are faced with many barriers to obtain visas in many countries, which are emerging markets for IT such as Kingdom of Saudi Arabia, and perhaps Libya and Algiers. Palestinian passport holders were also barred from traveling to the United Arab Emirates for some time. Furthermore, the NPA does not have diplomatic representation of many of these countries to facilitate for obtaining visas.</p> <ul style="list-style-type: none"> • ICT business is first and foremost a business relationship based on trust between people conducting business. The more exposure Palestinian entrepreneurs, IT professionals and company executives can have the ability to travel and meet other people in their countries the better our understanding to these markets become. • Moreover, the companies that are currently doing outsourcing to Israel go through logistical and pain adding to the high input cost and time wasted in obtaining Israeli ‘permits’ and security clearance for their staff to travel to Israel. Of course, the Israeli travel restrictions are not for Israel alone, but it also restricted between Gaza and the West Bank and within cities in the West Bank.
Establishing credibility	<ul style="list-style-type: none"> • The trade-in-service for IT is based on trust and credibility between suppliers and markets. Without this trust that is based on people trusting each other to perform the required service, it becomes difficult for businesses to initiate, not to mention to close a sales lead. Similar to trust between people, buyers need to trust they will be receiving a quality product. • Indeed, one of the best ways to creating credibility is through rigorous quality assurance on the IT products and services that the Palestinian companies export. Hence, capacity building to improve the quality of products will also help the companies to export. For example, this is the strategy and practice that was developed by Samsung for its mobile handsets to compete with Motorola and Nokia. Today, it has proven to be a successful business strategy. Quality certification for processes and products will increase the trust for global buyers. • Furthermore, quality innovative products help Palestinians to access new markets. Innovation in technology also stems from innovative business models and not just products. • Furthermore, branding the IT sector will also help companies to sell. This includes testimonials from international and multinational clients. Branding the Palestinian IT sector is a humble attempt to change negative perceptions about the country the people are accustomed to in the daily news and media as a conflict area.
Lack of export knowledge	<ul style="list-style-type: none"> • Being isolated physically and mentally as described earlier has made the vast IT business community less exposed to export knowledge. • While the Internet has recently played a role in bringing information closer and distances disappear to business people in Palestine, it remains important for company owners and executives to be able to travel and assess, through market intelligence, to personally evaluate opportunities and develop export knowledge.

ISSUE	FINDING
	<ul style="list-style-type: none"> The opportunity remains in channeling more business opportunities leveraging diaspora networks and commercial attaché's in target markets to develop further cooperation with these resources to get more knowledge on export oriented business opportunities.
Lack of international contacts and information on foreign markets	<ul style="list-style-type: none"> It is not to say that IT companies do not have any international contacts or information on foreign markets. However, it was clear from the responses of surveyed IT companies that they all need assistance in developing access to market strategies and that they are having difficulty in identifying suitable local partners in foreign countries. The IT sector needs more visits by IT business delegation and investors. Furthermore, the IT companies need more exposure through trade missions to identified markets.
Lack of sector regulation	<ul style="list-style-type: none"> Indeed, MTIT has prepared many telecommunication related regulations. Furthermore, from the perspective of surveyed companies, these companies do not believe that lack of in-country regulations are prohibiting from exporting. However, the diagnostic study has identified a series of legislation that needs development to improve the business regulatory environment and be able to attract foreign direct investment. There are insufficient legislations and policies to efficiently support the sector's development, investments, and intellectual propriety rights.
Limited infrastructure	<ul style="list-style-type: none"> The perception about Palestine is that it is a place that is immensely under-developed. This is not the case – Palestine is not in a dire straight in terms of infrastructure. Nevertheless, Palestine is not in par in technology infrastructure when we benchmark it to neighbouring countries. There are difficult and insufficient soft and hard infrastructures (back-bone) to cater to the growing needs of the sector. Certain infrastructure still needs further development in Palestine such as the electronic payment gateway and solutions. Furthermore, Palestine does not have 3G and 4G licenses for its mobile operators.
Mutual recognition of credentials	<ul style="list-style-type: none"> The IT sector does not need mutual recognition of credentials. Nevertheless, the IT sector has its globally recognised certifications whether it is vendor specific for certain technologies or a certain IT management practice and methodology related to the software development life-cycle.
Weak impact-on export oriented business associations on exports	<ul style="list-style-type: none"> Capacity building to IT Association is diagnosed as a necessity to help develop negotiation points in preparation of any negotiations on IT trade-in-services between Palestine and other countries.

RECOMMENDATIONS:

- **Education reforms** at all levels are needed.
- Defined primarily by the development and distribution of telecommunications services and hardware—a working definition that has lasted the better part of two decades; hence, with **innovations** in mobile software, e-governance, other economic sectors solutions and service delivery will be constituting a more **advanced sector linkage with government and other economic sectors**.
- Still, as a **small captive local market, integration with global trends and markets** are a necessity not a choice. Hence, calling for a **National Export Strategy** that includes a branding element with an identified value proposition statement for each service.
- International exporting IT contracts are often, but not always, for **outsourcing**. While outsourcing is a strong element in the sector, **many companies are successfully developing other services and products**. Firms completing the Mercy Corps 2011 and PalTrade 2012 survey reported current engagement in contract work in the following additional areas: accounting and ERP packages; back office support; data cleaning; ISP network consulting; geospatial information systems (GIS); provision of training; turnkey solutions; mobile applications; and quality assurance and testing. Hence, IT sector has different means and channels available to countries to export. One of the available channels for exporting is to leverage **Online Sales and Apple / Google Application Stores as Channels to Markets**. Going forward in developing a national export strategy, it may be required that PalTrade develops a specific value chain analysis for each of the 5 segments in the ICT sector that have export potential including: multimedia and gaming, mobile application development, software outsourcing, ERP/Financial Planning packages, and the ITO/BPO such as Call Centers and ISP as each of these sub-sectors require further analysis on best channels to markets in identified target markets.
- **Prepare for IT Trade-in-Services Negotiations on a Country-to-Country Level are becoming Important for IT Market Access** in Israel, Jordan, Kingdom of Saudi Arabia and Libya as an example. One aspect of negotiations is visa and people travel / logistic issues as well as barriers to entry to those strategic markets.
- **While certain progress has been made, further work and improvement on the regulatory environment as well as fiscal support policies** to assist companies to export, purchase local IT developed products, establish innovative start-up companies, attract investors, attract IT multinational companies and be able to get foreign direct investment in IT as well as venture capital is still needed.
- A difficulty to generate innovative products and business models caused partly by the absence of collaborative entrepreneurial model,improving the

innovation and entrepreneurial eco-system and regulatory environment for this sector is a strategic objective for Palestine to diversify its IT offering.

- Enhance the **ICT Infrastructure such as the Payment Gateways to enable e-commerce.**
- **Developing public-public-private partnership on developing and executing on a national export strategy and preparing for trade-in-services for IT.**
- **Capacity building programs offered to companies to increase their knowledge on IT exports.**

At the PalTrade, Ministry of National Economy and EU organised “Diagnosis of the Status of Trade in Service in Palestine” Workshop conducted on the 18th of February at the Mövenpick Hotel, the Ministry of Telecommunication and IT as well as PITA offered further recommendations to the IT Diagnostic Study:

MTIT

- There is a need to coordinate with the PCBS to improve the quality of data they are producing on this sector.
- The ministry wants to see more investments from the private sector into the IT sector as it has a very good potential.

PITA

- There is a need to cooperate with related parties and stakeholders to develop the export potential of the sector, particularly the education sector. The students should be given real and applicable graduate projects in order to be applicable to the private sector as an example.
- There is a need to design a monitoring and evaluation framework and tool to assess the progress to be made on the National Export Strategy and learn from the past lessons.
- There are around 2,000 IT graduates from the Palestinian universities every year, only 500 could be absorbed by the industry! Thus there is a serious need to look at new markets in order to provide jobs for those students, and there should be coordination with the universities on what are the needed skills the students should have. This needs to be reflected into an applicable strategy with responsibility of all related parties including promoting entrepreneurial start-up ventures.

7.2 TOURISM

From the questionnaires in this study the key diagnostic finding is that the sector identifies its competitive edge as medium especially in areas that are within their control and can be managed such as skills, costs, logistics and innovation. In other words the sector knows that there is room for improvement.

On a scale from 1 to 5, where 1 is “Very Competitive” and 5 is “Not at all Competitive”, how competitive do you think Palestinian companies are in Tourism services?

	1 - VERY COMPETITIVE	2	3	4	5 - NOT AT ALL COMPETITIVE
Geographic location	100%				
Natural endowments	50%	50%			
Time zone/Weather	100%				
Exchange rate		50%	50%		
Banking & financial infrastructure			25%	75%	
Political alignments			50%	50%	
Quality of service			50%	50%	
Common business language		50%		50%	
Accommodation costs		50%	50%		
Transport costs		50%		50%	
Cost of food & beverages		100%			
Labour costs and legislation			50%	50%	
Cultural and wildlife richness		50%	25%	25%	
Quality of staff				100%	
Logistics		100%			
Shopping			50%	4	50%

On a 5 point scale, where 1 is “Very Important” and 5 is “Not At All Important”, how important do you think the following issues are with regard to providing your Company with a competitive edge internationally?

	1 - VERY IMPORTANT	2 - IMPORTANT	3 - NEITHER IMPORTANT NOR UNIMPORTANT	4 - NOT VERY IMPORTANT	5 - NOT AT ALL IMPORTANT
Specialisation	100%				
Brand identification	75%	25%			
Quality of service	60%	40%			
Innovation	25%	75%			
Educated workforce	50%	50%			
Unique experience	50%	50%			
Cost position	20%	80%			
Best quality-to-price ratio	75%	25%			
Responsiveness to enquiries	25%	75%			
Provision of ancillary services	40%	60%			

From this segment below it is well noted from where the constraints described earlier were derived: Quality of service skills comes in first place, then market diversification and lack of offer during offseason comes next and access to finance and access to border come third place before anything else!

On a 5 point scale, where 1 is “Strongly Agree” and 5 is “Strongly Disagree” to what extent do you agree or disagree that xxx is a constraint impeding your ability to export?

	1 – STRONGLY AGREE	2 - AGREE	3 – NEITHER / NOR	4 - DISAGREE	5 – STRONGLY DISAGREE
Inability to obtain adequate financing		30%	70%		
Difficulty attracting professionally skilled employees	40%	60%			
Lack of availability of skills	40%	60%			
Labour costs	15%	15%	70%		
Difficulty establishing credibility as a competitive supplier		30%	40%	30%	
Difficulty managing client payments from abroad			30%	70%	
Insufficient market demand	20%	60%	20%		
Insufficient commercial trade contacts		90%	10%		
Difficulty identifying suitable local partner in foreign markets		20%	80%		
Difficulty obtaining travel documents to visit Palestine	60%	40%			

RECOMMENDATIONS

The tourism market needs to be developed in a way to answer to two main objectives. Firstly, how to utilise the sector more through widening the offer to cover the off-season and the low-season. This comes through targeting new pilgrimage markets and other markets that do not necessary fall into demand in high and peak season. It also leads to finding new types of tourism and activities to target other markets of business FIT, Solidarity, leisure, sports, Diaspora, learning, cultural and others.

The second recommendation would be to better value the sector through concrete steps to regulate the sector through tourism laws and regulation, a code of conduct and capacity building within the tourism association. It entails also driving the Government into more interest in the sector and to push for more cooperation in the fields of budgeting, public private cooperation and cooperation with local governance when it comes to identifying Palestine as a tourist destination and its cities as unique and different tourism destination with special needs in urban planning.

VIII. ANNEX

ANNEX A: SERVICES INCLUDED IN THIS PROJECT

Tourism Sector Groups

- **Accommodation**
Hotels, Motels, Lodges
Holiday Resorts
Guesthouses
Rented self-catering
Timeshare
Campsites
Tourist-owned dwellings
- **Attractions**
Museums
Historic Buildings sites
Amusement Parks
Wildlife Attractions
Parks and natural areas
Sports and Recreation
- **Transport**
Airports/Airlines
Ports, Liners, Ferries
Cruise lines, Rail,
Vehicle Rental, Taxis
Public Land Transport
- **Activities**
Rafting, Canyoning
Canopy, Forest Walks
Horseback Riding
Surfing, Kayaking, etc.
- **Retailing**
(Tourism-related)
- **Tourism Services**
Travel Agencies
Tour Operators
Excursion Services
Local Organizations, Tour
Guides, Information
Services
- **Food Services**
Restaurants, Bars
Take-away providers
Supermarkets
- **Exogenous**
Regulatory Bodies
Communities, NGOs
Financial Institutions

Financial Sector Groups

- **Banking services**
Credit
Export finance
Letter of credits
Sight-drafts
- **Bonding, sureties and guarantee**
- **Insurance**
Life
Car
Personal accident
Credit
Risk management
Claim management
- **Brokerage, stocks and securities**
- **Leasing, factoring and forfeiting**
- **Postal banking services**
- **Rating and financial information**
- **Transfers and e-payments**

ICTs Sector Groups

- **Broadband access**
- **Business process outsourcing (back-office operations)**
 - Data entry and handling
 - Data processing and database
 - Medical transcriptions
 - Electronic payments
 - Financial processing
 - Human resources processing
 - Payroll
 - Warehousing
 - Logistics
 - Inventory control
 - Supply chain management
 - Ticketing
 - Insurance claims adjudication
 - Mortgage processing
- **Business process outsourcing (customer interaction)**
 - Sales support
 - Membership management
 - Claims
 - Airline and hotel reservations
 - Subscription renewal
 - Customer service helpline
 - Credit handling and billing issues
 - Telemarketing
 - Market research
- **Distance learning (infrastructure)**
- **Internet design**
 - Database integration
 - Html programming
- **Software**
 - Data processing and database
 - Business intelligence and data warehousing
 - Content Management
 - E-procurement and B2B marketplace
 - Enterprise security
 - Enterprise application integration
 - Supply-chain management
 - Web (internet content preparation) Package implementation
 - Software maintenance
 - Web hosting of software
- **Call centers (infrastructure)**

Professional and Business-related Sector Groups

- **Legal services**
- **Credit reporting services**
- **Invoicing and collection services**
- **Architectural services**
- **Engineering services**
- **Specialty design services**
- **Integrated engineering services**
- **Education and training services**
- **Marketing and advertising services**
- **Writing, editing and translation services**
- **Accounting, auditing and bookkeeping**
- **Mailing list compilation and mailing services**
- **Market research and public opinion polling**
- **Management consulting**
- **Business consulting**
- **Telephone answering services**
- **Urban planning and landscape architecture**
- **Printing and publishing**
- **Human resources management**

ANNEX B: DESTINATION PALESTINE 2011 OVERVIEW

<http://travelpalestine.files.wordpress.com/2012/01/2011-tourism-industry-overview-final.pdf>

The growth in the accommodation sector is a clear indicator of this recovery and investment/reinvestment into the sector. Today, there are just over 6,800 rooms spread across the country (an increase of 972 rooms from 2010). Furthermore, an additional 1,600 rooms are also under construction in various cities across the West Bank and East Jerusalem. The overall goal of the industry is to double the number of rooms to around 10,000 in the next 7-10 years.

NATIONAL TOURISM STRATEGY

The National Tourism Strategy is to have Palestine successfully compete and get its share of regional tourism arrivals, through developing and diversifying the tourism offerings and promoting the richness in cultural, historical and natural resources. While religious tourism will remain the backbone of any tourism offer, the Ministry of Tourism and Antiquities together with stakeholders are enhancing the tourism offer through creating experiential programmes and non-traditional itineraries to be able to attract more visitors and encourage them to spend more time and money in Palestine. More importantly, is to showcase Palestine as an independent destination that is not only an integral part of any visit to the Holy Land, but also to the region as a whole.

This shift in strategic focus will not be easy, as Palestine is faced with numerous challenges and threats that continue to hinder efforts to develop a sustainable tourism industry. The Occupation, with all its facets, is the biggest obstacle. The restrictions on movement and access (on both tourists and Palestinian service providers) make managing tourist flow and developing themed routes very difficult. Israel's refusal to allow Palestinians to renovate, restore and manage key sites located in Areas C, such as Sebastiya, the Jordan Valley, and the coast of the Dead Sea hinder our abilities to develop a comprehensive tourism offer, and the overall lack of control over borders and points of entry makes managing and developing a tourism sector extremely challenging.

Together with other stakeholders, we are also developing alternative tourism through creating experiential programs and non-traditional itineraries. There is a strong focus on developing alternative tourism to Palestine since it is the perfect platform to showcase Palestine's diverse range of religious, historical, cultural and natural sites. Biking, hiking, and bird watching activities are only a few of the initiatives underway. Cultural celebrations are another key component of enriching the visitor experience. Across Palestine, there are regular cultural festivals that attract both local and international visitors. From the olive harvest and the Taybeh Oktoberfest to the Sebastiya Festival, the Artas Lettuce festival and the Christmas activities in Bethlehem, we are working to promote and integrate these activities and festivals into the overall visitor experience.

STRATEGIC PILLARS

PILLAR 1: PRODUCT / OFFER DEVELOPMENT

A key component of Palestine's tourism strategy is to further develop and enhance the overall tourism offer. From developing supporting infrastructure in the main cities to renovating and restoring key sites that can add to the diversification and range of the overall offer, the Ministry of Tourism & Antiquities in close coordination with the private sector is gradually implementing development initiatives in key areas across the West Bank.

Palestine possesses an abundance of sites of antiquity, the majority of which have yet to be excavated, as well as historic buildings of major historic importance. The Department of Antiquities and Cultural Heritage at the Ministry of Tourism and Antiquities has identified around 1994 main archaeological sites (Khirbeh, Tell, and Old Town), nearly 10,000 archaeological features (caves, churches, Maqams, Monasteries etc...) more than 60,000 traditional buildings and a total of 520 excavated sites throughout the West Bank and Gaza.

On the private sector level, the strategy calls for proactive private sector involvement and investment in building and upgrading the services facilities. In the accommodation sector alone, the goal is more than double the current # of rooms to reach 10,000 within the next 5-7 years. In addition to hotels, there is a demand to develop recreational resort and parks (to cater primarily for the local market) in addition to restaurants, cultural centers, museums, transportation and the like.

PILLAR II: POLICY REFORM & INDUSTRY REGULATIONS

At the Policy making and Regulatory levels, there are various public / private / Civil initiatives underway. One of the main activities is the on-going work to establish the Palestine Tourism Board in the form of a public/private partnership which will lead the marketing and promotion of destination Palestine. Licensing and hotel classifications are among the other areas where the public & private sector are collaborating.

PILLAR III: PRIVATE SECTOR SUPPORT & CAPACITY BUILDING:

Ensuring a healthy and vibrant private sector is fundamental to the national economic strategy. The private sector resilience has been evident throughout the year as they have carried the industry throughout the period before 1994. Strengthening the private sector institutions (especially those in East Jerusalem) is a key component of the national strategy. From providing technical assistance and organisational development, the private sector has been working to strengthen their institutional capacity to be better service membership base in specific the wider sector in general.

Training and upgrading the human resource capacity is also a key area of focus. As a service oriented industry, tourism relies heavily on providing high quality services to visitors. There are multiple capacity building and training program underway and in planning to train and upgrade the capacities of the tourism workforce (public, private & civil) across the value chain.

PILLAR IV: MARKETING & PROMOTION: PALESTINE AS A TOURISM DESTINATION:

Until the Palestine Tourism Board is established, it is the Ministry of Tourism & Antiquities (in close cooperation with the private sector) that is taking the lead in Palestine's destination marketing and promotion. A comprehensive and integrated marketing and communication plan is being developed together with the private sector and key stakeholders. The strategy includes positioning Palestine as a viable and attractive tourism destination that is rich in religious, cultural, historical and natural treasures. A diverse mix of activities is underway and planned for the coming year including participation in key international exhibitions, hosting of familiarization tours (travel agents, religious leaders and media). Online marketing and promotion is another key component of the mix.

2011 PROJECT HIGHLIGHTS

This year saw the start or completion of a wide range of project and initiatives across the West Bank. The main highlights:

- **UNESCO:** Palestine's admittance as a full member in UNESCO. From purely a tourism perspective, this will give Palestinians the right to nominate key historic or ancient sites for inclusion on the world heritage register. Recently, we have launched a campaign to place the city of Bethlehem on the World Heritage List, seeking to protect and preserve the area's landmarks. In parallel, the Ministry of Tourism and Antiquities is working on the preparation of another nomination file for Hebron, which will be submitted to the World Heritage Center in 2012.
- **Bethlehem Master Plan:** In 2011, the Ministry of Tourism together with the Bethlehem Chamber of Commerce and Industry launched the Bethlehem Tourism Development Action Plan. The initial phase of the project was 6 months and aimed at identifying immediate short term interventions and actions that can enhance the overall visitor in Bethlehem. A special working group was set up by the Ministry of Tourism and included representatives from over 14 institutions and organisations working in tourism within the governorate. A complete overview of the project is available at www.masterplan.ps
- **Product Development:** In terms of developing the overall tourism offer, the ministry has been actively renovating and restoring key sites such as Hisham's Palace and Tell Al-Sultan in Jericho. Tell Balata site development is also underway and includes developing paths, a small museum, and an information center to cater to visitors. Several new museums are also being developed, including the Samaritan Museum in cooperation with UNESCO, Dura near Hebron, Al-Bad in Bethlehem, and the Al Riwaya Museum in Bethlehem's Peace Center.
- **Marketing:** In 2011 we have intensified our marketing and promotional activities locally, regionally, and internationally. One of the main activities is participation in key international tourism exhibitions and fairs. Together with the private sector, the Ministry has organised Palestine's participation

at more than twenty international shows in traditional and new markets targeted through trade shows and exhibitions. In addition, a new set of tourism promotion films were produced portraying a new image of Palestine as a tourist destination. The three newly produced films will be used for advertising, sales and documentarily purposes.

- Domestic Tourism: On the domestic Tourism front, the Ministry has also just finalized a comprehensive review of domestic tourism. The study examined the untapped potential of domestic tourism across the country and identified both national actions and more localized tourism development opportunities in the various governorates. The final report will be published beginning of 2012.

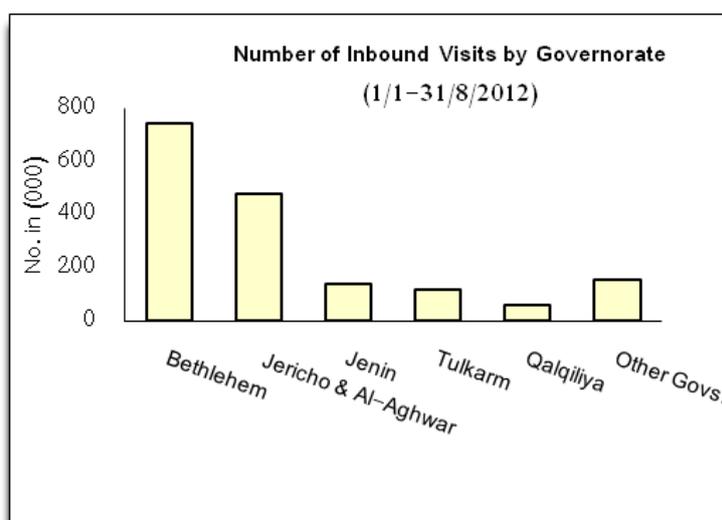
ANNEX C: PALESTINIAN CENTRAL BUREAU OF STATISTICS RELEASE

Palestinian Central Bureau of Statistics (PCBS)

Around 3.5 Million Visits to Tourist Sites in the Palestinian Territory in January - August 2012

On the occasion of World Tourism Day, 27/09/2012, the Palestinian Central Bureau of Statistics, in collaboration with the Ministry of Tourism and Antiquities, presents the following facts about tourism in the Palestinian Territory.

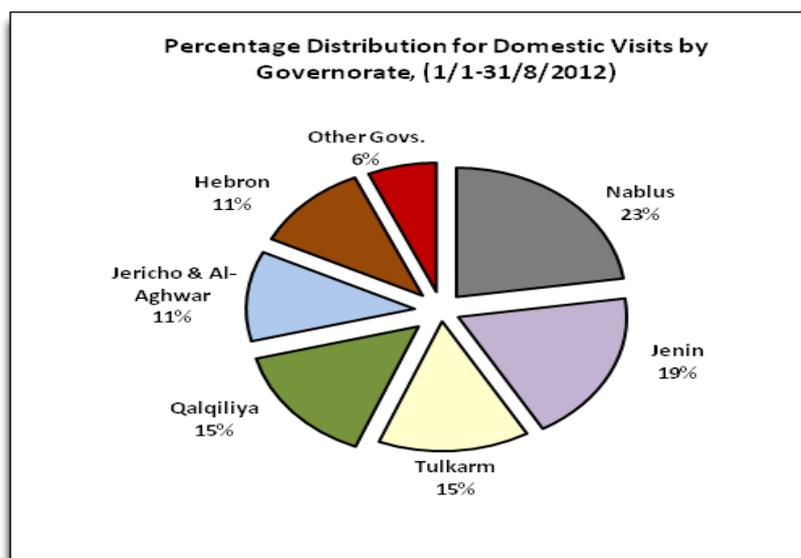
During the period from January to August 2012, around 3.5 million visits were made to tourist sites in the Palestinian Territory. These included 1.7 million visits by inbound visitors and 1.8 million visits by domestic visitors to gardens, parks and other tourism sites. The number of visits rose by 28% compared with the same period in 2011, but domestic visits fell by 10%.



Most inbound visits were to the Bethlehem governorate with 44%, followed by Jericho and Al-Aghwar governorate with 28% and Jenin governorate with 8%.

Palestinians residing in Israel made up the largest number of inbound visitors with 35%, followed by 12% from Russia, 5% each from the United States, Italy and Poland, and 3% each from Germany and Indonesia.

Domestic visits in the Palestinian Territory were made up as follows: Nablus and Jenin governorates 23% and 19% respectively; Qalqiliya and Tulkarem governorates 15% each; Jericho and Al-Aghwar and Hebron governorates 11% each. These data do not include Jerusalem and the Gaza Strip.



274 Thousand Hotel Guests in First Half of 2012

There were 274 thousand hotel guests during the first half of 2012, an increase of 3% compared with the first half of 2011. Of these, 14% were Palestinians, 38% were from European Union countries, and 9% were from Asia.

Number of Guests During the First Half of 2011, 2012

Nationality	2011	2012
Palestine	33,667	38,690
Israel	16,716	22,540
Asia	32,249	24,394
USA & Canada	28,353	20,936
EU.	91,619	103,267
Other European States.	34,339	40,807
Other Countries	29,276	22,966
Total	266,219	273,600

The guests were distributed by region as follows: 33% in Jerusalem hotels, 47% in the South of the West Bank, 15% in the Middle of the West Bank, and 4% in the North of the West Bank. Only 1% of guests stayed in Gaza Strip hotels.

There were 98 hotels in the Palestinian Territory in June 2012, comprising 5,454 rooms with 12,303 beds. There were 2,672 hotel employees, of whom 583 were female.

Hotel Room Occupancy during Second Quarter 2012

Room occupancy in the Palestinian Territory was 31% in 2012.

Room occupancy increased to 39% during the second quarter of 2012 compared to the previous quarter and increased to 26% compared to the second quarter 2011.

Main Hotel Indicators			
Indicator	2ndQuarter2012	2nd Quarter 2011	1st Quarter 2012
No. of guests	158,167	131,659	115,433
No. of guest nights	373,071	338,639	289,683
Average room occupancy	1,778.9	1,335.9	1,260.8
Average bed occupancy	4,099.7	3,721.3	3,183.3
Room occupancy%	31.2	24.8	22.4

During the second quarter of 2012, there were 2,672 hotel workers, of whom 2,089 were male and 583 were female.

Hotel Capacity by Region

Hotels operating within the Palestinian Territory in June, 2012 were distributed as the follows:

- North of West Bank: 10 hotels comprising 237 rooms with 687 beds.
- Middle of West Bank: 24 hotels comprising 1,128 rooms with 2,692 beds.
- Jerusalem: 28 hotels comprising ,1527 rooms with 3,367 beds.
- South of West Bank: 24 hotels comprising 1,943 rooms with 4,390 beds.
- Gaza Strip: 12 hotels comprising 619 rooms with 1,167 beds.

ANNEX D: TOURISM CONTRIBUTION TO GDP 2010 (YUSEF DAHER)

Calculations (Estimated Tourism Income)

Incl. East Jerusalem and without Gaza

2010		Notes	
incoming visitors	2,204,784.00		
domestic	2,704,089.60		
Hotels	\$ 66,715,720.00	1334314 nights	50\$
Guest house	\$ 22,016,187.60	one third	
Restaurants	\$ 204,000,000.00	17\$ at 3 days x 4million	
Guides	\$ 140,000,000.00	same as last year	12% 2009
Transport	\$ 18,816,000.00	\$380 per day	12% inc 2009
Tour packages			
Shopping	\$ 243,512,305.00	\$356 pcbs expenditure/tourist	
Tour operators	\$ 30,100,000.00		increase 12%
Travel agents	\$ 3,584,000.00		increase 12%
Beverages	\$ 13,440,000.00		increase 12%
Tipping	\$ 13,440,000.00		increase 12%
Domestic Tourism	\$ 121,500,000.00	expenditure \$45 pp	
Events	\$ 8,232,000.00		12%
SUBTOTAL	\$ 885,356,212.60		

	2009	553377000
from 2009		1.59991509
From GDP		5700124360 0.1553223

Observations:

- 1) 9 new hotels increased from 2009 (81) 2010(90)
- 2) Incoming tourists increased by 80% from 2009
- 3) Domestic tourists increased by 105%
- 4) Tourism contribution from GDP is 15% in 2010
- 5) Increase in Tourism Income 60% from 2009

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- Yousef Salman and Hisham Namari : InterContinental Hotel Jericho
- Mohammad Zomlot : Grand Park Hotel
- Ihab Jaabari : Compete project DAI, Us Aid
- Sami Khoury : ABS Tourism
- Issa Dahdal : Ritz Hotel
- Firas Ammad: Holy Land Hotel Jerusalem and Jericho resort
- Fahmi Nashashibi : golden Walls Hotel
- Kamel Sunnokrot : telepherique Jericho
- Wassef Daher : daher Travel
- Wissam Touma : Gemm travel
- Laila Asfoura : Laila Tours
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- Mr. Sami El Aarqoub : Head of Hotel Classification unit
- Mr. Rafiq Barghouti Head of Licensing Unit
- Mr. Atieh Sartawi : Planning unit

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