



OFFICE OF THE QUARTET (OQ)

Report to the Ad Hoc Liaison Committee

30 April 2019, Brussels, Belgium

Executive Summary

This report provides an update on progress achieved since the September 2018 report to the Ad Hoc Liaison Committee including areas where progress has either been slow or where additional work is now required.

In the water sector, progress has been made on the Gaza Central Desalination Plant and Associated Works (GCDP & AW) program, which will provide 55 MCM of potable water to Gaza by 2023 and will improve the distribution of potable water starting in 2020. Additional pledges have been made to the program, tendering is close to completion for two components of the Associated Works and the material approval process is underway. Through the Task Force platform, facilitated by the OQ, the stakeholders have agreed to special arrangements for material entry and storage for the GCDP & AW to ensure the transparency, predictability, and timely facilitation of the program. Further, progress has been seen in the construction of additional water and wastewater facilities in Gaza, which will serve 650,000 residents with 13.15 MCM of potable water and treat wastewater for 767,000 residents, once they are operating at full capacity. Securing a reliable supply of energy for these water and wastewater facilities is essential for their full operation, in a manner similar to that which has led to the energisation and ongoing operation of NGEST. Considering the ongoing energy crisis in Gaza, securing reliable energy supplies requires efforts on multiple fronts, including through advancing bulk supply of energy in Gaza but also through advancing innovative, 'on-site' renewable solutions for these facilities. Additional challenges continue in the implementation of water and wastewater priority infrastructure across the West Bank and Gaza, including securing relevant approvals from GoI, bridging funding gaps for construction and operation of infrastructure, and finalizing the Red Sea Dead Sea (RSDS) Agreement as well as the principles transboundary wastewater management.

In the energy sector, the resumption and potential expansion of electricity imports from Egypt to Gaza could have a near term impact on Gaza's electricity crisis and a number of donors have shown interest in supporting this work. The OQ is also examining the potential for utility-scale solar photovoltaic (PV) opportunities in Gaza (including both public and private projects). Progress with the Gas for Gaza (G4G) project has continued, with the zoning phase of the Israeli section of the pipeline route nearing completion and the detailed design due to commence shortly thanks to Dutch Government funding. In addition, an economic, social and environmental impact assessment of the project is near completion. In order to ensure continued progress is achieved, however, it is critical for the Palestinian gas buyer to be established and commercial negotiations commenced with relevant parties. The updated timeframe for project completion is now 2022/3. Unfortunately, meaningful progress on the 161 kV line from Israel to Gaza has not been achieved; it is now necessary to agree an implementation roadmap to move this project forward. In parallel to these initiatives, it will be critical to ensure that additional structural reforms and improvements to Gaza's electricity sector are undertaken, including improving electricity revenue collections, reducing system losses, upgrading the grid and reforming the Gaza Electricity Distribution Company (GEDCO). In the West Bank, the signing of the Power Purchase Agreement (PPA) between Palestinian Electricity Transmission Limited (PETL) and the Israel Electric Corporation (IEC) continues to be delayed, postponing energisation of three already constructed substations. The OQ has recently supported the PA in updating the 2017 Electricity Agreement Implementation Plan, identifying the need for an additional 19 million USD of funding to undertake necessary capacity building and infrastructure development over the period 2019-2023.

Following the successful deployment of a second 2G mobile data operator in Gaza and 3G in the West Bank last year, this reporting period has not witnessed any significant progress in the implementation of the envisioned upgrades of these technologies to 3G and 4G respectively. Key issues that need to be addressed include an agreement on the allocation of spectrum, as well as securing approvals from

Gol for entry of equipment into Gaza, import of equipment to the West Bank, and construction of infrastructure in Area C in the West Bank.

This reporting period has seen additional and significant strains upon the PA's fiscal situation. Following a recent law passed by the Israeli Knesset, the Gol undertook to deduct some NIS 502 million in 2019 from PA funds for payments made to prisoners held in Israeli jails, the PA has taken a decision not to receive any clearance revenue funds until the full amount, prior to the deduction, is provided in full. Transparency in the process of clearance and in the calculation of deductions will benefit both parties. Regrettably no progress was made in resolving a number of bilateral financial issues, including, *inter alia* the current handling fee for goods, the transfer of customs authorities or agreement on an E-Vat system. Security coordination between the parties has, however, continued in a professional manner, particularly relating to the movement of PASF in the West Bank, where there have been a number of positive developments. Still, more is needed to be done in order to improve PASF access to Palestinian communities in areas such as Jordan Valley, H2 and areas around those Jerusalem suburbs located outside the security barrier in order to enable delivery of effective security services and law enforcement for Palestinian communities.

In the area of Movement and Trade, the announcement of the issuance of biometrically enabled passports (December 2018), is a welcome step that will allow for the expedited movement of travelers and eliminate unnecessary delays in their travel. Regrettably, implementation has been delayed and it is essential that the equipment required to issue the new passports be released from the Ashdod port as soon as possible. As part of a larger effort to support Palestinian trade, Japan is supporting Palestinian efforts to open new markets for Palestinian products in countries that are members of the Conference on Cooperation among East Asian Countries for Palestinian Development (CEAPAD). The door to door program continues to expand with nine companies in the Hebron area participating; during the month of March 2019, 810 trucks moved door to door from the West Bank into Israel without mandatory scanning, intensive inspection and the delays associated with the back to back movement of goods. Finally, in an effort to expand exports from Gaza, the parties' respective Ministries of Health are encouraged to reach agreement on sensitive and non-sensitive lists of products and ways to monitor quality assurance of processed food companies in Gaza.

In summary, while there has been some progress in each of the areas identified above, further effort is required if progress of a more transformational nature is to be realised.

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 focuses on identifying progress achieved and the critical next steps required in order to achieve the short, medium and long term objectives which in combination have the potential to realise the transformational change that is so badly needed in both the West Bank and Gaza. In the immediate term addressing urgent humanitarian needs, particularly in the Gaza Strip remains essential, in combination with ongoing efforts to inject liquidity into the Gaza strip.
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 work of the office is supported by a core group of donors including the Kingdom of the Netherlands, the United States, the United Kingdom, the European Union, Canada, Japan and New Zealand. This report complements those of the World Bank and the United Nations. It covers the period up to 10 April 2019.
3. With an ongoing water shortage in the West Bank and a water crisis in Gaza, advancing access to water in the Palestinian territory is both a humanitarian need and a necessity for economic development. While the reporting period saw some progress in advancing priority infrastructure projects in the Palestinian territory, a number of barriers remain. The Gaza Central Desalination Plant and Associated Works Program (GCDP & AW) continues to make progress, particularly through commencement of tendering for the Associated Works and progress within the Task Force meetings, as detailed below. Despite progress in construction of water and wastewater facilities in Gaza, ensuring operationalization, and particularly energization of these facilities remains a significant challenge. Delays continue in finalising the Red Sea Dead Sea (RSDS) Agreement, as well as in securing relevant approvals from Gol and funding for priority infrastructure across the territory. This section will address the status of these priority infrastructure, and the associated challenges that need to be addressed if those works are to be operational and effective.

Water

Gaza Central Desalination Program and Associated Works (GCDP & AW)

4. There has been noteworthy progress in the GCDP & AW Program which will provide 55 MCM of potable water to Gaza by 2023 and which will also provide a comprehensive upgrade of the network in order to improve the transmission and distribution of potable water and reduce non-revenue water in Gaza. Key elements of this progress include, *inter alia*:
 - a. Further **financial** contributions of 41.6 million EUR to help bridge the funding gap for the program, which increased pledges bringing the total to 448.3 million EUR. **Donors are encouraged to consider financing the outstanding funding gap of 114 million EUR.** The EU's willingness to further contribute to bridging this gap is very welcome.

- b. On March 5 and March 12, 2019, the stakeholders of the GCDP & AW¹ met within the context of the Task Force and discussed plans for the energization and securitization of the facility, as well as the entry of materials of this program. Within these meetings, stakeholders identified special arrangements for material entry and storage for the GCDP & AW, which will continue to be developed, to ensure the transparency, predictability, and timely facilitation of the program. These arrangements will be detailed in signed, meeting minutes. The parties agreed to utilizing the Task Force as the primary platform to process approvals of all types of materials and heavy machinery, facilitate any arrangements for program personnel, and prevent or mitigate challenges related to the entry and storage of materials for the GCDP & AW. Noteworthy arrangements include the utilization of the “Capsule Model” for material approval, which will enable one-time, upfront approvals of all material, including telecommunications, electrical, and chemical materials, that will last for the duration of the project’s construction and operation.
- c. Currently, two of six packages of the Associated Works are in the tendering process. The ‘Additional Supply from Mekorot for Middle and Khan Younis Governorates’ package has been awarded and works will commence in June 2019. Bids for the second package, the ‘Southern Main Carrier System’, will open on 22 April 2019 and works are scheduled to commence in August 2019. Another two packages related to the reconfiguration of water distribution networks in the south and middle governorates, financed by the World Bank, will be tendered in September 2019; works are scheduled to commence in March 2020. These four packages would serve 870,000 residents with approximately 33 MCM of potable water within the World Health Organization’s water quality guidelines.² On 25 March 2019, a bill of quantities was shared with COGAT for Gol approvals by mid-June, so that construction can commence as planned by June and August 2019 for the first two packages respectively. **The Gol and the PA’s ongoing efforts are welcomed, and they are encouraged to continue the positive engagement toward securing all approvals for the entry of materials to Gaza. Donors are encouraged to disburse funding pledged to enable the advancement of the tendering process for the remainder of the program.**

Operationalization of new water and wastewater facilities in Gaza

- 5. Over this reporting period the expansion of the Deir Al Balah Short-Term Low-Volume Desalination Plant (STLV) was substantially completed in January 2019; however, it has yet to be commissioned. The facility could produce 2.2 MCM if operating at full capacity. A Memorandum of Understanding was agreed between GEDCO and the PWA on 27 February 2019 to supply energy to the Deir al Balah facility and the facility was subsequently connected to the electricity grid. While the facility is to operate according to the grid cycle, the supply is insufficient for operating at full capacity. Meanwhile, the Khan Younis Wastewater Treatment Plant (WWTP) and the Gaza City STLV are nearing completion, the Gaza Central WWTP will be

¹ Permanent Task Force members include the Palestinian Water Authority, COGAT, the Office of the Quartet, the World Bank, and the European Union. Stakeholders that participate as needed include the European Investment Bank and the Union for the Mediterranean.

² The bulk water system has the capacity to supply a minimum of 33 MCM, which includes 10 MCM purchased from Mekorot, 9.5 MCM production from STLVs, and 13.5 MCM sustainable abstraction of groundwater for blending (World Bank)

completed by Q3 2019, and the Southern STLV, which is currently operating below capacity due to insufficient energy supply, is under expansion that should be completed in 2020. **The PWA, PENRA, and GEDCO are encouraged to advance arrangements to secure reliable and sufficient energy supplies to these facilities, as preceded by the immediate energization and ongoing operation of the Northern Gaza Emergency Sewage Treatment Plant (NGEST).**

6. Securing reliable energy supply is a challenge for all five of these water and wastewater facilities, all of which will have a significant impact on the sector. The three STLV facilities combined will have the capacity to produce 13.15 MCM/y,³ serving 650,000 residents of Gaza with potable water, and require 8.3 MW⁴ to operate at full capacity. The Khan Younis WWTP will treat 26,600 m³/day of wastewater and Gaza Central WWTP will treat 60,000 m³/day. Together these plants will serve 767,000 residents. The full operation of the Khan Younis WWTP will require 3.7 MW, while the Gaza Central WWTP will require 3 MW only during the commissioning period (6 months), after which it will be self-sufficient on solar PV and biogas. Khan Younis WWTP will also provide effluent which can be used for agricultural production in Gaza, pending the bridging of a funding gap of around 25 million USD.
7. Considering the ongoing energy crisis in Gaza, securing reliable energy supplies requires efforts on multiple fronts, including through advancing bulk supply of energy in Gaza but also through advancing innovative, 'on-site' renewable solutions for these facilities (see previous energy section). This strategy has already proved to be a successful model for energization of water and wastewater facilities. For example, in the Nablus West WWTP the integration of solar PV and biogas technology has reduced the demand for grid-supplied energy, increased self-sufficiency, reduced operation and maintenance (O&M) costs, and thus stabilized operations. According to OQ analysis, this model could have similar financial and operational benefits for all new wastewater infrastructure.⁵ Utilization of this model in Gaza could have an even broader impact, as production of solar energy beyond a facility's energy requirements could enable a swapping arrangement in the grid. If one facility produces solar energy during daylight hours, beyond its required energy needs, it can feed the grid with this excess electricity. In exchange, the grid could either supply electricity to the facility during night hours, enabling self-sufficiency, or reallocate this excess electricity to other facilities across Gaza. It is encouraging that the Gaza Central WWTP has integrated solar PV and biogas technology into the system design, and that the NGEST continues to advance plans to upgrade its renewable energy systems. **These facilities could serve as an important model for energy**

³ This quantity will be mixed with a similar quantity from ground water to increase the supply of potable water to consumers.

⁴ 1.5 MW and 1.8 MW is needed immediately to supply the Southern STLV and Deir Al Balah STLV respectively, to enable its current operation at full capacity

⁵ As part of the PWA's Wastewater Package, 14 wastewater treatment facilities are planned in the coming five years in the West Bank, treating 33 MCM/y of effluent. Based on the OQ's analysis, these facilities will incur a cost of 14 million NIS annually for grid-supplied electricity for the treatment process. These electricity costs will constitute approximately 50% of total O&M costs (this is assuming that the average energy consumption of the WWTP is 0.7 kWh/m³, and the average tariff for electricity is 0.6 NIS/kWh). If the model of Nablus West WWTP was followed, and each plant is equipped with a small PV component to cover 10% of its energy needs, the estimated total energy demand of 60 MW would decrease by 6 MW, saving up to 1.4 million NIS annually. Including a biogas component to cover around 50% of the energy needs in each infrastructure project would save approximately 7 million NIS annually (reducing grid supply by 30 MW).

swapping, and the stakeholders are encouraged to consider advancing similar energy solutions for other water works.

8. While NGEST has now been operating at full capacity for one year, the sustainability of its operations is dependent on recovering costs – this is true for all new water and wastewater facilities as well. Efforts by the PA to cover the electricity cost needed to energize these facilities in Gaza serves as a vital and welcomed contribution to the O&M costs. To support the long-term sustainability of these facilities, a transparent mechanism for cost-recovery needs to be developed by the PA and the service providers in order to cover outstanding O&M costs. In the interim, donors are encouraged to help bridge the O&M gap, which will enable operation at full capacity, until full cost-recovery can be realized.

Red Sea Dead Sea Agreement

9. Progress in finalizing the Red Sea Dead Sea (RSDS) Agreement is unfortunately slow. However, in November 2018, the PWA shared its comments on the latest draft of the agreement (prepared by the GoI and shared with the PWA on 26 June 2018). The parties are arranging to meet in the second half of April 2019 to discuss outstanding issues. The parties are encouraged **to finalize a reliable agreement, based on international practice, in order to introduce the immediate supply of agreed quantities.**
 - a. In the West Bank, a number of donors have stepped in to complete the design and the construction of relevant works to supply the RSDS quantities, which had previously been supported by USAID. The French Development Agency (AfD) have decided to establish a trust fund for the completion of these works. For the connection point in Ramallah (Aboud), AfD and the EU are co-funding the full cost of construction. AfD has also committed 10 million EUR for the Jenin connection point. Since the detailed designs were completed by USAID for the Ramallah connection point, the PWA will finalize the tender documents, which are planned to be issued by the end of 2019. **The parties are encouraged to advance the signing of the RSDS agreement; the GoI is encouraged to provide relevant approvals for infrastructure construction, and finally, donors are encouraged to bridge the funding gap of 13 million EUR for the Jenin connection point.**
 - b. The ‘Additional Water Supply Network Improvements Works (Middle Area and Khan Younis)’ package, financed by the Kuwaiti Fund, as well as the ‘Additional Water Supply Network Improvements Works (North Gaza)’ package (Al Montar) of the GCDP’s Associated Works (AW), financed by the EU, will have the capacity to absorb the current water supply to Gaza from Mekorot, as well as the additional quantities within the RSDS Agreement. While the infrastructure on the Israeli side is complete, the works on the Palestinian side will commence in the in the Middle and Khan Younis area in June 2019 and will be complete in August 2020. In the North, tendering will begin in October 2019, construction is expected to commence in March 2020, and works will be complete in May 2021. After completing those connections on the Palestinian side, it will be possible to provide a minimum of 10 MCM of water to each area, which includes the existing 5 MCM from Mekorot and the 5 MCM from the RSDS Agreement (therefore a minimum of 20 MCM total supply to Gaza). There is also a possibility to absorb additional quantities of 5 MCM from Mekorot to each area (additional 10 MCM total). **The stakeholders are encouraged to advance the**

tendering of this infrastructure to advance the immediate supply of potable water to Gaza.

Water and Wastewater Packages

10. A priority list of water and wastewater infrastructure, developed by the PWA in November 2017, have been planned for development from the period of 2018-2022.⁶ These priority infrastructure will enable an increase in domestic water supply by 68.4 MCM in the West Bank and 78 MCM in Gaza.⁷ The wastewater package will also treat 41 MCM and 44.3 MCM of wastewater in the West Bank and Gaza, respectively. The two primary challenges for advancing these interventions remain: securing required funding for these interventions and acquiring the required approvals from the GoI:
 - a. With the end of USAID programming, a number of contracts have ceased construction, without full completion, including the rehabilitation and expansion of the Yatta water distribution network as well as the expansion of the Jericho wastewater collection system. Given that these projects were near completion and that they will have a significant impact on the supply of water and treatment of wastewater in these areas, **donors are encouraged to provide the 6.5 million USD required to complete this infrastructure.** In addition, a funding gap of approximately 77.3 million USD for the Water Package and 330.5 million USD for the Wastewater Package remains in the West Bank. A funding gap of approximately 48 million USD remains for the Wastewater Package in Gaza.
 - b. As with other infrastructure, many of the interventions in the water and wastewater package require approvals from the GoI. In Gaza, this includes for the import and entry of materials through the Gaza Reconstruction Mechanism. In the West Bank, approvals are needed for infrastructure with components in Area C, and approvals from the JWC for interventions that require rehabilitating or drilling new wells. With 24 wells planned in the package, producing 22.4 MCM/Y, 11 of these infrastructure projects require JWC approvals. Since these quantities are within the obligations defined in Article 40 of Annex 3 of the Interim Agreement, **the parties are encouraged to advance these approvals in the JWC. Further, the GoI is encouraged to provide an *in-principle* approval for relevant construction in Area C (in order to *inter alia* enable fundraising) and the required approvals for the entry of materials to Gaza.**
 - c. In light of the Palestinian Cabinet decision to prioritize and allocate 80 million USD to fund wastewater treatment infrastructure along transboundary streams, tendering will shortly commence for Irtah and Baqa al-Sharqiyya projects. The progress achieved in advancing wastewater treatment in the West Bank through such facilities will reduce wastewater flows into the environment, including through cross-border streams, as well as provide an additional 3.7 MCM of water for reuse in agriculture. **Donors are encouraged to bridge the funding gap of 7.6 million USD for the**

⁶ The interventions defined within this section, such as the GCDP & AW, RSDS infrastructure, Khan Younis and Gaza Middle wastewater treatment plants, as well as the Gaza STLVs, are included within these packages

⁷ In the West Bank, this includes 22MCM RSDS, 25MCM additional supplies from Israel, and 22.4MCM abstraction from groundwater. In Gaza, this includes 68MCM from local desalination (GCDP and STLVs) and 10MCM from RSDS.

wastewater treatment infrastructure in the transboundary wastewater Cabinet Decision. The parties are encouraged to meet and advance the approvals for the required infrastructure for this program. Parties are also encouraged to agree on a mechanism to efficiently and transparently manage transboundary wastewater, including vis-à-vis deductions from clearance revenues.

Energy

11. Though the provision of Qatari-funded diesel supplies from October 2018 has increased generation from the Gaza Power Plant (GPP) from 25 megawatts (MW) to over 75 MW (boosting supply from approximately five to over 12 hours per day), the energy situation in Gaza remains dire. The Qatari-funded fuel has provided a window to advance other longer-term solutions which can help to put the sector on a more sustainable footing. The OQ continues to work across the sector in Gaza with a particular focus on initiatives that will ensure the stable supply of energy. In parallel to these initiatives it will be necessary to ensure that additional structural reforms and improvements are undertaken, including improving electricity revenue collections, reducing system losses, upgrading the Gaza grid and reforming the Gaza Electricity Distribution Company (GEDCO). Such changes will also improve the ability of the sector to attract private investment.
12. In the near term, the OQ is seeking to support the restoration and expansion of electricity supplies from Egypt and is also exploring the potential for developing solar photovoltaic (PV) plants in Gaza. In the medium term, the OQ is seeking to facilitate progress on the construction of a 161 kilovolt (kV) line from Israel. However, the central solution to Gaza's energy crisis remains the Gas for Gaza (G4G) project, involving the construction of a gas pipeline from Israel to Gaza and allowing for the re-conversion of the GPP to gas, enabling a substantial, reliable and cost-efficient source of domestic electricity generation. When combined with improvements to the collection of electricity revenues and reduced system losses, G4G would allow the Gaza electricity sector to become self-sustaining.
13. In the West Bank, growing demand for electricity will require additional supply.⁸ The signing of the Power Purchase Agreement (PPA) between Palestinian Electricity Transmission Limited (PETL) and the Israel Electric Corporation (IEC) continues to be delayed despite negotiations ongoing since September 2016. The delay in completing and signing the PPA is, in turn, postponing energisation of three already constructed substations in the West Bank, depriving PETL of an important source of income, delaying the settlement of existing debts to the IEC, and preventing the provision of more reliable electricity to West Bank consumers.

Egyptian electricity exports to Gaza

14. The resumption of previous levels of electricity imports from Egypt and an expansion of the existing Egypt-Gaza import capacity represent two measures that could have a near-term impact on the electricity crisis. The restoration of power supply through the three 22 kV lines (Gaza 1, Gaza 2 and Palestine) to February 2018 levels would provide 27-30 MW for Gaza,⁹ while a further upgrade of capacity could provide up to 50 MW of electricity. These measures would help to power new water infrastructure that will be complete by Q3 2019 (see water

⁸ The World Bank forecasts that electricity demand in the West Bank will increase by over 30% between now and 2030.

⁹ By some estimates, technical losses result in only 17 MW of electricity reaching Gaza.

section for further information). A number of donors have shown interest in supporting this restoration and upgrade work.

161 kV line from Israel to Gaza

15. In the medium term, establishing a high-voltage 161 kV line from Israel will help meet growing power demand in Gaza. Such a connection could deliver an additional 100 MW in 3-4 years according to the GoI, and potentially 25 MW within 12 months. The 161 kV line would help to improve the commercial viability of the sector by having a credit-worthy, viable electricity purchaser buying bulk electricity at the less costly high-voltage tariff and reducing technical losses. Moreover, as noted in the water section, this would help provide electricity for new water projects coming on line in the next two years. Unfortunately, since the last report, no meaningful progress has been achieved. **As stated in previous AHLC reports, the parties are encouraged to agree to the next steps to establish a 161 kV line, including the preparation of an implementation road map including costs, timelines, commercial arrangements and technical requirements.**

Gas for Gaza (G4G)

16. Progress with the G4G project has continued, although there have been a number of delays in the overall timeline. In order to ensure continued progress is achieved, however, it is critical for the Palestinian gas buyer to be established and commercial negotiations commenced with relevant parties. The updated timeframe for project completion is now 2022/3. **The PA is encouraged to reach a decision on the gas buyer and commence commercial negotiations as soon as possible.**
17. The OQ has engaged consultants to assess and quantify the high-level impact of the G4G project on the economy, society (including gender) and the environment in Gaza, with initial findings indicating that G4G would not only significantly improve the energy access situation but also yield substantial direct and indirect positive impacts for Gazan households (in both personal and financial terms), businesses and the public sector.
18. In Israel, the zoning phase of the pipeline route is nearing completion. In Gaza, decisions on the specific pipeline route and selection of the preferred drilling technique will need to be concluded in 2019. The OQ plans to host a Task Force meeting to reach agreement on these matters. In addition, it is critical that the detailed design of the pipeline on both the Israeli and Palestinian sides commences in 2019. At the December Dutch Trilateral meeting held in Jerusalem, both the PA and the GoI requested the financial support of the Dutch Government for this critical phase of the project. **The PA and the GoI are encouraged to advance the planning and permitting of the pipeline, including the start of detailed design work as soon as the funding has been made available.**

Solar photovoltaic (PV) study in Gaza

19. In late 2018, the OQ initiated a project to investigate the potential for utility-scale solar photovoltaic (PV) opportunities in Gaza. An initial survey of sites collected information on a range of parameters, including solar irradiation, topography, current land use, surrounding infrastructure, and proximity to grid connections and potential direct demand sources (including water and wastewater infrastructure). Site visits at 16 promising locations have now been carried out to collect further information. The next phase of the study will see a detailed pre-feasibility assessment undertaken for several selected sites. Various project types

will be explored including public-led projects (requiring donor support) and private developments. **The parties are encouraged to continue to support this initiative including providing timely feedback on the suitability of particular project locations to ensure a speedy progression to the detailed assessment.**

Gaza grid development

20. To increase cost recovery, enhance grid control, and deliver reliable electricity to consumers, it is vital to upgrade the Gaza electricity grid. Initially, converting the current grid to a smart grid will enhance the resilience of Gaza's electric power system, allowing it to deal more effectively with outages and emergencies. In addition, this will provide extra security against illegal electricity connections (reducing electricity theft and the risk of potential overloads) and allow for better overall system monitoring. The Palestinian Energy and Natural Resources Authority (PENRA) and GEDCO are considering various schemes to upgrade the distribution grid in Gaza to a smart grid. Additional improvements to the grid will also be required including rehabilitating and enhancing the existing medium and low-voltage networks and constructing a new high-voltage grid backbone and associated substations. Funding will be required to implement this full grid upgrade in stages. **The relevant parties are encouraged to consider funding this upgrade at the relevant time.**

Gaza Marine gas field

21. Securing access to and developing the offshore Gaza Marine gas field will significantly enhance Palestine's energy independence and generate revenues for the Palestinians of up to 2.5 billion USD over its 25-year lifespan. This revenue has the potential to substantially support the development of the Palestinian energy sector. **We encourage the parties to undertake all necessary actions to progress the development of Gaza Marine.**

Electricity Agreement implementation

22. Turning to the West Bank, there has regrettably been little progress in implementing the September 2016 Electricity Agreement (hereafter the Electricity Agreement) which would support the development of a more economically viable and sustainable electricity sector. Whilst some key milestones have been reached such as the construction of four initial high-voltage substations, only the Jenin substation has been partially energized (allowing for an increase in power supply to the north of the West Bank). A further three West Bank substations have been constructed but their energization and the transfer of other electricity network assets from the IEC to PETL is pending signing of the long-delayed PPA. **The parties are encouraged to conclude the PPA and at the very least, short of this, to conclude temporary targeted agreements on bulk tariffs per substation to enable energisation of the remaining three substations and the transfer of West Bank electricity assets to PETL.**
23. Once the PPA is signed, further steps must be taken for the Electricity Agreement to be fully implemented. The OQ has recently supported the PA in updating the 2017 Electricity Agreement Implementation Plan. The updated plan was completed in January 2019 and will support the PA in prioritizing their implementation efforts over the coming years. In particular, the Implementation Plan identified the need for an additional 19 million USD¹⁰ of funding to undertake necessary capacity building and upgrades to systems and infrastructure

¹⁰ PENRA's initial financial needs for the Implementation Plan (2019-2023) amount to an estimated 18.94 million USD. Additional investments in new substations will require further funding of 90.5 million USD.

over the period 2019-2023. The following next steps are required in order to realize progress in implementing the Electricity Agreement:

- a. **The Government of Israel is encouraged to grant the necessary permits for the construction of electricity feeder lines to allow the full utilization of West Bank substations in a timely manner;**
- b. **PETL and COGAT are encouraged to finalise a 'Framework Agreement' that will allow PETL to undertake its responsibilities in Area C and lead the way for the PPA to finally be signed;**
- c. **Donors are encouraged to provide the required funding of 19 million USD to allow the full implementation of the Electricity Agreement over the period 2019-2023.**
- d. **The PA is encouraged to reduce its debt to the IEC in the lead up to signing the PPA.**

Telecom

24. The January 2018 deployment of 3G in the West Bank and a second 2G operator in Gaza has had a significant impact on all major sectors of the Palestinian economy. It contributed to the creation of direct and indirect employment opportunities, led to an increase in annual revenues for the PA (through licencing fees and taxation), as well as stimulated GDP growth through the investments made in the sector and as a result of emergence of the e-services in other sectors, i.e. health, government, education. However, in order to maintain this positive trend, **it is necessary to upgrade the existing technologies, to enable 3G or 4G in Gaza and 4G or 5G in the West Bank.**
25. Following the GoI declarations of support for the deployment of 3G in Gaza¹¹ and the Joint Technical Committee (JTC) meeting in October 2018 the discussions on this issue have advanced, which is a positive development. However, no progress in implementation was achieved during this reporting period. Since 4G is widely available and produces more data at lower costs, the PA and the Palestinian operators have indicated that it will soon be uneconomical for Palestinian operators to invest in 3G, **unless the GoI is able to respond positively to the requests of the Ministry of Telecom and Information Technology (MTIT) to allocate spectrum and to approve key equipment for entry to Gaza. If this proves impossible, the parties are encouraged to move directly to the discussions on the deployment of 4G.**
26. While deployment of 3G in the West Bank has significantly improved Palestinians' access to mobile data, some elements of the November 2015 agreement have not yet been finalized.¹² This includes granting Palestinian companies passive access to their core equipment, which is currently managed by an Israeli company, and allocating additional microwave links to strengthen the connection of networks between the cities. **While verbal declarations to resolve these two issues are very welcome, the parties are encouraged to advance the discussions in order to secure written agreements.**

¹¹ In 2017, Israel committed to facilitating the deployment of 3G in Gaza through the allocation of spectrum and relevant material approvals, none of which have advanced.

¹² Agreement between the PA and GoI on "Principles for Assignment of Frequencies in the 2100MHz Band for the Palestinian Cellular Operators", which enabled deployment of 3G in the West Bank.

27. Furthermore, without upgrading to 4G, Palestinian companies will not be able to meet the high demand for faster and higher capacity services and will not be able to compete with unlicensed Israeli services in the West Bank. **Therefore, the parties are encouraged to advance the discussions in the JTC on the allocation of spectrum to enable launching 4G services, at least in the densely populated urban areas, where the demand is the highest and granting approvals for import of equipment and construction of infrastructure in Area C.**

Governance and Rule of Law

28. The absence of democratic representation has had a significant impact on the rule of law, accountability and on law-making in the Palestinian territory. On 12 December 2018, the Palestinian Constitutional Court issued a significant decision to dissolve the Palestinian Legislative Council, which was elected in 2006 and dominated by Hamas legislators, and has not convened in more than a decade. In an effort to facilitate reform of the justice sector, a Presidential commission issued a list of recommendations in September 2018 to strengthen the functioning of the sector, focusing heavily on a series of proposed amendments to the Judicial Authority Law. However, no action has been taken to date to implement the recommendations of the commission. A transparent public consultative process leading to the enactment of appropriate revisions to the JAL is encouraged to improve the functioning and independence of the courts and the justice sector overall. While the public sector continues to provide many services efficiently, some sectors, such as the justice sector, have witnessed major challenges, including a slowing of institution-building efforts. This, in part, results from a significant decline in the level of resources dedicated to institution-building and reform by the international community. This, coupled with the Palestinian Monetary Authority's (PMA) 2019 projections for negative economic growth, requires significant interventions to enable greater fiscal stability. **While negotiating a new trade regime between Israel and the PA is a legitimate objective, both parties must take tangible steps in the immediate term to improve the implementation of the current trade regime, namely the Paris Protocol, to address some of the existing challenges in the short-term.**

Customs Transfer

29. Discussions have continued between the parties on the MoU on the transfer of customs authorities from the GoI to the PA, but progress remains slower than had initially been hoped. One positive development has been that after a long waiting period, the GoI shared a new draft MoU on the proposed transfer of custom authorities, including the establishment of bonded warehouses on the Palestinian side. Nevertheless, an array of key issues fundamental to a sustainable agreement remain unresolved. Any agreement will require successful structures to ensure sustainable implementation: to that end efforts should intensify to develop the capacity of the PA to manage these new customs responsibilities. **The MoU negotiation and the PA capacity empowerment should be achieved in parallel.**

Paris Protocol

30. The Paris Protocol ("Protocol") has been the governing trade regime between the parties for over 25 years. Despite the fact that it was originally designed as a 5-year interim arrangement, it continues to govern trade relations, economic and taxation policies. The Protocol not only impacts the performance of the Palestinian economy but also determines the main sources of

the PA fiscal revenue. As part of any future permanent status negotiations, it will be necessary to re-examine the economic arrangements between the two parties and reach a new agreement. The PA has recently stated its desire to negotiate a new trade agreement to replace the existing protocol. Until that is achieved, however, **improved implementation and updating of the current agreement is necessary to reflect the changing realities on the ground.**

31. This reporting period has seen additional and significant strains upon the PA's fiscal situation. Following a recent law passed by the Israeli Knesset, the GoI undertook to deduct some NIS 502 million in 2019 from PA funds for payments made to prisoners held in Israeli jails, the PA has taken a decision not to receive any clearance revenue funds until the full amount, prior to the deduction, is provided in full. Unless the transfer of clearance revenue is restored, the Palestinian economy and indeed the PA will be in peril in a matter of months. **In order to ensure the fiscal and financial stability of the PA, and the viability of the Palestinian economy, the parties are encouraged to find a framework that allows for the fiscal mechanism to continue.**
32. The Protocol mandates that Value Added Tax (VAT) on purchases should be transferred to the tax authority with which the respective business is registered. The collected VAT revenues would be jointly cleared by the GoI and the PA each month based on a clearance system defined by the Protocol. The current paper-based clearance mechanism on VAT is outdated and is considered to be a significant source of fiscal leakages for the PA. Although the Paris Protocol specifically provided for a move to an electronic clearance system, this shift has still not been implemented.
33. While the parties acknowledge that a joint electronic system is essential, differences remain on the approach to implementation. **The parties are encouraged to find a suitable resolution to the question of whether VAT transfers will be triggered at point of sale or by the movement of goods through transfer points.** Reaching an agreement on this issue will improve efficiency in the handling of VAT invoices and has the potential to reduce fraud and smuggling.
34. Until an agreement is reached on the approach, steps towards greater information-sharing and transparency on all bilateral trade can be taken.
 - **In Gaza, where the movement of goods is tightly controlled and more easily tracked, a shift to electronic clearance and recording of VAT should be put in place in the first stage on all goods moving through Kerem Shalom.**
 - Furthermore, VAT information from those participating in the "large trader" program is already captured electronically. **Information-sharing on the details of those transactions can assist the PA to ensure greater transparency and accountability in the reporting of income and collection of taxes.**
35. While the Protocol provides that the GoI will deduct a 3% handling fee to cover its administrative costs in collection and management of revenues for transfer to the PA, the PA and World Bank have suggested that the fee no longer reflects actual administrative costs

given the substantial increase in Palestinian imports since the time of the Paris Protocol.¹³ The parties have exchanged ideas on a potential future reduction, yet no agreement has been reached. **We encourage the parties to agree on a proposal for the reduction of fees as a provisional step that would support the PA's financial stability until the time is right for reaching a long-term agreement.**

36. According to an OQ study, an expansion of the A1 List of approved items for import from Jordan and Egypt is estimated to have the potential to result in up to \$425m in annual savings to the Palestinian economy, or alternatively, up to \$488m in tax revenue to the PA. Despite this, no action has been taken to address this issue. The current A1 list, which was originally drafted in 1994, was meant to be revised regularly by the Joint Economic Committee, to reflect the changing needs of the Palestinian market and economy. However, the list has yet to be revised, and remains outdated. An expansion of the list, and the introduction of cheaper imports to the Palestinian economy, when done in alignment with the Palestinian national economic strategies can generate greater revenue for the PA while reducing the cost of productive inputs for Palestinian industries. The Jordanian government has drafted a proposed list of items to be added to the A1 list, and the OQ has prepared a report analysing the potential impact of a Palestinian trade policy based on a revised A1 list. **The parties are encouraged to reconvene the Joint Economic Committee and engage in discussions to agree on an expanded A1 list.**

Security Coordination

37. Security coordination between the PA and GoI security establishments is proceeding in a professional manner, contributing to the overall security of both populations. Continued cooperation between the GoI and PA on security matters, particularly relating to the movement of PASF in the West Bank, has resulted in several positive developments. Still, more is needed to be done in order to improve security services for Palestinian communities in areas such as Jordan Valley, H2 and areas around those Jerusalem suburbs located outside the security barrier. The OQ, in partnership with the USSC, is working closely with the Israeli and Palestinian security forces to encourage both sides to undertake additional steps to improve current arrangements in order to address the current inefficiencies in the chain of communication, reduce PASF response time, and ensure effective delivery of police services and security to Palestinian communities throughout the West Bank.

Movement and Trade

38. The OQ continues to focus on the streamlining of processes and procedures that facilitate the movement of people and cargo within and beyond the Palestinian territory. For example, the door-to-door (D2D) program continues to improve the competitiveness of Palestinian private sector companies by reducing their transportation costs and improving their ability to dependably meet their customers' delivery schedules. This has led to significant increases in their sales, savings in excess of \$1,000,000 and the creation of 240 new jobs. The installation of facial recognition technology at Allenby/King Hussein Bridge (A/KHB) and the anticipated issuance of biometrically enabled Palestinian passports will, once implemented, expedite the travel of Palestinians to Jordan and beyond. To address the ongoing trade deficit, further

¹³ See the World Bank Report to the AHLC, dated April 19th, 2016.

<http://documents.worldbank.org/curated/en/780371468179658043/pdf/104808-WP-v1-2nd-revision-PUBLIC-AHLC-report-April-19-2016.pdf>

efforts are needed to make Palestinian exports more competitive. This can be achieved by identifying initiatives to further reduce transportation costs and improving the Palestinian private sector expertise on processes and procedures at international gateways. Additionally, and as part of the OQ's new agreement with the Representative Office of Japan to support the Palestinian economy and enhance future economic development, the OQ is continuing its support to the Palestinian private sector and building the capacity of its institutions. The OQ is sharing its' technical expertise and its' strategic knowledge to support PALTRADE to further enhance its capacities and to open new markets for Palestinian products in CEAPAD countries. The situation in Gaza remains extremely serious, with 52% unemployment rate in 2018, and particularly high levels among young people (15-29 years of age) of 69%.¹⁴ This highlights the need to further ease the restrictions on the of movement of goods and people into and out of Gaza. Our current efforts in this regard focus on the export/transfer of processed foods, supporting improvements at the Karam Abu Salam crossing into Gaza and studying the quantifiable demand for a second crossing into Gaza at Erez.

Biometrically enabled Palestinian passports

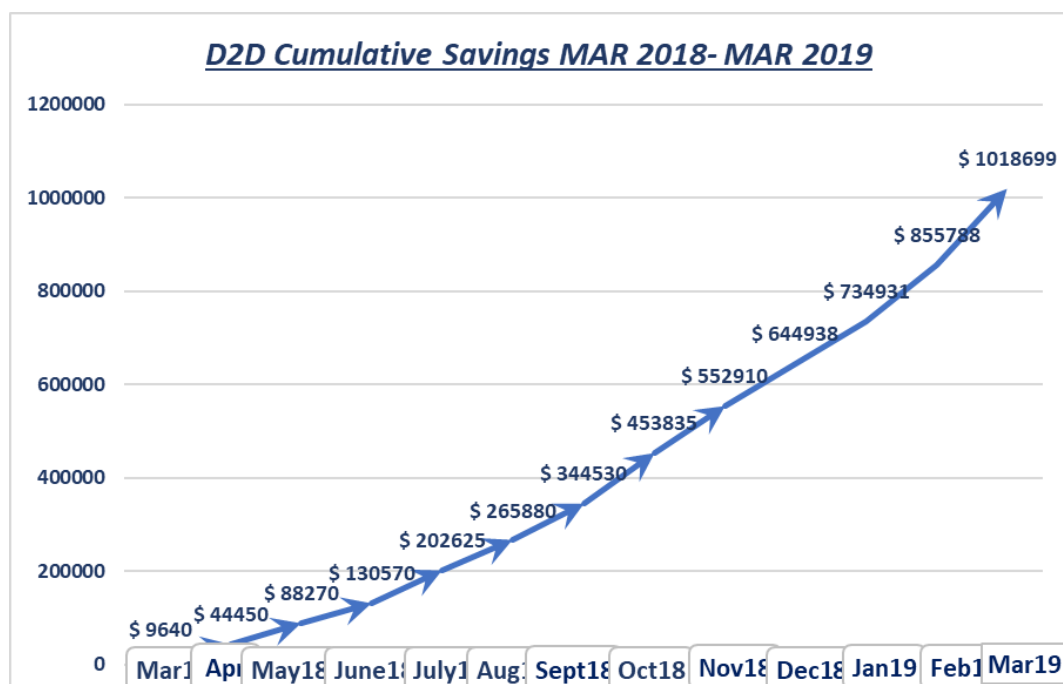
39. On 10 December 2018, the Palestinian Authority Ministry of Interior (PA Mol) confirmed that Israeli authorities approved the issuance of biometrically enabled Palestinian Passports. Biometrically enabled passports are highly secure, improve the security of Palestinian travellers, minimize risk, allow for the expedited movement of travellers and eliminate unnecessary delays. The PA Mol advised that the equipment to enable the issuance of the passports arrived at Ashdod port on 28 of February 2019. The equipment is currently awaiting release from Ashdod, pending approval from COGAT, the Israeli Standards Institute and an official letter from the Israeli Customs authority granting waivers on the customs duties for the equipment. The PA indicates that it issued a formal request to Israeli Customs authority on 21 of February 2019, requesting to waive all customs duties on the equipment. The stated goal of the PA Mol is to begin issuing the biometrically enabled passports by September 2019. **The announcement of the issuance of biometrically enabled Palestinian passports is welcome, and efforts to enable the quick implementation of this initiative are now essential.**

Door to door and trade facilitation

40. Since its inauguration in March 2018, the Door to Door (D2D) program has resulted in significant savings, cost reductions and job creation for the participating companies from the Palestinian private sector utilizing the Tarqumiya crossing point. During the first year of this trade facilitation mechanism, based on internationally accepted best practices, 5,368 loaded trucks left the West Bank door to door, resulting in a cost savings of \$1,018,699. The average time for a D2D truck to transit the crossing point was reduced from an average of three or four hours to an average of 7-10 minutes. All the companies reported improvements in the predictability of their shipments reaching their destinations in Israel in a timely manner, increasing sales and thereby creating 240 new jobs. **The parties are encouraged to continue to expand this programme with a target of 30% of all shipments leaving the West Bank using**

¹⁴ GISHA. "Unemployment rate in Gaza reached new record-high of 52 percent in 2018". <http://gisha.org/updates/9840>

this procedure. In addition, as discussed below, we are developing a program to extend the benefits of door to door to the Allenby/King Hussein crossing into Jordan.



Graph 1. D2D cumulative savings from March 2018 – March 2019

The Allenby/King Hussein Bridge crossing

41. Allenby/King Hussein Bridge (A/KHB) is the only consistently available international gateway for cargo exiting the West Bank to Jordan and beyond as well as for Palestinian imports coming from Jordan and the Gulf. The cargo processing workload has doubled since 2014. In 2018, approximately 64,551 truckloads were processed at A/KHB compared to 31,683 truckloads in 2014.¹⁵ **The parties are encouraged to consider applying internationally accepted best practices to improve efficiency in cargo processing and eliminate delays.** A door-to-door type initiative at A/KHB has the potential to improve the quality of the exported goods, save approximately 30-35% in transportation and logistics costs, reduce damage associated with loading and offloading and can help increase the competitiveness of Palestinian products. The proposed program will eliminate the back to back process for low risk agricultural shipments by allowing secure and empty refrigerated Jordanian trucks from approved companies to enter Israel destined for specific and secure locations in the Jordan Valley to pick up fresh produce, herbs, and dates from select low risk growers for delivery to Jordan and beyond.
42. A/KHB also serves as the only consistently open international gateway for approximately five million Palestinians. Assuming a modest increase in the number of passengers over the next four years, of ten 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. As of the end of January 2019, the Israeli Civil Administration advised that the facial recognition technology

¹⁵ Data Source- The Israeli Airports Authority (IAA)

has been installed at A/KHB and is now operational. This has the potential to expedite the movement of Palestinian travellers through Allenby. A key future component of the biometric processing will be the installation of the “smart gates”, by mid-2019 which will help further streamline the movement of passengers. **The parties are encouraged to continue working on current and future streamlining initiatives which would help expedite and facilitate the passengers’ experience at A/KHB.**

Grow Gaza Trade

43. The OQ continues its efforts to support the overall economic situation in Gaza, with special emphasis on the processed foods sector. **The parties are encouraged to move forward with discussions between their respective Ministries of Health regarding sensitive and non-sensitive lists of products and ways to monitor quality assurance of processed food companies in Gaza. This will support efforts to create additional job opportunities in the processed food sector which previously employed in excess of 100,000 individuals.** The parties are also encouraged to facilitate the passage of a pilot shipment of non-sensitive items from Gaza to the Kingdom of the Netherlands.
44. The efficient movement of goods into and out of Gaza remains essential. Efforts are currently underway to improve the Karam Abu Salam crossing to incorporate a shaded area to reduce damage to goods passing through Kerem Shalom. The donor community is encouraged to support the Palestinian General Administration for Crossings and Borders (GACB) plan to upgrade the Karam Abu Salem commercial crossing into Gaza.

Economic Mapping

45. It is essential that the PA has an enhanced ability to plan in both the West Bank and Gaza. It is therefore central that information asymmetries be reduced by filling data gaps and promoting integrated systems. By building data visualization applications it is possible to increase the reach of data for strategic planning in every sector. In order to address information gaps the workstreams outlined below have been identified:
 - With the Palestinian Central Bureau of Statistics (PCBS), the development of the Indicators.ps web application continues. Indicators.ps is tailored to publish census data, leveraging a combination of multidimensional historical data, statistical algorithms, and visualizations to discover emerging patterns and trends. The application will be launched for public use in mid-2019, and handover of the application has begun with OQ training of the IT team at PCBS.
 - In early 2019, the OQ received a request from the Ministry of Agriculture (MoA) to support the creation of a Farmers Registry. This tool will further data collection capacities particularly related to agricultural holdings, production, and productivity. Without integration, MoA’s stand-alone databases compound data discrepancies and impede data-based planning for MoA’s agronomists. Final handover of the tool to MoA is scheduled for early 2020, where it will be maintained and deployed in accordance with preparations jointly developed by the OQ and MoA.
 - The interoperability between pMaps, Indicators.ps, and the Farmers Registry exemplifies the integration the OQ promotes as it expands its work with Palestinian partners. The OQ continues to support the National Spatial Data Infrastructure (SDI) initiative, including through a capacity-building secondment to the Ministry of Local Government’s GeoMoLG team. Support to the SDI’s Working Groups advances standardized data practices

between Palestinian data producers (PCBS, MoA, etc.) and provides a sound legal framework.

46. The Economic Mapping project continues to draw upon the potential of data for evidence-driven planning across Palestinian sectors. As the existing projects progress, the benefits data integration offers will multiply opportunities for partnership with additional ministries.