Slow progress

THE DEVELOPMENT OF E-COMMERCE IN THE MIDDLE EAST HAS BEEN RELATIVELY SLOW. **GRAHAM BUCK** REVIEWS THE OBSTACLES STILL TO BE OVERCOME.

While group-buying websites such as Groupon have made inroads into the Middle East, the online purchase of products and services is far less developed an activity in the region than in many other parts of the world.

To a large extent this is due to demographics. Countries such as Kuwait have a high proportion of low-paid immigrant workers who often do not have a bank account. Traditional shopping remains the norm and only a limited group of expatriates and the super-rich actually have cause to make purchases online.

Even those with regular access to the internet are reluctant to use it for purposes beyond emailing and social networking. Dubai-based market research group Real Opinions recently reported that a survey of internet users in the Middle East found that 43% were deterred from shopping online as they didn't trust online payment systems. More than one in three said that they avoided e-commerce because they regarded the payment options on offer as unsuitable, and 27% cited the limited number of local online retailers.

That tallies with the findings of Alghanim Industries, a privately owned trading and industrial conglomerate based in Kuwait. Alghanim owns the region's largest electronic retailer X-cite, which recently launched an online store and worked with Gulf Bank in developing its new offering.

Rob Farrow, Alghanim's corporate treasurer, confirms that the local market remains relatively undeveloped, with most consumers using cash or cheques for payment. As for the more affluent Kuwaitis, they tend only to purchase online only from airlines (which operate in a global market and have relatively sophisticated online offerings) or US sellers such as Amazon that offer savings on products even when shipping costs have been taken into account.

Dan Healy, Real Opinion's chief executive, says there is "a tremendous opportunity" for e-commerce to grow in the Middle East. He suggests that UAE businesses could expand their marketplace from 3.5 million in the region to more than 70 million.

However, growth is likely to be no more than sluggish unless the local banking sector is opened up to a greater degree of competition from international banks.

"The Kuwaiti government doesn't give too much encouragement to foreign banks, imposing barriers to entry into the local market," says Farrow. "HSBC has been the only significant entrant and although it continues to be active on the corporate side it only dipped a toe in the water briefly on the retail side before pulling out due to losses."

HSBC announced last October that its retail offering in Kuwait, HSBC Premier, would be withdrawn at the end of 2011, less than two years after its launch in the country, enabling local banks such as National Bank of Kuwait (NBK) and Gulf Bank to maintain their dominance. This also restricts the scope for offshore operations to lend to Kuwaitis. Farrow says that American Express's Bahrain-based lending unit is one of the few exceptions, although loans have to be in dollars rather than Kuwaiti dinar (KWD).

A further constraint is the Kuwaiti government's strictly applied limit of KWD10,000 (around £23,000) on the amount consumers can borrow. "That might sound fairly generous but it isn't that much for the seriously wealthy, and the banks are pushing for the limit to be relaxed," says Farrow. In addition, consumers' outstanding payments must not exceed four times their monthly income.

Local companies that have developed an internet payment gateway often complain that their banks provide little assistance and that what is available comes at a high price. Their credit card charges are also higher than for point of sale (POS) transactions, with a surcharge of up to 0.5% added by the banks, which say they are just passing on higher costs imposed by Visa and MasterCard.

Until e-commerce becomes more widely established in the Middle East these extra charges will be a bone of contention for companies, but one they lack the leverage to do much to alter. However, in the past two years the region has seen strong growth in group-buying websites. The launch of Groupon has been followed by regional rivals such as GoNabit and Cobone, which originated in the UAE and have since spread to countries such as Lebanon, Egypt and Saudi Arabia. These new arrivals could yet provide a catalyst for change.

Graham Buck is a reporter on The Middle East Treasurer.
editor@treasurers.org