



Office of the
Quartet

**Report on the Activities of the Office January 2019 -
December 2019**

December 27, 2019

Foreword

This report outlines the work of the Office of the Quartet (OQ) from January to December 2019, identifying those areas where progress has been realized and those where challenges remain, in the sectors in which we work: energy, water, governance and rule of law, movement and trade and telecommunications as well as economic mapping.

The office focuses on supporting the parties in their engagement, in an effort to help them realize agreements and progress in a manner that benefits Palestinians and, by extension, Israelis. Such progress is essential, but it can only support and never supplant final status negotiations.

The reporting period has seen a further expansion in the office's engagement with the parties, yielding progress in a number of areas, but still far short of the transformational change that is needed on the ground. We have maintained our focus on those areas which potentially yield a quick impact, but which are also central to achieving a broader structural outcome, which have a multiplier effect and most commonly are issues that require the engagement of both parties.

The past year has seen many challenges including the decline in donors' direct budget support to the PA, lack of progress in Palestinian reconciliation and – at the time of writing – the absence of a new government in Israel following a second round of elections. While the environment remains challenging, especially in the absence of a political process, and changing regional dynamics, there are nevertheless a number of areas where the OQ, working with key international partners, has engaged:

1. Supporting successful commissioning of the Khan Younis Wastewater Treatment Plant (WWTP), the completion of the Gaza Short Term Low Volume Desalination Plant (STLV) and the expansion of the Deir al Balah STLV. The Gaza Middle WWTP and the expansion of the Southern STLV are close to completion. This progress requires a focus on the sustainability of these facilities, including the ability to meet the operations and maintenance costs for them. In this regard, the Palestinian Authority's (PA) commitment to provide the energy required for the operation of these facilities is welcome.
2. Enabling progress in realizing the Gaza Central Desalination Plant and Associated Works program (GCDP & AW), including securing the total funding required, developing and implementing arrangements for the entry and monitoring of 'dual-use' materials, approvals of all materials of the AW, and the start of construction of the AW's southern connection point – which can provide up to fifteen million cubic meters (MCM) of water once complete. This will make a material difference to Gazans, but as importantly the precedents set through this improved process will now enable the more efficient completion of other ongoing and future water work in the Gaza Strip.
3. Conducting a comprehensive review of the status and outstanding challenges for all components of the Palestinian Water Authority's (PWA) Water and Wastewater Packages, which was included as an Annex to the OQ's September report to the AHLC.
4. Working towards increasing the bulk supply of energy to the Gaza Strip, including continued progress on the Gas for Gaza (G4G) project. It is now critical that decisions on the commercial structure of the project be taken in the coming months. In addition, efforts to identify and develop

utility-scale solar photovoltaic (PV) projects in Gaza have advanced, some of which would deliver energy to water infrastructure.

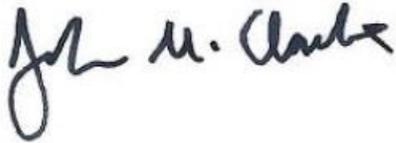
5. Updating the Electricity Agreement Implementation Plan which sets out the next steps in developing the sector through to 2023. Regrettably energy sector reforms continue to be held up by ongoing delays in the signing of a Power Purchase Agreement (PPA).
6. Expanding the Door to Door (D2D) trade facilitation program (which has already reduced cost and transit times for Palestinian manufactured goods from the West Bank to Israel and beyond) to include companies from the northern West Bank. A similar program is now being developed to serve Palestinian exports to and via Jordan with the aim of replacing the current back to back process with a D2D mechanism.
7. Supporting the Conference on Cooperation among East Asian Countries for Palestinian Development (CEAPAD) trade development initiative, Palestinian-Indonesian business to business ties have been advanced through a formal Memorandum of Understanding between the Palestinian Federation of Chambers of Commerce and its Indonesian counterpart as well as through a joint effort to secure an Indonesian exemption of custom duties for Palestinian goods.
8. Supporting efforts to increase exports from Gaza, and in close collaboration with the Netherlands Representative Office, a number of Gazan processed foods companies have embarked on exporting a pilot shipment of goods to the Netherlands.
9. Supporting discussion between the parties on the resumption of Israel's transfer of Palestinian Clearance Revenue and the associated issues, including increasing the transparency of the process of calculation of deductions, the extension of the recent *ad hoc* decision regarding the 'blo' or excise tax on fuel into a permanent arrangement, and encouraging the re-engagement of the parties on a number of outstanding fiscal files including the transfer of customs, agreeing and deploying an e-vat system, and the handling fee charged by the Government of Israel (GoI).
10. Supporting the Palestinian Authority Security Forces (PASF) ability to serve Palestinian communities in Areas B and C improved again over the course of the year and maintaining recently established movement and access parameters.

The report offers a fuller treatment of these issues and as, if not more importantly, reflects on those areas where progress has been slower than hoped, including *inter alia* the finalisation of the Red-Sea Dead Agreement, signing the PPA, the shift to 3G in Gaza and 4G in the West Bank, and progress in resolving some of the fiscal files already referred to above. In water and energy, the long-term sustainability of any intervention requires progress in ensuring the commercial viability of the sector. Due to the severe economic and political situation in the Palestinian territory, this remains a core challenge for both sectors. Working across sectors and institutions, the OQ continues to work to expand the capacity for cost-recovery and sustainable operations of facilities while also working to advance institutional reform.

The coming year will undoubtedly bring further challenges, but the OQ remains committed to supporting the parties to achieve progress. To that end, I thank the growing number of donors that supported the office's work over the past year, including the Kingdom of the Netherlands, the United Kingdom of Great Britain and Northern Ireland, the European Union (EU), the United States of America, Japan, Canada, New Zealand, and United States Institute of Peace (USIP).

We look forward to continuing our work with the parties, Quartet members, donors and the international community in the coming year.

Sincerely,

A handwritten signature in black ink, appearing to read "John N. Clarke". The signature is written in a cursive, slightly slanted style.

Dr. John N. Clarke
Head of Mission
Office of the Quartet

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Acronyms

A/KHB – Allenby/King Hussein Bridge
ARA – Access Restricted Area
ASYCUDA – Automated System for Customs Data
AW – Associated Works
AfD – French Development Agency
CEAPAD – Conference on Cooperation among East Asian Countries for Palestinian Development
CMWU – Coastal Municipalities Water Utility
CoGAT – Coordination of Government Activities in the Territories
D2D – Door to Door
DFID – Department for International Development (UK)
EIB – European Investment Bank
EU – European Union
G4G – Gas for Gaza (project)
GCDP & AW – Gaza Central Desalination Plant and Associated Works
GEDCO – Gaza Electricity Distribution Company
GoI – Government of Israel
GPP – Gaza Power Plant
ICA – Israeli Civil Administration
IEC – Israel Electric Corporation
IsDB – Islamic Development Bank
ITIL – Information Technology Infrastructure Library
KAS – Karem Abu Salem / Kerem Shalom
MCM – Million cubic meters
MoF – Ministry of Finance
Mol – Ministry of Interior
MTIT – Ministry of Telecommunication and Information Technology
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
PV – Photovoltaics
PWA – Palestinian Water Authority
SDI – Spatial Data Infrastructure initiative
STLV – Short Term Low Volume Desalination Plant
UNDP – United Nations Development Program
USIP – United States Institute of Peace

VAT – Value Added Tax

WB – World Bank

WBWD – West Bank Water Department

WWTP – Wastewater Treatment Plant

Work by Sector

The following sections provide an update on each of the five sectors in which we work, as well as economic mapping, organized around the strategic objectives outlined in the [OQ's strategy for 2018-2020](#).

I. Water

1. The OQ's Water Team has continued its work to address essential needs, mitigate environmental challenges, and enable economic development. Through a holistic approach, the OQ supports three mutually reinforcing objectives: a) securing reliable water supply, b) enhancing water and wastewater infrastructure, and c) ensuring the commercial and financial viability of the sector.

Securing reliable water supply

2. Over this reporting period, noteworthy progress was achieved with the Gaza Central Desalination Plant and Associated Works Program (GCDP & AW), which will provide 55 MCM of potable water to Gaza by 2023. This progress includes, *inter alia*, fully bridging the outstanding funding gap for the program; receiving upfront, one-time approvals for all 'dual-use' materials, excluding telecommunication and chemical materials, of the entire AW program; advancing the tendering for the GCDP; and selecting contractors and beginning construction for the first component of the AW.
3. The primary mechanism by which the OQ has supported this program is through facilitating the Task Force (TF), which saw noteworthy developments this year.¹ In a TF meeting held on 5 March 2019, it was agreed that the TF will serve as the primary platform for sharing information, advancing approvals for entry of materials, and discussing challenges relevant to the implementation of the program. Further, the PWA and COGAT agreed to sign TF meeting minutes, which will serve as the basis for special arrangements required for GCDP & AW.
4. In 2019, the OQ held five formal TF meetings, two technical meetings of the TF, and several bilateral meetings with TF members to prepare for and follow up from TF meetings. Minutes from the first three meetings have been signed by both parties, as well as the OQ, which set forth a series of arrangements for the approval, entry, and monitoring of materials for the GCDP & AW. These arrangements build upon the existing Gaza Reconstruction Mechanism (GRM), but enable a more efficient, transparent, and accountable mechanism considering the scale and nature of the program.² Arrangements include, for example, a *Capsule Model* for material entry, which enables one-time, upfront approvals for all materials, which will be submitted to one Gol institution – COGAT – via the TF platform. The remaining two meeting minutes are complete but have not as yet been signed. Nonetheless, the arrangements agreed within the TF have begun to be implemented – for example the approval of all 'dual-use' materials of the AW, excluding

¹ The TF's permanent members include the PWA, the Government of Israel's (Gol) Coordinator for Government Activities in the Territories (COGAT), the EU, and the World Bank (WB). Ad hoc members, which join relevant TF and/or technical meetings include the Palestinian Authority's (PA) General Authority of Civil Affairs (GACA), the European Investment Bank (EIB), UNSCO, UNOPS, the Union for the Mediterranean (UfM), and the GCDP & AW consultants: Fichtner and Lotti.

² Prior to the relaunch of the TF, the OQ also coordinated with UNSCO in its preparations for the joint review of the GRM, whereby new arrangements were agreed between COGAT and GACA on the full GRM. Some of these arrangements built upon the improvements identified by the OQ in 2017-2018.

telecommunication and chemical materials, (even before the contracting process has begun) using the *Capsule Model*. Further, the TF has initiated discussions on arrangements for importing materials by sea and conducting the needed maritime works for the desalination plant. In the TF meeting in August, relevant Gol institutions, including the Israeli Navy, discussed the potential arrangements for this work, and, at the ministerial meeting of the AHLC in September, the Gol announced that in a few weeks an agreement for works in the sea should be reached. The Gol suggested arrangements for agreement are yet to be communicated with the PA and the OQ.

5. The OQ further supports the implementation of the GCDP & AW through its active engagement in stakeholder coordination meetings. In this regard, the OQ participated in meetings held in Brussels in January and April of this year. In addition, the OQ has continued to advocate for the disbursement of funding, particularly with the Islamic Development Bank (IsDB), where we are hoping for positive developments in the coming months.³ The OQ also facilitated the implementation of a risk assessment for the area of the GCDP and the off-site solar PV system of the program, which was conducted *pro bono* by United Nations Mine Action Services (UNMAS).
6. In addition to supporting the GCDP & AW, at the request of the parties the OQ has supported the revival of the Red Sea Dead Sea discussions, including through participation in an April 2019 meeting between the parties. While the meeting saw significant steps in bridging many outstanding issues within the agreement, the process did not continue and as a result a number of issues remain unresolved. The OQ has continued to work with the parties bilaterally to address these outstanding issues.
7. More broadly, the OQ has continued to build on the analysis that began in 2018 related to the current and future projections for water supply and demand in the West Bank and Gaza. Through this analysis, the OQ supported the PWA in its preparations for the hydrological discussions (facilitated by the United States in January) and the Trilateral meetings (facilitated by the Kingdom of the Netherlands in January and December). The OQ works with key stakeholders to develop and update analyses based on emerging developments in the sector in order to support these discussions.
8. In an effort to support improved coordination of water sector stakeholders, the OQ conducted a comprehensive review of the status and outstanding challenges for all components of the PWA's Water and Wastewater Packages, which was included as an Annex to the OQ's September report to the AHLC. Further, the office has continued its advocacy with the Gol on these packages and its components and have been encouraging COGAT, the Israeli Ministry of Regional Cooperation, and the Israeli Water Authority to engage in discussions on these packages.

Enhancing water and wastewater infrastructure

9. This year saw significant progress in the completion of critical infrastructure projects in Gaza.⁴ All six major water and wastewater facilities in Gaza are facing challenges related to operation and

³ The OQ has supported these efforts by developing relevant analyses and presentations and sharing key program updates. For the IsDB, this includes sharing updates related to the security of the infrastructure vis-à-vis Israeli operations, energization of the facility, and material approvals.

⁴ Progress included the commissioning of Khan Younis WWTP, the completion of the Gaza Short Term Low Volume Desalination Plant (STLV) and the expansion of the Deir al Balah STLV. The Gaza Middle WWTP and the expansion of the Southern STLV are close to completion.

maintenance (O&M), including issues around governance, funding for operations, and energization. The OQ has worked with all relevant stakeholders to gather information on the situation, including the PWA, the Coastal Municipalities Water Utility (CMWU), as well as relevant donors and implementers at each facility. The data collected by the OQ has informed the team's analysis on O&M financial needs over the next five years, which has been adopted by the PWA and the CMWU and started building consensus on O&M needs among stakeholders. In parallel to this analysis, the OQ encouraged the CMWU to develop and complete a cost-recovery plan. This analysis, which was adopted by the PWA, is assisting the various institutions in clarifying roles and responsibilities in the sector, which will help ensure the long-term sustainability of these facilities and could also eventually support the development of the PA water sector reform. The analysis will serve as a basis of the discussions within the Gaza thematic group on O&M.

10. As part of the O&M efforts, the OQ shared its analysis with key stakeholders to help inform decision making on the financial and governance challenges facing the Northern Gaza Emergency Sewage Treatment (NGEST). Unfortunately, in September, operations were disrupted for four weeks due to a shortage in funding. The OQ worked with relevant stakeholders, including the PA Prime Minister's Office, the PWA, and the PA Ministry of Finance (MoF), to push forward arrangements to absorb emergency funding secured from the French Development Agency (Afd). While this contribution is welcome, the OQ is continuing to advocate for long-term solutions to ensure sustainable O&M, in line with the planned sector reform.
11. One key requirement for long-term sustainability of infrastructure in Gaza is securing energy for full operation. The OQ has worked with all relevant stakeholders to map out the energy needs of all facilities and has advocated with relevant PA parties to discuss energization scenarios and arrangements to secure the needed supplies. This also included advocacy with broader sector stakeholders, including Egypt and Qatar. The OQ conducted complimentary analysis on the O&M cost-savings and potential for developing renewable energy for water and wastewater facilities across the Palestinian territory, which was presented at the Union for Palestinian Water Service Providers conference in April.

Ensuring the commercial and financial viability of the sector

12. The OQ's work on O&M of key infrastructure is inextricably linked to the commercial and financial viability of the sector; furthermore, the introduction of additional sources of potable water supply provides a unique opportunity to improve the collection efficiency for water and wastewater services in Gaza. The OQ conducted a series of consultations and desk research to develop supporting documents for a proposed pilot District Metering Area (DMA) in Gaza, for which designs have been developed as part of the AW program. This pilot could support in improving billing and collection systems and reducing non-revenue water, utilizing the momentum from significant development in the sector. This, in turn, would support the O&M of water and wastewater facilities, and also set precedents for additional efforts to improve the commercial viability of the sector as a whole.
13. The OQ has also launched a study on the affordability of water and wastewater services in Gaza, examining the willingness and ability of consumers to pay for potable water. The analysis will also develop scenarios for tariff adjustments and subsidies that would enable further cost-recovery, as additional water infrastructure projects develop, including the GCDP & AW. To complement this analysis, the OQ has also launched a study on pre-paid meter deployment in Gaza. The overall

aim of this study is to assess the feasibility and potential impact of installing pre-paid meters for water consumers in Gaza and to help develop a pilot program accordingly.

14. The OQ supplements its efforts on the bulk level with interventions that address commercial viability issues on the service provider level. In this regard, the OQ began this year by facilitating an economic analysis on the financial viability of service providers in the West Bank and Gaza in partnership with the Water Sector Regulatory Council (WSRC). While significant investment and effort was invested into this analysis, the outputs did not meet expectations; however, this experience served as a basis for the OQ's understanding of key areas for further development. A new plan was formulated, whereby the OQ began a more comprehensive review of financial data of service providers from the WSRC and has initiated research into implementing a benchmarking system for service providers across the Palestinian territory, prioritizing financial and economic efficiency indicators to incentivize performance improvements.
15. The OQ worked with the PWA and the West Bank Water Department (WBWD) to assess the feasibility of an integrated asset management and information system for the bulk water system in the West Bank. A series of meetings were held with key experts in the field, the PWA and WBWD, with hopes of developing a pilot program. It was concluded that there was not enough capacity within these institutions to receive this assistance at this time. While this work stream has been put on hold for now, it supported the OQ in developing its understanding of the institutional roles and potential areas of development in line with the water sector reform.

II. Energy

16. The OQ works with the parties, the international community and the private sector to facilitate solutions for the energy sector with a particular focus on the following three main components:
 - a. increasing and diversifying the generation and supply of energy;
 - b. developing enabling infrastructure and;
 - c. supporting the commercial viability of the sector.

While the OQ works across the entire sector, the office has taken on particular responsibility for three key areas that are central to the sector's development: the Gas for Gaza (G4G) project which facilitates the construction of a gas pipeline connecting Gaza to the Israeli natural gas network; the development of solar photovoltaic (PV) projects to improve energy independence and reliability; and the implementation of the 2016 Electricity Agreement. Each of these areas are addressed in greater detail below.

Increasing and diversifying the generation and supply of energy

17. The central solution to Gaza's energy crisis and critical component for sustainable economic growth remains the provision of gas to the Gaza Power Plant (GPP) through the completion of a pipeline from the Israeli natural gas network to Gaza. The G4G project is managed through the formal Task Force platform, which brings together all relevant parties, including the PA and Gol. The Task Force operates with the close engagement of the Kingdom of the Netherlands, which

has provided extensive support to the project. In addition, in 2018 the European Union (EU) announced their support to the project.

18. During the reporting period, progress on the G4G project has continued, although there have been delays in the overall timeline such that completion is now expected in 2022/23. The following project milestones were achieved during the reporting period:

- a. In Israel, the zoning phase of the pipeline (TAMA) was completed;
- b. The funding for the detailed design in both Israel and Gaza was secured thanks to the Kingdom of the Netherlands;
- c. The PA was presented with clear options for the project's commercial structure in collaboration with external consultants, International Financial Institutions (IFIs) and donors;
- d. The Gaza Impact Assessment Study was completed, identifying the impact of the G4G project on the economy, society and the environment in Gaza.

19. The tenth full plenary G4G Task Force Meeting was convened by the OQ on 8 July 2019. The parties agreed on the following critical actions, on which progress is required in parallel:

- a. establishing the commercial structure of the project in the coming months, thereby enabling commercial negotiations to commence with the relevant parties;
- b. commencing the detailed design phase in Israel and Gaza in the coming months;
- c. undertaking an Environmental and Social Impact Assessment (ESIA); and
- d. securing financing for the pipeline construction phase, estimated at 80-100 million USD.

20. The OQ, in support of the PA and in cooperation with the GoI, is investigating the potential for utility-scale solar PV plants in Gaza. The study is focused on the three southern governorates: Deir Al Balah, Khan Younis and Rafah. Five sites have been identified for the potential development of utility-scale solar PV, including sites which could supply water and wastewater infrastructure. Pre-feasibility assessments have now been carried out at each of these sites. The five sites identified include:

- Sites 1 & 2: Near the Khan Younis Wastewater Treatment Plant (WWTP);⁵
- Sites 3 & 4: Near the Al Basa Sewage Water Pumping Station (AB SWPS);
- Site 5: Located in the Access Restricted Area (ARA or "buffer zone") that is adjacent to the Gaza-Israel security fence.

⁵ These sites are being explored with PENRA in co-operation with United Nations Development Program (UNDP), the implementing organization for the Khan Younis plant.

21. Solar projects located near water infrastructure have been designed to supply energy to these water facilities. Surplus electricity would be injected into the grid under a net metering arrangement with Gaza Electricity Distribution Company (GEDCO). Site 5 is designed to inject electricity directly into the local distribution grid – such a project would be a first in Gaza and could be considered a pilot for developing more projects of this type.
22. Development of three solar projects (one in each area) could add an additional 17 Megawatts (MW) of solar capacity in Gaza and generate up to 31 GWh of energy per annum, equivalent to supplying 8,550 households.
23. The OQ, in cooperation with the relevant PA Ministries, is now seeking to identify and engage with landowners at the respective sites. The site locations have also been endorsed by the Coordination of Government Activities in the Territories (CoGAT), subject to some adjustments to Site 5. Moving forward, the OQ plans to undertake full feasibility studies and support the Palestinians in engaging with potential project funders.⁶ Subject to these matters progressing as planned, it is estimated these projects could be completed within a 24-month period (by Q3 2021).

Enabling infrastructure

24. During the reporting period, the OQ has continued to support the efforts of a number of other key actors to secure additional supplies of electricity for Gaza, including:
 - a. The establishment of a 161-kV electricity line from Israel to Gaza. While the line would take up to three years to reach its full capacity, it is hoped that it could potentially supply 25 MW within 12 months. Progress on the ground has yet to be realized and there is a need to agree on the costs, timelines, commercial arrangements and technical requirements to complete this line.
 - b. The restoration and upgrade of the Egyptian lines to Gaza. In the short term, an additional 27-30 MW could be secured immediately.⁷ Further infrastructure upgrades could provide a total of 50 MW in the medium term and up to 100 MW in the longer term.

Supporting commercial viability

25. Implementation of the September 2016 Electricity Agreement (hereafter the Electricity Agreement) has progressed slowly. The signing of the Power Purchase Agreement (PPA) between Palestinian Electricity Transmission Limited (PETL) and the Israel Electric Corporation (IEC) continues to be delayed.
26. The OQ is supporting the implementation of the Electricity Agreement, which will see:
 - a. the Palestinians assume increased control and responsibility over the electricity network in the West Bank;

⁶ On July 8, 2019 a Dutch Energy Tri-lateral meeting of Palestinian and Israeli representatives was held in Jerusalem with a focus on renewable energy developments, including discussions on the Dutch-funded Gaza solar pre-feasibility study.

⁷ According to PENRA sources, only 17 MW of electricity reaches Gaza because of technical losses.

- b. improved commercial viability of the sector through resolving outstanding debt to the IEC, agreeing a reduced bulk power purchase tariff and improving payment mechanisms.
27. The OQ facilitated the development of an Electricity Agreement Implementation Plan to ensure timely compliance with deliverables, as well as an “Electricity Agreement Tracker” to better manage daily progress. An update of the Implementation Plan was recently completed, taking into account recent sector developments and identifying recommendations for donor interventions during 2019-2023. Full implementation is contingent on conclusion of the PPA and securing an estimated 19 MUSD to support various initiatives.⁸
28. The financial viability of the energy sector is a prerequisite for attracting new investment and increasing supply in both the West Bank and Gaza. To this end, efforts to ensure a speedy and effective reform of GEDCO are critical. The OQ will continue to work with partners including the EU to support these efforts.

III. Movement and Trade

Allenby King Hussein Bridge

29. The Allenby/King Hussein Bridge (A/KHB) is effectively the only available international gateway for Palestinians in the West Bank and Gaza. Years of double-digit annual increases⁹ in the number of passengers utilizing the bridge, particularly during the peak summer travel season, have led to considerable congestion and delays for travelers.¹⁰ In support of the PA effort to effectively address current as well as projected passenger volume, the OQ Movement and Trade team has been collaborating with the Palestinian General Administration for Borders and Crossings (GABC) to identify a set of helpful measures. The 24-hour operation of A/KHB was identified as key measure in this regard and has been adopted as a permanent measure in September 2019,¹¹ after initial implementation was limited to the peak summer season beginning in 2017. Before the implementation of the 24 hours/5 days initiative, the A/KHB operated 16.5 hours a day (weekdays) and for 7 hours a day on Fridays and Saturdays. This measure has been shown to be particularly relevant for onward travel through Jordan, in particular for travelers continuing their onward travel from and to Queen Alia Airport. While the expansion of operating hours at A/KHB has helped to mitigate passenger congestion at the crossing, with the current travel growth rates further measures are being explored to accommodate the projected volume of traffic.
30. The PA has led an effort to enable the issuance of biometrically enabled passports. In December 2018,¹² Israeli authorities approved the issuance of such documents. In addition to meeting international standards, biometrically enabled travel documents are expected to significantly expedite movement of travelers at domestic and international ports as well as more effectively counter identity fraud. While the relevant equipment has been procured by the PA and arrived at

⁸ PENRA’s initial financial needs for the Implementation Plan (2019-2023) amount to an estimated 18.94 million USD. Additional investments in new high-voltage substations will require further funding of 90.5 million USD.

⁹ Israeli Airport Authority (IAA).

¹⁰ Increase by 90% from 2005 – 2015 (915,000 traveler in 2005 vs.1,750,000 traveler in 2015) – IAA statistics

¹¹ Confirmed by the PA General Administration for Borders and Crossings and the Israeli Civil Administration (ICA) to the OQ.

¹² As relayed by CoGAT to PA Ministry of Interior (MoI) and MoCA.

Ashdod port on February 28, 2019, it has not yet been cleared to enter for delivery to the PA. The PA Ministry of Civil Affairs is engaging the relevant Israeli authorities to expedite its release and the OQ is supporting these efforts with the parties and the international community.

Door to Door and Trade Facilitation¹³

31. During the reporting period, the OQ has continued to engage the Palestinian private sector to identify further companies that are interested in the Door to Door (D2D) program. As of July 2019, the trade facilitation program expanded to the north of the West Bank, another concrete step to significantly reduce transportation costs and thus help increase the competitiveness of Palestinian products in both the Israeli and international markets.
32. During the first 21 months of this program, over 12,000 truckloads were processed utilizing the D2D program, resulting in cumulative cost savings of over 1.8 million USD.¹⁴ In addition, the reported value of products transferred utilizing the D2D program has exceeded 6.8 million USD in November 2019. The average time for a D2D transit at Israeli checkpoints was reduced from three and half hours to fifteen minutes.¹⁵ By removing these trucks from the back to back process, the size of the queue for non-participating companies in the D2D program has also been reduced. Ultimately the efficiencies realized may make Palestinian goods more competitive and thereby increase the prospects of increasing exports to Israel and other third countries thereby reducing the 5:1 trade deficit of the Palestinian economy (see para 36).

D2D to Jordan

33. A/KHB is the only international gateway for cargo exiting the West Bank to, and via, Jordan as well as for Palestinian imports coming from Jordan and the Gulf states. Cargo volume processed at A/KHB has doubled since 2014, from around 32,000 truckloads to over 64,000 truckloads in 2018. It is projected that around 72,000 truckloads will be processed at A/KHB by the end of 2019.¹⁶
34. In response to this growth and capitalizing on the experience gained through the ongoing D2D program serving manufacturers in the West Bank exporting to Israel, the OQ is promoting a trade facilitation initiative that would serve Palestinian exporters to, and via, Jordan which would eliminate the back-to-back process currently applied at A/KHB. The focus in the first instance is on enabling secured empty Jordanian refrigerated trucks to reach producers in the West Bank directly and proceed back to Jordan without interrupting the cold chain, which is critical for the successful and cost effective export of fresh produce, such as dates and herbs.
35. Progress on this effort has been reflected in the signing of an MoU between the PA and Jordanian Ministries of National Economy on July 7, 2019 expressing the intention of the parties to adopt a D2D type trade facilitation initiative for the movement of commercial goods between the West Bank and Jordan. In addition to having the potential to eliminate the cumbersome and expensive back-to-back system for the movement of commercial cargo through A/KHB, saving up to 30% in

¹³ The D2D program facilitates the movement of goods manufactured at various factories in the West Bank that meet Supply Chain Security Standards and transport their products directly from source to destinations in Israel or beyond with minimal inspection at Israeli checkpoints.

¹⁴ As reported by the 12 participating companies.

¹⁵ Based on input collected by OQ from participating companies.

¹⁶ Statistics provided by IAA

transportation and other logistical costs, the D2D initiative to Jordan may also substantially contribute to maintaining the quality of the exported goods and reduce damage associated with loading and offloading and thereby increase the competitiveness of Palestinian products in external markets.

Trade Development / CEAPAD

36. The Palestinian economy faced a 5:1 trade deficit in 2018 with imports valued at 6.5 billion USD and exports valued at 1.2 billion USD.¹⁷ While high transportation costs and cumbersome export procedures are identified as major challenges faced by Palestinian exporters, expanding export markets is also imperative to addressing this trade deficit. The fact that around 85% of all Palestinian exports in 2018 were destined to the Israeli market¹⁸ re-enforces the need to identify additional markets for Palestinian businesses and products.
37. The CEAPAD trade event conducted in July 2019 is a concrete effort to enhance trade with East Asian countries. By working jointly with local private sector development institutions, this initiative is helping introduce Palestinian businesses and products to East Asian markets as well as lay the foundations required to ensure the sustainability of future trade relations.¹⁹ The CEAPAD trade development initiative has, for example, helped facilitate the discussion between the parties to examine the exemption of all Palestinian products from Indonesian customs duties. In addition, the CEAPAD trade event linked private sector companies and institutions in Palestine with their East Asian counterparts, particularly in Indonesia and Malaysia, which culminated in the signing of an MoU between the Palestinian Federation of Chamber of Commerce and their Indonesian counterpart.
38. Furthermore, the OQ conducted training seminars aimed at enhancing the capacity of 38 Palestinian businesses to better comply with international export/import procedures.²⁰

Sustainable economic development in Gaza

39. Despite a politically complex environment in Gaza, the OQ continues to explore and advance efforts that can improve the economic situation. The processed foods sector has been identified as one of the sectors which could see significant growth from the resumption of transfers to its historical market, the West Bank, and where Israeli restrictions on these transfers can be overcome by addressing sanitary/phytosanitary (SPS) standards. For this purpose, the OQ, together with the NRO, have engaged CoGAT, the Israeli Ministry of Health, the Palestinian Ministry of Health as well as the Palestinian private sector to explore concrete steps that will enable the transfer of processed foods from Gaza to the West Bank. The discussions have resulted in identifying the adoption of ISO 22000 certification standards as acceptable to address Israeli SPS concerns. In April 2019, CoGAT committed to enable the transfer of a pilot shipment of processed foods to the EU. This commitment allowed the OQ to engage relevant parties, in particular the private sector, to formulate a process that can facilitate the systematic transfer of low-risk non-sensitive processed foods from Gaza to the West Bank.

¹⁷ Total Value of Registered Palestinian Imports, Exports, in Goods and Services, Net Balance and Trade Transaction, 2018 - PCBS

¹⁸ Main Indicators of foreign trade in Palestine 2017-2018 - PCBS

¹⁹ During the CEAPAD Trade Day event on July 3rd, 2019, 52 Palestinian companies from several sectors participated in the event.

²⁰ Four sessions benefitting over 20 companies were held by the OQ between February – April 2019.

Karem Abu Salem Development Project

40. Kerem Shalom/Karem Abu Salem (KAS) crossing is the only functional commercial crossing for the movement of goods in and out of Gaza. To protect commercial goods from damage, vandalism and fire hazards while also improving the safety and security of the crossing and its personnel, the Palestinian General Administration for Borders and Crossings (GABC) has developed a plan to upgrade the commercial crossing. The effort, which the OQ has been engaged in at various levels together with the Office of the United Nations Special Coordinator (UNSCO), was approved by CoGAT in March 2019 at an OQ convened meeting. At the request of the PA, the OQ will engage the international community members in support of this project.

Establishing a second commercial crossing for Gaza

41. Considering that Kerem Shalom/Karem Abu Salem crossing functions as the sole commercial crossing into and out of Gaza, the PA has highlighted its interest in exploring an additional commercial crossing located in the north of Gaza. A second commercial crossing, envisioned at Erez, for Gaza is expected to significantly reduce transportation costs for commodities destined to northern and central Gaza. Additionally, it can serve as alternative to Kerem Shalom/Karem Abu Salem during crisis and emergencies. At the request of the PA and with NRO support, the OQ has initiated a feasibility study to assess potential private sector demand and utilization for a second commercial crossing located in northern Gaza.

IV. Effective Governance and Rule of Law

Enhancing Fiscal and Financial Stability

42. The clearance crisis of 2019 had a major impact on all PA developments during this year. In February 2019, an Israeli law came into effect requiring the Gol to deduct “prisoner payments” from the Palestinian tax revenues which Israel collects and transfers to the PA. In response, the PA refused to accept any clearance revenue transfers unless they were transferred in full. As a result, no tax revenue transfers, which make up 65% of the PA’s budget, were accepted between February and July (following *ad hoc* understandings between the parties in August and October, the Gol transferred to the PA 2 billion NIS and 1.5 billion NIS respectively). At the request of the parties, the OQ has engaged both parties in an effort to address both the immediate causes of the crisis as well as the associated longer term issues, focusing on ensuring greater transparency in the process of deduction from Palestinian clearance revenue, extending the arrangement on the ‘blo’ or excise tax to become a matter of policy and working with the parties to resolve a range of fiscal files that have been discussed at considerable length between the parties. These include *inter alia* the transfer of customs authority, the resolution of an agreed E-vat system and an agreement on the handling fee charged. As with all other areas of the OQs engagement these will be pursued at both technical and political levels.²¹
43. Despite significant initial progress in bilateral discussions over the transfer of customs authority from the Gol to the PA, these discussions have stalled in 2019. During this time, the OQ continued

²¹ See <http://www.quartetoffice.org/files/OQ%20Clarke%20AHL%20Sep%202019%20plenary%20speech.pdf>

to shuttle between the parties to try to address the outstanding issues while during the recent Ministerial meeting of the AHLC the Gol recommitted to the transfer of customs authority. The Chair's summary also indicated a commitment to address the issue of e-vat.

44. To assist in preparing the PA for a future transfer of customs functions, the OQ, in cooperation with the United Kingdom's Department for International Development (DFID), finalized three assessments which include a series of recommendations developed by legal, IT, and customs experts:
- a. **Legal Assessment:** Customs laws serve as the basis for import and export regulation for any country. The current Palestinian legal framework for customs needs updating and development in order to prepare the PA for the assumption of new customs responsibilities. The principal findings of the legal assessment highlight the need to further regulate the processes for clearance, valuation, collection, risk management, and post-clearance audit. Furthermore, the assessment calls for the development of regulation of the work of customs brokers, including the definition and licensing of customs brokers and customs broker representatives, means of identification, and accountability processes. To follow up on the recommendations of the assessment, the OQ is working with the PA to develop policy guidance on future customs regulation and to formulate legal amendments and/or new laws to address gaps or shortcomings in the existing framework.
 - b. **IT Assessment:** The current PA Customs IT infrastructure and systems were assessed as they relate to a future transfer of custom functions. Amongst the main findings of the assessment is a need to upgrade the current version of the Automated System for Customs Data (ASYCUDA) used by PA Customs, to enable PA control of revenue collection, customs clearance and risk management. The estimated cost of this upgrade and accompanying training is 700,000 USD.²² Additional technical capacity trainings are needed for PA IT staff in areas such as database administration, Information Technology Infrastructure Library (ITIL) skills, SQL tuning, and SOClass usage (specialized platform for the secure distribution of government e-documents). These trainings are estimated to cost approximately 26,400 USD.
 - c. **Customs Capacity Assessment:** This in-depth assessment looked at the current PA customs functions, processes and procedures for Palestinian imports through Israeli international gateways, identified key inefficiencies, and proposed actionable solutions that aim to reduce the cost of importation for the Palestinian private sector, while protecting against potential loss of customs revenue, in a future transfer of customs functions. This assessment also evaluated the current PA customs capacity and needs as they relate to a future transfer of customs functions from Israel to the PA. Amongst the key recommendations are the adoption of a new customs clearance process (outlined in the assessment), and an increase in the number and level of trained, qualified customs inspection personnel to operate customs transfer points and bonded warehouses. It is estimated that 150 to 250 customs staff members will need to be trained. In terms of bonded warehouses to be established, three warehouses are proposed at a minimum, located respectively in the north, centre and south of the West Bank.

²² This was obtained based on a discussion between the author of the assessment and UNCTAD staff.

45. **Value Added Tax (VAT) Clearance Mechanism:** The current VAT clearance mechanism is subject to many structural weaknesses which derive from the inadequate implementation of the Paris Protocol and the lack of authority of the Palestinian customs police to operate in Area C to reduce smuggling and tax evasion. Furthermore, VAT leakage from the current mechanism is not only due to the outdated paper-based system, but also results from the reconciliation process being based on submitted rather than issued invoices. In 2019, the OQ conducted an initial analysis of the causes of fiscal leakages in bilateral PA-Israel trade. The analysis showed that the PA can generate significant additional revenue by adopting a number of internal measures that can reduce leakages, while continuing to negotiate bilateral measures with Israel.

Support for the Security Sector

46. In 2019, the OQ, in cooperation with USSC, worked with the Israeli and Palestinian District Coordination Offices on an effort to ease movement and access for the PA police and security forces, significantly shorten response times, and reduce conflicts in communications. Following successful efforts in Nablus, the effort continues to be expanded to additional governorates to ensure improved police service to Palestinian communities throughout the West Bank.
47. The OQ undertook an assessment of the Palestinian Customs Police, and a series of recommendations were developed that aim to enhance the ability of this force, which plays an important role in the collection or loss of revenue by the PA. Initial findings indicate that Customs Police mandate, which includes support for several partner institutions, including the MoF, the Ministry of Health, the Ministry of Agriculture, Ministry of Environmental Affairs, the Ministry of National Economy and the PWA, must be revised in order to enable them to most efficiently perform their tasks as a law enforcement agency protecting the Palestinian economy from smuggling and counterfeit goods, particularly in Areas B and C. The OQ's initial assessment of the force also highlights the need for professional training for Customs Police officers. The findings are to be presented to the PA for the development of an updated mandate that complies with international standards and best practices.
48. The OQ developed an initial assessment looking at the current mechanisms of cooperation between the Judicial Police and the Family Court system in underserved areas, including the Jerusalem suburbs, H2 area and the Jordan Valley. The assessment confirms that a lack of regular access by the Judicial Police to these areas results in the failure of the force to deliver judicial decisions pertaining to women and children within vulnerable communities, thereby jeopardizing their access to justice. The assessment also indicates that there are procedural deficiencies affecting the communication between the Judicial Police and the Family Court system. A series of recommendations were developed to improve the ability of the Judicial Police to enforce the decisions and orders of the Family Courts in these areas.
49. As a complement to the above efforts, the OQ developed several proposals for the expansion of PASF access to better serve these same underserved areas mentioned above (Jerusalem suburbs, H2 area and the Jordan Valley). The proposals have been shared with the PA and will be presented to the Gol.

Strengthening the Justice Sector

50. In 2019, the OQ continued to provide analyses of the trends, challenges and priority needs of the Palestinian justice sector, sharing regular updates on the justice sector, advising the PA and key donors to the sector, and helping guide donor strategy on Palestinian rule of law issues. After a period of few positive developments within the justice sector, the establishment of the Interim High Judicial Council in July 2019 presented an opportunity for engagement with the sector towards meaningful reform. The OQ followed up closely on the formation of the committee and provided recommendations and analyses both to the PA and donor community to move towards comprehensive reform.
51. In 2019, the OQ continued to develop the court mapping tool which aims to analyse and visualize data from the West Bank's magistrate and First Instance courts, the High Court of Justice, specialized courts and/or chambers, and judicial execution departments, by mapping out variables including caseload, population, performance and access. During this reporting period, the OQ completed an analysis of court performance in 2018.

V. Telecommunications

52. The year 2018 marked the long-awaited deployment and commercial launch of 3G mobile services in the West Bank and the entry of 2G competition in the Gaza Strip. This economic development led to improved financial performance of the two Palestinian mobile operators and in effect increased revenues for the PA through mobile services. While this is a significant step forward, the Palestinian mobile industry still falls behind in terms of technological advancement due to limited access to radio spectrum, access to land, import of equipment and unauthorized competition from Israeli Cellular Communications Operators.²³ Hence, during this reporting period, the OQ advocated for the upgrade of these existing technologies in the West Bank and Gaza with the purpose of increasing economic benefits and addressing the growing demand for mobile data.

Ensuring full deployment of 3G in the West Bank

53. Throughout 2019, the OQ continued to work bilaterally with the parties to ensure the full implementation of the November 2015 agreement on the deployment of 3G in the West Bank, mainly on the two following outstanding issues:
- a. Palestinian companies' passive access to their core equipment, which is managed by an Israeli company, to ensure timely identification of problems in the network;
 - b. allocation of microwave links to strengthen the connections of networks between cities. Although there were verbal assurances to proceed on both issues, written approvals are still required.

The OQ continues to work with the parties to move decisions forward on these issues.

²³ The deployed Israeli networks' infrastructure within the West Bank settlements enables the Israeli mobile operators to provide wide coverage in the Palestinian areas, and therefore offer advanced 4G services at competitive prices since 2015.

Introducing data technologies in Gaza and upgrading existing data technologies in the West Bank

54. In order for the Palestinian operators to meet the high demand for faster and higher capacity services as well as compete with Israeli operators, deploying advanced technologies is critical. The OQ continued to work with the parties and key stakeholders to enable the introduction of data technologies in Gaza and to upgrade existing data technologies in the West Bank to 4G or potentially 5G.
55. During the International Telecommunication Union's World Radio Conference, which was concluded on 28 November 2019, Resolution 12, which is related to Palestinian telecommunications, was revised and passed by consensus by all member countries. It mainly built on the bilateral discussions of the Joint Technical Committee that was convened in October 2019, the first meeting in a year. The resolution urged for a process to enable deployment of 3G technology in Gaza, facilitate arrangements for import and deployment of equipment, and to establish a clear and reasonable timeframe for the allocation of adequate 4G and 5G frequencies for the Palestinian operators.
56. To further advance discussions and inform the decision making of the parties, the Ministry of Telecommunication and Information Technology (MTIT) requested the OQ's support to explore 4G and 5G options for the West Bank, and 3G, 4G and 5G options for Gaza. Accordingly, an international telecom expert firm was contracted to help with the analysis. The consultants will explore and assess the options for radio spectrum allocations, providing an assessment for required infrastructure while considering the political challenges and assessing the economic benefits of mobile broadband upgrades at a high-level. The study commenced in December and is expected to conclude by March 2020 with concrete recommendations for proceeding with the discussions. In preparation for this study, the OQ compiled all sets of data that are needed to develop the analysis.

VI. Economic Mapping

57. Under the patronage of Dr. Ola Awad, President of Palestinian Central Bureau of Statistics (PCBS), and in partnership with the OQ, PCBS launched the Census Indicators Website, which covers the statistical indicators in general and the indicators of the Population, Housing and Establishments Census 2017 in particular ([Indicators.ps](#)).
58. In collaboration with PCBS, the OQ is finalizing the process of data acquisition and processing in collaboration with four directorates at PCBS: *Economic* covering data on the national account, prices, foreign trade, trade balance, and satellite account; *Geographical/Area* covering data on housing, tourism, environment, agriculture, and natural resources/land use which includes energy and water; *Administrative records* which covers data on gender and violence; *Census* which includes spatial data; and *Social* which covers data on health, education, ICT, labor, and poverty. Each of these directorates has a coordinator who manages a team of four to six civil servants who are being trained on data processing and streamlining data acquisition with line ministries.
59. The success of the websites [www.pmaps.io](#) and [www.indicators.ps](#) resulted in data standardization and synchronization across several line ministries with a plethora of libraries and databases integrated. This has helped improve policy, for example in streamlining the process of

master urban planning at the locality level. This process ensures policies and services match the needs of citizens. In this sense, the OQ continues to play a catalytic role – one which is particularly important as the PA increasingly pursues a cluster-based approach to development, strengthening the planning and policy making ability of the PA and in particular the Prime Minister’s Office. Furthermore, establishing this integrated system will provide a precedent for other ministries to process, analyze and publish all data through PCBS, the mandated PA data producer.

60. The PA has requested the OQ’s support in the formulation of policy changes and implementation strategies that are based on reliable data. The lack of accurate data, unsystematic urban planning and conventional analysis of the economy make achieving this a significant task. The OQ will build on its experience in the Spatial Data Infrastructure (SDI) initiative, development of www.pMaps.io spatial analysis system, and www.Indicators.ps multi-dimensional data visualization system (both of which are scheduled to be handed over in full to the PA in October 2020) to support data-driven planning and policy interventions. The transfer to the PA and sustainable ownership of these systems is a main priority in 2020.

Management of Operations and Funding

61. During the twelve-month reporting period, the OQ has been financially supported by the Kingdom of the Netherlands, UK/DFID, United States, EU, Canada, Japan and New Zealand, in addition to the half-time secondment of a Rule of Law Advisor by the United States Institute of Peace. The OQ is in advanced discussions with other donors about potential support in 2020 and beyond. Some donors are supporting the office through strategic multi-year agreements, thus contributing to the sustainability of our work.
62. The Chief of Staff position has remained vacant since July 2017. The OQ has explored several options for secondment that were unsuccessful and is now in the process of recruiting a staff member in order to fill the vacancy as soon as possible.
63. The new Team Leader for the Movement and Trade team, Michael Neuwirth, replaced Audrey Adams.
64. The OQ has managed the fixed costs of the office in a manner that:
 - a. they are constantly monitored, in order to ensure the highest level of efficiency;
 - b. they are fairly shared with other entities, for instance with co-tenants in the offices in both Jerusalem and Ramallah;
 - c. they are equitably distributed across the donors to the office.