



Office of the
Quartet

OFFICE OF THE QUARTET

(OQ)

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Abbreviations

CNG-Compressed Natural Gas

EIB-European Investment Bank

EU-European Union

GOI-Government of Israel

GPP-Gaza Power Plant

IDB-Islamic Development Bank

IDF-Israel Defense Forces

IMF-International Monetary Fund

MOD-Ministry of Defense

OQ-Office of the Quartet

PA-Palestinian Authority

PASF-Palestinian Security Forces

PENRA-Palestinian Energy and Natural resources Authority

PIF-Palestinian Investment Fund

PPGC-Palestine Power Generation Company

PPP-Public Private Partnership

PWA-Palestinian Water Authority

USAID-United States Agency for International Development

USSC-United States Security Coordinator for Israel and the Palestinian Authority

Executive Summary

This report focuses on Palestinian economic independence, exploring the challenges facing key sectors and suggesting solutions.

A state with a high level of economic sovereignty is defined by three characteristics: sustainable government finances, low unemployment, and a balanced economy that is not overly dependent on a small number of economic sectors or a small number of trading partners. Building viable water and energy sectors, as well as other basic infrastructure, is critical to achieving these goals. While the full potential of the Palestinian Territory will only be realized with the end of the occupation, it is, in the interim, possible to make significant progress for the Palestinian people.

The private sector plays a critical role in achieving Palestinian economic independence, along with the PA. There are four possible mechanisms through which growth in the Palestinian economy might be realised: the Palestinian Authority (PA), development assistance, the Israeli economy that provides some employment to Palestinians, and the private sector. Of these four engines, the private sector provides the most sustainable pathway. Development assistance is declining, the PA struggles with a deficit, and dependence on the Israeli economy is not a long-term solution.¹ Though the Palestinian private sector has the potential to be a powerful engine, today the Palestinian economy suffers from underinvestment in Palestinian industry. Investment in plant and machinery in the West Bank and Gaza as a proportion of GDP has fallen from 12.9% in 2000 to 4.8% in 2014. The current annual level of underinvestment in plant and machinery amounts to about \$1.4 billion a year.

The Office of the Quartet (OQ) is working to reverse this trend in investment. OQ's mission statement is "Building the State, Empowering the Economy". OQ works with the PA, the Palestinian business community, and actively seeks the support of the Government of Israel (GoI), the international community, and the domestic and international private sector in support of Palestinian institutional development, economic growth and empowerment. Together with the international community, OQ additionally seeks to enable, support, and drive implementation of strategic priorities, as agreed with the PA.

Water, power and telecommunications are key components of the infrastructure base that will provide the necessary groundwork for economic development. They are also sectors that are critical as a basis for private investment. Economic development can only be achieved once basic humanitarian needs such as access to water and energy are met. Furthermore, a sustainable energy supply is essential for job-creating factories, hospitals, and clean water facilities such as desalination plants – all of which are critical for strengthening the Palestinian economy.

The Quartet Principals' statement of September 2015 underscored the importance of such infrastructure in creating the foundations for economic development and stability for both Israelis and

¹ April 2016, Office of Quartet, AHLC Report.

Palestinians. The reliable supply of water and power is essential for encouraging investment, and private investment is key to the future direction that the Palestinian Territory will take.

This report suggests a multi-faceted approach to achieving affordable, reliable, and sustainable supply of energy and water in the Palestinian Territory. In Gaza, additional electricity infrastructure needs to be installed urgently. Current electricity demand in Gaza is estimated to be almost twice that of supply. Correcting this requires putting in place a high-voltage transmission grid and implementing the recently approved 161 kV line from Israel. These investments will help stabilize the power supply to homes, offices, factories, and hospitals, all of which are still coping with extensive and debilitating power shortages some two years after the last conflict. These problems have exacerbated poverty, instability and environmental degradation in Gaza.

In the longer term, in order to sustain growth and build a thriving economy, it is critical to secure donor support for key backbone infrastructure projects such as the Gas for Gaza pipeline which will help address basic humanitarian needs and unlock private investment for projects such as the Gaza Power Plant and the Gaza Marine gas field. The OQ is encouraged by the recent statement, in support of a gas pipeline to Gaza, by Israeli PM Netanyahu, along with the selection of a route for the Gas for Gaza pipeline, which will unlock progress with this project.

The West Bank also needs infrastructure improvements and investment in alternative energy sources in order to meet its energy needs. A gas pipeline connection to the West Bank is a necessary prerequisite for the success of the Jenin Power Plant project, which will increase the West Bank's generation capacity. In tandem, investment in renewable technologies, such as solar power, is needed. Commercial-scale solar photovoltaic (PV) power generation is a particularly attractive option for the private sector because of its economies of scale and potential for higher return on investment than other renewables. Palestinian control over generation and distribution of electricity in the Palestinian Territory will enable this. Crucially, the 161 kV transmission line and associated four substations in the West Bank (supported by the European Investment Bank) need to become operational. This together with the transfer of the electricity distribution network to the Palestinians, as part of the recently signed electricity agreement between the Israelis and Palestinians, will constitute a major step towards a viable and sustainable energy sector. The OQ welcomes this important agreement, which will empower the Palestinian power sector by allowing them control of the sector.

Inadequate access to water in Gaza is rapidly turning into a major crisis. Currently, almost all Gaza's water supply comes from the Coastal Aquifer. This supply is being depleted at an alarming and completely unsustainable rate. Gaza needs to find alternative supplies without delay. If the problem is not immediately rectified, the water crisis in Gaza has the potential to become a major humanitarian disaster. The announcement of an additional 10 MCM for Gaza is an important step in increasing bulk water supply and complements the eventual construction of a large-scale desalination plant, which would provide 55 MCM, thus helping to address the projected shortfall of 210-220 MCM required in 2020. In order to avoid costly delays to project implementation, Gol needs to reach agreement with PA on entry of "dual use" materials during the construction and operation of the desalination plant. The full

development of the existing Gaza Power Plant, could include a desalination component with a capacity of a further 30 MCM.

The second challenge in Gaza is the inadequate wastewater treatment infrastructure. The recent Gol commitment to ensure that NGEST receives the energy required is welcomed. Rapid implementation would have the additional benefit of giving donors confidence that larger scale, complex infrastructure (such as the proposed desalination plant) can be completed. The completion and full operation of the wastewater infrastructure already under construction at three new treatment plants in Gaza is an essential next step.

The OQ welcomes the Gol decision to increase water supply to the West Bank with 6 MCM per year, as a first step towards the full execution of the Red Sea-Dead Sea water agreement. In parallel, PWA can assist the strengthening of the water and wastewater sector by creating a sustainable financial climate that is conducive to investment and cost recovery. Implementing the 2014 Water Law, establishing the National Water Company, and enhancing the capacity of the Water Sector Regulatory Council are all important steps in this direction.

A comprehensive strategy for Palestinian economic independence based on attracting additional private investment also requires there to be progress in key sectors such as telecommunications, movement and trade, and the rule of law. As part of this push, the PA and the international community should take the opportunity to revisit strategic options, as and when major enablers are unlocked, such as 3G/2G, as well as recent milestones on Gas for Gaza and electricity agreement. The July 2016 Quartet Report underscored the priority given to improving these sectors, stating that, “progress in the areas of housing, water, energy, communications, agriculture, and natural resources, along with significantly easing Palestinian movement restrictions, can be made while respecting Israel's legitimate security needs.”

In addition to power and water, it is vital that Palestinian businesses are given access to wireless broadband. The implementation of a comprehensive telecommunications strategy, including a solution to the allocation of wireless spectrum in Gaza and the West Bank, is long overdue. The Gol needs to take urgent action to resolve these issues and allocate the necessary spectrum. In order to encourage increased trade and access for people in the Palestinian Territory, it is also important to improve infrastructure at Allenby and other crossings, ease restrictions on movement, and enable Palestinians to cultivate new trade opportunities. In Rule of Law, progress to date in the support for the justice system, police mapping, court mapping, and the Paris protocol needs to be consolidated and further developed. The annex of this report makes recommendations for these sectors and describes implementation strategies that can be adopted using the economic mapping software and data developed by OQ with the support of the Government of the Netherlands.

Since the last AHLC, Shurook, an entity administered by UNOPS, but separately funded and operated, has been created. Shurook is focused on providing ‘seed capital’ for early stage project development. It currently has fifteen employees based in Ramallah and Jerusalem and works closely with key Palestinian partners such as the Palestinian Investment Fund (PIF), Consolidated Contractors Company (CCC), Bank

of Palestine, and Padico. Shurook is a not for-profit entity that seeks to catalyze investments of strategic importance for economic independence. This currently includes medium-to-large scale solar power, water treatment, low cost housing and healthcare. Whereas OQ focuses most of its attention on public sector policies and projects, Shurook focuses on commercially viable and financially sustainable private sector oriented projects.

Recommendations

Energy:

1. In order to meet Gaza's overall need of 850 MW by 2020, the following steps are required:
 - a. Implementation of the recently approved 161 kV line from Israel to Gaza providing at least 100 MW of electricity. Cooperation from all parties for upgrading the electricity grid, to include construction of a high voltage transmission grid and the associated substations within Gaza is now essential.
 - b. Speedy processing by GoI for the permitting of the Gas for Gaza pipeline.
 - c. Reconversion of the Gaza Power Plant from diesel to natural gas to allow for production of up to 140 MW in Phase 1. This would help create an incentive for the private sector to invest in a second phase, which would double power generation capacity and could enable the addition of water desalination capacity at the site of the power plant, of up to 30 MCM. Achieving this will entail investment of several hundreds of millions of dollars, which will require the support of the international financial institutions, amongst others.
 - d. Implementation of the necessary commercial arrangements and regulatory structure for the supply of natural gas and sale of electricity in Gaza from domestic generation, as well as from imports.
 - e. Resolution of issues with regard to the collection of electricity payments, including by further installation of pre-paid meters.
2. In order to meet the projected demand of 1300 MW of electricity required by 2020 for the West Bank, the following steps are required:
 - a. Rapid progress on the Jenin Power Plant, which will significantly reduce the West Bank's dependence on electricity imports from Israel and help stimulate economic growth.
 - b. Implementation of the recently signed electricity agreement between the Israelis and Palestinians, and the mobilization of donor funding to facilitate the transfer of assets to the PA as part of this agreement.
3. Indigenous Palestinian resources must be developed as a national priority. This includes the development of the Gaza Marine gas field to reduce reliance on Israeli fuel and power imports, and to generate significant revenues for the Palestinian economy.

Water:

1. Gaza needs a total water supply of 270 MCM by 2020. At present it is only able to access a total of 180 MCM, mainly from unsustainable over-abstraction of groundwater. If aquifer abstraction is limited to sustainable levels, of 50-60 MCM, this will result in a deficit of 210-220 MCM by 2020, out of which large-scale desalination will address 55

MCM. The following next steps need to be taken to avert this deepening humanitarian crisis:

- a. OQ welcomes the recently announced approval of 10 MCM as further step in increasing the sale of bulk water to Gaza. All parties should consider a further increase in the import of bulk water to Gaza as an interim measure.
- b. Gol commitment to facilitate the establishment of a large-scale desalination plant is welcomed, but urgent progress towards implementation is now required. The following next steps are therefore essential:
 - i. PA needs to develop and present the financial mechanism and governance structure for implementation of the desalination project to key project stakeholders in preparation for pledging by international donors, prior to initiating the tendering process before the end of the year.
 - ii. All parties need to agree on the working arrangements for the dual use materials required in the construction, operation and maintenance of the facility.
- c. The completion and full operation of the wastewater infrastructure already under construction at three new treatment plants in Gaza is an essential next step. This includes ensuring the availability of reliable electricity supply. The OQ welcomes Gol's decision to enable access to energy for NGEST; it is crucial to move towards rapid implementation with all the relevant parties.
- d. PWA needs to execute the 2014 Water Law, establish the National Water Company, and empower the Water Sector Regulatory Council. This will help create the necessary climate of financial sustainability to underpin the entire water sector.

Telecom:

1. The November 2015 agreement between the Gol and PA should be implemented.
 - a. With regard to 2G, Gol should expedite the entry of equipment, and finalize the allocation of the remaining frequencies as soon as possible. The timeframe for launching the services should also be set, with a soft launch by end of 2016.
 - b. With regard to 3G, Gol should continue to work to finalize the arrangements for the sharing of spectrum between the two Palestinian operators and the newly identified Israeli operator. In this regard, it should undertake the necessary spectrum reshuffling; allocate exclusive and shared spectrum to the Palestinian Authority, enabling its use in the West Bank and Gaza; and provide all the required clearances for the import of equipment and to enable the construction of infrastructure. 3G services should be launched by the first quarter of 2017.

Introduction

1. It is absolutely essential that the dual crises in water and energy are quickly alleviated to ensure that the basic humanitarian requirements of Palestinians are met and the building blocks necessary for economic development are in place.
2. Water and energy are so vital, and the required improvements so urgent, that we have chosen to focus this report largely on just these two aspects of the economy. The Office of the Quartet (OQ) is helping to ensure that progress is accelerated in both these sectors. In particular, OQ is focusing on the development of the Gas for Gaza (G4G) gas pipeline and the Palestinian Authority (PA)'s first large-scale desalination plant. Much work remains to be done. The dual crises go so deep in Gaza that it is imperative that the PA and the GoI continue to work with the international community and the private sector to urgently seek solutions to avert the impending humanitarian calamity, whilst recognizing Israel's legitimate security concerns. This report outlines the problems facing the two sectors, the progress that has been made in implementing solutions, and the issues that have yet to be addressed.

Energy

3. Access to reliable, affordable and sustainable energy is fundamental to economic growth. Indeed, there is a strong correlation between the two over the long term with energy consumption tracking growth rates. Reliable energy supply is also a prerequisite for the provision of basic services, including clean water, and the functioning of hospitals and schools. The Palestinian Territory's supply of energy is currently totally inadequate: this situation limits development not only in Gaza but also in the West Bank.
4. Gaza currently experiences a major energy crisis. At peak supply, around 200 MW of electricity is available, compared to the current demand of around 450 MW. This gap is the result of several factors. There is currently only very limited domestic electricity generation. What is produced locally is expensive due to the prohibitive cost of diesel, the fuel used for its generation. Inadequate or poor infrastructure hampers supply. The energy imported from Israel and Egypt is insufficient to meet demand. The present crisis has been exacerbated by the impact of the 2014 Gaza war when essential infrastructure at the Gaza Power Plant and the distribution network was damaged. The power deficit is a major contributor to the severe humanitarian and economic crisis in Gaza: daily electricity cuts of up to 18 hours each day impact the majority of Gaza's population. Reliable power supply is essential for water desalination, water pumping and the operation of wastewater treatment facilities. Without their continued and reliable operation, the already poor public health conditions will worsen.
5. 88.5 percent of Gaza businesses note that lack of reliable power is a serious obstacle to their operation.² Power outages limit the use of equipment and basic services, restrict operational hours and increase dependence on expensive diesel generators. This has a negative impact on the revenues of businesses in Gaza, which lose an estimated 22 percent of production due to

² "West Bank and Gaza Investment Climate Assessment", World Bank, 2014.

monthly power outages. These problems also act as a deterrent to the establishment of new businesses, thereby stifling economic development.

6. The West Bank has an extremely high level of dependence on energy imports from its neighbors: 95 percent of the ~860 MW of power consumed annually is imported from Israel; the remaining 5% comes from Jordan. The high level of power imports drives the imbalance in trade (electricity imports account for 16-17% of balance of payments annually) and the unsustainable level of debt of the PA to the IEC. This situation is compounded by the fact that the major share of the infrastructure assets are not owned by Palestinians. Correcting this situation is made all the more difficult because the PA is unable to access land in Area C that could otherwise be used for power generation, especially from renewable sources. Moreover much of the critical energy infrastructure passes through Area C. In summary, the nature of the present power supply situation holds back development and prevents the PA from providing its customers with reliable energy supplied at affordable prices. Implementation of the electricity agreement by the GoI and PA will constitute a major step towards resolving some of these issues; it will help restructure an energy sector, which has until now been almost totally dependent on its neighbors, is highly inefficient, unreliable, and, consequently, unsustainable.

A Viable Energy Landscape in the Palestinian Territory

7. There is only very limited energy security in the Palestinian Territory.³ Substantial support will be necessary to resolve the energy crisis in Gaza and to prevent conditions deteriorating further. If the situation does deteriorate, this could ultimately result in major repercussions on the energy sector in the West Bank as well. The overarching goal for the Palestinian Territory is to provide affordable, reliable and sustainable energy.
8. As a priority, energy security in the West Bank and Gaza can be significantly improved through development of indigenous resources. The Gaza Marine gas field is a national Palestinian resource that could meet Palestinian energy demand for a number of decades, reducing reliance upon energy imports and generating considerable revenues for the sector (saving some \$100 million annually in diesel fuel costs). It is therefore imperative for investment to be made to develop the Gaza Marine gas field. There is now the opportunity to expedite the development of this field, following years of stalled progress. This opportunity has been triggered by the recent change in ownership of the field as well as recent improvements in exploration techniques and the renewed vigor with which other East Mediterranean gas suppliers are undertaking offshore hydrocarbons exploration and production. It is important, therefore, that Israel supports its development.

³ Energy Security is defined by the International Energy Agency (IEA) as - *the uninterrupted availability (i.e. **reliability**) of diverse energy sources at an **affordable** price*. A key aspect of energy security is **sustainability**. A secure and sustainable sector is one that can meet the needs of the population in the long term, is financially viable, and is based on cleaner forms of energy (gas, renewables, etc.), while also being able to address short-term changes in the supply-demand balance.

(<http://www.iea.org/topics/energysecurity/subtopics/whatisenergysecurity/>)

9. The international community and the private sector need to make coordinated efforts in support of the PA to provide affordable, reliable and sustainable energy:
 - (i) Increasing generation: Additional domestic generation facilities must be installed to reduce dependence on imports, diversify supply and utilize cost-efficient forms of fuel.
 - (ii) Improving infrastructure: An adequate transmission and distribution system needs to be put in place, which Palestinians have sufficient control over. This infrastructure must also be sufficient and fit for purpose in order to minimize supply disruptions and unnecessary technical losses.
 - (iii) Building institutional capacity: Sectoral sustainability needs to be facilitated by appropriate regulation and commercially viable institutions.
 - (iv) Ensuring access to resources: Indigenous reserves should be exploited in order to improve supply security and the economic viability of the sector.

Gaza

10. It is crucial to take measures to alleviate Gaza's energy crisis, including the construction of the recently approved 161 kV line to Gaza and the upgrade and construction of high voltage transmission grid within Gaza, as well as the conversion of the power plant to natural gas and its subsequent expansion. The construction of a 161 kV line from Israel to Gaza could provide at least 100 MW of imported power prior to the implementation of necessary long-term solutions. Implementation of the 161 kV line will have a crucial and positive impact on the power supply situation and would provide an important signal to the Palestinians in Gaza and the international community. This requires that the parties reach a viable agreement on the supply of electricity.
11. The supply of natural gas to Gaza has been identified as the only viable long-term solution to Gaza's energy crisis. Natural gas is a quarter to one-fifth the price of diesel and is a more efficient fuel for generating electricity. It is also cleaner, with a lower carbon footprint. Gas based electricity generation, replacing diesel, will reduce air pollution and emissions in Gaza. Being more reliable, affordable and sustainable, natural gas supply will help Gaza to achieve significantly greater energy security. The sector will not be commercially viable until the Gaza Power Plant is running on natural gas because, at present, the high cost of diesel ensures that the generation cost is significantly higher than the market price for electricity. Gaza needs to be connected to Israel's existing gas infrastructure. This will enable rapid access to gas from Palestinian and Israeli sources.
12. In order for natural gas to be utilized in Gaza, a series of infrastructure projects and upgrades need to be rolled out, including the construction of a gas pipeline from Israel to Gaza, as outlined below. Additionally, it will be necessary to convert the Gaza Power Plant (GPP) from diesel to natural gas and, subsequently, to expand its capacity. The plant's immediate potential generation capacity is 140 MW. However, it currently operates at 50-60 MW due to inadequate

infrastructure and the high cost of diesel. The Gaza Power Generation Company (GPGC),⁴ the owners and operators of the GPP, plan to convert the power plant to natural gas to coincide with the inflow of gas to Gaza, which will allow the for utilization of the full 140 MW capacity.

13. It will be critical to attract additional investment into domestic power generation so that the GPP can be further expanded to meet demand. As this will cost hundreds of millions of dollars, it will be important to create the right investment climate (including guarantees and possibly grants from international bodies) for this to become a reality. This will be a multi-year endeavor. The generating capacity is required both to meet Gaza's existing energy demand and contribute to meeting future demand (approximately 855 MW⁵ by 2020).
14. A number of opportunities are being explored that will help resolve the water crisis. These opportunities seek to exploit the potential produced by upgraded infrastructure and increased availability of power at the GPP and include the option to develop a 30 MCM desalination plant at the site. This would complement other water supply solutions in Gaza and could be funded by the private sector.
15. Significant grid upgrades are required to allow for the planned increase in generated power to be distributed to customers in Gaza. The grid is currently a weak, fragmented, distribution network, which suffered extensive damage during the 2014 hostilities. The lack of a high-quality grid is a significant bottleneck to greater energy security – given the limited capacity of the grid, energy supply is unreliable and rolling blackouts have to be enforced. The World Bank has supported significant rehabilitation of the network since 2014. Going forward, there are plans to upgrade the grid by constructing a 66 kV transmission network, including two substations in the north and south, in addition to the existing substation in the GPP. The grid upgrades will cost in the region of \$133m and will be rolled out in two phases. This is anticipated to begin in 2017 (phase I) and be concluded by 2022 (phase II). Donor financing needs to be mobilized for this work. This is a priority for Gaza in order for the full 140 MW of the GPP to be utilized, following connection to natural gas, and to facilitate private sector investment for further plant expansion.
16. The installation of the new grid should be supported by improved collection of electricity payments. Wider reform is crucial in order to strengthen the energy sector in Gaza. This includes further increasing the rate of collection in Gaza in order to ensure the financial viability of the sector, particularly in encouraging private sector investment in the expansion of power generation capacity at the GPP. The ongoing rollout of prepaid electricity meters – which has been supported by the World Bank – will support a more commercially sustainable sector.
17. The establishment of well-functioning institutions is a precondition for a viable sector. PENRA, with EU support, is undertaking comprehensive reform of the energy sector. Good progress has been made with this and Electricity and Renewable Energy Laws have been passed. Cabinet approval of the Hydrocarbons Law is pending. The latter law will help ensure that effective clear institutional, regulatory and legal framework is in place to manage this crucial sub-sector. The

⁴ GPGC is 99.99% owned by the Palestine Electric Company.

⁵ Initiative for the Palestinian Economy, Office of the Quartet, 2014.

PA is encouraged to continue sectoral reform by passing and implementing the full Sustainable Energy Reform in order to unlock opportunities through robust regulation and improved institutional capacity.

18. Other sources of generation must be developed in parallel to gas in order to diversify the energy mix. Renewables have good potential in Gaza and would support the energy sector's transition to cleaner and more sustainable forms of generation. Solar technologies are particularly well suited to the region as it receives annual global horizontal irradiation of 2200 kWh/m². Such technologies are increasingly affordable, having the potential to reach cost parity with conventional generation. Examples of renewable energy projects include the Karni industrial zone, part of the water treatment and desalination initiatives (solar PV), and rooftop solar installations. There may also be scope for utility scale electricity generation from renewables.
19. Many of the large infrastructure projects and institutional reform initiatives described above require donor support in the immediate term, specifically those for the upgrade and expansion of the grid, the gas pipeline, the continued rollout of prepaid electricity meters, and ongoing support for PENRA's institutional reform. Their completion, along with the provision of 24/7 electricity supply will generate growth in key economic sectors in Gaza. This will enable businesses to function effectively and expand their operations, thereby generating further opportunities for industry in Gaza. The private sector would also benefit from the increased affordability of energy from natural gas, in contrast to that from diesel. For example, the reliable supply of power in Gaza would have a substantial and positive impact on agriculture: directly, by providing consistent refrigeration for perishable goods and, indirectly, through increased production of treated wastewater for use in the cultivation of crops. Establishing a gas distribution network in Gaza would generate further opportunities for industry and could even facilitate the use of compressed natural gas (CNG) vehicles, thereby generating related investment opportunities. The provision of 24/7 electricity supply provides the foundation for enabling Gaza's economy to transition from donor dependency to private sector led growth.

Gas for Gaza (G4G)

20. The PA officially mandated OQ with leading the G4G Task Force, which is supported by the GoI. The G4G initiative, through the formal Task Force platform, has brought together all relevant parties, including the PA and GoI, to facilitate the agreement for the construction of the natural gas pipeline connecting Gaza to the Israeli natural gas network.
21. The G4G Task Force was set up in August 2015 and has acted in close coordination with the governments of the Netherlands and Qatar, respectively. It provides a forum for the relevant stakeholders to work together and advance project implementation at a technical level. Shortly after the launch of the Task Force, in September 2015 at the last AHLC, GoI announced its approval in principle for the G4G project. OQ welcomes Israeli Prime Minister Netanyahu's declaration of support for a gas pipeline to Gaza during his recent visit to The Hague. Ongoing GoI support is crucial for its implementation.
22. A number of milestones have been achieved by the G4G project during the past six months. The Technical Feasibility Study, launched in Q4 2015, has identified possible pipeline routes in Israel

and Gaza. An optimal route has been identified in collaboration with the relevant stakeholders at the sixth G4G Task Force meeting on September 11, 2016. The selection of the route will now enable the project to move to its next phase: permitting and the completion of the feasibility studies.

23. Commercial and legal feasibility studies were launched in July 2016 to provide recommendations for the optimal business model for the project and to address any regulatory challenges. The findings will inform and support the permitting processes in the GoI and PA systems. It is anticipated that these studies will be finalized by late October 2016. Upon completion of the feasibility studies, the Task Force will focus on securing all regulatory and permitting approvals in both the Israeli and Palestinian systems. Continued GoI and PA support and cooperation to expedite this process will be crucial. Completion of capacity-building work – being led by PENRA and supported by the EU and the Government of the Netherlands – is needed to facilitate the establishment of appropriate hydrocarbons institutions. The Task Force, upon successful completion of all other work-streams, will then support the relevant parties in securing commercial agreements for the sale of gas to Gaza and provide support to the EPC phase of the project, as necessary. In addition, it will work to create the enabling environment needed to generate investment for expansion of the power plant. If all proceeds well, gas could be flowing into Gaza in 2019-20.
24. Wider improvements to the energy sector in Gaza are essential. OQ is working in coordination with key stakeholders on these activities to support progress wherever possible, including with the PA, GoI, EU, Government of Qatar, Government of the Netherlands, Islamic Development Bank (IDB), World Bank, and the private sector.

West Bank

25. It is vital to increase power generation in order to meet the growing demand for electricity in the West Bank and support energy independence. Demand is expected to reach approximately 1310 MW by 2020; by comparison, roughly 860 MW is available today. A number of measures have been identified below, which, if adopted, will help to build a more *autonomous Palestinian energy sector*.
26. Substantial generation capacity needs to be built in the West Bank. In 2016, GoI issued an in-principle approval for the construction of the Jenin Power Plant, the first conventional power station in the West Bank, with planned generation capacity of approximately 450 MW. OQ welcomes this important decision. The Jenin Power Plant is expected to run on natural gas and be connected to the Israeli natural gas network. The plant could utilize natural gas from the Gaza Marine gas field, as well as imports from Israel and other sources of supply.
27. This project is being developed through the Palestine Power Generation Company (PPGC).⁶ Progress is underway and power generation is expected to commence at the beginning of 2020.

⁶ PPGC is supported by a leading group of Palestinian investors including the Palestine Investment Fund (PIF) contributing 39.6%, Palestine Development and Investment Company (PADICO) contributing 20%, Palestine Telecommunications Group (PaITel) contributing 10%, Arab Bank Group with 10%, Palestine Electric Company 5%,

In addition, the planning for a pipeline to supply gas to the power plant has commenced. Completion of this project will reduce reliance on Israel for electricity imports and diversify the supply mix. Indeed, it will reduce the Palestinian trade deficit with Israel by \$350m a year if it utilizes gas from the Gaza Marine field. It will also provide a means by which to keep a proportion of sales revenues for electricity within the West Bank. Additional sources of Palestinian revenue would be created through the construction, maintenance, and operation of the power plant, contributing to an increase in Palestinian GDP. Once the power plant goes online, it is expected to have a positive effect on electricity prices, which would benefit both consumers and businesses in the West Bank. It is incumbent on all parties to facilitate rapid progress with the Jenin Power Plant in order to significantly reduce the West Bank's dependence on electricity imports and thereby stimulate economic growth.

28. In parallel to the development of conventional generating capacity in the West Bank, renewable energy projects should also be pursued. Renewable energy sources in the West Bank are abundant. The current utilization of renewables is on a small scale and is limited to solar power (primarily solar water heaters and some solar PV installations) and biomass (in the form of wood, charcoal and olive cake). The use of renewables has significant potential and will improve the sustainability of the energy mix and reduce reliance on Israeli imports.
29. Solar power is particularly attractive due to its scalability, relative affordability, the speed at which it can be developed, and its variety of potential applications. Small-scale, decentralized solar PV installations can serve rural communities without connection to the electricity distribution infrastructure, while commercial-scale PV installations could potentially meet a meaningful proportion of Palestinian electricity demand. Solar irradiation is high in the West Bank, as in Gaza, with approximately 3,000 sunshine hours per year and average annual global horizontal irradiation (GHI) values of 1,900 kWh/m². This level is more than twice as high as that in Germany, the country with one of the world's largest solar PV capacity. This clearly underlines that solar technologies are well suited to this region.
30. Despite this potential, there are currently no grid-connected solar PV utilities of any scale in the West Bank, although a number of projects are being planned or are currently under development, including the PA-led 10 by 10 MW initiative in Areas A and B. To date, the largest field, located in Tubas, is under 1 MW and the total installed solar PV capacity in the West Bank is less than 10 MW. By comparison, the total installed solar PV capacity in Israel is over 700 MW (with a target of 2.7 GW by 2020). Nonetheless, the outlook for solar PV development in the West Bank looks promising. The PA has already created the appropriate legislative and regulatory framework to support commercial solar PV development in passing its Renewable Energy Law. Approximately fourteen sites have been identified using the GIS mapping capabilities developed by OQ, amounting to roughly 6,500 dunums. These are sites that are potentially suitable areas for developing solar PV projects in the West Bank. The private sector has shown great interest in commercial-scale solar PV due to the economies of scale and higher

Arab Palestinian Investment Company (APIC) 4%, along with an important group of banks including the Bank of Palestine, Al-Quds Bank and Cairo-Amman Bank.

return on investment. For example, Shurook⁷ aims to support the development of 125 MW of utility-scale solar power plant in the West Bank. Shurook is playing a facilitation role by identifying and securing land and partnering with energy developers to acquire financing and negotiate agreements for project development. In this it is collaborating closely with Abraaj Group, Themis Energy on project development, and the PA and Gol on regulatory, permitting and legal issues. Progress has been made towards putting in place the first 100 MW of capacity: the site and developer for the project have been identified and an investor consortium is being formed.

31. Implementation of the recently signed electricity agreement will allow Palestinians greater autonomy in managing their electricity supply and should enable institutions, such as PETL, to become commercially viable. This could help to improve collection rates in the West Bank. These changes will also provide greater clarity and efficiency in the sector, encouraging increased private sector investment. Now that the electricity agreement is in place, it is crucial that donor financing is mobilized to facilitate the transfer of assets from Gol to the PA.
32. A key element in ensuring reliable power supply in the West Bank is to make sure that there is sufficient, well-functioning infrastructure and that this is economically viable. Several areas of infrastructure development need to be realized if this is to become reality and access needs to be improved. Crucially, the 161 kV transmission network and the four associated substations being financed by the EIB need to become operational.
33. In addition, Palestinians need greater access to land in the West Bank. The present restricted access limits potential solar PV installations and sometimes results in projects being developed in suboptimal locations. Palestinians need to be granted greater autonomy in the West Bank in the energy sector, including increased levels of ownership and access to energy assets, particularly electricity infrastructure. The recently signed electricity agreement, when fully implemented, should address some of these key issues.
34. To build the basis for the longer-term financial viability of the energy sector, the PA needs to attract significant and sustained investments in energy. Improving the tariff collection rate is key to this. Over the past two years, the collections rates in both the West Bank and Gaza have been fluctuating. Measures to improve collections are required urgently. In addition, the supply mix needs to be moved toward more affordable fuels (e.g., gas) in order to reassure investors of the sector's longer-term economic viability. The recent electricity agreement should facilitate greater collection levels.
35. An essential next step in creating a commercially viable energy market is for the PA to pass and implement the Hydrocarbons Law. This will provide more clarity for the sector, enabling institutions to be established that can manage and regulate the sector appropriately. These institutions will need to be empowered and require support from the international community.

⁷ Shurook operates as a deal catalyst for the most impactful initiatives and develops them from the earliest concept phase to investment-ready projects. Focused primarily on essential infrastructure needs, Shurook, along with the Palestinian private sector, is developing a project pipeline with an initial focus on renewable energy, waste and water, and affordable housing. For more information, see www.shurook.org.

36. Improvements in the longer-term viability of the energy sector in the West Bank (as well as Gaza) will lay the basis for additional private sector investment. The private sector can play an important role in power generation projects (both conventional and non-conventional) as well as in exploiting indigenous resources. Such investment is critical for driving Palestinian GDP growth. The role of the private sector needs to be further encouraged and supported by ensuring that there are sufficient incentives for it to remain invested.

The steps identified above all contribute to developing a commercially viable energy sector, one based on affordable, reliable and sustainable energy sources. In the near term, donor support for the underlining infrastructure should be designed to pave the way for private sector led growth and investment. Ultimately, the Palestinian energy sector must be financially sustainable if it is to provide the backbone for economic development.

Water

37. There is an acute water crisis in Gaza: the 1.8 million inhabitants living there do not have adequate water supply. The gap between the demand for drinking water and the replenishment of the Coastal Aquifer, the only natural water resource available, is estimated to be more than 100 million cubic meters (MCM) per year.⁸ Water sourced from the aquifer is unusable without treatment, while access to alternative reliable sources is limited and expensive. The majority of Gaza wastewater is discharged directly into the environment, including into the Mediterranean Sea. This leads to increased trans-boundary pollution and exacerbates the crisis of the shared aquifer. The crisis is expected to worsen as groundwater over-abstraction continues, precipitation decreases, and the population grows. Lack of access to safe drinking water and declining health conditions will further exacerbate the poverty and food insecurity in Gaza, making life there increasingly unsustainable.
38. The West Bank also faces major challenges in ensuring sufficient provision of potable water and wastewater treatment. While the quantity and quality of water available to the Palestinian population in the West Bank is better than that in Gaza, water supply does not meet the recommended minimum standards set by the World Health Organization⁹ and Palestinian planning for water and sanitation infrastructure is severely restricted by the Israeli permit regime. To offset current constraints imposed on Palestinians in the construction and exploitation of new wells and pending mutual agreement on a joint water coordination and planning mechanism, the Palestinian National Water Policy and Strategy Vol II of 2012 recommends addressing the water deficit by increasing imports of drinking water from the

⁸ The deficit is calculated for a year receiving average precipitation.

⁹ The recommended minimum standards of the World Health Organization is 100 liters per capita per day, while the average per capita consumption of water in the West Bank stands at 79 liters per day.

Israeli water-provider Mekorot, as well as the additional use of non-conventional water sources for irrigation and agriculture.¹⁰

Gaza

39. It is imperative that immediate steps are taken to avoid the looming humanitarian catastrophe in Gaza. Water utilization in Gaza is currently more than three times the sustainable yield. The Comparative Study of Options for Supply of Water for the Gaza Strip (CSO-G), issued in June 2011, identified a set of nine complementary interventions, three of which directly address the supply crisis: increased water import from Israel, short-term low-volume desalination and regional high-volume desalination. Three short-term low-volume desalination facilities, with a total capacity of 7.3 MCM/Y, are currently being put in place by UNICEF. The construction of a large-scale desalination plant can secure a sustainable supply of drinking water by providing 55 MCM. However, such a plant is anticipated to be operational by 2022 at the earliest.¹¹ The financial commitment to build the desalination plant is being assembled. In order to successfully bring the project to fruition, two major components are necessary. First, there needs to be clear and coherent coordination of the international actors involved. Second, this project requires the best possible project management. Both these components are vital because this is one of the most complex projects ever undertaken in the region and given the amount of material required that is classified as 'dual use' by the GoI.
40. It is necessary to increase the water supply from Israel to Gaza, in addition to the 55 MCM that could be provided by the large-scale desalination plant, in order to meet both immediate and future needs. The 2015 GoI decision to increase the export of water to Gaza to 10 MCM is an important step forward, and we welcome the approval of an additional 10 MCM. Nevertheless, the present measure is unlikely to be sufficient to allay the current crisis. To reverse the trend of declining water availability and aquifer depletion, Gaza has an immediate need for bulk water supply. All parties need to urgently explore the additional provision of bulk water supply to Gaza, in addition to current and agreed increases in supply.
41. Although a number of important investments are underway, Gaza lacks infrastructure both for sourcing conventional water supplies and for the exploitation of non-conventional sources. In terms of conventional supplies, it lacks a functional distribution network and associated infrastructure. To make use of non-conventional water sources it requires the construction of large-scale desalination and wastewater treatment plants. A number of such plants are under construction. While substantial donor aid has been made available more is needed if the capacity is to be developed to make these plants financially sustainable and attractive to investors. In 2014, the PA committed itself to reforming the service subsector and established the Water Sector Regulatory Council, which is intended to be a strong and independent regulatory entity. Advancing this well-designed water sector reform and implementing the 2014

¹⁰ The main non-conventional water sources in Israel and the PA include desalination (both from brackish water and seawater), treated wastewater, and rainwater harvesting.

¹¹ Source: PWA.

Water Law, which PA highlights as an important milestone, would create the necessary enabling environment and implementation capabilities. A transformative program of cost recovery needs to be implemented to lower the operational costs of water and sanitation infrastructure projects in Gaza, where the current collection rate barely exceeds 20%. More stringent billing procedures will increase the collection rate. This is essential for mobilizing future investment in Gaza's water infrastructure.

42. Wastewater treatment is a pressing issue. Over 90,000 cubic meters of raw or partially treated sewage flow from Gaza into the Mediterranean Sea each and every day.¹² Contamination of the groundwater supply by sewage, due to the existing sewage treatment plants having no electricity supply to enable their operation, further increases the potential for a full-blown humanitarian crisis in Gaza. WHO reports that contaminated water and the lack of sanitation are currently responsible for 26% of all disease in Gaza.¹³ The possibility of an outbreak of pandemic diseases, such as cholera, poses a direct threat to the communities in Gaza and Israel. The completion of the three large wastewater treatment plants currently in construction or tendering will be a partial solution. However, beyond this, progress needs to be accelerated more generally to ensure that there is sufficient wastewater infrastructure provision. Tenders have been issued to construct the Central Gaza Sheikh Eljin Wastewater treatment plant in Khan Younis, a project financed by the Japanese government and the Kuwait Fund for Arab Economic Development through the Islamic Development Bank. The German government is providing financial support for the construction of the Central Gaza Wastewater Treatment Plant. The World Bank Trust Fund and AFD supported Northern Gaza Emergency Sewage Treatment (NGEST) plant in the Beit Lahia area is nearing completion and will serve the northern part of Gaza. This project also includes a first phase wastewater reuse component. The OQ welcomes Gol's decision to enable access to energy for NGEST; it is crucial to move towards rapid implementation with all the relevant parties. The PA, Gol and the international community need to prioritize the development and operation of wastewater infrastructure in Gaza now under development in the three new treatment plants, including ensuring access to a reliable electricity supply.
43. Once operational, the wastewater treatment plants currently under development in Gaza, in addition to preventing further environmental degradation, could enable treated wastewater to provide a valuable additional source of water supply to the agricultural sector. This, in turn, will make more freshwater available for domestic use. The PA can assist this process by enhancing the regulatory capacity of the Water Sector Regulatory Council and the National Water Company for bulk water supply and the water users associations. The Council should seek to roll out its public-private partnership and public sector participation framework for wastewater treatment, reuse and desalination.
44. The construction of a large-scale desalination plant, together with the aforementioned structural changes, will play a key part in any long-term solution to Gaza's water supply

¹² United Nations, "Gaza in 2020: A liveable place?"

¹³ The World Bank, "Assessment of Restrictions on Palestinian Water Sector Development", April 2009.

problems. This remains the preferred long-term solution identified by international consultants. Such a plant would provide 55 MCM of water per year to Gaza. The construction of this project would have profound economic impact in terms of creating employment in Gaza. This, in turn, would contribute to ensuring a healthier population and reducing healthcare costs.¹⁴

45. In 2011, the 43 Member States of the Union for the Mediterranean endorsed the desalination project under leadership of PWA. In 2012, the European Investment Bank launched technical support with the Project Information Memorandum, which it used to mobilize European Commission funding to update an earlier feasibility study and to prepare tender documents for the plant's engineering, procurement and construction. In January 2016, Gol conveyed its approval in principle to the PA for the construction of a seawater desalination plant.
46. In February 2016, in response to a request from the PA, OQ convened the first meeting of the Gaza Desalination Task Force, which includes the PA, Gol and core members to the project (World Bank and the EU Representative Office). The Desalination Task Force also invited a number of other key stakeholders to attend this meeting (EIB, USAID, UfM Secretariat, and IDB). The Desalination Task Force will continue to assist all parties and the core financial and technical partners in their pursuit of this project. The project's technical components include: i) the construction of the desalination plant; ii) the construction of a 43-km north-south water carrier, including storage reservoirs and pipelines to transfer the desalinated water to users and to blend it with groundwater; iii) a project to reduce non-revenue water, including better tariff collection and the repair of existing pipelines in order to reduce losses and leakages. The preparatory technical studies for the different components are being conducted under the lead of the European Investment Bank, the World Bank, USAID and the European Commission. All are either completed or well in progress. In order to support PWA in obtaining the tender for the desalination facility before the end of 2016, OQ is currently engaging Gol and the PA regarding Dual Use Materials and monitoring. Assuring that an adequate monitoring and construction process is put in place is the highest priority for all parties. All materials' parameters are to be agreed by the PA and Gol prior to tender for the import of these materials. This will help avoid delays during the import of materials, which would significantly increase the cost of the project. It should also help ensure that the tendering process goes smoothly, which again will constrain costs. In order to prevent any impediments to the construction of the desalination plant, Gol and other relevant parties need to agree on the working arrangements for Dual Use Materials, defining the guidelines and parameters for the production materials required for the construction of the large-scale desalination facility, as delineated by the technical consultant of the European Investment Bank.
47. Despite early fundraising success with the Arab Gulf States and the Islamic Development Bank (IDB), which agreed to a 50% commitment of funds for the project – originally estimated to cost \$500 million – other donors have expressed reluctance to pledge additional funds. This is due to the cost and complexity of the project as well as to concerns regarding the political risk,

¹⁴ See, for instance, USAID, "Coastal Aquifer Management Program, 1999-2004"; European Investment Bank, "The Concept Design Report for Central Gaza Desalination Plant", 2014.

impediments to entry of materials and the lack of reliable power supply. The European Investment Bank, after completing the technical studies for the desalination plant in 2015, recently expanded its engagement in the project to provide further support to the PA with regard to project implementation and governance. The implementation of a suitable governance mechanism is urgently needed to help ensure the successful implementation of this project, which, as noted, is large and complex. Further international support to water sector reform can help build the required increase in Palestinian capacity for the construction and long-term operation of the desalination project, as well as other water projects in Gaza and the West Bank. In this regard, it is imperative to establish the proposed National Water Company and empower the Water Sector Regulatory Council and regional utilities in accordance with the 2014 Water Law. PWA needs to develop and present the financial mechanism and governance structure for implementation of the desalination project to key project stakeholders in preparation for pledging by international donors, prior to initiating the tendering process before the end of the year.

West Bank

48. Currently, the West Bank produces 91 MCM of untreated sewage annually. The main sources of pollution are: Palestinian households that lack connection to the sewage network, Israeli settlements (the largest producers of sewage per capita), and untreated wastewater originating from Palestinian areas in East Jerusalem (these areas are part of the Jerusalem Municipality but are not serviced by Israeli wastewater facilities). Both the PA and GoI need to mobilize significant investment in the wastewater sector to address trans-boundary wastewater pollution, and to accelerate progress towards solving the heavy environmental burden – and associated health risks – resulting from years of neglect and inadequate handling and treatment of wastewater in the West Bank. Raw wastewater from Jerusalem has been channeled to the Wadi Nar/ Kidron Basin since the 1940s.¹⁵
49. Moreover, if the West Bank was provided with adequate sewage systems, wastewater infrastructure and wastewater reuse practices, recycled wastewater could then provide a significant potential source of water for agriculture, producing associated economic gains.¹⁶ While improvement of wastewater treatment is a priority for PWA and is supported by all relevant Palestinian stakeholders including the Ministry of Agriculture, political, institutional and financial obstacles stand in the way of developing an integrated and sustainable wastewater management regime. Major infrastructural improvements are necessary in order to rehabilitate the distribution network and to generate new sources of supply that can help meet the growing demand for water by Palestinian households and businesses.

¹⁵ Almog Ram, Hebrew University of Jerusalem, March 2007.

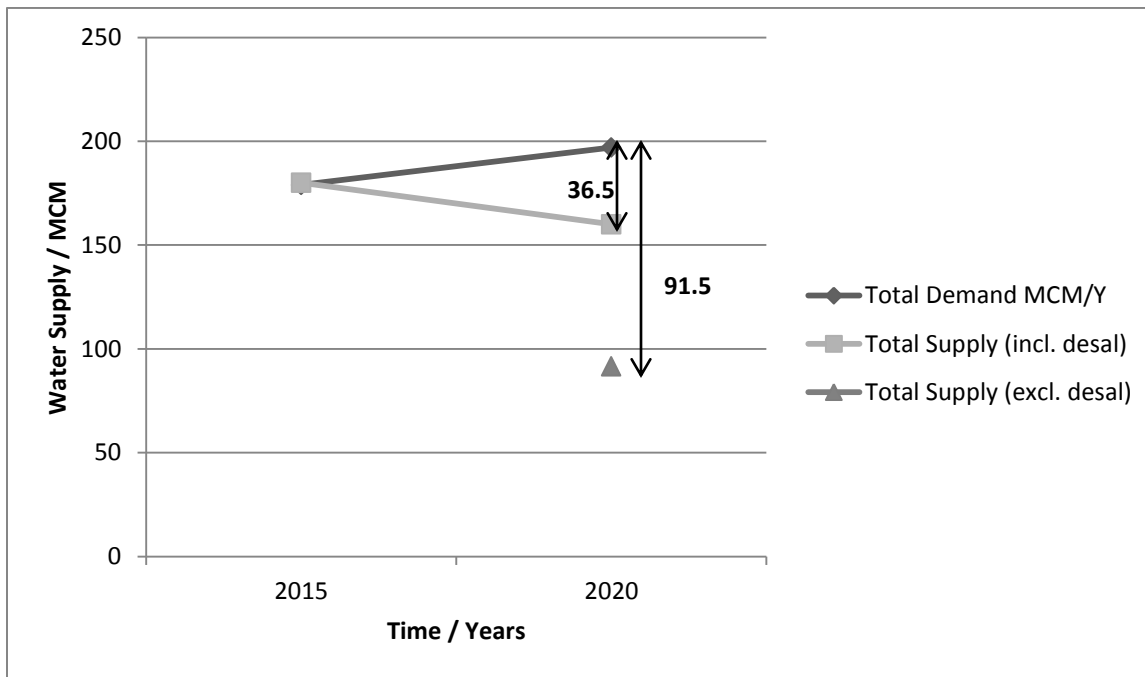
¹⁶ World Bank, 2009.

50. An important component of the solution for the West Bank, both for the provision of drinking water and to realize full wastewater reuse potential,¹⁷ is to first secure access to additional water supply. The “Memorandum of Understanding on the Red Sea-Dead Sea Water Conveyor Pilot Project,” signed by the GoI, Jordan and the PA on December 9th, 2013 set out to provide the West Bank with access to an additional 20-30 MCM of desalinated water. As previously agreed, 8 MCM of this amount is meant for Gaza. OQ welcomes the recent decision to provide 6 MCM of this amount to the West Bank. The production cost of desalinated water differs from that for conventional water sources, so the potential extra costs of supplying additional desalinated water need to be evaluated. Independent analysis needs to establish the cost of purchasing additional quantities of desalinated water from GoI, including associated transmission costs.
51. The discharge of untreated waste water in the West Bank presents a major environmental challenge that requires urgent action in developing treatment facilities. Doing so would also allow for further expansion of water supply to the West Bank and the development of non-conventional water sources. There are currently eleven priority projects underway in the West Bank that entail associated water treatment facilities. These projects are either under construction or already complete. A number of them have considerable wastewater reuse and irrigation potential, including: the Nablus East wastewater treatment facility funded by the European Union and the German government, the Japanese-funded treatment plant in Jericho, the German funded Al Bireh treatment plant and the associated reuse scheme downstream in Al Auja sponsored by the European Union, the Wadi Nar/Kidron Valley project (that will process almost two-thirds of the estimated 30 MCM of wastewater discharged in the West Bank annually), and the Hebron wastewater treatment plant funded by the World Bank, the European Union and the French government. Pursuing these avenues will entail further investment. The PA already commits over 100 million Euros each year for the improvement of sanitation services and infrastructure (collection, treatment and reuse). In consequence, water tariff models need to be developed to provide assurance that there can be adequate recovery of costs if such reuse schemes are put in place, taking into account that this supply also needs to be affordable for farmers and other customers. To increase the use of non-conventional water sources for agriculture in the West Bank, the PA should implement the proposed regulatory framework for the water and waste water sector.

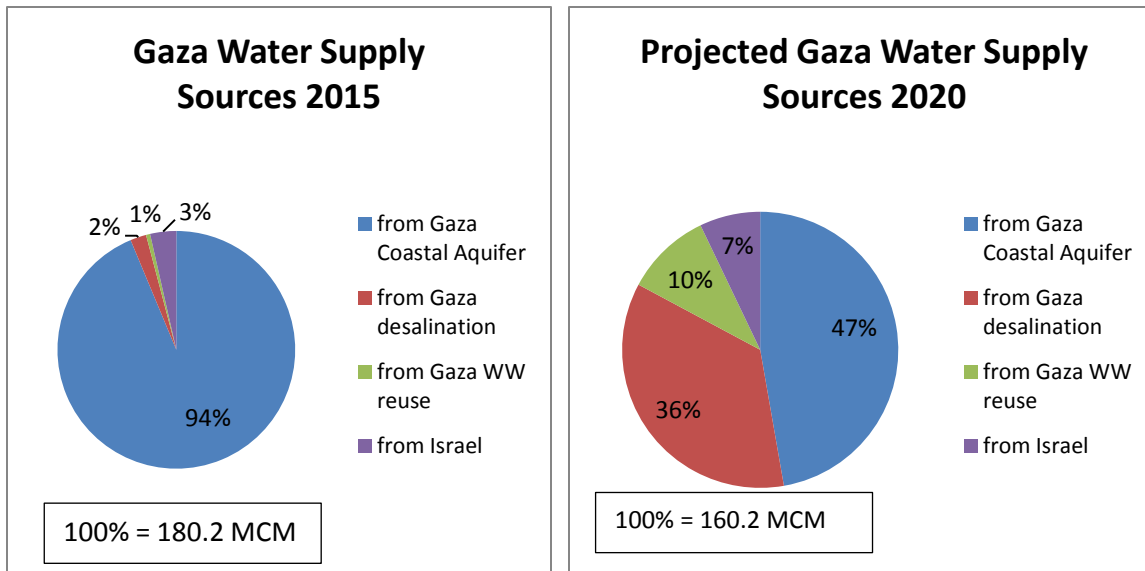
¹⁷ Even in the case of wastewater reuse, a reliable supply is required. The less contaminated the wastewater, the less energy that is required for its treatment.

Gaza water demand and supply¹⁸

Figure 3: Gaza Water Deficit MCM/Y 2015-20¹⁹



Figures 4 and 5: Projected Gaza Water Sources 2015-20²⁰



¹⁸ 2020 estimates for groundwater use presume over-abstraction of the aquifer by 30MCM/Y, which is not accounted for in the deficit. Estimates are based on an annual domestic consumption growth rate of 3% and a decline in agricultural water use.

¹⁹ Source: PWA 2015.

²⁰ Source: PWA 2015.

Annex

OQ works on a broad array of development sectors and projects, the progress of which has been reported in the previous AHLC report.²¹ This report has focused largely on water and energy but there have been notable developments in other areas: in telecom, movement and trade, and the rule of law. The following sections outline the progress in these three areas and make a number of recommendations. It also describes the strategically important economic mapping project.

Telecom

A solution to the problem of the allocation of wireless spectrum in Gaza and the West Bank is long overdue. The November 2015 agreement between GoI and the PA is behind schedule. It is estimated that the introduction of 3G in the West Bank will attract an additional \$150 million in investment and produce \$120 million in revenues in the first two years, thereby generating \$60 million in tax revenues to the PA and around 10,000 indirect employment opportunities. The introduction of the wireless spectrum is therefore very important for Palestinian economic development.

The launch of liberalized 2G services in Gaza was scheduled for June 2016, in accordance with the most recent agreement in November 2015, but was postponed due to proposed changes to the allocation of spectrum by GoI. The recent proposal should address outstanding issues concerning frequency allocation and entry of new equipment.

The provision of 3G services in the West Bank has also been delayed. There has recently been some progress but no service has yet been launched. According to the The Arab Advisors Group's report of August 2016, the two Israeli operators' market share in the Palestinian telecom market increased to 7.95% by the end of June 2016; 66% of the growth in the Palestinian subscribers' consumer base went to the Israeli operators in the first half of this year.

Recently, GoI introduced a new proposal that involves another Israeli operator, as an alternative to those previously identified, which will share spectrum with the Palestinian operators. This suggestion has been well received by the Palestinian parties, since the company selected has almost no infrastructure in the West Bank or in the surrounding area. This would enable there to be technically efficient sharing of spectrum. Next steps for the GoI should include rearranging (reshuffling) the allocation of spectrum on the 2100 Mhz band, thereby enabling the allocation of exclusive spectrum to the Palestinian operators that is adjacent to the shared spectrum; send official notification of spectrum allocation to the PA, to enable Palestinian users to freely make use of the shared spectrum in the West bank and Gaza; and provide all necessary clearances for the import of equipment and construction of infrastructure. Although it is no longer feasible for the Palestinian Territory to launch 3G services by the end of this year, as was earlier agreed, the finalization of the sharing arrangements, import of equipment, and start on construction of the networks should (and can be) accomplished by the end of December 2016. This will enable the launch of commercial services by the first quarter 2017.

²¹ See April 2016 Brussels AHLC report, at <http://www.quartetoffice.org/files/OQ%20AHLC%20April%202016.pdf> .

Movement and trade

Movement and trade are critical issues for Palestinians. Without increased access and improved trade conditions, economic development will be stifled.

Since the previous report there has been progress in three areas: the identification of new export markets, containerization, and passenger processing.

Identifying New Export Markets: Currently, the Palestinian Territory has a massive trade imbalance. OQ is committed to expanding the reach of Palestinian products to markets where they may have been previously unavailable. At the present time, 80% of all Palestinian exports go to Israel. Diversifying their export markets will enable Palestinian companies to increase their output and create additional jobs. As an example, one of the Palestinian pharmaceutical companies advised OQ that they are currently only producing at ~20% of their capacity. They could therefore conceivably produce five times as much as they are currently producing, resulting in a corresponding increase in employment and revenue.

Oman is OQ's first target market for Palestinian products. A team of trade experts from OQ's movement and trade team, working in collaboration with the Public Authority for Investment Promotion and Export Development in Oman, visited Muscat to identify opportunities for Palestinian exports and to establish the standards with which the Palestinian products will need to comply. Based on the outcome of this visit, a Palestinian trade delegation of approximately 30+ companies will visit Oman for a series of business-to-business meetings during the first week of December. This delegation will include exporters of Palestinian products such as food and food products, pharmaceuticals, marble and stone, furniture and the products produced by women entrepreneurs, among others. (Each of the Palestinian companies visiting Muscat will have between three and five such meetings with potential Omani customers or partners.) It is anticipated that in addition to exporters from the West Bank, the trade delegation will also include Gazan exporters. This trade delegation will also provide an opportunity for Palestinian companies to broaden their sources of supply.

In addition, OQ will also pursue opportunities for utilizing Oman as a trade hub for the re-export of goods to other Gulf Countries. In cooperation with the Government of the Netherlands, OQ is seeking to expand the Omani initiative to other markets.

Allenby/King Hussein Bridge

Passenger Processing: The Allenby/King Hussein border crossing facility is currently the only international land gateway for travelers into or out of the Palestinian Territory. This places unique constraints on the Palestinian Territory that no other administration has to deal with. Passenger volumes have increased significantly in recent years. In spite of significant efforts and investment over the years by the Government of Israel, the inadequacy of the facilities and the high volumes of traffic cause unnecessary hardship. The crossing requires significantly improved facilities and streamlined procedures that make use of modern and advanced technology in order to speed up processing. Waiting

times for passengers traveling through the Allenby crossing are currently excessive. Currently, passenger traffic through Allenby is increasing by over 10% per year. In July alone, 284,000 passengers crossed using the very limited facilities available: this is an average of over 9,000 passengers per day; since the available opening hours are limited on Fridays and Saturdays; this means that on some days upwards of 10-11,000 passengers are likely to be utilizing the crossing. Improving the crossing's functioning presents a serious challenge that will require intensive effort and creative thinking to resolve. Throughput can be significantly enhanced using internationally accepted best practices in border management, including reliance upon advanced technology and streamlining of various procedures

Recommendations: The GoI and PA to work to improve passenger flow at Allenby.

Containerization at Allenby Crossing: It is anticipated that the demand for cargo movement into and out of the West Bank will increase in the coming years. All the necessary infrastructure is now in place at the Allenby/King Hussein Bridge for the export of containers from the West Bank to Jordan and beyond. This represents a major step forward for the Palestinian Territory's trade prospects. The Palestinian Chambers of Commerce are to assume responsibility for promoting the benefits of containerization to the Palestinian private sector. In parallel, GoI has announced its intentions to develop the infrastructure for freight and passengers.

Recommendations: Internationally accepted best practices in cargo processing should be put in place to ensure that containerization improves the efficiency and effectiveness of cargo processing. This includes the introduction of streamlined procedures that make full use of advanced information and risk management procedures.

The relevant PA institutions should coordinate with the Government of Jordan to ensure that a low-risk trader program is put in place to minimize the need for the inspection of containers on the Jordanian side of the border.

Rule of law

Since the previous report, there has been progress in four areas: support for the justice system, police mapping, court mapping, and the Paris protocol.

Justice System Support: The justice system continues to undergo dynamic change. In the period since the last AHLC report, a new Constitutional Court has been established by President. In addition, OQ is assisting the PA in the design of a new court to deal with major crimes and violence in response to a call for the creation of such an entity by Prime Minister Hamdallah. Specifically, OQ is working to promote the required procedural reforms needed to accompany this effort. This will ensure that the system developed is both efficient and meets international standards. OQ continues to provide assistance to the Government of the Netherlands as the international co-chair of the Justice Sector Working Group on policies and direction for the further improvement of the rule of law.

Police Mapping: Over the past two years, OQ has sought to improve the freedom of movement and access of security forces within the West Bank. In collaboration with USSC and EUPOL COPPS, OQ has led

the effort of the PA and Gol security authorities to develop comprehensive mapping of PA police access in the West Bank. As a direct result, in April 2015, Gol implemented a significant increase in the freedom of movement and access for Palestinian security forces (PASF) in all parts of the West Bank, including some areas of the Territory designated as Area C. Despite heightened tensions and the recent surge in violence, this increase in access continues to be maintained. This includes three Jerusalem suburb communities, which now have police coverage for the first time in twenty years. In the first half of 2016, OQ worked with the PA and the donor community to reallocate personnel and resources based on this expanded access. This activity includes potentially establishing new police stations. OQ has also begun work on an initiative to help improve the chain of communication in order to reduce police response times. OQ intends to continue work with the PA, IDF and US Security Coordinator for Israel and the Palestinian Authority to further facilitate Palestinian security movement and access in Areas B and C, as well as to improve justice and security in suburban Jerusalem.

Court Mapping: Based on the successful police access mapping initiative, PA's Chief Justice requested OQ to undertake a parallel court-mapping project. Since the start of 2016, OQ has been working closely with the Palestinian High Judicial Council (HJC) to develop a comprehensive mapping and analysis of courts, caseloads, and locations of litigants in the West Bank. This will increase access to the courts for Palestinians, including for residents of Areas B and C. This project will tackle two major issues. Firstly, it will provide more effective analysis and strategic planning for the judiciary, identifying the areas where access to justice is most challenging for Palestinians, the areas where new courts need to be opened to serve these needs, and those where additional judges need to be assigned. Secondly, it will provide the empirical base for pursuing improved access to justice for residents of Areas B and C. To date, OQ has produced a preliminary series of digital maps that analyze and visualize key data and trends in the justice sector in the West Bank. At the request of HJC, OQ and HJC intend to pursue this initiative further and will create an interlinked mapping system that can be continuously updated from HJC's electronic case management system. This will enable the mapping system to reflect the changes on the ground and enable HJC to provide effective justice sector governance over the long term.

Paris Protocol: OQ is working with governments of the Palestinian Territory, Jordan and Israel on the question of revising the Paris Protocol "A1" list of authorized imported goods from Jordan to the Palestinian Territory. To enable the Palestinian and Israeli authorities to determine the content of a revised and expanded A1 list, OQ will produce an economic analysis of the Palestinian market, evaluating the potential impact of additional A1 imports on both Palestinian consumer prices and on Palestinian industry. OQ is continuing its work to provide analysis and support for improved implementation of various elements of the Paris Protocol.

Recommendations:

The PA needs to ensure that the major crimes court is designed to enable the efficient prosecution of crimes that threaten security and stability, while adhering to the principles of the rule of law.

Gol should continue to facilitate the expansion of the Palestinian Security Forces' freedom of movement and access in the Palestinian Territory, particularly to areas that currently lack adequate police support.

Economic mapping

Detailed spatial information and analyses in the West Bank and Gaza are extremely important for strategic planning, forecasting, and economic development. Key data is currently dispersed among a number of offices within PA and a number of private research organizations. This lack of holistic spatial information inhibits strategic planning for government officials, donors and the private sector.

In 2015, OQ developed the first stage of a new GIS economic mapping tool by collecting detailed economic and statistical data, which was plotted on an interactive web-based map of the West Bank and Gaza. Supported by the Dutch Government, through the Netherlands Enterprise Agency, OQ is now accelerating the development of an online, interactive GIS economic mapping tool, visualizing critical economic, geographic, social, security and legal data. This tool will help strengthen Palestinian enterprises' capacity and market access, inform the PA's export and economic development planning, and support international public and private sector actors in their investments in the West Bank and Gaza.

OQ will work closely with four groups of stakeholders to plan, develop, and roll out this tool in the next 6-12 months: i) small and medium enterprises; ii) large Palestinian companies; iii) the PA, including particular ministries such as MoNE, MoF and PMO, and agencies such as PWA and PENRA; and iv) the international community. OQ will focus on extending the collection of data and building new layers that can be combined for specific applications such as land development, the expansion of agribusinesses, water and industrial sites and energy/infrastructure development.

Office of the Quartet: Role and Priorities

OQ's mission statement is "Building the State, Empowering the Economy". We work with the PA and the Palestinian business community, actively seeking the support of GoI, the international community, and the domestic and international private sector in support of Palestinian institutional and economic growth and empowerment. To develop the foundations for a thriving economy and good governance, we have prioritized five strategic pillars:

- *Effective Government*: To support the building of state institutions through boosting governmental capacity and reforms in the justice and security sectors.
- *Movement and Trade*: To encourage increased trade and access for people and goods through improving border crossings and removing restrictions.
- *Unlocking the Value of Land*: To facilitate Palestinian access to land and leverage untapped economic potential.
- *Reliable Infrastructure*: To support the construction of sustainable, reliable, and cost-effective energy and water infrastructure.
- *Investment Promotion*: To attract major new investment (both domestic and foreign) in Palestinian enterprise to create jobs and GDP growth.

OQ's role is to help ensure the progress of the various projects and associated policy reforms within the five pillars. We seek to do so in the following ways:

- *Identify solutions* to a cross-section of the top issues impacting Palestinian economic and institutional growth – solutions which are technically, financially and legally feasible.
- *Facilitate meaningful progress* by convening, informing, and mobilizing key stakeholders across the PA, GoI, international community, and domestic and international private sector.
- *Bridge divides* by respecting both Palestinian and Israeli needs and concerns.

To achieve this, OQ makes significant investment in human capital to ensure expertise in all five pillars. OQ's staff currently includes international, Palestinian, and Israeli experts in the fields of investment, finance, development, engineering, law, politics and governance.

The main donors that currently support the OQ are the United States and the Netherlands. Additional financial and staff support is provided by the World Bank, DFID, the United Nations, and the US Institute of Peace. OQ is grateful for this support.