Unleashing the Digital Economy in Palestine

Lifting Restrictions and Fostering Better Regulation


By Carlo Maria Rossotto and Xavier Decoster

A World Bank report issued in February 2016 estimates that over the last three years the total accumulated revenue from the Palestinian mobile sector would have been over US$ 1 billion higher if the restrictions on this sector had been lifted. The associated fiscal losses of the Palestinian Authority (for the same period) are estimated at as high as US$ 184 million, counting non-collected VAT alone. This amount equals up to 3 percent of the GDP.

The report "Missed Opportunities for Economic Development" highlights how the Palestinian telecom sector suffers from a number of constraints that claim a heavy toll on the economy, the consumer, and the Palestinian Authority. The sector has been hindered by years of delay in launching mobile broadband,[i] the presence of unauthorized Israeli operators in the Palestinian market, restrictions on importing equipment, and the absence of an independent regulator.

"With the unemployment rate at 26 percent, the Palestinian telecom sector has the potential to boost the economy and create job opportunities," said Steen Lau Jorgensen, World Bank Country Director for West Bank and Gaza. "In order for that to happen, Palestinian operators should be able to access resources similar to those of their neighbors."

In late 2015, an agreement with Israel was reached to release 3G spectrum to the West Bank. This agreement has not yet been implemented (October 2016), however, and even when it is put into operation, the Palestinian operators will remain at a competitive disadvantage because Israeli operators have 4G / LTE capabilities and are able to attract higher value customers. Unauthorized Israeli operators are currently capturing around 30 percent of the West Bank market in volume.[ii]

Restrictive Israeli measures have significantly affected the development of the Palestinian telecommunications sector. These include restrictions on the import of equipment for telecom and ICT companies, the prevention of Palestinian service providers to access (and thus fully operate in) Area C, the more than 60 percent of the West Bank that is under Israeli control, and the requirement that Palestinian operators go through an Israeli-registered company to access international links. The second Palestinian mobile operator, Wataniya, has not been able to start its operations in Gaza due to Israeli restrictions on accessing a spectrum and importing material. As a result, Gaza remains a mobile-monopoly market structure, when most countries in the world have healthy competition in this market segment.

Despite these constraints, the Palestinian authorities have adopted a liberal licensing regime for Internet Service Providers (ISPs), and there are more than 20 ISPs that have rights to invest directly in and operate a broadband infrastructure. Few other countries in the MENA region have

Israeli operators transmit towards Nablus and capture a significant segment of the West Bank market. Photo courtesy of the World Bank.

Israeli towers in Psagot Settlement. Photo courtesy of the World Bank.

adopted such an approach. “The liberal approach could significantly improve Internet access if existing bilateral and regulatory constraints are alleviated,” said Carlo Rossotto, Lead ICT Policy Specialist at the World Bank. “The potential economic returns will be significant if the regulatory obstacles are addressed. In particular, full access to spectrum resources is essential for the development of the broadband industry nowadays. It is not a *nice-to-have* item anymore. Every expert would agree that it is a *must-have*.”

The independent regulatory authority has yet to be established, as stipulated by the 2009 law. At present, the Palestinian Ministry of Telecommunications and Information Technology remains the sole regulator, responsible for all pricing, licensing, and operational issues. The Palestinian Authority has taken steps to liberalize the market, but there are significant concerns of market dominance and a high pricing regime.

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Wimax equipment in Gaza is installed but not operational due to the lack of access to broadband. Photo courtesy of the World Bank.

[i] The Oslo Agreement states: “Israel recognizes that the Palestinian side has the right to build and operate separate and independent communication systems and infrastructures including telecommunication networks, a television network and a radio network.”

[ii] World Bank Group, “Telecommunication Sector Note in the Palestinian Territories: Missed Opportunity for Economic Development,” February 2016, p. 7, available at https://openknowledge.worldbank.org/bitstream/handle/10986/24019/Telecommunicat0economic0development.pdf?sequence=1&isAllowed=y.