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# WEST BANK AND GAZA'S ENABLING ENVIRONMENT FOR DOING BUSINESS IN THE DIGITAL ECONOMY

DIGITAL ECONOMY & COMMERCIAL LAW · DIGITAL ENTREPRENEURSHIP ·  
DIGITAL FINANCIAL SERVICES · DIGITAL SKILLS · TRADE LOGISTICS ·  
SME PREPAREDNESS

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In January 2020, the United States Agency for International Development (USAID) Digital Economy and Market Development (DEMD) project, under the USAID Bureau for Development, Democracy, and Innovation (DDI) Center for Economics and Market Development (EMD)—implemented by Resonance and subcontractor Nathan Associates—was tasked by EMD to conduct a diagnostic study using the Systems Analytic Framework for the Digital Economy (SAF-DE) in the West Bank and Gaza in support of the USAID/West Bank and Gaza Mission.

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## ACRONYMS

AML/CFT	Anti-money Laundering and Combating the Financing of Terrorism
ASB	Advice for Small Business
ASYCUDA	Automated System for Customs Data
ATM	Automated Teller Machine
AusAID	Australian Agency for International Development
BEE	Business Enabling Environment
B2B	Business-to-Business
B2C	Business-to-Consumer
CEDEFOP	European Center for the Development of Vocational Training
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COD	Cash on Delivery
DDI	USAID Bureau for Development, Democracy, and Innovation
DEMD	Digital Economy and Market Development
DFID	Department for International Development
DFS	Digital Financial Services
eIDAS	Electronic Identification, Authentication, and Trust Services
EBRD	European Bank for Reconstruction and Development
EIP	Entrepreneurship and Innovation Program
eKYC	Electronic Know Your Customer
EMD	USAID Center for Economics and Market Development
EPCGF	European Palestinian Credit Guarantee Fund
ESO	Entrepreneurship Support Organization
ETF	European Training Foundation
EU	European Union
FDI	Foreign Direct Investment
FinGAP	Financing Ghanaian Agriculture Project
FPCCIA	Federation of Palestinian Chambers of Commerce, Industry and Agriculture
FSP	Financial Service Provider
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation
GoI	Government of Israel
HCIE	Higher Council for Innovation and Excellence
HEI	Higher Education Institution
ICT	Information and Communications Technology
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILS	Israeli New Shekel
IPR	Intellectual Property Rights
IPSD	Innovative Private Sector Development
IT	Information Technology
ITC	International Trade Centre
ITU	International Telecommunication Union
JTC	Joint Technical Committee
KPI	Key Performance Indicator
KYC	Know Your Customer
MEII	Middle East Investment Initiative
MENA	Middle East and North Africa
MEPI	U.S. Department of State Middle East Partnership Initiative

MEPS	Middle East Payment Services
MFI	Microfinance Institution
MITI	Ministry of International Trade and Industry
MoE	Ministry of Education
MoEE	Ministry of Entrepreneurship and Empowerment
MoF	Ministry of Finance
MoHE	Ministry of Higher Education
MoL	Ministry of Labor
MoNE	Ministry of National Economy
MoSA	Ministry of Social Affairs
MOU	Memorandum of Understanding
MSME	Micro, Small, and Medium-Sized Enterprises
MTIT	Ministry of Telecommunications and Information Technology
MVP	Minimum Viable Product
NDP	National Development Plan
NGO	Nongovernmental Organization
NPA	Palestinian National Policy Agenda
OECD	Organization for Economic Co-operation and Development
ONOW	Opportunities NOW Myanmar
PA	Palestinian Authority
PBA	Palestinian Bar Association
PCBS	Palestinian Central Bureau of Statistics
PCMA	Palestine Capital Market Authority
PEA	Political Economy Analysis
PFI	Palestinian Federation of Industries
PICTI	Palestine Information and Communications Technology Incubator
PIPA	Palestinian Investment Promotion Agency
PITA	Palestinian Information Technology Association of Companies
PLO	Palestine Liberation Organization
PMA	Palestine Monetary Authority
PNB	Palestine for a New Beginning
POS	Point of Sale
PSC	Palestinian Shippers Council
PSI	Palestinian Standards Institution
R&D	Research and Development
RFI	Rural Finance Initiative
RMM	Risk Management Model
SAF-DE	Systems Analytic Framework for the Digital Economy
SDG	Sustainable Development Goal
Sida	Swedish International Development Cooperation Agency
SII	Standards Institution of Israel
SME	Small and Medium-Sized Enterprises
SPS	Sanitary and Phytosanitary Measures
STEM	Science, Technology, Engineering, and Mathematics
TAP	Technical Assistance Program
TBT	Technical Barriers to Trade
TFA	World Trade Organization Trade Facilitation Agreement
TVET	Technical Vocational Education and Training League
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNIDROIT	International Institute for the Unification of Private Law

UNRWA	United Nations Relief and Works Agency for Palestine Refugees
UPU	Universal Postal Union
USAID	United States Agency for International Development
USD	U.S. Dollar (Currency)
VAT	Value-Added Tax
WTO	World Trade Organization



## EXECUTIVE SUMMARY

With unemployment running at 24.9 percent and poverty estimated at 27.3 percent, new opportunities for sustainable growth are an urgent priority for the West Bank and Gaza. Expansion of the digital economy can play a major role in creating new jobs, generating higher salaries, and expanding the reach of Palestinian goods and services to new markets. Trends are generally positive, as e-commerce has grown significantly in the West Bank and Gaza in the last decade, and freelancing and outsourcing of IT services is a budding but growing sector providing good incomes for IT workers. However, more remains to be done. While 80 percent of households in the West Bank and Gaza have access to the Internet, only 8 percent of Internet users purchased goods or services online in 2021, and fewer than 3 percent are employed in the IT and e-commerce sector, indicating significant potential for expansion. Reforms will require close and effective coordination among the various stakeholders in the private sector and across various public institutions.

Developing a digital economy will help the West Bank and Gaza bypass and leapfrog stages of technological development. The youthful population is highly motivated to better itself, and facilitating this motivation can enable Palestinians to find employment by servicing domestic or foreign markets and selling products online to customers at home and abroad. The prospects are promising on many levels: by building a better digital enabling environment for finance, jobs, and e-commerce, the livelihoods of many Palestinians will be improved. Taking advantage of these opportunities will require a concerted and highly coordinated effort to overcome several critical factors and barriers.

This report examines the business enabling environment, and existing barriers to digital economy development across six critical policy areas (digital economy and commercial law, digital entrepreneurship, digital financial services, digital skills, trade logistics, and small and medium enterprise (SME) preparedness). While each policy area presents its own unique challenges and opportunities for inclusive digital development they are interconnected and recommendations to address specific issues will often require a coordinated effort with overlapping stakeholders to drive inclusive digital economy development.

- **Digital economy and commercial law.** The Palestinian Authority's information and communications technology (ICT) regulatory environment is complex and fragmented, in part due to Israeli policies, regulations, and control over access to critical infrastructure, all of which limit the impact of Palestinian laws and policies. Limited coordination and capacity in key ministries stymie the government's ability to develop a coherent regulatory framework and to allocate resources efficiently. Better interagency cooperation and leadership is vitally necessary to develop a coordinated e-commerce strategy and policy framework. Legislative priorities include adopting laws on e-commerce, e-signatures, consumer protection, competition policy, and commercial dispute resolution.
- **Digital entrepreneurship.** Despite the large number of incubators and accelerators in the West Bank and Gaza, ICT job seekers and workers have not developed a culture of "establishing and creating new business concepts with the intention to make profits, support the community, and accomplish goals such growth, expansion, etc."<sup>1</sup>. Better entrepreneurial ecosystem mapping is indicated for improving on the designs of existing programs. Priorities include: 1) improving entrepreneurship to support organizations' ability to promote access to local and regional markets and to capital; 2) creating university-entrepreneur partnerships; 3) encouraging more women to become entrepreneurs; 4) specifically and 4) developing programs that would reduce the "talent brain drain" to Israeli and foreign firms so that local firms could retain top-notch talent. establishing and creating new business concepts with the

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<sup>1</sup> Ranjhaa, 2022

intention to make profits, support the community, and accomplish corporate goals such as growth, expansion, etc.

- **Digital financial services (DFS).** Consumer preference for cash creates impediments to the growth of the digital economy, the expansion of financial inclusion, and the efficient functioning of the banking sector. Digital financial services need to be greatly expanded. This would benefit the “unbanked”—people living mostly in rural areas and those with inconsistent or low incomes. This would also reduce burdens on banks stemming from securing and transporting cash shekels and would lessen the burdens on the PA for negotiating such transfers with Israeli authorities and for monitoring tax avoidance. Priorities include developing locally appropriate digital identification systems, to improve the security and ease of digital transactions, and making the various digital financial services interoperable. Ways need to be found to improve financial literacy and to incentivize the use of digital financial services, possibly through public education campaigns.
- **Digital skills.** Without a clear vision, strategy, and regulatory environment to shape, organize, and regulate digital education, effective progress in enhancing the digital skills of the labor force will not be attained.. The lack of advanced technical knowledge and proficiency in cutting edge applications within the Palestinian workforce is widely recognized as a key barrier to further digital development of the Palestinian marketplace. Missing are market-driven skills and employment programs typical in other countries, where training is informed by private sector needs. University education is inefficient, with outdated curricula taught with an emphasis on rote learning, and technologically deficient, with poor access to IT equipment. Missing is valuable experience in teamwork and goal orientation. Training programs focused on ICT graduates and funded by donors often have limited impact. target everything from basic digital literacy to higher-skilled programs. Their ad hoc nature – based on limited market knowledge and a drive for quick wins, means they often have had limited success. Employer-based continuing training for existing employees is nearly non-existent, due to expected poor retention rate and bottom-line financial cost. Bringing in international experts for train-the-trainer programs, expanding access to IT equipment, reforming university curricula, and improving understanding of market needs could fill in gaps in local expertise and help build local capacity.
- **Trade logistics/e-commerce.** To ship goods, Palestinian firms must deal with cumbersome and confusing trade regulations for external trade, a fledgling delivery and fulfillment system for internal trade, and poor roads subject to random closure. Externally traded goods are subject to burdensome inspection procedures, obstacles, and delays at Israeli checkpoints. Israeli authorities may block shipments for security reasons or may stall them for administrative purposes. Privately-owned delivery services for movement of goods inside the West Bank and Gaza are ill-prepared for e-commerce; tracking services are inaccurate and many packages are lost. The fledgling Palestinian Post is worse as it lacks sufficient information technology (IT) and human resources to deal with large volumes of incoming parcels in a timely manner. Compounding these problems, strict Israeli controls entail intrusive inspections, high customs fees, and delays in transferring parcels between the West Bank and Jerusalem. As a result, Palestinian companies have generally been unable to grow or expand into new export destinations. Some of this may be avoided by providing Palestinian firms better information on the processing of imports and exports. The PA should consider adopting and implementing, to the extent possible, relevant provisions of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA). Digital solutions to customs clearance are complicated by the necessity of passing all goods through Israeli ports and terminals. Nonetheless, some level of electronic data sharing may be possible and further expanded to a nascent single-window system, or alternatively to start linking with Israel’s Global Gate System. E-commerce could be further expanded by assisting Palestinian firms obtain market information to learn about and access new markets for their products. In addition, efforts should be made to further

improve the postal system, make Palestine a proper destination for delivery services, and coordinate efforts between Israeli and Palestinian service providers.

- **SME preparedness.** There is an incomplete and unclear understanding of the needs of SMEs, which face difficulties in obtaining access to credit, understanding import/export procedures, and learning and applying the benefits that digital tools may provide. Widespread informality, lack of awareness in banking knowledge, poor enforcement through the courts, and companies' poor record keeping of accounts, all hamper SME's access to credit. Bank lending may be increased through innovative digital finance solutions focused on alternative forms of creditworthiness. Providing easily understandable information and instructions online for importing and exporting, bank lending, and promoting even the most basic digital tools, such as video conferencing and online advertising, can better position SMEs to succeed in the global marketplace.

## CHAPTER I: INTRODUCTION

Worldwide, commercial enterprises must embrace recent advances in information and communications technology (ICT) not merely to stay competitive but also, in fact, to survive. All industries—across manufacturing, agriculture, and services—are impacted by the digital economy. Yet, whether an enterprise can rise to the opportunities presented by new technologies depends as much on the enabling environment for doing so—including a country’s pertinent policies, laws, regulations, institutions, and infrastructure—as on the imagination, commitment, agility, and skills of the company’s operators and the demand of its customers. The marketing, buying, and selling of goods, services, and digital and physical products via the Internet (which together add up to a broad description of “e-commerce”) require access and capacity to engage a range of electronic resources, systems, and tools. Moreover, a truly dynamic and growth-producing system of e-commerce necessitates the adaptation and even the disruption of traditional systems of telecommunications, commerce, and trade.

### How to define “digital economy”?

There is no universally agreed-upon definition of “digital economy” largely due to the “rapidly changing nature of technology.”<sup>2</sup> For purposes of this report, digital economy incorporates:

- A country’s threshold conditions for telecommunications and competition among digital service-providers;
- The presence of information and communications technology infrastructure necessary for digital networks to exist, operate, and reach economic actors;
- Commercial transactions that rely on that infrastructure, including for sales and delivery of goods, services, and digital content, inclusive of digital systems of finance and payment; and
- The content that Internet users create and access, including websites and “apps;” software in all formats, including video games; recorded music; radio and television broadcasting; motion pictures; books; newspapers and periodicals; artistic designs; etc.<sup>3</sup>

## SUMMARY OF UNDERTAKING

This report on the West Bank and Gaza’s enabling environment for doing business in the digital economy is an undertaking of the United States Agency for International Development (USAID) digital diagnostic tool known as the Systems Analytic Framework for the Digital Economy (SAF-DE). The SAF-DE architecture is based on the model of the USAID Commercial, Legal, and Institutional Reform tool, in use for nearly 20 years, which covers specific policy areas by examining the laws, the implementing institutions, the wider range of supporting institutions, and the relevant issues in the political economy.

To ensure fulsome coverage and provide a level of consistency from study to study, each of the policy areas is examined according to a comprehensive set of questions and queries provided in advance. The subject matter for the questions and queries is derived from international best practices while also considering U.S. policy objectives.

**The SAF-DE diagnostic aims to help economies construct an agenda for capitalizing on opportunities and addressing constraints, one that reflects both the immediate needs of private enterprise and the most realistic prospects for positive change.<sup>4</sup>**

<sup>2</sup> Barefoot, 2018

<sup>3</sup> “SYSTEMS ANALYTIC FRAMEWORK for the DIGITAL ECONOMY (SAF-DE) Guide to SAF-DE Diagnostic Design and Implementation” (Nathan Associates: Leadership in Public Financial Management II (LPFM II), 2018

<sup>4</sup> Klissas, 2020

The full SAF-DE resource bank consists of a comprehensive set of checklists and supporting documentation across 12 policy areas: 1) telecommunications regulation; 2) services liberalization; 3) information and communications technology (ICT) infrastructure; 4) digital financial services (DFS); 5) digital economy and commercial law; 6) trade logistics; 7) data privacy/consumer protection; 8) cybersecurity; 9) small and medium-sized enterprise (SME) preparedness; 10) digital entrepreneurship; 11) digital education; and 12) digital skills.

Designed for agility and economy of implementation, the SAF-DE enables missions to use a modular approach by adapting to specific country contexts and priority subject areas. For the case of West Bank and Gaza, 6 of the 12 policy areas were selected for review by USAID in March 2022:

1. **Digital economy and commercial law.** “Digital economy and commercial law” refers to domestic legal and regulatory frameworks, and the institutions charged with creating and enforcing them, addressing issues that may arise when enterprises do business with other enterprises (business-to-business [B2B]) or directly with consumers (business-to-consumer [B2C]) via e-commerce.
2. **Digital entrepreneurship.** This topic covers the creation of a for-profit firm or social enterprise “pursued through the use of technological platforms and other communication equipment.”<sup>5</sup> It entails new ways of attracting customers, designing and selling new products and services, reducing costs, and generating revenue.
3. **Digital financial services.** This section addresses branchless banking services that are enabled via electronic channels. Services may be accessed using a variety of electronic instruments, including mobile phones, point of sale (POS) devices, electronic cards, and computers.
4. **Digital skills.** This refers to the skills needed to use networks, digital devices, and web applications to access and manage information—from rudimentary online searching and emailing to more specialized functions, like programming and development.
5. **Trade logistics.** This topic encompasses the various phases of cross-border delivery of goods purchased through digital transactions. These phases include transport and shipping; border crossing and customs clearing; delivery to the end user; and facilitating product returns.
6. **SME preparedness.** This issue pertains to conditions for SMEs (as defined in the country or economy to which the SAF-DE is being applied) to safely, reliably, and competitively participate in the digital economy. For this report, discussion of SMEs significantly incorporates the perspective of microenterprises, which represent nearly 99 percent of existing enterprises in the West Bank and Gaza and employ more than 96 percent of the country’s workers.

The remaining SAF-DE topics—telecommunications regulation, services liberalization, data privacy/consumer protection, ICT Infrastructure, digital education and cybersecurity—represent issues that warrant deeper consideration as West Bank and Gaza moves toward legal, regulatory, and institutional upgrades with respect to the topics examined throughout this diagnostic.

Following is a summary of the SAF-DE methodology and a list of key foundational conditions underlying West Bank and Gaza’s digital business enabling environment (BEE). This report details constraints and opportunities pertaining to each of these six technical areas. The final section presents recommendations suitable for immediate action by a variety of stakeholders, including government, the private sector, and the donor community.

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<sup>5</sup> Giones, Brem, 2017

## METHODOLOGY

SAF-DE is a diagnostic tool that allows USAID to take a rapid snapshot of key components of the digital economy enabling environment. The SAF-DE identifies constraints, as well as opportunities for USAID missions to ensure broader access to the digital economy. Drawn from U.S. policy objectives and international best practices, the SAF-DE consolidates key qualitative and quantitative data for the purposes of assessing a country's digital BEE—in other words, the policy, legal and regulatory, institutional, and political economy conditions supporting private sector activities that engage—directly or indirectly—Internet-oriented tools and resources.

Each of the 12 technical topic sections is analyzed through deep dives into law and regulation, institutional capabilities, and political economy analysis. The SAF-DE further integrates issues of importance to women or traditionally disenfranchised groups. Ultimately, this analysis is intended to help USAID partner countries strengthen their capacity, confidence, and inclusiveness when it comes to harnessing the potential of e-commerce, resulting in broad-based economic growth.

In the case of West Bank and Gaza, a research team comprising seven technical experts first conducted desk research and then undertook an extensive set of field interviews with Palestinian stakeholders in March 2022. Field work covered more than 100 organizations and individuals from government ministries, the Palestine Monetary Authority (PMA), the Palestine Capital Market Authority (PCMA), banks, trade associations, the judicial branch, the Palestinian Bar Association (PBA), merchants, delivery service providers, international donor organizations, and health care providers. This final report comprises sections covering each of the six selected policy areas, broken down into discussions on policy objectives and legal foundations, core institutions, additional stakeholders, political economy, access to markets, gender and youth inclusion, barriers, and recommendations.

## WEST BANK AND GAZA BACKGROUND ON DIGITAL ECONOMY

Innovations enabled through the digital economy have provided enormous value for developed countries and show great potential for developing and emerging economies alike. This is especially true for the West Bank and Gaza, where the political context hinders digital connectivity, movement of persons and goods, and access to foreign markets, thereby affecting trade and socioeconomic development.

E-commerce has grown significantly in the West Bank and Gaza over the past few years, forming a new source of income both for start-ups and for individuals. The West Bank and Gaza have a total population of 5.3 million, 3.7 million of whom were Internet users as of January 2022.<sup>6</sup> Increased access to the Internet and higher penetration of broadband connections and smartphones has contributed to the rapid expansion of e-commerce among Palestinians. In 2019, around 80 percent of Palestinian households had access to the Internet, compared to just 52 percent in 2017. Further, approximately 97 percent of Palestinian households have one (or more) mobile cellular account, and around 86 percent own at least one smartphone. Still, only 8 percent of Internet users purchased goods or services online in 2021, largely due to a preference for cash, the nascence of the postal delivery system, and the lack of assured consumer protections, indicating significant potential for expansion.

The Palestinian e-commerce regulatory environment is weak and inadequate. Existing laws applicable to traditional trade and commerce must be updated or amended in order to effectively regulate the various aspects of e-commerce and digital trade and to spur future growth. According to the World Bank's 2020 *Doing Business* report, the West Bank and Gaza ranked 117 overall—out of 190 economies—on the Ease of Doing Business Index. While this is a major improvement compared to 2016 (140), the West Bank and Gaza still ranks behind regional peers, such as Jordan (75) and Egypt

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<sup>6</sup> United Nations Population Fund (UNFPA), 2022

(114). In particular, the West Bank and Gaza received a low score in “Starting a business” and “Enforcing contracts.”

## ECONOMIC CHALLENGES

Despite achieving 2.9 percent economic growth in 2021, economic activity remains below pre-pandemic levels. This figure obscures the differences in the relative positions of the West Bank and of Gaza. While the West Bank grew by 3.6 percent, the Gazan economy contracted by 0.3 percent in 2021. Given the high annual population growth in the West Bank (3.4 percent) and Gaza (4 percent), this implies a near stagnation or reduction in per-capita income.

In relation to structural issues, the Palestinian economy is too small to achieve a large degree of autonomy from that of Israel, which is approximately ten times larger and controls fiscal, trade, and investment policies. These factors result in a high degree of integration with the stronger, dominant, high-income Israeli economy. Israel has also retained control over movements of workers within and between West Bank, Gaza, and Israel and has blocked Palestinians’ use of certain dual-use technologies and chemicals that might pose a security threat to Israeli citizens. Persistent fiscal deficits led the Palestinian Authority (PA) to spend scarce funds on salaries and pensions, with the difference made up by accumulating huge arrears—effectively financing the deficit by delaying payments to Palestinian private sector vendors, many of which can ill afford the delay.

In the long run, this has hampered development of the Palestinian economy and its labor force, which rely upon Israeli services, unskilled and semiskilled jobs, and trade. Israeli agricultural and nondurable products dominate the high-value end of the market, while the Palestinian private sector focuses on producing mainly intermediate goods for local markets.<sup>9</sup> The high cost of inputs, including energy, land, utilities, and wages for skilled workers, has undermined the competitiveness of Palestinian producers. With exceptions for stone and marble extractions, and for the agro-industrial, pharmaceutical, and ICT sectors, access to raw materials is difficult and costly. Furthermore, Palestinian manufacturers face considerable challenges to compete in global and regional markets, owing to poor design and quality, obsolete technology, lack of advanced educational and skill-building opportunities, and ineffective marketing techniques.

## GEOGRAPHIC CHALLENGES

West Bank and Gaza comprises a set of 16 governorates with varying degrees of civil and military control divided between Israel and the PA. Under the Oslo Accords, the Palestinian territories were categorized into three types of Areas—each with different modalities of administration and police control. Land designated as Area A is under Palestinian administrative and police control. In Area B lands, the PA exercises administrative control but shares security control with Israeli authorities. Land designated as Area C, over which

### West Bank and Gaza: Key Facts and Figures (USD)

GDP (2021): \$18.04 billion

GDP per capita (2021): \$3,664

FDI, net inflows (2020): \$79.74 million

Exports (2021): 17.6 percent of GDP

Imports (2021): 56.8 percent of GDP

Poverty rate (2021 est.): 27.3 percent<sup>7</sup>

Unemployment rate (2021): 24.9<sup>8</sup> percent  
(13.2 percent West Bank; 44.7% in Gaza)

Key exports: Stone, olives, fruit,  
vegetables, limestone

Net official development assistance  
received (2020): \$2.03 billion

<sup>7</sup> World Bank Group, 2022. “Poverty is significantly higher in Gaza, with 46 percent of the population below the poverty line in 2016/17 compared to only 9 percent in the West Bank.”

<sup>8</sup> Ibid. “The unemployment rate in the Palestinian territories edged up to 24.2 percent in Q4 2021 from 23.4 percent a year earlier, due to a rise in the participation rate. The overall rate masks a wide regional divergence whereby unemployment in the West Bank reached 13.2 percent while in Gaza it was 44.7 percent.” The Palestinian Central Bureau of Statistics (PCBS) put the rate at 26%, with unemployment rate reaching 47% in Gaza Strip compared to 16% in the West Bank. On the gender level, the unemployment rate for females reached 43% compared to 22% for males in Palestine.

<sup>9</sup> Shikaki, 2021

Israel has both administrative and security control, covers more than 60 percent of the West Bank.

Another factor complicating political and economic control is the overlay of approximately 230 settlements located in Area C lands, in which approximately 400,000 Israeli citizens live under Israeli—not Palestinian—law. The PA also lays claim to East Jerusalem, land which Israel considers sovereign territory.

Gaza, which is controlled by Hamas but nonetheless is considered part of the Palestinian Authority, retains physical cohesion but is effectively blockaded at its land borders with Egypt and Israel. This complex arrangement generates numerous irregularities in not only physical but also digital connectivity in the West Bank.

## **POLITICAL CHALLENGES**

The Israeli security controls and restrictions, combined with the physical separation between West Bank and Gaza, create unique political challenges. The likelihood of reaching a permanent peace agreement with Israel in the near future is receding, eroding the public's confidence in the PA. The PA also has significant internal challenges related to public governance, lack of transparency, and limited institutional capacity of its public sector to deliver services efficiently and effectively to its citizens.

The economy and, consequently, Palestinian enterprises face continued difficulties, exacerbated by structural complexities. The West Bank and Gaza has a very large population of youth and emerging university graduates with limited job opportunities. The COVID-19 pandemic has added and contributed to an already complicated set of factors that increases unemployment and suppresses economic activity. Other factors, like the long-lasting political friction between Fatah (the political party governing West Bank and leading the PA) and Hamas (which governs in Gaza), the restrictions on the free movement of persons, and the continued fragmentation of West Bank's land, continue to restrain the growth potential of the Palestinian economy.

## **CONCLUSION**

As the global trend toward digitalization accelerates, the steps taken by the Palestinian government are important. However, they are not sufficient to compete or provide a basis for the Palestinian private sector to achieve significant economic growth nationally or regionally. It is therefore urgent that steps be taken toward establishing a strategic plan for the digital economy and to create more opportunities for the Palestinian private sector. Reforms will require close and effective coordination among the various stakeholders in the private sector and across various public institutions—not an easy task in the volatile political scene in West Bank and Gaza.

Within this set of challenges lies a silver lining. Developing a digital economy will help the West Bank and Gaza bypass and leapfrog stages of technological development. The youthful population is highly motivated and ready to immerse itself in the field of information technology (IT) and digital work. Facilitating this motivation can help enable Palestinians to find employment by servicing foreign markets and selling products online to customers at home and abroad. The prospects are promising on many levels: by building a better digital enabling environment for finance, jobs, and e-commerce, the livelihoods of many Palestinians will be improved. Taking advantage of these opportunities will require a concerted and highly coordinated effort.



## CHAPTER 2: DIGITAL ECONOMY AND COMMERCIAL LAW

### INTRODUCTION

Governmental and ministerial authorities have increasingly recognized the importance of the digital economy to support economic growth, especially in light of the COVID-19 pandemic. As a result, a number of ministries have included digital projects in their policies and plans and the government has committed to developing and implementing several laws to enable more digital services. However, concrete steps to implement these policies, and steps taken thus far, are slow and not sufficient to catalyze digitally driven national economic growth.

A viable digital economy requires a stable and predictable legal and regulatory framework. In the West Bank and Gaza, this framework is nascent and emerging. In 2021, the Palestinian government issued the National Development Plan (NDP) 2021–2023. The NDP sets out the “Economic Disengagement from the Occupation and Cluster Development” to develop policies aimed at improving the business environment, supporting and promoting the digital economy, enhancing ICT’s role to strengthen businesses, and improving cybersecurity. In that regard, the Ministry of National Economy (MoNE) and the Ministry of Telecommunications and Information Technology (MTIT) have started preparing the legal framework for related laws.

### POLICY OBJECTIVES AND LEGAL FOUNDATIONS

According to the International Telecommunication Union’s (ITU’s) 2020 ICT Regulatory Tracker, which measures trends in ICT legal and regulatory frameworks, West Bank and Gaza ranks 176 out of 193 countries, well below the Middle East and North Africa (MENA) average. This largely stems from the sizable security restrictions imposed by Israel with respect to building infrastructure, allocating spectrum, and restricting imports of basic and high-tech ICT equipment. There are also deficiencies in the ICT Palestinian regulatory framework, as well as capacity and resource constraints.

The following table summarizes the core institutions and legislation underpinning the digital economy in the West Bank and Gaza.

Table 1: Commercial Law: Institutions and Legislation

INSTITUTION	SECTOR	LEGISLATION
Council of Ministers and Presidency	Adopts legislation and issues decrees	The Basic Law [serves as a constitution]
<u>Council of Judges</u>	Resolves disputes	Judicial Authority Law #1 (2002) Penal Procedures Law
<u>Ministry of National Economy</u>	Business registration Consumer protection	<u>Company Law (March 2022)</u> <u>Consumer Protection Law #21 (2005)</u>
<u>Ministry of Telecommunications and Information Technology</u>	E-commerce	<u>Electronic Transactions Law #15 (2017)</u>
<u>Palestine Monetary Authority</u> <u>Palestine Capital Market Authority</u> <u>Ministry of Finance</u>	Digital financial services	<u>Law for the Settlement of National Payments #17 (2012)</u> , numerous <u>Secured Transactions Law #11 (2010)</u>

## ELECTRONIC TRANSACTIONS AND COMMUNICATIONS LAWS

**Electronic Transactions Law #15 (2017).** Although in 2017 the Council of Ministers adopted the Electronic Transactions Law, setting out provisions on electronic certifications and e-signatures, the proposed independent regulatory unit in the MTIT to manage its implementation and operation has not yet been established. While this law is generally in accord with international standards, it is not altogether consistent with the United Nations Commission on International Trade Law Model Law on Electronic Commerce (1996), especially related to the issue of legal predictability in electronic transactions. Also, the use of electronic signatures has not been recognized by the courts, blocking certain types of electronic contractual and financial transactions. In October 2021, draft amendments to the Electronic Transactions Law were prepared by MTIT but never adopted by the Council of Ministers that would make it compatible with the European Union's (EU's) "electronic identification, authentication, and trust services" (eIDAS) regulation that would fund a financially independent regulatory unit in MTIT. The Electronic Transactions Law also regulates electronic payments, so the two laws need to be reviewed and reconciled. The existing Evidence Law of 2001 does not recognize electronic signatures and requires all documents admitted into evidence to bear a live signature. This law must be reconciled with the Electronic Transactions Law.

**Telecommunications Law #3 (1996), as amended by Decree No. (37) of 2021 regarding communications and information technology.** This law aims to regulate the telecommunications and IT sectors, in line with technological development, and to ensure the provision of high-quality telecommunications and IT services. The amendments aim to create an independent regulatory authority that will encourage competition and investment in the telecommunications infrastructure to provide more high-speed broadband and more comprehensive coverage to remote areas. It also aims to develop a digital government and digital economy to better connect Palestinians to the world, to enable more global participation for Palestinian businesses, and to advance education and health care, among other goals. Although the amended law allows for the creation of the independent regulatory authority, the Council of Ministers has yet to establish it. MTIT is currently working on this issue.

## PRIVACY AND DATA PROTECTION LAWS

**Directive of the Minister of Telecommunications and Information Technology No. (2) of 2013.** Regarding the privacy and confidentiality of subscriber information and data protection issued pursuant to the Telecommunications Law No. 3 of 1996, Article (1) deems all personal data to be private and confidential.

**Council of Ministers Regulation No. (3) of 2019 regarding personal data of citizens issued pursuant to the Telecommunications Law (1996), as amended (2021).** This regulation stipulates a prohibition on the use of personal data (direct or indirect) of citizens for commercial use by companies and organizations; prior consent of the person is required.

**Cybercrime Law No. 10 of (2018).** This law penalizes cybercrimes with the aim of halting them.

## COMPANY AND ENTREPRENEURSHIP LAWS

**The Companies Law (newly adopted March 2022).** The PA recently approved a replacement for the two former company laws operating simultaneously—the Jordanian Companies Law No. 12 of 1964 operating in the West Bank and the Egyptian Companies Law No. 19 of 1930 operating in Gaza.<sup>10</sup> The new law is administered by the Ministry of National Economy and prevails in both the West Bank and Gaza. It effectively modernizes and simplifies the business registration process, bringing legal requirements in line with global best practices.

**The Start-up Act [draft].** The Ministry of Entrepreneurship and Empowerment (MoEE) is drafting this law, which is intended to fill a gap in the new Companies Law. Its objective is to provide a simplified

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<sup>10</sup> Sharp and Beyond, 2021

business registration process for start-ups, thus encouraging growth in this sector. Reviews of the draft have noted some deficiencies, including unclear and inconsistent definition of start-ups and the lack of a consultative process (to include both private and public stakeholders) for developing the draft.

## FINANCIAL SERVICES LAWS

**Law for the Settlement of National Payments #17 (2012).** This law gives the PMA power to develop, regulate, and supervise digital and electronic payments. This dual oversight and operation configuration is unusual and not in line with general best practices.<sup>11</sup> Please see page 33 for further details.

**Secured Transactions Law #11 (2016).** Pursuant to this law, the Ministry of Economy operates a movable assets registry, giving notice to potential lenders or other creditors of liens on movable property. This registry promotes lending by protecting the rights of creditors, including banks and specialized lending institutions, in registered assets, e.g., machines and farm equipment owned by individuals and small firms. This innovation especially targets the SME sector, which is the main player in economic development and comprises 96 percent of registered companies.

## MISSING LAWS

More work is required toward creating a legal framework to enable both online government services and the digital economy. This report recommends the following:

**Law on electronic commerce.** An electronic commerce law is needed to further facilitate digital transactions, providing certainty and predictability in the treatment of e-commerce.

**Law on personal data protection and digital privacy adoption.** The government also needs to complete the review and adopt the law on personal data protection and digital privacy. The only reference to personal data protection is made in the Council of Ministers Regulation No. (3) of 2019 and the Directive of the Minister of Communications and Information Technology No. (2) of 2013, as described above.

**Consumer Protection Law #21 (2005).** This law should either be amended or replaced, as it is silent on any provisions related to digital platforms. Currently, they are treated by this law as online advertisements. Missing are the terms of the policy of introducing the product or service provided, the merchant's data, commodity specifications, conformity certificates, labeling, and specifying the delivery and return costs and delivery dates, among other details. Please see page 19 for recommendations on this issue.

**Law on informatics.** This law would serve to address the rights and duties exercised by the state, legal entities, and individuals when creating, managing, using, and maintaining information technology systems, as well as principles and means for ensuring a balance between personal freedoms and protecting data.

**Law on access to information.** This law would address the individual constitutional right to access information, along with the principles, conditions, means, and order of accessing official information held by the providers of the information.

**Law on information and state information resources.** This law would provide limitations on the state use of personal data.

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<sup>11</sup> World Bank Group, 2021a

**Law on electronic communications.** This law would establish the basic rules and conditions of activities in the field of electronic communications. Such a law could build on the Law on Electronic Documents and Digital Signatures (2007), which sets forth the conditions under which digital signatures have the same legal effect as a handwritten signature.

**Law on e-contracts.** This law would effectively implement the United Nations Convention on the Use of Electronic Communications in International Contracts (2005), addressing the creation and enforcement of electronic contracts and agreements.

## **CORE INSTITUTIONS**

**The Ministry of National Economy** has numerous responsibilities, including regulating trade, business registration, SMEs promotion, and enforcing competition policy and consumer protection. According to interviews undertaken for this study, there is general consensus between government and donors for forging a strategy to improve the Ministry's capacities in: 1) managing e-commerce; 2) introducing a straightforward process to register SMEs that are active in e-commerce; 3) setting clear follow-up mechanisms and procedures for electronic fraud and deception; 4) adopting a penalty system for those that do not comply with the law; and 5) improving its capacities with respect to competition policy and consumer protection.

MoNE's supervisory authority is weak, and it is reportedly unable to ensure fair competition in the market between formal and informal SMEs active in e-commerce. MoNE's Consumer Protection Department does not adequately follow up with unregulated SMEs active in e-commerce, even though such SMEs pose higher risks of fraud, deception, and data theft. MoNE has an urgent need to develop new procedures and regulations to manage these risks, particularly for informal companies engaging in online transactions.

**Ministry of Telecommunications and Information Technology.** Created in 1995 after the signing of the Oslo Agreement, MTIT has the exclusive mission to develop, oversee, and organize the telecommunications and information technology sector. The ministry licenses and supervises mobile phone operators and regulates prices for Internet, landline, and mobile phone services. MTIT regulates the Palestinian Post and private delivery and shipping companies. In January 2022, it issued instructions for the use of the newly adopted Palestinian postal code system (akin to U.S. zip codes). MTIT is also integral to the development and implementation of the e-government gateway—a single point of access for all citizen or business interactions with the government, such as tax payments and registration applications. Recently, MTIT started documenting Palestinian websites that are active in e-commerce, and it is developing a mechanism to control web pages that engage in fraud and mislead shoppers.

**The Ministry of Entrepreneurship and Empowerment.** This ministry was created in 2019 to improve cooperation among many governmental agencies and to further assist in the improvement of the enabling environment for the emergence of innovative high-growth enterprises. Given the numerous streams and actors with similar mandates, it is critical that policy communication and coordination exist among the various stakeholders to support legislative instruments that promote entrepreneurship. Improving entrepreneurs' access to global markets, facilitating digital entrepreneurship and skills development, providing access to early-stage funding, and improving the regulatory environment by introducing a Start-Up Act are among the short-term priority initiatives identified by the MoEE as part of its National Strategy.

**Palestine Monetary Authority.** The PMA is the monetary authority and central bank for the PA territories. Please see page 35 for further detail.

**Palestine Capital Market Authority.** The PCMA regulates, develops, and supervises the activities of the non-banking financial sector. Please see page 35 for further detail.

**Ministry of Finance (MoF).** MoF is given authority to regulate e-commerce, particularly with respect to taxation. Please see page 60 for further detail.

## **ADDITIONAL STAKEHOLDERS**

**Palestinian Bar Association.** The PBA supports digital work and has been involved in automating all of its services, and it expects to complete this automation by the end of 2022. However, the PBA offers few services and its activities are limited.<sup>12</sup> Its main role is to advocate for improvements in litigation procedures and case management to ensure better time management on cases, ease backlogs, and enable more cost-effective delivery of legal services.

**Prosecutors.** The Office of the Attorney General (Prosecutor General) is part of the judicial system. Prosecutors do not receive training on digital laws, and many lack sufficient awareness of new laws in the digital domain. Because prosecutors handle and prosecute cybercrimes as well as intellectual property rights (IPR) violations, their work would be greatly enhanced through the acquisition of digital technology for use in forensic labs and crime scene investigations.

**Judicial Council.** Judges are appointed by recommendation of the Judicial Council and confirmed by the president according to the Basic Law, as amended in 2003, and the Judicial Authority Law #1 (2002). The justice system is inefficient and characterized by weak institutions susceptible to political influence, weak governance, and antiquated processes and procedures. Judges receive limited training on both substance and legal procedures regarding cases involving the digital economy, and they have limited accountability. Judges may postpone cases at the request of the attorney or for no reasonable cause at all. Parties to litigation, even in a low-value e-commerce transaction, can appeal a lower court judgment to the Court of Appeals and then to the Supreme Court.<sup>13</sup>

**Academics and legal faculty.** The quality of legal education is mediocre in all 11 law schools (8 in West Bank and 3 in Gaza) and in the several law colleges. Professors typically avoid introducing new curricula to promote change and generally do not include digital laws as part of the curricula. As a result, many students and law school graduates lack digital skills and cannot do basic electronic research.

**Clients.** Clients resort to the courts and the justice system only as a last resort after having exhausted other options to resolve conflicts. Most become even more frustrated after they experience the prolonged and inefficient justice process. The poor quality of judgments has furthered the public's loss of trust in the system.

## **POLITICAL ECONOMY**

According to the Basic Law, the legislative power of the government is vested with the Legislative Council (Parliament). Laws are adopted after three readings with opportunities for stakeholder and public consultations. In 2006, following the election of the Hamas movement by a plurality and the declaration of a state of emergency due to heavy international pressure by President Mahmoud Abbas, the Legislative Council was suspended. Since that time, laws have been passed by Presidential Decree.

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<sup>12</sup> For example, the Palestinian Bar Association (PBA) does not offer continuing legal education programs or notarial services.

<sup>13</sup> The judicial system requires a digital transformation of its own: Court procedures are performed manually, and court pleadings are not filed or managed electronically. All documents must bear written signatures and must be duly authenticated for admissibility into evidence. Emails, recordings, and electronic signatures are not accepted because judges cannot verify their authenticity. Parties to litigation, even in a low-value e-commerce transaction, can appeal a lower court judgment to the Court of Appeals and then to the Supreme Court, according to the civil procedures law. There is no digital filing of the complaints, pleadings, or other documents. Lawyers can only track and print the lower courts' hearing records.

The president issues laws by decree, pursuant to the emergency powers set out in the Basic Law (Article 43). Laws are regularly passed by decree without public hearings or vetting by stakeholders, casting shadows on their absolute validity.

The situation in Gaza further complicates the development of digital regulations because the *de facto* Hamas government issues its own laws and regulations, creating legal cleavages between it and the West Bank. Against this background, the private sector—including the business and banking community—is torn. It desires legal and institutional changes to modernize government services and to support the development of the digital economy, but at the same time it sees that the many reforms are self-serving and do not further public welfare and the economy.

Once elections are held, the newly elected Palestinian Legislative Council must revalidate those laws adopted by decree, possibly amending them where appropriate. It will also need to harmonize the legal divergences between the West Bank and Gaza.

## **GENDER AND YOUTH INCLUSION**

While the legal and regulatory framework that underpins the digital economy does not explicitly discriminate against women or youth, some outdated regulations undermine their participation in the system. Women can start a company and build a business without a man's permission, but the business environment in the West Bank and Gaza limits access to credit for women and youth. Although the laws themselves do not discriminate between men and women, young or old, the same laws fail to provide incentives to the young or poor to access capital and establish a business. Market entry is logistically burdensome, and it comes at a high cost. This drives a large informal sector with many women (less so youth) creating start-ups from home, but outdated laws and regulations requiring licenses, registration, and storefronts remain and limits opportunities to engage in the digital economy. Removing or updating these laws and regulations should and can remedy most of these issues. The applicable law today dates back to 1966 (Commercial Law of 1966), when start-ups and gender and youth issues were not part of policies underlying law formulation.

Women are also underrepresented in the development of laws and regulations. Political participation of women is in decline, and they are not equally represented in the legal profession. Women make up only 34 percent of lawyers (2021) and 19 percent (2020) of judges. Increased female engagement in the legal profession and in the development of the laws and regulations that govern the digital economy would help ensure that the regulatory framework is not only gender neutral but in fact also actively supports women's engagement in the development of the digital economy.

## **BARRIERS**

Within the commercial legal environment, there are several key barriers that limit the growth of the digital economy.

**Limited coordination and capacity in key ministries.** Different ministries that are focused on various aspects of the digital economy (such as the MTIT, the Ministry of Education [MoE]/Ministry of Higher Education [MoHE], the Ministry of National Economy, and the PMA) do not coordinate closely on their respective policies and strategies. This limits the government's ability to develop a coherent regulatory framework, allocate resources efficiently, prioritize key legislation for cross-cutting issues (such as digital signatures), improve judicial dispute resolution, and develop a coordinated e-commerce strategy and policy framework.

**Complex and fragmented ICT regulatory environment.** The PA and, in particular, the Ministry of Telecommunications and Information Technology, are making an effort to develop laws to promote competition in the ICT sector and to support the development of critical connectivity infrastructure. However, the complex relationship with Israel and with its policies, regulations, and control over access to critical infrastructure limits the impact of Palestinian laws and policies. For example, Israel

has effectively restricted Palestinian mobile phone networks to using 3G technology in West Bank and 2G in Gaza. The fact that there are separate regulatory frameworks governing West Bank and Gaza further complicates issues.

## RECOMMENDATIONS

Table 2: Recommendations for Digital Economy and Commercial Law				
	WHAT	WHY	CURRENT INITIATIVES	ECONOMIC PRIORITY
1	<p><b>Developed e-commerce regulatory environment.</b></p> <p>Further develop the e-commerce legal regulatory environment with a dedicated e-commerce law and by promoting compliance and enforcement of current laws governing e-commerce.</p>	<p>West Bank and Gaza lacks an e-commerce law, and the existing framework is based on pre-digital laws, including the General Trade Law, the Jordanian Trade Law (1966), and the Consumer Protection Law #21 (2005). The law and the proposed amendments should clearly specify what is meant by “e-commerce” and should define key terms, such as “small shipments.”</p> <p>Websites and businesses working in e-commerce frequently do not abide by existing laws, requirements, or policies related to commerce in general and to e-commerce in particular. This includes the terms of the policy of introducing the product or service provided, the merchant’s data, commodity specifications, conformity certificates, and labeling, and the specifics of the delivery and return costs, delivery dates, and more.</p>	None known	High: Addresses complex and fragmented ICT regulatory environment
2	<p><b>Standardize recognition of e-signatures.</b></p> <p>Harmonize the legislative framework for the exchange of electronic documents and the recognition of electronic signatures in line with the e-Transactions Law, No. 15.</p>	E-signatures are not recognized in all government transactions and procedures. For example, they are not acknowledged by the courts for purposes of evidence and the execution of contracts, wills, and property transfers. Certain financial services and execution of contracts via Internet applications is not possible.	MTIT is currently working on creating the e-signature platform.	High: Addresses complex and fragmented ICT regulatory environment
3	<p><b>Develop e-commerce consumer protection.</b></p> <p>Develop and adopt a harmonized framework or protocol for e-transactions, cybercriminality, personal data protection, authentication,</p>	<p>Websites and businesses that work in the field of e-commerce are not effectively regulated by the laws, requirements, and policies related to commerce in general.</p> <p>Existing consumer protection laws do not cover</p>	None known	Medium: Addresses complex and fragmented ICT regulatory environment



	electronic certification, cryptography, and consumer protection, and amend or revise consumer protection legislation to encompass digital trade and e-commerce.	digital trade or e-commerce. Missing are the terms of the policy introducing the product or service provided, the merchant's data, commodity specifications, conformity certificates, and labeling, and specifying the delivery and return costs, delivery dates, and more.		
4	<b>Incentivize SME formalization.</b> Develop incentives and encourage policies to register all small enterprises active in the field of e-commerce.	The MoNE and the MTIT are charged with maintaining registries of firms engaged in e-commerce. This is done to better protect the Palestinian market from harmful goods and products and to protect consumers from cases of fraud and forgery.	None known	Medium: Addresses complex and fragmented ICT regulatory environment
5	<b>Support women's empowerment.</b> Promote and support women's engagement and leadership in policy and decision-making.	Women's earnings are less than those of men. The women furthest left behind and most marginalized (e.g., the female heads of households, the working poor, women with disabilities, and rural women) are typically below the poverty line. Policy revisions and increased access to digital services can improve outcomes.	None known	Medium: Addresses complex and fragmented ICT regulatory environment
6	<b>Implement telecommunications Law and 4G frequency.</b> Support the MTIT's implementation of the new telecommunications law, and coordinate with the Government of Israel (GoI) to allocate sufficient electromagnetic spectrum to allow the introduction of 4G service in the West Bank and 3G service in Gaza.	Existing 3G and 2G cellular technology is rapidly becoming obsolete. <sup>14</sup> The inability to upgrade to faster and more reliable technology weakens West Bank and Gaza's competitiveness in digital outsourcing. It also blocks the wider provision of Internet service to rural areas. MTIT is ready to work with the Israeli side after Israel agrees to provide sufficient spectrum allocation to allow 4G frequency service in the West Bank.	The World Bank is supporting MTIT's establishment of a Telecom Regulatory Authority. It also worked with MTIT to amend the existing Telecommunications Law.	High: Addresses complex and fragmented ICT regulatory environment and limited coordination and capacity in key ministries
7	<b>Improve allocation of resources through e-procurement solutions.</b> Promote the proper allocation of government resources by implementing e-procurement	E-procurement systems in other economies have demonstrated the ability to reduce corruption, inhibit vendor collusion, and improve competition.	None known	High: Addresses complex and fragmented ICT regulatory environment and

<sup>14</sup> 2G cellular service has already been ended by most U.S. mobile phone networks. T-Mobile is expected to follow suit in December 2022.

	solutions.			limited coordination and capacity in key ministries
8	<b>Improve commercial dispute resolution.</b> Promote judicial reform to make court procedures easier and more efficient.	Dispute resolution through the judicial system is slow and frustrating. Court procedures allow indefinite delays; physical appearance in court is necessary to pursue a case, which is difficult in the West Bank and Gaza due to checkpoints. Court systems are not digitized.	None known	Low: Addresses complex and fragmented ICT regulatory environment

## CHAPTER 3: DIGITAL ENTREPRENEURSHIP

### INTRODUCTION

In the West Bank, the emergence of the technology-based start-up scene has been the result of restrictions on movement, access, and trade that have kept production and investments in traditional sectors low. It is an early-stage ecosystem with no substantial exits and only a handful of technology-based start-ups that have a potential to thrive. Despite the availability of a young and educated workforce, with more than 85 percent of founders having a university degree and with over 4,000 science, technology, engineering, and mathematics (STEM) graduates annually, there is a consensus among ecosystem players that the Palestinian educational system does not instill entrepreneurial mindset and attitudes early on.

### OBJECTIVE

To foster the development of a coordinated and gender-inclusive entrepreneurship ecosystem that supports business development starting at the pre-seed stage, prioritizing local solutions and talent retention to contribute to a thriving digital economy.

### POLICY OBJECTIVES AND LEGAL FOUNDATIONS

The following table summarizes the institutions and legislation relevant to fostering digital entrepreneurship in the West Bank and Gaza. For additional information on these laws and ministries, please refer to the relevant section on laws and institutions in Chapter Two: “Digital Economy and Commercial Law.” Additional institutions and stakeholders that are uniquely relevant to digital entrepreneurship are presented below.

Table 3: Digital Entrepreneurship: Institutions and Legislation

INSTITUTION	SECTOR	LEGISLATION
<u>Ministry of National Economy</u>	Business registration Consumer protection	<u>Companies Law</u> <u>Consumer Protection Law #21 (2005)</u>
<u>Ministry of Entrepreneurship and Empowerment</u>	Simplified business registration for start-ups	<u>The Start-up Act [draft]</u>
<u>Ministry of Telecommunications and Information Technology</u>	E-commerce	<u>Electronic Transactions Law #15 (2017)</u>

### CORE INSTITUTIONS

**The Ministry of Entrepreneurship and Empowerment** was created in 2019 to improve the enabling environment for the emergence of innovative high-growth enterprises. This includes financial and technical support for Palestinian youth, women, entrepreneurs, and college graduates.

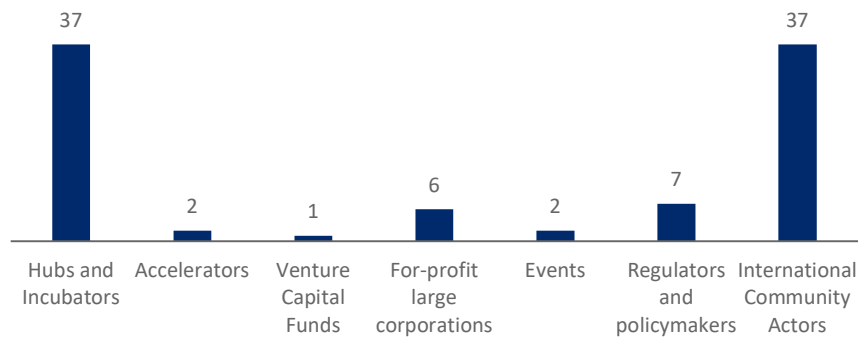
**Higher Council for Innovation and Excellence (HCIE).** The HCIE was established in 2012 to consolidate and promote a culture of innovation throughout Palestinian society, especially among the youth. It aims to develop a national innovation system as the primary foundation of the knowledge economy. The HCIE has developed a code of conduct that encompasses ideas, directions, and standards in the operation and promotion of innovation and excellence. It supports institutions also working in this sphere by improving their institutional capacities, encouraging coordination and

concerted efforts, integrating their responsibilities to maximize collective effect, and eliminating duplication and fragmentation of efforts.

## ADDITIONAL STAKEHOLDERS

**Entrepreneurship support organizations (ESOs).** The Palestinian tech start-up ecosystem is in an “early activation phase,” with low early-stage funding, no high-value scale-ups, and only two recorded exits. A recent report published by Intersect Innovation Hub, which is supported by the Bank of Palestine, mapped 102 start-ups and 94 enablers in the Palestinian start-up ecosystem, as of December 2021. Thirty-seven of the 92 enablers (40 percent) have direct connections to the international community. This is a high figure, given the ecosystem's size and development; however, donor and state financing do not necessarily reflect market demand and supply trends.

Figure 1: Breakdown of Tech Start-up Ecosystem Enablers, 2021<sup>15</sup>



Although existing incubators and accelerators provide entrepreneurs with different levels of quality services, stage specialization, and business models, they lack the managerial capacity and long-term operational strategy to be effective. Only a few have well-functioning, curriculum-based programs. This has implications for the kind of start-ups that can be supported, as well as for the readiness of start-ups throughout the early phases of growth. As a result, existing accelerator or incubator programs fail to produce a sizable number of high-quality start-ups.

For the past few years, international donors and local NGOs have been heavily engaged in supporting entrepreneurship and the development of digital skills in the West Bank and Gaza. As of 2022, there are between 432<sup>16</sup> and 650<sup>17</sup> NGOs working in the area, 52 of them working in the educational domain and 11 in income generation. A 2021 project mapping of the Palestinian start-up ecosystem showed that there are 37 international organizations and donors and around 38 local hubs and incubators working in the start-ups and skills domain.<sup>18</sup>

<sup>15</sup> Intersect Innovation Hub, 2021

<sup>16</sup> Arab.org, 2022

<sup>17</sup> Masader, 2022

<sup>18</sup> Qasem, 2021

Figure 2: Project Mapping of the Palestinian Start-up Ecosystem<sup>19</sup>

INTERNATIONAL COMMUNITY		
<ul style="list-style-type: none"> <li>• Action aid</li> <li>• AICS (Italian Agency for development cooperation)</li> <li>• Anima investment network</li> <li>• Australian Representative office</li> <li>• Australian Development Agency</li> <li>• Bedar platform</li> <li>• Care International</li> <li>• Cewas Middle East</li> <li>• Cowater International</li> <li>• DAI (Development Alternatives)</li> <li>• Drosos</li> <li>• Enabel</li> <li>• Representative Office of Finland</li> </ul>	<ul style="list-style-type: none"> <li>• GIZ (Deutsche Gesellschaft for International Zusammenarbeit)</li> <li>• Hult Prize</li> <li>• Injaz</li> <li>• International Monetary Fund</li> <li>• KfW Development Bank</li> <li>• Leaders International</li> <li>• Mercy Corps</li> <li>• Netherlands Representative Office</li> <li>• Office of European Union Representative</li> <li>• Oxfam</li> <li>• Qaddumi Foundation</li> <li>• Representative Office of Canada</li> </ul>	<ul style="list-style-type: none"> <li>• The World Bank Group/IFC/MIGA/World Bank</li> <li>• U.S. Palestinian Affairs Unit</li> <li>• UNDP (United Nations Development Program)</li> <li>• UNEP (United Nations Environment Program)</li> <li>• UNICEF (United Nations International Children's Emergency Fund)</li> <li>• UNIDO (United Nations Industrial Development Organization)</li> <li>• USAID (United States Agency of International Development)</li> <li>• Sanad Fund for MSME</li> <li>• SDC (Swiss Development Cooperation)</li> <li>• Startups of Palestine</li> <li>• Founder Institute</li> <li>• CEN (Global Entrepreneurship Network)</li> </ul>
HUBS AND INCUBATORS		
<ul style="list-style-type: none"> <li>• B-Hub (Birzeit university)</li> <li>• Bader ICT Incubator</li> <li>• BCITE (AL-Quds Business Center for Innovation, Technology, and Entrepreneurship)</li> <li>• Palestinian Incubator for Energy</li> <li>• Build Palestine</li> <li>• Business Incubator Unit Palestine Polytechnic University)</li> <li>• BWF (Business Women Forum) Connect</li> <li>• Factory X</li> <li>• Gaza Sky Geeks</li> <li>• Ghadeer Future Accelerators</li> <li>• Felestinya (Bank on Palestine)</li> <li>• PCMA (Palestine Capital Market Authority)</li> <li>• UMake</li> </ul>	<ul style="list-style-type: none"> <li>• HCCI Business Incubator (Hebron Chamber of Commerce and Industry)</li> <li>• HCIE (Higher Council for Innovation and Excellence]</li> <li>• Innovate Gaza (Ma'an Innovation and Entrepreneurship Hub)</li> <li>• Innovation Center (Najah National University)</li> <li>• Intersect Innovation Hub</li> <li>• Jerusalem High Tech Foundry</li> <li>• Jest Hub</li> <li>• Mena catalyst Foundation</li> <li>• NGate (Najah National University)</li> <li>• Palestine - India Techno Park</li> <li>• PCI (Palestine Cultural Incubator)</li> <li>• BBI (Bethlehem Business Incubator]</li> <li>• Work Factory</li> </ul>	<ul style="list-style-type: none"> <li>• PICTI (Palestine Information and Communication Technology Incubator)</li> <li>• Rubix Hive</li> <li>• Shiam</li> <li>• Station J</li> <li>• Taawon</li> <li>• The Mountain</li> <li>• UCAS Technology Incubator</li> <li>• Women500 innovation Hub</li> <li>• Y-Hub Youth Without Borders)</li> <li>• Fikra (Patel Group innovation Hub)</li> <li>• Connect (Rawabi Tech Hub)</li> <li>• YWCA (Young Women's Christian Association)</li> </ul>

The following four primary challenges concern ESOs and were validated during interviews conducted with input from stakeholders.

First, while ESOs have access to significant grants, they typically lack the commercial experience to efficiently utilize the funds. Most grant programs are funded by donor organizations operating in silos, with little cooperation. Rising entrepreneurs are shielded from genuine competitive market forces by the uncompetitive, fragmented, and relatively well-funded nature of assistance programs.

<sup>19</sup> Intersect Innovation Hub, 2021

Second, mentorship programs have minimal influence on start-up performance, implying that they either are of mediocre quality, are not functioning effectively, or are not well-attuned to the economy of West Bank and Gaza. Despite links to worldwide networks via international institutions and accelerators, these connections are not being used to recruit mentors with the proper skills.

Third, many Palestinian entrepreneurs fail to develop their companies to the level required to attract investors because they lack access to quality mentoring and support from abroad. Most programs engage local mentors with minimal experience and exposure, insufficiently stimulating innovation and entrepreneurial thinking.

Fourth, while the present capital financing framework draws in would-be entrepreneurs by offering seed investment, there is little access to larger-scale funding at later stages. There is a scarcity of angel investors to support start-up growth and achieve long-term impact.

**Donor organizations.** Most activities under the entrepreneurship, start-up, and innovation rubric remain donor-driven in the West Bank and Gaza. Efforts to transform the Palestinian economy into a digital and knowledge-based economy are frequently developed with the active participation of bilateral and multilateral agencies (e.g., USAID, World Bank, German Agency for International Cooperation [GIZ], Australian Agency for International Development [AusAID], Inter-American Development Bank [IDB], Sustainable Development Goals [SDG], EUROMED) or international NGOs (e.g., Spark, Mercy Corps, Care, U.S. Department of State Middle East Partnership Initiative [MEPI], We Effect), which fund through local NGOs (LEADERS, Welfare Association, Ibtikar Fund, Palestine for a New Beginning [PNB], Sharek Youth Forum, INJAZ, and Pioneers of West Bank and Gaza - Synergos).

The European Palestinian Credit Guarantee Fund (EPCGF) is a notable example of a cooperation project between Palestinian banks and foreign fund agencies to boost Palestinian start-ups and SMEs. Generally, banks are not well positioned to provide start-up financing due to the high risk and their limited institutional capacity to evaluate start-ups on a case-by-case basis. EPCGF is a partial credit guarantee initiative designed to improve finance availability for Palestinian entrepreneurs. Increasing access to this type of financing is critical for helping entrepreneurs move away from grants toward concessional and commercial financing. It provides partial credit guarantees to partner banks for loans targeting SMEs and start-ups and has so far guaranteed loans totaling U.S. dollars (USD) \$97.5 million.<sup>20</sup>

The table below highlights some of the ongoing interventions aimed toward further development of the entrepreneurial ecosystem and job creation.

<b>Table 4: Other Donors and Their Interventions</b>	
<b>DONOR PROGRAM</b>	<b>INTERVENTION</b>
<b>More Job Opportunities for Palestinian Youth</b>	<ul style="list-style-type: none"> <li>• Funded by GIZ</li> <li>• Lead executing agency: Ministry of Higher Education and Scientific Research, Ministry of Labor (MoL)</li> <li>• Five courses: Electrical Engineering, Business Administration, Digital Business, Information Technology, and Industrial Engineering</li> <li>• Sponsors short courses for marginalized young people, offering them the opportunity to gain certificates that are relevant in the labor market</li> </ul>

<sup>20</sup> Brown and Gietzen, 2015

<b>Palestinian Youth Empowerment Program</b>	<ul style="list-style-type: none"> <li>• Funded by Enable</li> <li>• Enhances Palestinian young people’s employability and economic empowerment</li> <li>• Strengthens youth resilience, and aims to contribute to support West Bank and Gaza in gaining economic autonomy and to build up resilience among Palestinian youth</li> </ul>
<b>Orange Corners</b>	<ul style="list-style-type: none"> <li>• An initiative of the Kingdom of the Netherlands in collaboration with Flow Accelerator</li> <li>• A six-month business support program, focused on product-market fit, access to ready markets, training, master class, networking opportunities, and technical support</li> <li>• Supporting young Palestinians in Gaza and West Bank in realizing their entrepreneurial ideas</li> </ul>
<b>START</b>	<ul style="list-style-type: none"> <li>• Funded by the Swiss Cooperation Office—Gaza and West Bank</li> <li>• An incubation program for creative entrepreneurs who want to establish successful companies</li> </ul>
<b>Gaza Sky Geeks</b>	<ul style="list-style-type: none"> <li>• Funded by Mercy Corps</li> <li>• One thousand hours of intensive coding and professional skills training</li> </ul>
<b>World Bank project: Innovative Private Sector Development (IPSD)</b>	<ul style="list-style-type: none"> <li>• The IGNITE Program (Investment Readiness Support) aims to enhance the investment deal flow in the West Bank and Gaza. It supports high-potential, innovative start-ups and SMEs to develop business financing strategies and to attract private investment. It includes technical assistance and coaching, as well as grant funding, delivered in two stages.</li> <li>• The Nexus Market Linkages Program is dedicated to accelerating start-up and SME growth by helping them to expand into international markets and to connect with new customers and investors.</li> </ul>
<b>World Bank project: TechStart</b>	<ul style="list-style-type: none"> <li>• <u>The Student Internship Stipends Window</u> will be available to students in the last two years of their university studies.</li> <li>• <u>The Train-to-Hire Stipends Window</u> will be available to university graduates who need to gain knowledge and practical skills in mid-level or advanced-level value-added IT services.</li> <li>• <u>The On-the-Job Training Stipends Window</u> will help cover the remuneration of new IT staff who need to gain knowledge and practical skills in mid-level or advanced-level value-added IT services that cannot easily be found in the Palestinian labor force but that are essential to being hired for new IT services projects with international buyers, based on a letter of intent/soft contract with an international buyer.</li> <li>• <u>The Expatriate Stipends Window</u> will support international staff with senior technological expertise or leadership experience to work with Palestinian IT services firms to build the technical and managerial capacity of their workforce.</li> </ul>
<b>Small Business Development Program</b>	<ul style="list-style-type: none"> <li>• Funded by the United Palestinian Appeal</li> <li>• Provide unemployed, underemployed, or self-employed Palestinians with business training and resources</li> <li>• “Illuminating Gaza: One Harbor at a Time”</li> </ul>

## **POLITICAL ECONOMY**

Israeli restrictions and policies constrain the commercial viability and economic potential of the West Bank and Gaza IT ecosystem. Many Palestinians feel that Israeli government efforts to enhance the security of Israeli citizens and to maintain social stability throughout the Palestinian territories and Israel have a quality of arbitrariness and all too frequently cause restrictions in connectivity, technology transfer, and freedom of personal movement, thus undermining the development of the Palestinian knowledge-based economy.

## **ACCESS TO MARKETS**

According to Startup Genome, the local tech start-up community is cohesive and supportive, with slightly higher levels of local connectedness than the global average for similar ecosystems. However, the assessment of early-stage funding and market reach indicates that the ecosystem is less globally connected than the global average. The West Bank and Gaza ecosystem has 3.2 connections between start-up founders and peers in the top seven ecosystems, compared to an average of 4.2 in ecosystems at the same stage of development. This is reflected in the low share of worldwide consumers, with poor sales to overseas markets and fewer linkages to leading ecosystems.

International buyers and investors are discouraged from seeking business opportunities in the West Bank and Gaza due to high search and transaction expenses in discovering business partners and comprehending the business climate. International purchasers are mostly ignorant of the prospects in IT service exports and are likely to be hesitant to pursue them due to the perceived riskiness of the West Bank and Gaza market, limiting opportunities for entrepreneurs.

According to a poll of 300 foreign purchasers, 55 percent were "totally uninformed" of West Bank and Gaza's IT outsourcing possibilities. Even among those who were informed, only 30 percent of those who had not done business in the West Bank and Gaza said they would consider it for future requirements, while 70 percent of those who had outsourced to the West Bank and Gaza previously said they would consider it for future contracts.

Few Palestinian IT firms have a business presence outside of West Bank and Gaza, limiting the sector's exposure to potential clients. Access impediments into and out of the West Bank and Gaza also reduce the IT sector's worldwide exposure. Permit requirements (especially for Gaza) strain market linkages and dampen connections with potential international clients. Many international clients involved in outsourcing, particularly those working with nearshoring and team extension arrangements, expect frequent face-to-face meetings and periodic collocation of team members to ensure knowledge transfer and skills upgrades.

Information gaps between overseas customers and local businesses limit outsourcing incentives. International buyers have poor knowledge of Palestinian enterprises' capabilities, and Palestinian firms have a poor comprehension of the needs of potential clients abroad. This restricts opportunities to form trusted relationships with new counterparts. Due to risk and learning curve concerns, several global clients operating in the West Bank and Gaza are hesitant to engage with unknown or unproven local entrepreneurs in the region, hindering market competition.

## **GENDER AND YOUTH INCLUSION**

The West Bank and Gaza is unable to realize its full potential due to the limited involvement of women in the IT services sector. This is particularly reflected in senior roles. Women computer science graduates have a significantly higher unemployment rate than comparably skilled men (45 percent versus 25 percent, according to the Palestinian Central Bureau of Statistics [PCBS]), despite near gender parity in post-secondary education. This disparity persists despite women graduating at a rate higher than men throughout all levels and despite their being more likely to enroll in university. Nearly half of women with advanced degrees are unemployed.



Currently, 23 percent of technology start-up founders in the West Bank and Gaza are women. This presence of women in leadership roles in tech start-ups presents a wonderful opportunity for women's engagement in the workforce in general—and ICT in particular—as women business owners tend to hire more women.<sup>21</sup> In 2019, only about 3 percent of women reported being employers, indicating that most women-led businesses were very small, but the representation of women as leaders in the ICT sector could generate important opportunities for women's economic empowerment.

Women's engagement in digital entrepreneurship is also particularly promising as it can help women engage productively in the economy despite mobility issues. For women facing mobility limitations due to social pressures and family responsibilities, technology-enabled entrepreneurship can offer more flexible working terms through remote work and e-commerce. This may enable larger numbers of women to enter the labor force and find employment.

## **BARRIERS**

**Weak governance of the entrepreneurship ecosystem.** Governance deficits, overlapping authorities, paucity of data, and a lack of coordination make it harder to formulate and implement policies that address actual developmental demands. Recently, the Ministry of Entrepreneurship and Empowerment was established with a mandate to strengthen the coordination among the different players by forming a steering committee comprising start-ups, ecosystem support organizations, and representatives from government and the private sector. The Higher Council for Innovation and Excellence is another important entity with comparable responsibilities, which produces redundancy and confusion.

**Limited effectiveness of existing entrepreneurship programming.** While there are many incubators and accelerators, the existing entrepreneurship support organizations do not effectively support the ecosystem and connect entrepreneurs to global markets. Almost no ESO program offers a pre-seed or risky prototyping fund that prepares entrepreneurs to move from the ideation stage to prototypes and then to market, hence satisfying investor due diligence criteria. As a result, entrepreneurs lack the crucial business and financial skills required to attract financing.

**Scarcity of experienced mentors, missing women employees, and the “talent brain drain.”** Human capacity remains unnecessarily deficient. Mentors are scarce and possess little experience, limiting their ability to transfer knowledge and to develop the business acumen of budding entrepreneurs. Nearly half of women IT graduates are not employed, sapping the labor pool. Many of the best and brightest from among Palestinian tech experts depart from the ecosystem when offered Israeli work permits, drawn by higher salaries.

**Higher education institutions (HEIs) do not play a core role in the ecosystem.** HEIs have weak linkages with the private sector, and there is not enough data to evaluate whether applied research output is being commercialized and turned into start-ups.

**Limited innovation capacity in traditional sectors.** Entrepreneurs in traditional sectors face additional challenges resulting from the geographic segmentation of economic activity and the poor networks and linkages among sector players. Movement and access issues fueled by the difficult political economy also limit the expansion of business beyond the domestic Palestinian market. It is therefore critical to explore interventions that systematically raise awareness about market-driven challenges. At the same time, it is important to build the innovation potential and overall capacity and technical skills required of entrepreneurs at the ideation stage to develop innovative solutions, business models, and products that leverage technology and digital channels.

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<sup>21</sup> World Bank, 2019

## RECOMMENDATIONS

<b>Table 5: Recommendations for Digital Entrepreneurship</b>				
	<b>WHAT</b>	<b>WHY</b>	<b>CURRENT INITIATIVES</b>	<b>ECONOMIC PRIORITY</b>
1	<p><b>Provide entrepreneurial ecosystem mapping and identification.</b></p> <p>Support the expansion and uptake of platforms that provide up-to-date data on digital business in West Bank and Gaza, including performance indicators of the entities, such as:</p> <ul style="list-style-type: none"> <li>• Type of business (service providers, e-commerce, software, IT support, etc.)</li> <li>• Annual turnover</li> <li>• Number of employees</li> <li>• Main clients</li> <li>• Leadership team</li> <li>• ESO programs offered and number of beneficiaries</li> </ul>	<p>No systematic effort exists to map the digital business landscape in the West Bank and Gaza on a regular basis. Recent official data on ICT adoption among businesses is lacking, and even when available, it is scattered across different organizations and government bodies.</p> <p>A more consistent effort to track the performance of the sector would serve as a critical policy tool for the PA, international development organizations, and the local private sector, improving governance of the sector.</p>	<p>Two platforms already active in the market include Flow Accelerator Map<sup>22</sup> and Polaris,<sup>23</sup> which was launched by Intersect Accelerator and the Bank of Palestine.</p>	<p>Medium: Addresses weak governance of the entrepreneurship ecosystem</p>
2	<p><b>Improve ESOs to promote access to local and regional markets and regional capital.</b></p> <p>Establish a clearly defined entrepreneurship support value chain through enhanced collaboration between local</p>	<p>Even though West Bank and Gaza has a significant number of ESOs, only a handful have well-functioning, curriculum-based programs.</p> <p>Most of these organizations have not had much success in creating scalable start-ups and remain highly dependent on donor funds to run their operations. This structure limits the development of new projects and innovative ideas.</p>	<p><b>Founder Institute Palestine</b></p> <p>Founder Institute Palestine is a leading global pre-acceleration program headquartered in San Francisco. There is a Palestine chapter for this program, which provides entrepreneurs access to world-class knowledge and curricula, as well as a network to tap into.</p>	<p>Medium: Addresses limited quality of the support infrastructure and limited innovation capacity in traditional sectors</p>

<sup>22</sup> Flow Accelerator, 2022

<sup>23</sup> Polaris, 2022

	<p>organizations and fulfilling agreed-upon roles.</p>	<p>Traditional sectors, in particular, face limited innovation capacity due to geographic segmentation and poor linkages.</p>	<p><b>The World Bank Group</b></p> <p>The <u>Innovative Private Sector Development project</u> worked with two ESOs, Gaza Sky Geeks and uMake, in their IGNITE Investment Readiness program. The aim of the IPSD in working with two local ESOs was to increase their capacity and exposure to international best practices in the hope that they would be qualified to operate their own investment readiness programs.</p> <p><b><u>NEXUS Market Linkages program</u></b></p> <p><b>International Finance Corporation (IFC)</b> (to be approved) The Entrepreneurship and Innovation Program (EIP) will work closely with ESOs, mainly in support of creating regional and international network linkages.</p>	
3	<p><b>Facilitate the creation of university business and entrepreneur partnerships</b></p> <p>Improve cross-fertilization to commercialize academic research and to support entrepreneurs' access to facilities and expertise.</p>	<p>Universities do not actively promote collaboration with entrepreneurs to discuss project ideas or technical challenges. Entrepreneurs cannot easily gain resources for joint research and development (R&amp;D) projects by leveraging experts and talented students or accessing high-tech equipment and services of university labs.</p>	<p>None known</p>	<p>High: Addresses that the HEI doesn't play a core role in the ecosystem</p>
4	<p><b>Support digital services firms in retaining their best talent and experienced employees.</b></p> <p>Improve human resources/human capital departments and organizations' culture.</p>	<p>The issuing of 500 work permits for Palestinian tech employees in West Bank to work in Israel is a mixed blessing. Although the number of permits issued is small compared to the talent pool (estimated at 15,000–20,000), the effect will be to draw the best and brightest employees from the Palestinian labor market due to higher salaries offered in Israel. This brain drain decreases the supply of potential mentors with the needed technical and business experience to support entrepreneurs.</p>	<p><b>The World Bank Group</b></p> <p>The TechStart project offers grants for digital services companies and outsourcing firms to enhance their human capital. The project also offers grants to attract expatriate experts.</p>	<p>Medium: Addresses scarcity of experienced mentors</p>

5	<p><b>Create incentives for venture capital investment, including pre-seed funding.</b></p> <p>Strengthen the pipeline of active venture capital, as well as provide riskier capital, which is required to validate the market needs, build minimum viable products (MVPs), and gain traction.</p>	<p>No institutionalized pre-seed/risky prototyping fund operates in West Bank and Gaza. These funds are essential tools for stimulating the growth of budding enterprises.</p> <p>Incubators and accelerator grants act as imprecise substitutes, reducing efficiency as entrepreneurs depend on small incremental grants instead of receiving sufficient capital to develop an MVP and to quickly test their ideas in the market.</p>	<p><b>Ibtikar</b> is the only active sizable venture capital program with a Palestinian office. Its second round attracted the International Finance Corporation, the Dutch Good Growth Fund (managed by Triple Jump BV and PwC), and numerous private and corporate investors from West Bank and Gaza and the diaspora.</p>	<p>High: Addresses limited quality of the support infrastructure</p>
6	<p><b>Support female technology entrepreneurs as role models, and highlight their success and companies' work in local and regional markets.</b></p> <p>Provide exposure for female students from a young age to the success stories of female entrepreneurs, along with success stories in business, science, and technology.</p>	<p>There is a low number of female entrepreneur role models and business leaders.</p>	<p>Many initiatives and programs by multiple international development organizations, such as CARE International, Oxfam, UN Women, and more.</p>	<p>Medium: Addresses scarcity of experienced mentors</p>

## CHAPTER 4: DIGITAL FINANCIAL SERVICES

### INTRODUCTION

Governmental and supervisory authorities, including the PMA and the PCMA, as well as private sector service providers (such as banks and e-payment companies) have made great efforts and investments over the last few years to promote digital financial services in the West Bank and Gaza. In 2018, the PCMA jointly with the PMA developed the National Financial Inclusion Strategy, with one of its four strategic goals being the promotion of DFS among targeted segments of society, particularly SMEs, students, and women. At the same time, the donor community, GIZ in particular, has been active in promoting DFS and fintech locally and regionally.

Despite these efforts, the West Bank and Gaza continue to struggle with digital financial inclusion, with just under nine automated teller machines (ATMs) per 100,000 people, and only 3 percent of adults having a registered digital financial account. Although there are five locally registered digital payments firms, they do not interoperate, and Palestinians have limited access to established international digital payment services such as PayPal. West Bank and Gaza also has yet to offer a number of critical digital services, all of which are available in neighboring countries, including bill presentment, mobile payments, electronic Know Your Customer (eKYC) rules, financial identification, instant payments, and psychometric scoring.

The traditional banking sector is well established, with 13 different banks operating in the West Bank and Gaza having a total of about 400 branches and about 700 ATMs. However, as of 2020, there were only about 131,000 ATM cards in use, covering just 4 percent of the population, and they were mostly used for withdrawing cash. Similarly, only 91,000 credit cards have been issued (about 3 percent of total population). Since 2019, the number of credit card transactions has actually fallen 14 percent, and the dollar value of transactions has fallen nearly 43 percent. At the same time, the number of debit cards issued has doubled since 2019 and the volume of debit card transactions has more than tripled, to a total value of \$162 million. While this exceeds the \$156 million in credit card transactions, it is still far below the \$4.6 billion in annual cash withdrawals from ATMs which has remained steady since 2019. These statistics demonstrate that while the COVID-19 pandemic increased the shift toward use of some DFS like debit cards, cash is still by far the preferred form of payment in the West Bank and Gaza.

### OBJECTIVE

Establish a dynamic and competitive digital financial services market with a broad range of secure and interoperable service offerings that support financial inclusion and contribute to a growing digital economy.

### POLICY OBJECTIVES AND LEGAL FOUNDATIONS

The PMA has been active in supporting the expansion of digital financial services, developing a pair of national strategies with goals to increase access to and use of electronic payment systems to support a more inclusive financial sector. In response to the onset of the pandemic in 2020, the PMA and the PCMA moved to expand access to digital payment systems, issuing regulations licensing five e-payment companies to facilitate payments between companies and individuals, especially during closure periods.

The following table summarizes the relevant laws and regulations governing the banking and nonbanking system with additional information following on the laws and stakeholders that are uniquely pertinent to the digital financial sector.

**Table 6: Digital Financial Services: Institutions and Legislation**

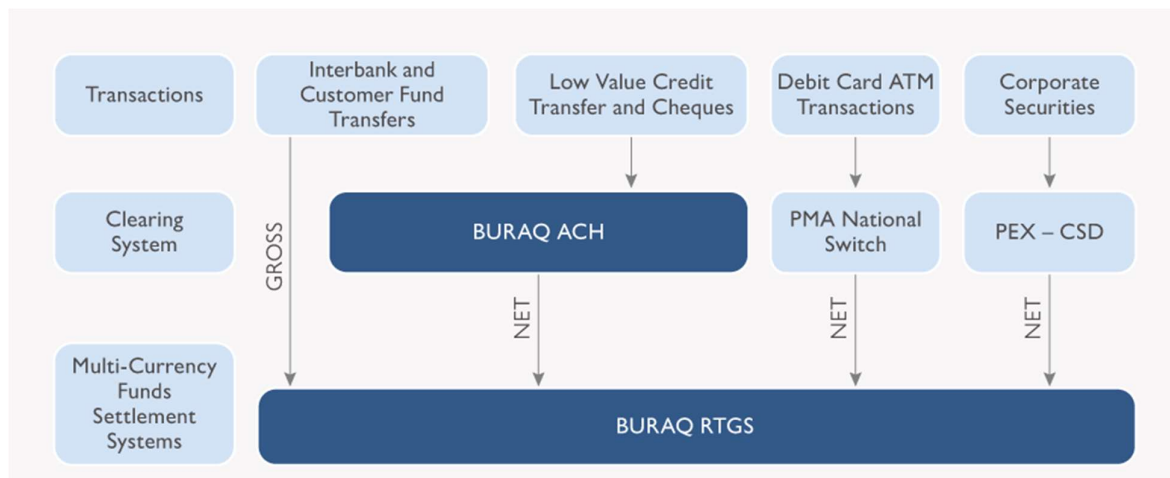
INSTITUTION	SECTOR	LEGISLATION
<u>Palestine Monetary Authority</u>	Supervises and regulates the banking sector, including digital payments Oversees settlement infrastructure Credit bureau	<u>Banking Law (2010)</u> <u>Law for Settlement of National Payments</u>
<u>Palestine Capital Market Authority</u>	Regulates nonfinancial banking sector Consumer protection in nonbank financial services Operates regulatory sandbox	<u>Capital Markets Authority Law (2005)</u>
<u>Ministry of National Economy</u>	Formulates economic policies Operates collateral registry	<u>Secured Transactions Law (2016)</u>

**LAWS**

**Banking law #9 (2010).** On November 11, 2010, the President issued by decree this law giving the PMA authority to supervise and regulate the banking sector and to maintain the stability and soundness of the sector to protect consumer deposits.

**Law for Settlement of National Payments #17 (2012).** As a result of the National Payments Law, the PMA developed and oversaw the payments settlement infrastructure in the West Bank and Gaza. This means the PMA is not only the regulator but also the owner and operator of the Real-Time Gross Settlement system, which handles interbank transfers as well as the Automated Clearing House system, which manages lower-value credit and check transfers and the payment cards switch that manages debit and ATM card transactions. As of yet, the system does not include a mobile switch, which would allow for the interoperability of electronic wallets and mobile payments. This dual oversight and operation configuration is unusual and not in line with general best practices.<sup>24</sup>

**Figure 3: Payment and Settlement Systems in West Bank and Gaza<sup>25</sup>**



<sup>24</sup> World Bank Group, 2021a  
<sup>25</sup> Palestine Monetary Authority

**Capital Market Authority Law.** In February 2005, this law was published in the PA Official Gazette, allowing the PCMA to regulate and supervise the nonbanking sector, including the stock exchange, insurance sector, mortgage sector, and lease financing companies. The PCMA has had several achievements in the past few years promoting financial inclusion by establishing a new department to focus on digital financial services and innovation.

## REGULATIONS

The first four regulations below opened the West Bank and Gaza market to nonbank payment services. Initiated in response to the pandemic, the regulations allow for different types of prepaid or stored value electronic wallets, cards, and other products to be used for payments. Currently five companies are licensed.<sup>26</sup>

**Regulation No.1/2018 on Licensing E-Payment Companies.** This regulation clarified the licensing requirements for e-payment companies. It covers regulation of e-payment services, company agents, outsourcing, external auditor function, data retention, and data privacy, in addition to oversight of companies, mergers, and bankruptcy.

**Regulation No. 1/2020 on Providing E-Wallet Services.** This regulation covers e-wallet accounts with requirements on guarantees submitted to the PMA to protect customers' rights; the process of charging, withdrawing, and transfers between e-wallets; and the ceilings on payments, withdrawals, and transfers between accounts.

**Regulation No. 2/2020 on E-Payment Companies Providing Prepaid Card Services.** This regulation identifies the requirements of issuing prepaid cards by e-payment companies, setting the ceilings for each type of card mentioned above in Regulation No. 1/2020. The regulation also classifies and defines the different types of prepaid cards.

**Regulation No. 3/2020 on Regulating the Relationship between E-Payment Companies and Their Customers.** This consumer protection regulation covers contracts with e-payment companies, setting rules and procedures on how to deal with consumer complaints and disputes, and requiring companies to disclose the fees and commissions collected from consumers on each transaction.

**Regulation No. 11/2021 on Settling Bills through the E-Government Gateway.** This regulation sets the rules and commissions on settling bills by e-payment companies through the e-government gateway, and it is the key regulation supporting implementation of the 2015–2023 eGovernment Strategic Plan's initiative to establish an e-government payment portal. The commissions collected by e-payment companies vary based on the size of the transaction, starting at Israeli new shekel (ILS) 2 for payments less than ILS 500, with a maximum commission of ILS 8,000.

**Regulation No.1/2022 on Membership in the National Switch 194.**<sup>27</sup> The National Switch System 194 is designed to connect all ATMs of banks operating in the West Bank and Gaza into a unified network so that bank clients can use any nearby ATM without regard to which bank owns the ATM. Membership for banks and e-payments companies is mandatory; they must register all financial transactions that use prepaid cards and debit cards used on ATM and POS machines. The regulations also set the commissions and fees calculated on each transaction.

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<sup>26</sup> Ibid

<sup>27</sup> The number 194 refers to the Palestinian initiative to become the 194th member of the United Nations.

This most recent regulation is the first step in addressing the issue of interoperability between different payment products. The regulation is expected to help expand use of digital payment products by increasing transparency and predictability around fees while improving interoperability.

## REGULATORY SANDBOX

The PMA and the PCMA in 2022 each launched regulatory sandboxes to facilitate and encourage product innovation. The Laboratory Sandbox at PMA is a regulatory environment that allows the innovator to test an innovative financial banking product prior to it being approved and regulated by the PMA. The number of applications to the lab is very low, but the hope is that interest will increase soon, owing to better coordination between the PMA and other stakeholders from incubators and accelerators.

The PCMA also launched its Ebtaker platform in early 2022, targeting innovators by providing them an enabling environment to test their nonbank financial products prior to being approved and regulated by the PCMA. In comparison, there are relatively fewer digital financial services in the nonbank sector. The PCMA provides oversight of securities, insurance, mortgage, and financial lease sectors which still rely on traditional operations and which have little digital innovation, possibly due to the perception that customers are not interested in digital products or due to a lack of incentives from the PCMA. It is hoped that the regulatory sandbox can help overcome this reticence and lead to more digital innovation.

## CORE INSTITUTIONS

**The Palestine Monetary Authority.** The PMA was established in 1994 as part of the Oslo Agreement with the Israeli government, which allowed the PA to establish a monetary authority/central bank for the PA territories. The PMA is an independent public institution responsible for the formulation and implementation of monetary and banking policies. It is the regulatory authority for banks as well as for payment service providers operating in the West Bank and Gaza. The PMA handles oversight of the payment and settlement systems and approves the entrance of any new payment service providers. Additionally, the PMA provides credit bureau services, such as credit scoring and credit registry.

In 2018, the PMA adopted the National Payment Development Strategy, which aims to promote digital payments through improvements to the legal environment and payment infrastructure and by improving awareness of and access to digital payment services. Complementary to this, the PMA also adopted a National Strategy for Financial Inclusion in 2018. This strategy looks to increase the use of formal financial services by all segments of society. Digital financial services can play a key role in expanding access, especially to harder-to-reach segments of society, such as rural communities.

**Palestine Capital Market Authority.** The PCMA was established as an autonomous agency by Law No. 13 of 2004. The PCMA is charged with providing the appropriate environment to achieve stability and growth in capital markets and to protect the rights of consumers. It regulates, develops, and supervises the activities of the non-banking financial sector. Included in the sector are insurance services, securities, financial leasing, and mortgage. In its five-year strategic plan (2021–2025), the PCMA aims to promote fintech through a set of projects to reform the operational and regulatory environment to better encourage financial innovation and to develop and operate the regulatory sandbox.

PCMA regulates and oversees five non-banking financial sectors, as follows:

- **Securities market.** Forty-seven listed public shareholding companies with a market value of more than USD \$4 billion, distributed over six economic sectors: banking, financial services, insurance, investment, industry, and services.



- **Insurance sector.** Ten companies have a total portfolio of USD \$350 million. Its contribution to gross domestic product (GDP) is around 1.8 percent.
- **Financial leasing sector.** In 2014, the PCMA developed the first law on financial leasing adopted in the MENA region based on the model financial leasing law developed by UNIDROIT.
- **Mortgage financing.** The only mortgage company in the West Bank and Gaza has very limited operations and has not financed any mortgage deals in recent years.
- **Digital Financial Technology Services and Innovation.** In 2019 PCMA developed a policy on financial technology and intervention mechanisms as part of PCMA's five-year strategy (2021-2025). This includes an integrated program to enhance the use of financial technology in the non-bank financial sector which resulted in the creation of the Digital Financial Technology Services & Innovation Directorate within PCMA in 2021.

## ADDITIONAL STAKEHOLDERS

**Association of Banks in West Bank and Gaza.** The association was established in 1998 by banks operating in the West Bank and Gaza. It supports and defends the interests of banks operating in West Bank and Gaza by: 1) coordinating cooperation, communication, and interaction between member banks on common issues; 2) enhancing public awareness of the positive role that banks contribute at all levels; 3) providing a platform for members to exchange ideas, opinions, and information; and 4) contributing to enhancing and empowering the efficiency and capacity of banks.

**Banks.** The banking system consists of 13 banks with total assets of \$201 billion (March 2022). Total customer deposits were \$16.1 billion, and the credit portfolio extended to individuals was only \$4.8 billion (of which 86.5 percent were extended to men, 14.4 percent to women). In addition, 2.9 million customers held accounts (only 31.3 percent held by women). The banking system is the major service provider for several digital finance channels, such as credit and debit cards, POS devices, mobile banking, Internet banking, and e-wallets.

**E-payment companies.** In early 2020, five e-payment companies— Palpay, Jawwal Pay, Malachat, Middle East Payment Services (MEPS), and MadfoatCom—were licensed by the PMA in early 2020 in response to the COVID-19 pandemic and the desire to facilitate contactless payments. These companies mainly provide e-wallet and POS services. Palpay provides bills payment through POS channels to some service companies. Within the first year of being licensed, some 52,000 e-wallets were issued.<sup>28</sup> However, their utility is currently constrained by the fact that there is no system to support interoperability between e-wallets and mobile payments systems or between e-wallets and the BURAQ payment settlement system used by banks.<sup>29</sup>

**Money changers.** The PMA has 328 licensed money changers. Eighteen percent of them are in Gaza and the rest in the West Bank. Three different currencies are used in the West Bank and Gaza, the new Israeli new shekel, the Jordanian dinar, and the U.S. dollar. Given the large number of cash transactions, there is high demand for currency exchange services. Money changers also play a large role in remittances which are primarily cash-to-cash transactions. None of the money lenders currently offer mobile-based solutions.<sup>30</sup> As of 2017, the PMA licensed microfinance institutions to serve as money changers. The same regulation introduced mandates to increase transparency (disclosure of fees) as well as to limit the size of transactions processed by money changers to \$7,000 in an effort to direct larger transfers to account-based (not cash) transactions.

Money changers contribute to the excess cash issue in the West Bank and Gaza because they usually deal with their customers on a cash basis, exchanging currencies or honoring checks. The large number of money changers and the volume of transactions they handle has led to suspicions that the supply of

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<sup>28</sup> World Bank Group, 2021a

<sup>29</sup> Ibid

<sup>30</sup> Ibid

money changers exceeds legitimate demand and that some of them are involved in money laundering or financing of terrorism. For example, money laundering is suspected where there are high commissions collected from the beneficiary customers and when cash-to-cash transactions are conducted off-record where the PMA is unable to provide oversight. Some money changers have also been known to use their excess cash to provide services for which they are not licensed, such as financing SMEs or real estate projects.

**Government payment systems.** The PA has prioritized e-government solutions since the development of the 2005 e-Government Strategic Plan but still struggles to implement many of the e-government services.<sup>31</sup> In 2020, the PMA announced that it would begin providing e-payment services to citizens, and in 2021, the Payment Service Provider regulation allowed the payment of bills through the government services portal. MTIT is developing a unified e-government service portal with a payment gateway which is gradually expanding e-government payment services. Currently, all government salaries are paid via electronic transfer to bank accounts (although, due to lack of interoperability, payments cannot be made to the newly licensed e-wallets). However, many government-initiated payments are still made by check or cash, including all pension and social benefits payments.<sup>32</sup>

**Courts and municipalities.** The PA is requiring that courts and municipalities must stop collecting fees and any payments in cash. This is being done to encourage greater use of digital financial services. Incentives may also be provided to offer discounts on fees and payments or by giving priority service to customers utilizing DFS channels.

**Mobile phone operator companies.** West Bank and Gaza has two mobile operator companies, Jawwal (which is owned by Paltel) and Ooredoo. As of January 2021, there were 4.35 million mobile connections, equivalent to 84 percent of the total population.<sup>33</sup> Only Jawwal operates a mobile payment system (Jawwal Pay) at this time, and uptake of mobile money services has been low, with less than 2 percent of adults reporting using mobile payments to purchase goods or services online.<sup>34</sup> One major barrier to uptake of mobile payment solutions is the lack of an interoperable and accessible payments infrastructure, with the current payment clearing system not offering a mobile switch. Currently, the mobile operators are limited to 3G speeds, and only about 50 percent of the population has access to 3G service.<sup>35</sup> The PA is coordinating (rather seeking permission) from the Israeli side to have 4G Internet service in the West Bank and 3G in Gaza. Rolling out 4G service will help to penetrate and facilitate accessing the DFS in the rural parts of the West Bank, like Area C.

## **POLITICAL ECONOMY**

The adoption of digital financial services often begins with digital payments. The PMA's development of the National Payment Development Strategy in 2018, which focuses on facilitating the development and use of electronic payment methods and the licensing of non-bank payment service providers, demonstrates commitment on the part of this critical government institution to developing digital financial services. The PMA clearly sees the expansion of digital payments and DFS as a key tool for inclusive economic growth. The PMA and other government institutions, such as the Ministry of Telecom and Information Technology, which is instrumental in expanding e-government payment systems, have sometimes been slow to implement key regulatory or infrastructure changes, such as enabling a mobile payments switch or the e-government payment portal. These delays may be due more to restrictions in available technical capacity and a need to ensure that new financial services are sufficiently secure and that they comply with strict Know Your Customer (KYC) requirements

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<sup>31</sup> Organization for Economic Co-operation and Development (OECD), 2011

<sup>32</sup> World Bank Group, 2021a

<sup>33</sup> Kemp, 2021

<sup>34</sup> World Bank Group, 2021a

<sup>35</sup> International Telecommunication Union (ITU), 2021

influenced by the Israeli Central Bank regulations than to lack of commitment from Palestinian authorities.<sup>36</sup>

The Israeli Central Bank exercises significant influence over the Palestinian digital financial services market due to the lack of a Palestinian national currency (and thus significant dependence on the Israeli shekel). The continued use of cash and check-based payments to Palestinian workers employed in the larger Israeli market and distrust of money changers, Palestinian banks, and accusations of money laundering or terrorism financing have led to large accumulations of shekels in Palestinian banks as Israeli banks have refused to accept cash transfers. Although the Bank of Israel is reportedly working with the PMA to facilitate a transition to mostly electronic payments, until this change is made, the continued flow of shekels will perpetuate a cash-focused economy in the West Bank and Gaza.<sup>37</sup>

Similarly, Israel has limited access to 4G and 5G spectrum to Israeli mobile providers, so the two Palestinian providers are only able to offer 2G or 3G service. Because Israeli mobile providers' service reaches parts of West Bank, their superior speeds allow Israeli providers to capture some of the Palestinian market.<sup>38</sup> This constrains the ability of Jawwal and Ooredoo to develop mobile-based financial services or to support the expansion of mobile-enabled digital financial services.

## ACCESS TO MARKETS

Regionally, digital financial services, such as POS, debit and credit cards, online banking, and mobile banking, are well known and commonly used by consumers. However, as cited previously, cash is still the predominant form of payment in the West Bank and Gaza, and uptake of basic digital tools, like credit and debit cards, has barely penetrated the market. This is partly due to low levels of financial inclusion, with only 44 percent of adults having a deposit account and only 10 percent having a credit account.<sup>39</sup> The launch of the new e-payment providers during the pandemic resulted in just 52,000 e-wallets being issued in 2020—less than 2 percent of the population.

The PMA maintains an open market for various domestic or foreign financial service providers. The traditional banking sector in the West Bank and Gaza is quite open and competitive with 13 regulated banks, of which 7 are local and 6 are foreign.<sup>40</sup> Since the implementation of the 2018 regulation on licensing of electronic payments, which opened the market to nonbanks, five providers have been licensed, creating additional competition and broadening the market of digital financial service providers.

**Table 7: Banks in West Bank and Gaza<sup>41</sup>**

BANK	OWNERSHIP	NUMBER OF BRANCHES	NUMBER OF ATMS
Bank of Palestine	Local	99	169
Palestine Islamic Bank	Local	44	76
Bank of Jordan	Foreign	17	41
Quds Bank	Local	39	66
The National Bank	Local	35	40
Arab Bank	Foreign	34	108

<sup>36</sup> International Finance Corporation (IFC), 2014

<sup>37</sup> World Bank Group, 2021a

<sup>38</sup> Al-Kasim, 2021

<sup>39</sup> Palestine Monetary Authority (PMA), 2020

<sup>40</sup> PMA, 2022

<sup>41</sup> PMA, 2021

Arab Islamic Bank	Local	29	61
Cairo Amman Bank	Foreign	22	49
Palestine Investment Bank	Local	21	25
Housing Bank for Trade and Finance	Foreign	15	35
Ahli Bank	Foreign	10	17
Safa Bank	Local	9	8
Egyptian Arab Land Bank	Foreign	7	8
Total		282	703

However, the telecoms and mobile payment sector is not as competitive. Access to the mobile market in West Bank and Gaza is constrained due to regulatory and technical decisions for mobile service, like frequency assignment and infrastructure permitting, being decided by a Palestinian/Israeli Joint Technical Committee (JTC), which struggles to coordinate effectively. Of the two mobile companies operating in the West Bank and Gaza (Jawwal and Ooredoo) only Jawwal currently offers mobile money services. Ooredoo received its license to operate in 2006 but was unable to begin operations for more than two years because of Israeli delays in releasing the designated spectrum.<sup>42</sup> The uncertainty in the mobile market due to the joint administration likely makes it considerably less attractive to potential entrants.

## **GENDER AND YOUTH INCLUSION**

Women in the West Bank and Gaza lag far behind men in financial inclusion, with only 29 percent of women (as of 2021) owning a transaction account (compared to 62 percent of men), and the trend has been negative, as female account ownership has fallen from 21 percent in 2014.<sup>43</sup> Women in the West Bank and Gaza also lag behind the MENA regional average of 35 percent. There are very limited data on women's use of digital financial services, but of the 52,000 e-wallets issued in 2020, only 16 percent were issued to women.<sup>44</sup> Similarly, only 4 percent of women have access to credit, compared to 14 percent of men.<sup>45</sup> Additionally, women are less likely to participate in the labor market (17 percent of women versus 68 percent of men) and are more likely to be unemployed, and they earn 40 percent less in daily wages. This, combined with the fact that only 45 percent of female-headed households have access to the Internet, further suggests that women are unlikely to use digital financial services.<sup>46</sup> The PMA recognizes this gap and is targeting women, as well as youth, in the effort to reach the National Strategy for Financial Inclusion's goal of increasing financial inclusion to 50 percent by 2025. Women also have great potential to benefit from digital financial services since it increases accessibility and would allow them to use these services remotely, reducing security concerns associated with travel and carrying cash.

Like women, youth lag behind the general population in use of formal financial services, with only 12 percent of young adults (ages 15–24) owning a transaction account, which is less than half the MENA regional average of 32 percent. According to PCBS, only about 40 percent of youth participate in the labor force and they face an unemployment rate of around 40 percent.<sup>47</sup> Typically, lower levels of employment and thus lower income levels would suggest that youth are less likely to use formal financial services, including digital financial services. However, youth are also more likely to engage in e-commerce (young adults make up 8 percent of online shoppers versus 5 percent of the total

<sup>42</sup> IFC, 2014

<sup>43</sup> World Bank Group Global Findex Database, 2017

<sup>44</sup> PMA, 2021

<sup>45</sup> Ibid

<sup>46</sup> World Bank Group, 2021a

<sup>47</sup> Palestinian Central Bureau of Statistics (PCBS), 2022

population), and engagement in digital commerce is often linked to use of digital payments and other financial services.<sup>48</sup> While clear statistics on youth uptake of DFS is currently lacking, they could lead to uptake of DFS over time.

## **BARRIERS**

**Lack of interoperability in DFS products.** The PMA is beginning to address this with the most recent regulation regarding the national switch for payments settlements, but the inability for different payment methods to interoperate makes them useless to consumers. The only form of payment universally accepted is cash, which is why it continues to dominate the market.

**Lack of transparency and coherent regulation increase costs.** The development of regulation for DFS has been gradual, resulting in different services being regulated differently. The lack of consistency across products creates uncertainty, which can reduce transparency and increase risk for new entrants. This can lead to lower competition and higher costs for consumers.

**Financial inclusion and financial literacy.** Overall financial inclusion in the West Bank and Gaza lags behind the MENA region, with low rates of transaction account use. People with inconsistent or low incomes often do not see the need for formal financial account use, and they may view digital financial services as costly and cumbersome, especially when considering the lack of interoperability and uncertainty around costs as mentioned above.

**Trust and security concerns in banking industry.** Banks and nonbank financial institutions operating in West Bank and Gaza face limitations in working with Israeli banks due to concerns regarding money laundering and terrorism financing. Given the dominance of the shekel currency, as well as remittances and salary payments from the larger Israeli market, the restrictions on cash transfers from West Bank and Gaza to Israel and the lack of digital payment and transfer options perpetuate the dominance of shekels and cash transactions in the Palestinian market.

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<sup>48</sup> World Bank Group, 2021a

## RECOMMENDATIONS

Table 8: Recommendations for Digital Financial Services				
	WHAT	WHY	CURRENT INITIATIVES	ECONOMIC PRIORITY
1	<p><b>Update fintech strategy.</b></p> <p>To coordinate and prioritize the development of a regulatory framework that will generate trust and support the growth of inclusive digital financial services.</p>	<p>The development of regulation and policy around digital financial services and fintech has not been coordinated and has resulted in uncertainty. An updated fintech strategy will facilitate the accomplishment of goals by establishing a roadmap that efficiently deploys resources and labor and the responsibilities for each stakeholder to achieve the targets.</p>	None known	High: Addresses the lack of transparency and coherent regulation that increase costs
2	<p><b>Promote financial inclusion through improved identification systems.</b></p> <p>Support local stakeholder development of an eKYC system and adoption of digital IDs by assessing the local risk environment and determining the minimum assurance requirements necessary to generate trust and drive adoption.</p>	<p>Banks and other service providers still rely on inefficient manual KYC processes. eKYC will facilitate customer onboarding to the financial sector in a quick, safe, and sound manner.</p> <p>Development of digital ID infrastructure and adoption of digital IDs will facilitate transactions, improve access to finance, and promote digital financial inclusion and the usage of DFS.</p>	<p>The World Bank has been working closely with the PMA over the past several years on the DFS agenda, including the regulatory framework for e-money, upgrading of national payment infrastructure (RTGS, IPS, Bill Presentment), cyber security, and more recently e-KYC.</p>	High: Addresses financial inclusion and financial literacy, in addition to trust and security concerns in the banking industry
3	<p><b>Improve financial literacy among individuals and businesses, and incentivize use of DFS.</b></p> <p>Increase user demand for digital financial services by improving overall financial literacy and understanding of the efficiencies and value of digital tools, and develop incentives to de-risk uptake of digital tools.</p>	<p>Banks' and microfinance institutions' (MFIs') customers and unbanked people have concerns with using DFS. People prefer using cash as a result of a lack of trust and due to the absence of a consumer rights and protections legal framework.</p> <p>Merchants in rural areas operate on a cash basis, online shopping uses cash on delivery (COD), and remittances and most salaries are still paid in cash or check.</p>	<p>GIZ has worked with the PMA, the PCMA, the banking sector, and MFIs to conduct several awareness and education campaigns targeting different segments of the population, including entrepreneurs, students, SMEs, public employees, and private sector.</p>	High: Addresses financial inclusion, financial literacy, and trust and security concerns in the banking industry

4	<p><b>Promote interoperability of all digital financial tools and increase competition.</b></p> <p>Address the legal, regulatory, and infrastructure issues that prevent various digital financial services from interoperating, therefore reducing uncertainty for consumers and increasing uptake. Support the expansion of digital financial services and entry of new providers by enabling direct debit, licensing more e-wallet providers, developing the instant payments system, expanding QR code and NFC services, and allowing MFIs to act as agents of e-payment companies.</p>	<p>In 2002, the PMA licensed five e-payment companies to start launching e-wallet services, but these companies have not been successful in achieving their targets on promoting the service because of the lack of interoperability and other problems. Similarly, there is no mobile switch that would allow users to send and receive money via mobile device.</p>	<p>The World Bank has been working closely with the PMA over the past several years on the DFS agenda, including the regulatory framework for e-money, upgrading of national payment infrastructure (RTGS, IPS, Bill Presentment), cyber security, and more recently e-KYC.</p>	<p>High: Addresses the lack of interoperability in DFS products</p>
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## CHAPTER 5: DIGITAL SKILLS

### INTRODUCTION

The widespread lack of digital skills in the Palestinian market is widely recognized as a key barrier to digital development. Many donors have stepped in and provided ad hoc solutions targeting everything from basic digital literacy to higher-skilled programs focused on ICT graduates. However, there is still no coherent national strategy to address this gap. The problem remains multifaceted, and despite the range of programs targeting digital skills, Palestinian youth still find it difficult to gain the skills necessary to make them marketable to a globally competitive private sector.

#### OBJECTIVE

Develop a system of market-driven digital skills training programs and educational institutions that improve the quality and quantity of Palestinian digital workers to support a thriving and innovative digital economy and that increase the digital literacy of all segments of society, especially women and youth, to support inclusive digital development.

### POLICY OBJECTIVES AND LEGAL FOUNDATIONS

The General Education Law and the Higher Education Law focus on establishing the structure and process of the educational system. They set objectives for all stages of education (from primary through tertiary schooling), by the licensing of private and foreign educational institutions, establishing requirements for hiring of teachers, and specifying the roles of the respective ministries. However, while these laws are relevant to the structure of the educational system, they do not directly address digital skills development.

Table 9: Digital Skills: Institutions and Legislation

INSTITUTION	SECTOR	LEGISLATION
<u>Ministry of Education</u>	Public schools	General Education Law (2018)
<u>Ministry of Higher Education</u>	University education Secondary vocational schools and technical colleges	Higher Education Law (2018)
<u>Ministry of Labor</u>	Occupational guidance and training Licenses private vocational schools	Labour Law (2000)
<u>National Authority for Vocational Education and Training</u>	Vocational education	General Education Law (2018)

The lack of a clear vision, strategy, or laws to regulate and develop digital education and to enhance digital skill levels thwarts effective progress in the West Bank and Gaza. The Palestinian National Policy Agenda (NPA) 2017–22 is the policy pronouncement which comes closest to addressing digital skills. Under Priority No. 6, “Economic Independence,” the NPA supports and promotes digital economy and the ICT sectors as business enablers. Other sections recognize the need to build the digital economy through development of technology clusters. However, the NPA has little content specifically related to digital skills development.

More generally, NPA’s Priority No. 8 focuses on providing “quality education for all” by enabling access to education for all citizens in West Bank and Gaza, East Jerusalem, and Area C. It emphasizes



education at all levels of learning, including preschools, primary (years 1–10) and secondary schools (years 11–12), institutions of higher education, and vocational schools, known as the Technical Vocational Education and Training League (TVET). The NPA guarantees universal education for children.<sup>49</sup> In addition, it calls for improving the curricula of primary and secondary schools, developing e-learning programs, expanding access to education in marginalized areas, and upgrading educational facilities. It also calls for developing TVET infrastructure and aligning TVET and higher education programs to market needs.

Reports by—and discussions with—international donors and NGOs confirm the necessity of a National Skills Development Strategy as a means to make meaningful advancements in upgrading digital skills among the Palestinian population.<sup>50</sup> Unfortunately, there are few reliable sources of information on the skill levels of school and university graduates. Collection of timely, relevant, and actionable data should be prioritized as a precursor to the development of effective programming.

## CORE INSTITUTIONS

**The Ministry of Education and Ministry of Higher Education.** The MoE and the MoHE were split into separate ministries in 2018 to manage pre-university education, including basic and secondary education (MoE) and post-secondary education, including secondary vocational schools and technical colleges (MoHE). The predecessor (consolidated) ministry developed an Education Sector Strategic Plan for 2017–22 that included development of e-learning programs and ensuring the inclusion of ICT skills in educational programming. However, the strategic plan is very high level and the focus on e-learning does not address digital skills. While ICT skills are mentioned as a priority, no detailed plan exists to make progress in advancing digital skills as part of the Palestinian educational system.<sup>51</sup>

**Ministry of Labor.** The MoL is a provider of vocational training in six of its own training centers. It also licenses community and private training centers.

**National Authority for Vocational Education and Training.** This is a new body formed by the Palestinian government in 2021. It is assuming responsibility for regulating, coordinating, and supervising the TVET sector in general.<sup>52</sup>

## PRIMARY AND SECONDARY SCHOOLS

Primary and secondary schools play a critical role in shaping students' essential skills and learning abilities. According to the Palestinian Central Bureau of Statistics, the total number of students enrolled in primary and secondary schools for the year 2020/2021 reached 1,338,353 (746,869 in West Bank and 591,484 in Gaza), across 3,107 institutions (2,343 in West Bank and 764 in Gaza).<sup>53</sup> In fifth grade, students start learning digital skills in a technology class that covers basic programming and electronics.

While uptake of basic skills is encouraged, students may need help from their family members to complete basic assignments involving online research and tools like PowerPoint. Studies show that by tenth grade, around two-thirds of students can apply basic skills, like copy and paste, Internet searches, and Microsoft Word. However, less than 50 percent of students can use Excel, and only around 13 percent can use emails and send attachments.<sup>54</sup>

Technology education is designed to be 60 percent practical and 40 percent theoretical, but the reality in the West Bank and Gaza is that it is almost completely theoretical, with little time for practical skills

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<sup>49</sup> Palestinian Authority National Policy Agenda, 2016

<sup>50</sup> Key informative interviews conducted by the assessment team

<sup>51</sup> World Bank Group, 2021a

<sup>52</sup> Birzeit University Institute of Law, 2021

<sup>53</sup> PCBS, 2020

<sup>54</sup> World Bank Group, 2021a

building. Part of the problem arises from a lack of resources. Although the curriculum is designed for three technology sessions per week, students are often limited to only two. Poor connectivity in some locations and scarce computer lab space in schools further limit students' ability to practice.

Schools face shortages in all types of digital devices, including LCD projectors, smart boards, scanners, and especially computer labs. One computer lab with 20 computers typically serves an entire school. Reports show that there are around 14 students per computer in West Bank schools, while in Gaza there are 43 students per computer. Outdated computers using old software and programs is the norm. In 2017, the MoE initiated a campaign to upgrade computer labs in all primary and secondary schools. To date, equipment has been upgraded in about 15 percent of schools.

Most schools in the West Bank and Gaza have Internet access, but bandwidth can be so limited that not all students can connect to the Internet at the same time. Normally, teachers have Internet access at class time but cannot always make use of it because they may lack a computer or a projection device. So the Internet is used at schools mostly to perform administrative work.

Technological tools and digital skills are not regularly integrated in other subjects, mainly because teachers themselves lack these skills. A 2021 study by the World Bank found that some 40–60 percent of teachers in the West Bank and Gaza demonstrate competency in digital skills.<sup>55</sup> There is little guidance given to teachers regarding contemporaneous essential digital skills. Age may also be a factor, hampering skills training among older teachers.<sup>56</sup>

Students seeking additional opportunities to develop their digital skill sets find limited opportunities. There are only three after-school programs for students in the West Bank and Gaza, with a limited reach. Paltel's summer code program enrolls 288 students annually, Jawwal's Code for West Bank and Gaza Program enrolls 25 students annually, and the JeelCode initiative enrolls fewer than 100 students.

## UNIVERSITIES

Tertiary education in the West Bank and Gaza consists of universities, university colleges, community colleges, and open universities. Almost all universities in the West Bank and Gaza offer ICT programs in computer engineering, computer science, and telecommunications. These institutions offer specialized ICT programs at the diploma, bachelor, and master's degree levels. According to the MoHE, there are 51 accredited higher education institutions in the West Bank and Gaza, including 16 universities, 16 university colleges, 17 community colleges, and 2 open universities.<sup>57</sup> Two-thirds of these institutions are located in the West Bank.

Academia-led entrepreneurship and skill-building through research and development is an area of cautious but growing interest. A recent study finds that the prevailing low volume of academic R&D is increasing but is seriously underfunded. Sources of funding for R&D are limited and derive from tuition and limited university funds geared toward research. What R&D exists is spurred largely by faculty members' incentives to be promoted. Private sector skepticism about academia's ability and flexibility to be a source of innovation would also need to be addressed.

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<sup>55</sup> Ibid

<sup>56</sup> Ibid

<sup>57</sup> PCBS, 2020

<b>Table 10: Student Enrollment by Gender</b>				
	<b>TOTAL</b>	<b>MALE</b>	<b>FEMALE</b>	<b>ICT</b>
<b>Students Enrolled</b>	214,754	38 percent	62 percent	16,766 (8 percent) (M: 55 percent, F: 45 percent)
<b>New entrants for 2020</b>	57,112	40 percent	60 percent	6,700 (10 percent)
<b>Graduated students</b>	41,137	843 (50 percent)	851 (50 percent)	1,694 (4 percent)
<b>Unemployment rate for degree holders</b>	38 percent	54 percent	70 percent	59 percent (Gaza: 83 percent, West Bank: 42 percent)
<b>Time it takes to get a job in ICT</b>	12.8 months	14.7 months	9.8 months	--

As of 2020, a total of 214,754 students were enrolled in tertiary educational institutions, the majority of which were female (62 percent). Slightly less than 8 percent of these students were enrolled in ICT programs.<sup>58</sup> By the time of graduation, only 4 percent of graduates are from ICT programs, demonstrating that nearly half of those who start in ICT programs do not finish them. Once in the labor market, the unemployment rate for ICT graduates is 59 percent, above the overall unemployment rate of 38 percent for university graduates.<sup>59</sup> It is worth noting that the employment rate data for ICT are for formal employment and therefore do not capture the ICT graduates who have remote jobs with international companies or who engage in freelancing work, particularly in Gaza.<sup>60</sup> However, the overall trend shows that despite the high demand for ICT skills, graduates of ICT programs struggle to be matched with formal employment, suggesting that the current programs are not providing them with the skills most in demand in the ICT private sector. This is exacerbated by a lack of internship programs for ICT students that create a ladder to post-graduate employment.<sup>61</sup>

According to deans of ICT departments at different universities interviewed for this assessment, interest in ICT programs is increasing each year and universities are developing new courses to attract more students. But specialized courses covering cutting-edge technologies, like machine learning, artificial intelligence, the Internet of things, and robotics, are not offered by universities. Having only worked in academia, faculty and professors themselves lack practical experience in the private sector. According to interviews conducted in the course of this study, some university faculty still believe that universities should teach basic skills and the private sector should equip the graduates with the necessary skills to meet rapidly changing market needs.<sup>62</sup> At the university level, curriculum updates may only happen once every four years. This is not frequent enough in a rapidly changing sector like ICT. Some Palestinian universities try to preempt this issue by offering specialized courses every semester as electives, but more regular updates are needed to provide students with marketable and in-demand skills. Foreign curricula are sometimes copied without being tailored to the needs of the local market. And coursework seldom involves the soft skills (critical thinking, problem-solving,

<sup>58</sup> Ibid

<sup>59</sup> Ibid

<sup>60</sup> Ibid

<sup>61</sup> Key Informative Interviews conducted by the assessment team

<sup>62</sup> Validation Workshop conducted by the assessment team

presentation skills, and logical reasoning) that are of critical importance in the workplace.<sup>63</sup> Private training centers are available to supplement IT skills and education, but the excessive cost for their services makes this option unrealistic for most students.

Universities, like public schools, face a shortage of computers, labs, and advanced equipment, have low Internet bandwidth, and a lack of licensed programs and software—all of which are needed so that students can perform practical exercises and assignments.<sup>64</sup> More than 80 percent of educational institutions in the West Bank and Gaza have learning management systems and portals so that students may register, submit homework and other assignments, get public announcements, communicate with teachers and students, and get access to schedules and financial information. During the COVID-19 pandemic, universities began using online platforms and tools to deliver lectures over Zoom, Moodle, Teams, Webex, and Google Classroom platforms. As a result, nearly all university professors have started using the Internet and computers in their courses, whereas prior to the pandemic, fewer than 40 percent were using digital tools in teaching.

### VOCATIONAL TRAINING AND EDUCATION

Vocational schools play a significant and growing role in the development of skills among Palestinian students and the wider workforce. The schools fall into two separate categories: vocational education and vocational training.

- **Vocational Education** is the *official* education provided by MoE and includes theoretical and practical curriculum.
- **Vocational training centers** is the *non-formal* education provided by the MoL, NGOs, and training centers, and it focuses on practical skills.

Both of these tracks are independent, with little coordination between MoE and the vocational training institutions, which leaves workers in the West Bank and Gaza without a clear vocational pathway.<sup>65</sup> The features of the vocational system are detailed below.<sup>66</sup>

- **Secondary vocational schools and colleges.** There are 24 secondary vocational schools in West Bank and Gaza<sup>67</sup> that provide a two-year program for students in the eleventh and twelfth grades.<sup>68</sup> Students who finish their academic school education in grade 12 and pass the general secondary education examination can also enroll in those colleges. There are 15 technical colleges in the West Bank and Gaza offering two-year programs for their students.<sup>69</sup>
- **Vocational training centers.** These centers offer vocational training, also known as non-formal education, to any person above the age of 15. Vocational centers are managed by many different organizations that design programs which cover a wide range of specializations, with durations of 5–24 months.<sup>70</sup> Vocational training uses a hands-on teaching approach, with no more than 25 percent of time spent on theoretical learning.<sup>71</sup> Graduates of training centers receive certificates, but these are not recognized as college credit for further study in institutions of higher learning.

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<sup>63</sup> Representative office of Switzerland in Ramallah, 2020

<sup>64</sup> World Bank Group, 2021a

<sup>65</sup> Palestinian Technical Vocational Education and Training League (TVET) system, 2006

<sup>66</sup> TVET, 2020

<sup>67</sup> European Training Foundation (ETF), 2020

<sup>68</sup> WAFA, 2022d

<sup>69</sup> WAFA, 2022c

<sup>70</sup> WAFA, 2022b

<sup>71</sup> TVET, 2020

In the 2018 school year, approximately 51,360 Palestinian students (32 percent female) were enrolled in vocational education programs and 19,359 students were enrolled in vocational training programs.<sup>72</sup> The proportion of female students is increasing each year but their numbers still remain far below those of male students.<sup>73</sup> The number of students enrolled in vocational education and training is growing each year, but this is still lower than the market need. Culture plays a role in the lower enrollment as vocational education has a negative perception in the West Bank and Gaza. Children preparing to graduate from high school are generally encouraged to pursue university degrees. With the growth of employment opportunities for skilled vocational workers, stakeholders interviewed for this study see a shift. Vocational education is increasingly viewed as a solution to build in-demand skills for employers in the West Bank and Gaza.

**The Technical Vocational Education and Training League.** TVET is a nongovernmental organization set up in 2003 headquartered in Ramallah. Its membership includes nongovernmental nonprofit teaching and education organizations. TVET is represented in the Higher Council for Innovation and Excellence. TVET plays an important role in the educational system; reports from donors and TVET's inclusion in the NPA indicate its value and the further need to develop it.<sup>74</sup>

TVET delivers training services to make Palestinian youth more qualified to enter the Palestinian labor market. Its centers have conducted several training courses to enhance the market competencies of employees in specific skills. TVET began with seven locations, including two industrial schools and five vocational centers at schools in Bethlehem, Jerusalem, Jericho, and Gaza, and has since expanded to 15 centers.

#### **ADDITIONAL STAKEHOLDERS**

**Ministry of Social Affairs.** MoSA provides vocational training in coordination with the Ministry of Labor for marginalized people through 10 centers in the West Bank and Gaza.<sup>75</sup>

**United Nations Relief and Works Agency for Palestine Refugees (UNRWA).** This agency provides non-formal vocational education and training in programs lasting up to two years through its own colleges and training centers.

**Community associations.** These associations provide informal vocational education and training in programs lasting up to two years through their own colleges and training centers.

**Private training centers (informal).** These for-profit centers offer a variety of vocational training programs. There are approximately 156 licensed centers in the West Bank and Gaza.

#### **NGOS AND INTERNATIONAL DONORS**

For the past few years, international donors and local NGOs have been heavily engaged in supporting the development of digital skills in the West Bank and Gaza. As of 2022, there are between 432<sup>76</sup> and 650<sup>77</sup> NGOs working in the area, 52 of them working in the educational domain and 11 in income generation. A 2021 project mapping of the Palestinian start-up ecosystem showed that there are 37 international organizations and donors and around 38 local hubs and incubators working in the start-ups and skills domain.<sup>78</sup> (Please refer to Figure 2 on page 24 for a list of key organizations involved in the Palestinian Start-up Ecosystem.)

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<sup>72</sup> ETF, 2020

<sup>73</sup> ETF, 2020

<sup>74</sup> WAFA, 2022e

<sup>75</sup> ETF, 2020

<sup>76</sup> Arab.org, 2022

<sup>77</sup> Masader, 2022

<sup>78</sup> Qasem, 2021

Digital skills development initiatives by these organizations include:

- Providing equipment to schools (computers, tablets, LED screens, LCD projectors, printers, scanners, and smart boards). Over the past three years, 40 computer labs have been established or equipped and more than 2,200 computers have been donated to schools and vocational training centers.<sup>79</sup>
- Supplying software programs, licenses, digital portals, and e-learning tools.
- Supporting capacity building programs in 21st-century skills, job readiness, online freelancing, digital literacy, programming and software development, mobile applications development, web development, graphic design, mobile maintenance, and digital marketing.
- Supporting online campaigns and workshops to increase digital literacy.
- Supporting employability programs at universities, such as the dual study program at Al-Quds university and online freelancing courses at the Islamic University of Gaza.

In addition, there are various donor and NGO programs specifically dedicated to building the digital skills of the Palestinian workforce (see Table 11).

<b>Table 11: Digital Skills Donor Support Programs</b>	
<b>DONOR / IMPLEMENTOR</b>	<b>PROGRAM INFO</b>
World Bank/DAI	TechStart Supporting ICT companies, providing internships
World Bank/Finance for Jobs program/Palestinian Information Technology Association of Companies (PITA)	Tech Savvy Supporting training and employment for ICT graduates through ICT companies
GIZ	Online freelancing training
Enable	Training and employment programs with organizations in West Bank and Gaza and in East Jerusalem
USAID/DAI	SMART
Alianza/Palestine Information and Communications Technology Incubator (PICI)	Employability program, digital literacy campaigns, and workshops targeting females
Google	New initiative to support ICT graduates
Mercy Corps/Gaza Sky Geeks	Online freelancing training programs
Palestinian government/AXSOS	Training programs in ICT

### TRAINING COMPANIES

Training companies play an important role in equipping youth with hands-on skills that match the needs of the job market. Although there are many training centers in the West Bank, in general there is a lack of specialized centers focusing on digital skills. Some training centers do provide technical training by request. Below is a list of training companies providing IT capacity building programs:

<sup>79</sup> World Bank Group, 2021a

1. Business Alliance: Established in 2010, Business Alliance (BA), is a regional management consulting and business support provider operating in the MENA region. BA Academy offers customized technical and business training for youth and professionals.
2. Ritaj was established in 2003 with departments providing training and talent development, and managerial solutions. <https://ritajms.com/>.
3. Experts Turnkey Solutions provides training on a number of software applications and computer skills. <http://www.experts.ps/>.
4. Galaxy Training Centers were established in 1997 to provide training in different fields for both the public and private sectors. <https://new.galaxy.ps/assets/documents/Galaxy%20Profile%20PIF%202018.pdf>.
5. The AXSOS Academy is a coding Academy in Palestine that aims to graduate skilled software engineers in Palestine using local and international instructors. <https://academy.axsos.ps/>.

## **POLITICAL ECONOMY**

The impact of donor support on digital skills programs has been limited by a lack of coordination and the absence of a national digital skills development strategy. The donor coordination committee has not been sufficient for individual donors to work together—and with the government—to develop a single, cohesive plan for digital skills development in the West Bank and Gaza. Greater efforts must be made to share knowledge and lessons learned, avoid overlaps, and ensure that resources are targeted appropriately at the particular areas of digital skills development. This includes development of institutions (primary and secondary schools, colleges and universities, and vocational education centers), capacity building and skills development, infrastructure and equipment (computer labs and IT devices), and alignment of curriculum with market needs. More regular engagement is needed with MoE, MTIT, donors, the private sector, and educational institutions to develop a common vision for digital skills development in the West Bank and Gaza.

## **ACCESS TO MARKETS**

Outsourcing and freelancing, which account for upwards of 90 percent of high-tech jobs in the West Bank and Gaza, are two sides of the same market. One side is the outsourcing of technology services either to Palestinian ICT companies or individuals on a long-term basis. The other is the hiring of skilled labor for short-term freelancing contracts. Both sides are examined here.

### **OUTSOURCING: THE MARKET FOR PALESTINIAN TECHNOLOGY SERVICES**

In 2018, PCBS reported that the Palestinian ICT sector comprised 677 registered firms with 8,815 employees, which amounts to less than 1 percent of the workforce and 4 percent of nominal GDP, while also having accumulated a trade deficit of \$200 million in 2017.<sup>80</sup>

West Bank and Gazan firms and workers have several advantages over global competitors. They have a good reputation worldwide regarding talent, commitment, skills, intelligence, and communication. Salaries and rates are affordable, in comparison to other markets, and the West Bank and Gaza is in the same time zone as Israel and Europe.

The primary market for Palestinian ICT services is Israel, from which companies have access to the international market. Israel hosts major multinational companies and R&D centers, including Google, Facebook, Microsoft, Intel, HP, Apple, IBM, NVIDIA, and Nokia. European and American firms are also major buyers of Palestinian ICT services.

### **FREELANCING: THE MARKET FOR SKILLED PALESTINIAN EXPERTS**

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<sup>80</sup> PITA, 2017

A Palestinian ICT expert may find employment in several ways, including:

- Through Palestinian ICT companies that outsource their services.
- Direct hiring by foreign firms, also known as “remote work.”
- Remote freelancing through Open Firmware Loader platforms, such as Upwork, freelancer.com, Mostaq, and Toptal. Gazan workers have been very successful on freelancing platforms as their rates are lower than comparably skilled freelancers in other markets.

According to PITA, the supply of skilled programmers and engineers cannot keep up with the rapidly increasing demand for talent. In June 2021, PITA conducted a market needs assessment in consultation with local ICT firms. The assessment analyzed over 300 local ICT job announcements on Jobs.ps to understand employers’ needs in terms of the skill sets and the available jobs forecast for the coming year. The following ICT positions were in highest demand:

- Full-stack developer, back-end developer, front-end developer, and software developer (combined at around 48 percent of announcements)
- Data specialist, QA automation engineer, cloud computing, networking specialist, and IT sales specialist (combined at around 42 percent of announcements).

The urgent need for skilled ICT labor means that Palestinian youth with ICT skills are increasingly turning to freelancing when they are unable to find full-time employment opportunities.<sup>81</sup>

## **GENDER AND YOUTH INCLUSION**

As discussed above, youth are the primary focus of digital skills programs in the West Bank and Gaza, with curriculum beginning in fifth grade and with a range of specialized programs targeting tertiary students. Youth are aware of the high demand for digital skills in the private sector, but the number of graduates from ICT tertiary programs in West Bank and Gaza lags behind other MENA countries, indicating that youth are uncertain of their job prospects and are aware of the mismatch between the ICT education they are receiving and the demands of the private sector.<sup>82</sup> At the same time, difficult economic conditions and the resulting financial hardships suffered by many families are forcing many male high school graduates to abandon university education to join the workforce.

Girls’ enrollment rates are catching up to or even exceeding that of boys in secondary and tertiary education. They also do better in academic performance. The tertiary enrollment rate of females has increased from 77 percent in 1996 to 90 percent in 2001. However, women still lag behind men in the study of STEM, particularly in the West Bank and Gaza. In the MENA region, women make up 21 percent of STEM graduates from tertiary institutions, and in the West Bank and Gaza, they make up only 12 percent.<sup>83</sup>

For ICT programs in particular, statistics from 2019 show that women make up around 40 percent of new students, and closer to 50 percent of graduates, indicating that they are more likely than their male peers to graduate.<sup>84</sup> However, unemployment rates for women who studied computer science are over 45 percent, while for male graduates the unemployment rate is about 25 percent.<sup>85</sup> This demonstrates that women who seek to enter the ICT field find it even more difficult than their male peers to find employment. While women’s employment in the digital sector likely faces many of the same issues as men (as discussed above), they confront additional hurdles, such as societal expectations and family pressures.

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<sup>81</sup> World Bank Group, 2021a

<sup>82</sup> Ibid

<sup>83</sup> Ibid

<sup>84</sup> Ibid

<sup>85</sup> Ibid



## **BARRIERS**

**Lack of national agenda, coordinated policies, and regulations.** West Bank and Gaza is lacking coordination between the government, education system, donor programs, and the private sector. This leads to misallocation of resources into overlapping programs or into programs that are not accurately targeting the needs of the private sector.

**Inefficient education system.** Curricula are outdated and created with no consideration for market needs. The education system in the West Bank and Gaza was developed without regard for international standards, is not agile, and is slow to adapt and change. Teachers lack practical experience and fail to integrate practical learning methods or soft skills support, such as critical thinking, problem-solving, and interpersonal communication, in their heavily theoretical curricula.

**Shortage of skilled IT trainers.** The number of experts and senior skilled IT professionals willing to work as educators is limited. The demand for these highly skilled experts is very high in the IT sector, and they prefer to work as full-time professionals rather than to provide training. Among the skills in high demand are computer engineering, graphic design, cloud computing, programming, machine learning, quality assurance, data analysis, and software engineering. Among needed software skills are those in back end applications, such as Java, Java Spring, ASP.net, Python; front end applications, such as React, Angular, CSS, Java Script, and HTML; and mobile applications, such as IOS, Android, and Flutter.

**IT companies lack talent retention and development programs.** Experienced IT professionals are in high demand, both in the West Bank and Gaza and in neighboring markets, like Israel. Palestinian companies often lack human resources departments, have insufficient training and capacity building, do not have internship programs, and lack job coaching and mentoring. This makes it difficult to retain quality IT talent, and many trained professionals leave West Bank and Gaza for larger markets. This loss of experienced professionals then leads to a shortage of human capital in senior management roles, making it difficult to mentor and support junior talent.

**Poor monitoring and collection of statistics on digital skills gaps.** Limited data on market needs, such as the demand for specific digital specialties, make it more difficult for skills training programs and educational institutions to target their programs to address these gaps. While overall digital literacy is low, especially among women, better data on specific skills gaps and enterprise needs would improve targeting of capacity building programs to serve the workforce and companies alike.

## RECOMMENDATIONS

Table 12: Recommendations for Digital Skills				
	WHAT	WHY	CURRENT INITIATIVES	ECONOMIC PRIORITY
1	<p><b>Build market-driven skills and employment programs.</b></p> <p>Facilitate private sector engagement with various educational and training system players to ensure that curricula are informed by private sector needs and to develop opportunities for internships and hands-on learning.</p>	<p>Educational institutions are not agile and do not provide sufficient preparation for students to enter the job market.</p> <p>Employment programs provided by NGOs follow a traditional approach of providing stand-alone training programs first and then trying to find jobs for the trainees without any participation from the employers.</p>	Tech Savvy	High: Addresses the Inefficient education system
2	<p><b>Train and retain mid- and senior-level private sector talent.</b></p> <p>Provide support to companies to improve the retention and continuous training on both hard and soft skills for ICT staff.</p>	Palestinian companies face a shortage of talent at senior technical and management levels, and they do not have sufficient training and capacity building expertise to implement internship programs, job coaching, and mentoring.	None known	Medium: Addresses IT companies lack of talent retention and development programs
3	<p><b>Attract international experts and trainers.</b></p>	The West Bank and Gaza faces a shortage in highly skilled IT trainers. The number of senior experts is limited, as the majority prefer to work full time in the industry due to the high demand for their skills.	None known	High: Addresses shortage of skilled IT trainers
4	<p><b>Equip educational institutions.</b></p> <p>Support selected educational institutions to expand access to and upgrade IT equipment.</p>	Schools and universities suffer from a lack of sufficient and adequate lab equipment and Internet connectivity. This makes it difficult for ICT students or others to gain proficiency in basic digital skills.	None known	High: Addresses inefficient education system
5	<p><b>Regularly update market needs and labor outlook reports.</b></p> <p>Support access to quality data and statistics on the supply and demand of digital skills in the Palestinian labor force.</p>	No single institution is regularly collecting data on digital skills gaps in the West Bank and Gaza. Such data include market needs (numbers of workers needed with particular specialties, experience, and skills), university graduates' skills level and employment rate, internship data, etc.	None known	Medium: Addresses poor monitoring and collection of statistics on digital skills gaps
6	<p><b>Build cooperation between universities and the private sector.</b></p>	Lack of coordination between the government, schools, universities, and the private sector has resulted in overlaps,	None known	Medium: Addresses lack of national agenda,

		confusion, and missed opportunities. Establishing a common vision and goals for the development of digital skills will be critical to a more efficient approach to digital development.		coordinated policies and regulations
7	<b>Launch a digital literacy awareness campaign.</b>	The digital literacy/digital inclusion level is low among Palestinians. While most people can use social media applications and communication applications, these skills are not aligned with the needs of the private sector.	None known	Medium: Addresses lack of national agenda, coordinated policies and regulations

## CHAPTER 6: TRADE LOGISTICS

### INTRODUCTION

The West Bank and Gaza has a structural trade deficit, estimated at USD \$5 billion in 2021 (27.5 percent of 2021 nominal GDP).<sup>86</sup> Goods exports are estimated at USD \$1.5 billion, while goods imports totaled USD \$6.4 billion. In 2020, exports of services to Israel stood at USD \$205 million, against USD \$180 million of imports.<sup>87</sup> Consumers in the West Bank and Gaza rely on imports to satisfy an estimated 90 percent of their needs.<sup>88</sup> Israel is by far West Bank and Gaza's largest trading partner, both for imports (around 54 percent) and exports (about 84 percent). Arab countries, namely Jordan, the United Arab Emirates, and Saudi Arabia, are other top destinations for Palestinian exports. Turkey is the second-largest supplier of goods, followed by China, Jordan, and Germany.<sup>89</sup>

E-commerce has grown significantly in the West Bank and Gaza over the past few years, with domestic and cross-border e-commerce flourishing during the COVID-19 pandemic. As a result, there was a surge in demand for supporting services, including postal services and shipping and delivery companies. The number of parcels processed through the Palestinian Post increased by around 40 percent in 2019 and by another 34 percent in 2020, reaching 1.2 million that year (see figure 4).<sup>90</sup> Yet only 8 percent of Internet users in the West Bank and Gaza purchased a good or service online. The very limited adoption of such services is a result of financial illiteracy, inadequate financial inclusion, and weak local infrastructure for fintech.<sup>91</sup> There are no official statistics on cross-border e-commerce transactions for the West Bank and Gaza, but anecdotal information gathered through interviews for this report suggest that the majority of these transactions are imports from major Chinese e-commerce platforms. Around 85 percent of the international parcels that are processed by the Palestinian Post are from China, through e-marketplaces such as AliExpress, Alibaba, SHEIN, and Banggood. This is likely due to dependence by Palestinian merchants and consumers on low-cost imports of consumer products.

Further growth in e-commerce is hampered by the excessive use of COD by consumers, limited consumer protection for faulty or improperly advertised goods, and low financial literacy. Many Palestinians are unfamiliar with electronic payment systems, continuing a dependence on cash payments. This requires often unlicensed delivery companies to manage large quantities of cash and increases the potential for fraud and theft. The regulatory framework is insufficient to protect merchants and consumers from these risks. These issues are addressed in [Chapter 4: "Digital Financial Services."](#)

### OBJECTIVE

Improve the regulatory environment and build the capacity of delivery service providers and the Palestinian Post to increase the efficiency of trade in small packages, leveraging the potential of cross-border e-commerce to promote exports and to create new opportunities for Palestinian women and youth.

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<sup>86</sup> PCBS, 2021

<sup>87</sup> PCBS, 2020

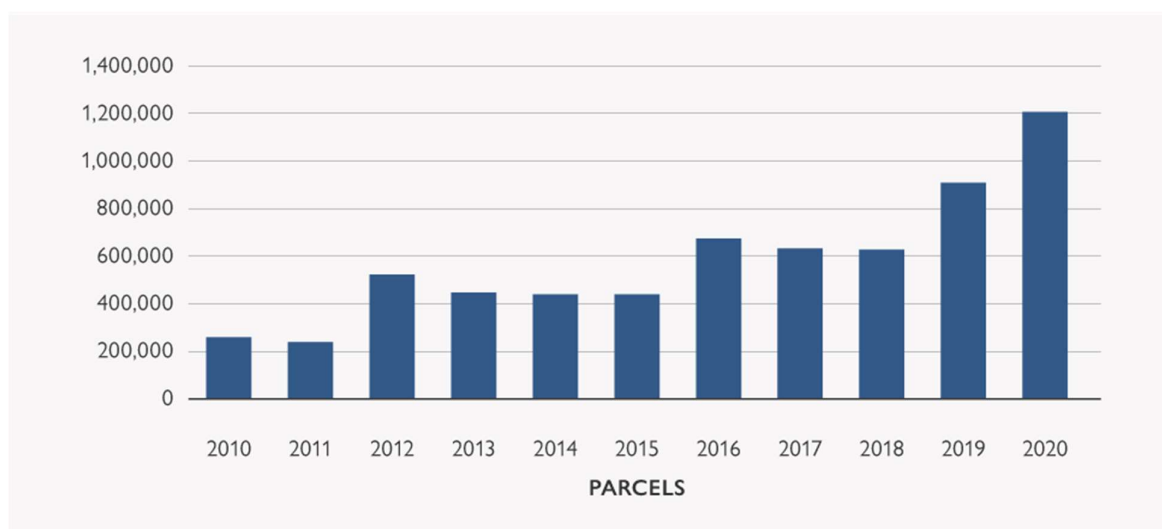
<sup>88</sup> International Trade Administration, 2022

<sup>89</sup> PCBS, 2019

<sup>90</sup> Wafa, 2022a

<sup>91</sup> PCBS, 2022

**Figure 4: Volume of International Parcels Processed by the Palestinian Post Office 2010–2020<sup>92</sup>**



### INFRASTRUCTURE IMPEDIMENTS—DELIVERY SYSTEMS

**Technological impediments.** Increased access to the Internet and higher penetration of broadband connections and smartphones have contributed to the recent expansion of e-commerce in the West Bank and Gaza. However, several internal obstacles and challenges in the logistics sector have curtailed the reach of e-commerce. Most notable are the limited awareness and adoption of the Palestinian postal (zip) code, minimal automation, and weak management of the Palestinian Post, in addition to the fragmented and unregulated delivery and shipping sector.

**Physical impediments.** The road network in the Palestinian territories is in disrepair and even dangerous in some locations. Israeli security checkpoints pose additional obstacles to efficient communications. GPS services are largely inaccurate for Palestinian addresses; some security checkpoints pop up and shut down, creating uncertainty, generating delays, and resulting in higher costs which are then passed on to consumers. The need to transit through Israel adds another set of challenges in terms of burdensome processing mechanisms at the border ports and complicated export procedures for both the Post and for exporters of goods. These issues lay beyond the scope of this report.

### POLICY OBJECTIVES AND LEGAL FOUNDATIONS

**Table 13: Trade Logistics: Institutions and Legislation**

INSTITUTION	SECTOR	LEGISLATION
<u>Palestinian Post</u> (under the MTIT)	Mail and parcel delivery	Postal Department Law No. 20 of 1930 Postal System Law No. 20 of 1955 Postal Savings Law of 2003 <u>Universal Postal Union Agreements</u>
<u>Palestinian Customs Authority</u> (under the Ministry of Finance)	Customs	<u>Jordanian Customs and Excise Law No. (1) of 1962</u>

<sup>92</sup> Palestinian Post Office, 2020

		<u>Protocol on Economic Relations, Annex V of the Interim Agreement (“Paris Protocol”).</u>
<u>Ministry of National Economy</u>	Regulates internal and external trade in West Bank and Gaza Consumer protection Competition policy	<u>Protocol on Economic Relations, Annex V of the Interim Agreement (“Paris Protocol”).</u> <u>Consumer Protection Law (2005)</u>
<u>Israeli Civil Administration</u> <u>Israeli Customs</u> <u>Israeli Customs Brokers</u>	External trade	Governed by the <u>Paris Protocol</u> and Israeli regulations for Palestinian importers
<u>Ministry of Telecommunications and Information Technology</u>	Electronic payments	<u>Electronic Transactions Law #15 (2017)</u>
<u>Ministry of Finance</u>	E-commerce Taxation	
<u>Palestine Monetary Authority</u>	Supervises and regulates the banking sector, including digital payments Oversees settlement infrastructure Credit bureau	<u>Banking Law (2010)</u> <u>Law for Settlement of National Payments</u>

**Postal system legislation.** The Palestinian Post is regulated through a set of legislation that has not been updated in nearly 20 years, with the result being that the role of e-commerce as a service (and source of revenue) is not sufficiently supported in the legal framework.

**Universal Postal Union Agreements.** In 2008, in line with the policies of the Universal Postal Union (UPU), a **Declaration of Principles** was issued in Geneva, allowing the exchange of mail—through Jordan—with countries that do not have a relationship with Israel. However, Israel later declared that entry of the parcels through Jordan required the building of special examination and inspection rooms. This led to the accumulation of tens of thousands of postal parcels by July 2018, when the Office of the Quartet<sup>93</sup> and the UPU intervened and obligated Israel to deliver the seized mail in bulk to Palestinian authorities. In 2016, the PA also signed the **Jordan Direct Mail Agreement** with Israel under the auspices of the UPU. Israeli authorities, however, did not commit to implementing this agreement and have not been allowing the export of postal consignments directly through Jordan. MTIT indicated in a meeting that parcels bound for export were now being delivered by the Palestinian Post to an air freight service across the border in Jordan, providing cost savings and quicker delivery times.<sup>94</sup>

**Israeli regulations for Palestinian importers.** In addition to general Israeli regulations and customs procedures, Israeli tax authorities impose special requirements on Palestinian importers, which are updated periodically and notified to Israeli customs brokers.<sup>95</sup>

<sup>93</sup> Established in 2002, the Quartet consists of the United Nations, the European Union, the United States, and Russia. Its mandate is to help mediate Middle East peace negotiations and to support Palestinian economic development and institution building.

<sup>94</sup> In a meeting on March 23, 2022, the Minister told interviewers about his own personal experience with delays relating to e-commerce shipments. His wife waited several months for delivery of an e-commerce purchase from abroad.

<sup>95</sup> The State of Israel, 2015

Unfamiliarity with import regulations causes excessive charges and delays during the process of releasing goods.<sup>96</sup> Palestinian importers' lack of understanding related to the costs of loading and storage, standards and regulations relating to goods storage and demurrage, and procedures for testing and quality checks, among others, leads to many imported goods (worth millions of shekels) being confiscated and destroyed by Israeli Customs. In most cases, this results from a failure to secure the appropriate approvals from relevant Israeli Ministries (Economy, Transportation, Communication, Agriculture, Environment, Standards, etc.) as required by applicable Israeli regulations. Such approvals must be submitted through related Palestinian Ministries, which then process them through the Israeli Civil Administration.<sup>97</sup> If importers do not apply for the approvals in advance, they will incur storage and demurrage fees while their requests are being handled.

The approval for “dual use” goods—goods used for civilian purposes which could have military applications—can take more than three months and entails significant additional cost. Thus, Israel has placed restrictions on imports of 56 categories of goods for the West Bank and Gaza and an additional 62 that apply only to Gaza, ranging from communications equipment to medical products and fertilizer. Without a special license from Israeli authorities, these goods will not be released from Customs, and the importer may have to pay high storage fees.<sup>98</sup>

An agreement was signed between the Israeli and Palestinian authorities on the exchange of Customs data that gives the Palestinian Customs offices and subsequent audit centers the ability to review the details of the Customs declarations and imported items on a daily basis. Since Israel started using the Global Gate System (described further below), Palestinian Customs was also granted access to detailed information on taxes and fees at the product level, along with the corresponding commercial invoice numbers.

Israel also regulates Palestinian imports from Arab and Islamic countries. This situation complicates e-commerce with the Arab world, especially since the Palestinian consumer cannot currently make purchases from countries that do not have economic relations with Israel, such as Algeria, Pakistan, and Indonesia. In theory, the products of these countries can come through Jordan, but in practice Israel delays their arrival into the West Bank and Gaza.<sup>99</sup>

**The Paris Protocol, Annex V of the Interim Agreement**, was intended to govern economic and trade relations between the Palestine Liberation Organization (PLO) and the Government of Israel for an interim period of five years (May 4, 1994–99). However, the failure of negotiations to establish permanent status led to the de facto extension of the Paris Protocol far beyond the initial interim period.

The Paris Protocol grants the PA jurisdiction over trade and taxes in the Palestinian territories. The agreement also defines the trade and tax relationship between the PA and Israel and between the PA and the outside world. Furthermore, the agreement gives Palestinians the right to import and export with the outside world directly or indirectly—through Israeli ports and crossing points. Under the Paris Protocol, Israeli regulations concerning product classifications, customs, value-added tax (VAT), procedures, permits, and standards apply to Palestinian imports, with the exception of goods according

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<sup>96</sup> For example, most shipping companies and freight forwarders charge Palestinian importers a demurrage deposit to guarantee the return of the containers from the Palestinian territories within an agreed time frame, but Israeli importers are exempt from such deposits. In interviews, it became clear that many Palestinian importers are unaware that this deposit can be refunded.

<sup>97</sup> The Israeli Civil Administration is the Israeli governing body that operates in the West Bank and represents the Interior Ministry of Israel.

<sup>98</sup> A recent World Bank report states that the “restrictions on transfer of dual use goods are problematic because they do not discriminate sufficiently between legitimate and illicit uses,” and the categories are too broad as the restricted items are vaguely defined. There is also little transparency on implementation of dual-use restrictions, and Palestinians are unable to appeal decisions made by Israeli authorities. In practical terms, this means that almost any item can be classified under the dual-use list and can be banned temporarily or permanently without the prior knowledge of Palestinian importers.

<sup>99</sup> Morrar and Khalidi, 2020

to Lists A1, A2, and B.<sup>100</sup> These lists include specific products originating in Jordan, Egypt, and other countries, for which the PA can apply its own Customs duty and tax rates on imports within the quantitative ceilings stipulated in the Paris Protocol and are subject to change by the Joint Economic Committee, where Palestinian and Israeli representatives may discuss and settle issues. That committee, which was supposed to meet every six months, has only met once since 1998. The quantities established by the Paris Protocol were never reviewed or updated to reflect the current needs of Palestinian consumers and industry.<sup>101</sup>

With regard to taxation, Articles 5 and 6 of the Paris Protocol regulate the policy of direct and indirect taxes. The PA has the right to define and regulate direct taxes. As for indirect taxes, the PA can set a value-added rate that can exceed the VAT in Israel, but it may be no less than 2 percent lower.<sup>102</sup> Israel also collects import taxes on behalf of the PA, and transfers them later on for a fee.<sup>103</sup>

The Paris Protocol also covers other aspects that require coordination with Israeli authorities, including regulation of postal activities between the PA and the rest of the world. It states that arrangements for sending and receiving mail must be made through commercial agreements between the PA and the postal authorities in Jordan and Egypt, in addition to a commercial agreement between the PA and the Israeli Postal Authority.

Based on the Paris Protocol, the PA is free to negotiate and conclude trade agreements with other countries, as long as Israeli import policies are followed. The PA has signed many trade agreements with Arab countries (the Greater Arab Free Trade Area), the European Union, the United States, Turkey, and Canada, all of which provide preferential access to most goods originating in these countries to the Palestinian market. However, Israel adheres to its own trade agreements with these countries, which has made it difficult for Palestinian companies to take advantage of these agreements to access new markets.<sup>104</sup>

**The Jordanian Customs and Excise Law No. (1) of 1962** is another relevant regulation that is still applied by the Palestinian Customs Authority and provides a legal framework for Palestinian Customs. The framework for using Automated System for Customs Data (ASYCUDA), the computerized system of official Customs procedures, was established in 2011 through Instructions No. (1), along with the regulation of direct trade and issuance of Customs declarations.<sup>105</sup>

In addition to the above agreements, an agreement for the exchange of Customs information was signed between the PA and Jordan on May 14, 2014, to jointly monitor and control imports and exports. An agreement was also reached to exchange information related to Customs declarations that arrives from or passes through Jordan to the Palestinian territories and for exports and re-exports from West Bank and Gaza passing through Jordan.

## CORE INSTITUTIONS

Four main institutions are active in trade logistics related to e-commerce in the West Bank and Gaza, namely MoNE, MoF, MTIT, and PMA.

**The Post Office (Palestinian Post).** MTIT and the Palestinian Post are actively trying to encourage cross border e-commerce by upgrading the quality of postal services and offering preferential prices for these services. For example, the Palestinian Post offered a 20 percent discount to local business that engage in e-commerce, and MTIT agreed to pay for tracking services for parcels and other postal

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<sup>100</sup> Palestinian Investment Promotion Agency (PIPA), 2022

<sup>101</sup> European Commission, 2018

<sup>102</sup> For example, if the Israeli VAT was 20 percent, the PA VAT may exceed this (e.g., 24 percent) but could be no lower than 18 percent.

<sup>103</sup> MAS Paris Protocol, 2013

<sup>104</sup> World Bank Group, 2017

<sup>105</sup> Birzeit University Institute of Law, 2011



items.<sup>106</sup> However, the Palestinian Post is very limited in terms of human resources and logistics infrastructure and therefore has been unable to keep up with the significant growth in e-commerce. This is evident in the large accumulation of parcels at the central post warehouse and delays in delivery. (In some cases, according to interviews with local firms, the delivery time for packages exceeds 30 days.) There are 88 post offices in the West Bank, all of which distribute e-commerce parcels, but none provide expedited postal services.<sup>107</sup>

The volume of e-commerce through the Palestinian Post is larger than that through private delivery services, but its value may be lower. Users usually use the Palestinian post for smaller and less valuable products that they are not afraid of losing, while private shipping companies are used for larger parcels and more valuable products.

Legally, parcels that contain between one and five units of a single product are considered personal, which means they are not subject to taxes, fees, and other paperwork (certificates, permits, or licenses). For shipments intended for commercial use (containing more than five units), Customs fees and relevant certificates, permits, and licenses apply. These permits can be costly, up to ILS 800 (about USD \$235) for certificates issued by the Israeli Ministry of Health for cosmetics and beauty products. Stakeholders reported through interviews for this study that such permits are often required for imports of cosmetics and beauty products for personal use.

Mail and parcels for delivery in the West Bank must either pass through Israel or, under an agreement signed with Israel in 2016, through Jordan. Israel gathers parcels and letters destined for the West Bank at a sorting center in Jerusalem and waits to collect 1,500–2,000 parcels before transferring the entire load to the Palestinian Post. The Palestinian Post, which has only one transportation vehicle for every half ton of parcels per day, relies on private transportation companies to deliver these parcels to the main sorting centers in Ramallah and Jericho.<sup>108</sup> The number of sorting and distribution employees at the Palestinian Post is insufficient to process the large volume of parcels in each delivery efficiently. All of this adds to the cost and time of delivery to the final destination.

Mail and parcels for delivery in Gaza are transferred by Israeli authorities to the Erez crossing, although such transfers are halted for extended periods pursuant to Israeli security determinations.<sup>109</sup> This renders e-commerce in goods a non-viable commercial proposition for Gazan residents.<sup>110</sup>

Cross-border e-commerce adds another layer of complication, as it requires further effort and time to account for Customs processing, examination, release, storage, and continuous follow-up with the relevant parties (such as permit and certificate issuing agencies, MTIT, etc.). Parcels must also be sorted by type (personal versus commercial use) to determine the appropriate tax treatment. There are only two Customs employees at the main postal warehouse in Jericho to process the high volume of postal parcels. At the time the interview was conducted, the customs scanner was not working and one of the two employees was about to retire.

Cross-border e-commerce shipments are predominantly imports entering the West Bank and Gaza. In 2020, the Palestinian post processed 105,037 inbound (from abroad) small packets and 3,276 parcels.<sup>111</sup> On the other hand, outbound traffic was limited to only 6,051 small packets and 367 parcels.

**Ministry of Finance.** MoF plays an important role in regulating e-commerce, especially in terms of taxes. MoF monitors cross border e-commerce companies' activities through the Customs and Excise Department. Until the sector develops further and generates more significant revenues, the MoF

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<sup>106</sup> Ma'an News Agency, 2020

<sup>107</sup> Palestinian Post Office, 2020

<sup>108</sup> Aliqtisadi, 2016

<sup>109</sup> AFP and TOI staff, 2016

<sup>110</sup> Gisha Legal Centre for Freedom of Movement, 2022

<sup>111</sup> Palestinian Post Office, 2020

seems to have a limited interest in tightening tax procedures on e-commerce or in developing new tax laws to better regulate online commercial activity.

**Palestinian Customs Authority.** The Palestinian Customs Authority is in the process of updating and modernizing procedures through the use of computerized systems. However, it is worth noting that the relationship between Israeli and Palestinian Customs brokers remains disorganized and is not governed by a formal legal framework. The Palestinian Customs function is currently limited to post-clearance audit (i.e., the point when goods enter the Palestinian territories), while the clearance and release of goods is handled solely on the Israeli side. This means that the work of Palestinian Customs starts after the Israeli authorities complete the Customs clearance process at the Israeli ports, and their duties are limited to mostly internal procedures.

In response to the increase of e-commerce shipments in recent years, the Palestinian Post and Customs have taken steps to increase efficiency and cooperation. To detect smuggling and prohibited items, Palestinian Customs officials are positioned at various post offices to inspect incoming parcels and to ensure compliance with applicable laws and regulations. In addition, ASYCUDA, the Customs IT system, was linked with the IT system of the International Postal Office in Jericho, thereby streamlining processing and clearance of international parcels.<sup>112</sup>

## **ADDITIONAL STAKEHOLDERS**

**International expedited shipment providers.** There are no official Palestinian agents for international expedited shipment companies. Those who operate in the West Bank and Gaza work through Israeli agents.

**Private delivery and shipping companies.** The Palestinian Post faces many difficulties. Its overall inefficiency and limited services have opened the door for an active and thriving private delivery and transport sector. The growth in e-commerce transactions, especially during the COVID-19 pandemic, increased the demand for delivery services and helped the private delivery industry grow in terms of staff, delivery vehicles, and sales. The number of shipping and delivery companies based in the West Bank and Gaza reached 57 in 2022, the majority of which were licensed by the MTIT in the past two years.

There are three types of delivery and collection service providers in the West Bank and Gaza.<sup>113</sup> The first relies on traditional delivery services through designated vehicles—mostly cars. This is the most widely used method, and these companies compete in terms of price, speed, and area of service. While most companies provide services only inside the West Bank or Gaza, some facilitate delivery between West Bank and Gaza, Israel, or Jordan, and others extend their services to additional international markets. Most of these companies also facilitate collection for e-commerce through COD.

The second type of delivery service relies on digital applications that are built on the principles of the sharing economy, relying on privately owned cars and taxis to deliver parcels for a predetermined fee. Most of these vehicles are equipped with a tracking system that enables SMEs to track their parcels. WeDeliver is the first and most well-known platform in this regard; it is expanding its operations to Saudi Arabia. Like traditional delivery services, sharing economy providers also rely heavily on COD, which exposes them to the risk of theft and fraud.

Finally, informal and unlicensed logistics and delivery service providers are available. They mostly work through social media platforms. These entities either own vehicles or subcontract with private vehicle

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<sup>112</sup> This is the central office where all postal parcels are collected for later distribution to the various postal offices in different cities and towns. ASYCUDA is the system used by the Palestinian customs, and it has digitized several customs procedures, including replacement of Customs data (Palestinian Single Administrative Document), exporting and re-exporting, risk management, and clearance of postal packages, among others.

<sup>113</sup> Aliqtisadi, 2019

owners (mostly cars and motorcycles). Since these delivery service providers are limited to domestic e-commerce transactions, they are excluded from the remaining analysis.

Private shipping companies transfer parcels abroad through one or more of a combination means: First, by shipping using the Palestinian post. Second, by bringing parcels directly to the Israeli post office for mailing. Third, by using Israeli agents for international expedited shipping companies. Some private shipping companies are also agents of international shipping companies (particularly if they hold an Israeli ID and are licensed in Israel).

From a tax point of view, private delivery companies are required to inform the General Administration of Customs and Excise at the MoF about the nature of the external packages that they deliver to customers in the West Bank and to clarify whether they are intended for commercial or personal use. However, interviews revealed that the reporting mechanism and standards are not well understood by delivery service providers. This regulatory gap creates little incentive for traders to follow the rules and leaves room for tax evasion and smuggling.

Interviews for this study highlighted weak supervision of private delivery companies and a lack of clarity in the criteria for distinguishing postal parcels intended for personal versus commercial use.

In addition, delivery companies that were founded in East Jerusalem find that cross-border e-commerce is much simpler since they rely on highly developed Israeli infrastructure, giving them an advantage in offering faster and more reliable services to clients in the West Bank and Gaza. This complicates the supervision process, as the PA and its institutions have no control over what enters the West Bank through Israeli ports and borders. It also hinders the ability to estimate the size of Palestinian cross-border e-commerce imports, because parcels are delivered to Israeli addresses in East Jerusalem before being transferred to their final destinations in West Bank through informal channels.

**Palestinian Shippers Council (PSC).** The PSC represents Palestinian shippers, importers and exporters, local industries (as the end users of maritime shipping, airfreight, and land transportation), and the Palestinian institutions that are attentive to trade facilitation issues. The PSC provides technical, legal, and training services to individuals and institutions from the trade sector; offers legal services and consultancies for expanding and facilitating trade; and promotes training and awareness campaigns on issues related to trade laws and policies. The PSC is also in the process of setting up a [Palestinian Trade Portal](#) with easily accessible information on import and export processes and required documents, explanations of commercial corridors, estimated costs for storage, shipping, and at airports and ports, and other useful information; however, this appears to be in the design phase.

**Israeli Customs and Israeli Customs brokers.** All goods enter the West Bank and Gaza through Israeli international gateway crossing points and are cleared by Israeli Customs before they are transferred to Israeli Customs-bonded processing terminals. These terminals provide container storage facilities and a breakdown of partial shipments.<sup>114</sup> An Israeli Customs broker must carry authorization from the importer to proceed with the release of goods or any other Customs-related actions. All storage fees are collected by Israeli Customs in the terminals or warehouses, and PA traders pay the VAT on these services. All applicable taxes on Palestinian imports are collected by Israel and only transferred upon request by the PA Ministry of Finance; however, when importers do not submit their invoices to the PA, the PA has no knowledge about the transaction and cannot make the claim for the outstanding VAT, Customs, and other applicable taxes. Israel deducts handling or administrative fees of 3 percent on all the revenues transferred to the PA.<sup>115</sup>

**Global Gate System.** Israeli Customs have a system called [Global Gate](#), which allows for trade stakeholders (shipping lines, importers, exporters, ports, freight forwarders, warehouse operators,

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<sup>114</sup> International Trade Centre (ITC), 2020

<sup>115</sup> United Nations Conference on Trade and Development (UNCTAD), 2019

Customs brokers, etc.) to send and receive messages using a paperless system for the clearance of goods. Those who wish to use the Global Gate System are required to have a smart card, which enables users to connect to the system and perform a variety of tasks; however, Palestinian importers are not allowed access to the smart card and therefore require an Israeli Customs broker to process their Customs declarations.<sup>116</sup> In order for the Customs broker to initiate the clearance process, the importer must provide the bill of lading, the invoice, a packing list, and a preferred document (for goods imported from countries where a bilateral or regional trade agreement is in place). Israeli Customs brokers must also obtain various authorizations, permits, licenses, and all other conditions of importation, in accordance with the applicable laws, regulations, and instructions. Once the Customs broker pays the relevant fees and duties, Israeli Customs then decides to release the goods or perform further checks, which may include a security check (where the container is scanned on the Customs site) or a physical inspection.

**Israeli Civil Administration.** The Israeli Civil Administration (formally known as the Civil Administration in Judea and Samaria) is the military unit responsible for implementing Israel's civilian policy in the West Bank. It has vast powers that pertain to all aspects of life in the Palestinian territories, including trade. The Civil Administration is responsible for coordination with the PA in all matters related to the field of import, foreign trade, and the movement of merchants.<sup>117</sup> This includes coordinating the export of merchandise and inspecting goods entering the West Bank.

**Standards Institution of Israel.** Many goods require the approval of the SII in order to be released. An Israeli importer can send requests directly to SII by using the Israeli system, while Palestinian requests must be processed through an Israeli Customs broker. This is in addition to the prior approval that is required for each specific import shipment to the West Bank and Gaza. Such approvals are processed on paper through the Israeli army to the relevant Israeli ministry. These additional steps require coordination and add to the processing time and cost for imports.

If SII approval is required, the sample is taken from the port, terminal warehouse, or bonded warehouse where the goods are still under the Israeli Customs supervision. Palestinian importers must pay for storage and demurrage while the goods are being tested, a process that takes a few days, weeks, or even longer. The situation is different for Israeli importers, where the Israeli authorities release the products within an average of 24 hours and an SII representative takes the sample later on from the importer's warehouse.<sup>118</sup> Israeli importers can also submit samples in advance and obtain approval for a year's shipments of a particular product type.<sup>119</sup>

**Palestinian Standards Institution (PSI).** The PSI was established under the MoNE and is governed by Palestinian Standards Law no. 6 of 2000.<sup>120</sup> In addition to its core function of developing and setting national standards and technical regulations, the PSI serves the business community in terms of metrology, accredited testing facilities, calibration services, conformity assessment, certification, and quality assurance. Currently, there are 37 accredited laboratories in the West Bank and Gaza, most of which are within universities or ministries.<sup>121</sup>

One of the main weaknesses of the PA trade system is the standards and metrology system. It is undermined by poor basic infrastructure, a lack of experts with the requisite technical skills and knowledge, and a limited budget, all of which hinder the PSI from performing its main functions. On

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<sup>116</sup> Israel Tax Authority, 2021

<sup>117</sup> Israel Tax Authority, 2022

<sup>118</sup> Other Israeli agencies holding authority over West Bank and Gaza include the following: Industries Administration (issues marking exemptions and licenses for imports of consumer products, food, and high-tech industries); Environment and Sustainable Development Administration (examines applications for the entry of equipment/dual-use items and issues designated transfer licenses to those who are eligible and conducts visits at crossings while guiding and training Customs officials on the necessary supervision procedures); and Imports Administration (registers those engaged in foreign trade, releases goods, issues licenses, and releases bank guarantees).

<sup>119</sup> World Bank Group, 2017

<sup>120</sup> PIPA, 2018

<sup>121</sup> World Bank Group, 2017

the other hand, private labs are demand driven, mainly serving large sectors, such as construction materials, pharmaceuticals, or household appliances since having a relevant laboratory for most sectors and products may not be commercially viable.<sup>122</sup> This leaves Palestinian traders dependent on the Standards Institution of Israel (SII) for testing and certifications required for exports to international markets. The PSI would benefit from capacity building to improve its adherence to international best practices and from training to improve staff knowledge and performance.

## **POLITICAL ECONOMY**

The system of trade between the sides can be referred to as a “quasi-customs union” or a “unilateral customs union,” to the disadvantage of Palestinians. This is emblematic of the tension between Israel’s security concerns and the economic goals of the PA, and it reflects the general power imbalance between the two sides.

Israeli authorities set trade policies in line with the interests of the Israeli economy, and limited scope has been given for the Palestinians to practice their own trade policies. The result is a Palestinian economy that is highly dependent on Israel. Israel is the West Bank and Gaza’s largest trading partner, accounting for 70–85 percent of Palestinian exports and 50–80 percent of Palestinian imports over the past three decades. The trade deficit has also been growing in size, reaching around 28 percent of GDP in 2021, due to the low value of Palestinian exports and the creation of a consumption economy that relies mainly on imports.

In addition to the unfavorable terms of trade, Israeli-imposed restrictions also severely limit the movement of goods and people between West Bank and Gaza and into and out of Gaza itself. Israeli checkpoints, roadblocks, road gates, earth mounds, and Customs and transport procedures (including cumbersome and costly procedures at the ports) impose prohibitive transaction costs on Palestinian exporters and importers. These have weakened the competitiveness of Palestinian goods, with trade barriers having a greater effect than tariffs (e.g., dual-use goods list restrictions; limited working hours and uncertain operations; unnecessary or repetitive procedures, leading to delays and damage; lack of face-to-face contact with Palestinian brokers; inadequate infrastructure; and pervasive security inspections).<sup>123</sup> While modern technology has the potential to streamline and automate Customs processes, such as through single-window trade facilitation systems, in the Palestinian territories, there are significant political challenges that go beyond technical solutions. These challenges must be addressed in order to lay the foundations for sustainable export-driven growth.

## **ACCESS TO MARKETS**

Israel controls West Bank’s inbound and outbound flows of merchandise trade through the Green Line that transits through Israeli seaports and airports and West Bank’s international border crossing at the Allenby/King Hussein Bridge. All goods enter Israel through five key international gateway crossing points, which are the Port of Haifa and the Port of Ashdod for sea shipping; Ben Gurion Airport for air shipping; and Allenby Bridge and the Nitzana crossing for inland shipping.<sup>124</sup>

All imports and exports passing through Israeli ports must first go through one of the commercial crossings operated by Israel and built along the route of the Israeli–West Bank separation barrier. The Rafah crossing between Egypt and Gaza is under Egyptian control and has been intermittently closed for people and goods since 2007. As such, Israel has considerable control over all the channels through which products can enter and exit the Palestinian territories. Israel also has control over import duties and VAT intended to be transferred to the PA and restricts trade flows through the administration of

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<sup>122</sup> Ibid

<sup>123</sup> Ibid

<sup>124</sup> ITC, 2020

the strategic goods lists (A1, A2, and B) that have not been updated for years, along with the dual-use goods list.

## **GENDER AND YOUTH INCLUSION**

According to the PCBS, women comprise around half of the population but female participation in the Palestinian workforce stands at only 17.2 percent. Women account for only 2.7 percent of business owners involved in the export industry.<sup>125</sup> While women are less likely to be business owners overall (only 2.1 percent of working women own their own business), the limited trade opportunities and lack of export market diversification further contribute to the very limited involvement of women in the export sector.<sup>126</sup>

Female exporters are also impacted by high transportation costs. Twenty-two percent of those surveyed by the Palestinian Economic Policy Research Institute cited movement restrictions and high shipping costs as the primary issues preventing them from expanding exports. Women also face difficulties accessing export market-related information and in marketing their products in foreign markets. Thus far, Palestinian associations and syndicates dedicated to building the capacity of women in business have had a limited role in helping overcome such issues.

## **BARRIERS**

**Cumbersome trade regulations.** Goods traded through e-commerce face the same burdensome inspection procedures, obstacles, and delays at Israeli checkpoints as more traditional trade. Israeli authorities block some shipments for security reasons, while others are stalled for administrative purposes. Israel imposes strict controls on the movement of incoming and outgoing parcels, withholds postal parcels for long periods, conducts intrusive inspections, imposes high Customs fees, and detains them in Jerusalem, where they are inaccessible to Palestinians living in West Bank and Gaza.<sup>127</sup> As a result, Palestinian companies have generally been unable to grow or expand into new export destinations.

**Postal services are ill-prepared for e-commerce.** The Palestinian Post lacks sufficient IT and human resources to deal with the large volumes of incoming parcels in a timely manner, and the overall management of parcels is inefficient. Tracking services are inaccurate, and many packages are lost. In addition, e-commerce platforms charge higher fees for delivery to Palestinian postal codes. Such obstacles and delays negatively affect the work of—and perceptions of—the Palestinian Post and ultimately hinder the development of cross-border e-commerce in general.

**Border crossings:** Rising shipping rates to Haifa and Ashdod ports in Israel has redoubled interest in using Jordan's port of Aqaba via the Allenby/King Hussein Bridge (A/KHB) as an alternative. Jordanian and Palestinian trucks may use this bridge to transfer goods through a back-to-back pallet system, where trucks would need to unload and reload cargo.

Truckloads processed at the A/KHB grew by 28 per cent between January and July 2022 compared with the same period the year before, increasing from 39,290 truckloads to 50,243.<sup>128</sup> In an effort to reduce costs and promote trade, the European Union has funded a pilot initiative begun in February 2022 to expand Palestinian trade at the border with Jordan by replacing pallets with standard 20 foot shipping containers. This increases efficiency and reduces incidents of damage, thereby reducing costs. On August 1, 2022, the shipping of 40 foot containers through the Allenby Bridge border crossing began on a trial basis through November 2022.<sup>129</sup>

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<sup>125</sup> United Nations Development Programme (UNDP), 2021

<sup>126</sup> Ibid

<sup>127</sup> Murar and Al-Khalid, 2020

<sup>128</sup> Office of the Quartet, 2022

<sup>129</sup> Lazaroff, 2021

## RECOMMENDATIONS

Table I4: Recommendations for Trade Logistics				
	WHAT	WHY	CURRENT INITIATIVES	ECONOMIC PRIORITY
1	<b>Promote development of a single-window trade facilitation system between the PA and Israeli control agencies.</b>	<p>Israeli restrictions on Palestinian imports and exports lead to excessive delays and impose extra costs, effectively reducing trade volumes and causing economic losses.</p> <p>The current system relies on the requirement of coordination among numerous entities, including Palestinian traders, the PA Customs brokers, Israeli Customs brokers, PA, and Israeli authorities.</p> <p>A single-window electronic clearing system could reduce the time and steps required for trade clearances, particularly because all necessary documentation by the Palestinian and Israeli authorities would be known in advance.</p>	None known	Low: Addresses cumbersome trade regulations
2	<b>Implement best practices from the World Trade Organization Trade Facilitation Agreement (TFA), particularly those that support e-commerce, including 1) simplified export declarations, 2) trusted trade programs, 3) expedited shipments, and 4) electronic submission of documents without requiring paper copies.</b>	<p>TFA obligations are the global standard for modern, efficient trade policies and are being implemented widely throughout the world. Palestinian firms would benefit greatly if the PA were to adopt policies in line with the TFA, even though West Bank and Gaza is not a WTO observer or member.</p> <p>For example, consistent use of an electronic system to collect fees and track applications and licenses would reduce processing time,</p>	None known	High: Addresses cumbersome trade regulations

		<p>facilitate trade, and minimize opportunities for corruption.</p> <p>Some cooperation with Israel on certain TFA provisions may be necessary.</p>		
3	<p><b>Improve dissemination of information through online portal to present and would-be Palestinian importers and exporters regarding combined PA and Israeli requirements for trade in goods.</b></p>	<p>Israeli restrictions on Palestinian imports and exports lead to excessive delays and impose extra costs, effectively reducing trade volumes and causing economic losses. Palestinians must use Israeli Customs brokers for arranging exports and imports. Israel also requires extensive examinations and burdensome security protocols for any Palestinian shipments crossing through Israeli territory. Finally, Palestinian importers must apply for import licenses and other relevant permits through the appropriate Palestinian ministries, which then seek approval on the importers' behalf from Israeli ministries through the Civil Administration authorities.</p>	<p>The World Bank found in 2017 that easing restrictions on trade in Gaza and relaxing the procedures for the products on the dual-use list, along with narrowing the scope of the dual-use list itself, could substantially increase exports from West Bank and Gaza.</p> <p>The European Union EuroMed program focuses on enhancing the formulation and implementation of trade policy (including delivery of trade-related public services by the PA) to expand trade with international and EU markets and increasing the private sector presence abroad, better supporting exporters to increase trade volumes with international markets.</p>	<p>Medium: Addresses cumbersome trade regulations</p>
4	<p><b>Reduce export dependence on Israel by accessing new markets for Palestinian products.</b></p>	<p>Most Palestinian trade is directed to the internal "customs union" market of Israel. Israeli services and manufacturers maintain an edge over Palestinian competitors, blocking progress into higher value-added products and services.</p>	<p>Since 2009, the EU has supported Palestinian efforts to facilitate exports and investment. Under the current trade assistance program, the EU is supporting Palestinian exporters, particularly SMEs, to have a more high-visibility presence in foreign markets through hubs for</p> <p>Inventory/warehousing and commercial activities.</p>	<p>Medium: Addresses cumbersome trade regulations</p>



5	<b>Recognize “Palestine” as a legitimate point of origin and destination for expedited delivery services.</b>	Certain courier and delivery services (commonly used for e-commerce transactions) do not recognize “Palestine” as a legitimate destination, meaning that extra costs and delays are involved in getting packages from Israeli terminals to addresses in the West Bank and Gaza. This can be a significant barrier to cross-border e-commerce, by introducing considerable unreliability into the transactions.	None known	High: Addresses cumbersome trade regulations
6	<b>Coordinate efforts between the PSI and the ISI on issues concerning Palestinian import regulations.</b>	Most imported products (from plastic bottles to televisions and washing machines) must be tested by the ISI. Palestinian importers feel discriminated against because they face different procedures than Israeli importers to clear similar goods. For example, Palestinian imports of common e-commerce goods such as cosmetics must obtain a license each time the same product is imported while Israeli importers only obtain the license once for multiple imports of the identical product. Such procedures are affecting the competitiveness—and in some cases the viability—of Palestinian traders, especially producers. Under the Paris Protocol, Israel is required to notify Palestinian authorities of any changes in import policies or procedures (including standards and rules on sanitary and phytosanitary measures [SPS] and technical barriers to trade [TBT] measures), but this has not been the case in practice.	The EU is providing trade-related assistance to strengthen the quality infrastructure. This includes improving quality-related services provided by the PA, enhancing the standards of Palestinian products, and increasing their acceptance and presence in international and EU markets.	Medium: Addresses cumbersome trade regulations
7	<b>Implement the Palestinian postal code, and promote recognition/adoption by local and international shipping and delivery companies.</b>	Postal codes have been implemented for Palestinian communities. Once fully operational, their use has the potential to improve the accuracy and speed of delivery times, thus improving order fulfillment by	Work on introducing postal codes began in 2010, but they were not used until 2021. All buildings in the West Bank have been given postal codes, and the rollout has been extended to Gaza. MTIT asked the Universal	Medium: Addresses postal services are ill-prepared for e-commerce

		shipping companies and delivery services for e-commerce.	Postal Union to notify its member states that Palestinian postal codes have been adopted.	
8	<b>Support increased capacity for the Palestinian Post to take advantage of new streams of revenue through e-commerce.</b>	The Palestinian Post lacks sufficient IT and human resources to deal with the large volumes of incoming parcels in a timely manner, and the overall management of parcels is inefficient. Tracking services are inaccurate, and many packages are lost.	The World Bank's Digital West Bank and Gaza Project (2021–26) works to support e-government services and the provision of high-speed broadband. The MTIT is the main implementing agency for this work, but the development of cross-border e-commerce could be significantly expanded through support to the Palestinian Post.	High: Addresses postal services are ill-prepared for e-commerce
9	<b>Support efforts to improve the function, cost, and utility of the Allenby/King Hussein Bridge crossing for Palestinian international shipping.</b>	Shipping through Israeli ports is time consuming and expensive. Until recently the IDF control barrier was open less than 24 hours per day, inconveniencing truck traffic and movement of persons. Greater Palestinian use of the A/KHB crossing would reduce cost and duration of shipping.	The European Union is funding a pilot project allowing containers to pass through the A/KHB crossing without the necessity of unloading and reloading pallets on trucks.	High

## CHAPTER 7: SME PREPAREDNESS

### INTRODUCTION

SMEs are integral to the Palestinian economy and make up the majority of Palestinian enterprises (96 percent). They serve as a primary source of private sector employment, attract pools of investment, and as such are central to government efforts for increasing economic prosperity. Most formal enterprises are at the micro or small end of the firm size spectrum and have a significant level of informality involving up to an estimated 140,000 workers.

West Bank and Gaza also ranks below its regional peers in the World Bank's 2020 *Doing Business* report rankings (117 out of 190 versus 75 for Jordan and 114 for Egypt).<sup>130</sup> In particular, it received a low score in areas critical to SMEs, including "Starting a business" and "Enforcing contracts." Difficulties in these processes are even more of a burden for women, youth, and other marginalized groups of people who might seek to become entrepreneurs.

Palestinian firms somewhat lag behind the regional average in digital readiness: about one-third of Palestinian enterprises feature a website versus about one half in the MENA region. There are other barriers which also stymie the growth performance of firms, including an incomplete commercial/digital legal infrastructure, restrictions imposed on movements stemming from Israeli security needs, and a lack of access to credit.

On June 28, 2021, the Cabinet updated the definitions for MSMEs that it had previously approved in 2011 (see Table 15).<sup>131</sup> Among other objectives, these definitions are being used as the main instrument to provide support to these companies, as well as to establish a structure for a national MSME policy. However, the definitions are not consistently used between different policy actors, and this may dilute the effectiveness and impact of cross-cutting SME support programs.

Table 15: Official SME Definition Approved by the Cabinet in 2021

CLASSIFICATION	NUMBER OF EMPLOYEES	ANNUAL TURNOVER
Micro	1–4	Provided that turnover does not exceed USD \$100,000
Very Small	5–9	Provided that turnover does not exceed USD \$200,000
Small	10–19	Provided that turnover does not exceed USD \$500,000
Medium	20–49	Provided that turnover does not exceed USD \$200,000,000
Large	50+	Turnover exceeds USD \$2,000,000

### OBJECTIVE

Provide SMEs with the knowledge and tools that will enhance their online presence and empower their participation in global e-commerce.

<sup>130</sup> World Bank Group, 2020

<sup>131</sup> PMA, 2021. The definition was adopted in agreement with the Ministry of National Economy (MoNE), the PIPA, the PMA, the Prime Minister's Office, the PCBS, the banking association, and private sector organizations.

## POLICY OBJECTIVES AND LEGAL FOUNDATIONS

Although the PA is making steady improvements in its digital business enabling environment, the legal framework has several major gaps (as explained in Chapter 2: “Digital Economy and Commercial Law”). For example, the PA has yet to put into place a full-fledged and comprehensive strategy to support and develop small and micro enterprises. Such a strategy would develop the capacities of local producers to improve quality and expand their markets and could be led by MoNE with support from the Palestinian Federation of Industries.

Other notable gaps are the failure to enact an electronic commerce law and to adopt a law on competition.<sup>132</sup> Yet even where laws exist, they may require amendments or modifications, as with the case of the Consumer Protection Law #21 (2005), discussed on page 14, which fails to cover digital platforms.

In the West Bank and Gaza, as in countries around the world, laws without effective enforcement are meaningless. In this regard, the PA lacks specialized commercial courts, with the consequence that justice is uneven due to the lack of familiarization by judges with issues arising in commercial—and now, e-commerce—disputes. This leads to many businesses making agreements and resolving disputes through alternative, and possibly unfair, means. The Consumer Protection Directorate, part of the MoNE, conducts surveillance, but it does not have the staff or necessary skills to carry out systematic and comprehensive enforcement of laws.

The following table summarizes the institutions and laws relevant to SMEs, with additional information on SME specific laws and policies presented below.

**Table 16: SME Preparedness: Institutions and Legislation**

INSTITUTION	SECTOR	LEGISLATION
<u>Ministry of National Economy</u>	Business registration Corporate governance	<u>Companies Law</u> (adopted March 2022)
<u>The Ministry of Entrepreneurship and Empowerment</u>	Simplified business registration for start-ups	<u>The Start-up Act</u> [Draft]
<u>Ministry of National Economy</u>	Consumer protection	<u>Consumer Protection Law</u> (2005)
<u>Ministry of National Economy</u>	Intellectual property rights	Palestinian Trademark and Patent Laws of 1938 [adopted in Gaza] Jordanian Trademarks Law No. 33 of 1952 and Jordanian Patents Law No. 22 of 1952 [adopted in West Bank] Commercial Law (1953)

**Intellectual property rights.** The IPR regime requires modernization—existing legislation is an amalgam of Ottoman era, British Mandate, and pre-1967 Jordanian laws. The West Bank and Gaza has separate jurisdictions with regard to intellectual property matters. The Palestinian Trademark and Patent Laws of 1938 are adopted in Gaza, while Jordanian laws, namely the Trademarks Law No. 33 of 1952 and the Patents Law No. 22 of 1952, are adopted in West Bank. IPR laws for entertainment (music and movies) are minimally enforced, but the PA is enforcing some IPR laws to protect the

<sup>132</sup> A competition law, in fact, was drafted in 2003 but was not enacted. In 2017, a revised draft law was developed and has been undergoing review and redrafting. Due to the fragmentary connectedness of the Palestinian territories, many firms in disparate locations have little to no competition.

pharmaceutical industry. While the PA is working on drafting a new, more modern IPR law, it is unclear when that process will be completed.

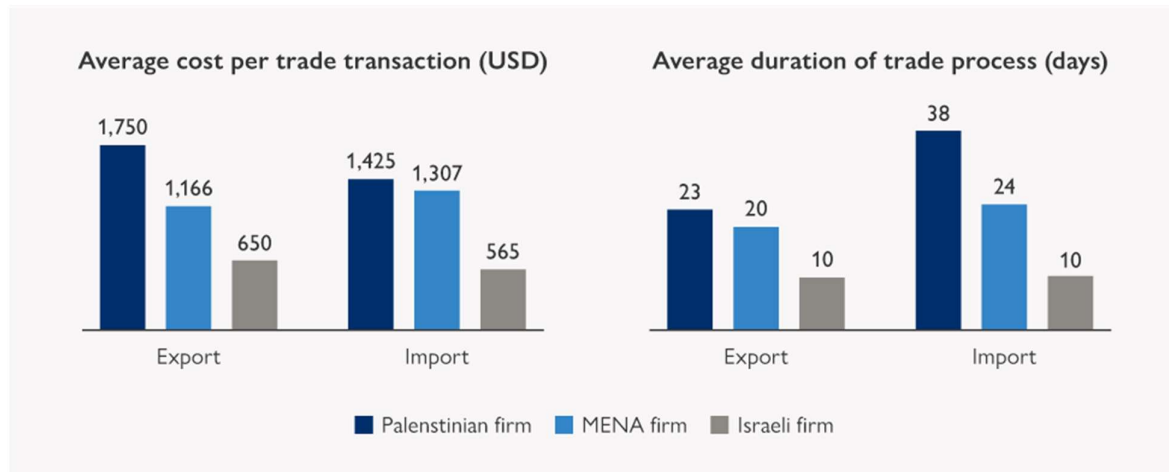
## TAXATION POLICIES

- **Corporate income tax.** Unless the company is exempt from paying corporate income tax under the Investment Promotion Law of 1998 and its amendments or the Tax Law of 2011 and its amendments, it is subject to a 15 percent tax on profits derived from operations in the West Bank and Gaza. Businesses do not pay capital gains taxes.
- **Foreign dividend tax.** A 15 percent tax is withheld from dividends distributed in the West Bank and Gaza to shareholders of a foreign company. No taxes are due on dividends distributed to shareholders of Palestinian companies, regardless of where they live or their nationality, and regardless of whether they are an individual or a company. A withholding tax, set at 25 percent, is automatically deducted from companies, unless companies or individuals obtain a Deduction at the Source Certificate, which grants a reduced rate that ranges from 0–5 percent. Applications for these certificates are available from the district tax offices.
- **Dividends, leases, and royalties.** Dividends paid out of profit are taxable, while dividends paid after redistribution of capital are exempt from tax. Royalties and lease payments are subject to tax. Retained profits are exempt from tax only if reinvested.
- **Value-added tax.** VAT is a consumption-based tax imposed on all local goods and services at a rate of 16 percent. Exemptions from VAT are given to projects supported by the PA, such as investments in financial institutions, preschool education, transportation, R&D, infrastructure, and food processing. Based on the Oslo Agreement signed by the PLO and Israel in 1993, Palestinian VAT may be no lower than 2 percent below Israeli VAT.
- **Purchase tax.** This tax is payable by manufacturers or importers at the port of entry on certain consumer products as specified by law. Products that are manufactured for export are exempt from the purchase tax. Purchase tax is imposed at a rate of 5–95 percent, depending on the type of good.
- **Customs duty.** The PA customs, purchase, levy, excise, VAT, and other taxes are bound by Israeli rates, thereby essentially forming a customs union between the Palestinian territories and Israel.
- **Personal income tax.** Across all tax brackets, ILS 36,000 is excluded from the taxable yearly income. Income between ILS 36,000 and up to ILS 75,000 is taxed at a rate of 5 percent and continues progressively to a rate of 15 percent of income over ILS 150,000.

## BORDER ISSUES

As covered in Chapter 6: “Trade Logistics,” the PA does not have control over borders or points of entry and exit to Jordan, Egypt, or the Mediterranean Sea, due to Israeli security restrictions. As a result of these limitations and many other obstacles imposed by Israeli requirements, the costs of importing to and exporting from the West Bank and Gaza are high, especially for SMEs.

**Figure 5: Trade Costs and Process Duration Comparison, 2015. Natural Persons Versus Registered Firms Engaging in E-Commerce**



### DATA AND PRIVACY PROTECTION

Consumer protection and data protection regulations that provide for clear, accessible, and inclusive participation by SMEs in the digital economy will be critical to West Bank and Gaza’s economic growth and development. The Palestinian Basic Law, which serves as West Bank and Gaza’s constitutional framework, criminalizes “any violation of any personal freedom, of the sanctity of the private life of human beings, or of any of the rights or liberties.” As of October 2021, the draft Law on Protection of Personal Data had its second of three required readings at the Cabinet of Ministers.

### CORE INSTITUTIONS

**The Ministry of Entrepreneurship and Empowerment** was created in 2019 to improve the enabling environment for the emergence of innovative high-growth enterprises. This includes financial and technical support for Palestinian youth, women, entrepreneurs, and college graduates.

### ADDITIONAL STAKEHOLDERS

West Bank and Gaza businesses have organized several private voluntary associations that are involved in supporting the growth of SMEs:

**The Palestinian Federation of Industries (PFI)** is the national institution representing the industrial sector through its federated associations. Its mission is to serve members’ interests and to contribute to the development of the Palestinian economy. PFI has specific experience in modernization of business processes, productivity enhancement, and technology transfer.

**Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA)** was established in 1989 in Jerusalem. It is the umbrella organization for all chambers in the West Bank and Gaza and represents their interests and those of the private sector. It is recognized for its specific experience in private sector development and financial coaching.

**Palestine Trade Center** was established in 1998 as a nonprofit membership-based organization. It has a national mandate to promote exports as a driving force for sustainable economic growth.

**The Palestinian Information Technology Association of Companies** is the business association representing information, communication, technology, and start-up companies in West Bank and Gaza.

**Palestinian American Chamber of Commerce** is a member of the United States Chamber of Commerce and the AmCham MENA Council. It was founded in 1997 as a voluntary nonprofit membership-based organization and is regarded to be the national platform for Palestinian-American business relations.

## **POLITICAL ECONOMY**

MSMEs constitute the vast majority of the Palestinian private sector and are primarily family-owned enterprises. Eighty percent of Palestinian MSMEs depend on personal savings for start-up or continuing operations.<sup>133</sup> Many of these enterprises arise out of necessity, stemming from high unemployment rates in West Bank and even higher ones in Gaza. Their operations are impacted by Israeli restrictions on movement of people and goods in the Palestinian territories driven by security concerns. The combination of restrictions and the low level of infrastructure services,<sup>134</sup> coupled with the complexity of exporting and importing goods through Israeli ports, focuses most firms' eyes on the "very local market,"<sup>135</sup> with nearby Israeli markets being a secondary option. To add to these challenges, concerns about violence in the area, regularly reported in the international media, have a detrimental effect on large-scale foreign investment. This furthers economic dependence on the Israeli economy. Since the ICT and e-commerce sectors are not as dependent on traditional infrastructure and freedom of movement, they are faring better than the more traditional sectors in the Palestinian economy.

## **ACCESS TO MARKETS**

In addition to the physical and security obstacles that Palestinian enterprises face in accessing markets, the pandemic created new obstacles. Ninety-three percent of businesses in the West Bank and Gaza reported a decrease in goods and services delivery in the wake of COVID-19. Within a month of the viral outbreak, revenues collected by the PA from trade and tourism declined to their lowest levels in 20 years.<sup>136</sup> More than 121,000 jobs were lost from 2020–2021, as restrictions and closures to contain the spread of the virus drove many small employers out of business.<sup>137</sup>

## **GENDER AND YOUTH EMPOWERMENT AND INCLUSION**

According to 2019 World Bank estimates, only 6 percent of businesses have majority female ownership, with many of them facing additional barriers, given women's limited access to financial services and collateral assets. The effects of the pandemic have been particularly challenging, with more than one-quarter of female-led businesses in the West Bank and Gaza having to close since the start of the crisis.

Palestinian women entrepreneurs, generally, turn to entrepreneurship out of a lack of other opportunities. Improving household income, generating income as a sole owner, and achieving economic independence are reported as the top three reasons for women starting a business. For those women who considered but then did not start a business, the reasons included a lack of credit, problems with reliable electricity supply, a lack of family support, and large family size.<sup>138</sup>

## **BARRIERS**

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<sup>133</sup> MED MSMEs, 2022

<sup>134</sup> Infrastructure generally is in poor shape due to limited resources and high costs. Water, electricity, paved roads, and telecommunications are substandard due to limited state resources, high costs, or security policies.

<sup>135</sup> In this context, "very limited market" means within the area to be reached without crossing a security checkpoint.

<sup>136</sup> UNCTAD, 2020

<sup>137</sup> Anera, 2022

<sup>138</sup> Qazzaz et al., 2005

**Incomplete and unclear understanding of the needs of SMEs.** West Bank and Gaza does not regularly collect and publish data on SME performance in terms of trade volume, profitability, employment, innovation and productivity, and internal process efficiency. Lack of insight and data on these issues complicates government and donor efforts to appropriately target assistance to SMEs and support digital SME development.

**Difficulties in obtaining access to credit.** Lack of credit is cited as one of the top reasons why people, particularly women, choose not to start a business. Access to credit can be critical for SMEs in investing in new digital technologies and services (e.g. working capital loans to support the implementation of digital inventory services or develop ecommerce websites). Banks are hesitant to lend to many SMEs due to apparent informality (registration records apparently unavailable), SMEs lack of familiarity with banking practices (including maintaining good records of accounts and use of movable property for collateral), and poor judicial enforcement of loans. Bank lending may be increased through innovative digital finance solutions focusing on alternative forms of creditworthiness.

**SMEs unfamiliarity with import/export procedures.** Given the size of the consumer market in the West Bank and Gaza the greatest opportunity offered by e-commerce lies in foreign markets. However, the unfamiliarity with import and export procedures stops many SMEs from even attempting to export, while for other SMEs, it leads to the unfortunate imposition of avoidable time delays and charges which make their products less competitive, effectively limiting SMEs' engagement in the growing global e-commerce market.

**Low digital capacity and ability to benefit from digital tools.** Many SMEs lack information on digital systems and platforms that support engagement in e-commerce, including marketplace platforms and payment systems.

**Low propensity to using digital payments:** Both customer and business preference for payments with cash hobble the growth of SMEs in the digital economy.



**RECOMMENDATIONS**

Table 17: Recommendations for SME Preparedness				
	WHAT	WHY	CURRENT INITIATIVES	ECONOMIC PRIORITY
I	<b>Develop and implement tools to measure and evaluate SME performance.</b>	<p>There is a lack of clarity in understanding SMEs’ digital needs, mainly due to the lack of regular data on SME performance, digital capacity, and adoption of digital tools.</p> <p>A more consistent effort to track the performance of SMEs would serve as a critical policy tool for the PA, international development organizations, and the private sector.</p>	<p>The Establishment Census, carried out every five years, includes all establishments (registered and unregistered) in the Palestinian economy, except for those engaged in agriculture, forestry, and fishing.</p> <p>Survey on the impact of the COVID-19 pandemic on business establishments: MoNE and PCBS, with financial support from the World Bank</p> <p>Annual PCBS economic surveys (the latest was in 2019)</p> <p>(Note: According to <a href="#">OECD iLibrary</a>, “PA is not covered by the <i>Enterprise Surveys</i> of the World Bank.”)</p>	<p>Medium: Addresses incomplete and unclear understanding of the needs of SMEs</p>

2	<p><b>Improve SME access to finance.</b></p>	<p>Limited access to finance has been cited as one of the main challenges facing Palestinian SMEs.</p> <p>Despite recent efforts to increase lending to SMEs, the local banking sector's exposure to SMEs remains limited.</p> <p>SMEs are generally unable to satisfy lender collateral requirements.</p>	<p>European Bank for Reconstruction and Development's (EBRD's) advice for small business (ASB) program</p> <p>Middle East Investment Initiative (MEII) loan guarantee facility (2008)</p> <p>The Swedish International Development Cooperation Agency (Sida) and the MEII developed a multimillion, multiyear guarantee facility (SGF) and technical assistance program (TAP) to support the marginalized economies of East Jerusalem, Gaza, and Area C of West Bank.</p> <p>MEII: Tamweeli is an innovative online matchmaking platform that harnesses the security, speed, and simplicity of the Internet to streamline the financing process both for financial intermediaries and for SMEs by connecting businesses with financing requests to financial intermediaries, mainly banks and MFIs.</p> <p>Tamweeli Assist and Tamweeli Academy are aimed at improving the accounting and financial literacy of SMEs.</p>	<p>High: Addresses difficulties in obtaining access to credit</p>
3	<p><b>Upgrade SMEs' digital capacity and adoption of digital tools.</b></p>	<p>SMEs' lack information on available technologies and their benefits, along with existing digital tools, are not localized for the Palestinian context.</p> <p>Limited technical capacity hinders the ability of SMEs to benefit from available digital tools.</p>	<p>None known</p>	<p>High: Addresses low digital capacity and ability to benefit from digital</p>

4	<p><b>Promote awareness of e-commerce opportunities.</b></p>	<p>SMEs focus their marketing efforts on the local business community, ignoring the possibilities of reaching a wider domestic and international audience.</p> <p>Expanding market reach will only be effective if SMEs understand how to navigate the particular obstacles they face due to the procedures in place with Israeli authorities.</p>	None known	<p>High: addresses SMEs' unfamiliarity with import/export procedures</p>
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## CHAPTER 8: CONCLUSIONS AND RECOMMENDATIONS

Each of the six sections above presents a menu of recommendations that target the major barriers identified for the six technical areas. While there are a range of issues impacting each technical area and therefore a broad spectrum of potential interventions, this section aims to select a few key interventions that address one or more binding constraints. These recommendations were selected based both on the expected potential impact in supporting the stated objective of each technical area.

### DIGITAL ECONOMY AND COMMERCIAL LAW

Recommendations concerning digital economy and commercial law aim to make the digital enabling environment more reliably facilitate digital trade and e-commerce. Support for legal and regulatory reforms, in the form of grants, may be offered to NGOs and possibly the Palestinian Bar Association to promote and advocate for legislative and policy reforms.

Support should focus on **reforming the complex and fragmented ICT regulatory environment**. Key government ministries are considering new efforts to develop two needed laws to improve the digital enabling environment. An **e-signatures law** would harmonize the legislative framework for the exchange of electronic documents and the recognition of electronic signatures in line with existing legislation, effectuating the validity, *inter alia*, of certain digital commercial transactions and other legal documents. A **law on e-commerce** would further develop the e-commerce regulatory environment by clearly specifying what is meant by e-commerce and requiring the disclosure of key information about the merchant and the product.

Support could also be used for the development and implementation of **digital applications and innovations for judicial dispute resolution** to make the system more accessible and improve outcomes. Currently, inefficient court procedures dissuade businesses and consumers from using the legal system. Instead, businesses and consumers use nontraditional means of dispute resolution.

#### MODEL PROGRAMMING: LEGISLATIVE REFORM FOR THE PALESTINIAN ECONOMY<sup>139</sup>

Previous funded programming provides an example of how to work through local NGOs to support legal and regulatory reform in the West Bank and Gaza. From 2008-2010 the US Department of State's Middle East Partnership Initiative (MEPI) funded the Legislative Reform for the Palestinian Economy in the West Bank and Gaza (WBG) program that was locally implemented by the Al-Mustakbal Foundation (AMF) for Strategic and Policy Studies.

**Overall Goal and Specific Objectives:** The overall goal of the Project was to strengthen, update, amend, and complete the commercial legal and regulatory framework for doing business in the WBG with the aim of promoting economic recovery and growth both at the short and long term levels. More specifically, the Project aimed to improve the capacity to understand complex commercial law and regulations within the business and legal communities in the MENA region and to increase private sector participation in commercial law policy making.

**Target Beneficiaries and Partnerships:** The Project planned to target lawyers, businesses, business associations and sought to actively involve them together with policymakers and concerned government practitioners in a results-oriented policy dialogue and peer-learning process with a view to enhancing the business legal environment in West Bank and Gaza. Consequently, the Project planned to rely on a network of business associations at the national level, including a principal governmental partner, namely, the Ministry of National Economy, as well as the National Legislative Committee at the Prime Minister's Office; the lawyers and key

<sup>139</sup> For more information about AMF, visit [www.almustakbal.org](http://www.almustakbal.org) or contact the Project Manager, Mr. Hani Husseini, at [hanihusseini@almustakbal.org](mailto:hanihusseini@almustakbal.org). For more information about MEPI, go to [mepi.state.gov](http://mepi.state.gov).

stakeholders representing the private sector, such as chambers of commerce, the Businessmen Association, Paltrade, and other professional associations.

**Expected Results:** In terms of immediate expected results, the Project aimed to achieve the following:

- Reduce barriers to competition and unwarranted distortions to market prices.
- Reduce policy and regulatory barriers to establishing, operating, and closing businesses.
- Strengthening the legal framework surrounding property rights that is fair to men and women, contract enforcement, and dispute resolution, along with the administration of those laws.
- Reduce incentives for corruption and promoting transparent business practices.
- Strengthen the legal framework surrounding intellectual property rights.
- Improve laws and regulations affecting the creation, dissemination, and use of technology.
- Improve policies and regulations affecting technology choices and production behaviors with environmental impacts.
- Improve policies, laws, and regulations affecting hiring and firing of workers, wages, working conditions, and collective bargaining.
- Provide improved enforcement of judgment.

## **DIGITAL ENTREPRENEURSHIP**

The increasing prominence of the global digital economy presents great opportunity for digital entrepreneurs. West Bank and Gaza hopes to take advantage of this opportunity by developing an inclusive entrepreneurial ecosystem that promotes local solutions, creates opportunities for the highly educated youth population and retains top tech talent. To help build a thriving digital entrepreneurship environment that will contribute to the local digital economy the following interventions should be prioritized:

**Create partnerships between university faculties and businesses.** Challenge grants could be used to incentivize Universities and private entrepreneurs to collaborate and share resources. Collaborations could include entrepreneurs working with universities to commercialize academic research or allowing entrepreneurs access to university faculty and equipment or labs to help test and refine products.

**Create incentives for venture capital investment, including pre-seed funding.** Currently entrepreneurs rely on small incremental grants which do not incentivize efficient development of market ready products. Efforts to attract more pre-seed funding would strengthen the pipeline of active venture capital, as well as provide riskier capital, which is required to validate the market needs, build minimum viable products, and gain traction.

## **DIGITAL FINANCIAL SERVICES**

By investing in the development of DFS West Bank and Gaza aims to leverage digital tools to dramatically increase financial inclusion. To do this, the West Bank and Gaza must ensure that the new digitally enabled financial system is dynamic and competitive, and that new services are interoperable and accessible. This will support the growth of a financially literate society and a vibrant digital economy. Donors can facilitate this improved digital financial services economy by prioritizing interventions that support interoperability and de-risking or promoting uptake of new services.

**Improve financial literacy among individuals and businesses and incentivize use of DFS.** People still rely heavily on cash both due to lack of understanding and trust in new digital financial tools. Donors could work with the private sector to de-risk new financial tools and increase digital financial literacy through a combination of awareness campaigns and prize competitions. Creating

incentives for both consumers and businesses to consume educational material on digital finance and test out new services will promote understanding and uptake.

Support could also be provided to increase trust and **promote financial inclusion through improved identification systems**. Fears of fraud or financing terrorism due to weak identification systems continue to undermine trust in digital financial tools in West Bank and Gaza. To support the development of efficient, locally relevant eKYC and digital ID systems, donors could work with local stakeholders to analyze the local risk environment and determine the appropriate assurance standards that new identification systems should comply with.

**Promoting the interoperability of digital financial tools** would increase their use and improve competition. The current lack of interoperability constrains the update of digital financial services. Donors could work with the private sector to increase awareness of the issue and advocate for necessary regulatory reforms and development of a common switch to connect all payment modalities.

### MODEL PROGRAMMING: BROADENING DIGITAL INCLUSION IN THE WEST BANK AND GAZA ECONOMY

West Bank and Gaza faces many of the same problems in broadening digital inclusion that other economies face, including:

- Informal (i.e., non-taxed) economic activity.
- A cash-based economy.
- Regulatory challenges (maybe favor bank-based financial services that limit the ability of new market entrants to offer digital-based services as nonbank financial service providers [FSPs]).
- Low numbers of merchants who desire to accept digital payments, for many reasons, including: the cost of a point of sale (POS) device; delays in getting funds deposited in bank accounts; and a preference to remain cash-based due to supply payments or tax avoidance.
- Limited convenience for merchants and customers alike to make digital payments, possibly due to bad app design or poor digital connectivity.
- Weak consumer financial protection mechanisms for customers and for merchants,
- Lack of seamless, convenient, secure, and inexpensive digital payment options for online payments (i.e., for e-commerce versus in-store commerce), particularly for cross-border purchases.
- Dynamics between the financial authorities in the West Bank and Gaza and in Israel.

**Proposal for Programming:** A medium-term, multifaceted program to broaden financial inclusion would be sequenced in three phases: First, targeted rapid assessments would be conducted to ensure that incentive programs or awareness campaigns are appropriately focused for maximum impact. Second, a strategy or approach addressing multiple overlapping issues would be developed in consultation with stakeholders. Third, one or more interventions would be rolled out to implement the strategy or approach.

**Laying the Foundation:** In developing a digital financial services (DFS) program, targeted assessments are recommended to better understand and address specific underlying problems. Poorly targeted incentive schemes or awareness campaigns will not lead to the lasting behavior change by consumers or service providers needed to foster increased digital financial inclusion.

**Public Outreach:** Stakeholders must be included in developing the strategy to ensure buy-in and viability. Consumers and businesses will not switch to digital payments and banking unless there is a benefit to these options. For popular acceptance, incentives must be built into the reforms.

**Implementation:** Below are a collection of approaches that have been used to support the uptake of digital financial services and improve financial inclusion that could be adapted to serve the market in West Bank and Gaza.

**Challenge fund.** USAID/Ghana, under the Financing Ghanaian Agriculture Project (USAID FinGAP), set up a pay-for-results approach for improving digital inclusion. USAID/Colombia set up challenge grants and incentive grants under the Rural Finance Initiative (RFI). Each fund was focused on facilitating digital-enabled innovation that demonstrably addressed specific problems, as mentioned above, in the marketplace:

- Challenge grants were used to test, refine, pilot, and scale innovations to support inclusive finance.
- Incentive grants were used to reduce entry obstacles and de-risk innovation for financial institutions willing to expand service to rural clients.

**Interoperability project.** A Bill & Melinda Gates Foundation project in Tanzania achieved mobile money interoperability without the imposition of a regulatory mandate (and without needing to work with government agencies). International Finance Corporation (IFC) facilitated a series of discussions and studies among mobile money providers in Tanzania that led three of the four main competitors to interoperate for the first time (initially allowing wallet-to-wallet transfers across providers). IFC secured the services of payments experts and sponsored a series of workshops that brought industry actors on board with active support of the central bank. The IFC sought to have the industry—not the IFC—define the form that interoperability might take.

**Grant to build financial education apps.** USAID/Burma awarded a small grant to Opportunities NOW Myanmar (ONOW), an organization offering capacity building and, in some cases, financing, to micro, small, and medium-sized enterprises (MSMEs) in Burma. Through the grant, ONOW developed Mr. Finance, the first financial education app “purpose-built” for Burma. It functions as a chatbot that communicates with users through Facebook Messenger in both Burmese and English. Mr. Finance includes a “gamified novel” to convey financial management concepts in a realistic manner, offers troubleshooting tips for common business challenges, and provides a suite of reminders based on individual circumstances.

**Getting farmers to use DFS.** Most farmers still transact purely in cash for ease and convenience in buying and selling. Consultative Group to Assist the Poor (CGAP) developed a digital savings account for cocoa farmers in the Ivory Coast that could inexpensively receive deposits and withdrawals from mobile money wallets. Through a partnership with a mobile money provider, fees for transacting with digital savings account were eliminated.

## **DIGITAL SKILLS**

The core of the digital skills objective focuses on developing market-driven skills to close the gap between the digital competencies of job seekers and the high demand for digitally skilled labor by private companies. To address the core barriers of an inefficient education system which fails to produce graduates with the skills the growing digital economy needs, and the shortage of skilled IT trainers, priority should be placed on the following recommendations:

**Building market-driven skills and employment programs.** The educational system is failing to prepare students for the job market and is not updating or targeting its curriculum to private sector needs. Donors could build on successful workforce development programs conducted in other markets to facilitate cooperation between the private sector and educational or training institutions to develop new curriculum which ensures that graduates have the skills demanded by the private sector.

**Attracting international experts and trainers.** The West Bank and Gaza has a dearth of highly skilled IT trainers. To ensure that students are provided with high-quality instruction, which is based in the latest technology, donors could support a suite of activities to attract external talent for short-term technical capacity building and training, importing expertise to transfer skills to trainers in the West Bank and Gaza market. Once local trainers' skills have been improved, the quality and value of instruction will make programs more marketable to students.

## **TRADE LOGISTICS**

The goal of improving the trade and logistics sector, and particularly the Palestinian Post, to support the growth of e-commerce, and facilitate the flow of small packages. To address the key barrier of an inefficient postal service that is ill-prepared to support e-commerce, donors should prioritize engagement with consumers and private sector entities on the following key issues:

**Recognizing “Palestine” as a legitimate point of origin** and destination by expedited delivery services. The fact that some delivery services do not recognize “Palestine” as a legitimate destination translates into extra costs and delays for e-commerce packages (both inbound purchases and returns). The uncertainty and unreliability hamper the growth of e-commerce. Working directly with private sector actors in the logistics industry, building on relationships, such as the Global Alliance for Trade Facilitation, could promote acceptance and advocacy efforts for recognition of Palestinian addresses.

**Implementing postal codes** and promoting recognition and adoption by shipping and delivery companies. Related to the initiative above to increase acceptance and recognition of Palestinian addresses is the need to implement and recognize the new postal code system in West Bank and Gaza. Postal codes will greatly increase the reliability and ease of package delivery, making e-commerce more affordable. Donors can build on the engagement with private sector partners as described under the previous initiative advocating for them to adopt the new postal codes, as well as developing awareness campaigns for citizens and businesses to ensure full adoption.

### **MODEL PROGRAMMING: IMPROVING EXPORTERS' RISK MANAGEMENT CAPACITY<sup>140</sup>**

To better support the development of e-commerce in West Bank and Gaza donors could work with Palestinian traders to facilitate the movement of small parcels. Palestinian exporters engaging in e-commerce face difficulties in effectuating their exports through Israeli ports. Many exporters' shipments are blocked or delayed owing to noncompliance with Israeli security protocols. This proposed project design would target Palestinian business with two goals in mind:

**Support private sector firms to improve their risk management capacity.** The implementer would develop a risk matrix for imports and exports and then design a risk management model (RMM) applicable to the needs and requirements of the Palestinian private sector. The RMM would reflect best practices applied internationally while also considering the local context with respect to human and financial resources, regulatory regime, and the institution's technical capacity. The following steps would be involved in creating the RMM:

- Assess private sector capacity regarding risk management, including ongoing actions and projects.
- Identify risk management models applicable to the private sector's requirements and based on models implemented in the region.
- Propose key elements regarding risk analysis standards.
- Design and develop key elements for each risk standard of the model to be implemented, including the appropriate weight for each element.

<sup>140</sup> An example of a similar project is the USAID/Paraguay [Democracy and Governance Project](#)



**Advocate for and inform improved legal and policy framework for effective trade policy.** While government effectiveness can be increased within the current institutional framework, many modifications are needed to enhance prospects for real reform and long-term sustainability. The project would work with civil society to build its capacity to advocate for and advance legal and policy reforms that will, hopefully, yield positive results over the long term.

- Assist exporters in advocating at the political level for changes.
- Develop a roadmap on the sequence of changes and the steps to achieving them—for example, a small step may be to get government agencies to recognize the views of truckers in developing or changing policies.
- Conduct seminars for exporters in explaining export procedures for various types of exports (such as goods, agriculture, or metals) to or through:
  - The Israeli boundary. Israeli and Palestinian brokers (they work together typically) would discuss the process in person or virtually.
  - The Jordanian border. Jordanian and Palestinian brokers seminars for Jordan—agriculture possibly labeled “How to reduce your risk profile.”
- Conduct seminars for logistics companies and trucking companies.

## **SME PREPAREDNESS**

SMEs are the drivers of the economy in the West Bank and Gaza, so it is critical to support them in productively engaging in digital commerce, by helping them increase their online presence. One of the fundamental barriers preventing SMEs from benefiting from the digital economy is the low capacity to use digital tools and systems, consumer and business preferences for cash payments, and the unfamiliarity with the opportunities that e-commerce provides to access foreign markets. To help SMEs overcome these barriers, donors should prioritize the building of SMEs’ capacity to engage in e-commerce.

**Upgrading SMEs’ digital capacity and adoption of digital tools.** Donors could build on successful programs that work with key private sector partners, especially e-commerce service providers (e.g., marketplace platforms and logistics companies) that are active in the West Bank and Gaza to develop capacity building programs which introduce SMEs to various e-commerce tools.

**Promote awareness of e-commerce opportunities.** In coordination with the capacity building on digital tools to support SMEs engagement in e-commerce, donors should also help improve SMEs’ understanding of the benefits of e-commerce, especially cross-border e-commerce, and the basic procedures and processes they will need to navigate to successfully grow their businesses.

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# ANNEX I: SAF-DE CHECKLISTS

## DIGITAL FINANCIAL SERVICES

### Section A: Definition, Scope, and Gender Overview

**Definition.** For the purposes of this tool:

- **Digital financial services (DFS)** encompasses all branchless banking services that are enabled via electronic channels. Services can be accessed using a variety of electronic instruments, including mobile phones, point of sale (POS) devices, electronic cards, and computers.
- **Digital payments** (e-payments) are financial transactions that are facilitated by digital technologies. The vehicles for transactions may include credit cards, direct deposit and direct debit payments, wire transfers, electronic bill payments, and electronic currencies (such as bitcoin). Digital payments are wholly initiated, processed, and received electronically.
- **Digital payment providers** may include traditional financial firms, such as banks and credit card companies, as well as nonbanking institutions operating on the Internet or via mobile devices that are associated with a payment card or bank accounts, whether directly or indirectly.

**Scope.** The SAF-DE Digital Financial Services inquiry focuses primarily on digital payments, with additional coverage of other digital financial tools that may support domestic and cross-border e-commerce.

**Gender overview.** Access to and facility with digital financial services can strengthen women's economic participation in their own countries and across the global economy. Payment platforms and other digital financial services can increase opportunity and productivity for women as employees, consumers, and entrepreneurs.

### Section B: Policy Objectives

- Businesses and consumers have access to a variety of safe, accessible, and reliable digital payment systems, including account-based systems (credit cards, debit cards, mobile payment systems, and facilitated services such as PayPal) and electronic currency (such as prepaid cards or digital currencies).
- There is interoperability of digital payment systems between service providers. To facilitate payments from buyers located abroad, sellers can access third-party e-payment service providers, which are linked to domestic banks.
- There is fair competition between domestic and foreign providers of digital financial services.
- Informed by international best practice and trends, domestic regulators of financial services employ agile and iterative systems of regulation, in a way that facilitates innovation while also guarding against privacy abuses and undue risk to consumers.
- Regulators may access consumer financial information only to a clearly defined, limited extent and must be accountable for any access.
- The range of available digital financial services includes safe and enhanced access to credit for producers, retailers, and consumers.
- The availability of digital financial services enhances economic opportunities for women and other traditionally excluded or underserved communities.

### Section C: Legal Foundations

<ul style="list-style-type: none"> <li>• Within a fully articulated national digital strategy that aligns with international best practices, the government sets forth the national agenda for development of digital financial services on a nondiscriminatory basis.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework clearly delineates the jurisdiction and responsibilities of agencies and authorities charged with regulating digital financial services and resolving disputes between regulators and DFS providers. At the same time, regulators are prepared to be agile when responding to ongoing technological innovations.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework provides for transparency and stakeholder participation in the development of rules and standards for digital financial services. Stakeholder engagement takes place not only during the rulemaking process but also through feedback loops, once a rule is in place.</li> </ul>
<ul style="list-style-type: none"> <li>• With respect to emerging technologies, the legal framework is not so strict as to discourage innovation in digital financial services nor so amorphous or lenient as to place users at risk.</li> </ul>
<ul style="list-style-type: none"> <li>• While allowing for both interoperability of systems and innovation, the legal framework clearly articulates core principles and requirements for payment security, data encryption, and data privacy.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework follows international best practices and standards for anti-money laundering and anti-money laundering and combating the financing of terrorism (AML/CFT) safeguards.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework ensures principles of nondiscrimination against foreign DFS providers and guards all providers related to e-commerce against nationalization or expropriation.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework allows for flexibility and innovation with respect to access to digital financial services, in some cases allowing informal players to assume a role (such as through flexible rules on who can serve as an agent for cash-in-cash-out networks).</li> </ul>
<p><b>Section D: Core Institutions</b></p>
<ul style="list-style-type: none"> <li>• There is an institutional mechanism or framework for whole-of-government engagement and input into the development and oversight of policy and regulation of DFS.</li> </ul>
<ul style="list-style-type: none"> <li>• Within the national legislature, there are appropriate administrative frameworks and technical resources for DFS-related legislative development, dialogue, drafting, harmonization, and amendment over time.</li> </ul>
<ul style="list-style-type: none"> <li>• Robust and well-resourced authorities exist for the transparent, agile, and accountable oversight of digital financial services.</li> </ul>
<ul style="list-style-type: none"> <li>• Financial regulators are trained and willing to consider the impact of regulation of DFS on underserved communities as part of the balance, among other considerations, such as financial system stability, consumer interests, and macroeconomic policy.</li> </ul>
<ul style="list-style-type: none"> <li>• Additional institutions, including but not limited to regulators of telecommunications, competition, and consumer protection, are prepared to assume new regulatory duties within their traditional areas of oversight.</li> </ul>
<ul style="list-style-type: none"> <li>• The courts are regarded as an appropriate and effective institution for resolving disputes regarding DFS, where administrative mechanisms or other approaches, including alternative dispute resolution, are unsuccessful.</li> </ul>
<ul style="list-style-type: none"> <li>• Risk-sensitive authorities exist to combat money-laundering and terrorist financing across digital financial services.</li> </ul>

## Section E: Additional Stakeholders

<p><b>Digital financial service providers</b></p>	<ul style="list-style-type: none"> <li>• Who are the banks, third-party payment providers, and other agents involved in digital financial services? What products and services do they offer?</li> <li>• How are nonfinancial firms that wish to provide DFS treated? Do they need to be registered or licensed or to establish a separate legal entity to seek registration or a license to operate?</li> <li>• Are the investments made by providers of digital financial services sufficient to realize the benefits of scale such that fixed costs are outweighed by revenues, thereby allowing for sustainability?</li> <li>• In what ways are providers taking advantage of existing ICT infrastructure?</li> <li>• Are service providers accessing and using ICT infrastructure to its fullest capacity? If not, what is holding them back?</li> <li>• Do service providers readily embrace disruptive technologies to strengthen their competitive advantage?</li> <li>• Are providers' services interoperable?</li> <li>• Do providers engage with regulators in a way that allows for free flow of information, innovation, and agility of regulation?</li> </ul>
<p><b>Trade or sectoral associations</b></p>	<ul style="list-style-type: none"> <li>• With respect to digital financial services, what are the major trade or sectoral associations? Who are their members? How effective are these organizations perceived to be in terms of representing the interests of their constituencies?</li> <li>• Are there associations specifically focused on DFS issues?</li> <li>• How do these associations perceive the policy, legal, and regulatory environment for digital financial services?</li> <li>• How do these associations perceive the capacity, transparency, and accountability of the key regulatory authorities?</li> <li>• How are these associations perceived by the government, business customers, and consumers, in terms of their own capacity, transparency, and accountability?</li> <li>• Are these associations regarded as inclusive, transparent, and accountable by their own membership and the economy at large?</li> </ul>
<p><b>Consumer organizations and advocates</b></p>	<ul style="list-style-type: none"> <li>• What are the major consumer organizations and advocates? Whom do they represent?</li> <li>• Which type of financial services do consumers generally use (e.g., bank accounts or mobile phones)?</li> <li>• Do consumer advocates trust the security of existing payment systems to the extent that future uptake in usage is likely?</li> <li>• What is the extent of user capability to understand and use electronic payments?</li> </ul>
<p><b>Business end users</b></p>	<ul style="list-style-type: none"> <li>• With respect to digital financial services supporting the digital economy, who are the primary business end users? Where are they located?</li> <li>• How do these users perceive the domestic policy, legal, and regulatory environment for DFS that support the digital economy? Are they able to advocate for progress or change?</li> <li>• How do these business users perceive the capacity, transparency, and accountability of the key regulatory authorities?</li> </ul>

	<ul style="list-style-type: none"> <li>• How are these business users perceived by the government, digital financial service providers, and consumers?</li> </ul>
<b>SMEs</b>	<ul style="list-style-type: none"> <li>• To what extent (and in what ways) do SMEs use digital financial services?</li> <li>• What do SMEs like about the existing DFS regime? Do they support multiple providers or harmonized services controlled by select actors?</li> <li>• Do SMEs perceive themselves as having a seat at the table with respect to the development and implementation of digital financial services regulation?</li> <li>• To what extent does the current DFS regime link SMEs to global supply chains? What more can be done?</li> <li>• To what extent do SMEs have access to online lenders and other forms of digital credit?</li> </ul>
<b>Educational and training institutions</b>	<ul style="list-style-type: none"> <li>• Is there sufficient human capital developed to utilize digital financial services supporting the digital economy?</li> <li>• Do university faculties offer a foundation of knowledge to students sufficient to participate in the design and operation of the DFS domestically? Internationally?</li> <li>• Are educational and training institutions sufficiently resourced to deliver the level of knowledge that is necessary to support a robust system of digital financial services?</li> <li>• Do regulators of DFS have access to appropriate training?</li> <li>• What mechanisms exist to improve financial literacy on issues of DFS? Are there programs to increase regular use of DFS products?</li> </ul>
<b>Advocates for economic inclusiveness</b>	<ul style="list-style-type: none"> <li>• To what extent (and in what ways) do women, rural communities, and disadvantaged groups use digital financial services to participate in e-commerce? Nationally? Internationally?</li> <li>• Do women, rural communities, and disadvantaged groups perceive themselves as having a seat at the table with respect to the development and implementation of digital financial services policy?</li> </ul>

## Section F: Political Economy Analysis

### Core PEA questions:

- Who has an interest in preserving the status quo? Why?
- Who has an interest in change, reform, etc.? Why?
- In terms of reform, what can be done? (What is politically feasible?)
- Who should make the changes, and why?

## Section G: Unresolved Policy Areas

- What kind of regulatory and statutory policies should governments adopt with respect to blockchain technology, bitcoin, and other sources of e-currency to address challenges related to trust, consumer protection, and money laundering?
- According to a McKinsey & Company 2016 report, financial regulators in developing countries face two options in developing digital financial services: a) “restrictive approach initially and then incrementally loosen regulation in order to avoid stifling innovation” or b) “hands-off approach initially and then tighten to reduce systemic and consumer-protection

risks.” Are both approaches encouraged by governments and international bodies? If not, which approach presents more beneficial gains for the domestic economy and foreign firms and consumers?

#### **Section H: Economy Performance Indicators**

- **World Bank: Global Findex Database**
- **Capgemini/BNP Paribas: World Payments Report**

## SME PREPAREDNESS

### Section A: Definition, Scope, and Gender Overview

**Definition.** This section pertains to conditions for small and medium-sized enterprises (SMEs), as defined in the country/economy to which the Systems Analytic Framework for the Digital Economy (SAF-DE) is being applied, to safely, reliably, and competitively participate in the digital economy.

**Scope.** This inquiry covers the preparedness of SMEs to participate in the digital economy, both in the business-to-business (B2B) and business-to-consumer (B2C) markets. In addition to addressing SMEs generally, this section incorporates issues of relevance to SMEs owned by women or other groups that have traditionally experienced economic marginalization. This inquiry does not apply to microenterprises (again, as defined in the country/economy to which the SAF-DE is being applied), although an economy's microenterprises may indeed benefit from opportunities they find in the digital economy.

**Gender overview.** Worldwide, women-owned enterprises are typically smaller and grow more slowly than their male-owned counterparts. The digital economy presents a powerful opportunity to narrow this gap. Although women-owned SMEs are concentrated in certain lower-value sectors (handicrafts, boutique tourism services, personal products, fashion and design, etc.), these areas often lend themselves to digital commerce as a source of expanded markets and innovation.

### Section B: Policy Objectives

- SMEs can access the Internet to a degree that enables meaningful participation in the digital economy.
- The business enabling environment supports and encourages the robust and inclusive participation of SMEs in the digital economy.
- SMEs have access to a diverse pool of workers who understand the technical requirements and business opportunities associated with the digital economy.
- Online platforms that facilitate Internet-based sales are widely accessible to SMEs. Among the services they offer are financing options; shipping, delivery, and logistics solutions; legal and financial advisory services; market information and analysis; and other services.
- Necessary, practical information and affordable services relating to online payment systems, consumer protection, digital security, and risk management are generally accessible to SMEs.
- Customs and other border agencies have established and routinely update e-commerce policies that take into account the particular needs and priorities of SMEs.
- Opportunities for SME service providers to participate in the digital economy are robust.

### Section C: Legal Foundations

- The overall legal and regulatory environment for SMEs is efficient, accessible, and simple to implement.
- Without undue burden, the legal system permits all SMEs to market their products via online platforms, websites, and social media.
- Regulation of the participation of SMEs in the digital economy, including in such areas as payment systems, consumer protection, data protection, and dispute resolution, is clear, accessible, inclusive, and without undue burden.

<ul style="list-style-type: none"> <li>Requirements for e-commerce-related sales tax and import duties are accessible, affordable, and clear, with fulfillment of these requirements in line with the capacities and resources of most SMEs.</li> </ul>
<ul style="list-style-type: none"> <li>Laws and regulations pertaining to postal and delivery services do not unreasonably drive up the costs of SME participation in the digital economy.</li> </ul>
<ul style="list-style-type: none"> <li>The legal framework provides for stakeholder participation in the development of rules and standards for e-commerce, with measures for incorporating the perspectives of all types of SMEs built into the process.</li> </ul>

### Section D: Core Institutions

<ul style="list-style-type: none"> <li>Central government agencies charged with supporting SMEs promote SME engagement in the digital economy, including among SMEs owned by traditionally disadvantaged groups.</li> </ul>
<ul style="list-style-type: none"> <li>Subregional and local agencies charged with supporting SMEs promote SME engagement in the digital economy, including among SMEs owned by traditionally disadvantaged groups.</li> </ul>
<ul style="list-style-type: none"> <li>Government agencies charged with supporting women’s empowerment promote and support the engagement of woman-owned enterprises in the digital economy.</li> </ul>
<ul style="list-style-type: none"> <li>Authorities charged with oversight and regulation of information and communications technology (ICT) Infrastructure incorporate the interests and priorities of SMEs in their policymaking and implementation.</li> </ul>
<ul style="list-style-type: none"> <li>Banks and other financial institutions offer e-commerce services that are accessible, affordable, and responsive to the needs of SMEs.</li> </ul>
<ul style="list-style-type: none"> <li>Domestic postal and express delivery services are reasonably affordable and efficient, and they offer the ability to track as well as the ability for SMEs to access warehouses and delivery services at their destinations.</li> </ul>
<ul style="list-style-type: none"> <li>Public and private services efficiently and affordably support the resolution of disputes that arise through transactions undertaken via e-commerce.</li> </ul>

### Section E: Additional Stakeholders

<b>Trade or sectoral associations</b>	<ul style="list-style-type: none"> <li>Do trade or sectoral associations have a seat at the table with respect to the development and implementation of digital policy, and do they represent the interests of all SMEs?</li> <li>Do trade or sectoral associations help SMEs access the information and services they need to successfully engage in e-commerce?</li> <li>Do trade or sectoral associations advocate on behalf of SMEs for government agencies that oversee, regulate, and provide services related to e-commerce, including telecommunications providers, financial regulators, and customs authorities?</li> </ul>
<b>E-commerce/ trade service providers</b>	<ul style="list-style-type: none"> <li>Are private or nonprofit training or consulting services available to SMEs that help them understand, launch, and maintain online sales?</li> <li>Are digital payment services readily accessible? Do they efficiently and affordably serve the needs of SMEs?</li> <li>Are there services available to SMEs that help them manage data, including with respect to data protection, integrity, and</li> </ul>

	communication, as necessary, with Customs and other border agencies?
<b>Credit suppliers</b>	<ul style="list-style-type: none"> <li>• Do SMEs have access to reliable, affordable online lenders and other forms of digital credit?</li> <li>• Are credit card services generally available, accessible, and affordable to SMEs?</li> </ul>
<b>Educational and training institutions</b>	<ul style="list-style-type: none"> <li>• Are general numeracy and computer skills taught in schools?</li> <li>• Are there fast options for learning how to start and run an online business?</li> <li>• Are there sufficient management and professional services available to SMEs?</li> <li>• Are digital training centers, whether for profit or nonprofit, accessible for adults who may be seeking a better job or career change?</li> </ul>
<b>Women's business associations</b>	<ul style="list-style-type: none"> <li>• What are the major associations for women's enterprises? To what extent are they accessible to women-owned SMEs via the Internet?</li> <li>• Do women's business associations support women-owned SMEs that would like to engage in e-commerce? How do they do that?</li> <li>• How strong are networks between and among women's business associations and their international counterparts?</li> <li>• What kinds of services do the women's business associations provide that relate to the digital economy? How can these be strengthened?</li> </ul>
<b>Civil society advocates for economic inclusiveness</b>	<ul style="list-style-type: none"> <li>• To what extent (and in what ways) is there advocacy on behalf of SME engagement in e-commerce?</li> <li>• How successful or influential are these efforts? What are their outcomes?</li> </ul>

## Section F: Political Economy Analysis (PEA)

### Core PEA questions:

- Who has an interest in preserving the status quo? Why?
- Who has an interest in change, reform, etc.? Why?
- In terms of reform, what can be done? (What is politically feasible?)
- Who should make the changes, and why?

## Section G: Unresolved Policy Areas

- N/A

## Section H: Economy Performance Indicators

- World Bank: Doing Business Indicators
- SME Finance Forum: Micro, Small, and Medium-Sized Enterprises (MSME) Country Indicators Database



## TRADE LOGISTICS

### Section A: Definition, Scope, and Gender Overview

**Definition.** For the purposes of this tool, the term “trade logistics” refers to the various phases of cross-border delivery of goods purchased through digital transactions. These phases include transport and shipping; crossing the border/clearing Customs; delivery to the end user; and facilitating product returns.

**Scope.** Trade logistics stem from a multifaceted, public-private sector system that relies on both government interventions, including Customs, regulation and infrastructure, and private sector capacities, such as the ability to properly identify, package, and transport products. Emphasis in this section is placed on efficient transport, clearance, and delivery of small shipments, which are characteristic of expanded e-commerce systems.

**Gender overview.** This section incorporates and applies to the experiences of women engaged in e-commerce and the digital economy, in particular as entrepreneurs, workers in the transport or logistics arena, and consumers.

### Section B: Policy Objectives

- Among key stakeholders, there is awareness of the impact of e-commerce on traditional methods of cross-border trade, including the emerging demand for transport and customs systems that accommodate higher volumes of smaller—often expedited or low value—parcels. Both the public and private sectors recognize that efficient and interoperable customs processes and procedures can be a competitive advantage, and they prepare for these changes through updates in policy, practice, and public outreach.
- Traders may count on efficient, solid, and extensive infrastructure—that, as appropriate, allows for multimodal transportation—within their borders. Where infrastructure is lacking, there is a credible domestic strategy for prioritizing, funding, and undertaking improvements.
- The regulatory environment for private transport services promotes competition and safety, and may include incentives for maintaining and upgrading aging fleets. The government encourages foreign direct investment (FDI) as one means of improving shipping and delivery services.
- As the volume of lower-value transactions increases, border authorities strive for greater speed and efficiency in clearance processes, for both incoming parcels and returns. They integrate new systems of risk management and data analytics in response to changes brought about by e-commerce supply chains. The establishment of commercially relevant or useful *de minimis* value levels that are applied equally to all operators can contribute to efficient entry of lower-valued parcels.
- Policies and practice encourage the safe and secure electronic exchange of data among all parties involved in the international supply chain, including advance information shared by e-traders with border agencies.
- Border agencies strive for excellence in data management with respect to their e-commerce-related functions, including consistency in data collection processes and accuracy and adequacy of the data they collect. They use the data to evaluate their own performance and to inform improvements in their own systems.
- Domestic rules on the application of duties and taxes are accessible, clear, consistently applied, and aligned with international commitments (such as regional trade agreements and membership in the World Trade Organization [WTO]). Customs duties are not levied on digital products.

<ul style="list-style-type: none"> <li>• Trade, transport, and border policies and practices are responsive to the needs of women-owned enterprises and women traders, including through steps that provide for their access to information and resources and that address their personal safety issues.</li> </ul>
<ul style="list-style-type: none"> <li>• Public and private sector trade logistics systems use risk management systems to guard against criminal and terrorist activity while facilitating low-risk trade, including through regular review and adaptation to prevent new threats.</li> </ul>
<ul style="list-style-type: none"> <li>• The government regularly engages in consultations with international trading partners for the purposes of building consistency, clarity, predictability, and integrity of cross-border e-commerce trade logistics systems.</li> </ul>

**Section C: Legal Foundations**

<ul style="list-style-type: none"> <li>• The legal framework provides for modern and transparent customs administration and border procedures based on risk management, paperless entry, and incentives for compliance. Streamlined, simplified procedures, including timely clearance and commercially relevant or useful <i>de minimis</i> levels, are promoted.</li> </ul>
<ul style="list-style-type: none"> <li>• Integrity safeguards, including enforcement provisions, are integrated throughout the legal framework as it pertains to trade logistics underlying e-commerce and the digital economy.</li> </ul>
<ul style="list-style-type: none"> <li>• Requirements for safe and lawful warehousing and packaging of goods, including perishable goods, take into account the special considerations of e-commerce, such as the traceability of smaller packages and the need for safe, speedy delivery.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework pertaining to e-commerce–related transport and infrastructure is clear, regularly reviewed, and updated through an inclusive, multistakeholder process and is transparently administered.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework ensures that traders have advance knowledge of the full costs of international door-to-door shipping, applicable value-added tax (VAT) charges and customs duties, required export documents, and other key information.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework supports efficient and timely border operations related to e-commerce, with minimal restrictions on transport services (i.e., avoiding cabotage, warehousing restrictions, or intolerance of “extra” payments).</li> </ul>
<ul style="list-style-type: none"> <li>• Legislation prevents application of customs tariffs on digital goods.</li> </ul>
<ul style="list-style-type: none"> <li>• Regulation and practice support efficient and effective communication, including through ICT means, between national customs and other authorities across borders to facilitate trade.</li> </ul>
<ul style="list-style-type: none"> <li>• The legal framework ensures principles of nondiscrimination against all supply chain operators, whether public/private or domestic/foreign, and guards foreign operators and investors in services related to trade logistics against nationalization or expropriation.</li> </ul>
<ul style="list-style-type: none"> <li>• The regime for civil and criminal enforcement of trade violators is clear and intended to motivate compliance by e-commerce marketers, carriers, freight forwarders, and brokers.</li> </ul>

**Section D: Core Institutions**

<ul style="list-style-type: none"> <li>• There is an institutional mechanism or framework for whole-of-government engagement and input into the development and oversight of policy and regulation of services supporting transport and logistics services. Across institutions, trade logistics are recognized as an integral part of the digital economy.</li> </ul>
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<ul style="list-style-type: none"> <li>• Within the national legislature, there are appropriate administrative frameworks and technical resources to support logistics, customs, and transport-related developments having to do with to e-commerce, along with public dialogue, legislative drafting, legal harmonization, and amendment over time. There is an appreciation of the case for applying the same rules with respect to parcels to both private operators and government carriers (i.e., postal administrations).</li> </ul>
<ul style="list-style-type: none"> <li>• Border agencies, with Customs as their lead, commit to adopting e-commerce standards based on trade facilitation, simplification, safety, and security, including through advanced technology for data-based risk management.</li> </ul>
<ul style="list-style-type: none"> <li>• Border agencies engage in public outreach and education for the purpose of informing e-commerce stakeholders about their cross-border opportunities, rights, and responsibilities.</li> </ul>
<ul style="list-style-type: none"> <li>• Agencies charged with promoting commerce, trade, and investment are committed to connecting traditionally disenfranchised groups, which may include women, minority groups, or rural entrepreneurs, to critical trade logistics information and guidance.</li> </ul>
<ul style="list-style-type: none"> <li>• The investment authority appropriately and effectively oversees domestic and foreign investments into services that support logistics and transport services.</li> </ul>
<ul style="list-style-type: none"> <li>• Additional institutions, such as statistics, health, and environmental agencies, and others, are prepared to assume new oversight and regulatory duties within their traditional areas of oversight, including in the construction of single-window mechanisms.</li> </ul>
<ul style="list-style-type: none"> <li>• The courts are regarded as an appropriate and effective institution for resolving disputes regarding services supporting the logistics and transport sectors, where administrative mechanisms or other approaches, including alternative dispute resolution, are unsuccessful.</li> </ul>

**Section E: Additional Stakeholders**

<p><b>Investors in services supporting logistics (foreign and domestic)</b></p>	<ul style="list-style-type: none"> <li>• With respect to logistics and transport, who are the major investors? Does the government or a local incumbent have a major role in providing some or all of these services? Are ports run by the government, or is management provided by third parties?</li> <li>• How do these investors perceive the policy, legal, and regulatory environment for logistics?</li> <li>• How do these investors perceive the capacity, transparency, and accountability of the key regulatory authorities? Is the regulator sufficiently independent? Are too many services regulated?</li> <li>• How are these investors perceived by the government, business customers, and consumers, in terms of their own capacity, transparency, and accountability?</li> <li>• Are there any additional investors that the government or the business community seek to enter the domestic market?</li> </ul>
<p><b>Trade or sectoral associations</b></p>	<ul style="list-style-type: none"> <li>• With respect to trade logistics, what are the major trade or sectoral associations? Who are their members? How effective are these organizations perceived to be, in terms of representing the interests of their constituencies?</li> <li>• Are there associations specifically focused on digital economy issues? Are logistics among their interests?</li> <li>• How do these associations perceive the policy, legal, and regulatory environment for logistics and transport?</li> </ul>

	<ul style="list-style-type: none"> <li>• How do these associations perceive the capacity, transparency, and accountability of the key regulatory authorities? Do they see the regulator as sufficiently independent? Are too many services regulated?</li> <li>• How are these associations perceived by the government, business customers, and consumers, in terms of their own capacity, transparency, and accountability?</li> <li>• Are these associations regarded as inclusive, transparent, and accountable by their own membership and the economy at large?</li> </ul>
<b>Consumer organizations and advocates</b>	<ul style="list-style-type: none"> <li>• With respect to services in transport and logistics, what are the major consumer organizations or advocates? Whom do they represent?</li> <li>• Is the logistics/transport market seen as well-regulated and fairly priced?</li> <li>• Do consumer advocates trust existing infrastructure to the extent that future uptake in e-commerce trade is likely?</li> </ul>
<b>Logistics service providers</b>	<ul style="list-style-type: none"> <li>• Are domestic postal and express delivery services affordable and efficient? Do they offer the ability to track as well as the ability for SMEs to access warehouses and delivery services at their destinations?</li> <li>• In what ways are transport and logistics providers taking advantage of the existing ICT infrastructure for cross-border transactions?</li> <li>• Are these service providers accessing and using ICT infrastructure to its fullest capacity? If not, what is holding them back?</li> <li>• Do service providers readily embrace disruptive technologies to strengthen their competitive advantage?</li> <li>• Do postal services have the necessary mechanisms to exchange information electronically with Customs, including advanced shipment data?</li> <li>• Are private and public operators treated similarly with respect to Customs formalities and taxes?</li> </ul>
<b>SMEs</b>	<ul style="list-style-type: none"> <li>• To what extent (and in what ways) do SMEs use the logistics and transport services available? Are transport and logistics services priced competitively for SMEs?</li> <li>• What do SMEs like about the existing transport and logistics regime? Do they support further liberalization?</li> <li>• Do SMEs perceive themselves as having a seat at the table with respect to the development and implementation of transport and logistics needs and regulation?</li> <li>• To what extent does the current logistics regime enable SMEs to link to global supply chains? What more can be done?</li> <li>• Are there appropriately scaled and affordable systems for storing and warehousing products intended for sale through e-commerce? Do sellers have access to suitable warehousing technologies, including scanning devices, inventory software, warehouse management systems, and cold storage, as necessary?</li> <li>• Do sellers have access to packaging materials which are affordable, practical, and sustainable, and which ensure that the items they sell remain intact during shipping and delivery, including across very long distances?</li> </ul>

<b>Educational and training institutions</b>	<ul style="list-style-type: none"> <li>• Is there sufficient human resources capacity to meet the country's needs with respect to the development and implementation of logistics services supporting the digital economy? What policies are being shaped to anticipate the potential replacement of traditional logistics jobs by automation?</li> <li>• Do university faculties offer a foundation of knowledge to students sufficient to participate in the design and operation of the services domestically? Internationally?</li> </ul>
<b>Advocates for economic inclusiveness</b>	<ul style="list-style-type: none"> <li>• To what extent (and in what ways) do women, rural communities, and disadvantaged groups consume or provide digitally enabled services? Nationally? Internationally? Is there sufficient access to transport and logistics services?</li> <li>• Do women, rural communities, and disadvantaged groups perceive themselves as having a seat at the table with respect to the development and implementation of transport and logistics regulation and infrastructure needs?</li> </ul>

## Section F: Political Economy Analysis

### Core PEA questions:

- Who has an interest in preserving the status quo? Why?
- Who has an interest in change, reform, etc.? Why?
- In terms of reform, what can be done? (What is politically feasible?)
- Who should make the changes, and why?

## Section G: Unresolved Policy Areas

- Given the exponential increase in e-commerce volumes in the past decade, especially smaller-value shipments, how should countries address *de minimis* levels? What is the appropriate balance between higher *de minimis* levels to increase the flow of goods and the potential disincentive of noncompliance (e.g., undervaluation or misdeclaration of goods to avoid payments)? What is an appropriate *de minimis* level for developing economies?
- There is always a tension between security and trade facilitation. Modern risk management tools, including intelligence collection, and a robust, targeted policy framework can help governments to combat terrorism and fraud while facilitating low-risk trade. The good policy framework and political will of a government is vital to ensure that security is not a mask for trade protectionism.

## Section H: Economy Performance Indicators

- **World Bank: Logistics Performance Index**
- **World Bank: Trade in Services Database (199 countries)**