OFFICE OF THE QUARTET (OQ)

Report to the Ad Hoc Liaison Committee

March 20, 2018, Brussels

TABLE OF CONTENTS

LIST OF ACRONYMS

AHLC – Ad Hoc Liaison Committee
CMWU – Coastal Municipalities Water Utility
EU – European Union
G4G – Gas for Gaza (initiative)
GDP – gross domestic product
GEDCO – Gaza Electricity Distribution Company
GoI – Government of Israel
GPP – Gaza Power Plant
IDF – Israel Defense Forces
ICA – Israeli Civil Administration
IEC – Israel Electric Corporation
IMF – International Monetary Fund
IWA – Israeli Water Authority
JWC – Joint Technical Committee
JWC – Joint Water Committee
MCM – million cubic meters
MoF – Ministry of Finance
MoU – Memorandum of Understanding
MW – megawatt
NGEST—Northern Gaza Emergency Sewage Treatment
O&M – operation and maintenance
OQ – Office of the Quartet
PA – Palestinian Authority
PASF – Palestinian Authority Security Forces
PENRA – Palestinian Energy and Natural Resources Authority
PETL – Palestinian Electricity Transmission Company Ltd.
PPA – Power Purchase Agreement
PWA – Palestinian Water Authority
RSDS – Red Sea – Dead Sea Project
STLV – short term low volume
USAID – United States Agency for International Development
VAT – Value-added Tax (goods and services tax)

EXECUTIVE SUMMARY

Realizing progress on the ground now will benefit Palestinians (and Israelis), and has the potential to support, but never supplant final status negotiations, which aim to achieve an enduring peace agreement. This report provides an update on the Office of the Quartet's September 2017 report to the Ad Hoc Liaison Committee, which focused particular attention on energy and water, both of which are central to improving the lives of those most in need and creating the conditions under which economic growth can be realized. This report outlines the progress achieved against the benchmarks identified in the September 2017 report and the critical next steps required of the parties, the international community and other key actors. It focuses on the areas of energy, water, telecommunications, movement and trade, and the rule of law.

Important progress has been made in the telecommunications sector with the launch of Wataniya 2G service in Gaza in October 2017 and the 3G service in the West Bank on January 23, 2018, the latter provided by Jawwal and Wataniya. These developments pave the way for further expansion of 3G and 4G services, which would have a potentially transformative effect in the Palestinian territory.

In energy, the finalization of construction required for the Jenin substation will help to increase power evacuation from 40 to 60 megawatts (MW) by April 2018, though a number of final approvals from the Government of Israel remain required. Further progress in the sector will require that the parties conclude the negotiations and finalize the Power Purchase Agreement as soon as possible and ideally in advance of the forthcoming meeting of the AHLC. Donors, in turn, are encouraged to provide the outstanding financing of 24 million USD to cover the costs associated with procurement of equipment, transfer of assets, and capacity building needs. In Gaza, the restoration of the 120 MW from the Israel Electric Corporation (IEC) to Gaza is a welcome step, but the current situation, in which Gaza receives only 4-6 hours of electricity a day, remains unsustainable. While the reporting period has seen further progress in the Gas for Gaza project, further short-term measures are essential; in particular, the provision of an additional 25 MW supply from Israel (a first step to establishing a high voltage 161 kv line) and 23 MW from Egypt as well as and the deployment of renewable energy systems, which can supplement large scale generation and import.[1]

In water, the operation of the Northern Gaza Emergency Sewage Treatment (NGEST) facility, is a welcome step, both as it will benefit Gazans, both by reducing pollution and by increasing the use of treated wastewater in agriculture. It will also help to increase donor confidence, showing that progress in the sector is possible, including on the Gaza Central Desalination Program. There is, however, an outstanding funding gap for NGEST of an estimated 16.8 million USD to cover operation and maintenance costs, as well as to enable cost recovery at the municipality level. Progress has also been realized over the reporting period in both furthering the Gaza Central Desalination Program, as well as in the increasing recognition of the need for the further bulk import of water in order to help bridge the gap in the requirements of potable water. On a separate matter, the parties are also encouraged to finalize and sign the Red Sea–Dead Sea Agreement.

The success of a pilot door to door program, with the first trucks moving on 11 March, is an important step forward in enabling trade. An expansion of this program in the coming months is now essential. Equally, the extension of opening hours at the Allenby/King Hussein Bridge crossing as of May 2018 is an important development, though further streamlining initiatives are necessary to accommodate both the

[1] See Annex 1 for a Supply and Demand Forecast for Electricity in Gaza (2018-2030).

current workload and future growth. In addition, opportunities for expanded trade, including facilitating market access for Gazan processed foods in the West Bank, have the potential to generate employment.

Discussions seeking an agreement on the transfer of some customs functions to the Palestinian customs department continued over the reporting period. Further progress has also been made toward finalizing a Value-Added Tax Clearance system and an examination for the potential expansion of the A1 list of goods imported from Jordan and Egypt is now encouraged. Finally, further discussion on an easing of Palestinian Authority Security Forces (PASF) access to communities throughout the West Bank continued.

INTRODUCTION

1. Realizing progress on the ground now will benefit Palestinians (and Israelis), and has the potential to support, but never supplant final status negotiations, which aim to achieve an enduring peace agreement. This report provides an update on the Office of the Quartet's (OQ) September 2017 report to the Ad Hoc Liaison Committee (AHLC), which focused on energy and water – sectors that are central to improving the lives of those most in need and creating the conditions under which economic growth can be realized. Particular attention focuses on identifying progress achieved against the benchmarks identified in that report, and the critical next steps required of the parties, the international community and other key actors. As such, this report complements those of the World Bank, the International Monetary Fund and the United Nations. It covers the period up to March 13, 2018.
2. The OQ's work is outlined in its Strategy 2018-2020 which has benefited from consultation with the parties, Quartet members (the United States, the European Union (EU), the United Nations and Russia) as well as the main donors to the office each of which have been able to align behind the strategic objectives identified therein. The OQ's work is supported by a core group of donors including the Kingdom of the Netherlands, the United States as well as the European Union, Canada, the United Kingdom and New Zealand.

ENERGY

3. The OQ September 2017 report to the AHLC identified the combination of actions required to address the full generation-transmission-distribution cycle and to contribute to the establishment of a unified and economically viable Palestinian energy sector. This included short, medium and long-term measures to facilitate the expansion and diversification of power supply and the provision of enabling infrastructure, as well as those to ensure the commercial viability of the sector. These measures are essential for providing access to reliable, affordable and sustainable energy in the West Bank and Gaza and for creating the conditions under which economic growth can be realized. An update on key initiatives and tasks for the energy sector is outlined below, focusing on the implementation of the September 2016 Electricity Agreement, the 161 kV line, and the Gas for Gaza (G4G) project.
4. Though efforts to implement the 2016 Electricity Agreement have continued over the reporting period, progress has been slower than planned and has been limited primarily to improvements in the business operations of the Palestinian Electricity Transmission Company (PETL). Key milestones of the Electricity Agreement, such as the energization of additional substations and the transfer of infrastructure, have not been realized due to delays with the signing of the Power Purchase Agreement (PPA) and a gap in donor funding.
5. On a positive note, since October 2017, PETL has been able to finance its staff costs from the revenues generated from the operations of the Jenin substation. It has also recently committed to funding its operating expenses from these revenues, thereby reducing the funding gap by 2 million USD.[2] Since PETL is a critical Palestinian institution in the energy sector, this is a significant step toward the financial sustainability of the sector. Moreover, with USAID support, PETL's financial operations further improved following the installation of a new billing system in January 2018. In addition, building on the Palestinian Authority's (PA) Electricity Agreement Implementation Plan, the OQ developed an *"Electricity Agreement Tracker"*, which is now being used by the PA to monitor progress, identify capacity and funding gaps, and to flag and manage risks associated with the implementation of the Electricity Agreement.

[2] The Jenin substation was energized in July 2017.

6. Following Government of Israel (GoI) approval for the construction of an additional feeder, the Jenin substation will help to increase power evacuation from 40 to 60 MW by April 2018, facilitating the supply of electricity to Tubas governorate in addition to Jenin city. This will be a significant milestone for the PA and demonstrates both parties' commitment to moving forward with implementing the Electricity Agreement. In order to operate all substations at full capacity, **the GoI is encouraged to provide the PA with the remaining approvals in a timely fashion.**
7. In order to avoid further delays and fully implement the first phase of the Electricity Agreement, the PPA needs to be signed. **The parties are therefore encouraged to conclude the negotiations and finalize the PPA in advance of the forthcoming meeting of the AHLC on March 20, 2018.**
8. Moreover, to ensure the full implementation of the Electricity Agreement, **the international community is encouraged to provide the outstanding financing of an estimated 24 million USD** to cover the costs associated with procurement of equipment, transfer of assets and capacity building needs.
9. As for electricity in Gaza***,*** while the restoration of the 120 MW from the IEC to Gaza is a welcome step,[3] since mid-February the Gaza Power Plant (GPP) has operated on an intermittent basis (between 0-25 MW) due to the limited provision of diesel fuel required to run the plant. In addition, electricity imports over the Egyptian lines continue to be an unstable source of supply. Power supply has therefore remained at an unsustainably low level, with Gaza receiving just 4-6 hours of electricity per day.
10. To address the situation in Gaza, steps need to be taken to alleviate the crisis and pave the way for economic growth and development. The PA's Power Sector Development Plan for Gaza[4] is an important first step towards achieving this. The plan includes short and medium-term measures and solutions. In the short-term, increase power supply from Israel (25 MW within 12 months), rehabilitate and upgrade the connection with Egypt (23 MW within 12 months), and restore the fuel storage tank at the GPP. In the medium-term, increase supply via the Israeli 161kV line of an additional 100 MW, and operate the GPP at 140 MW by connecting it to natural gas. Gas-based power generation from Gaza to be increased to ~600 MW, in the longer-term. In parallel, ensuring that the sector is commercially viable will be critical to support the long-term sustainability of the initiatives outlined in this report. This necessitates the rolling out of smart and pre-paid meters and implementing technical solutions to enhance monitoring and control over electricity distribution, billing and payments for power in Gaza.
11. Establishing a high voltage 161 kV line to increase electricity supply from Israel is a priority as it will help meet growing demand for power in Gaza. According to the PA's Gaza Power Sector Development Plan, the 161 kV line requires construction on both the Gaza and Israeli side, including rehabilitation of the Gaza North Substation. The estimated cost, according to the Palestinian Energy and Natural Resources Authority (PENRA), is 45 million USD. The new connection would be able to supply Gaza with an additional 100 MW in 3-4 years. However, the IEC should be able to provide 25 MW on a temporary basis within 12 months. The 161 kV line will improve the commercial viability of the sector, as bulk electricity will be purchased at the less costly high-voltage tariffs and reduce technical losses.
12. While the parties have agreed on the need to establish the 161 kV line, tangible progress has yet to be realized. The first step is to undertake an assessment of the requirements and the associated costs on both the Gazan and Israeli sides, including the details of the technical and financial requirements and associated timelines. **The parties are encouraged to agree the next steps for the 161 kV line,**

---

[3] In June 2017, the PA requested that the GoI to reduce its monthly clearance deductions for electricity from 42 million NIS to 25 million NIS. This resulted in IEC imports being reduced from 120 MW to 70 MW.

4 In terms of natural resources, it is important to support PA's efforts to develop Gaza Marine as an important domestic source of revenue and fuel.

including the implementation roadmap, by the March, 2018 AHLC meeting. The international community is encouraged to support the implementation of the 161 kV line project by providing financial, technical and political support.

13. It is important to increase electricity supply from Israel and Egypt, and to increase domestic generation from solar energy, especially in the short to medium term. Ultimately, these sources will be insufficient to address the current and future demand in Gaza unless there is domestic generation based on natural gas.[5]
15. Connecting Gaza to natural gas will enable a significant increase in domestic generation on a cost-efficient basis, providing the long-term solution to Gaza's energy deficit. There is a substantial benefit of electricity generation based on natural gas versus diesel. Detailed commercial and financial analyses have confirmed that the project is economically viable from day one and that the direct savings that result could be used to cover the costs of the pipeline. If combined with cost recovery measures, such as improved collection rates and reduced losses,[6] G4G could potentially benefit the PA by nearly NIS 1 billion annually.[7] This saving would allow the energy sector in Gaza to become self-sustaining, as revenues should be sufficient to cover the electricity purchases from the IEC and Egypt in addition to the electricity generated from natural gas.
16. G4G is also critical for the long-term viability of key water infrastructure projects, including the Gaza Central Desalination Program, and the basis for economic growth and private sector development. Progress toward the construction of a pipeline to connect Gaza to natural gas has continued over the reporting period, particularly on time-critical technical and commercial work-streams. The PA's recent decision that a state-owned entity will be the initial gas buyer is welcomed. **In order to ensure timely delivery of the project, the PA is encouraged to finalize the commercial structure of the state entity that will purchase the gas.** This is necessary to ensure that the progress required in the commercial arrangements for the sale of gas to Gaza are achieved during 2018.[8]
17. The Israeli statutory planning process has also continued to progress, with specific milestones being reached over the reporting period. This will facilitate progress on the detailed design for the pipeline in both Israel and Gaza.
18. The ongoing commitment of the parties, and the growing commitment of the international community to the project, is important. The EU's recent announcement of support to the project is welcomed, as is the continued support of the Kingdom of the Netherlands to the Task Force platform. In addition, continued and increased engagement with international financial institutions is key to achieve further progress over the coming year. **To ensure Gaza is connected to natural gas by mid-2021, the international community is encouraged to support the project, including through a contribution to the 80 million USD required for the construction of the pipeline.**[9]

WATER

19. Access to water is a humanitarian need and a necessity for economic development. A fully functioning sector requires a comprehensive approach focused on securing a reliable water supply, enhancing water and wastewater infrastructure, and ensuring the commercial viability of the sector.
20. The reporting period has seen considerable progress towards the establishment of a Gaza Central Desalination Program, which will provide 55 million cubic meters (MCM) per year of potable water to

[5] Estimated projection for the power consumption in the water sector alone is 132 MW by 2030.
[6] This is achievable, particularly considering that previously collection rates were ~80%.
[7] This amount corresponds to the direct savings from switching from diesel to natural gas at 140 MW generation capacity, collection rates at 90% and system losses at 15%.
[8] The sources of gas will likely be from a mix of Palestinian and Israeli gas fields.
[9] An additional 8 million USD will be spent on the conversion of the Power Plant to gas.

the residents of Gaza upon completion of Phase I of the Program. This represents a large-scale upgrading in Gaza's present water infrastructure capacity. The Program includes the construction of the North-South Carrier, which will enable the distribution of water from all existing and planned sources, increases in the reliability of supply, and reductions in non-revenue water. By 2023, the program will help close the gap between the demand and supply of potable water (see Annex 2 for the five-year supply and demand projections for potable water in Gaza). During this reporting period, progress has been achieved by the Palestinian Water Authority (PWA) on key benchmarks in the program, including:

a. PWA's allocation of land for the off-site Photovoltaic solar plant, which should secure fifteen percent of the needed electricity for the central desalination plant,
b. PWA's development of a roadmap for the establishment of the National Water Company
c. The organization of a pledging conference, which will be held on March 20, 2018: this will be a key step in **reducing the ~200 million EUR gap in the funds needed to start construction** of the Gaza Central Desalination Program. Donors are encouraged to meet this shortfall.

Moreover, the Palestinian Authority (PA) and the Government of Israel (GoI) have agreed to advance special arrangement parameters for the entry of materials mechanism for the Gaza Central Desalination Program. These arrangements are currently under discussion. **The PA and GoI are encouraged to reach an agreement on these arrangements by the end of April 2018**.

21. The start of operations of NGEST on March 1, 2018 and the completion of technical arrangements for the provision of 6 MW of electricity required for its operation are welcomed developments. The Memorandum of Understanding signed on January 25, 2018 between the Gaza Electricity Distribution Company (GEDCO) and the PWA is an important step in assuring a reliable supply of energy for NGEST. However, since the signing of the MoU, an average of only seven hours supply a day has been provided due to the existing challenges in electricity supply. **GEDCO is encouraged to increase the supply to the agreed 22 hours a day. To sustain the operation of the plant, it is essential that that the PA finalize its Operation and Maintenance (O&M) plan and the interventions that have been planned to enable it to enhance cost recovery (its non-revenue water reduction strategy) by June 2018. It is also essential that donors support the implementation of this plan, which requires financial support of ~16.8 million USD.** The successful completion of this project and its sustained operation will increase confidence that other essential water infrastructure will proceed in a timely manner.
22. The PA's commitment to cover energy costs in the first two years of NGEST's operation and the World Bank's commitment to fund both the O&M contract for the first two years and the chemical costs for the first six months, are welcomed as important measures for commencing and continuing the plant's operation until the full O&M cost recovery measures are introduced over the coming five years. The OQ, World Bank, and PWA have been working to identify the NGEST's O&M costs and are exploring the potential for co-funding by donors. They have also been working to establish the arrangements to ensure that the relevant municipalities in Northern Gaza and the Coastal Municipalities Water Utility (CMWU) achieve full cost recovery for O&M of NGEST by 2023. Achieving this goal will greatly enhance the financial viability of the services. **Donors are encouraged to meet the remaining shortfall of 11 million USD for NGEST's O&M, as well as the outstanding 5.8 million USD for the implementation of the non-revenue water reduction strategy that will enable cost recovery at the municipality and CMWU levels (a total shortfall of 16.8 million USD)**. Annex 3 provides further details of NGEST's O&M costs and needs.[10]

[10] In parallel, discussions are underway concerning the possible development of a second photovoltaic solar plant in the Restricted Area near NGEST. Should this project be realized, it would considerably reduce the O&M costs, since 50% of O&M costs are for energy.

23. The MoU agreed between PWA and GEDCO on January 25, 2018 to provide the 1.5 MW required to operate the Khan Younis Short Term Low Volume (STLV) desalination plant with 22 hours a day, is an important step towards advancing the supply of potable water in Gaza and in increasing confidence in the establishment of the Gaza Central Desalination Program. This STLV plant will provide potable water to 75,000 residents of Rafah and Khan Younis. Since the signing of this agreement, the recent electricity challenges in Gaza have limited the supply of electricity to the plant to just seven hours a day. **GEDCO is encouraged, to the extent possible, to supply the agreed 22 hours a day to the STLV.**
24. Progress in finalizing the Red-Sea Dead Sea (RSDS) agreement (on which pricing was agreed in the summer of 2017) has been slower than initially hoped. On February 11, 2018, the PWA sent a draft agreement to the GoI, in response to the GoI's draft that was sent to the PA in August 2017. **The finalization of an agreement, ideally, in advance of the AHLC, is an essential step in providing additional quantities of potable water to parts of Gaza and the West Bank**.
    a. In addition to finalizing the RSDS agreement, a **further 10 million USD is required to build the Al Montar connection point and mixing facility, for which detailed designs are ready**. Al Montar will also enable an increase in the supply of bulk water from Mekorot to Gaza and is, additionally, one of the seven components of the Associated Works of the Gaza Central Desalination Program.
    b. The Government of Kuwait has committed 60 million USD for the construction of two of the seven components of the Associated Works in Southern Gaza. One of these components will serve as a connection point (including pipelines, reservoirs, and pumping station) to support the distribution of the RSDS water. On January 20, 2018, the PWA shared a list of materials needed for these two components with the GoI. **Approval of these lists by the end of March 2018, would enable the import of materials in April-May 2018 and for constructions to begin by June 2018.**
25. Whilst a number of meetings of the Joint Water Committee (JWC) and Joint Technical Committee (JTC) have given rise to the hope that the water situation in the West Bank would be improved, progress to date has been slow. The pace of discussions of the JWC and its sub-committees needs to be accelerated to ensure the advancement of the arrangements that were agreed to in January 2017. **The parties are encouraged to consider ways in which the hydrological sub-committee of the JTC can establish a more systematic process,** with a defined frequency for meetings and clarified agendas, in order to advance discussion on groundwater abstractions**. In these meetings, priority should be given to addressing the Palestinian water shortages in the West Bank. Further, setting arrangements for additional imports of bulk water to the West Bank, as well as to Gaza for a transitional period until the Central Desalination Program is operational, are encouraged**. This will help bridge the gap in potable water in the Palestinian territory. In this regard, the PA's consideration of increased quantities of bulk water supply from Mekorot to Gaza is welcome.
26. In November 2017, the PWA developed an integrated list of priority projects defined as water and wastewater "packages". The parties are encouraged to use these packages to advance the development of water and wastewater infrastructure in the West Bank, as opposed to advancing projects on an individual basis. **The PWA is encouraged to continue consultation with the donors on these packages and to share these with the GoI in order that they might grant an in-principle approval for construction in Area C.**
27. The PA Cabinet decision on December 12, 2017 to allocate 55 million NIS a year for five years to help mitigate the environmental, political, and financial challenges of transboundary wastewater pollution by co-funding the construction of wastewater treatment plants and reuse schemes is welcome. Priority projects have been identified by the PWA in Tulkarem, Beit Jala, Qalqiliya, Baqa East and Hebron. When implemented, these projects, in combination with the KfW-funded project in Nablus and the Netherlands-funded project in Jenin, will eliminate a significant portion of the wastewater that currently flows from the West Bank to Israel. They will provide an additional capacity of 17 MCM a year of treated effluent for reuse. **The challenge of transboundary wastewater flow will remain in**

some villages around Jerusalem, where a strategy for addressing transboundary wastewater needs to be developed.

28. As agreed by the parties in the wastewater sub-committee of the JTC, on December 4, 2017, the Israeli Water Authority (IWA) sent to the PWA the proposed principles that set out the arrangements for developing a transboundary wastewater protocol. The PWA is currently reviewing these and should share its feedback before March 30, 2018. Further, the parties have agreed to develop a template by which the GoI will share information on the treatment of Palestinian transboundary wastewater within Israel. The PWA has developed a draft template for the technical and financial details that it would like to receive from the IWA on a monthly basis. The PWA will share this template with the IWA by April 1, 2018. **The parties are encouraged to finalize these two documents and conclude these arrangements as soon as possible**.

TELECOMMUNICATIONS

29. The launch of Wataniya[11] 2G service in Gaza on October 2017 and 3G, by Jawwal[12] and Wataniya, in the West Bank on January 23, 2018 represents an important step in the Telecom sector. This sector does not depend on international aid and contributes a small but significant 6% to GDP. Furthermore, the deployment of 3G is expected to create around ten thousand indirect jobs[13] beside its annual 100 million USD[14] contribution to tax revenue.
30. The parties should continue to make progress in this sector to enable the launch of mobile data services, 3G, or preferably 4G, in Gaza by the end of the year 2018, since vendors' technical support for 3G is expected to end in 2022. **The parties are encouraged to accelerate the discussions of the telecommunications' Joint Technical Committee (JTC) with regard to allocating the radio spectrum and the process for the Israeli Civil Administration's (ICA) approval for entry of materials to Gaza.**
31. The demand for higher speed and higher capacity mobile data services and lower prices is expected to increase significantly in the West Bank, based on the Palestinian mobile communication companies' forecasts. **To address this demand, more advanced data technology (4G or 5G) should be introduced, especially in city centers**. **JTC discussions should start immediately to lay the ground for an agreement to supply this expected demand.**

MOVEMENT AND TRADE

32. The efficient movement of cargo and people, as well as access to foreign markets, is a prerequisite for sustainable economic development. There is a continuing need to improve both the ease of movement and the trade relationships between Israel and the West Bank and Gaza in a manner that increases exports and commercial transfers and enables the movement of both cargo and people within and beyond the Palestinian territory.
33. Welcome progress was made in the movement of low-risk cargo from the West Bank to Israel on Sunday, March 11th, when the first truck moved door-to-door through the Tarqumiya crossing point. The truck, transporting plastic pipes from a factory in the Hebron area was part of a recently revitalized door to door pilot program. Using a risk-based approach, the crossing point officials allowed the truck to proceed directly from the West Bank factory to its destination in Israel without

[11] Wataniya is the second mobile communications company in the Palestinian territory. It was established in 2007 and is a member of Ooredoo Group.

[12] Jawwal is the first mobile communications company in the Palestinian territory. It was established in 1998 and is a member of PalTel Group.

[13] Based on international trends of the creation of 3-5 indirect jobs for every direct job in the telecom sector

[14] Based on estimations from Jawwal and Wataniya

the cumbersome, onerous and expensive back-to-back transfer of goods from a Palestinian truck to an Israeli one that had previously been necessary. This represents the culmination of many years of work, extensive cooperation between all relevant officials and significant investments in security infrastructure by the Palestinian private sector. This progress in further developing the door to door program will facilitate the movement of shipments originating at low-risk factories in the southern part of the West Bank that are destined for the Israeli market or the international gateways in Israel. Thirteen low-risk companies, representing approximately 20 percent of all the cargo shipments transiting through Tarqumiya, are in various stages of approval for participation in an expanded door-to-door pilot. **The parties are encouraged to continue their efforts to expand this pilot, both in scale and geographic coverage.** The next step is to develop risk assessments for companies located in the northern part of the West Bank. This will set the stage for establishing a known-trader program for companies utilizing the Sha'ar Ephraim crossing.

34. The extension of the hours of service at the Allenby/King Hussein Bridge crossing to 24 hours a day, seven days a week, effective from May 2018, is welcome. However, further actions are required to accommodate the future needs of the crossing.[15] **The parties are strongly encouraged to implement further streamlining initiatives** to increase throughput and decrease processing times. These objectives could be achieved through the use of advanced technology and by introducing a risk-based approach to passenger processing. If the GoI would agree to the use of a biometrically enabled travel card, this would significantly reduce the number of personnel required to staff the crossing and eliminate unnecessary delays. The use of such a biometrically enabled card would be voluntary on the part of the passenger and is budget neutral because each passenger would pay for their own card. Another possible streamlining initiative worthy of consideration is that of implementing sorting techniques based on objective criteria, such as the amount of luggage a passenger is carrying.
35. Market access for products originating in Gaza is severely restricted, obstructing the ability of the Gazan industries to reach their full potential. Many companies operate well below their capacity because their historic market, the West Bank, is off-limits to certain sectors and categories of goods. For example, processed food factories currently operate at only 20-40% of their full capacity and company representatives have advised that hundreds of additional employment opportunities could be created, if their products were allowed for sale in the West Bank. **The GoI is encouraged to consider allowing a pilot shipment of processed food**, such as biscuits, wafers or dried salty snacks, to the West Bank, as a first step to establishing a mechanism for the transfer of processed foods to the West Bank. Possible concerns over product quality and food safety may be addressed in coordination with the international donor community. The GoI is also encouraged to lift restrictions on the sale of agricultural produce to the Israeli market, including by increasing quotas and allowing additional types of products.
36. The movement of people remains a challenge. The number of exit permits issued to Gazans has declined severely in recent years, and this has had a major impact on the Gazan business community. In 2017, the exits of business persons dropped by 69 percent compared to 2015. This has significant impact on business, as traders need to be able to travel to build their businesses, develop new business partnerships and participate in trade related events, such as educational workshops, trade fairs and business-to-business meetings in the West Bank, Israel and the world. Although the recent increase in the number of permits issued to the business community in Gaza is a positive step, it is concerning that many of these permits have later been revoked as the individuals concerned

[15] Passenger traffic at A/KHB increased by 27.5 percent in the two years from 2015-16 and by an additional 15.7 percent in 2017. Assuming a modest increase in the number of passengers over the next four years, of 10 percent annually, the A/KHB crossing will be required to accommodate 4.2 million passengers by 2022, compared to approximately 2.6 million in 2017.

attempted to exit Gaza. The GoI is encouraged to ease restrictions on business travel as an important step in enabling private sector led growth and the creation of badly needed employment opportunities in Gaza.

RULE OF LAW

37. Improving the rule of law and ensuring effective governance structures are two pillars of the PA National Policy Agenda and the sectoral strategies adopted by the PA. In a positive development since the September AHLC, several long-awaited laws that further enhance justice, accountability and security have been adopted by the PA. These include the Police Law, the Security Forces Judicial Commission Law and the High Crimes Court Law. Notwithstanding efforts to strengthen the rule of law, the conflict in the mandates of the various justice institutions and the lack of clarity in the law governing the judicial system continue to pose significant challenges for genuine progress. A special committee was appointed by President Abbas during this reporting period to develop a vision for the justice sector that addresses these challenges.
38. Access to effective justice and security services are important pre-conditions for economic development and prosperity, as well as for advancing the development of Palestinian institutions. At this juncture, addressing two inter-related challenges, which serve as fulcrums for economic development, is particularly important: strengthening the legal framework for the Palestinian economy and the expansion of PASF movement and access.

Strengthening the legal framework for the Palestinian economy

39. The improved implementation of Palestinian–Israeli agreements on economic and trade affairs will eventually help to increase the Palestinian GDP. At a time of diminishing international donor support, improvements in the legal framework for the Palestinian economy and in the implementation of existing agreements, particularly those that have been included as components of the discussions between the respective Ministries of Finance (MoF to MoF), offer the possibility for improving the fiscal sustainability of the PA. During this reporting period, the parties have continued discussion on two long-standing issues that fall under the Paris Protocol: the transfer of customs authority and the Value-Added Tax (VAT) mechanism agreement. Progress has also occurred with respect to an additional Paris Protocol provision: expansion of the A1 list, which would enable greater trade and support economic development in the Palestinian territory. In working towards a comprehensive agreement on these issues, a holistic approach has been adopted, which combines policy level engagement with technical level analysis, to facilitate agreement between the parties and to ensure that any resulting negotiated agreement can be implemented effectively.
40. Discussions towards an agreement on the **transfer of some customs functions** to the Palestinian customs department, including the establishment of customs facilities and bonded warehouses in the West Bank under PA administration, have gained traction during the reporting period. The international community has also shown strong interest in supporting the PA in developing its capacity to manage customs collection and clearance once both parties achieve this long-awaited agreement. Without such an agreement – which should provide details on the specific functions to be transferred and a timeline for the same – it will be difficult for the international community to determine the nature of technical assistance and evaluate the infrastructure support that is required. At the same time, commitments from the international donor community should be forthcoming to assure the PA that it will have the resources and capacity to effectively fulfill the new responsibilities it is assuming. A draft MoU is currently under discussion by the parties. Positive progress toward the transfer of customs authorities could promote trade if both sides work under the principles of reducing the costs and delays faced by Palestinian importers, facilitating the smooth movement of goods, improving

inventory management, creating investment opportunities and, potentially, reducing the leakage of customs revenue to the PA.

41. The current VAT clearance system between the GoI and the PA is a paper-based system that is prone to fraud and enables tax evasion. A **shift from the paper-based process for reconciliation of VAT invoices to an electronic clearance system**, as provided in the Paris Protocol, would help to address this issue. The establishment of an integrated e-system would provide Israel and the PA with a transparent, accountable, and accurate accounting system. It would also provide the PA with the information needed to prevent the loss of VAT income from fraudulent invoices and invoices not under its jurisdiction (e.g. sales to Gaza). In addition, the e-system would also enable the Palestinian Authority to identify and tax undeclared Palestinian business income. Discussions are ongoing between the parties. While progress on this issue in the talks has been noted and there is agreement amongst the parties that a joint electronic system is essential, differences remain on the approach to implementation. The parties are encouraged to make further progress in this important area.
42. The Interim Agreement provides that the PA can set its own import policy with respect to specified commodities on **the "A1 list" of goods imported from Jordan and Egypt**. Although the Paris Protocol states that the list would be reviewed and updated on a regular basis to reflect Palestinian market needs, it has not been revised in more than twenty years. The Wye River Economic Committee recommendations of June 2000 proposed a dramatic expansion of the A1 list, but it was never implemented. The Kingdom of Jordan, the GoI and the PA have shown much interest in promoting trade between Jordan and the Palestinian territory. An expansion of the A1 list would enable the importation of lower-cost goods from Jordan and produce savings for Palestinian consumers while increasing revenue to the PA. A detailed analysis with recommendations for the expansion of the A1 list has just been completed. **Following review by the PA, the GoI, Jordan, the Palestinian private sector and relevant partners within the international community, it is hoped that the PA and GoI will engage in an expedited bilateral dialogue to agree on an expanded A1 list.**

Expansion of PASF Movement and Access

43. The security coordination mechanism between the PASF and the Israel Defense Forces (IDF) has progressed, notwithstanding elevated tensions during this period. The OQ-developed mapping system continues to enable the PASF to serve the Palestinian communities more effectively, enforce law and keep public order in the Palestinian territory. Ensuring further improvements in the ability of the PASF to access Palestinian communities also contributes to political stability, a prerequisite for economic development. Discussions are ongoing to **further ease access and ensure effective delivery of police services and security** to Palestinian communities throughout the West Bank.

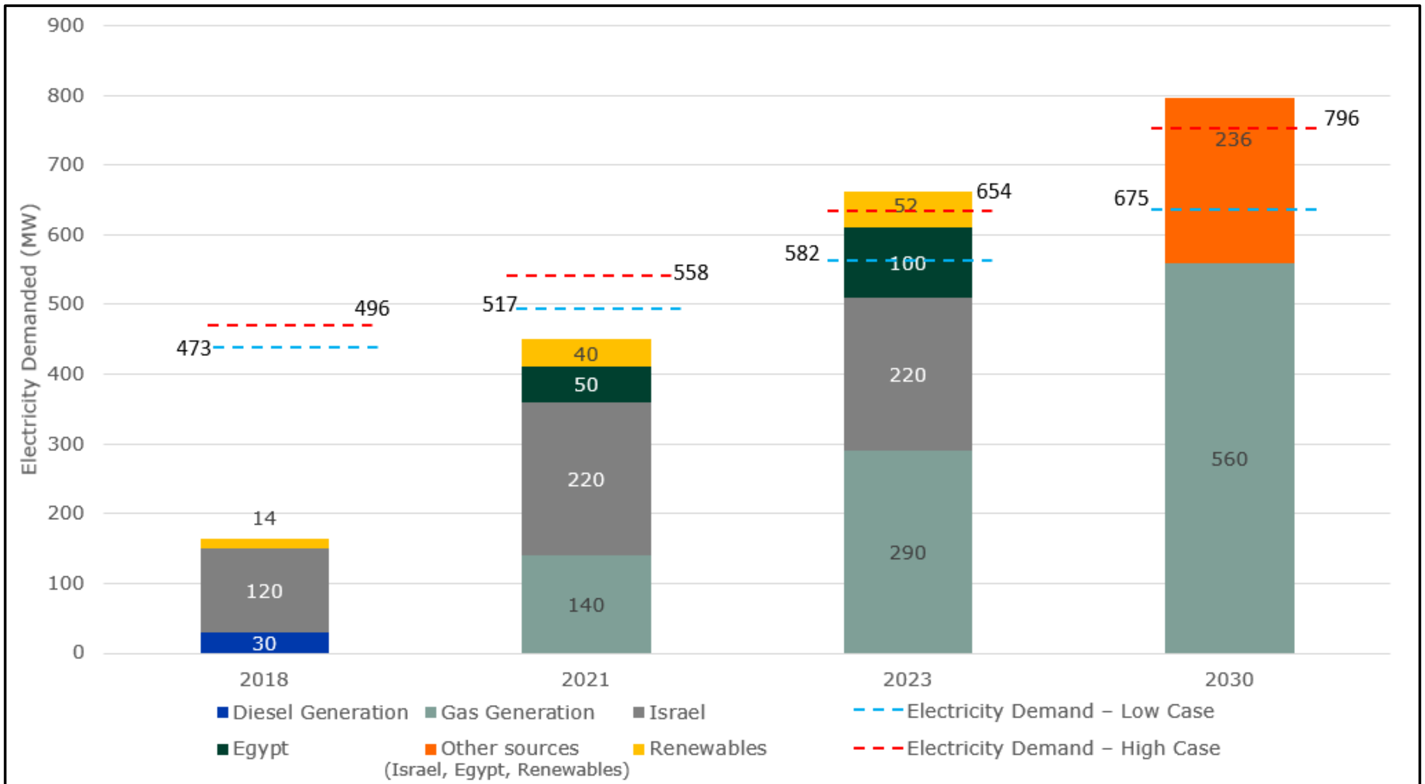
ECONOMIC MAPPING

44. The lack of holistic spatial information is a challenge for stakeholders interested in economic development in the West Bank and Gaza. The web-based mapping tool developed by the OQ helps visualize critical economic, geographic, social, security, and legal data on the West Bank and Gaza. The objective is to provide the PA, the private sector, and nongovernmental organizations with online datasets, maps, visuals, dashboards, and analytics to help make informed policy and business decisions. This will enable strategic economic development. Accurate spatial data has been acquired to fill the existing information gaps in key economic sectors, including those in agriculture, energy, water, IT, tourism and hospitality, and light manufacturing. The process of economic mapping involves collecting, organizing, and analyzing large data sets to extract meaning and render actionable information. Stakeholders are encouraged to access the www.pmaps.io web application in order to benefit from its analytical tools.

ANNEX 1: Supply and Demand Forecast for Electricity in Gaza (2018-2030)

Without connection to natural gas, and significant expansion of generation capacity, it will not be possible to meet growing demand for electricity in Gaza.

Figure 1: Supply and Demand Forecast for Electricity in Gaza (2018-2030)



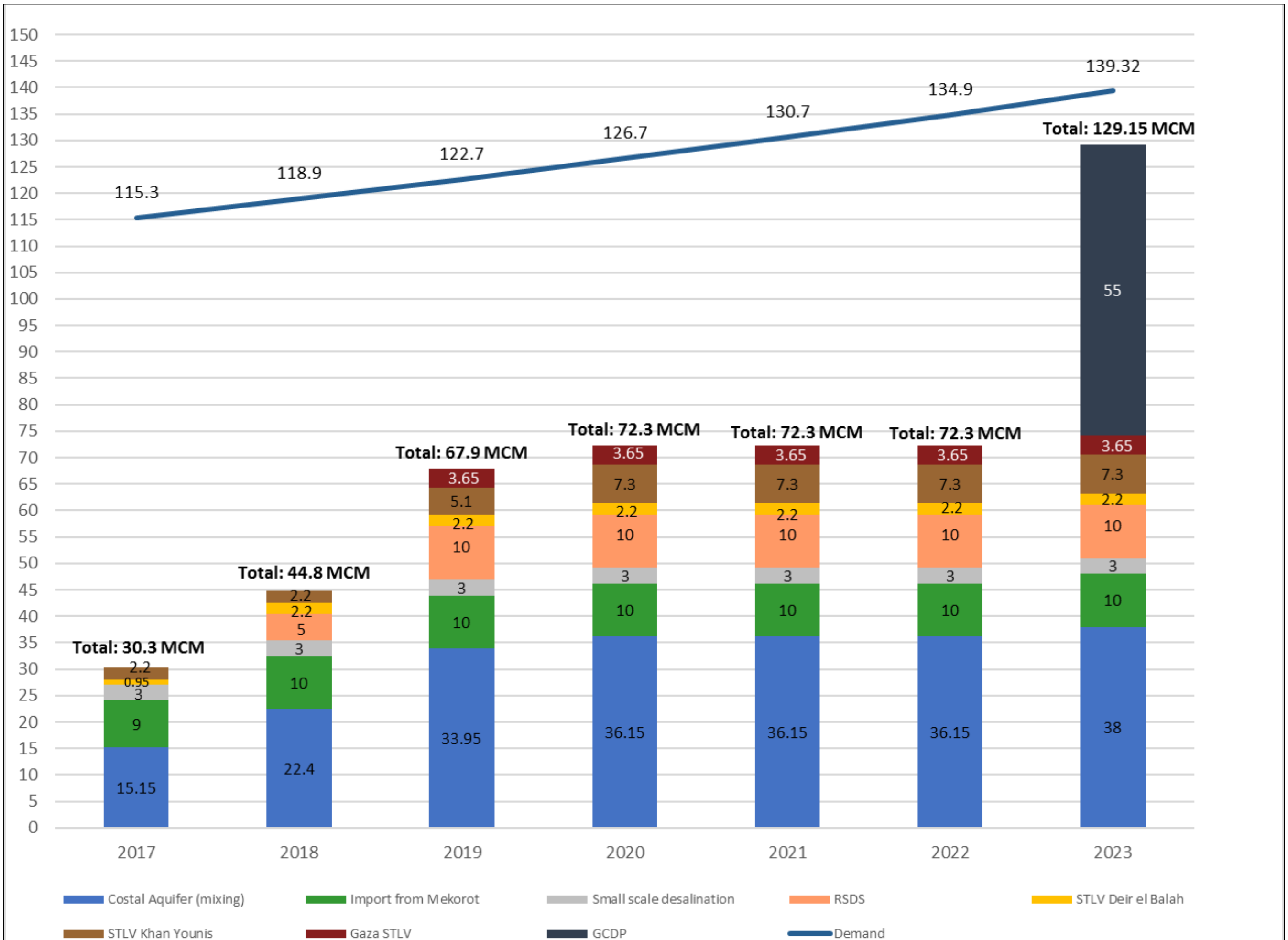
Note:

- Electricity demand projections are provided by the World Bank. PENRA's estimations are in line with the World Bank's high-case estimations.
- The electricity supply provided by renewables will be a combination of off-grid and on-grid-tied forms of generation (notably solar PV). Renewable Energy estimations are based on PENRA's projections.
- Currently 120 MW is supplied to Gaza from Israel over ten medium voltage lines. It is assumed that ~100 MW will be supplied to Gaza from Israel over the 161 kV line within 3-4 years (GoI's estimated timeline i.e. by 2021).
- Supply from Egypt is currently intermittent ranging between 0 – 27MW.
- In the longer-term (2030), any demand unmet from local sources, could be supplied by imported electricity from Egypt and Israel. Quantity imported will depend on demand and local generation levels; considering that locally generated power on gas is cheaper than imported electricity.

ANNEX 2: Supply and Demand Projections of Potable Water in Gaza (2018-2023)

The figure below illustrates the estimated demand for potable water in Gaza as well as the projected sources of potable water supply according to current PWA plans. The projections of the supplied quantities are based on the assumption that there will be a 50:50 ratio in the mix between Coastal Aquifer abstractions and desalinated water supplies (including imports from Israel, Red Sea–Dead Sea quantities, and local desalination). The blending ratio used in the figure below, is based on a maximum best-case scenario, which was not fully achieved in 2017 due to infrastructure limitations. The figure illustrates supply and demand for domestic use only. Non-potable water from Coastal Aquifer abstractions *beyond* the quantities for blending and water for use in agriculture are not included in this figure.

Figure 1: Projected Supply and Demand of Potable Drinking Water in Gaza (2018-2023)



*Assuming gradual reduction in abstractions to equal recharge rate of 60MCM/Y by 2023.
**Mixing quantities (50:50) are the maximum, best-case quantities.
***Demand is based on estimates from PWA 2017 and 2023 data.

ANNEX 3: Northern Gaza Emergency Sewage Treatment Project: O&M Costs

On March 1, 2018, the operation of the Northern Gaza Emergency Treatment Program (NGEST) began. Within the next two months, operations should reach full capacity (36,000 m^3/day). Until a full cost recovery scheme is implemented in 2023, securing financial support for the operation and maintenance (O&M) costs and enabling interventions for cost recovery remain key priorities. The figures below are based on the data provided by the Palestinian Water Authority and Coastal Municipalities Water Utility.

Fig. 1.1: NGEST Annual O&M Costs Breakdown 2018-2022 (in million USD)

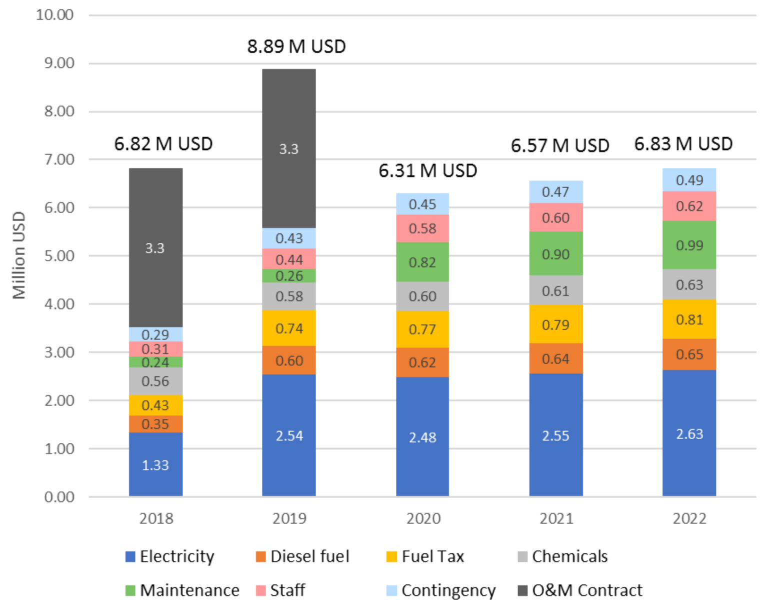


Fig. 1.2: Cost of NGEST O&M Elements 2018-2022 (in million USD and as a percentage of the total cost)

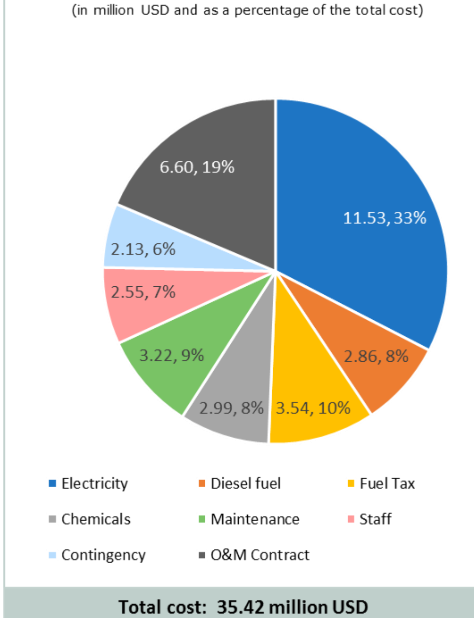


Fig. 2.1: Secured and Outstanding Funding for NGEST O&M Costs 2018-2022 (in million USD)

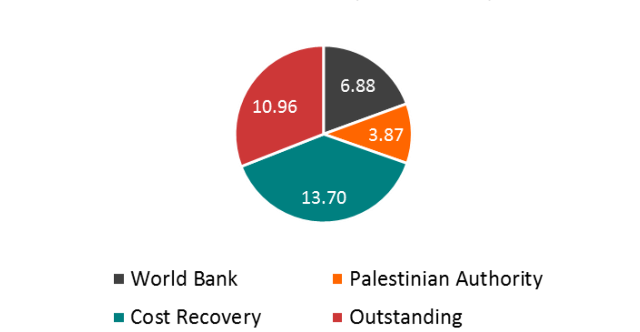
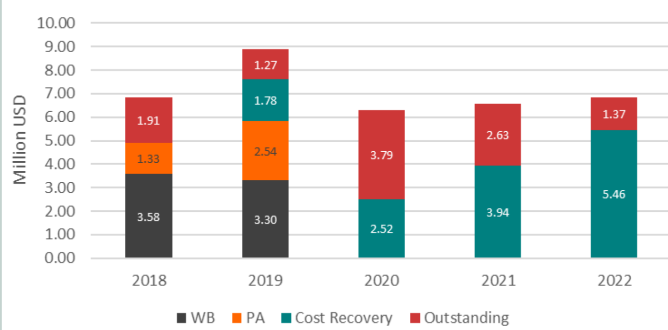


Fig. 2.2: Annual Funding Gap for NGEST O&M Costs 2018-2022 (in million USD)



- World Bank will cover the cost of the O&M Contract in 2018 and 2019 (6.6 million USD) and the cost of chemicals for the first 6 months (0.28 million USD)
- Palestinian Authority will cover the cost of the electricity for the first two years

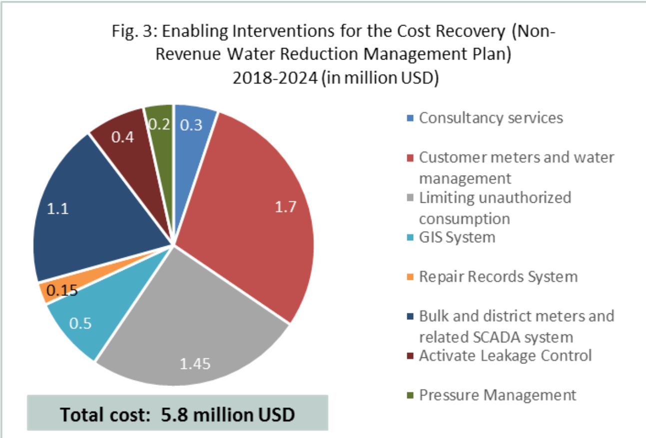


Fig. 3: Enabling Interventions for the Cost Recovery (Non-Revenue Water Reduction Management Plan)
2018-2024 (in million USD)
0.3
1.7
1.45
0.5
0.15
1.1
0.4
0.2
Consultancy services
Customer meters and water management
Limiting unauthorized consumption
GIS System
Repair Records System
Bulk and district meters and related SCADA system
Activate Leakage Control
Pressure Management
Total cost: 5.8 million USD

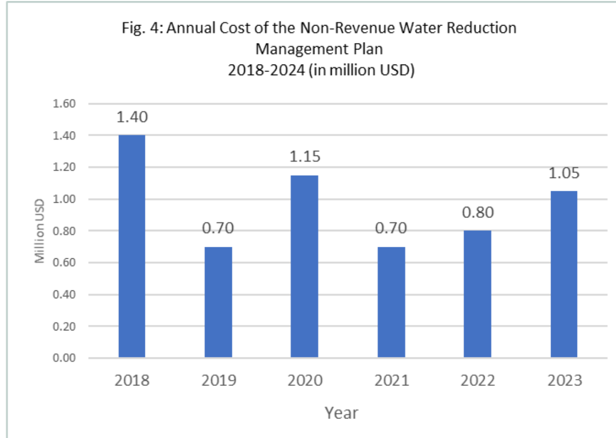


Fig. 4: Annual Cost of the Non-Revenue Water Reduction Management Plan
2018-2024 (in million USD)
Million USD
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1.40
0.70
1.15
0.70
0.80
1.05
2018
2019
2020
2021
2022
2023
Year